Annual Report

2011

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Contents

Summary

Real GDP in Croatia stagnated in 2011, after having decreased by 1.2% in 2010 and at an even higher rate of 6% in 2009. Since the outbreak of the financial crisis, Croatia has had the least favourable economic dynamics of all CEE countries, primarily because it has lagged behind in the growth of exports of goods.

Having declined in the first quarter of 2011, real activity rebounded somewhat in the second and third quarters on account of good results from tourism, before contracting sharply in the fourth quarter because of a drop in domestic demand. An analysis of aggregate demand components shows that a positive contribution to growth came from exports of goods and services and from changes in inventories. Falling at a sharp annual rate, gross fixed capital formation made a negative contribution to growth, while personal and government consumption stagnated.

Real gross value added data for 2011 also suggest that the overall economy stagnated. Most service activities recorded an upswing, while industry and construction activity continued to drop. In accordance with changes in aggregate demand, GVA increased in hotels and restaurants, financial intermediation and trade in the second and third quarters, while most of the production activities contracted at the end of the year.

Adverse labour market developments continued in 2011. Data on the number of persons insured with the CPIA and administrative data on employment provided by the CBS point to a decrease in average employment and an increase in the unemployment rate. The average registered unemployment rate went up to 17.8% in 2011 from 17.4% in 2010. The internationally comparable ILO unemployment rate was 13.5%, compared with 11.8% in 2010. Nominal gross and net wages increased in 2011 (excluding the effect of the repeal of the special tax on salaries, pensions and other income), while real wages decreased slightly.

Driven by import prices, the inflation increase was offset by low growth, unfavourable expectations about economic developments, a decrease in employment and an increase in unemployment. As a result of imported inflationary pressures, stemming mainly from an increase in the world prices of energy products and raw materials, the average annual consumer price inflation rate went up from 1.1% in 2010 to 2.3% in 2011, with inflation of food product prices accelerating the most.

In 2011, the central bank continued implementing the policy of a stable nominal kuna/euro exchange rate, the basic precondition for achieving low inflation and preserving overall financial stability. Amid weakened foreign capital inflows and the deleveraging of domestic sectors' external debt, the domestic currency came under pressure to depreciate especially strongly in the second half of the year. In an effort to dampen depreciation pressures, the central bank intervened twice in the foreign exchange market and raised the reserve requirement rate from 13% to 14% in October. The exchange rate stabilised as a result, standing at EUR/HRK 7.53 at the end of the year, which is a depreciation of 2.0% from the end of 2010.

In 2011, the CNB also maintained strong liquidity levels in the monetary system, in an effort to improve financing conditions and thus speed up the recovery of the domestic economy. Prospects for a strong recovery in corporate and household loans were dampened by weak demand, lack of investments, an increase in the share of non-performing loans and continued substantial government financing needs. As a result, loans to the private sector increased only by 3.8% (excluding the exchange rate effect), with the bulk of the increase accounted for by corporate lending and no recovery recorded in lending to households.

Banks were faced with a decline in financing from domestic sources. Corporate deposits fell sharply and household deposits grew at a slower rate. Consequently, total liquid assets (M4) increased by 3.5% in 2011, or 2.1% excluding the exchange rate effect, compared with 4.4% and 3.2% respectively in 2010.

As a result of strong liquidity in the financial system, banks had much less need for money market financing, so that overnight interbank rates mostly stood below 1%. Due to strong investor interest in MoF T-bills, interest rates on these bills decreased in the first half of 2011, before hitting a two-year peak late in the year under the influence of negative domestic and foreign factors.

Bank interest rates continued to decrease in 2011, but at a considerably slower pace than in the previous year. The continued decrease in lending interest rates resulted also from a regulatory cost reduction implemented in the first half of the year, with the downward trend in both lending and deposit rates halted, and to some extent reversed, due to the escalation of the debt crisis and heightened uncertainty in late 2011.

Foreign financing became increasingly expensive and scarce as Croatia's sovereign risk perception increased in 2011 and the negative gap in relation to new EU member states widened. Notwithstanding a drop in eurozone benchmark interest rates late in the year, external financing conditions deteriorated further due to continued increase in the global risk premium. This, and a deterioration in financing conditions for parent banks of the largest domestic banks, further limited domestic sectors' access to foreign capital in 2011.

Loan quality continued to worsen amid negative trends in the real sector, although at a somewhat slower pace. The non-performing loan ratio increased from 11.2% at the end of 2010 to 12.4% at the end of 2011. The ratio of non-performing corporate loans went up to 20.1%, reflecting preceding developments and the highest ever risk of corporate loans. The quality of household loans remained relatively favourable, with the non-performing loan ratio reaching 8.6% at the end of the year.

As their net operating income stabilised, banks were able to maintain satisfactory profit levels, despite continued pressures from loan loss provisions. Banking system profitability indicators continued a slight recovery in 2011, after having dropped sharply in 2009. According to preliminary unaudited data, banks' pre-tax profit was HRK 4.7bn, an increase of HRK 0.4bn from 2010. Returns on average assets (ROAA) and average equity (ROAE) were 1.2% and 7.1% respectively. All bank groups witnessed an increase in pre-tax profit compared with the end of 2010, primarily accounted for by the group of small banks.

In the second year of the implementation of the Basel II Capital Adequacy Reporting standard, the capital adequacy ratio increased from 18.8% at the end of 2010 to 19.2% at the end of 2011 due to a decrease in capital requirements for credit risk.

As to the supervision of credit institutions, all the planned tasks following CNB strategic guidelines aimed at maintaining banking system stability were completed in 2011. On-site examinations were carried out in 22 credit institutions, the assets of which account for 65.57% of total banking system assets, as well as in one credit institution in which winding-up proceedings were initiated in December 2011. The CNB issued recommendations for the elimination of violations, irregularities and weaknesses established in operation and for the improvement of overall conditions, business processes and IT systems. Apart from on-site examinations, off-site examinations were also conducted, resulting in a hundred written analyses of credit institutions' operations, ninety-five of which related to individual credit institutions and five to groups of credit institutions.

The current account deficit decreased slightly primarily due to good results in tourism. The annual balance was a negative EUR 0.4bn (–1.0% of GDP). After having contracted sharply for two years, the trade in goods deficit widened again, partly as a result of high prices of energy products, especially oil, and partly due to a deterioration in the balance of trade in other goods. The only exception was net exports of ships, which reached a record high level. The negative balance in the factor income account went up because of an interest rate increase in global financial markets.

External financing needs decreased because of the economic slowdown and the narrowing of the current account deficit. However, net capital inflows (changes in international reserves excluded) stood at EUR 1.7bn, an increase of 27.5% from 2010. While direct equity investments were also high, the bulk of the increase was accounted for by debt to equity swaps of several foreign-owned companies (EUR 1.5bn), while greenfield investments decreased by one third from the previous year. If analysed by activity, most direct investments were made in the chemical and metal industries and telecommunications, while the amount of reinvested earnings was the highest in financial intermediation and in the manufacture of coke and refined petroleum products

Debt to equity swaps also had a significant impact on gross external debt, down by EUR 0.7bn to EUR 45.7bn (99.6% of GDP) at the end of 2011. However, excluding these transactions and cross-currency changes, the debt increased by EUR 0.7bn. Foreign liabilities of banks and the central government increased the most. Private non-financial companies also had an increase in debt, while public enterprises and non-banking financial institutions reduced their liabilities to foreign creditors.

Increasing at an annual rate of 5.0% in 2011, international reserves of the RC stood at EUR 11.2bn at the end of the year, providing sufficient coverage for 8.9 months of goods and services imports in 2011. Net usable international reserves increased at a slightly higher rate of 7.9% in 2011 and reached EUR 10.0bn at the end of the year. The increase was primarily due to foreign exchange purchases from the MoF, while foreign exchange sales with banks were conducted in order to support the exchange rate. International reserves continued to be managed according to the principles of high safety and liquidity, which was of special importance in view of the uncertain global financial environment and escalating debt crisis in the eurozone. German and US government bond yield curves were at their historical lows in late 2011, and bond prices grew. In such conditions, the 2011 annual rate of return on the CNB's euro-denominated held-for-trading portfolio was 1.36% and that of the US dollar-denominated held-for-trading portfolio 0.56%. The euro-denominated held-to-maturity portfolio had a rate of return of 2.31% in 2011.

Adverse developments in public finances continued for the third consecutive year. Net borrowing of consolidated general government (GFS 2001) amounted to HRK 14.8bn (4.3% of GDP) and the fiscal deficit totalled HRK 18.1bn (5.3% of GDP). The deficit was almost entirely financed by new borrowings, with the result that general government debt continued to surge, reaching HRK 156.0bn (45.7% of GDP) at the end of December 2011.

Macroeconomic developments

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1.1 International environment

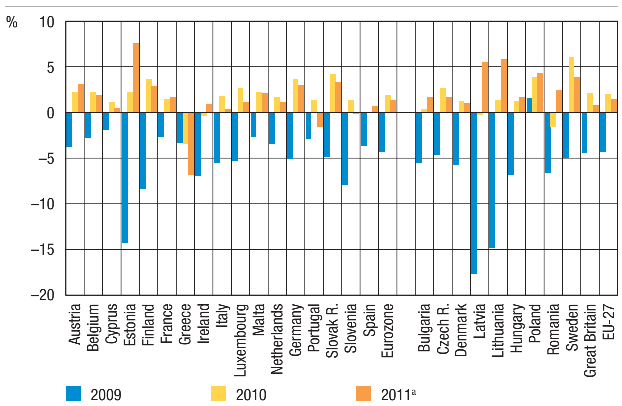
Global economic growth slowed significantly in 2011. Growth rates in developing and emerging market economies were around 1 percentage point lower than in 2010 (to 6.2% from 7.3%), while in developed economies real growth was cut to half (to 1.6% from 3.2%). The slowdown in growth reflects, among other things, a sluggish recovery of private demand, a new escalation of European debt and banking crisis, the negative effect of the Japanese tsunami disaster, and the geopolitical instabilities in North Africa and the Middle East. Central and Eastern Europe may be stressed as one of the rare regions that saw a growth rate increase in 2011. In the case of Central Europe, the causes may lie in its later exit from the crisis and the beneficial influence of the German economy, while in Eastern Europe positive trends were sustained by high raw materials prices. Inflationary pressures were in line with the unbalanced recovery of individual economies on the global level. In more developed economies, under-utilisation of capacities and stable inflationary expectations largely continued to limit the effect of the raw materials price hike. On the other hand, stronger economic growth in some developing and emerging market economies determined somewhat higher consumer price inflation rates.

1.1.1 European Union and the eurozone

Economic growth in the European Union stood at 1.6%[1] in 2011, while in the eurozone it was slightly weaker (1.5%). In most eurozone countries, growth was lower than in 2010. The exceptions include Estonia, Ireland, Austria and Spain (which had seen a contraction of economic activity in the year before). Furthermore, economic activity slowed during the year in most countries. After a more pronounced growth in the first quarter, economic activity slowed later in the year under the influence of fiscal consolidation, relatively high prices of raw materials and an unfavourable effect of financial market instability on business and consumer confidence. This was reflected in a mostly slower increase of domestic demand in relation to overall economic growth. In the second half of the year, a weakening of foreign demand was felt, in line with a slowdown of the global economy. The average rate of unemployment in the eurozone in 2011 remained at the 2010 level, yet with fairly diverse trends in individual member states' labour markets. While some countries, such as Germany, managed to decrease the rate of unemployment owing to relatively favourable economic performance and previously implemented labour legislation reforms, others, such as Spain, Greece, Portugal, and also Ireland, saw the rate of unemployment continue to soar. The situation in Spain is particularly unfavourable, with the rate of unemployment exceeding 20%. Moreover, all member states are characterised by an exceptionally high rate of unemployment of persons under the age of 25.

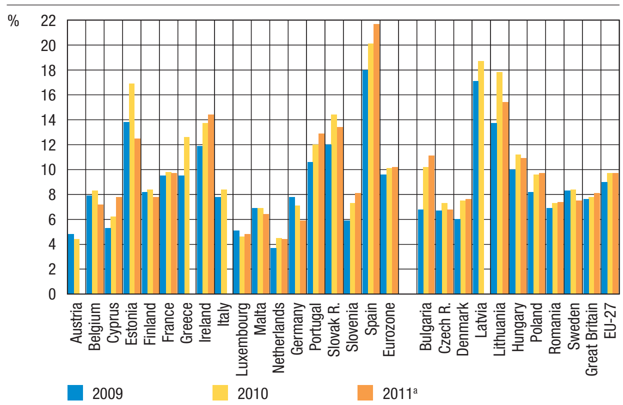
One of the main characteristics of 2011 was repeated intensification of uncertainties in financial markets arising from concerns about public debt and the still big fiscal deficits of some eurozone member states. Debt yield spreads of some countries and banks that were considered to be exposed to associated risk reached extremely high levels. A large increase in yield spreads was recorded even in countries that had not been affected by the crisis, such as Belgium, Cyprus, Italy, Spain and, to some extent, France. Actions taken to curb the growing market uncertainty and volatility, including changes to the European Financial Stability Facility rules, the support package for Greece from July 2011, and the extension of unconventional measures of the

1.1 Real GDP growth in EU countries



a Estimate.
Note: From 2009, data for the eurozone include the Slovak R. and from 2011 Estonia as well.
Source: Eurostat.

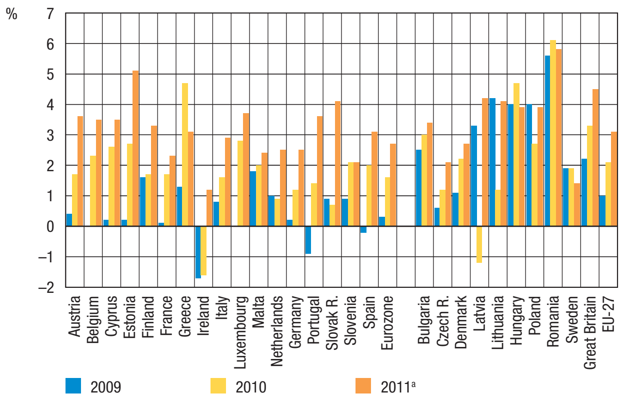
1.2 Unemployment rate in EU countries



a Estimate.
Note: From 2009, data for the eurozone include the Slovak R. and from 2011 Estonia as well.
Source: Eurostat.

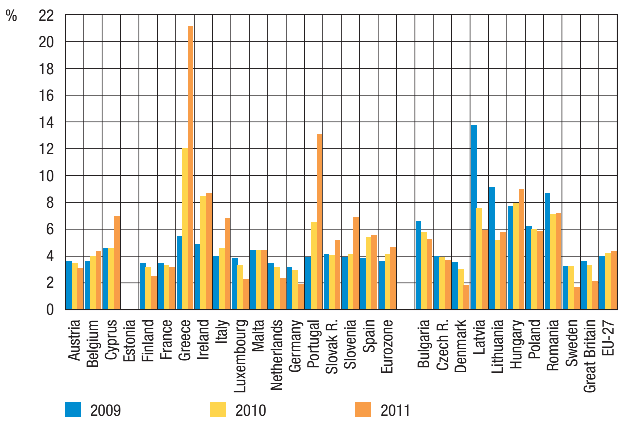
1 Estimate, *WEO Update*, IMF, January 2012.

1.3 HICP annual average rate of change in EU countries



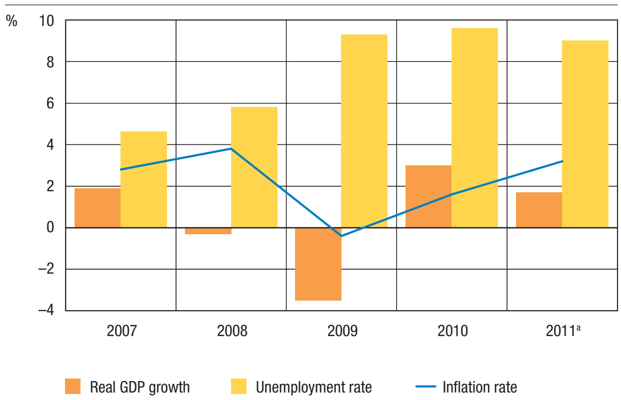
ª Estimate.
Note: From 2009, data for the eurozone include the Slovak R. and from 2011 Estonia as well.
Source: Eurostat.

1.4 Interest rates on long-term government bonds in domestic currency (according to the Maastricht convergence criteria)



Source: Eurostat.

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



ª Estimate.
Sources: Bureau of Economic Analysis and Department of Labor.

European Central Bank only partially succeeded in shoring-up undermined investor confidence.

The average annual inflation rate in the eurozone (2.7%) rose in 2011 in relation to the previous year (1.6%), influenced by an increase in the prices of energy and raw materials in global markets, despite a continued presence of moderate economic growth and underutilised production capacities. Inflation growth was notably present in the first half of the year. In this context, the European Central Bank raised its key interest rate in April and July 2011 by 0.25 percentage points. The easing of inflationary pressures later during the year and the marked deterioration in the economic outlooks in the eurozone produced an opposite effect in November and December, which resulted in the key interest rate reaching the same level by the end of 2011 as at the beginning of the year.

In the old European Union countries that are not part of the eurozone, economic growth was largely reduced in relation to 2010, while it somewhat increased in the new members. Stronger economic growth within the group was characteristic of Sweden, Poland, Latvia and Lithuania. As for price trends, many countries from this group recorded higher inflation rates than those in the eurozone. In the new European Union countries, this mainly reflected a different structure of the consumer price index, and thus a more pronounced spillover effect of the rise in the global prices of raw materials and energy. On the other hand, a higher inflation rate in the United Kingdom partly reflected a VAT rate increase, a depreciation of the pound sterling and the implemented monetary policy measures, while a higher inflation rate in Sweden may partly be attributed to stronger economic growth.

1.1.2 United States of America

The American economy saw an increase of real economic activity of 1.7%[2] in 2011. During the year, economic activity gained considerable dynamics. Poorer results in the first half of the year, though expected to certain extent due to a temporary negative influence of rising prices of oil on domestic demand, and the automobile industry problems related to the Japan natural disaster, exceeded the expectations, which may largely be attributed to a slowdown in the recovery of household consumption in relation to the second half of the previous year. Along with the mentioned rise in oil prices, household consumption was also negatively influenced by labour market stagnation, as well as by unfavourable trends in capital markets. At the same time, private sector investment activity had a beneficial effect on overall activity. For the greatest part, the increase was related to new business investments in equipment and computer programs, while investments in residential property remained subdued. Government consumption was a slowing factor, as well, due to the expiry of stimulation measures introduced during the crisis. However, the third, and especially the fourth quarter saw a more significant acceleration of economic growth. Along

2 U.S. Department of Commerce, Bureau of Economic Analysis, *GDP: Fourth quarter and annual 2011 (advance estimate)*, 27 January 2012.

with a continued positive development of investment activity, recovery of personal consumption (i.e. purchase of durable goods) was recorded in the third quarter, as similar trends with somewhat greater intensity were noticeable in the last quarter, as well. On the other hand, government consumption continued to contribute negatively to overall economic activity. As for trends in foreign demand, the positive contribution of exports was somewhat smaller than in the year before, in line with global economic activity trends. The average unemployment rate, having been around 9% most of the year, began to drop in the last quarter, reaching 8.5% in December.

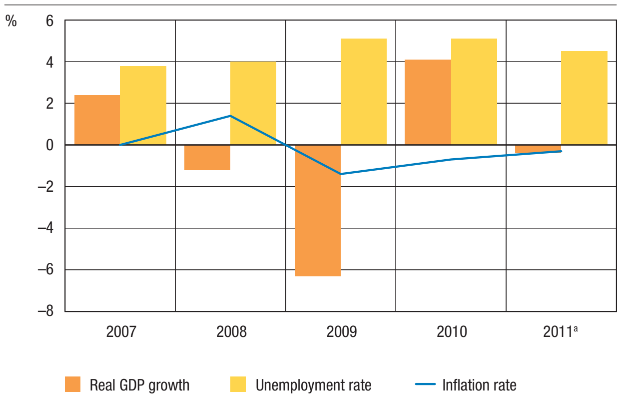
The growth in the prices of energy and raw materials in the global markets caused the US annual consumer price growth to increase in relation to the previous year. Thus, the consumer price index rose by 3.0% in 2011 in relation to the year before, which is its biggest increase since 2007. The influence of global energy prices was somewhat delayed, since the growth of energy and motor fuel price indices slowed down in relation to the previous year, while the growth of household energy and electricity prices was accelerated. In addition to this, the price of most food products and food for household preparation rose significantly.

Unlike the European Central Bank, the Fed kept benchmark interest rates at extremely low levels, where they are expected to stay until at least mid-2013, according to current announcements. In connection with the Fed's 2011 monetary policy, it is worth mentioning the September decision to increase the share of long-term bonds in the Fed's securities, taken with the intention of reducing long-term interest rates.

1.1.3 Japan

Economic developments in Japan in 2011 were largely dominated by the aftermath of the March tsunami disaster. A contraction of economic activity was already recorded in the last quarter of 2010, followed by a strong deterioration in the first two quarters of 2011. The disaster's direct consequences were reflected in a significant drop in household consumption in the wake of the earthquake, and an extremely large decline of industrial production in April. Industrial production, as well as exports (including global production of some products, such as cars) was very limited in the following period. An additional aggravating circumstance inhered in the reductions of electricity supply due to the large number of Japan's nuclear power plants going out of operation. Still, the Japanese economy may be said to have recovered relatively quickly and successfully. Companies managed to adjust their production processes, reducing the negative effect of an insufficient supply of electricity, while consumer optimism recovery resulted in a rise of consumption, notably the purchase of energy efficient household appliances. As a result, the third quarter brought a considerable acceleration of economic growth, to which domestic and foreign demand positively contributed. A robust growth in exports can partly be attributed to replenishing the stocks of foreign producers linked to Japanese suppliers. Moreover, a strong impulse was provided by residential investments encouraged by the reconstruction of devastated areas, as well as the effects of the July temporary program of ecological housing units reconstruction. In the last quarter of 2011, however, economic activity slowed down, consequent on the weakening of global demand and a depreciation of the yen. Increased appreciation pressures, in combination with the associated drop in demand for Japanese exports, forced the central bank to continue with interventions in the foreign exchange market during 2011, as the key interest rate remained within the 0.0% to 0.1% range. As for price trends, the average annual rate of change in consumer prices in Japan in 2011 was negative again, standing at –0.3%.

1.6 Real GDP growth, unemployment and inflation rates in Japan



ª Estimate.
Sources: Eurostat and Statistics Bureau of Japan.

1.1.4 Developing and emerging market countries

Developing and emerging market economies were the main generators of global economic growth in 2011, with the real GDP growth rate of 6.5%[3] (7.1% in 2010). Slightly lower growth rates in relation to 2010 were noted in most countries under review, while those higher in relation to the previous year were recorded in Central and Eastern Europe. Such figures come as a result of the implementation of measures aimed at limiting the overheating of some economies from this group, as well as of the slowdown of global economic activity.

The Chinese economy saw a growth of real GDP of 9.5%[4] in 2011, or 0.8 percentage points down from 2010. The slowdown of economic growth seems to be primarily attributable to weakening foreign demand. On the positive side, dynamic investment activity is prominent, despite the Chinese government measures to curb speculative pressures in the real estate market. Thanks to a relatively good situation in the labour market, personal consumption positively contributed to economic growth. Favourable economic trends, coupled with a growing inflation rate in the first half of the year, induced the central bank to raise its reserve requirement rate repeatedly. However, a deterioration of global economic outlooks at the end of the

3 Estimate, *WEO Update*, IMF, January 2012.
4 Estimate, *WEO Update*, IMF, January 2012.

year prompted the monetary authorities to act in the opposite direction and reduce the reserve requirement rate at the end of November for the first time since late 2008.

India saw a slowdown in economic growth in 2011, as well, reducing the growth rate from 9.9% in 2010 to 7.4% in 2011.[5] The main determinant of economic growth in India's case was strong domestic demand. Broken down by components, personal consumption and investments alternated in the role of a growth generator, coupled with the expected more prominent investment activity volatility. At the same time, the annual rise in wholesale prices continued to increase, which prompted the monetary authorities to further intensify, i.e. raise the key interest rate during 2011.

A relatively strong growth of Russia's economy continued through 2011 (at 4.1%, slightly up from 4.0% in 2010) owing to favourable trends in the prices of crude oil and raw materials in the global market and stable domestic demand. High oil prices, as well as stable global demand, again had a beneficial effect on Russian exports. Moreover, a moderate acceleration of growth in the third quarter came as a result of favourable trends in agricultural production. As for price trends, there was a noticeable slowdown of inflation by the end of the year.

After most Latin American countries recorded high economic growth rates in 2010, economic activity slowed in most of the region's countries in 2011. In the first half of the year, relatively favourable developments in trade conditions (many countries from this group being exporters of raw materials) coupled with strong capital inflows served to sustain a somewhat stronger economic growth. Lower growth rates in the second half of the year reflected the influence of a drop in foreign demand, as well as the implemented restrictive macroeconomic policy measures.

1.1.5 Southeast European countries

Bosnia and Herzegovina, Montenegro, Macedonia and Serbia recorded higher growth rates in 2011 than in the year before, while in Albania, due to favourable developments in the previous year, growth slowed slightly.[6] Macedonia stood out with the intensity of its 2011 growth (3.1%), while Bosnia and Herzegovina saw the most modest growth (1.7%). In most countries, inflationary pressures were not strong and mainly resulted from trends in the prices of energy and raw materials in the global market.

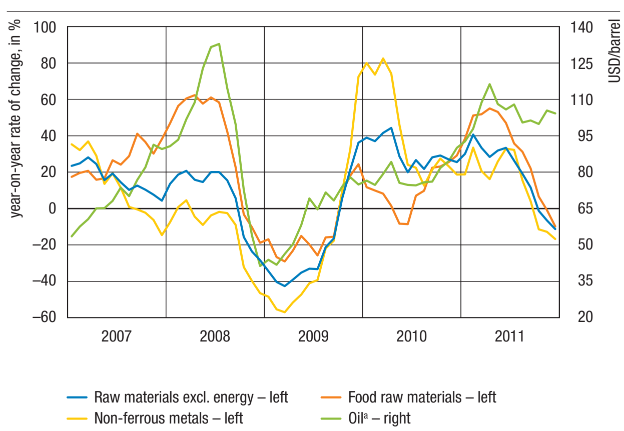
Industrial production in Bosnia and Herzegovina increased annually by 5.6% in 2011, with a strong growth in the production of intermediate goods, energy and non-durable consumer goods, and a drop in the production of durable consumer goods and capital goods. In foreign trade of goods, there was a noticeable reduction of the difference between the annual increase of exports (15.9%) and imports (14.0%). The structure of exports, with the largest positive contribution made by the export of non-durable consumer goods and intermediate goods, points to the crucial impact of foreign demand on industrial output movements. On the goods imports side, the largest increase involved energy and intermediate goods, whereas a decline was observed in durable consumer goods. Exports from Bosnia and Herzegovina to Croatia picked up by 12.5%, while imports from Croatia increased by 8.1%. Croatia remained the main foreign trade partner of Bosnia and Herzegovina. Concerning domestic demand, nominal retail trade turnover increased in the first three quarters by 6.2%. The consumer price index grew by 3.7% in the same period.

The growth of GDP in Serbia stood at 1.9% in 2011 (according to the national statistical office estimates). The economic growth was boosted primarily by favourable trends in investment activity. While the value of goods imports expressed in Serbian dinars rose year-on-year by 13.2%, a steep increase of capital goods imports was registered (46.3%). At the same time, goods exports grew by 12.7% in 2011 compared to the year before. Furthermore, industrial production increased by 2.1% in 2011, with a rise, viewed by main industrial groupings, being recorded in the production of energy, intermediate goods and capital goods. On the other hand, high unemployment and scarce sources of funding had an adverse effect on personal consumption, which is clear from a drop in the production of consumer goods (both durable and non-durable) and an annual decline in real retail trade turnover of 16.7%.

1.1.6 Trends in the prices of raw materials and foreign exchange rate

Following their sharp rise due to heightened geopolitical instability in the Middle East and North Africa in the first four months of 2011, oil prices mostly went down in the rest of the year amid growing tensions in the financial markets and a halt to the expected economic growth. In October and November, however, oil prices increased, partly influenced by the new tensions in the Middle East that, along with the existing instability in Syria, saw Iran come into the focus. A significant price increase did not occur, however, under the influence of more

1.7 Raw material prices in the world market



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

5 Estimate, *WEO Update*, IMF, January 2012.
6 *Consensus Forecast*, January 2012.

unfavourable outlooks in economic activity movements in the developed countries and a recovery in the supply of Libyan and North Sea oil. Growth rates were high during the whole year, with the highest rates recorded around the middle of the year, followed by a decrease towards year-end due to a base effect. Altogether, the average price of oil in 2011 stood at around USD 104 per barrel or some 32% up from the average price in 2010.

The upward 2010 trend in the prices of raw materials continued in the first six months of 2011. There was a noticeable price hike in all categories of goods, including the prices of food and industrial raw materials. Such trends were prompted by stable demand in the developing countries. From April, however, the prices of raw materials began to decrease. In October, the first negative annual rate of change in the HWWI index (expressed in USD, excluding energy) was registered. A drop in prices reflected concerns around future demand trends due to a deceleration of global economy, coupled with good annual yields of the most important crops. Compared to the end of 2010, the aggregate HWWI index reflecting global trends in the prices of raw materials declined in December 2011 by 11.3% in relation to December 2010. Due to developments in the first half of the year, the average annual rate of change in the prices of raw materials excluding energy in 2011, while still positive at 18.1%, declined from 30.2% in 2010.

In the first eight months of 2011, exchange rate trends in the global market were characterised by a further strengthening of the Swiss franc against the euro associated with a growth of risk aversion amid more intensive concerns around some of the eurozone member states' fiscal problems. This caused the EUR/CHF exchange rate to drop to 1.04 in mid-August, which represented a 16.5% appreciation in relation to the end-2010 rate. The negative effect of the national currency's growing appreciation on trends in the Swiss economy prompted the national bank to intervene in the foreign exchange market and, ultimately, in early September publicly state that it would not allow the Swiss franc to exceed the EUR/CHF 1.20 limit. This stopped the appreciation of the Swiss franc, albeit on levels much higher than in the period before the global economic crisis. At the end of 2011, the EUR/CHF exchange rate stood at 1.22, representing a 2.4% year-on-year appreciation of the Swiss franc against the euro. Following a noticeable depreciation of the US dollar against the euro in the period before early May, the dollar's exchange rate against the euro somewhat stabilised in the next four months. Alternating periods of strengthening and weakening of the dollar against the common European currency stayed within the EUR/USD 1.46 to 1.40 range, depending on the frequency and importance of negative reports coming from either side of the Atlantic. A repeated build-up of uncertainty related to the sustainability of some eurozone members' public debt in the period since September caused the dollar to gain strength against the euro in that period. The EUR/USD exchange rate closed the year at 1.29, down 2.4% from the end of 2010 (EUR/USD 1.33).

1.2 Economic activity

In 2011, Croatia's gross domestic product stagnated in real terms, after it had decreased by 1.2%[7] in 2010. As suggested by seasonally adjusted data[8], real GDP, having fallen early in the year, went up again over the second and third quarters, due to favourable movements in tourism and a slight strengthening of household demand, but as domestic demand weakened, total economic activity contracted markedly at the end of the year.

1.2.1 Demand

Among the aggregate demand components, positive contributions to growth in 2011 came from goods and services exports and from an increase in the 'change in inventories' category[9]. A sharp decline in gross fixed capital formation made a negative contribution to growth, while personal and government consumption remained stagnant, thus making no contribution to real growth.

Real household consumption increased slightly over 2011 (by 0.2%). Last year, the dynamics of this aggregate demand component were positively influenced by a slight increase in real net wage bill (due to the base effect of the gradual abolition of special tax on salaries, pensions and other income during 2010) and a recovery of consumer optimism during the year. Net transfers and household income from abroad also went up. A negative effect on personal consumption came from a fall in domestic transfers to households and a continuation of the bank deleveraging process, which led to a further decline in demand for loans.[10] Another limiting factor to household consumption growth was the depreciation of the kuna against the Swiss franc and, to a lesser extent, against the euro, which reduced the income disposable for consumption for households with loans pegged to the said currencies.

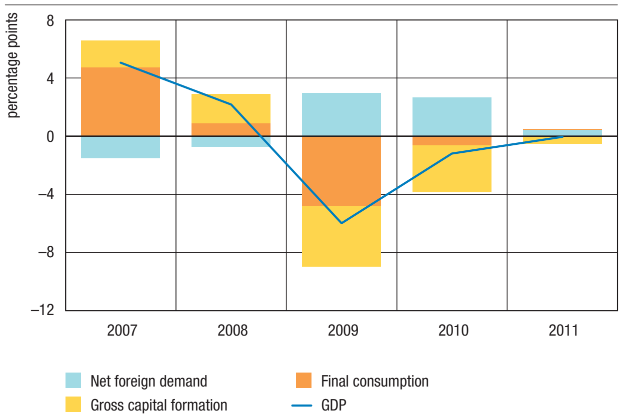
7 Since 2008, CBS data on GDP have been based on quarterly GDP estimates and are therefore preliminary.

8 By seasonal adjustment, the effects of particular events, whether of an economic or a non-economic character, that commonly take place during a year (e.g. holiday spending) are excluded from the data time series. Some series also require calendar adjustment, which implies elimination of differences in the number of business days which, to some extent, accounts for differences in the levels of these series (e.g. a fall in the number of hours worked). The adjusted data are used for the analysis of the trend in data changes during consecutive periods (month-on-previous month, quarter-on-previous quarter) whereas the changes from the same period in the previous year are analysed on the basis of original data, or a data time series adjusted only for the difference in the number of business days.

9 The 'change in inventories' category includes a statistical discrepancy between the production approach and expenditure approach to the GDP calculation. However, the CBS does not publish these data in disaggregated form. Therefore, there is no economic explanation for the dynamics of this category.

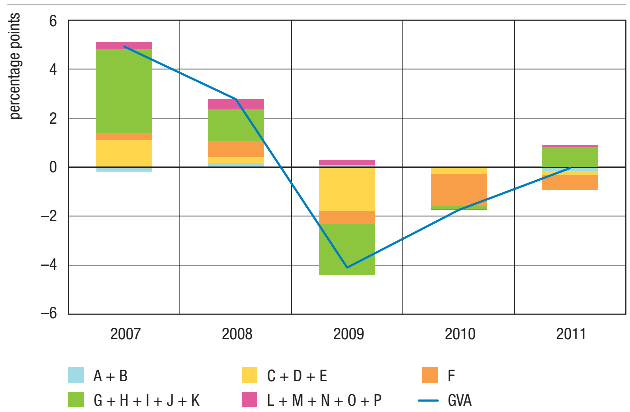
10 The CNB's disposable income estimate is based on the wage bill and current transfer estimates, excluding income from the grey economy, a part of property income (e.g. dividends) and some forms of income from work (e.g. royalties).

1.8 Contributions of domestic and foreign demand to real GDP growth



Sources: CBS and CNB calculations.

1.9 Contributions of NCA activities[a] to the real change in gross value added



[a] A, B – Agriculture, hunting, forestry/Fishing, C, D, E – Mining and quarrying/ Manufacturing/Electricity, gas and water supply, F – Construction, 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, K – Financial intermediation/Real estate, renting and business activities, L, M, N, O, P – Public administration and defence; compulsory social security/ Education/ Health and social work/Other community, social and personal service activities/Private households with employed persons

Sources: CBS and CNB calculations.

Government consumption held steady in 2011. However, a new slight increase in the number of civil servants and public administration employees had a favourable impact on government consumption movements. By contrast, expenditures for the use of goods and services and social benefits in kind decreased in real terms from 2010.

Investment activity saw another sharp fall in 2011 (by 7.2%), after having decreased by 11.3% and 11.8% in 2010 and 2009 respectively. This aggregate demand component again made the largest negative contribution to real GDP movements last year, primarily due to a weakening of the private sector's investment activity. Low aggregate demand and, consequently, under-utilisation of production capacities, as well as a still high degree of uncertainty in the economy, were the main inhibitors to the starting of a new private sector investment cycle. Moreover, as in 2010, investment activity was adversely affected by the excess supply of residential real estate, which limited new investments in residential construction. General government's investments in non-financial assets, mostly the construction of buildings and structures, went up slightly over the last year from 2010's levels. However, this was far from enough to offset the said fall in private sector's investments.

In 2011, foreign trade was marked by a real increase in goods and services exports (2.2%) and slightly slower growth in imports (1.0%). Foreign demand growth had a favourable impact on both goods and services exports. Positive movements in tourism were supported by very favourable weather conditions at home and political turbulence in North Africa and Greece.

1.2.2 Output

Real gross value added (GVA)[11] in the economy stagnated in 2011. Activity strengthened in most service activities, but continued to decline in industry and construction. In line with the changes in aggregate demand, GVA formation intensified during the second and third quarters, mostly due to changes in hotels and restaurants, financial intermediation and trade, while a decline was again reported by most production activities at the end of the year.

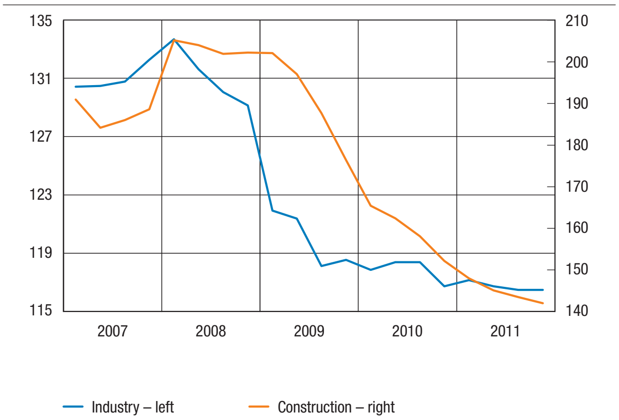
Industry and construction

GVA in industry continued to decline over 2011, but at a slightly slower pace than in 2010. As only aggregate data on GVA in industry are available, a more detailed analysis is based on the industrial production volume index. These data suggest that the decline in industrial production during 2011 was mainly due to negative production trends in energy supply, as well as in mining and quarrying, whereas production weakening in manufacturing was much slower. Broken down by main industrial groupings, the sharpest decrease in output was recorded in energy production. The manufacture of intermediate goods also decreased markedly, which was attributable to activity weakening in construction, but also to a fall in industrial production activity in general. By contrast, the manufacture of capital goods increased. With respect to consumer goods, both domestic and foreign demand for domestic non-durable consumer goods seemed to have increased slightly during 2011, which led to the growth in their output, while durable goods showed opposite trends.

Gross value added in construction slumped again last year, making the largest negative contribution to the change in aggregate GVA. Activity weakened in both construction works on buildings and civil engineering works. Such movements primarily reflect a continuing decline in private sector investments.

11 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).

1.10 Gross value added in industry and construction
seasonally adjusted values, chain index, 2000 = 100



Source: CBS data seasonally adjusted by the CNB.

Specifically, given the large number of unsold residential units on the market, many companies obviously postponed construction starts. Additionally, there were no investments in new production capacities. By contrast, the general government investment activity (mainly investments in infrastructure) probably strengthened slightly over the last year, but not enough to really cushion the fall in private investments.

Non-financial services

In 2011, household consumption rose slightly in real terms, which led to an increase in gross value added in trade. Moreover, a favourable impact on this activity's GVA dynamics was made by the relatively successful tourist season and better tourism performance than in the year before. Movements in tourism were due to the strong GVA growth in hotels and restaurants.

Activity in transport, storage and communications declined during 2011. With respect to transport, a decline was recorded in passenger transport measured by the number of passengers carried and passenger-kilometres. Concurrently, sea water, coastal and air transport saw an increase in both the number of passengers carried and passenger-kilometres realised. With respect to goods transport, the decrease in the number of tonnes carried and in tonne-kilometres was less pronounced, and road transport performance remained at the previous year's level. By contrast, a decrease in pipeline transport was slightly more serious.

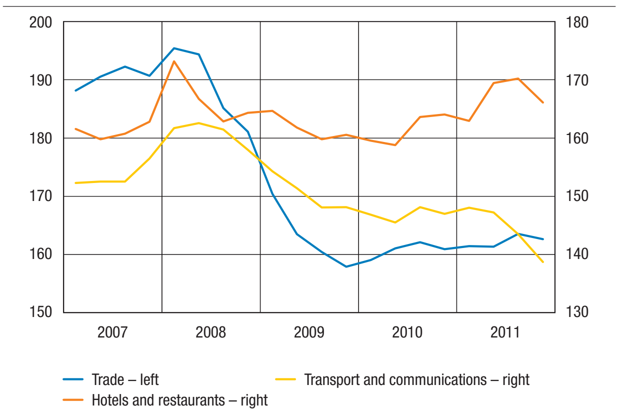
1.2.3 Labour market

Unfavourable labour market movements continued into 2011. The average number of employed persons declined, while the average unemployment rate rose.[12] Nominal gross and net wages grew in 2011 (excluding a base effect from the repeal of the special tax on salaries, pensions and other income), yet at a markedly slower rate than the prices of final products increased by labour productivity growth.

Employment and unemployment according to administrative sources

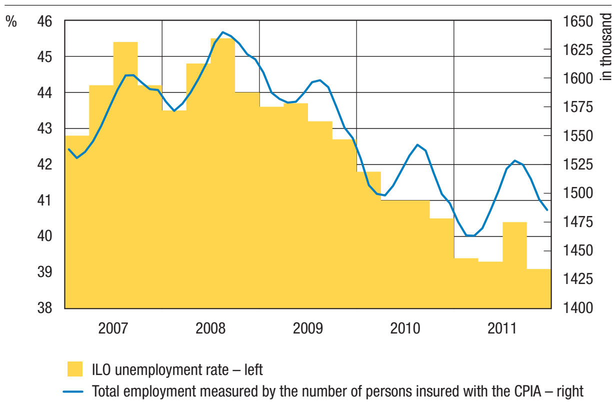
The decrease in overall employment continued in 2011, but at a slower pace than in the previous two years. As suggested by the CPIA data, the average number of insured persons fell by 17,303 or 1.1% in 2011 from 2010. As shown by seasonally adjusted data, the number of insured persons increased slightly during the first half of the year, but started to decrease again towards the end of the year, so that it was lower in December 2011 than at the end of 2010. The CPIA data suggest that, as in the previous year, the relative decline in employment in crafts and trades and the decline in the

1.11 Gross value added in trade, hotels and restaurants, and transport and communications
seasonally adjusted values, chain index, 2000 = 100



Source: CBS data seasonally adjusted by the CNB.

1.12 Total employment measured by the number of persons insured with the CPIA and ILO unemployment rate



Source: CBS and CPIA.

12 According to the CPIA data on the number of insured persons and administrative CBS data. The administrative CBS data on the number of employed persons and the unemployment rate are preliminary and are planned to be revised in April 2012. Consequently, the number of insured persons provided by the CPIA is a more reliable indicator of employment in the official economy.

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

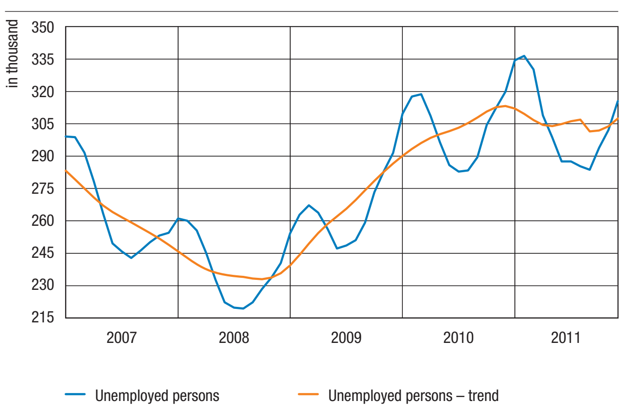
	2010/ 2009	1–6/2011 1–6/2010	7–12/2011 7–12/2010	2011/ 2010	Share in total flow		
					1–6/2011	7–12/2011	2011
1 Newly registered							
1.1 By type of inflow	**6.9**	**5.6**	**10.9**	**8.6**	**100.0**	**100.0**	**100.0**
– Directly from employment	1.5	–10.1	6.7	–0.8	57.3	63.2	60.6
– From private agriculture or any other similar work	–8.5	1207.2	100.7	568.2	5.1	0.8	2.6
– Directly from school	7.4	19.3	8.1	10.3	4.1	11.5	8.3
– From inactivity	24.6	23.6	23.0	23.3	33.5	24.5	28.4
1.2 By previous work experience	**6.9**	**5.6**	**10.9**	**8.6**	**100.0**	**100.0**	**100.0**
– First-time job seekers	12.5	26.1	11.3	16.7	17.7	20.4	19.2
– Previously employed	5.8	2.1	10.8	6.8	82.3	79.6	80.8
2 Outflow from the CES register	18.9	25.2	18.6	22.0	100.0	100.0	100.0
– Employed based on work contract	19.3	24.5	12.2	18.7	55.8	49.0	52.6
– Employed based on other business activities	22.4	394.4	84.1	220.6	7.2	3.8	5.6
– Deleted from the register for other reasons	18.2	10.4	22.5	16.5	37.0	47.2	41.8

Source: CES.

number of individual farmers actively insured with the CPIA in 2011 were sharper than the decline in employment in legal persons, while the number of persons employed in free-lance occupations picked up. Viewed by NCA activities, the decline in overall employment reflected movements in the private sector (the sharpest decrease was recorded in construction), while the number of civil servants and government employees increased.

Administrative data on the number of unemployed persons in 2011 suggest slightly more favourable movements than in 2010. The data on outflows from the CES register show a marked increase in the number of CES-mediated hirings and in the number of persons removed from the records. Concurrently, inflows into the register due to employment termination decreased, while the inflows of persons coming directly from school and from inactivity increased.

1.13 Unemployed persons registered with the Croatian Employment Service



Source: CES.

The growth in outflows from the register was sufficient to offset the negative impact of an increase in the newly registered, so that registered unemployment declined in December 2011 (to 315,438) from end-2010, when it stood at 319,845. However, seasonally adjusted data suggest an upturn in unemployment towards the end of the year. According to final data, the average unemployment rate for the whole of 2011 was 17.8% (17.4% in 2010), and reached 18.6% at the very end of the year.

Employment and unemployment according to the Labour Force Survey data

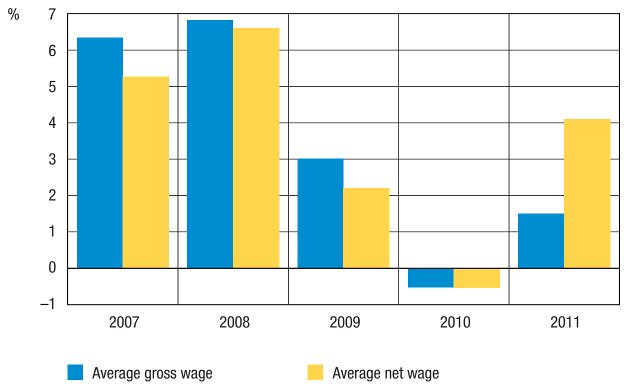
The CBS Survey data[13] on labour market characteristics during 2011, and data from administrative sources show a similar direction of changes in the labour market. According to the Labour Force Survey results, the average number of employed persons decreased, whereas the average number of unemployed persons increased in annual terms. However, the negative changes were less intense than in 2010. Apart from reducing the number of employees, companies continued to adapt to the low demand by reducing the average number of hours worked. During 2011, the labour supply (labour force) continued to decline as well.

Wages and labour costs

Average gross wages paid, which fell by 0.5% in 2010, rose by 1.5% in 2011. This increase was much smaller than the sum of the growth rates of prices and average labour productivity, which is why the share of labour in total gross domestic product continued to decrease. The growth in nominal gross wages was slower, relative only to the realised price increase (GDP

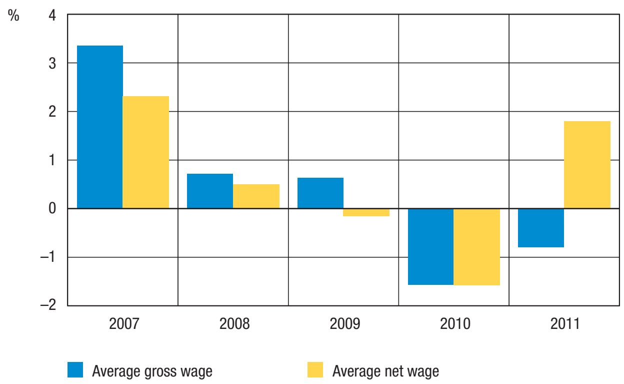
13 Due to methodological differences, the employment and unemployment data obtained through the Labour Force Survey differ from the data based on administrative sources.

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



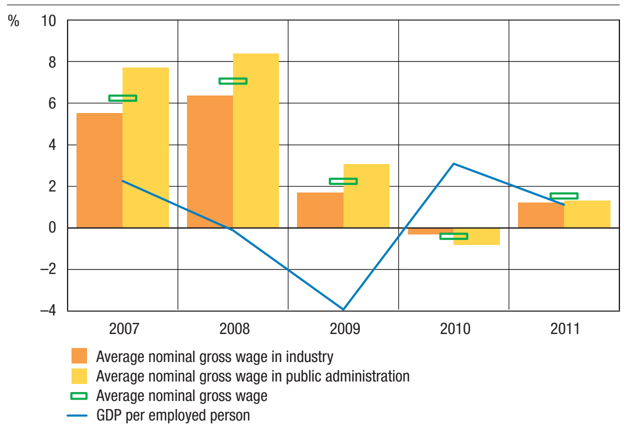
Note: Data refer to wages paid in the current year. Data on nominal net wages include the impact of the special tax on salaries, pensions and other income.
Source: CBS.

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



Note: Data refer to wages paid in the current year. Data on real net wages include the impact of the special tax on salaries, pensions and other income.
Source: CBS.

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



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

deflator). Consequently, the rate of change in real gross wage was negative. These movements were primarily due to a very high unemployment level that markedly lessened the employees' influence on the corporate wage determination process.

With respect to net wages paid in 2011, their movements were positively influenced by the base effect of the phasing out of the special tax during 2010, which resulted in their increase by 4.1%. As this was paralleled by a 2.3% increase in consumer prices, the average real net wage for the whole of 2011 went up.

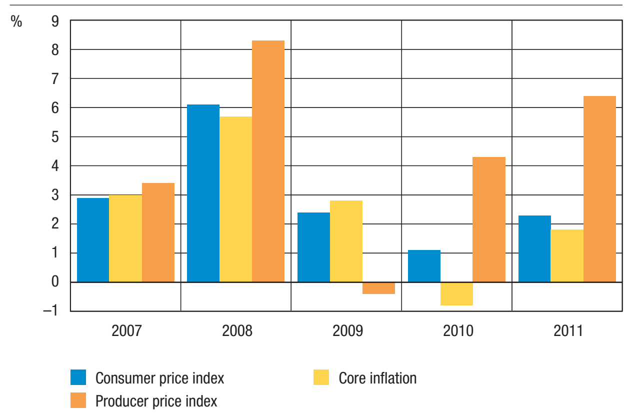
In 2011, average gross wages paid in almost all NCA sections picked up from the previous year, with the sharpest increase observed in financial and insurance activities and real estate activities. The wage dynamics in the private sector were similar to those in public and government services. Wage growth in industry also remained within the overall-economy average. As suggested by the CBS data on changes in GDP and its implicit deflator in 2011, nominal unit labour costs for the entire economy seemed to have stagnated, while the aggregate profit margin (an inverse term for real unit labour costs) increased.

1.2.4 Prices and the exchange rate

Prices

The average annual consumer price inflation rate in Croatia went up to 2.3% in 2011 from 1.1% in 2010 due to an increase in world raw material prices. The price growth of food raw materials, energy products and other raw materials in the world market put upward pressure on inflation primarily because of its spillover to the growth of food product prices. Inflationary pressures were eased by domestic factors, above all by weak domestic demand and stagnating unit labour cost, as especially evident in a decrease in services prices. Core inflation also accelerated, primarily due to an increase in the prices of food products, the share of which in the core inflation basket is higher than that in the overall inflation basket. The average

1.17 Consumer price index, core inflation and industrial producer prices index on the domestic market
average year-on-year rate of change



Source: CBS.

annual core inflation rate increased from –0.8% in 2010 to 1.8% in 2011. Imported inflation pressures were mainly reflected on domestic industrial producer prices, up from 4.3% in 2010 to 6.4% in 2011.

Consumer prices

Monthly rates of change in overall and core consumer price inflation (seasonally adjusted and annualised) were on average higher and more volatile than in 2010. These rates exceeded their long-term averages in the last quarter of 2011, ranging around 3.8% and 4.5% respectively.

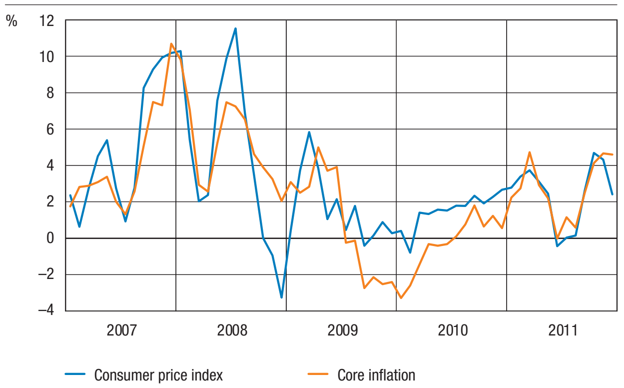
The annual inflation rate stood at 2.1% in December 2011, a slight increase from 1.8% in December 2010, primarily resulting from a global increase in raw material prices that peaked in April 2011 before starting to drop. The highest contribution, made by food product prices and industrial product prices excluding food and energy, was only to some extent offset by a decrease in the contribution of energy and services prices.

Processed food products (tobacco and alcohol included) made the largest contribution to the acceleration of consumer price inflation as their annual rate of change went up from 2.5% in December 2010 to 6.6% early in the third quarter before starting to edge down. The largest price increases were in bread and cereals and in milk and dairy products. The annual rate of change in the prices of unprocessed food products also went up, from –0.3% in December 2010 to 1.8% in December 2011, for the most part due to a sharp increase in meat prices, while a decline in fruit and vegetable prices produced an opposite effect.

The prices of industrial products, excluding food and energy, were mainly influenced by domestic factors creating deflationary pressures. Prices in this product group were on the decrease in the first nine months of 2011, with their annual rate of change down from –0.4% in December 2010 to –0.6% in September 2011, mainly due to a fall in clothing and footwear prices. However, these prices increased in the remaining part of the year: their annual rate of change rose to 1.5% in December, primarily because of an increase in clothing and footwear prices in the last quarter of 2011 and to a small extent due to a base effect stemming from a decrease in these products' prices in the same period in the previous year.

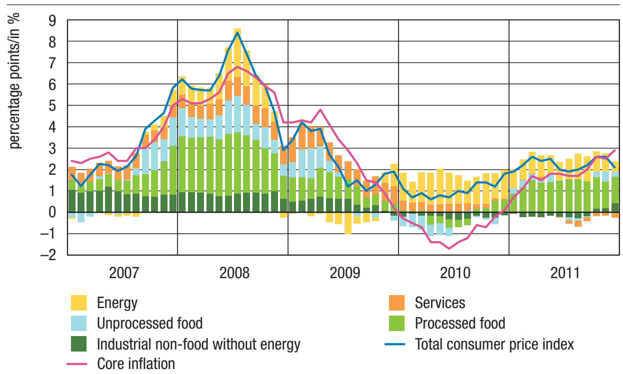
The contribution of energy prices to overall consumer price inflation declined mainly because world crude oil prices grew at lower rates than in the previous year. The annual rates of change in the prices of refined petroleum products and gas dropped, with the result that the annual growth rate of energy prices went down from 9.7% in December 2010 to 3.2% in December 2011. The annual rate of change in gas prices decreased, primarily due to a base effect related to a sharp increase in these prices in early 2010.

1.18 Consumer price index and core inflation[a]
annualised month-on-month rate of change[b]



[a] Core inflation excludes agricultural product prices and administrative prices.
[b] The month-on-month rate of change is calculated from the quarterly moving average of seasonally adjusted price indices.
Sources: CBS and CNB calculations.

1.19 Year-on-year inflation rates and contribution[a] of components to consumer price inflation



[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.

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

	Weight 2011	12/2010	3/2011	6/2011	9/2011	12/2011
Total	100.0	1.8	2.6	2.0	2.2	2.1
Energy	14.9	9.7	6.6	5.8	7.7	3.2
Unprocessed food	13.9	–0.3	2.1	0.2	–0.3	1.8
Processed food (incl. alcoholic drinks and tobacco)	23.4	2.5	6.4	6.3	6.2	5.3
Industrial non-food without energy	27.1	–0.4	–0.7	–0.7	–0.6	1.5
Services	20.8	0.3	0.2	–0.3	–1.0	–1.1

Source: CBS.

Services prices decreased because of domestic factors, including weak personal consumption, unfavourable labour market developments and the strengthening of competition in the domestic market. The annual rate of change in services prices decreased from 0.3% in December 2010 to –1.1% in December 2011, for the most part due to communication prices dropping on an annual basis. However, judging by an increase in the prices of road transport services, costs associated with price increases in energy and other raw materials were carried over to consumers.

Domestic industrial producer prices

Domestic industrial producer prices were mainly under the influence of external factors, that is, increases in world raw material prices. Their annual rate of change grew from 5.7% in December 2010 to 7.0% in November 2011 but dropped to 5.8% already in December due to a base effect stemming from a jump in energy prices in late 2010.

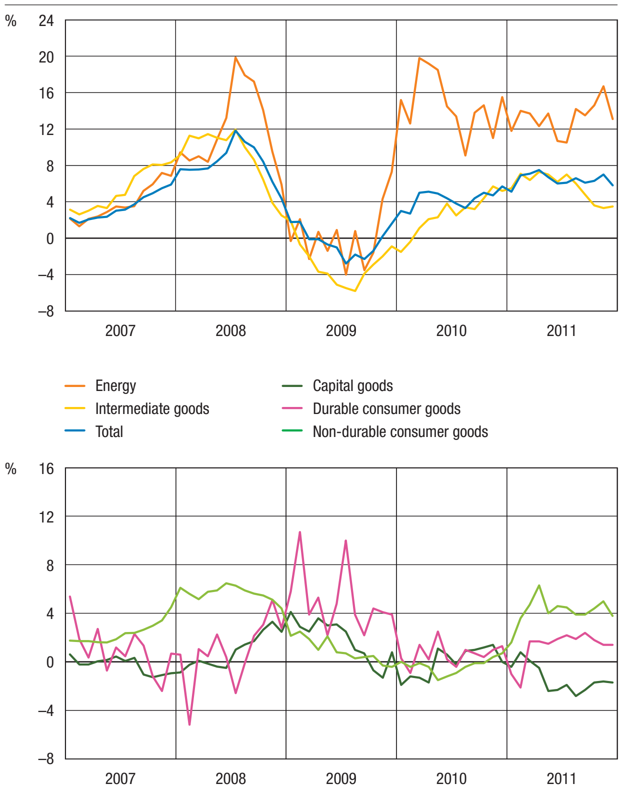
The highest increase in 2011 was in the rate of change in the prices of non-durable consumer goods. Food product prices grew at a rather sharp annual rate of over 10% in June before starting to decelerate. Beverage prices also increased sharply. The prices of durable consumer goods edged up, with their annual rate of change remaining below 1.5% in late 2011.

In contrast, a decrease was recorded in annual rates of change in the prices of energy and intermediate and capital goods. However, the annual growth rate of energy prices remained the highest, standing at 13.1% in December 2010 and decelerating in 2011 due to a slowdown in electricity and gas supply prices. As for the group of intermediate goods, the annual growth of metal prices slowed down the most, but remained relatively high, which could be attributed to a significant drop in world metal prices in the second half of 2011, spurred by concerns regarding a slowdown in global demand. However, most intermediate goods prices accelerated on an annual basis, especially the prices of leather and related products and rubber and plastic products. Capital goods were the only component recording an annual fall in prices.

Residential property prices

Residential property prices in Croatia dropped by 3.1% in 2011 from the previous year, continuing the downturn trend from 2009. The drop was due to abundant real estate supply,

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



Source: CBS.

coupled with a drop in demand arising from reduced real disposable household income, adverse labour market developments and strong consumer pessimism. However, after having fallen at a high annual rate of 9.5% in the second half of 2010, real estate prices grew at a decelerated rate of 1.0% annually in the second half of 2011. In addition, real estate prices in Zagreb halted the annual decrease after two and a half years. These developments resulted from a revival in real estate demand, suggested by a 20.0% annual increase in the real level of newly approved home loans in 2011. The reasons for the revival include decreases in real estate prices and home loan interest rates, as well as budget subsidies to first-time home buyers, granted in the amount of half the monthly instalment

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

	Weight	2007	2008	2009	2010	2011	2009		2010		2011	
							1st half	2nd half	1st half	2nd half	1st half	2nd half
Croatia	100.0	13.2	4.6	–3.8	–6.3	–3.1	–4.5	–3.2	–3.2	–9.5	–5.1	–1.0
Zagreb	65.3	11.9	2.1	–5.2	–8.1	–4.4	–2.8	–7.5	–6.0	–10.2	–8.6	0.2
Adriatic Coast	22.0	16.6	6.8	–2.7	–3.6	0.8	–7.4	2.1	0.9	–7.8	–0.1	1.6

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.

of a home loan in the first four years of its repayment. The Real Estate Agency approved 1462 applications for subsidised home loans in 2011.

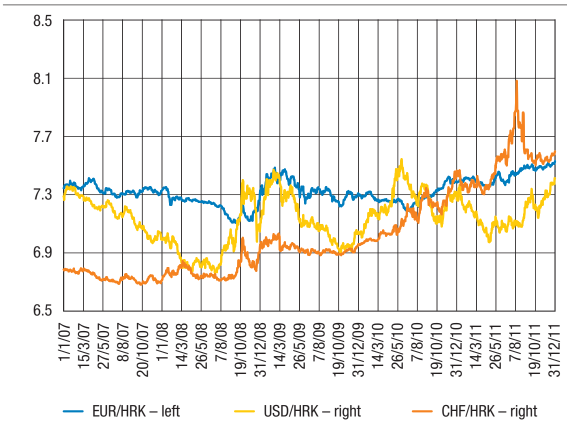
Exchange rate

The kuna/euro exchange rate remained relatively stable in 2011. The nominal daily kuna/euro exchange rate ranged between –1.2% and 1.3% around the average exchange rate of EUR/ HRK 7.43, which is a depreciation of 2.0% from 2010. Quite stable in the first six months, the kuna/euro exchange rate occasionally came under mild appreciation pressures, due to a boost provided to the banking system's foreign exchange liquidity by the cut in the rate of the minimum required foreign currency claims from 20% to 17% in March. Mild appreciation pressures also stemmed from seasonal factors, including a foreign exchange inflow from foreign tourist arrivals around Easter holidays and an increase in foreign exchange inflows at the start of the high tourist season. An additional foreign exchange inflow from a new government eurobond issue also contributed to the exchange rate appreciation. The end-June exchange rate stood at EUR/HRK 7.37, appreciating by 0.2% from the end of 2010. The remaining part of the year saw depreciation pressures, intensifying in the third quarter, due to the cessation of foreign borrowing by private enterprises and the deleveraging of public enterprises. Other reasons included a partial withdrawal of short-term foreign capital from government securities, caused by an increase in Croatia's sovereign risk premium on international capital markets and a decline in the supply of treasury bills with a currency clause. In an effort to dampen depreciation pressures, the central bank intervened twice in the foreign exchange market and raised the reserve requirement rate from 13% to 14% in September. This resulted in a stabilisation of the exchange rate, which stood at EUR/ HRK 7.53 at the year-end, a depreciation of 2.0% from the end of 2010.

In 2011, the CNB sold foreign exchange to banks to curb depreciation pressures and was a net buyer in transactions with the government. The central bank intervened twice in the foreign exchange market, selling a total of EUR 419.4m to banks (EUR 238.9m on 25 July and EUR 180.5m on 19 September) and alleviating depreciation pressures. The CNB also net purchased EUR 966.5m from the MoF. The bulk of this amount was accounted for by a foreign exchange transaction with the government in April, when the CNB purchased a total of EUR 850m, thus converting the largest part of the foreign exchange proceeds from an international government bond issue. The CNB net purchased a total of EUR 547.1m through transactions in the foreign exchange market and released HRK 4.0bn, a sharp increase from HRK 94.3m in 2010.

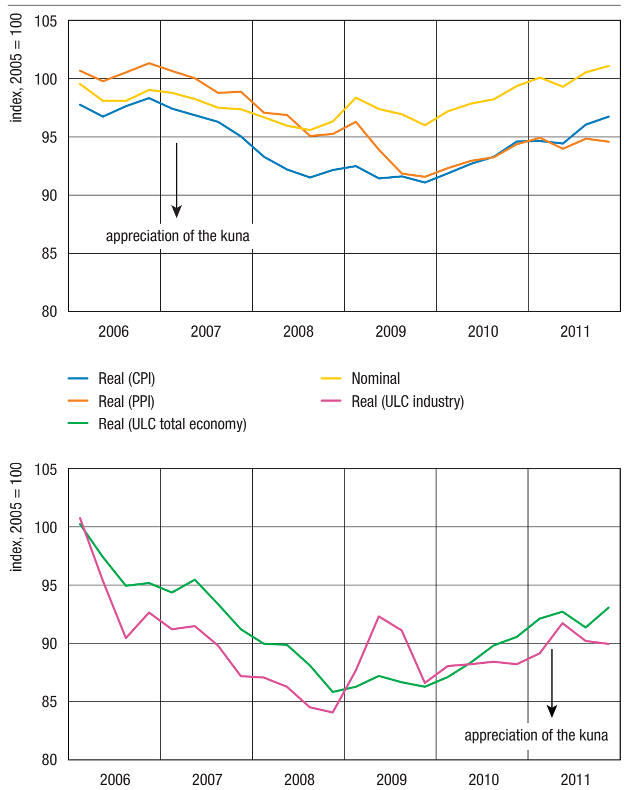
In 2011, the kuna depreciated against most of the other currencies included in the basket for the calculation of the nominal effective exchange rate index (except against the US dollar and Polish zloty). The average exchange rate of the kuna depreciated significantly against the Swiss franc (14.2%) as a result of the Swiss franc strengthening versus the euro in the first eight months of 2011. In contrast, the appreciation of the kuna exchange rate against the US dollar resulted from the weakening of the dollar versus the euro in global markets in the first six months of 2011. This was on the back of expectations that the eurozone benchmark interest rate would increase sooner that the US benchmark rate and concerns about the sustainability of the US budget deficit. In 2011, the nominal effective exchange rate of the kuna depreciated by an average of 2.1% from the

1.21 Daily nominal exchange rates EUR/HRK, USD/HRK and CHF/HRK
CNB midpoint exchange rate



Source: CNB.

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



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

previous year, in line with bilateral exchange rates of the kuna against a basket of currencies of main trading partners.

Export price competitiveness continued to improve somewhat in 2011. The real effective exchange rate of the kuna deflated by consumer prices was on average 2.5% lower in 2011 than in the previous year, primarily due to the already mentioned nominal effective depreciation of the kuna, but also because of a slower growth of domestic than of foreign prices. The real effective exchange rate of the kuna deflated by producer prices depreciated less, by 1.5%, as domestic producer prices grew at higher rates than producer prices in most of the main trading partners.

The cost competitiveness indicator based on unit labour costs improved in 2011. The real effective exchange rate of the kuna deflated by unit labour costs for the whole economy and industry, with data available for the first three quarters of 2011, depreciated annually by 3.1% and 2.7% respectively. In addition to the depreciation of the nominal effective exchange rate of the kuna, this was also due to the fact that trends in unit labour costs in Croatia were more favourable than those in most of its main trading partners.

1.2.5 Monetary developments and monetary policy

In 2011, monetary policy was based on a continued implementation of the policy of a stable exchange rate for the domestic currency as the main precondition for maintaining financial stability and low inflation in Croatia. In addition, in the environment of delayed recovery of domestic economic activity, the central bank supported abundant monetary system liquidity. In this manner, attempts have been made to improve domestic financing conditions and boost credit growth in order to bring about a faster recovery of the domestic economy.

In 2011, expansive monetary policy alone proved insufficient for any very strong growth in bank lending. Poor demand and the absence of private sector investments, along with still large government financing needs, diminished prospects for credit growth recovery. Upward trend in bad loans and increasing bank aversion to additional risks further restricted the effect of monetary policy on credit growth. Furthermore, increasingly lower foreign capital inflow and deleveraging of domestic sectors with respect to foreign creditors led to stronger depreciation pressures on the domestic currency in the second half of the year. Accordingly, by the end of the year, the CNB was forced to withdraw previously released liquidity by foreign exchange interventions and by raising the reserve requirement rate. Despite the described restrictions, in 2011, the central bank increased the international reserves of the Republic of Croatia, providing a high degree of foreign currency liquidity in the country.

In 2011, just as in 2010, banks continued to intensely finance the central government, corporate lending was on a moderate increase, while household lending failed to recover. Growth in domestic sources of funds slowed down considerably, so that bank financing from foreign sources recorded an increase in 2011.

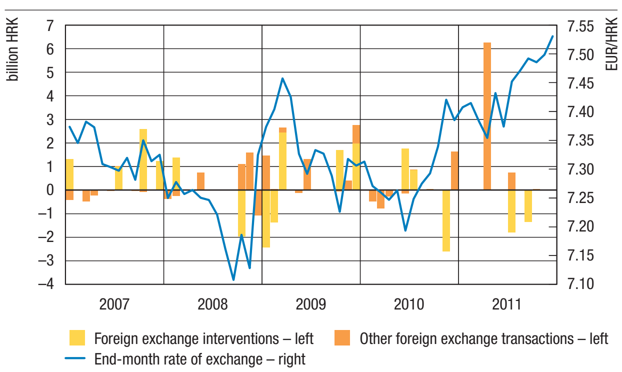
Monetary policy and flows of creating and withdrawing reserve money

Foreign exchange transactions represented the main monetary policy instrument in 2011. Through interventions in the foreign exchange market and direct foreign currency purchase and sale transactions with the government, the CNB had an impact, where appropriate, on kuna and foreign currency liquidity of the system, maintaining thus stability of the domestic currency exchange rate. Raising of the reserve requirement rate from 13% to 14% in October represented an important monetary effect and the use other monetary policy instruments did not have a significant effect on the creation and withdrawal of reserve money.

The monetary environment and movements of the kuna exchange rate against the euro were different in the first and in the second six months. In the first half of the year, the exchange rate was stable and kuna liquidity was exceptionally high. Foreign currency inflow from government foreign borrowing in March was largely purchased by the CNB, creating thus considerable kuna funds (HRK 6.3bn). Lowering of the minimum foreign currency liquidity rate from 20% to 17% in March also contributed to a stable monetary environment in the first half of the year and released approximately EUR 850m. This increased banks' credit potential and improved foreign currency liquidity of the system. Since the exchange rate of the domestic currency was stable, there were no foreign exchange market interventions by the central bank in the first six months of the year.

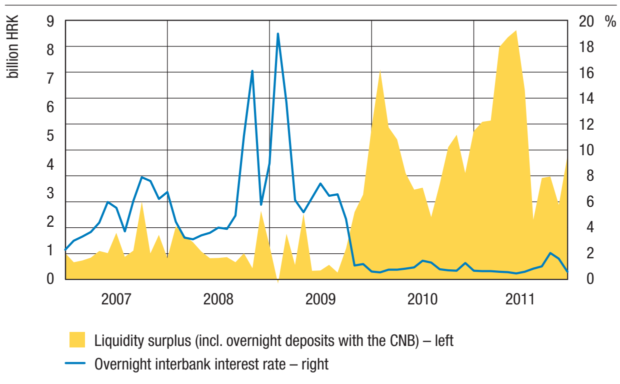
Depreciation pressures on the exchange rate of the kuna against the euro began to strengthen in the summer. Deleveraging of the corporate sector abroad and withdrawal of short-term investments of non-residents were the main reason for these uncommon exchange rate movements in that part of the year. In July, the central bank intervened on the foreign exchange market, selling EUR 238.9m to the banks. After that the exchange rate stabilised, but depreciation pressures began to mount again in September. The CNB intervened once again by selling EUR 180.5m to banks. For the purpose of exchange rate stabilisation,

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



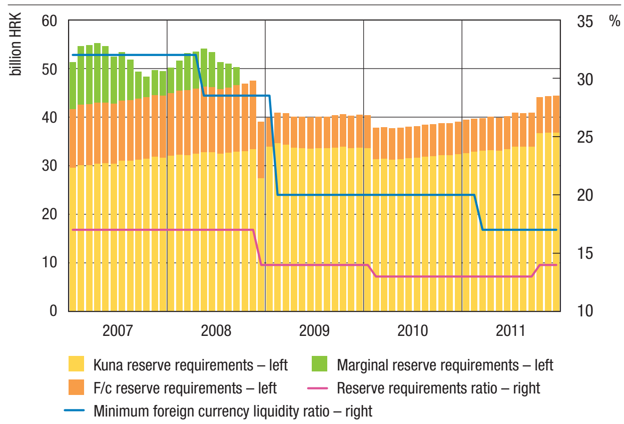
Note: The positive value of foreign exchange interventions and foreign exchange transactions refers to the repurchase of foreign exchange by the CNB. Other foreign exchange transactions include the purchase of foreign exchange from and the sale of foreign exchange to the MoF and foreign currency swaps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

1.24 Bank liquidity and overnight interbank interest rate



Note: Liquidity surplus is the difference between the balance in bank settlement accounts with the CNB and the amount that banks are required to maintain on average in these accounts in accordance with the calculation of reserve requirements.
Source: CNB.

1.25 Reserve requirements and minimum foreign currency liquidity



Source: CNB.

the central bank raised the reserve requirement rate from 13% to 14% in October, thus withdrawing HRK 2.6bn. After the sale of foreign currency and the reserve requirement rate increase, the surplus of the previously created kuna liquidity was reduced considerably, but interest rates on the interbank money market remained low and stable.

With its foreign exchange transactions in 2011, the CNB purchased a net of EUR 549m, creating thus approximately HRK 4.0bn. Creation of reserve money through foreign exchange transactions confirmed a continuation of the policy of supporting abundant liquidity of the domestic banking system. Surplus liquidity in banks' transaction accounts and overnight deposits with the CNB amounted to an average of HRK 5.3bn, one billion kuna more than in the previous year. Banks were making use of the overnight deposit facility with the CNB, averaging as much as HRK 5.0bn, almost on a daily basis. In such circumstances, the overnight interbank interest rate remained very low.

In the conditions of favourable liquidity, there was no need for regular repo operations and no bank demand for Lombard loans. Immediately after the authorisation had been withdrawn from Credo banka d.d., Split, as an exception, the CNB placed funds, at the end of the year, based on a short-term liquidity loan to individual smaller banks with difficulties in liquidity management. In addition, in the same period individual banks were allowed to use, under special conditions, the allocated reserve requirements. Total funds placed through these instruments amounted up to HRK 361.8m.

The reserve requirement remained the main instrument for sterilising excess liquidity. Following two consecutive reductions of reserve requirement rate in 2008 and 2010 by total of four percentage points, in October, it was raised from 13% to 14%. Despite that, in the period that followed, the surplus kuna liquidity in the system remained adequate, without threatening a recovery in lending. Since in 2011 autonomous growth in the calculation base (received deposits and bank loans) was recorded, the increase in the reserve requirement was more pronounced, standing at 13.7% at the annual level. At the end of the year, the total calculated reserve requirement reached HRK 44.4bn. Its largest portion, in the amount of HRK 36.9bn, related to the kuna reserve requirement, which can mostly be accounted for by the fact that 75% of the foreign currency reserve requirement is calculated in kuna. Foreign currency reserve requirement of banks stood at HRK 7.5bn at the end of the year.

By the end of the year, banks had EUR 5.7bn of liquid foreign currency claims at their disposal (19.5% of total foreign currency liabilities), which is an additional element of providing foreign currency liquidity and an important monetary policy instrument. That instrument also had an important role in preserving foreign currency liquidity at the time of the spillover of the financial crisis onto domestic developments, in early 2009, when the minimum foreign currency liquidity rate was lowered from 28.5% to 20.0% and in early 2011, when it was reduced to the present 17%.

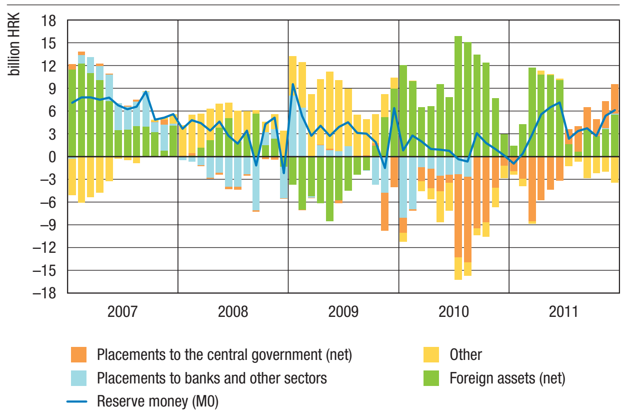
Reserve money and international reserves

In 2011, a strong growth in reserve money (M0) was recorded. The growth in monetary aggregate M0 was largely a result of creating kuna liquidity by purchasing foreign currency from the government. Accordingly, in contrast to 2010, when M0 remained almost unchanged, the annual growth rate of reserve money in 2011 stood at 10.9%, M0 reaching HRK 62.4bn. Despite a strong growth in this narrowest monetary aggregate, the level of international reserves still considerably exceeded the value of reserve money (Figure 1.27).

Bank deposits with the CNB increased most in the structure of reserve money. Accordingly, the allocated kuna reserve requirement rose by HRK 3.0bn and the balance in the settlement accounts rose by HRK 2.5bn, while overnight deposits dropped by HRK 1.0bn. An increase of HRK 1.4bn was also recorded in currency outside banks, and in accordance with greater demand for cash, banks' vault cash also rose moderately.

Government kuna deposits with the central bank, averaging as much as HRK 2.9bn had a significant effect on the

1.26 Flows of reserve money (M0) creation



Note: The reported values denote the absolute annual changes.
Source: CNB.

movements in reserve money; the government deposited most of the funds for current deficit financing raised in April and July with the CNB, and spent gradually, as appropriate. As these deposits were reduced, so banking system liquidity improved. In addition, the government usually raised funds in the deposit account with the CNB immediately before the disbursement of pensions and salaries, which resulted in liquidity fluctuations in the banks' accounts within a month.

Government foreign currency deposits with the CNB were also volatile during 2011. Their movements were a consequence of inflow of funds from borrowing, i.e. repayment of due foreign currency liabilities. The government foreign currency liabilities amounted up to HRK 9.7bn and were reduced to HRK 0.6bn by the end of the year.

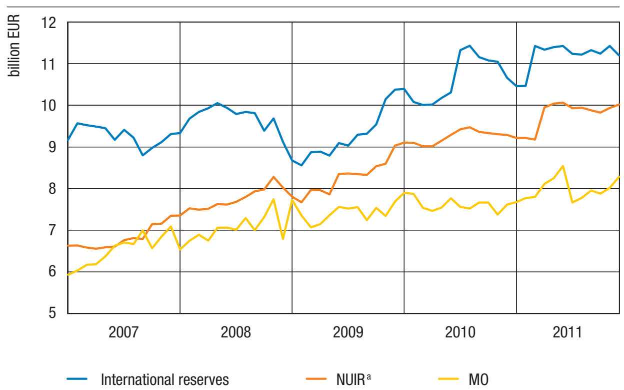
In 2011, the central bank increased gross international reserves. That increase amounted to EUR 535m or 5.0%, gross international reserves reaching EUR 11.2bn. Their growth was a result of a purchase of foreign currency and a rise in the allocated foreign currency reserve requirements of banks. Positive exchange rate differentials (strengthening of the US dollar against the euro) and income earned from the investment of reserves also contributed to a growth in reserves. Outflow of government foreign currency deposits from the account with the central bank was the only item with the opposite effect. Net usable international reserves also continued to grow in 2011. They stood at EUR 10.0bn at the end of the year and the annual rate of change was 7.9%.

Developments in monetary and credit aggregates

In 2011, movements in monetary and credit aggregates reflected a poor recovery in the real sector and continued difficult and unfavourable terms of financing. Net domestic assets (NDA) of the monetary system grew at a faster rate than in the previous year, but only due to a stronger government financing, while private sector lending continued at a moderate pace. A nominal increase in bank placements to the non-banking sector amounted to HRK 13.5bn, or 5.5%, but if the effect of the depreciation of the kuna against the euro and the Swiss franc is excluded, the growth in placements to the private sector was slower, amounting to 3.8%. On the other hand, bank net placements to the government went up by HRK 13.0bn or 51.9% in 2011. Total bank claims on the central government grew by HRK 7.8bn or 15.5%, whereas government deposits with banks and the CNB decreased by a total of HRK 5.2bn, which related to spending of the funds raised in the domestic and foreign financial market.

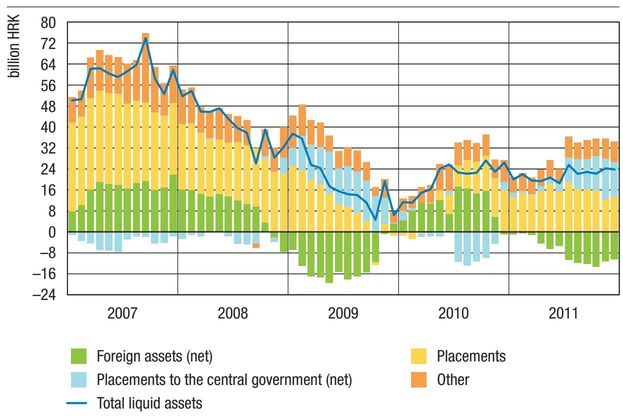
Net foreign assets (NFA) dropped sharply as a result of a fall in net foreign assets of banks. Bank's foreign liabilities rose by HRK 8.3bn in 2011, while their foreign assets decreased by HRK 7.8bn, which resulted in total capital inflow of HRK 16.1bn. Foreign borrowing related exclusively to an increase in received deposits and loans from parent banks, as a result of which the share of foreign funding in banks' foreign liabilities rose from 70.9% at the end of 2010 to 76.1% at end-2011. A reduction in foreign assets was made possible by the central bank

1.27 International reserves of the CNB



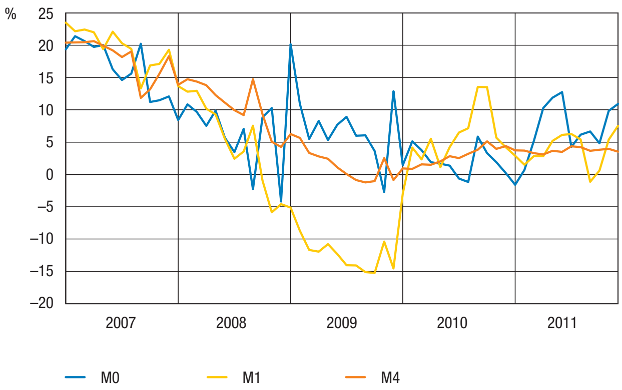
[a] NUIR = international reserves – foreign liabilities – reserve requirements in f/c – government foreign currency deposits – general and special SDR allocations.
Source: CNB.

1.28 Flows of total liquid assets (M4) creation



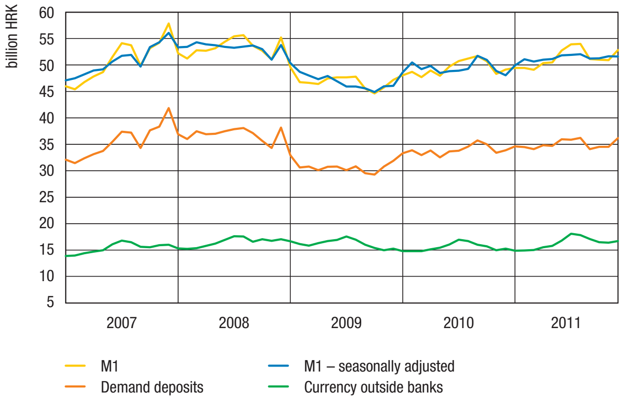
Note: The reported values denote the absolute annual changes.
Source: CNB.

1.29 Monetary aggregates
year-on-year rate of change



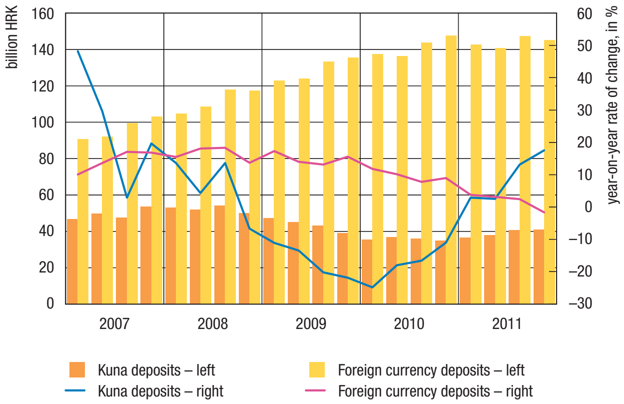
Source: CNB.

1.30 Money (M1)



Source: CNB.

1.31 Kuna and foreign currency deposits



Source: CNB.

cut in the rate of minimum required foreign currency claims from 20% to 17%. Net foreign assets of banks declined by a total of HRK 16.1bn or 46.5% and were negative and stood at HRK 50.8bn.

As a result of movements in net foreign and net domestic assets, total liquid assets (M4) increased by HRK 8.2bn or 3.5% in 2011, which is slower than in the previous year, when the growth rate amounted to 4.4%. The growth in this broadest monetary aggregate can partly be accounted for by the exchange rate effects, since the kuna amount of its foreign exchange portion increased due to depreciation of the kuna exchange rate. Accordingly, excluding the exchange rate effects, the M4 growth was slower in 2011 and amounted to 2.1%.

In the structure of monetary aggregate M4, the strongest growth was recorded in money (M1). At the annual level, M1 rose by HRK 3.7bn or 7.5%, which is 3.4 percentage points more than in 2010. However, growth acceleration of M1 was not a reflection of heightening of economic activity, but it rather represented only a partial recovery of this monetary aggregate following previously recorded unfavourable movements, especially in 2009. Furthermore, the money (M1) growth can also partly be accounted for by a greater propensity of domestic sectors to hold more liquid financial assets.

In 2011, currency outside banks recovered considerably. Its annual growth rate amounted to 9.3%, in contrast to 2010, when it levelled off. Currency outside banks moved in line with seasonal trends throughout the year, reaching its high in the summer months and during holidays in December. The other component of money, demand deposits, also increased (6.7%) at the annual level. An increase in demand deposits, i.e. kuna balances in current and giro accounts, was recorded in all domestic sectors.

In contrast to money, the growth in quasi-money slowed down in 2011. Total savings and time deposits rose by HRK 3.7bn or 2.0% in nominal terms, but if the effect of exchange rate depreciation is excluded, their growth was considerably smaller, amounting to HRK 0.5bn. For the sake of comparison, an increase in savings and time deposits was HRK 5.2bn in 2010, while it was several times stronger in the pre-crisis period.

The corporate sector contributed most to the slowdown in deposit growth. A gradual deleveraging of the corporate sector abroad and weak economic activity resulted in financial assets being spent. Corporate savings and time deposits contracted by HRK 2.9bn at the annual level (exchange rate effects excluded). In addition, household deposit growth was considerably slower than in the previous years. Unfavourable labour market conditions were the main factor underlying these developments. Household savings and time deposits rose by HRK 4.2bn, if the exchange rate effects are excluded, which is almost twice as low as in 2010.

According to the maturity structure, 2011 was marked by contraction in foreign currency and a growth in kuna deposits. A fall in foreign currency deposits of 3.8% at the annual level (exchange rate effects excluded) was mostly a result of aggravated economic conditions, spending of corporate foreign currency deposits in particular, which were reduced by 25.4%. On the other hand, the annual growth in kuna deposits of 17.5% related, to a considerable extent, to deposits of several larger corporates and deposits of other banking and non-banking financial institutions, movements of which are usually volatile.

The banking system euroisation, measured as the share of foreign currency deposits in total savings and time deposits, was still high, standing at 78% at the end of 2011. The preference of domestic sectors for foreign currency did not diminish, which is also proved by the fact that by the end of the year, households converted approximately HRK 2.0bn of deposits from the euro to other foreign currencies, mainly the Swiss franc and the US dollar, as a result of turmoil in the global financial market and uncertainty related to the eurozone debt crisis.

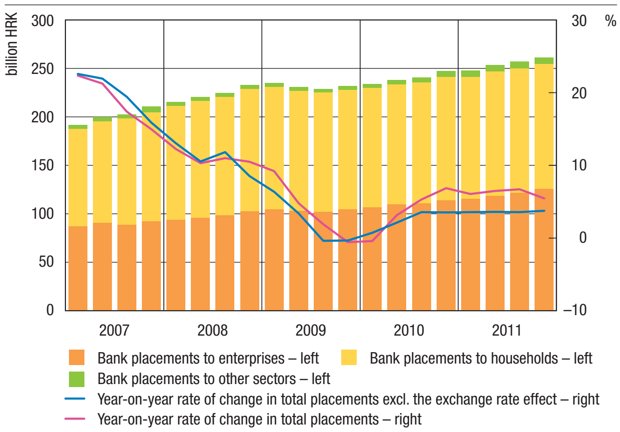
Despite the fact that monetary policy supported high liquidity of the domestic financial system, bank lending activity did not accelerate significantly, but it only mildly outstripped the results from the previous year. The majority of private sector credit growth in 2011 related to the corporate sector. Corporate lending increased by HRK 12.1bn in 2011, a 10.6% (or 9.1%, if the exchange rate effects are excluded) growth at the annual level. In comparison with 2010, corporate lending intensified, but the effects of stronger lending did not spill over onto the real economic activity. More specifically, the funds raised by borrowing from banks were mainly used by the corporates to finance their regular operations and considerably less for investments.

A portion of the recorded growth in corporate loans (HRK 1.9bn or 17.8%) should also be attributed to lending under the Economic Recovery Programme of the Croatian government, implemented through the CBRD and in cooperation with banks (the so-called model A and A+). In 2011, the CBRD placed to banks through auctions all the remaining loan quotas planned under that programme, i.e. a total of HRK 1.1bn out of HRK 2.0bn initially provided as early as in March 2010. These loans were granted under more favourable terms than the market terms and were almost in entirety intended for working capital financing.

A slightly stronger corporate demand for loans of domestic banks was partly a consequence of unfavourable borrowing terms of other financial institutions and directly abroad; corporate borrowing with the domestic non-banking sector was reduced considerably and gradual deleveraging in relations with foreign banks was recorded. Accordingly, total corporate financing slowed down in 2011 relative to the year before.

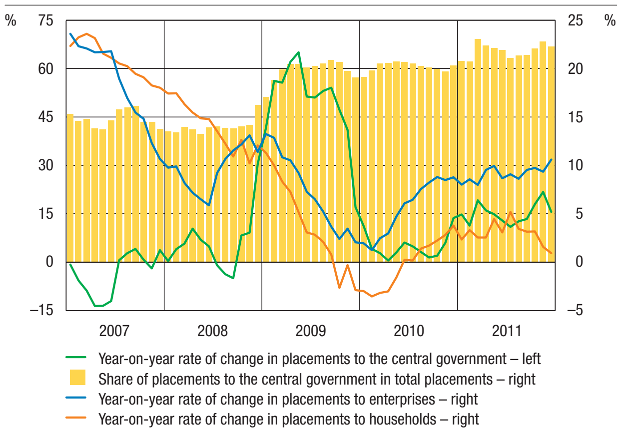
In contrast with corporate loans, bank loans granted to households decreased in 2011. The reasons for the again delayed recovery in household lending are weak demand for loans due to unfavourable economic conditions, particularly those in the labour market, high price of borrowing and uncertainty as regards future developments. Household loans increased by HRK 1.2bn or 0.9% in nominal terms, but with the exchange rate effects excluded they fell by 1.1%. Car loans and credit card loans recorded the largest decrease. Home loans, which accounted for the largest share of total household loans granted, remained almost unchanged. Stagnation in this category was

1.32 Bank placements to the non-banking sector



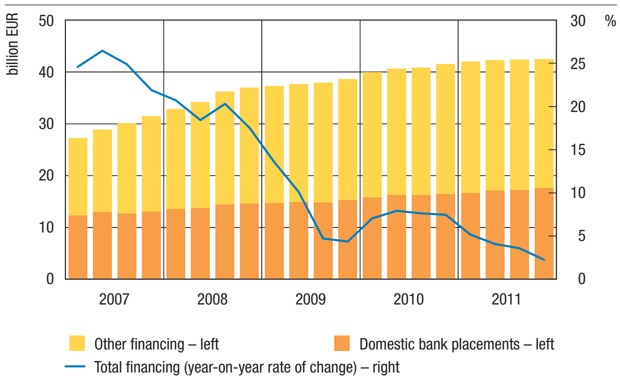
Source: CNB.

1.33 Bank placements



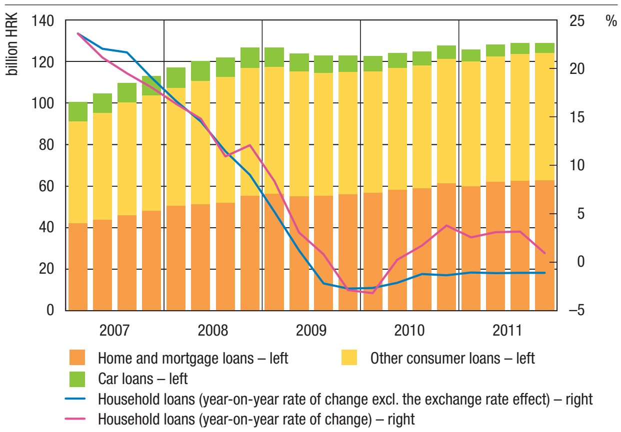
Source: CNB.

1.34 Corporate financing by sources



Note: Other financing includes corporate borrowing from domestic leasing companies and direct borrowing from the CBRD, as well as borrowing from foreign banks and affiliated enterprises abroad.
Sources: CNB, HANFA and CNB calculations.

1.35 Household loans by purpose



Source: CNB.

recorded at the annual level despite the government incentive programme for home loans; although successful, it had a slight effect on the volume of total household lending.

1.2.6 Money market and interest rates

The year 2011 was largely marked by a rise of euro interest rates and an increase in the global risk premium. In such circumstances, the risk perception of Croatia deteriorated in line with trends in the countries in the region, and indeed deteriorated even relative to the environment. Financing conditions for parent banks of the largest domestic banks worsened as well.

At the same time, domestic financial markets were marked by exceptionally good liquidity of the domestic financial system, with minor oscillations. In line with this, banks were able to meet the need for financing primary liquidity in the money market through relatively modest trading volumes, which resulted in a slight increase of the total money market turnover in relation to 2010, with interest rates mostly staying under 1%.

Interest rates on Ministry of Finance T-bills decreased in the first quarter due to lively investor interest. However, deteriorating international financing conditions and the increase in the global risk premium in the second half prompted a strong rise in the interest rate on all maturities by the end of 2011, when it reached its two-year high. At the same time, interest rates on government bonds issued in the domestic and international markets rose sharply.

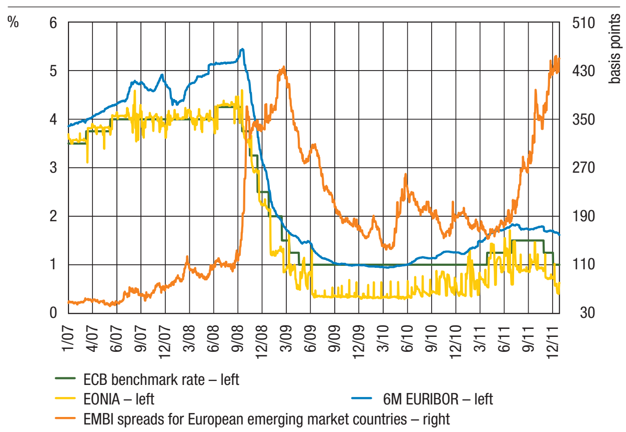
A long period of good liquidity of the financial system, coupled with relatively low interest rates in the money market, helped further reduce banks' interest rates on loans granted. A somewhat more intense drop in lending rates compared to deposit rates caused the overall interest rate spread in the observed year to decline.

International interest rates

Euro benchmark interest rates in the international financial market picked up during most of 2011, which had a negative influence on the price and availability of foreign financing. Moreover, the risk premium increased globally as a result of escalating problems in some of the eurozone countries' government debt markets, the uncertainty regarding American public finances, the increasing number of countries with lowered credit ratings, and bigger investor fears about the sustainability of global economic recovery, especially in the second half of the year. The increase of the risk premium in the second half of 2011 was more pronounced in the peripheral eurozone countries, related to the expansion of the crisis to Italy and to its banks affiliated with Croatian banks. Besides, the risk perception of Croatia grew relatively more markedly than in the countries in the region. Although eurozone benchmark interest rates began to decrease at the end of the year, a further rise in the global risk premium resulted in continued deterioration of foreign financing conditions. This, along with worsening conditions for financing other parent banks of the largest domestic banks, made domestic sectors' access to foreign capital even more difficult in 2011.

Amid more prominent inflationary pressures in the first half of 2011, the ECB raised the benchmark interest rate from 1.00% to 1.25% in April, which was followed by another rise to 1.50% in July. The eurozone's economic downturn in the second quarter of 2011 and a spillover of financial market problems into the real sector raised ECB concerns over continued economic recovery, which prompted the bank to cut its benchmark interest rate by 25 basis points in November and December 2011, down to 1.00% at the end of the year. The six-month EURIBOR largely followed the benchmark interest rate changes, ranging between 1.22% and 1.83% during the year and standing at 1.64% at the end of December. Non-standard monetary policy measures that the ECB used to ensure generous financial system liquidity kept the EONIA overnight interest rate below the benchmark rate for most of 2011, as it recorded high volatility. EONIA ranged between 0.35% and 1.72% in the observed year, standing at 0.63% at the end of the observed period.

1.36 Interest rates on the euro and the average yield spread on bonds of European emerging market countries



Sources: ECB, Bloomberg and J. P. Morgan.

A growth of investor risk aversion in 2011 resulted in a further rise of demand for safer bonds, such as German Bunds, and a resultant increase of their prices. Together with a sharp surge of yields on European emerging markets' eurobonds, this caused a significant growth of the EMBI yield spread for those countries. That yield spread increased by around 255 basis points in the observed one-year period, reaching 450 basis points by the end of the year. Similar dynamics was registered in the CDS premium in the reviewed countries, with the strongest growth in the end-2010 to end-2011 period recorded for Croatia (by around 289 basis points), followed by Italy and Hungary with increases of 265 and 239 basis points, respectively. These countries also registered the highest CDS premium levels among the reviewed countries at the end of December 2011, headed by Hungary with a 623 basis points premium, Croatia (547 basis points) and Italy (503 basis points).

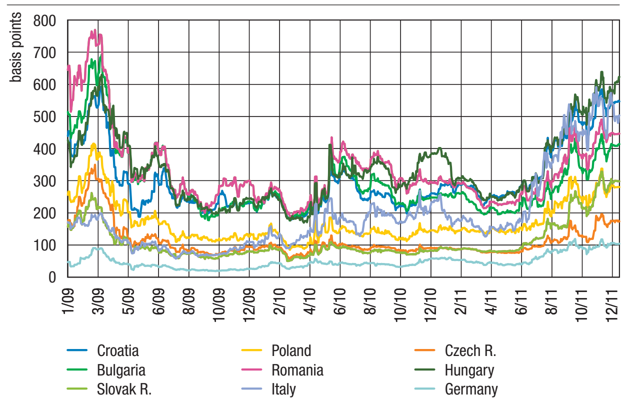
At the same time, financing conditions in the international market worsened for the parent banks of domestic banks. The average CDS yield spread for bonds issued by the parent banks of the five largest domestic banks rose by 230 basis points in 2011. The Italian banks stood out with an increase of over 325 basis points, having recorded the highest risk premium levels at the end of December 2011.

Money market interest rates

Exceptionally good financial system liquidity reduced banks' needs for money market financing in 2011, especially in the first half of the year, as a result of which the average trading turnover and interbank transaction interest rates were maintained on a relatively low level, as in the previous year. In 2011, banks met their primary liquidity needs by means of secondary sources of liquidity in the money market in the average daily amount of HRK 1.4bn (HRK 352.9bn on the annual level), which represents a 9.7% increase in relation to the year before. The modest growth of money market trading turnover was followed by a continuing drop in interest rates to their lowest recorded levels, with the interest rate on overnight interbank loans mostly staying below 1%. Exceptionally, interest rates in the money market picked up temporarily at the end of September and in the first half of the fourth quarter due to a liquidity decline caused by an increase of government deposits with the CNB after the issue of government bonds in the domestic market and the rise of the reserve requirement. However, by the end of 2011 these rates reverted to the levels from the major part of the year.

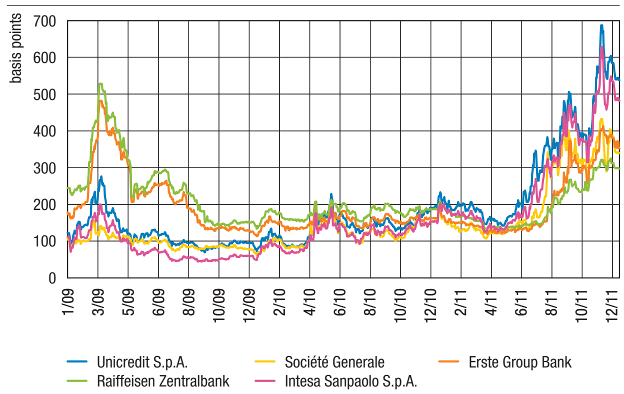
The primary source of bank money market financing in 2011 were loans in demand deposits trading. The volume of these loans (HRK 307.9bn) somewhat increased in relation to the year before, almost reaching the 2009 level (87.2%) in terms of their participation in the structure of financing. At the same time, there was a slight decrease in bank financing through repo agreements, their share in the overall sources of financing being around 12% in 2011. The remaining funding needs (around 0.6%) were met through securities trading.

1.37 CDS spreads for 5-year government bonds of selected countries



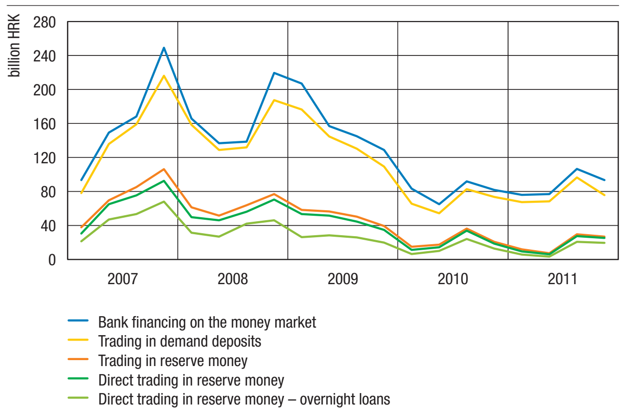
Note: Credit default swaps (CDS) spread is an annual premium that a CDS buyer pays for protection against credit risk associated with an issuer of an instrument.
Source: Bloomberg.

1.38 CDS spreads for selected parent banks of domestic banks



Note: Credit default swaps (CDS) spread is an annual premium that a CDS buyer pays for protection against credit risk associated with an issuer of an instrument.
Source: Bloomberg.

1.39 Money market turnover



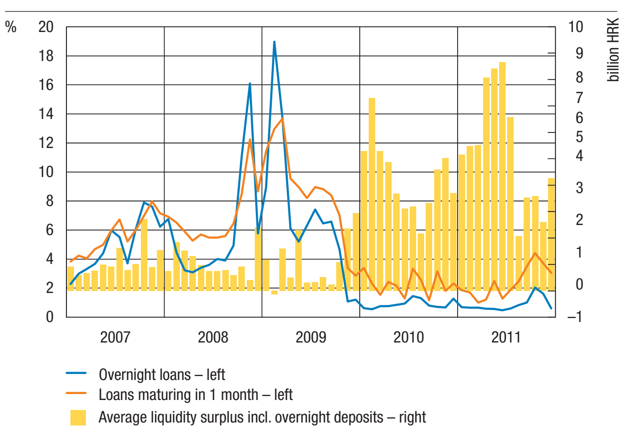
Source: CNB.

The rise in demand deposits trading in the first half of 2011 came as a result of livelier bank lending activity involving other legal persons, whereas the influence of intensified interbank lending and lending through non-banking financial institutions was more pronounced in the second half of the year. In mid-2011, loans in demand deposits trading with other legal persons constituted nearly 65% of the total demand deposits trading, reaching the highest-ever level, only for their share to be cut to half (30.0%) by the end of the year, equalling the shares of interbank trading (35.4%) and trading with non-banking financial institutions (34.6%).

In 2011, the volume of interbank demand deposits trading declined by HRK 13.7bn or 15.4% relative to 2010, which came about almost entirely during the first half of the year. Demand deposits trading remained unchanged in the second half of 2011 compared to the same period in the previous year (HRK 56.3bn, or over three times as much as in the first half). Banks thus continued to meet their demand for reserve money during 2011 mainly by means of direct demand deposits trading. At the same time, interbank trading with Zagreb Money Market (ZMM) intermediation continued to decrease by approximately HRK 264.6m on average each quarter, i.e. by 38.0% at the entire 2011 level.

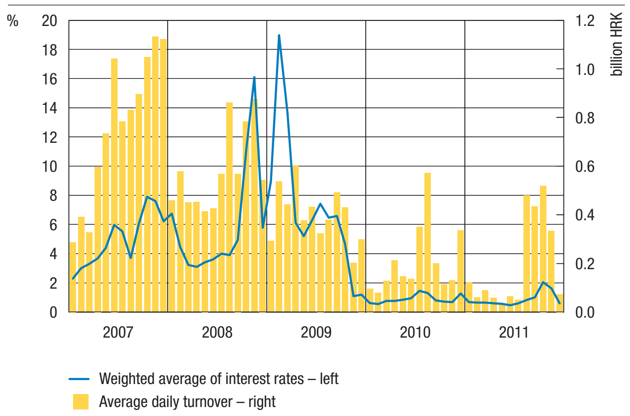
Overnight loans continued to be the most liquid and dominant instrument in direct interbank trading in reserve money in 2011. Exceptionally good financial system liquidity that, with minor oscillations, marked the whole of 2011 influenced a decrease in the volume of overnight loans of HRK 4.3bn, or 8.1% year-on-year. A drop in longer-term lending was much more intense, reducing its importance in interbank reserve money trading. Interest rates on overnight loans in direct interbank trading lingered below the 1% level until the end of September, before starting to surge due to the fall of liquidity caused by an increase of government deposits with the CNB after the issue of government bonds in the domestic market and the rise of the reserve requirement. Having reached a two-year high in October (2.05%), they fell under 1% again by the year's end.

1.40 Interest rates in direct interbank trading and bank liquidity surplus



Source: CNB.

1.41 Direct interbank trading in overnight loans



Source: CNB.

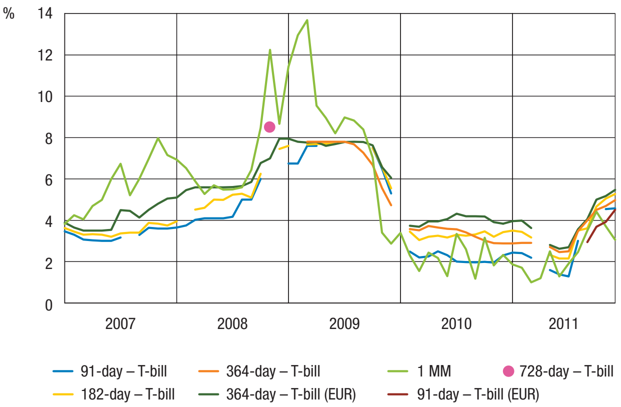
Interest rates in the short-term securities market

In 2011, the government mostly refinanced its short-term debt with domestic banks, resulting in the total stock of subscribed T-bills remaining nearly unchanged in relation to 2010. As a result of the issue of two new bonds in the domestic market in mid-year, the government's need for additional liquidity through regular T-bill auctions was reduced, so that the amounts of their issues generally did not exceed the amounts of the T-bills falling due.

The Ministry of Finance held a total of 32 T-bill auctions in 2011, whereby a total of HRK 24.5bn was raised, only HRK 2m more than in the previous year. Along with kuna-denominated T-bills, which raised HRK 18.8bn, euro-denominated T-bills were regularly auctioned as well, and raised another HRK 5.7bn. Along with one-year euro-denominated T-bills, the Ministry of Finance began the regular issue of 91-day euro-denominated T-bills in September 2011. Nevertheless, the share of euro-denominated T-bills in the total amount of funds raised by means of T-bill issues dropped in relation to the previous year.

In the environment of abundant financial sector liquidity, investor demand for T-bills was several times higher than the planned issue amounts in the first half of 2011, and the disproportion was more pronounced in the case of kuna-denominated issues. Required yields of kuna-denominated T-bills of all maturities were therefore on average reduced by the end of June by over 1 percentage point, while a drop in the interest rate on one-year euro-denominated T-bills was half as strong. However, a sharp increase in the country risk premium coupled with deteriorating conditions for foreign financing of the overall economy was reflected in a prominent growth of yields on kuna and euro-denominated T-bills of all maturities in the second half of 2011. Weighted interest rates on kuna-denominated T-bills with 91, 182 and 364-day maturities thus stood at 4.59%, 5.27% and 5.47% at the end of the year, the highest in two years. The increase of yields on one-year euro-denominated T-bills was somewhat less pronounced (standing at

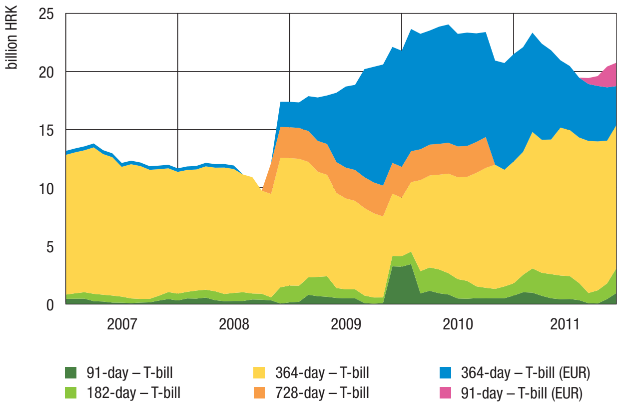
1.42 Interest rates on T-bills and in direct interbank trading



Sources: MoF and CNB.

1.43 T-bill stock

maturity structure



Sources: MoF and CNB.

4.98% in December). Along with those with usual maturities, euro-denominated T-bills with 91-day maturities were issued for the first time in the second half of 2011, with a yield of 4.50% at the end of the year. Yield spreads between the longest and shortest maturity T-bills thus shrank in 2011, having picked up significantly in the year before.

At the end of December 2011, the stock of total subscribed Ministry of Finance T-bills remained almost unchanged relative to December 2010, standing at approximately HRK 20.7bn. A trend of continuing substitution of euro-denominated T-bills (stock decrease of HRK 3.8bn) with those denominated in kuna (stock increase of HRK 3.9bn) can be noted. The biggest debt increase was registered in kuna-denominated longer-term maturity T-bills (182 and 364 days). As a result, one-year kuna-denominated T-bills took precedence in the total subscribed T-bill structure (with about 59.3%), in contrast to the end of 2010, when they participated roughly equally with euro-denominated T-bills of the same maturity. At the end of December 2011, the shares of 91 and 182-day kuna-denominated T-bills in the total stock were 4.6% and 10.3%, respectively, while euro-denominated T-bills with a 91-day maturity reached a 9.7% share in several months.

Interest rates on Croatian government bonds

In mid-July 2011, the Ministry of Finance issued two new government bonds in the domestic market in order to raise new financial funds: the five-year kuna-denominated bonds nominally valued at HRK 1.5bn with a 5.95% yield to maturity at issue, and the eleven-year euro-denominated bonds nominally valued at EUR 600m with a 6.88% yield at issue. Since no domestic government bonds fell due in 2011, the number of government bonds in the domestic market reached 12, which is two more than at end-2010.

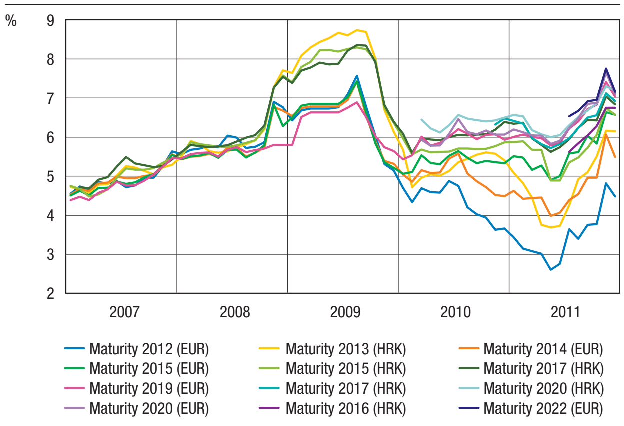
The growth in the prices of RC bonds traded on the Zagreb

Table 1.4 Bond issues in the domestic market

Series	Issuer	Issue date	Maturity	Currency	Issue nominal value	Nominal interest rate	Last price[a]	Current yield 31/12/2011
RHMF-O-125A	Republic of Croatia	23/5/2002	23/5/2012	EUR	500,000,000	6.875%	100.80	6.820%
RHMF-O-142A	Republic of Croatia	10/2/2004	10/2/2014	EUR	650,000,000	5.500%	100.25	5.486%
RHMF-O-19BA	Republic of Croatia	29/11/2004	29/11/2019	EUR	500,000,000	5.375%	90.30	5.952%
RHMF-O-157A	Republic of Croatia	15/7/2005	14/7/2015	EUR	350,000,000	4.250%	95.00	4.474%
RHMF-O-15CA	Republic of Croatia	14/12/2005	15/12/2015	HRK	5,500,000,000	5.250%	95.50	5.497%
RHMF-O-137A	Republic of Croatia	11/7/2006	11/7/2013	HRK	4,000,000,000	4.500%	96.50	4.663%
RHMF-O-172A	Republic of Croatia	8/2/2007	8/2/2017	HRK	5,500,000,000	4.750%	90.50	5.249%
RHMF-O-203A	Republic of Croatia	5/3/2010	5/3/2020	HRK	5,000,000,000	6.750%	102.85	6.563%
RHMF-O-203E	Republic of Croatia	5/3/2010	5/3/2020	EUR	1,000,000,000	6.500%	96.50	6.736%
RHMF-O-17BA	Republic of Croatia	25/11/2010	25/11/2017	HRK	4,000,000,000	6.250%	95.75	6.527%
RHMF-O-167A	Republic of Croatia	22/7/2011	22/7/2016	HRK	1,500,000,000	5.750%	–	–
RHMF-O-227E	Republic of Croatia	22/7/2011	22/7/2022	EUR	600,000,000	6.500%	95.10	6.835%

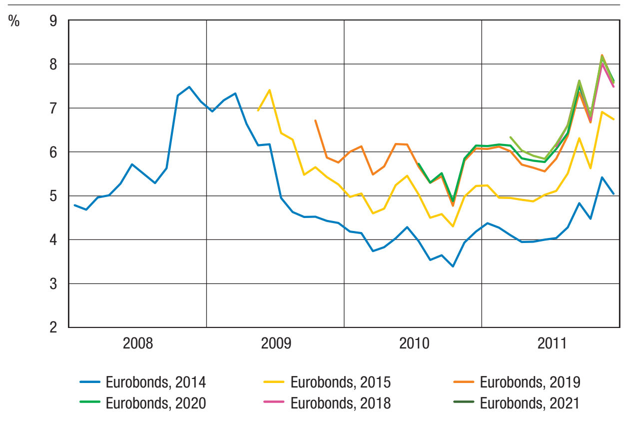
[a] Regularly traded.
Source: ZSE, monthly report, December 2011.

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



Source: Bloomberg.

1.45 Trends in yields to maturity of government bonds on the international market



Source: Bloomberg.

Stock Exchange was reflected in a decrease in their yields to maturity in the first half of 2011 compared to their yields at the end of the previous year. Yields on bonds with relatively shorter maturities (less than 5 years) thus fell at the end of June 2011 to their lowest recorded levels since mid-2007, while yields on bonds with longer maturities ranged around 6%, returning to early-2010 levels. In the second half of 2011, however, required yields on all government bonds picked up significantly, which more than offset their drop in the first half of the year. The biggest growth was registered by relatively volatile yields on bonds with shorter maturities.

In mid-March 2011, an international government bond nominally valued at EUR 750m fell due; it had been issued in 2001 and refinanced through the issue of a new ten-year international bond nominally valued at USD 1.5bn with a 6.38% annual interest rate. In late June 2011, the Republic of Croatia issued another new seven-year international euro-denominated bond of EUR 750m total nominal value in foreign capital markets, with a 5.88% annual interest rate. Consequently, a total of six issues of Croatian government bonds were listed in foreign capital markets by the end of 2011, i.e. one more than at the end of 2010. Three out of these six international RC bonds were denominated in the euro, and three in the US dollar. At the end of 2011, total nominal value of all six issues of Croatian bonds in foreign markets thus stood at HRK 39.8bn (EUR 5.3bn), which was HRK 9.7bn (EUR 1.2bn) up in relation to the end of the previous year.

In 2011, required yields on Croatian international bonds mainly followed trends in the yields on comparable eurobonds issued by emerging market countries, thus reflecting changes in global investor risk perception. In the first six months, required yields on Croatian eurobonds recorded a slight drop relative to end-2010. However, the uncertainty around sovereign debt crises in the eurozone's peripheral countries and the sustainability of global economic recovery, coupled with a drop in numerous countries' credit ratings, influenced Croatia's higher risk perception, resulting in higher required yields on all Croatian international bonds by the end of 2011. Required yields on Croatian eurobonds of relatively shorter maturities thus reached their highest levels in two and a half years in November (6.9% on the eurobond falling due in 2014 and 5.4% on that falling due in 2015), while yields on longer-maturity bonds reached historic highs (8.1% on average).

Table 1.5 Republic of Croatia eurobond issues as at end-2011

Bond	Issue date	Currency	Amount	Nominal interest rate	Yield on issue day
Eurobonds, 2014	15/4/2004	EUR	500,000,000	5.000%	5.11%
Eurobonds, 2015	27/5/2009	EUR	750,000,000	6.500%	6.57%
Eurobonds, 2019	5/11/2009	USD	1,500,000,000	6.750%	7.01%
Eurobonds, 2020	14/7/2010	USD	1,250,000,000	6.625%	6.75%
Eurobonds, 2018	30/6/2011	EUR	750,000,000	5.875%	6.12%
Eurobonds, 2021	16/3/2011	USD	1,500,000,000	6.375%	6.62%

Source: Bloomberg.

Bank interest rates

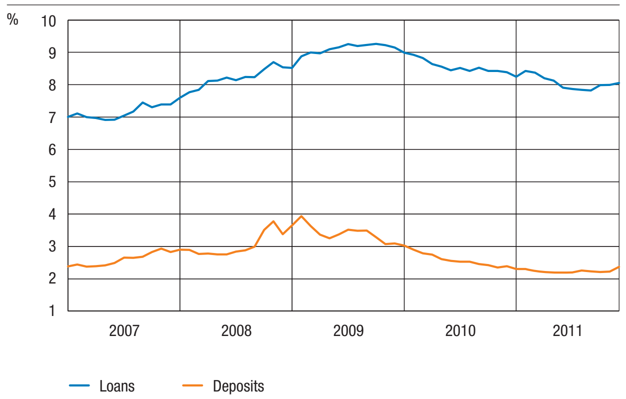
The long period of the financial system's good liquidity in a stable monetary environment coupled with relatively low interest rates in the money market facilitated a continuing decrease in bank interest rates in 2011. The tendency to reduce bank lending rates was further influenced by a cut in regulatory costs as of March and June 2011 (by means of reducing the minimum required foreign currency claims and the CNB discount rate). However, the decline in bank interest rates, which began in late 2009, was much more moderate in 2011 than in the year before. The intensifying debt crisis abroad and the increased uncertainty in international financial markets at the end of 2011 had an adverse effect on the availability of foreign sources of financing. This stopped and, to some extent, reversed the trend of falling lending and deposit interest rates, prompting a slight increase in some interest rates in early autumn, notably those on short-term kuna funds.

In line with general trends, the tendency to reduce corporate lending interest rates was halted in mid-2011, and some of them actually rose by the end of the year. Nominal bank interest rates on short-term kuna corporate loans with no currency clause continued being the most volatile interest rate segment. Having stagnated around the 7.0% level at the beginning of the year, they somewhat decreased in the April to July period, continuing their trend of several years. In the second half of 2011, however, this trend was reversed, with interest rates sharply rising and reaching the level of 7.48% by December 2011, which was half a percentage point up from the end-2010 level and a year-and-a-half high. These trends primarily reflected high volatility in the interest rates on 3-to-12-month short-term corporate loans and their relatively strong surge at the end of 2011. As a result, the tendency to reduce interest rates on short-term corporate loans, noticeable in late 2009 and for the most part of 2010, when they converged towards interest rates on long-term loans with a foreign currency clause, was stopped by the end of 2011, when interest rates on short-term corporate loans nearly reached those on overdraft facilities, for the first time since end-2009. In the first six months of 2011, interest rates on long-term loans with a foreign currency clause relatively closely followed the dynamics of interest rates on short-term kuna loans, while in the second half of the year their decline was blocked and they stagnated by oscillating within a relatively narrow range. At year-end, these interest rates remained on the level of 6.37%, which is below their level at the end of 2010.

The downward trend in interest rates on household loans was largely stopped by the end of 2011. Nearly all the year was characterised by falling interest rates on long-term household loans with a foreign currency clause, followed by their moderate growth as recorded in the last quarter. At the end of 2011, these interest rates stood at 7.53% (0.63 percentage points down from the end of 2010). Such dynamics of these interest rates largely reflects a bid by banks to provide more attractive conditions in order to boost housing loans, and can partly be associated with special offers for general-purpose mortgage bank loans in the second half of the year, as well as with portfolio structure changes due to a drop in the share of motor vehicle purchase and other long-term loans amid suppressed demand and consumer pessimism. Until the middle of 2011, interest rates on short-term kuna household loans with no foreign currency clause were marked by the particular stability that had been noted for the last two years. During this entire period, these interest rates stood at around 12.6%, only to drop sharply in July 2011 (to 11.2%) influenced by a decrease of the maximum permitted and agreed penalty interest rate associated with the CNB discount rate cut. Interest rates on short-term kuna household loans with no foreign currency clause showed even less oscillation in this period than before, influenced by the stability of interest rates on the most expensive and dominant overdraft facilities in kuna.

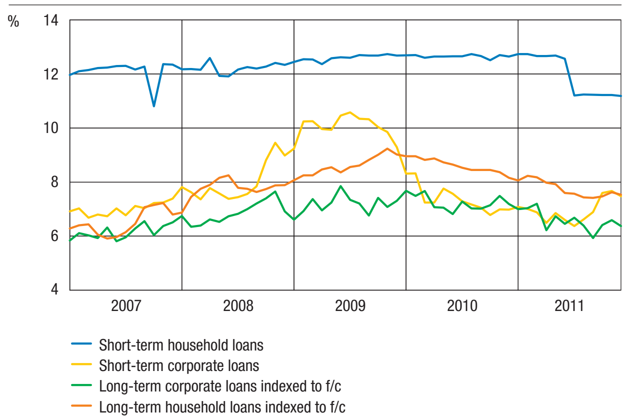
Deposit interest rates followed lending interest rates' trends. The decrease in short-term interest rates on household time deposits with no foreign currency clause (1 to 3 months), a trend of several years, was slowed in the first half of 2011. Similar

1.46 Average bank interest rate estimates
weighted by the amount of total loans granted



Source: CNB.

1.47 Average bank interest rates on kuna loans

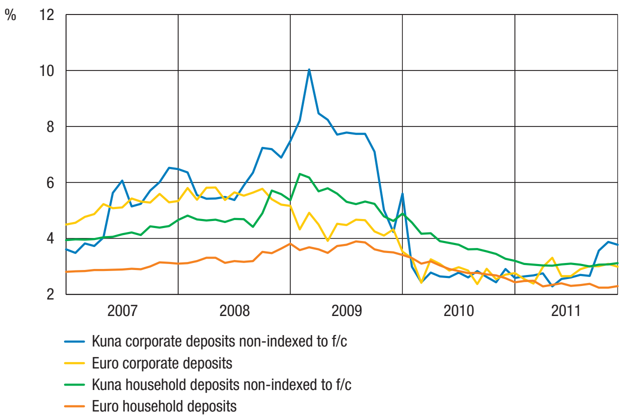


Source: CNB.

trends were recorded in interest rates on other comparable-maturity household deposits (with a foreign currency clause), which were generally somewhat more volatile than interest rates on time deposits with no foreign currency clause. These interest rates grew slightly during the second half of 2011, reaching 2.30% for foreign currency deposits and 2.99% for deposits in kuna by the end of December, though not reverting to their end-2010 levels. Short-term interest rates on corporate time deposits were relatively stable until the last quarter of 2011, when they began growing more markedly. Interest rates on corporate deposits with no foreign currency clause and a maturity of 1 to 3 months grew more strongly, reaching an almost two-year high (3.78%) by the end of 2011, while interest rates on foreign currency corporate deposits with the same maturity remained at relatively low levels (around 3.0%).

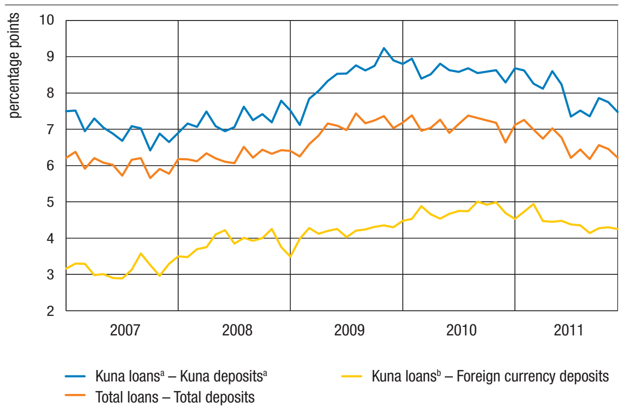
The described movements in lending and deposit interest rates contributed to a decrease of the total interest rate spread in 2011, primarily due to a contraction of the interest

1.48 Average bank interest rates on time deposits maturing in one to three months



Source: CNB.

1.49 Spread between average bank interest rates on loans and deposits



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

rate spread on so-called pure kuna loans and deposits during summer months. In the remaining part of the year, the spread was relatively stable with the usual short-term volatility, staying on the pre-crisis level. The overall interest rate spread thus amounted to 6.22 percentage points at the end of December 2011, which is nearly half a percentage point less than in December 2010.

1.2.7 Financial sector

The upward trend in assets of financial intermediaries continued in 2011, assets of individual intermediaries and total unconsolidated financial assets growing at rates similar to those in the previous year (3.8%). Accordingly, the trend of a slow change in the shares of individual intermediaries continued, which primarily relates to a rise in the share of mandatory pension funds and insurance and a fall in the share of leasing companies. The share of housing savings banks in other non-banking financial intermediaries increased, whereas the share of open-end and closed-end investments funds and the fund of Croatian war veterans decreased. The relative shares of other intermediaries did not change significantly.

Banking sector assets increased by 4.2% in nominal terms in 2011, largely due to a weakening of the kuna exchange rate against the euro and the Swiss franc, while the annual growth rate of assets stood at 2.6% at a constant exchange rate. Banks thus strengthened their position of the most important financial intermediaries, increasing moderately their share in total assets of the financial sector to 75.6%.

Assets of mandatory pension funds continued to grow, both in relative and in absolute terms, strengthening thus their position as the most important non-banking financial intermediaries. Total assets of these intermediaries grew by 13.8%, to HRK 41.1bn, and their relative share rose to 7.6%. The growth in total assets was somewhat smaller than in the previous years (2009 and 2010), primarily due to low returns on investments. A total growth in assets of HRK 4.7bn was mostly generated by payments of fund members, while Mirex, the value index of average mandatory pension fund assets, grew by only 0.5% in 2011. The largest portion of mandatory pension fund assets was invested in the domestic market (88.5%), bonds prevailing in the structure with 69.7%, of which 65.9% were bonds of the Republic of Croatia. In 2011, the bond index, CROBIS, dropped by 4.5%, and taking into account accrued interest (measured by the new index CROBIStr), yield on bonds in the Croatian market was 1.0%. Domestic stock indices moved in line with the regional and global indices, yielding negative returns at the end of 2011. CROBEX fell by 17.6% and CROBEX10 by 15.4%. Mandatory pension fund assets increased by 11.9%, or by HRK 208.7m, mainly due to new payments and a growth in the number of members. Since the returns of most of the funds were negative, their share in total assets of financial intermediaries remained relatively low.

According to data for end-September 2011, total assets of insurance companies went up by HRK 3.0bn or 9.6% relative

Table 1.6 Assets and relative shares of financial intermediaries

in million HRK and %

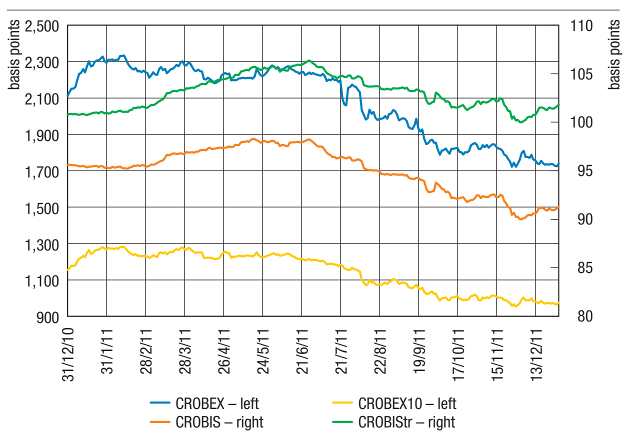
	12/2007			12/2008			12/2009			12/2010			12/2011		
	Amount	Share	Number	Amount	Share	Number	Amount	Share	Number	Amount	Share	Number	Amount	Share	Number
1 Banks[a]	345,081.39	74.2	33	369,955.05	76.8	33	378,726.48	75.5	32	391,060.46	75.3	32	407,372.56	75.6	31
2 Open-end funds	30,056.25	6.5	100	9,890.23	2.1	126	12,034.94	2.4	130	13,674.35	2.6	131	11,928.90	2.2	128
3 Fund for Croatian Homeland War Veterans and Members of their Families[b]	....	....	....	2,400.42	0.5	1	2,223.35	0.4	1	2,005.08	0.4	1	1,445.53	0.3	1
4 Closed-end funds[c]	3,682.36	0.8	9	1,895.58	0.4	11	1,840.76	0.4	10	1,920.60	0.4	8	1,678.35	0.3	7
5 Insurance companies[d]	23,245.87	5.0	25	25,690.09	5.3	29	27,919.63	5.6	30	30,114.67	5.8	27	33,071.55	6.1	27
6 Factoring companies[d]	4,219	0.9	12	6,342.89	1.3	13	7,006.83	1.4	15	5,748.13	1.1	19	5,769.64	1.1	17
7 Housing savings banks[a]	6,544.81	1.4	5	6,965.46	1.4	5	6,738.46	1.3	5	6,880.62	1.3	5	7,838.77	1.5	5
8 Mandatory pension funds	21,001.89	4.5	4	22,590.93	4.7	4	29,264.64	5.8	4	36,328.05	7.0	4	41,067.10	7.6	4
9 Voluntary pension funds	811.89	0.2	18	948.04	0.2	21	1,363.15	0.3	21	1,760.01	0.3	21	1,968.73	0.4	21
10 Leasing companies[d]	30,303.87	6.5	25	35,067.93	7.3	26	33,665.81	6.7	26	28,987.99	5.6	26	26,242.72	4.9	25
11 Savings banks	....	....	....	137.95	0.0	1	154.71	0.0	2	10.73	0.0	1	34.82	0.0	1
12 Credit unions	....	....	....	....	....	....	515.00	0.1	33	530.00	0.1	23	569.17	0.1	22
Total (1+2+3+4+5+6+7+8+9+10+11+12)	464,948	100.0	0	481,885	100.0		501,454	100.0		519,021	100.0		538,988	100.0	

[a] Supervisory data (they may differ from monetary statistical data due to the consolidation).
[b] From 14 April 2008 on, members of this fund may sell their shares. Up to this date, the fund was closed for payments.
[c] Data on closed-end investment funds with public offering for investments in real estate are as at end-November 2011.
[d] Data are as at end-September 2011.
Sources: CNB and HANFA.

to the end of 2010. This growth was larger than that recorded in the whole of 2010, mainly as a result of a growth in the value of investments in the insurance companies' balance sheets. On the liabilities side, a growth in capital of HRK 567.9m should be noted, which is partly a consequence of adjustment to regulatory requirements. Sale of insurance remained stagnant, so that gross written premium was 1.2% lower in the first nine months of 2011 than in the same period of 2010.

Total assets of leasing companies dropped by HRK 2.7bn or 9.5% relative to the end of 2010. A downward trend in leasing companies' assets that had begun as early as in 2009 thus continued, under the influence of reduced economic activity and poor interest in the purchase of new vehicles and machinery, as well as a significant increase in credit risk and deterioration of assets quality, which had a negative impact on the business performance.

1.50 Trends in ZSE share and bond indices in 2011



Source: ZSE.

Following a recovery in 2009 and 2010, open-end investment funds' assets were reduced considerably in 2011. Total assets of these funds declined by HRK 1.7bn or 12.8%. A decrease in assets was also a consequence of a withdrawal of units and a fall in the value of investments, which was evident especially in August, when a considerable fall in the value of domestic and foreign financial assets was recorded. In 2011, assets of bond funds decreased most (38.7%), balance and equity funds lost 30.0% and 28.3%, respectively, while assets of money market funds rose by 5.5%

Assets of the fund for Croatian Homeland War veterans and members of their families decreased by as much as 27.9%, or by HRK 559.6m, in 2011. A decrease in assets was primarily caused by negative returns (the unit value fell by 19.7%), whereas the remaining fall in the value of assets can be attributed to the sale of units.

Housing savings banks increased their assets by as much as 13.9%, or HRK 208.7m. The assets increase can primarily be accounted for by additional investments of owners for the purpose of complying with the new regulations requiring those intermediaries to match interest rate risk, i.e. maturity of assets and liabilities.

Total assets of factoring companies remained almost unchanged (a 0.4% increase). Following a huge growth in assets of these intermediaries in 2009 and a considerable fall in 2010, their total assets stabilised. At end-2011, these assets were largely invested in discounted bills of exchange.

Savings banks and credit unions remained financial intermediaries with insignificant shares in total financial intermediary assets. One savings bank was taken over and recapitalised by the new owner, as a result of which its total assets increased by HRK 24.1m or 224.5%. Assets of credit unions grew by HRK 39.2m, or by 7.4%, and there were 22 credit unions by the end of the year.

1.2.8 Balance of payments

According to preliminary data, a negative balance of EUR 0.4bn was recorded in the current account (the relative indicator stood at 1.0% of GDP). A mild deficit reduction relative to 2010 was a result of an increase in net revenues from services, while the trade balance in goods deteriorated. The surplus in foreign trade in services exceeded the goods deficit for the first time, by EUR 0.1bn. The deficit in factor income account rose additionally, while the balance in the current transfers account was slightly more favourable than in 2010.

A mild recovery of net capital inflows was evident in the capital and financial account in 2011, although the outturn was still considerably lower than in the pre-crisis period. Although the largest part of the inflow can be defined as direct equity investments, they were almost in their entirety related to a conversion of debt into equity holdings in several domestic corporates, while the actual investment in new capacities was extremely modest. Debt conversion into equity holdings also made a crucial contribution to the movements in gross external debt of the Republic of Croatia, which was reduced by EUR 0.7bn during the year, to the level of EUR 45.7bn (99.3% of GDP).

Current account

A negative balance in the current account was mostly a result of movements in the goods account. Since goods imports rose more than exports in absolute amounts, an annual growth in goods trade deficit of 6.1% was recorded. The relatively strong growth in goods imports in 2011 can mostly be attributed to energy, the value of which was affected by high prices. In addition, imports of miscellaneous manufactured articles and food recovered to a certain extent, while imports of capital goods continued to fall. Favourable movements on the imports side were recorded in the majority of SITC divisions.

A positive balance in trade in services in 2011 rose by 7.0% relative to the previous year, primarily due to a successful tourist season. In addition, net expenditures for miscellaneous business services were also reduced. Weak economic activity, especially in construction, led to smaller expenditures on architectural and engineering activities and related technical services. Expenditures and revenues from accounting and legal services also shrank considerably. A fall in net revenues from transportation services had a moderate negative impact on the service account. A sharp fall in revenues was evident especially in sea cargo transport, whereas revenues from air passenger transport services went up owing to the successful tourist season.

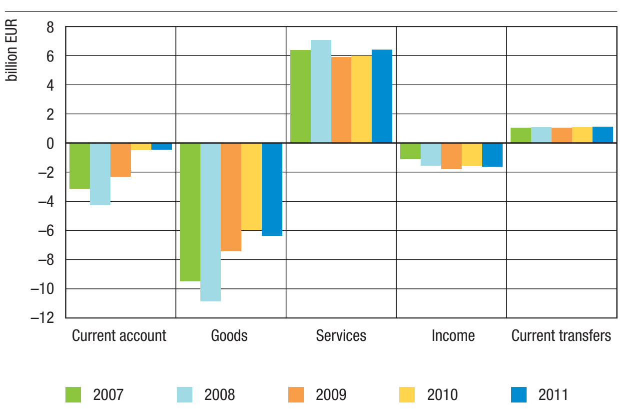
Table 1.7 Current account structure

as % of GDP

	2007	2008	2009	2010[a]	2011[b]
Current account balance	–7.3	–8.9	–5.0	–1.0	–1.0
Goods	–21.8	–22.7	–16.2	–13.0	–13.9
o/w: Oil and refined petroleum products	–3.2	–3.9	–2.5	–2.9	–3.8
Other transport equipment	0.9	0.5	0.6	1.7	2.0
Other goods	–20.4	–20.2	–15.0	–12.4	–12.8
Adjustments	0.8	0.8	0.6	0.5	0.7
Services	14.7	14.8	12.9	13.0	14.0
o/w: Tourism revenues	15.6	15.6	14.0	13.6	14.4
Income	–2.5	–3.2	–3.9	–3.4	–3.5
Current transfers	2.4	2.2	2.3	2.4	2.4

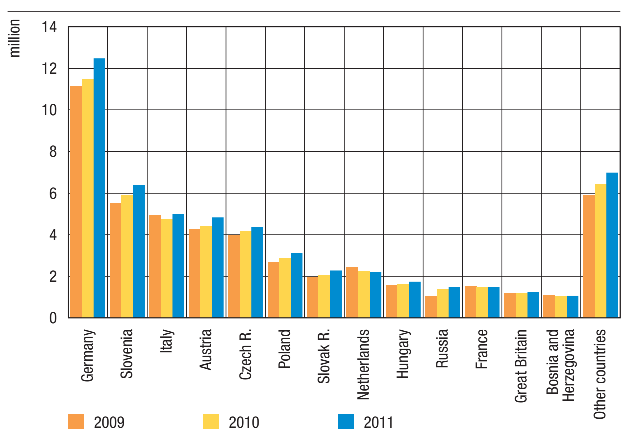
[a] Revised data.
[b] Preliminary data.
Source: CNB.

1.51 Current account balance



Source: CNB.

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



Source: CBS.

Tourism revenues rose by 5.9% in 2011, primarily as a result of growth in volume indicators. According to CBS data, which cover only commercial accommodation capacities, a growth of 9.0% and 7.4% was recorded in arrivals and overnight stays of foreign tourists. Good results in the tourist season can, to a certain extent, also be attributed to external factors, i.e. political instability in competitive North African countries and exceptionally good weather conditions during the pre-season and off season. Shown by the country of residence, the increase in the number of nights can primarily be accounted for by the number of nights stayed by guests from Germany, Slovenia and Austria whose nights were not reduced, even during the crisis. Furthermore, in 2011 a considerable recovery of nights by guests from Italy was also noticeable, growing at an annual rate of 5.6% and halting the five-year negative trend.

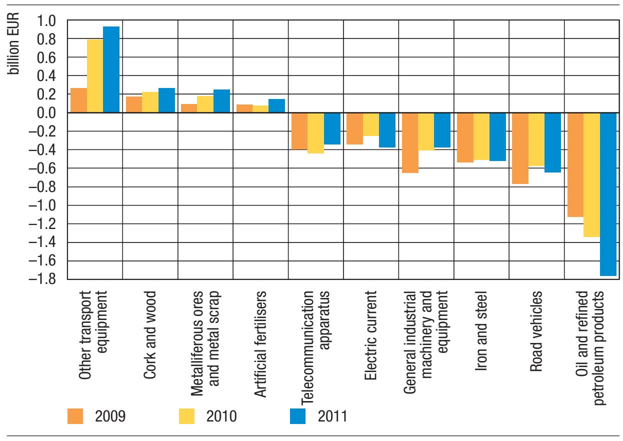
Deficit growth in the factor income account of 3.7% in 2011 was a result of increased interest payments on accumulated debt in all sectors, while expenditures on foreign equity investment were reduced, which points to a fall in profitability of domestic enterprises in foreign ownership. A slightly more pronounced decrease in reinvested earnings indicates the propensity of enterprises to pay out dividends. A breakdown by individual activity shows the sharpest decrease in profit, and even incurred losses, in enterprises engaged in the chemical and the metal industry, whereas significantly better results were seen in manufacture of refined petroleum products, compared to 2010. In addition, domestic owners of enterprises abroad also had lower revenues arising from equity investment as a result of poorer performance than in the previous year. On the side of revenues in the factor income account, a recovery of the CNB's interest income was recorded, based on investment of international reserves. During 2011, a stable growth in revenues from employee compensations was recorded.

Positive results were observed in the current transfers account in 2011 as well. An increase in positive balance of 2.7% at the annual level was thus a consequence of reduced expenditures, whereas revenues stagnated. With regard to the sectoral structure, the central government position deteriorated considerably, as a result of a fall in revenues. However, an improvement was seen in the private sector as a consequence of a rise in revenues arising from worker remittances, gifts and donations.

Trade in goods

Trade in goods for 2011 shows a reversal of a two-year trend of deficit contraction in the foreign trade balance. According to the CBS data, the goods trade deficit rose by 7.3% to EUR 6.7bn in 2011. As for individual segments of trade in goods, net export of ships should be pointed out, which, following extremely high values in 2010, hit a new record high of EUR 0.9bn in 2011, significantly above the average, which did not exceed EUR 0.4bn. While deficit in the goods account was mitigated, to a large extent, by net export of ships, at the same time, trade in oil and refined petroleum products contributed to its deterioration due to an increase in prices on the global market. A negative balance in trade in miscellaneous other goods, for example cars and industrial raw materials, also increased.

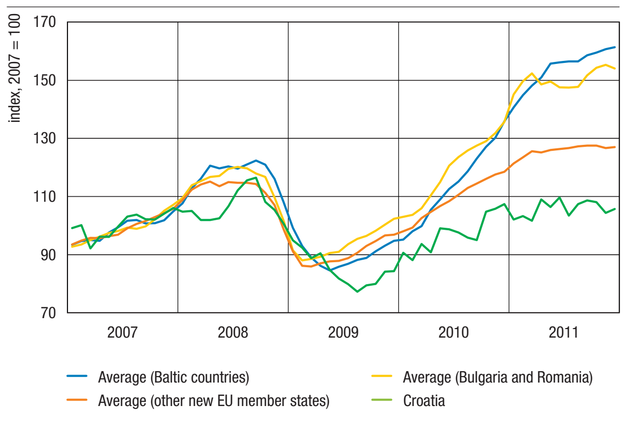
1.53 Foreign trade balance by selected SITC divisions



Source: CBS.

Exports recovery, which lasted throughout 2010, continued into 2011, which was especially evident in the second and third quarters. According to the CBS data, total exports of goods rose by 7.7% on an annual basis in 2011, reaching EUR 9.6bn. Although exports of other transport equipment (mostly ships) decreased mildly, the value was almost one third higher than the previous average. Exports of oil and refined petroleum products continued to grow in 2011, though at a considerably slower pace than in the previous year. If we exclude from total exports ships and oil and refined petroleum products, due to their strong volatility, movements in most of other goods were positive (annual growth in exports, excluding ships and oil, of 9.2% was recorded). Broken down by SITC divisions, exports of individual capital goods, e.g. industrial and special machinery, manufactures of metals and iron and steel, metalliferous ores and metal scrap, artificial fertilisers and medical and pharmaceutical products, made the largest contribution to export growth. Unfavourable movements were seen in exports

1.54 Goods exports
seasonally adjusted data



Sources: Eurostat and CBS data seasonally adjusted by the CNB.

of electrical machinery and power generating machinery and equipment, plastics and natural and manufactured gas.

Despite continued positive movements during 2011, it should be noted that Croatian goods exports still lagged behind those of the comparable Central and Eastern European countries. Their exports, growing at rates almost twice as high as the Croatian, reached the pre-crisis level as early as in 2010, which was achieved in Croatia only a year after. A consequence of such movements was a further reduction of Croatia's share in the EU markets.

The two-year downward trend of total imports of goods was halted in 2011. Total imports of goods thus rose by 7.5% at the annual level, reaching EUR 16.3bn. Although almost half of the growth can be attributed to high prices of energy products, imports recovery was also evident in a range of other goods, primarily food, chemical and pharmaceutical products and raw materials for metal industry. An increase in imports of road vehicles was also evident, following a decrease in the previous three years. Unfavourable movements on the imports side were recorded only in a small number of divisions, mostly in other transport equipment (mainly ships) and capital goods (especially telecommunication apparatus and power generating machinery and equipment).

A moderate fall in the share of EU member states was evident in the geographical structure of Croatian goods exports in 2011, which was mainly a consequence of a fall in the share of Italy and Germany, Croatia's most important trading partners. Although a decrease in exports to Italy of as much as 9.0% was mainly associated with smaller exports of ships, natural and manufactured gas, movements were also unfavourable in a certain number of other SITC divisions. A moderate fall in the share of Germany was a result of a somewhat slower growth in exports of individual capital goods. On the other hand, the growth in exports to France was above average, which can largely be accounted for by the delivery of a passenger ship in December. A rise in the share of EFTA countries in Croatian goods exports was largely a consequence of increased exports to Norway, which can also be attributed to a one-off delivery of the ship, whereas a rise in the share of CEFTA countries was mainly related to stronger exports of oil and refined petroleum products to Bosnia and Herzegovina. As in exports, import trends from the previous years were also reversed, a recovery of the share of EU member states being evident. This can largely be accounted for by a growth in imports from Italy, mostly of natural and manufactured gas. At the same time, imports from CEFTA countries also increased, primarily as a consequence of a growth in imports of non-ferrous metals and electricity from Serbia and aluminium from Bosnia and Herzegovina.

Capital and financial account

After a strong contraction in the previous two years, net capital inflow recovered in 2011. Excluding the change in international reserves, which increased by EUR 0.4bn, net capital inflow stood at EUR 1.7bn, or 27.5% more than in the previous year. A high level of direct equity investment of as much as EUR 1.9bn was, to the greatest extent, associated with the exchange of a portion of the debt claims of foreign owners for holdings in domestic enterprises, which was also reflected in a reduction in external debt of these enterprises.

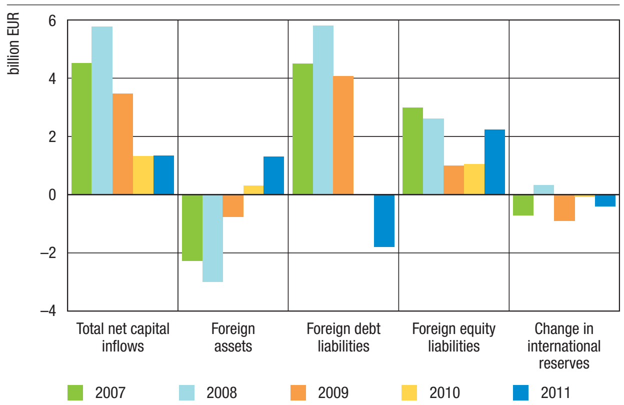
Following a reduction of EUR 0.3bn in 2010, foreign assets of domestic sectors dropped additionally by EUR 1.3bn in 2011. These movements were mainly related to the CNB's decision of March 2011 on the cut in the rate of minimum required foreign currency claims. In private enterprises, an outflow of deposits abroad in the amount of EUR 0.2bn was recorded for the first time since 2008. New projects of domestic

Table 1.8 Exports and imports by economic classification of countries
in %

Economic classification of countries	Exports			Imports		
	2009	2010	2011[a]	2009	2010	2011[a]
EU-27	60.6	61.1	59.8	62.7	60.2	61.8
Austria	5.4	5.3	5.7	5.0	4.8	4.5
Italy	19.0	18.6	15.8	15.4	15.2	16.3
Germany	11.0	10.4	10.1	13.5	12.5	12.6
Slovenia	7.4	7.8	8.3	5.7	5.9	6.2
EFTA	1.7	1.1	2.4	2.6	2.0	2.0
CEFTA	21.3	18.7	19.3	5.1	5.4	5.9
Bosnia and Herzegovina	12.8	11.6	12.2	2.7	3.1	3.3
Serbia	5.3	3.9	3.9	1.3	1.5	1.8
Montenegro	1.6	0.9	0.9	0.2	0.0	0.0
Other	16.5	19.1	18.5	29.6	32.4	30.2
Russia	1.5	2.0	2.4	9.5	9.0	7.3
USA	2.2	2.5	2.7	2.5	2.2	2.3
Japan	0.6	0.4	0.6	1.4	1.2	1.0
China	0.4	0.3	0.4	6.8	7.2	7.1

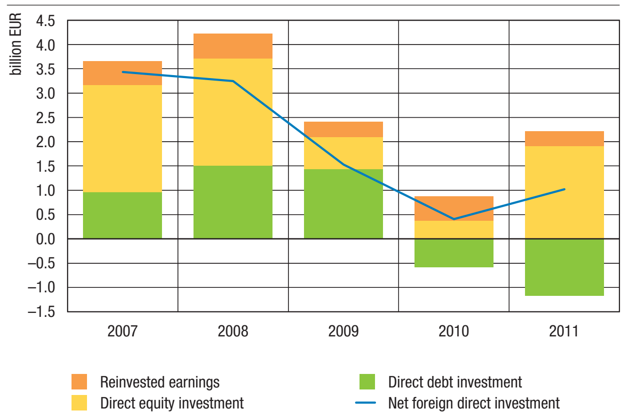
[a] Preliminary data.
Source: CBS.

1.55 Financial transactions with foreign countries



Note: A negative change in foreign assets and international reserves denotes their growth.
Source: CNB.

1.56 Structure of foreign direct investment in Croatia



Source: CNB.

enterprises abroad were almost absent, so that the largest part of EUR 0.2bn related to investments in already existing projects. The reported loss of foreign enterprises in majority domestic ownership also had an unfavourable impact on the balance of direct investment abroad. Domestic investment funds invested a further EUR 0.2bn in foreign securities, which is three times less than in 2010.

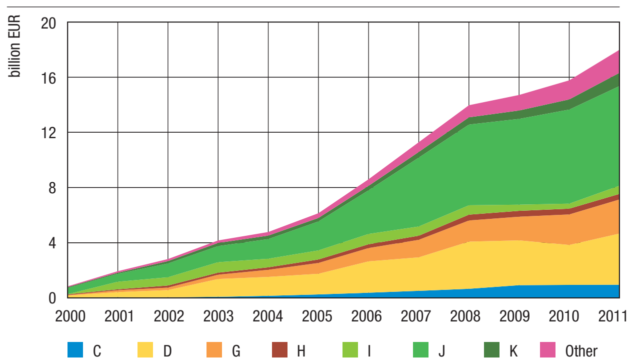
A growth in total foreign liabilities of domestic sectors was the lowest in the last ten years. Weakening of economic activity, accompanied by a decrease in current account deficit, diminished the needs for capital inflow, foreign liabilities increasing by only EUR 0.4bn. The largest portion of those liabilities can be accounted for by liabilities relating to equity investments. If transactions associated with the conversion of debt into equity (EUR 1.5bn) are excluded, foreign direct equity investments amounted to EUR 0.7bn, which is almost a third lower than in the previous year. Only EUR 0.4bn related to new investments, while the remaining amount was associated with reinvested earnings. At the same time, there were fewer debt liabilities.

Broken down by activities, the bulk of direct equity investment in 2011 was generated in the chemical and metal industry, trade and telecommunication activities, where the largest numbers of debt conversions into equity were recorded. In both equity investment in real estate and real estate activities relatively high amounts were recorded. As in the previous years, the largest amount of reinvested earnings was generated in the sectors of financial intermediation and in manufacture of coke and refined petroleum products, but, at the same time, total reinvested earnings of all enterprises were almost half as much as in the previous year.

External debt

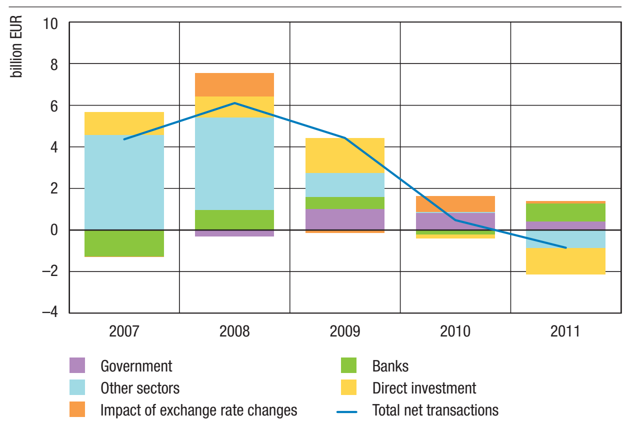
In 2011, gross external debt of the Republic of Croatia was reduced on an annual basis for the first time in recent history, by EUR 0.7bn, amounting to EUR 45.7bn in end-December. The contraction was largely a consequence of a conversion of a portion of debt of some domestic private enterprises to foreign

1.57 Structure of direct equity investment and reinvested earnings by NCA
cumulative data



Note: NCA (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.

1.58 Contributions of domestic sectors' net transactions and exchange rate changes to total external debt growth



Source: CNB.

Table 1.9 Gross external debt by domestic sectors
end of period, in million EUR and %

	2007	2008	2009	2010	2011	As % of GDP				
						2007	2008	2009	2010	2011
1 Government[a]	6,065	4,762	5,739	6,602	6,996	18.0	11.7	12.7	14.2	15.3
2 Croatian National Bank	2	2	1	1	0	0.0	0.0	0.0	0.0	0.0
3 Banks	8,893	10,089	10,689	10,753	11,628	26.4	24.9	23.6	23.1	25.4
4 Other sectors	14,828	19,901	20,994	20,929	20,182	44.0	49.0	46.4	45.0	44.1
5 Direct investment	3,933	5,836	7,821	8,198	6,928	11.7	14.4	17.3	17.6	15.1
o/w: Hybrid and subordinated instruments	56	56	56	56	56	0.2	0.1	0.1	0.1	0.1
Total (1+2+3+4+5)	33,721	40,590	45,244	46,483	45,733	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.

owners, in the amount of EUR 1.5bn, into equity. If such transactions are excluded, along with the effect of cross-currency changes, gross external debt rose by EUR 0.7bn in 2011. Banks and the central government increased their foreign liabilities most, while private enterprises additionally borrowed only in the first quarter of 2011. Non-banking financial institutions continued to deleverage and the same trend was recorded in public enterprises, following a longer period of heavy borrowing.

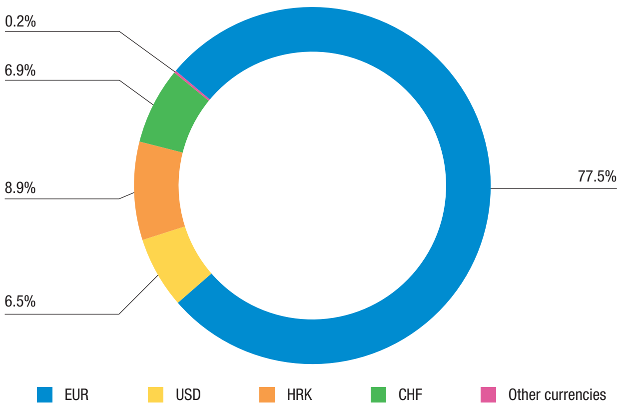
The increase in external debt of the government sector, present since the beginning of the crisis, continued into 2011, though at a slightly slower pace. Growing at an annual rate of EUR 0.4bn (excluding the exchange rate effects), the central government debt reached EUR 7.0bn at the end of 2011. The bulk of accumulated debt was realised in the first quarter, when the central government issued a bond on the US market, worth USD 1.5bn, along with a currency swap, based on which its redemption at maturity was agreed in euro. At the same time, EUR 0.8bn bond, issued in 2001, which fell due, was also repaid, by borrowing on the domestic market. Later in the year, a second EUR 0.8bn bond was issued, about two-thirds of which was subscribed by foreign investors and the remaining amount by domestic funds and banks. In that period, government debt growth was largely offset by repayments of due liabilities based on money market instruments purchased previously by non-residents from domestic subscribers. In contrast to the central government, in 2011, public enterprises started to deleverage, as a result of which their debt, both to banks and to affiliated enterprises, decreased by EUR 0.6bn (cross-currency changes excluded). Coupled with a decrease in CBRD debt of EUR 0.2bn, the total public sector debt dropped by EUR 0.3bn during 2011, following an accelerated growth in the previous two years.

The bulk of funds required for the financing of domestic needs in 2011 were obtained by banks directly from abroad. With additional borrowing of EUR 0.9bn (cross-currency changes excluded), the external debt balance of banks reached EUR 11.6bn at the end of 2011. Common seasonal deleveraging of banks in the third quarter, on account of a stronger inflow of foreign currency from tourism, only partly offset a strong accumulation of debt in the first half of 2011. In the last quarter, banks further increased their liabilities, which, on an annual basis, resulted in an exceptional annual growth in their external debt. The bulk of the generated debt, according to the monetary statistics data, was intended for lending to the central government. Banks' external debt based on hybrid and subordinated instruments, which is included in the balance of direct investment, rose insignificantly in 2011, amounting to EUR 0.4bn.

Other domestic sectors, which slowed down their borrowing considerably at the beginning of the economic crisis, started deleveraging vis-à-vis the foreign banks in 2011. Their principal and interest repayments outstripped new withdrawals by EUR 0.9bn (cross-currency changes excluded). Non-banking financial institutions contributed most to negative net transactions, although their deleveraging trend, which started in the second half of 2009, slowed down considerably. In mid-2011, public enterprises also began to deleverage, after having accumulated a substantial amount of external debt in the previous two years. Private non-financial enterprises recorded insignificant debt growth, in annual terms, the major part of which was generated in the first quarter of 2011, followed by deleveraging in the remaining part of the year.

Liabilities of domestic sectors vis-à-vis affiliated enterprises abroad, excluding banks, were reduced by as much as EUR 1.3bn in 2011. The bulk of that decrease resulted from

1.59 Currency structure of external debt
as at 31 December 2011



Source: CNB.

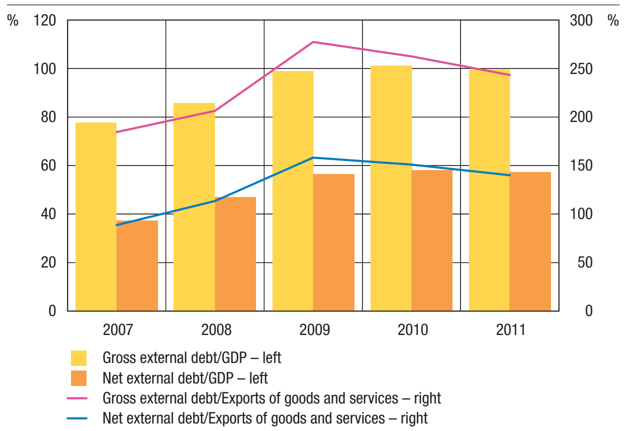
an exchange of a portion of debt claims of individual foreign investors for holdings in domestic enterprises. If such transactions are excluded, a mild decrease in the liabilities of public enterprises and non-banking financial institutions was recorded, whereas private enterprises even increased their debt to foreign owners by EUR 0.6bn.

Liabilities denominated in euros continued to prevail in the currency structure of external debt. At the end of 2011, the share of the euro stood at 77.5% or 5.7 percentage points more than at the end of the previous year. The share of debt denominated in the US dollar was reduced by approximately the same amount, to the level of 6.5%. Borrowing of banks and the central government, which issued a euro-denominated bond in July, contributed most to a change in the currency structure in favour of the euro. In addition, the government bond from March, although denominated in the US dollar, also contributed to a rise in the share of euro, since it was contracted together with the currency swap arrangement, which implies its repayment in euro. Furthermore, a currency swap arrangement was also subsequently contracted in July, for a bond issued in 2010, with the effect of an increase in the euro share in total currency structure. A considerable share of external debt which was transformed into equity in 2011 was tied to the US dollar, which contributed additionally to a decrease in the share of that currency.

The maturity structure of external debt in 2011 points to a rise in short-term debt. In terms of original maturity, the share of short-term debt stood at 14.3% at the end of the year, its record high since the end of 2008. The main contribution to a continued increase in its share relative to the previous year came from banks, whose short-term liabilities to parent banks went up. The central government and corporates improved the structure of their foreign liabilities in favour of long-term debt.

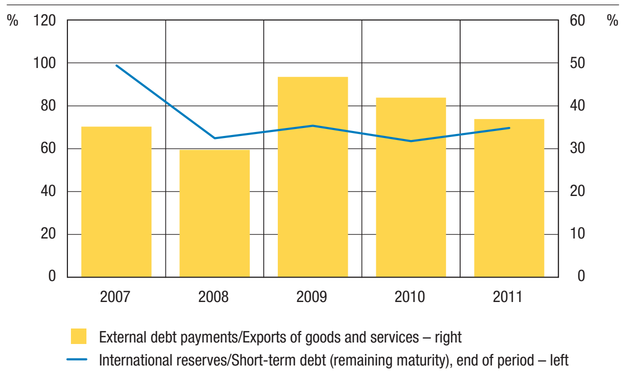
Relative indicators of external debt improved in 2011, reflecting a fall in the absolute amount of gross external debt. Improvement of the relative indicator of external debt was also a result of a moderate rise in nominal gross domestic product,

1.60 External debt indicators



Source: CNB.

1.61 Relative indicators of external debt burden and international reserves adequacy



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

gross external debt to GDP ratio having contracted from 101.2% in 2010 to 99.6% in 2011. Similarly, the ratio of external debt to exports of goods and services also dropped by 19.2 percentage points to 243.3%, in comparison with the previous year. Relative indicators of net external debt (gross debt net of foreign claims, comprising mostly bank assets and foreign exchange reserves) also improved, although to a slightly smaller extent, since domestic sectors in 2011 reduced their foreign assets. At end-2011, the net external debt stood at 57.3% of GDP, i.e. 140.0% of exports of goods and services.

The indicator of the burden of external debt repayment (measured by the share of external debt principal and interest payments in exports of goods and services) was reduced from 41.9% in 2010 to 36.9% in 2011. If the already mentioned transformation of a part of direct investment-related debt into equity is excluded, a reduction in the burden of the long-term debt repayment was most pronounced in banks. Adequacy of international reserves, measured by a short-term external debt (by remaining maturity) coverage[14], was enhanced in 2011. Improvement in that indicator reflects both a growth in international reserves and a decrease in short-term debt by remaining maturity, or, more precisely, a portion of long-term debt falling due in 2012.

1.2.9 Government finance[15]

Fiscal policy features in 2011

Unfavourable developments in public finances continued for the third consecutive year. In line with the developments in total revenues and expenditures, consolidated general government net borrowing (GFS 2001) stood at HRK 14.8bn or 4.3% of GDP, which is an increase of HRK 0.3bn against 2010.

14 Short-term debt by remaining maturity includes a short-term debt by original maturity and a portion of long-term debt (by original maturity) falling due in the following year.

15 The analysis of public finances in 2011 has been made on the basis of the preliminary MoF data.

A growth in total fiscal deficit was slightly more pronounced, mainly due to larger payments arising from activated guarantees. The general government overall fiscal balance thus rose by HRK 0.5bn relative to 2010, amounting to HRK 18.1bn or 5.3% of GDP.

The funds required for the financing of the deficit were mainly raised through new borrowing, while a portion of the funds was carried over into 2012 for the purpose of provisional government budget financing. Accordingly, a strong growth in general government debt continued into 2011, reaching HRK 156.0bn (45.7% of GDP) at the end of December, which is an increase of HRK 18.0bn or 4.5 percentage points of GDP compared to the end of 2010.

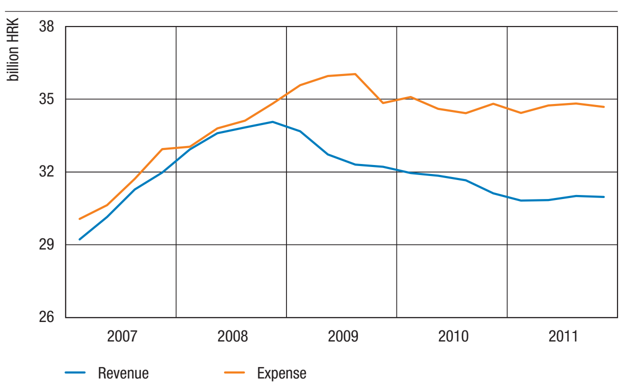
There was no government budget revision in 2011. This was aided by movements in total revenues, which were in line with MoF expectations, but considerable differences were seen in individual revenue categories. Revenues from VAT and social contributions thus fell considerably short of the budget plan for 2011, which was offset by an unexpectedly sharp rise in profit tax revenues. Total expenditures of the government budget were HRK 0.9bn lower than planned, mainly on account of fewer funds being spent on the acquisition of non-financial assets. Accordingly, government budget net borrowing (GFS 2011) fell short of the plan by HRK 0.9bn, whereas the difference in the overall fiscal balance was almost absent mostly due to larger than planned payments based on activated guarantees.

Revenues, expenditures and net acquisitions of non-financial assets of consolidated general government

According to preliminary MoF data, consolidated general government revenues decreased by 0.6% in 2011 relative to 2010, amounting to HRK 123.0bn. A fall in revenues and a simultaneous rise in nominal GDP resulted in a fall in their share in GDP to 36.1%.

The fall in revenues was largely a consequence of the repeal of the special tax on salaries, pensions and other income[16], on the basis of which the government raised HRK 1.9bn in 2010.

1.62 Consolidated general government revenue and expense
four-quarter moving averages



Note: Revenue includes proceeds from the disposal of non-financial assets and expense includes expenditures for the acquisition of non-financial assets. From 2008 on, CM is excluded from consolidated general government.
Sources: MoF and CNB calculations.

Furthermore, a strong unfavourable base effect was also felt in revenues from excise duties on refined petroleum products, since a considerable tax debt from the previous years was collected from INA in early 2010. In addition, a reduction in excise duties on motor gasoline and gas oil in early March 2011 also contributed to a fall in these tax revenues.[17] Adverse movements in excise revenues were slightly mitigated by revenues from excises on tobacco products, partly due to an increase in excise duties on cigarettes in October 2010[18], and revenues from excises on cars. VAT revenues were at the 2010 level and such developments can be associated with a mild rise in nominal retail trade turnover. Revenues from social contributions and income tax revenues stagnated in 2011, which is in line with the annual change in the gross wage bill. On the other hand, profit tax revenues rose sharply, as a result of improved business performance of economic entities in 2010 compared to 2009. An increase was also seen in the so-called other revenues, due in part to the government decision to allocate to the government budget a portion of the profit made by enterprises in which the Republic of Croatia has equity holdings.

According to the preliminary MoF data, consolidated general government expenditures amounted to HRK 132.9bn in 2011, a 0.6% decrease relative to 2010, as a result of which their share in GDP fell to 38.9%.

Social benefits, which account for the largest share in total expenditures, were reduced moderately, despite a further growth in the number of pension beneficiaries, which stood at 1.2 million at the end of 2011. A reduction in expenditures on social benefits can be accounted for by a decrease in some pensions earned under special regulations on pension insurance as of July 2010[19] and possibly by the expenditure cuts in the health care sector and postponed pension indexation.

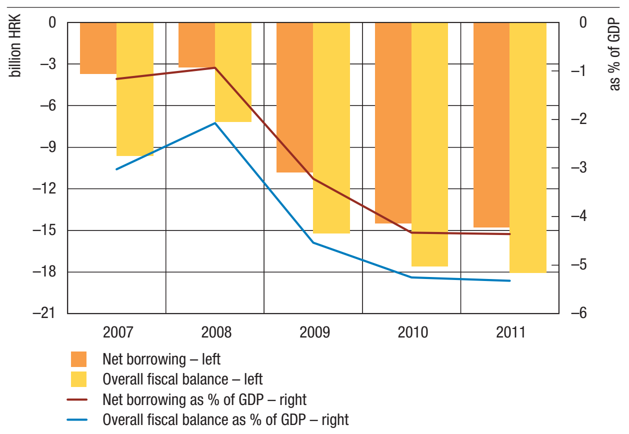
Expenses for employees rose mildly as a result of an increase in the wages of civil servants and government employees based on years of service, an increase in wages of education and science sector employees agreed with the trade unions in 2006 and an increase in the number of civil servants and government employees.

Interest expenses rose the most, which is a consequence of more intense general government borrowing and more expensive sources of financing. On the other hand, other expense, as they are called, were reduced the most in the absolute terms, due partly to reduced transfers of road fees to Croatian Railways and Croatian Motorways (CM). Expenditures on subsidies were also reduced, partly due to smaller outlays for railway infrastructure maintenance.

A slightly larger amount than in 2010 was spent for the acquisition of non-financial assets of consolidated general government, which is entirely due to the increased investment activity of extrabudgetary funds, especially of Croatian Waters.

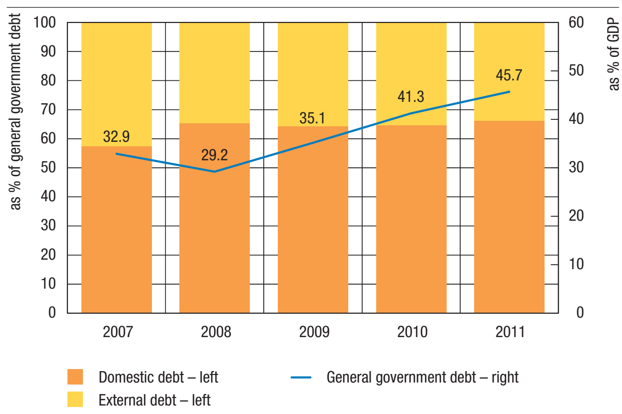
16 Act on Amendments to the Act on the Special Tax on Salaries, Pensions and Other Income (OG 56/2010).
17 Regulation on the excise duty on motor gasoline and gas oil (OG 28/2011).
18 Regulation on the excise duty on cigarettes (OG 102/2010).
19 Act on the Reduction of Pensions Determined or Earned under Special Regulations on Pension Insurance (OG 71/2010).

1.63 Net borrowing and consolidated general government overall fiscal balance (GFS 2001)



Note: From 2008 on, CM is excluded from consolidated general government.
Sources: MoF and CNB calculations.

1.64 General government debt
end of period



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

Although the 2011 plans of both the government budget and of the local government units envisaged a year-on-year growth in capital investments, it seems to have been given up due to the lack of finance.

Consolidated general government balance

The preliminary MoF data indicate that consolidated general government net borrowing amounted to HRK 14.8bn in 2011, which also includes a decrease in arrears in the amount of HRK 0.1bn. Deficit went up by HRK 0.3bn relative to 2010, which was a consequence of an increase in net borrowing by extrabudgetary funds.

The overall fiscal deficit of consolidated general government, the calculation of which excludes revenues from disposal of non-financial assets, while the expenditure side also includes outlays for shares, net loans granted and the annual instalment of debt to pensioners, stood at HRK 18.1bn in 2011 (HRK 0.5bn more than a year before). In addition to the previously mentioned movements in revenues and expenditures, the overall fiscal balance growth was also affected by a rise in outlays for net loans granted. Such movements were also a result of higher outlays for activated guarantees, primarily issued to shipyards, since the government registers outlays based on principal and interest on called guarantees as loans granted, or as financial assets. On the other hand, outlays for shares were considerably lower compared with 2010, since recapitalisation of Hrvatska poštanska banka d.d. was carried out in that year.

Government debt

The increase in general government debt was still strong in 2011, but it nevertheless slowed down, amounting to 13.0% (compared to 17.2% in 2010). Accordingly, the debt rose by HRK 18.0bn from January to December, reaching HRK 156.0bn, or 45.7% of GDP, at the end of 2011. Since more than two thirds of the general government debt was denominated in euro and in US dollar, the kuna depreciation against these currencies also had a significant impact on the statistical increase in debt. Contingent government debt arising from guarantees issued also continued to grew, to HRK 59.8bn at end-December. However, an increase in issued guarantees was not significant, their share in GDP dropping mildly from 17.7% to 17.5% of GDP.

General government domestic debt rose by HRK 14.0bn in the observed period, its share in total debt increasing by 1.6 percentage points, to 66.2%. The increase in general government domestic debt resulted mainly from borrowing at the government budget level, while domestic debt of extrabudgetary funds rose by HRK 1.2bn and local government debt remained almost unchanged. The structure of domestic debt shows that the said increase was largely due to bond issues. Accordingly, there were two bond issues on the domestic market in the previous year, a HRK 1.5bn kuna bond and a foreign currency indexed bond worth EUR 600m. The kuna bond is a five-year bond and the euro indexed bond falls due in July 2022. The government also raised substantial funds by borrowing and a short-term debt arising from T-bills increased as well. As regards domestic liabilities, inter alia, the so-called Big Bonds I, worth HRK 2.2bn, also fell due.

General government external debt grew by HRK 3.9bn, which can almost entirely be accounted for by debt growth at the government budget level. In addition, the government obtained the funds needed mostly by issuing bonds on the foreign market. At the beginning of the previous year, it thus issued a ten-year bond, worth USD 1.5bn, in the American market, followed by another EUR 750m worth foreign bond, issued later in the year, falling due in July 2018. Growth in debt arising from placements of bonds was mitigated by a repayment of EUR 750m foreign bond issued as early as in 2001. Foreign loan liabilities of the government rose moderately, mainly on account of the World Bank loan in the amount of EUR 150m. On the other hand, government external debt arising from money market instruments was reduced considerably, which may be associated with the repayment of T-bills that fell due and were held by non-residents.

HNB

Monetary policy instruments and international reserves management

HNB

2.1 Monetary policy instruments in 2011

In 2011, due to the very comfortable liquidity in the domestic banking system there was no need for reverse repo operations and no demand for Lombard loans. However, banks used the overnight deposit facility with the CNB almost on a daily basis. The CNB maintained high kuna liquidity levels in order to improve domestic financing conditions and increase banks' credit potential.

Foreign currency liquidity in the banking system also improved at the end of the first quarter. As a result of the reduction in the prescribed minimum coverage ratio of total foreign currency liabilities by foreign currency claims from 20% to 17%, banks' credit potential increased in March and corporate and household financing conditions improved.

However, the strong liquidity in the banking system failed to boost lending significantly, which was to some extent also due to a decrease in loan demand, with the result that the kuna exchange rate came under pressure to depreciate in the last quarter of 2011. The CNB raised the reserve requirement rate from 13% to 14% in October and intervened in the foreign exchange market in the third quarter of 2011, withdrawing some excess liquidity from the monetary system and easing depreciation pressures on the domestic currency.

The compulsory winding up proceedings initiated in Credo banka d.d., Split in November 2011 created additional demand for liquidity because of deposit outflow and the cancellation of some interbank credit lines. The CNB was able to meet this demand by granting short-term liquidity loans and allowing for the utilisation of allocated reserve requirements under special conditions.

The comfortable liquidity position led to a drop in money market interest rates. Responding to this trend, the CNB reduced the Lombard and deposit rates and abolished the remuneration paid for the allocated kuna component of reserve requirements. The standing facilities corridor narrowed as a result. The discount rate, used for the calculation of the default interest rate, the base value for setting the maximum permitted contractual interest rate, also decreased.

2.1.1 Open market operations

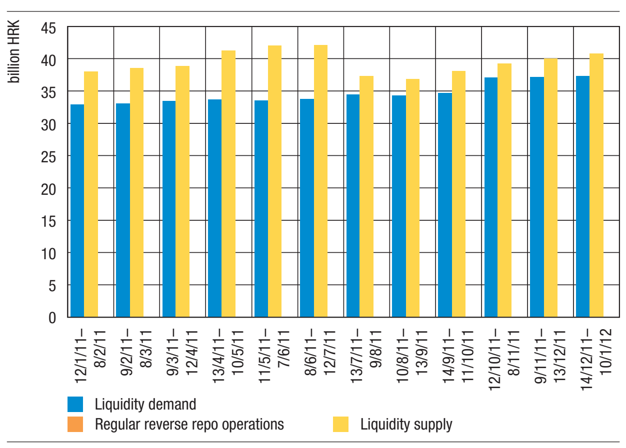
Open market operations were not used in 2011 due to the abundant liquidity in the domestic banking system. With average liquidity supplied by autonomous factors exceeding average demand, net liquidity sterilised by monetary policy instruments averaged HRK 4.8bn in 2011.

The supply of reserves, determined by autonomous factors, averaged HRK 39.3bn in 2011, an increase of 8.8% from 2010, caused by the 7.1% growth in the average balance of net foreign assets. The increase in autonomous liquidity supply was offset by a 17.7% rise in the average balance of government kuna deposits and by increases in the average balance of currency outside banks and vault cash of 4.4% and 7.0% respectively.

Total average demand for reserves stood at HRK 34.5bn in 2011. Of that amount, the kuna component of reserve requirements accounted for an average of HRK 34.1bn, with the average surplus liquidity standing at around HRK 0.4bn. The average balance of total demand for liquidity rose 6.5% in 2011 from 2010, due to an increase in the kuna component of reserve requirements.

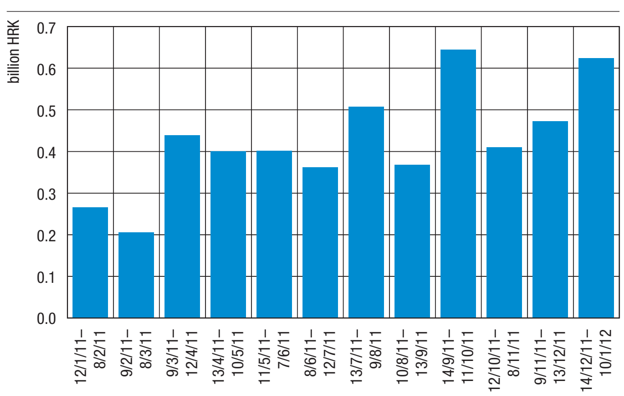
The matching of supply and demand by monetary policy instruments minimises the volatility of money market interest rates. The instrument most often used for this purpose in 2011 was the deposit facility. Due to supply growth, the overnight interest rate was on average lower and less volatile in the first nine months of 2011 than in the same period in

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.

the previous year (the variation coefficient was 33.9% relative to 42.4%). However, foreign exchange interventions conducted in response to mounting depreciation pressures in the last quarter of 2011 reduced money supply and the rise in the reserve requirement rate boosted demand for reserves. This increased the levels and volatility of overnight interest rates so that they were on average higher in 2011 than in 2010. The overnight interest rate ranged from 0.34% to 3.62% in 2011 and from 0.39% to 2.86% in 2010. As a result, the variation coefficient stood at 79.77% in 2011 as against the 41.93% in 2010.

Although there was no need for open market operations in 2011, the CNB had at its disposal regular operations, fine-tuning operations and structural operations.

Regular operations are conducted at regular reverse repo auctions with one-week maturity. In contrast with regular operations, used exclusively to improve the liquidity in the system, fine-tuning and structural operations are used to boost or reduce liquidity and can be conducted through repo and reverse repo auctions and through outright purchase and sale of securities. Structural operations are carried out at standard bid auctions, whereas the frequency and maturity of fine-tuning operations are not standardised, which allows for a quick response to any sudden market fluctuation. MoF treasury bills are the acceptable collateral for regular and fine-tuning operations, while the acceptable collateral for structural operations includes all types of government securities.

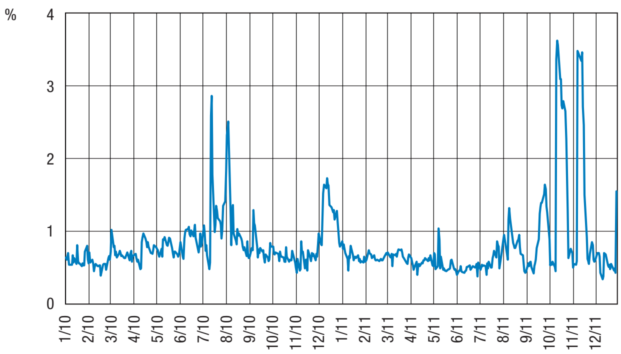
2.1.2 Standing facilities

Due to a liquidity surplus in the banking system, the deposit facility was used almost on a daily basis in 2011. This is an overnight deposit that is repayable to banks at the beginning of the next business day. 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. The interest rate charged by the CNB on the deposit facility is the floor of the money market interest rate corridor. This rate stood at 0.5% before it was reduced to 0.25% annually in March 2011.

The average daily balance of the deposit facility was HRK 5.0bn in 2011. The largest daily overnight deposit amount, recorded in July 2011, was HRK 14.0bn, while the facility's maximum average monthly balance during the days of its use was HRK 8.5bn in June. The minimum average monthly balance, HRK 1.3bn, was recorded in August 2011. Only for 6 working days in 2011 was the deposit facility not used. Overnight deposits were usually used more frequently in the second part of the reserve maintenance period, when banks were more confident that they would be able to meet the reserve requirement. Overnight deposits commonly increased immediately before a new maintenance cycle.

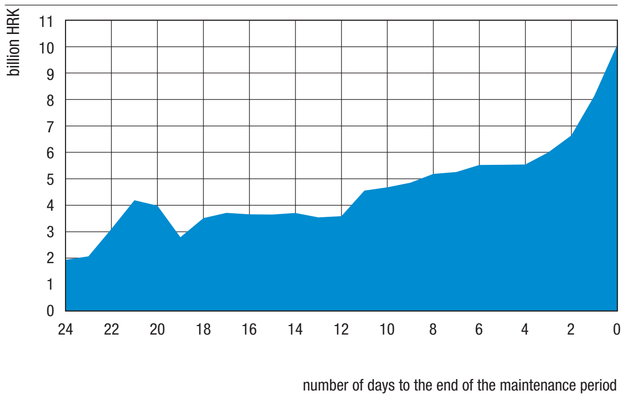
There was no demand for Lombard loans in 2011. A Lombard loan is commonly used at a bank's request or is granted automatically in the event of default on an intraday loan at the

2.3 Overnight interest rates



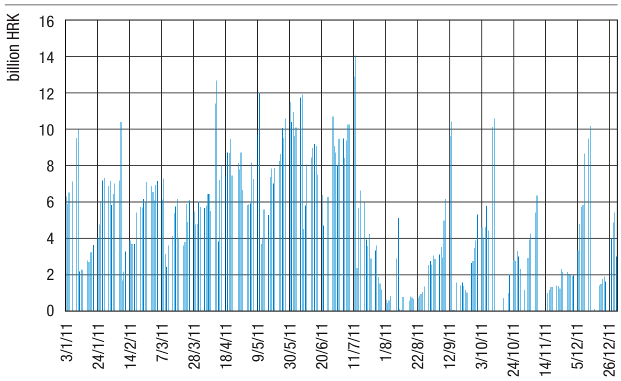
Source: CNB.

2.4 Average balance in overnight deposits in reserve requirement maintenance periods
average daily balances



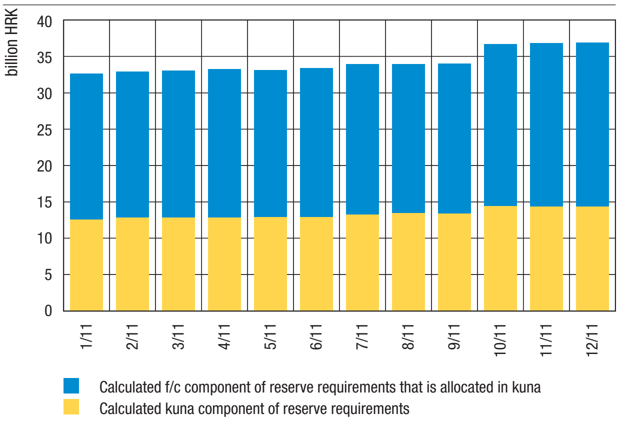
Source: CNB.

2.5 Overnight deposits
daily balances



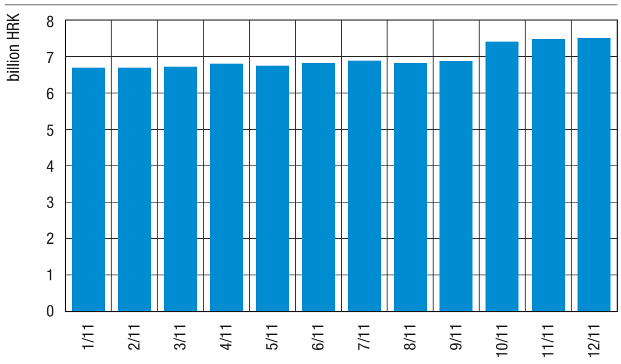
Source: CNB.

2.6 Total kuna component of reserve requirements
balance in maintenance periods



Source: CNB.

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



Source: CNB.

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.

The interest rate charged by the CNB on the Lombard loan is the ceiling of the money market interest rate corridor, amounting to 9.0% until end-November 2011, when it was reduced to 6.25% annually. The facility is granted against a pledge. Throughout 2011, it could be used on a daily basis up to the amount of 50% of the nominal value of the pledged T-bills with an original maturity of up to one year.

2.1.3 Reserve requirements

In an effort to spur bank lending, the Croatian National Bank cut the reserve requirement rate from 14% to 13% in 2010, standing ready to reduce it further, provided that the funds released were used to achieve the set goals. However, due to depreciation pressures in the last quarter of 2011, the CNB increased the rate again from 13% to 14% as of the calculation on 12 October 2011, withdrawing a portion of kuna liquidity from the banking system and easing depreciation pressures on the domestic currency.

The base for the reserve requirement calculation consists of the kuna and foreign currency components. Of the calculated foreign currency component of reserve requirements, 75% is allocated and maintained in kuna. A part of reserve requirements is set aside to a special account with the CNB and the remaining part 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 reserve requirement base, consisting mainly of received kuna deposits and foreign currency indexed kuna deposits, was on an upward trend in 2011, decreasing only in March, August and October. It peaked at HRK 103.8bn in July and bottomed out at HRK 98.7bn in March. The kuna component of the base increased by 4.2% in the January-December period.

The foreign currency component of the reserve requirement base, consisting mainly of received foreign currency deposits, stood at HRK 205.8bn in January, its lowest level in 2011. It continued growth over the year, except for decreases in April and July, reaching its annual high of HRK 215.8bn in December. The foreign currency component of the base grew by 4.8% annually.

The kuna component of reserve requirements peaked at HRK 36.9bn in December and bottomed out at HRK 32.7bn in January 2011. The kuna component of reserve requirements grew by 13.0% in the January to December period, primarily due to an increase in the reserve requirement rate in October 2011.

The foreign currency component of reserve requirements increased from HRK 6.7bn in January to HRK 7.5bn in December 2011, in line with trends in the foreign currency component of the base. It increased by 12.3% on an annual basis due to an increase in the reserve requirement rate in October.

The rate of remuneration paid on the kuna component of reserve requirements stood at 0.75% before it was reduced to 0.25% annually on 6 January 2011. The CNB has paid no remuneration on the kuna component of reserve requirements since March 2011.

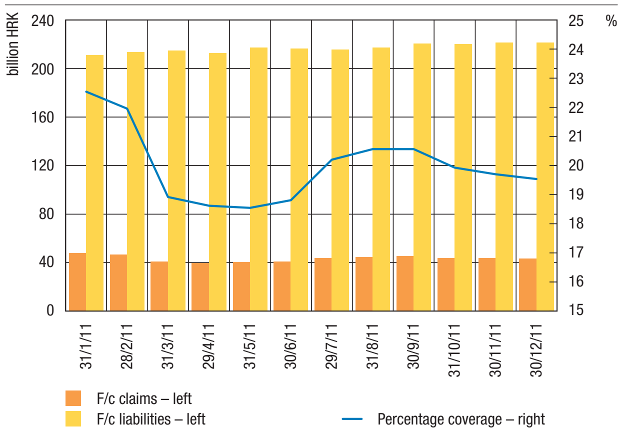
2.1.4 Other instruments

Minimum required foreign currency claims

Minimum required foreign currency claims, an instrument for maintaining banks' foreign currency liquidity, was set at 17% of foreign currency liabilities throughout most of 2011. Specifically, the minimum required coverage of foreign currency liabilities by foreign currency claims was reduced from 20% to 17% in early March and foreign currency claims in the amount of EUR 850m were released.

The banks are obliged to maintain the prescribed percentage on a daily basis, with liquid foreign currency claims being

2.8 Minimum foreign currency liquidity
end-month balance



Source: CNB.

those (with the exception of claims on loans) with a remaining maturity of less than three months.

In 2011, the coverage ratio of foreign currency liabilities by foreign currency claims ranged between 22.54% on 31 January and 18.55% on 31 May, standing at 19.54% at the end of the year.

Intraday loans

In 2011, the intraday loan was used only for three days in October in an average amount of HRK 183.3m.

Intraday loans are payment system instruments serving to improve the flow of payment transactions during business hours. 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. In 2011, these collateralised loans could be used up to 50% of the nominal value of the pledged 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 any restriction 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.

2.1.5 Liquidity of last resort

Notwithstanding comfortable levels of free reserves and low interbank interest rates, some small banks experienced liquidity problems caused by deposit outflow and the cancellation of interbank credit lines following the compulsory winding up of Credo banka d.d., Split. These conditions were conducive to the use of short-term liquidity loans in late November and in December, and the CNB, as a measure of last resort, provided for the reduction in the allocated and maintained reserve requirements.

Short-term liquidity loans totalled HRK 191.8m in 2011 and were used for 25 days in November and December in the average amount of HRK 91.4m.

Short-term liquidity loans are granted against financial collateral and take the form of repo transactions (repo loans) or collateralised 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.

As of November 2011, the CNB, pursuant to a special decision of the Governor, has been permitted to grant approval to a bank experiencing liquidity problems, at its request, to reduce maintained and/or allocated reserve requirements, applying an interest rate that equals:

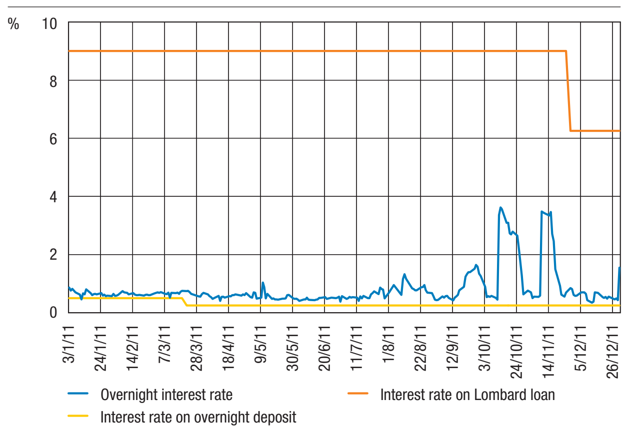
- the interest rate charged on a Lombard loan increased by 1 percentage point if the special conditions last up to three months, or
- the interest rate charged on a Lombard loan increased by 2 percentage points if the special conditions last longer than three months.

In the period from November to the end of 2011, the maximum permitted reduction in the reserve requirement allocation was HRK 230m and the average daily reduction in the reserve requirement maintenance was HRK 8.0m.

2.1.6 Croatian National Bank interest rates and remuneration

Interest rates on standing facilities form a corridor that should limit the range of fluctuations in overnight money market rates. The ceiling of the corridor is the interest rate on a Lombard loan, amounting to 9.0% until the end of November 2011, when it was reduced to 6.25% annually. The corridor floor is the interest rate on an overnight deposit with the CNB, reduced from 0.5% to 0.25% annually in March 2011.

2.9 Interest rate spread and overnight interest rates



Source: CNB.

Remuneration paid on the kuna component of reserve requirements was 0.75% until 6 January 2011, when it was reduced to 0.25% annually. The CNB has paid no remuneration on the allocated kuna component of reserve requirements since March 2011.

The CNB's discount rate was cut from 9.0% to 7% in June 2011. Under the Civil Obligations Act, the discount rate is used for the calculation of the statutory default interest rate, set semi-annually, which is the basis for the calculation of the maximum permitted contractual interest rate.

2.2 International reserves management

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

2.2.1 Institutional and organisational framework, management principles, 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 international reserves investment strategies 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

In 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, within the given restrictions, attempts to ensure favourable rates of return on its investments.

Risks present in international reserves management are primarily financial risks such as credit, interest rate and currency risks, though other risks such as liquidity and operational risks also play a role. The CNB limits exposure to credit risk by investing in highly rated government bonds, collateralised deposits and non-collateralised deposits with financial institutions 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 and by investing a part of international reserves in the held-to-maturity portfolio. Currency risk arises from currency fluctuations between the kuna and the euro and the kuna and the US dollar. Liquidity risk is controlled by investing international reserves into readily marketable bonds and partly in deposit instruments with short maturities. 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

As provided by the Decision on international reserves management, the Croatian National Bank manages international reserves in two ways: in line with its own guidelines and in accordance with the assumed foreign currency liabilities, depending on the manner of international reserves formation.

The CNB manages the part of international reserves that is formed through outright purchases of foreign currency from banks and the MoF, and on the basis of IMF membership and income from the investment of international reserves and other CNB assets, in line with its own guidelines. The other part of the reserves, formed on the basis of the allocated foreign currency component of reserve requirements, MoF deposits, repo agreements, foreign currency swaps in the domestic market, IMF membership and other assets owned by other legal persons, is managed by the CNB depending on the assumed foreign currency liabilities, and with the aim of ensuring protection against currency and interest rate risks.

The part of international reserves managed by the CNB in line with its own guidelines can be kept in held-for-trading and held-to-maturity portfolios. Held-for-trading portfolios, comprising held-for-trading financial instruments, are important for maintaining the daily liquidity of international reserves. The minimum daily liquidity and held-for-trading instruments used for daily liquidity maintenance are prescribed by a Governor's decision. Held-for-trading portfolios are carried at market (fair) value through profit and loss. Held-to-maturity portfolios comprise fixed income and fixed maturity securities that the CNB intends to hold and can hold until maturity, carried at amortised cost.

The terminology of reporting on CNB international reserves includes the terms of gross and net reserves. Gross reserves imply total international reserves. Net reserves imply the part of reserves managed by the CNB in line with its own guidelines and foreign cash.

2.2.2 International reserves in 2011

In 2011, CNB international reserves were managed under the impact of the deepening debt crisis in Europe. German and US government bond yield curves were at historic lows in 2011, and bond prices increased.

Total international reserves of the CNB stood at EUR 11.2bn on 31 December 2011, an increase of EUR 0.5bn (5%) from EUR 10.7bn on 31 December 2010. Net international reserves, which exclude foreign currency reserve requirements, IMF special drawing rights and MoF funds, grew by EUR 0.7bn (7.9%) in 2011, up from EUR 9.3bn to EUR 10.0bn. These changes in international reserves in 2011 were effected by foreign currency purchases from the MoF and sales to banks through foreign exchange interventions.

Table 2.1 Monthly changes in total and net CNB international reserves

end of period, in million EUR

Month	Total reserves	Net reserves
December 2010	10,660.12	9,287.77
January 2011	10,455.14	9,215.40
February 2011	10,463.47	9,214.09
March 2011	11,423.86	9,177.96
April 2011	11,339.60	9,946.51
May 2011	11,394.35	10,032.64
June 2011	11,421.81	10,031.61
July 2011	11,232.98	9,929.61
August 2011	11,217.44	9,938.91
September 2011	11,323.80	9,879.08
October 2011	11,220.33	9,827.93
November 2011	11,420.65	9,944.28
December 2011	11,194.67	10,022.13
Change Dec. 2011 – Dec. 2010	534.55	734.36

Source: CNB.

Total CNB foreign exchange market turnover in 2011

In 2011, the Croatian National Bank intervened in the domestic foreign exchange market by conducting purchase and sale transactions with the MoF and banks and by purchasing kuna coins from foreign legal persons authorised for these transactions.

The CNB sold a total of EUR 419.4m to banks through foreign exchange interventions in the domestic market in July and September 2011, with the result that kuna liquidity dropped by HRK 3.1bn. Foreign currency sales to banks amounted to EUR 350.1m in 2010.

The CNB made no foreign currency purchases from banks in 2011, while the purchases made in 2010 totalled EUR 363.7m. The CNB purchased EUR 968.2m from the MoF, selling to it EUR 1.68m in the same period, with HRK 7.1bn released into circulation.

Risks in international reserves management and structure of international reserves investment in 2011

Credit risk in international reserves management

Credit risk is the risk of default or the risk that an investment will not be repaid in time and/or in full and that it will not be repaid according to the planned schedule.

The CNB provides for several 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 serves to diversify credit risk.

According to the degree of credit risk exposure, total international reserves are divided into funds exposed to sovereign

Table 2.3 Structure of international reserves investment according to credit risk as at 31 December 2011

in %

Investment	31/12/2011		31/12/2010	
	Net reserves	Total reserves	Net reserves	Total reserves
1 Countries				
Government bonds	73.34	65.65	75.43	65.72
Reverse repo agreements	1.40	1.25	12.66	14.16
Central banks	15.56	21.19	5.74	9.71
Covered bonds	2.06	1.85	–	–
2 International financial institutions	6.42	8.97	4.90	8.64
3 Banks	1.22	1.09	1.27	1.78
Total	100.00	100.00	100.00	100.00

Source: CNB.

Table 2.2 Total CNB turnover in the foreign exchange market, 1 January – 31 December 2011

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	0.00	0.00	419.40	3,136.99	–419.40	–3,136.99
Ministry of Finance	968.23	7,144.91	1.68	12.51	966.54	7,132.40
Foreign legal persons	0.00	0.00	0.03	0.22	–0.03	–0.22
Total	968.23	7,144.91	421.11	3,149.71	547.12	3,995.20

Source: CNB.

risk, risk of international financial institutions and risk of banks.

The bulk of CNB foreign currency portfolios are invested in safe instruments, such as government securities and instruments issued by international financial institutions, e.g. the Bank for International Settlements (BIS), and central bank instruments.

Special attention is paid to credit risk diversification by debt issuers – countries in whose securities and other instruments the CNB may invest international reserves. Due to the eruozone debt crisis, decisions on temporary investment restrictions, lowering investment limits or prohibiting investment in some countries, adopted in 2010, remained in effect in 2011.

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 CNB international reserves due to an increase in interest rates in fixed income markets. Interest rate risk of CNB international reserves is managed by applying precisely defined benchmark portfolios. Benchmark portfolios meet the required risk-return profile, thus reflecting the long-term investment strategy of the reserves. Within the current environment of low interest rates, special consideration in international reserves management is given to interest rate risk.

Currency structure of international reserves

On 31 December 2011, the share of the euro in the total international reserves was 75.93%, up from 73.66% at the end of 2010. The share of the US dollar decreased from 22.99% at the end of 2010 to 20.84% on 31 December 2011. The share of SDRs also dropped, from 3.35% to 3.22% of the total international reserves, primarily due to an increase in the level of total reserves.

The portion of the reserves that arises from allocated foreign currency reserve requirements, MoF foreign exchange funds and repo operations is not exposed to currency risk as it is invested in the same currency in which it was deposited in CNB accounts, i.e. in the currency of the obligation.

Foreign exchange gains and losses on CNB foreign currency portfolios

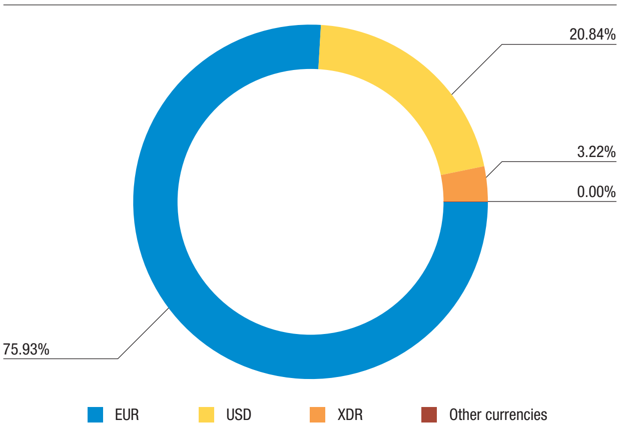
The financial performance of the CNB, as of all central banks, depends on the volume and structure of assets and liabilities. The CNB belongs to a group of banks with a large share of international reserves in their assets. As at 31 December 2011, the share of total international reserves in CNB assets was as high as 99.5%, with the bulk of liabilities denominated in kuna. This currency structure of assets and liabilities exposes the CNB to a significant currency risk, i.e. the risk of a change in the currency price of investments in relation to the reporting currency – the kuna. Foreign exchange gains and losses arising from fluctuations in EUR/HRK and USD/HRK exchange rates have a direct impact on the income and expense calculation reported in kuna in the CNB Income Statement. In 2011, the EUR/HRK exchange rate increased from 7.385 to 7.530 (1.97%), with the result that foreign exchange gains on the CNB euro portfolio totalled HRK 1.2bn. The US dollar strengthened from 5.568 to 5.820 (4.52%) in 2011 so that foreign exchange gains on the dollar portfolio were HRK 771.0m in 2011.

Net foreign exchange gains resulting from the fluctuations of the EUR/HRK and USD/HRK exchange rates, and the exchange rates of other currencies, totalled HRK 2.0bn. The whole amount was allocated to general reserves on the CNB balance sheet, to be used, among other things, for the coverage of potential foreign exchange losses.

Results and analysis of CNB foreign currency portfolio management in 2011

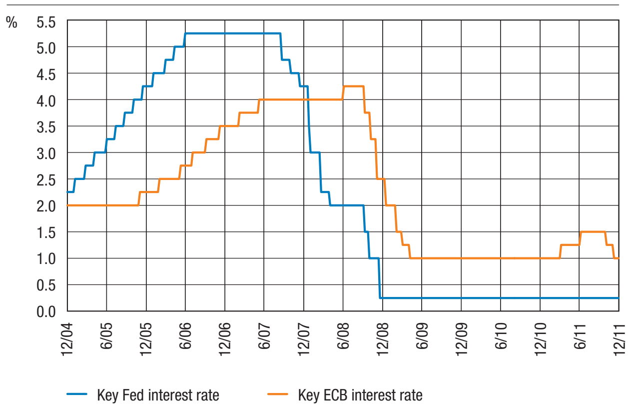
The Fed's key interest rate remained unchanged throughout 2011, ranging between 0% and 0.25%, the level at which it had stood already at the end of 2008. According to forecasts, the Fed's rate could hold steady throughout 2012 and probably beyond. In contrast, the ECB raised its benchmark 1-week repo rate in 2011, for the first time since May 2009. The rate, increased by 25 basis points (0.25%) in April and July respectively, went up from 1.00% to 1.50%. However, monetary policy

2.10 Currency structure of total international reserves
as at 31 December 2011



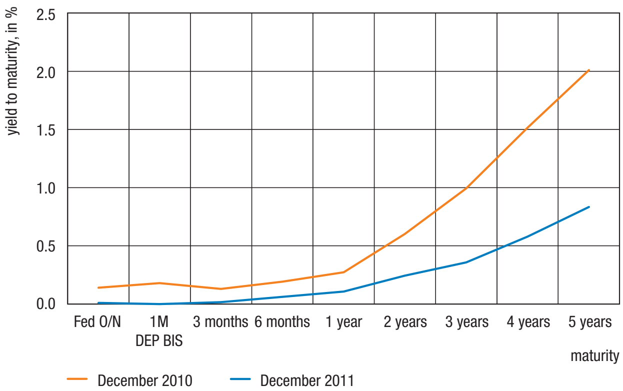
Source: CNB.

2.11 Changes in key Fed and ECB interest rates



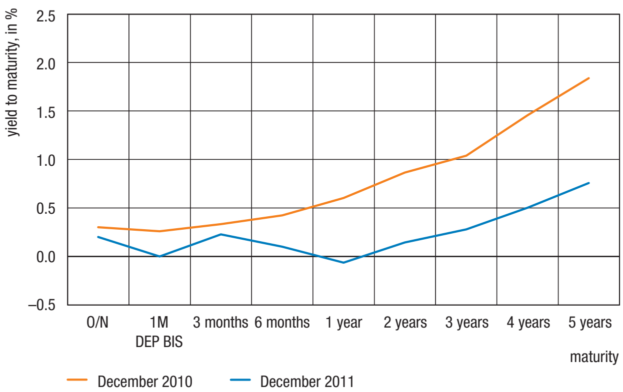
Source: CNB.

2.12 Yield curve of American government bonds and other selected instruments



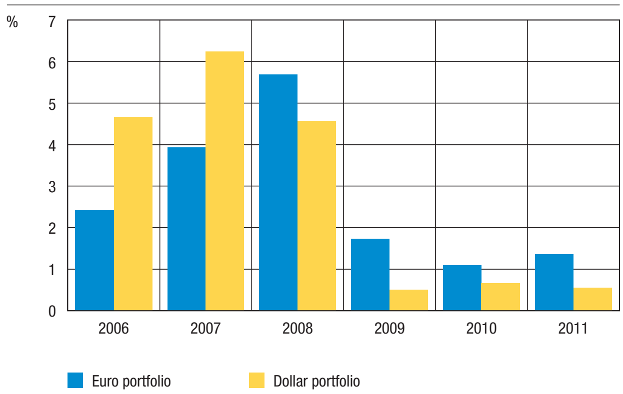
Note: Fed O/N stands for Fed's overnight interest rate and 1M DEP BIS stands for one-month deposit with the BIS.
Source: Bloomberg.

2.13 Yield curve of German government bonds and other selected instruments



Note: O/N stands for overnight interest rate and 1M DEP BIS stands for one-month deposit with the BIS.
Source: Bloomberg.

2.14 Annual rates of return on the CNB held-for-trading euro and dollar portfolios



Source: CNB.

makers decided to cut the key interest rate by one quarter of a percentage point in November and December respectively to account for the escalation of the debt crisis and deteriorating economic outlook for the eurozone, as well as to reduce the risk of higher than expected inflation. Consequently, the ECB's rate was again 1.00% at the end of 2011.

The reporting year 2011 was marked by the continued worsening of the macroeconomic environment resulting from the escalation of the eurozone debt crisis. US and German government bond yield curves hit their historic lows by the end of 2011, and bond prices grew. Due to record low levels of yield curves for German and American bonds, expected rates of return on CNB held-for-trading foreign currency portfolios gradually decreased, whereas interest rate risk reached record high levels.

The part of international reserves managed by the CNB in line with its own guidelines can be held in held-for-trading and held-to-maturity portfolios. In 2011, the annual rate of return on the CNB euro-denominated held-for-trading portfolio was 1.36% and that on the dollar-denominated held-for-trading portfolio 0.56%. The euro-denominated held-to-maturity portfolio had a rate of return of 2.31% in 2011.

The net euro portfolio generated a total income of EUR 111.7m, while the net dollar portfolio generated USD 14.2m.

Table 2.4 Realised income and rates of return on the CNB foreign currency portfolios

in million EUR and USD and %

Portfolio	Realised income	Annual rate of return						
	2011	2005	2006	2007	2008	2009	2010	2011
Held-for-trading euro portfolio	57.78	2.19	2.41	3.94	5.68	1.73	1.09	1.36
Held-for-trading dollar portfolio	14.15	2.78	4.67	6.23	4.57	0.50	0.67	0.56
Held-to-maturity euro portfolio	53.92	–	–	–	–	–	–	2.31

Source: CNB.

Business operations of credit institutions

HNB

A slight heightening of credit activities led to faster asset growth and had a favourable impact on the performance of banks in 2011. The rate of asset growth was lower than in the pre-crisis period; also lower were indicators of return, reflecting uncertainties in the environment and further credit portfolio losses. Exchange rate effects excluded, bank assets grew by 2.6% in real terms with assets of large banks growing the fastest, as a result of an increase in funding from majority foreign owners. As regards domestic funding, household deposits were the only category that rose, though at a much slower rate than in the previous year. A growth in loans was mostly due to an increase in corporate loans, with the largest share of these loans being used for working capital and refinancing of existing debt. The household sector was again very cautious as regards consumption and borrowing, with the loans to that sector falling for the third consecutive year. The level of new credit activity was not sufficient to halt deterioration in the quality of loans with the share of partly recoverable and fully irrecoverable loans rising to 12.4%. The banks' risk aversion also remained elevated. In search of less risky clients, the banks turned increasingly to government units and public enterprises as well to other big clients. Heightened credit activity led to stabilisation in net interest income and an increase in bank profit. Lower expenses on loss provisions, as a result of their fall in small banks, also boosted profit growth. Lower risk cost was the main generator of profitability growth with return on average assets rising to 1.2% and that on average capital to 7.1%. The ability of capital to cover potentially increased risks increased additionally from the previous year. The capital adequacy ratio rose to 19.2% as a result of a significant decline in the average weight for credit risk and the ensuing lower capital requirements for credit risk. The average weight for credit risk declined as a result of an increase in the share of low-risk exposure to central governments and central banks, with a considerable share of this increase being attributable to increased use of credit risk mitigation techniques, particularly the use of government guarantees.

3.1 Business operations of banks

The number of credit institutions operating in the Republic of Croatia fell by one in 2011. This was due to a withdrawal of authorisation from Credo banka d.d., Split and a compulsory winding-up procedure initiated in this bank in the last quarter of the year. As a result, there were 37 credit institutions or 31 banks, one savings bank and five housing savings banks operating in the country, towards the end of the year.

Bank assets (the savings bank included) rose by 4.2% in 2011 and stood at HRK 407.4bn at the end of the year.[1] These assets accounted for 98.1% of total assets of all credit institutions, which is a slight fall from the end of 2010. Housing savings banks assets grew much faster (13.9%) and reached HRK 7.8bn, thus increasing its share in the total assets of credit institutions to 1.9%.

In the last five years the number of banks operating fell by one and the share of these banks in the total assets of credit institutions rose by 0.2 percentage points. The number of housing savings banks remained unchanged, while their share in the total assets of the sector fell only slightly.

In terms of asset size, the group of large banks[2] dominated, as it had in previous years. The assets of these six banks rose faster (4.8%) than those of other bank groups and faster than all banks combined and accounted for 82.6% of the total assets of banks. This is the highest share in total assets that this bank group ever achieved (with the exception of 82.7% at the end of 2009). The assets of the group of medium-sized banks rose by

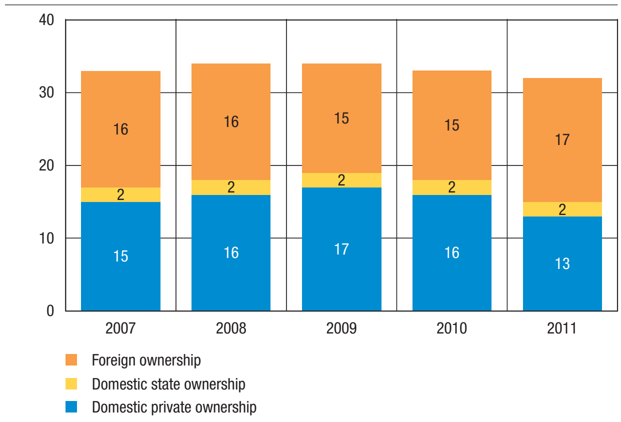
Table 3.1 Number of credit institutions
end of period

	2009	2010	2011
Banks			
Number of banks at the beginning of the year	33	32	32
Banks that merged with other banks	1	–	–
Authorised banks	–	–	–
Banks whose authorisation has been withdrawn	–	–	1
Number of banks at the end of the year	32	32	31
Savings banks			
Number of savings banks at the beginning of the year	1	2	1
Authorised savings banks	–	–	–
Savings banks whose authorisation has been withdrawn	–	1	–
Number of savings banks at the end of the year	2	1	1
Housing savings banks			
Number of housing savings banks at the beginning of the year	5	5	5
Authorised housing savings banks	–	–	–
Housing savings banks whose authorisation has been withdrawn	–	–	–
Number of housing savings banks at the end of the year	5	5	5

Note: A štedna banka malog poduzetništva d.d., which changed its name to Tesla štedna banka d.d., was granted a licence in 2008 and began operating in 2009.
Source: CNB.

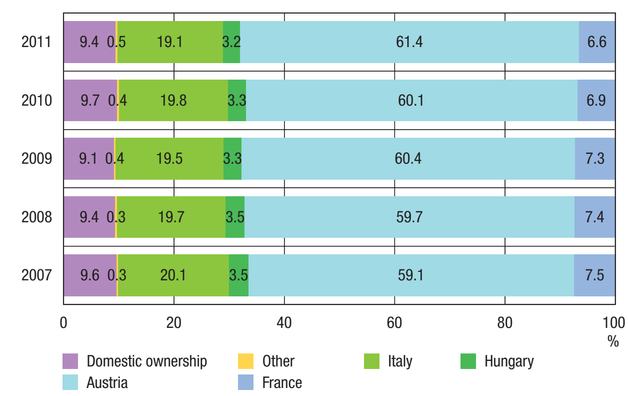
1 Data for 2011 are based on the preliminary unaudited reports of credit institutions.
2 Depending on the size of the share of bank assets in the total assets of all banks at the end of the reporting period, banks (including savings banks) have been divided into three peer groups: large, medium-sized 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. Housing savings banks, due to their specific nature, constitute a separate group.

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.

4.1%, which is only a slightly smaller increase than that of all banks combined, and maintained their share in the total assets of banks unchanged. The assets of small banks fell by 1.0% with their share in the total assets of banks falling by half a percentage point. This was due to the exit of Credo banka d.d. Split from the system; its assets had accounted for 5.0% of the assets of this bank group at the end of 2010.

The number of banks in domestic ownership fell by three while the number of banks in the majority foreign ownership rose by two over the previous year. This was the result of a change in the ownership of two small domestic banks in private ownership and a withdrawal of authorisation and a compulsory winding-up procedure initiated in another small bank in domestic ownership. As a result, the share of assets in majority foreign ownership in the total assets of all banks rose by a slight 0.3 percentage points. The assets of banks in domestic state ownership continued to increase faster than those of foreign banks (9.9% annually), thus increasing their share in the total assets of banks by a low 0.2 percentage point.

Austrian shareholders accounted for 61.4%, or the largest share of the total assets of all banks. The share of assets of six banks in majority ownership of shareholders from that country rose by over one percentage point and accounted for over two thirds, or 67.7% of the total assets of all banks in majority foreign ownership. Other banks in majority foreign ownership were owned by shareholders from another seven countries. In terms of the share of assets, five banks in majority Italian ownership accounted for the next largest share which declined by 0.7 percentage points to 19.1%, while the owners of other foreign banks included shareholders from France, Hungary, San Marino, Turkey, Switzerland and Serbia. Their shares in the total assets of banks ranged between only 1% and 6.6%.

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

	Number of banks			Share		
	2009	2010	2011	2009	2010	2011
Large banks	6	6	6	82.7	82.1	82.6
Medium-sized banks	3	3	3	9.1	9.0	9.0
Small banks	25	24	23	8.2	8.9	8.4
Total	34	33	32	100.0	100.0	100.0

Source: CNB.

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		
	2009	2010	2011
Banks in majority ownership of domestic shareholders	4.9	5.4	4.9
Banks in majority state ownership	4.2	4.3	4.5
Banks in majority ownership of foreign shareholders	90.9	90.3	90.6
Total	100.0	100.0	100.0

Source: CNB.

3.1.1 Bank balance sheet and off-balance sheet items

Assets

At the end of 2011, total bank assets amounted to HRK 407.4bn, an increase of HRK 16.3bn or 4.2% relative to the end of 2010. The annual rate of assets growth increased slightly, although the increase was attributable partly to the change in the exchange rate of the kuna and the increased kuna equivalent of foreign assets, i.e. assets in foreign currencies and assets in kuna indexed to a foreign currency. In 2011, the exchange rate of the kuna depreciated by 2.0% against the euro and by 4.5% against the Swiss franc and the American dollar, which, together with the euro, account for almost all foreign assets. The effects of the exchange rate of the kuna against these three currencies excluded, foreign currency assets rose only slightly

Table 3.4 Structure of bank assets

end of period, in million HRK and %

	2009		2010			2011		
	Amount	Share	Amount	Share	Change	Amount	Share	Change
Money assets and deposits with the CNB	47,673.1	12.6	47,373.5	12.1	–0.6	53,058.7	13.0	12.0
Money assets	5,430.9	1.4	5,675.4	1.5	4.5	6,198.2	1.5	9.2
Deposits with the CNB	42,242.2	11.2	41,698.2	10.7	–1.3	46,860.5	11.5	12.4
Deposits with banking institutions	32,741.9	8.7	30,160.0	7.7	–7.9	26,957.3	6.6	–10.6
MoF treasury bills and CNB bills	9,366.8	2.5	10,030.3	2.6	7.1	11,580.0	2.8	15.5
Securities and other financial instruments held for trading	5,522.4	1.5	5,501.3	1.4	–0.4	2,511.5	0.6	–54.3
Securities and other financial instruments available for sale	14,000.5	3.7	14,872.5	3.8	6.2	14,289.3	3.5	–3.9
Securities and other financial instruments held to maturity	4,012.2	1.1	3,692.3	0.9	–8.0	3,664.7	0.9	–0.7
Securities and other financial instruments not traded in active markets but carried at fair value	1,644.9	0.4	1,090.0	0.3	–33.7	1,829.5	0.4	67.8
Derivative financial assets	212.4	0.1	154.6	0.0	–27.2	674.0	0.2	336.0
Loans to financial institutions	6,065.1	1.6	6,389.5	1.6	5.3	6,162.3	1.5	–3.6
Loans to other clients	246,363.2	65.1	260,690.5	66.7	5.8	273,174.8	67.1	4.8
Investments in subsidiaries, associates and joint ventures	1,980.9	0.5	2,195.6	0.6	10.8	3,288.7	0.8	49.8
Foreclosed and repossessed assets	604.9	0.2	757.5	0.2	25.2	877.2	0.2	15.8
Tangible assets (net of depreciation)	4,372.3	1.2	4,319.6	1.1	–1.2	4,416.2	1.1	2.2
Interest, fees and other assets	6,889.5	1.8	6,853.3	1.8	–0.5	7,994.3	2.0	16.6
Net of: Collectively assessed impairment provisions	3,079.5	0.8	3,009.3	0.8	–2.3	3,071.2	0.8	2.1
Total assets	378,370.6	100.0	391,071.2	100.0	3.4	407,407.4	100.0	4.2

Source: CNB.

from the end of 2010 in real terms while, owning to a simultaneous increase in the kuna share of assets, the total assets of banks rose by 2.6% in real terms from the end of 2010.

The increase in assets from the end of 2010 was seen in all the three bank groups, but was the largest in the large bank group (4.8% or HRK 15.2bn). The assets of medium-sized banks rose by HRK 1.4bn or 4.1%. The assets of small banks fell in nominal terms as a result of a fall in the number of small banks. This effect excluded, the assets of small banks were up HRK 1.4bn or 4.2% at the end of 2011. At the end of 2011, a large number of banks witnessed an increase in their assets while eight banks witnessed a decline in their assets from the end of 2010.

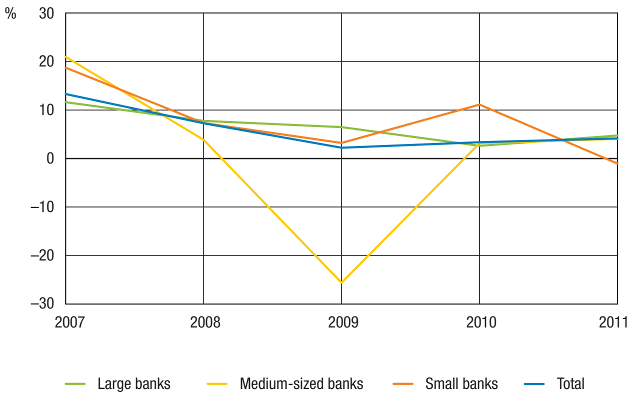
The increase in bank assets was mainly attributable to the funds from majority foreign owners of banks and to a lesser extent to the increase in household deposits and a small increase in bank capital. The increase in bank sources ensured for the banks potential for growth in placements, and for a very small recovery in credit activities compared to the year before. However, the intensity of these developments shows that both the banks and their clients continue to be very cautious as regards risk assumption; total net loans rose by HRK 12.3bn or 4.6% from the end of 2010. A share of this increase can be attributed to exchange rate changes, and if the exchange rate effects are excluded, net loans grew at a slower rate of approximately 2.8%. In terms of distribution of loans by sectors, most of the loan growth can be accounted for by loans to corporates and government units, while weakened household demand led to a real fall in net loans to that sector. The currency structure shows that the increase in loans involved exclusively loans denominated or indexed to the euro, while kuna loans and particularly loans in Swiss francs, were lower than at the end of 2010. A small increase in new loans, coupled with credit quality portfolio worsening and the growth in value adjustments, had an additional impact on the low net loans growth rate.

Net loans rose in all bank groups. From the end of 2010, they rose the most in large banks (5.3%) then in small banks and medium-sized banks (4.8% and 3.2%, respectively).

In terms of bank assets, the banks saw significant changes in the structure of placements in deposits attributable to a decline in deposits with other banking institutions and an increase in deposits with the CNB. Such developments were influenced by regulatory changes, i.e. a reduction in the prescribed percentage of coverage of foreign currency claims by foreign currency liabilities from 20% to 17%[3] and an increase in the reserve requirements rate from 13% to 14%[4]. As a result, the amount

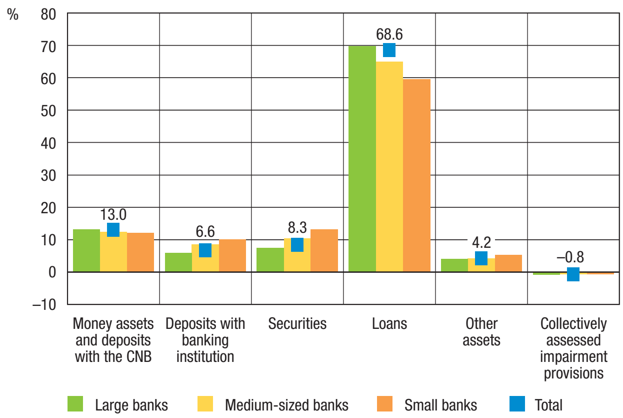
3 Decision on amendments to the Decision on the minimum required amount of foreign currency claims (OG 30/2011).
4 Decision on amendments to the Decision on reserve requirements (OG 109/2011).

3.3 Rates of change in bank peer group assets



Source: CNB.

3.4 Structure of bank peer group assets
as at 31 December 2011



Source: CNB.

of deposits placed with foreign banks fell by a significant HRK 3.5bn or 12.3%, exclusively attributable to a fall in time deposits. At the same time, deposits with domestic banks, though smaller in amount, rose only slightly from the end of 2010. At the end of 2011, the banks increased their deposits with the CNB by HRK 5.2bn or 12.4%, with the largest share of the increase being attributable to reserve requirements. The settlement account also rose considerably (HRK 2.5bn or 24.0%) in contrast with overnight deposits that fell by HRK 1.0bn or 25.4% and stood at HRK 3.0bn. Despite an overall fall in deposits with foreign banks, deposits with banks that are majority owners of banks in Croatia rose by a high HRK 2.8bn or 44.9%. At the end of 2011, these deposits accounted for over one third of the total amount of deposits placed with other banks. This is an increase of over 13 percentage points from the end of 2010.

Bank securities investments stood at HRK 33.9bn, a decline of 3.7% from the end of 2010. The decline was due primarily to a decline in investments in securities of other countries, most notably bonds of foreign countries and money market instruments. Overall investments in securities of domestic sectors rose owing to much larger investments in the bonds of the Republic of Croatia and T-bills of the Ministry of Finance. The banks also reduced their equity investments in all sectors except foreign corporates by 8.9%. The banks again distributed the bulk of securities in the available-for-sale portfolio (65.5%) which rose from the end of 2010. The marking to market of the securities in the available-for-sale portfolio resulted in an unrealised loss of HRK 283.3m at the end of 2011, which had an unfavourable effect on total bank capital. The amount of securities distributed in the portfolio held for trading fell by a significant 55.8%, down from 18.2% at the end of 2010 to only 8.4% of total securities at the end of 2010. The banks generated HRK 104.6m in losses on securities trading.

The fall in securities investments as a result of a fall in investments in foreign securities can be attributed to such developments in large banks, which witnessed a fall in total securities investments of 7.3%. All bank groups increased investments in T-bills of the Ministry of Finance and bonds of the Republic of Croatia which led to an increase in total securities investments of medium-sized and small banks of 3.6% and 14.3%, respectively.

Compared to the end of 2010, bank investments in subsidiaries rose by a considerable HRK 1.1bn or 49.8%. This increase is due almost entirely to an increase in equity holdings in financial institutions by one large bank, though, despite considerable change on total bank level, the share of these investments remained below 1.0% of total assets. Measured against own funds at the end of 2011, these investments were not of high relevance, with the total investments of banks in financial institutions standing at 5.3% of own funds and investments in the capital of non-financial institutions standing at only 1.6% of own funds.

The developments and changes in individual types of bank assets had a somewhat more significant impact only on the share of deposits. The fall in deposits with other banks led to a fall in their share in bank assets from 7.7% at the end of 2010 to 6.6% at the end of 2011. The share of deposits with the CNB in total bank assets stood at 11.5%, an increase of 0.8 percentage points from the end of 2010. The growth in net loans at a rate which was only slightly faster than the growth rate of assets resulted in a very small increase in the share of net loans in bank assets, 68.6% at the end of 2011. Developments similar to those in the structure of all banks were seen in the assets of large banks. Large banks usually account for the largest share of net loans in the assets of all bank groups. This share increased additionally from the end of 2010 and stood at 69.9%. The low growth rate of net loans of medium-sized banks led to a decline in the share of net loans in their assets from 65.6% at the end of 2010 to 65.0% at the end of 2011, the largest change in the structure of assets of medium-sized banks. The only bank group that saw an increase in the share of securities in assets was the group of small banks, which witnessed an increase in this share from 11.5% to 13.3%. The share of deposits of small banks with other banks fell by the same 1.8 percentage points from the end of 2010. The share of net loans in the assets of small banks fell slightly and stood at 59.7%.

Liabilities and capital

An increase in bank liabilities in 2011 was mainly due to an increase in deposits and to a lesser extent to an increase in issued subordinated and hybrid instruments. As a result, and despite a fall in liabilities based on received loans, the total sources of bank financing rose by HRK 11.6bn or 3.6% (2.1% effectively) from the end of 2010. The bulk of this increase involved funds from majority foreign owners of banks, with banks' reliance on the sources from majority foreign owners being boosted additionally by a decline in the sources from the domestic sector. Household deposits were the only rising component of domestic sources, mainly owing to a seasonal increase in deposits in the third quarter of this year, offsetting the fall in other domestic sources from the end of 2010.

Household deposits grew at an annual rate of 4.5%, increasing by a total of HRK 6.8bn. Deposits of non-profit institutions also rose, in contrast with deposits of all other domestic sectors, which declined by a total of HRK 2.6bn or 4.0% from the end of 2010. The modest increase in domestic sources, coupled with a fall in financing by means of other non-residents' funds (majority foreign owners excluded) led to increased use by the banks of deposits and loans from majority foreign owners of a total of HRK 9.8bn or 16.6%. At the end of 2011, the share of these sources in total received deposits and loans rose to 20.8% or by 2.3 percentage points from the end of 2010. This was true in particular of large and small banks, which considerably increased the use of funds from majority foreign owners (17.7% and 41.0%, respectively). The sources from majority foreign owners in medium-sized banks fell by 25.8% during the same period.

At the end of 2011, the amount of issued subordinated and hybrid instruments was up by a total of HRK 1.1bn from the end of 2011. In addition to increasing the sources of financing, these instruments helped several banks that had operated with

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

	2009		2010			2011		
	Amount	Share	Amount	Share	Change	Amount	Share	Change
Loans from financial institutions	21,180.5	5.6	18,178.8	4.6	–14.2	17,316.5	4.3	–4.7
Short-term loans	10,167.9	2.7	7,407.9	1.9	–27.1	6,026.7	1.5	–18.6
Long-term loans	11,012.6	2.9	10,770.9	2.8	–2.2	11,289.8	2.8	4.8
Deposits	256,810.0	67.9	269,182.6	68.8	4.8	281,390.5	69.1	4.5
Giro account and current account deposits	34,526.9	9.1	37,258.1	9.5	7.9	39,628.4	9.7	6.4
Savings deposits	24,531.3	6.5	26,705.5	6.8	8.9	26,376.2	6.5	–1.2
Time deposits	197,751.7	52.3	205,219.0	52.5	3.8	215,386.0	52.9	5.0
Other loans	31,787.5	8.4	31,594.3	8.1	–0.6	31,856.5	7.8	0.8
Short-term loans	6,133.5	1.6	6,977.0	1.8	13.8	3,357.8	0.8	–51.9
Long-term loans	25,654.0	6.8	24,617.3	6.3	–4.0	28,498.7	7.0	15.8
Derivative financial liabilities and other financial liabilities held for trading	418.9	0.1	1,475.2	0.4	252.1	1,383.7	0.3	–6.2
Debt securities issued	119.3	0.0	124.3	0.0	4.2	0.0	0.0	–100.0
Short-term debt securities issued	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term debt securities issued	119.3	0.0	124.3	0.0	4.2	0.0	0.0	–100.0
Subordinated instruments issued	396.6	0.1	468.4	0.1	18.1	1,366.2	0.3	191.7
Hybrid instruments issued	3,016.4	0.8	3,431.2	0.9	13.7	3,601.1	0.9	5.0
Interest, fees and other liabilities	12,067.3	3.2	12,288.2	3.1	1.8	14,624.8	3.6	19.0
Total liabilities	325,796.6	86.1	336,743.0	86.1	3.4	351,539.4	86.3	4.4
Share capital	28,781.8	7.6	29,468.2	7.5	2.4	33,805.6	8.3	14.7
Current year profit/loss	3,277.7	0.9	3,450.8	0.9	5.3	3,909.5	1.0	13.3
Retained earnings/loss	7,764.9	2.0	8,927.9	2.3	15.0	10,018.4	2.5	12.2
Legal reserves	1,084.1	0.3	1,097.9	0.3	1.3	1,058.6	0.3	–3.6
Reserves provided for by the articles of association and other capital reserves	11,789.2	3.1	11,382.4	2.9	–3.5	7,421.8	1.8	–34.8
Unrealised gains/losses on value adjustments of financial assets available for sale	–27.7	0.0	20.0	0.0	–	–283.3	–0.1	–
Reserves arising from hedging transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Previous year profit/loss	–96.0	0.0	–19.0	0.0	–80.2	–62.6	0.0	229.3
Total capital	52,574.0	13.9	54,328.2	13.9	3.3	55,868.0	13.7	2.8
Total liabilities and capital	378,370.6	100.0	391,071.2	100.0	3.4	407,407.4	100.0	4.2

Source: CNB.

a low level of capital in 2011, to increase their additional own funds. This applied in particular to small banks whose subordinated instruments rose by 323.7% and hybrid instruments by 53.4% from the end of 2010. Accounting for only 1.5% of the total sources, these instruments again played a small role in total bank financing sources.

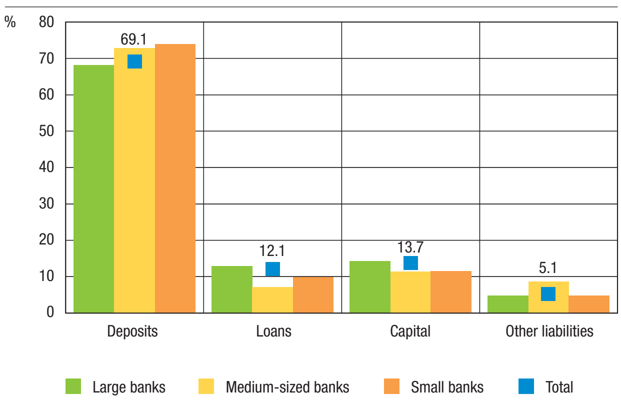
No significant changes were observed in the structure of bank liabilities. The biggest change involved a decline in the share of received loans in total liabilities and capital from 12.7% at the end of 2010 to 12.1% at the end of 2011. The share of deposits rose slightly to 69.1% of the total liabilities and capital of banks.

The growth in the balance sheet capital slowed down for the fourth consecutive year, rising by HRK 1.5bn or 2.8% from the end of 2010. The growth in balance sheet capital in 2011 was mostly attributable to a large share of retained earnings generated in 2010, while in 2011 the banks paid out a little over one fourth of the profit in the form of dividends. The share capital of banks rose by a considerable HRK 4.3bn or 14.7%, mainly as a result of capital restructuring or recapitalisation carried out by means of previous years' profits accumulated in the reserves of one large bank. Five small banks were also recapitalised in 2011. The amount of recapitalisation of HRK 179.5m had a positive effect only on the level of share capital of small banks. A bigger negative impact on the level of share and total capital of banks came from a fall in the share capital of one large bank of HRK 751.1m and an exit of one small bank with a share capital of HRK 120.0m from the banking system. The mentioned decline in the share capital of one large bank due to a withdrawal of common shares has so far not affected the balance sheet amount, as the amount derived from capital decline has not been paid out to the shareholder yet. In contrast with 2010 when the banks reported unrealised profit from value adjustment of financial assets available for sale, unrealised loss at the end of 2011 generated on this basis had an additional negative effect on the level of total capital of banks.

The slowdown in the annual growth rate of total capital led to a small decline in the share of capital in liabilities which stood at 13.7% at the end of 2011. The share of capital in the liabilities fell in all bank groups, but was again above average only in large banks where it stood at 14.2%. Compared to the end of 2010, the group of large banks was the only group that witnessed an increase in the capital (3.8%) and that mainly owing to the retained part of the previous year's profits and the profit generated in 2011. The fall in the capital of medium-sized banks of 2.8% was the result of a fall in reserves due to dividend payments and unrealised losses as a result of value adjustments of assets available for sale. As a result, the share of capital in the liabilities of medium-sized banks thus fell to 11.5%. Despite recapitalisation of small banks and a small increase in the share capital, the total capital of small banks fell by 2.0%. The capital of small banks was again influenced by the losses of the previous years brought forward with additional negative influence on the level of capital of small banks coming from a considerable increase in unrealised losses on value adjustment of financial assets available for sale. The share of capital in the liabilities of small banks fell only slightly at the end of 2011 and stood at 11.5%.

The changes in the currency structure of bank balance sheets at the end of 2011 involved a small increase in the kuna component compared to the end of 2010. Kuna assets rose by HRK 9.1bn (6.8%), mainly influenced by an increase in deposits with the CNB but also by investments in domestic securities and subsidiaries. The bulk of the increase in foreign currency assets was spurred by an increase in the kuna equivalent of these assets due to currency changes, and to a lesser extent by their real growth, which amounted to approximately HRK 1.1bn (0.42%). The share of items in foreign currency and in kuna indexed to a foreign currency declined by 0.9 percentage points at the end of 2011, while the share of kuna asset items rose to 35.1% of total assets. The increase in received kuna deposits outdid the changes in all other liabilities items of banks, with the kuna liabilities of banks rising by almost HRK 9.0bn (8.6%) from the end of 2010. The share of kuna items in the liabilities of banks rose by one percentage point at the end of 2011 and stood at 41.6% of the total liabilities and capital of banks.

3.5 Structure of bank peer group liabilities and capital
as at 31 December 2011



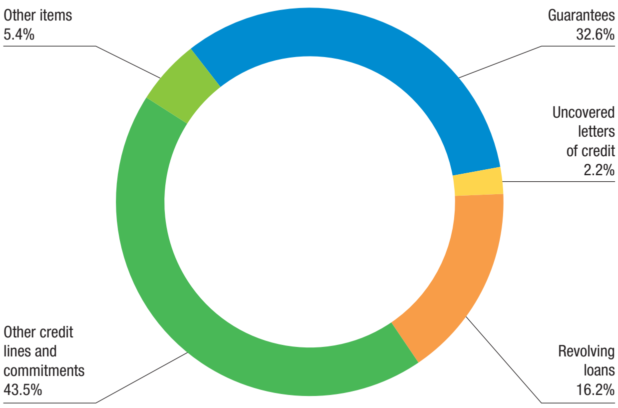
Source: CNB.

Standard off-balance sheet items

Banks' unwillingness to increase credit risk exposure through off-balance sheet liabilities was reflected in a decline in the amount of standard off-balance sheet items in the previous two years. No very great departure from this trend was seen in 2011, as standard off-balance sheet items rose by only 0.9% from the end of 2010. Due to a somewhat faster growth in assets, the standard off-balance sheet items to assets of banks ratio also decreased, falling from 15.1% at the end of 2010 to 14.7% at the end of 2011.

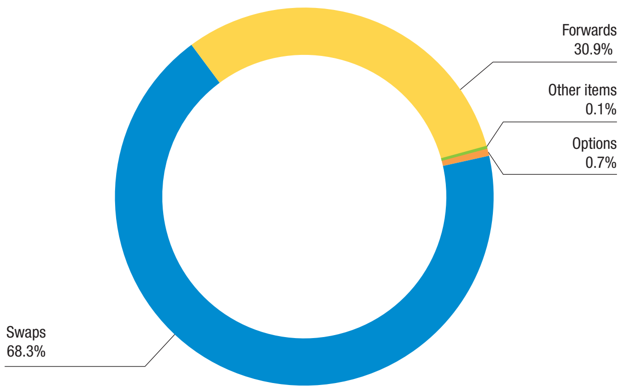
Credit lines and other commitments rose by HRK 3.6bn (16.2%) from 2010 and they were the key factor that influenced the increase in the total amount of standard off-balance sheet items. The amounts of other major instruments in the structure of standard off-balance sheet items at the end of 2011 were smaller. This was particularly true of revolving loans, which fell by 22.3%. Credit lines and other commitments

3.6 Structure of bank standard off-balance sheet items
as at 31 December 2011



Source: CNB.

3.7 Structure of bank derivative financial instruments (notional amount)
as at 31 December 2011



Source: CNB.

again accounted for the major share of the total standard off-balance sheet items (43.5%) and issued guarantees accounted for 32.6%, or the next largest share of the total standard off-balance sheet items.

At the end of 2011, total exposure of banks to financing commitments and contingent liabilities that may entail payments, shown as the total amount of standard off-balance sheet items to assets ratio, was again in relative terms the highest in large banks (15.9%), slightly lower in medium-sized banks (9.9%), and as usual the lowest in small banks (7.4%). Only large banks reported an increase in the amount of standard off-balance sheet items (1.5%) from the end of 2010, mostly attributable to the higher amount of credit lines and other commitments while medium-sized and small banks reduced their standard off-balance sheet items by 1.5% and 8.0%, respectively. In both bank groups, this was due to a decline in the amount of issued guarantees.

Derivative financial instruments

In contrast with the previous two years, the total notional value of derivative financial instruments rose by HRK 33.6bn or 32.7% in 2011, boosting the increase in the notional value of derivative financial instruments to bank assets ratio from 26.3% to 33.5%. The bulk of the increase in derivative financial instruments could be accounted for by an increase in the notional amount of instruments with interest rate as the underlying variable whose notional amount rose by 97.0% or almost twofold from the end of 2010. The amount of instruments with exchange rate as the underlying variable rose by a much smaller 8.5%, while the amounts of less significant instruments with other underlying variables fell slightly. These developments led to changes in the structure of derivative financial instruments and an increase in the share of instruments with interest rate as the underlying variable from 27.6% at the end of 2010 to 41.0% at the end of 2011. Despite a fall in the notional value of instruments with exchange rate as the underlying variable and a fall in their share in total derivative financial instruments, these instruments still accounted for the majority or 58.7% of the total notional amount of derivative financial instruments.

Swaps accounted for the bulk of derivative financial instruments (68.3%). Bank operations with these instruments led to an increase in bank profit, due to the fact that they were one of the main sources of interest income increase in 2011.

Large banks accounted for over 96% of the total notional value of derivative financial instruments and these banks' derivative financial instruments to assets ratio stood at 39.1%. The increase in this ratio of almost ten percentage points from the end of 2010 was mostly due to developments in one large bank, which ultimately led to an increase in this ratio in all banks. In medium-sized banks, this ratio thus stood at 11.9% and in small banks at only 1.5%. Eight small banks did not report derivative financial instruments.

At the end of 2011, the banks held derivative financial instruments almost fully for trading (99.3%). They used some of these instruments to hedge against risks, although they do not report them as such, which can be attributed to the complex hedge accounting rules that would have to be applied if they did. Therefore, the banks reported only 0.1% of the total derivative financial instruments as hedge instruments, while the remaining 0.6% was accounted for by embedded derivatives. No significant changes were observed in these ratios compared to the end of 2010.

The bulk of derivative financial instruments involved nonresidents, most notably the majority foreign owners or sister companies (members of international banking groups that domestic banks belong to).

3.1.2 Earnings

Income statement

Bank pre-tax profit, according to unaudited preliminary data, stood at HRK 4.7bn at the end of 2011, which is an increase of HRK 419.7m or 9.8% from the end of 2010. The increase in profit was based on interest income growth, although the amount of profit generated was largely influenced by savings on expenses on loss provisions in some small banks.

Pre-tax profit was reported by 24 banks, while eight small banks operated with a loss. The total amount of loss generated (HRK 107.7m) and its share in total bank assets (1.6%) was considerably lower than at the end of 2010. Almost all these banks (except one) also operated with a loss at the end of 2010, but the amount of their losses was smaller in 2011. Lower losses in all these banks, as well as in two banks that had operated with significant losses at the end of 2010 and now reported profit, were based on much lower loss provisions.

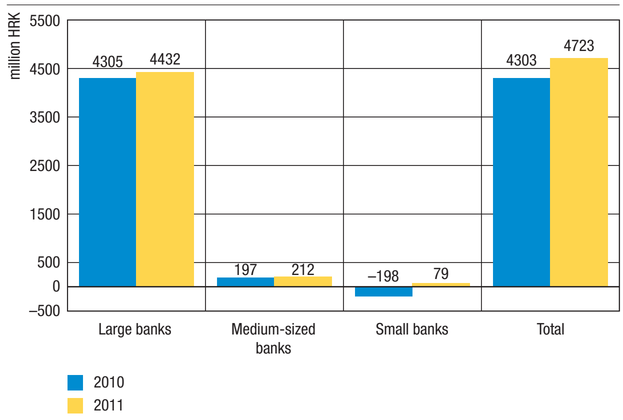
All bank groups reported an increase in pre-tax profit from the end of 2010. The group of small banks had the biggest influence on this increase. At the end of 2011, several banks from this group reported much lower expenses on provisions for identified losses. As a result, this bank group reported a profit of HRK 78.7m at the end of the year, in contrast with a significant loss of HRK 198.1m at the end of 2010. Large banks again generated the bulk of the total profit of all banks (93.8%). Their pre-tax profit stood at HRK 4.4bn, which is an increase of HRK 127.3m or 3.0% from the year before, due to an increase in profit of three banks in this group. Increased interest income was the main source of increase in large bank profit, although one large bank reported a considerable increase in profit primarily as a result of savings generated on the side of interest expenses and collectively assessed impairment provisions. Influenced by a decline in interest expenses and a growth in other non-interest income, the group of medium-sized banks reported an increase in generated profit of 7.9%.

Net operating income, before loss provisions, rose by HRK 319.6m or 4.0% due to a simultaneous increase in interest income (HRK 563.7m or 2.7%) and a small fall in interest expenses (HRK 68.5m or 0.7%). Changes in the remaining items, net other non-interest income and general administrative expenses and depreciation, though slight, had a negative impact on the level of achieved net operating income of banks.

Income from loans granted and from interest rate swap agreements in large banks had an almost equal effect on the increase in interest income of banks. As a result, the group of large banks witnessed a higher increase in total interest income than the sector as a whole (HRK 589.2m or 3.5%). By contrast, the interest income of medium-sized banks held steady (growing by only 0.2%) while small banks reported a fall in interest income (HRK 30.0m or 1.4%).

Interest income from loans granted was largely influenced by a considerable increase in income from loans to government units (HRK 461.6m or 28.4%) and to a lesser extent by an increase in loans to financial institutions and foreign corporates and individuals. A smaller share of the increase in interest income from loans to government units (around one fifth) was due to changes in the sectorisation of two public enterprises in one large bank. This change led to a fall in the total income from loans to corporates which stood at a lower level than that at the end of 2010 (HRK 44.4m or 0.6%). The effects of sectorisation changes excluded, income from loans to corporates grew modestly. The household sector also saw a lower income from

3.8 Bank income before taxes



Source: CNB.

lending (HRK 235.6m or 2.3%) for the second consecutive year. This was again, even more than at the end of 2010, due to a fall in income from car purchase loans and credit card loans.

A considerable increase in income from interest rate swaps of HRK 239.0m or 99.6% was due to an increased use of derivative financial instruments with variable interest rate as the underlying variable. These derivative financial instruments were used by only five large banks. All these banks reported an increase in income during the observed period, though the bulk of this increase can be attributed to one large bank. It should be noted, however, that interest expenses on these instruments also rose during that period (HRK 216.5m or 115.3%) though the net impact on income statement was again positive.

At the end of 2011, interest expenses of banks were only slightly lower than those at the end of 2010 (HRK 68.5m or 0.7%), reflecting an increase in these expenses in large banks (1.3%). Interest expenses in medium-sized and small banks fell by a more considerable 10.1% and 6.6%, respectively. The banks maintained a lower level of interest expenses throughout the year, but the growth in financing costs on the foreign market, particularly in the second part of the year, all but melted the generated savings. This growth was particularly evident in the considerably higher expenses associated with deposits and loans from foreign financial institutions (HRK 357.9m or 41.9% and HRK 177.8m or 28.3%, respectively) as well as the previously mentioned increase in expenses associated with interest rate swap agreements. The banks tried to contain this growth primarily by cutting household expenses, particularly time deposits (HRK 664.5m or 12.2%), although household savings rose by 4.5% on an annual level.

The total net non-interest income fell by HRK 207.8m or 4.4% from the end of 2010 as a result of a fall in income from fees and commissions, mainly from fees for other banking services. Other non-interest income of banks was slightly higher, with the only visible increase on an annual level coming from income from investment in subsidiaries. All this led to a small change in the structure of net income of banks, increasing the

Table 3.6 Bank income statement
in million HRK

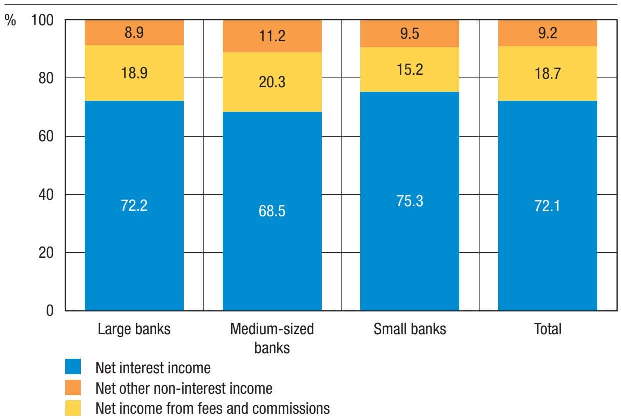
	Large banks		Medium-sized banks		Small banks		Total	
	Jan.-Dec. 2010	Jan.-Dec. 2011	Jan.-Dec. 2010	Jan.-Dec. 2011	Jan.-Dec. 2010	Jan.-Dec. 2011	Jan.-Dec. 2010	Jan.-Dec. 2011
Total interest income	17,097.3	17,686.4	1,973.0	1977.5	2,145.2	2,115.3	21,215.5	21,779.2
Total interest expenses	8,081.8	8,189.4	1,010.5	908.2	1,158.8	1,085.1	10,251.1	10,182.7
Net interest income	9,015.4	9,497.1	962.4	1069.3	986.5	1,030.2	10,964.3	11,596.6
Total income from fees and commissions	3,363.8	3,257.7	764.1	753.8	306.1	284.8	4,434.1	4,296.3
Total expenses on fees and commissions	709.5	774.1	428.5	437.4	87.0	77.1	1,225.0	1,288.6
Net income from fees and commissions	2,654.3	2,483.6	335.6	316.4	219.1	207.6	3,209.0	3,007.7
Other non-interest income	1,668.7	1,633.5	194.7	283.1	243.0	197.8	2,106.4	2,114.3
Other non-interest expenses	444.8	467.0	90.0	107.5	92.5	67.2	627.3	641.7
Net other non-interest income	1,224.0	1,166.5	104.6	175.6	150.5	130.5	1,479.1	1,472.6
Net non-interest income	3,878.3	3,650.1	440.3	492.0	369.6	338.2	4,688.1	4,480.3
General administrative expenses and depreciation	5,629.8	5,721.8	866.5	920.9	1,086.9	1,045.2	7,583.2	7,688.0
Net operating income before loss provisions	7,263.9	7,425.3	536.2	640.4	269.2	323.1	8,069.3	8,388.9
Expenses on value adjustments and provisions for identified losses	2,999.8	2,950.1	351.9	420.6	461.1	242.1	3,812.9	3,612.8
Expenses on collectively assessed impairment provisions	–41.0	42.9	–12.3	7.7	6.2	2.4	–47.1	53.0
Total expenses on loss provisions	2,958.8	2,992.9	339.6	428.4	467.4	244.4	3,765.8	3,665.8
Income/loss before taxes	4,305.1	4,432.4	196.5	212.0	–198.1	78.7	4,303.5	4,723.1
Income tax	788.4	761.7	36.2	18.7	28.1	33.2	852.7	813.6
Current year profit/loss	3,516.7	3,670.7	160.3	193.4	–226.2	45.5	3,450.8	3,909.5
Memo items:								
Gains (losses) from trading activities	–2,109.0	198.1	–225.3	44.7	121.1	110.4	–2,213.2	353.2
Gains (losses) from securities trading	97.1	–87.5	8.5	–18.6	1.9	1.5	107.6	–104.6
Gains (losses) from foreign currency trading	773.1	557.1	122.8	0.5	119.1	107.8	1,015.1	665.4
Gains (losses) from domestic currency trading	2.6	3.4	0.1	0.1	–0.5	–0.9	2.1	2.6
Gains (losses) from derivatives trading	–2,981.8	–274.9	–356.7	62.7	0.6	1.9	–3,337.9	–210.3
Gains (losses) from exchange rate differentials	3,160.6	749.5	342.3	64.3	11.0	6.9	3,513.9	820.7
Number of banks operating with losses	0	0	0	0	9	8	9	8

Source: CNB.

share of net interest income by 2.1 percentage points to 72.1% while the shares of net income from fees and commissions and net other non-interest income fell in relative terms to 18.7% and 9.2%, respectively.

Expenses on loss provisions fell by HRK 100.1m or 2.7% as a result of a reduction in expenses on provisions for identified losses on an individual basis (for B and C risk category placements) of HRK 200.1m or 5.3%, in contrast with the expenses on collectively assessed impairment provisions that rose. Only the group of medium-sized banks increased its loss provision expenses for B and C risk categories (by HRK 68.7m or 19.5%), while the group of large and the group of small banks reduced these expenses by HRK 49.8m or 1.7% and a high HRK 219.0m or 47.7%, respectively. The increase in collectively assessed expenses from the previous year was due to regulatory changes at the beginning of 2010, i.e. to the exclusion of the portfolio of securities available for sale from the scope of placements classified into risk categories. As a result, at the end of 2010, the banks

3.9 Structure of bank net income
as at 31 December 2011



Source: CNB.

reported income arising from the exclusion of expenses on this portfolio and at the end of 2011, the total expenses on collectively assessed impairment provisions stood at HRK 53.0m. Several banks reduced these expenses in 2011. As a result, and owing to an increase in total placements and assumed off-balance sheet liabilities, these banks witnessed a small fall in risk category A coverage. Two large banks stood out in particular in terms of the amount of savings generated in this manner.

Indicators of returns

The indicators of returns continued to recover slightly after falling considerably at the end of 2009. Thus, at the end of 2011, the return on average assets (ROAA) stood at 1.2%, and the return on average equity (ROAE) stood at 7.1%. Increased profitability of banks was due primarily to an increase in interest income but also to savings generated on provisions and interest expenses.

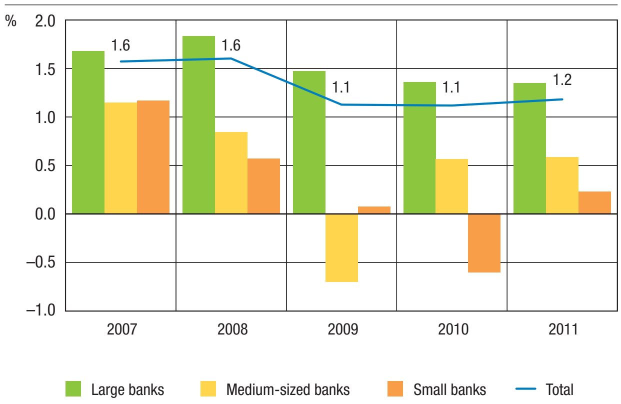
Except for the ROAA of large banks, which fell the least (0.01 percentage point), the values of all other indicators by bank groups increased, particularly in small banks. Nevertheless, this bank group again had the lowest values of these indicators (0.2% and 1.2%, respectively). ROAA and ROAE stood at 0.6% and 4.5%, respectively, in medium-sized banks, while large banks again had the best values of these indicators (1.4% and 7.8%, respectively). Taking into account the recommended values of these two indicators, only six banks (three large and three small banks) had an ROAA above 1% and only three banks (two large and one small bank) had an ROAE above 10%.

The interest rate spread, i.e. the difference between interest income on average interest-bearing assets and interest expenses on average interest-bearing liabilities stood at 2.7%, rising only slightly from 2.6% at the end of 2010, though it stood at somewhat higher levels during the year. A significant fall in interest rate spread in the last quarter of 2011 was due to faster growth dynamics in interest expenses, particularly in large banks which tend to rely more on foreign financing.

All bank groups, particularly medium-sized banks, increased their interest rate spread over the year. Due to a fall in expenses on household and corporate deposits, the group of medium-sized banks reported the largest relative fall in interest expenses of all bank groups, which, with stagnating interest income, led to an interest rate spread of 2.8%. The interest rate spread was again the largest in small banks where it stood at 2.9%, while in large banks it stood at 2.7%.

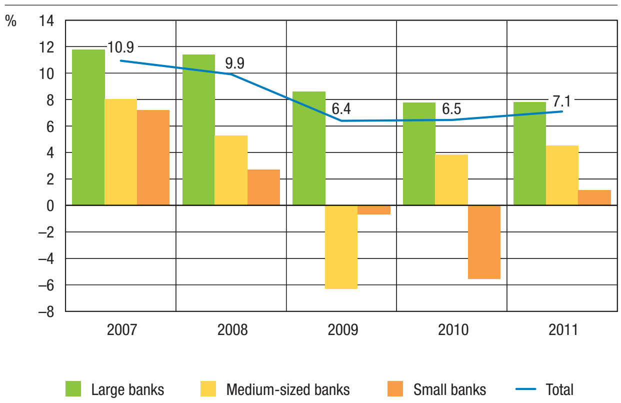
The costs of household and corporate financing continued to improve gradually throughout 2011. The developments in monthly weighted average interest rates of banks in the previous period were greatly influenced (particularly in the first half of the year) by the good liquidity position of banks and a reduction in regulatory costs. A considerable fall in the weighted average interest rates on short-term kuna loans to the household sector in mid-2011 was due to a reduction in the maximum permitted rate of statutory and contractual default interest, related to a decrease in the CNB's discount rate. The fall in interest rates on long-term household loans was the result of banks' efforts to boost demand in this sector. Interest rates on short-term

3.10 Bank return on average assets (ROAA)
end of period



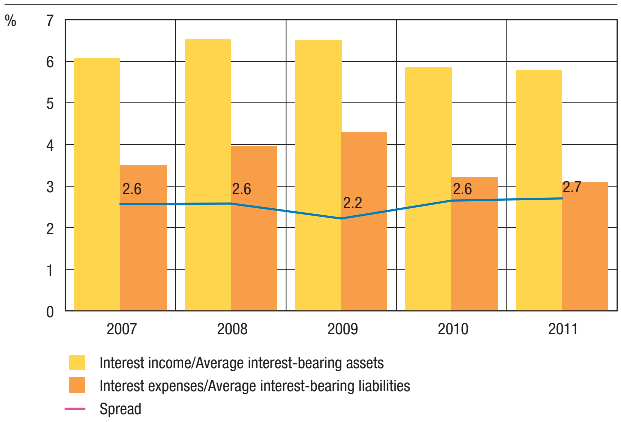
Source: CNB.

3.11 Bank return on average equity (ROAE)
end of period



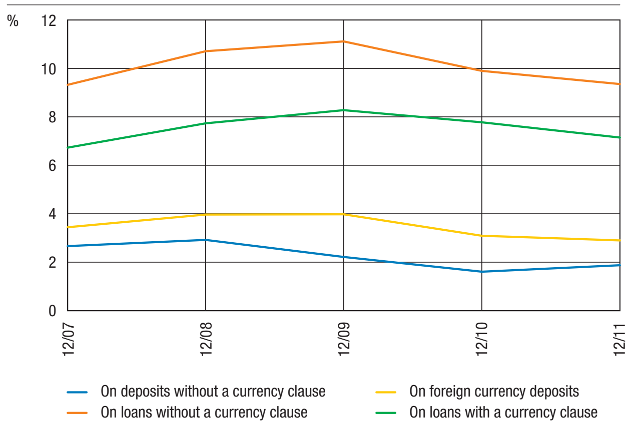
Source: CNB.

3.12 Income from interest-bearing assets and expenses on interest-bearing liabilities
end of period



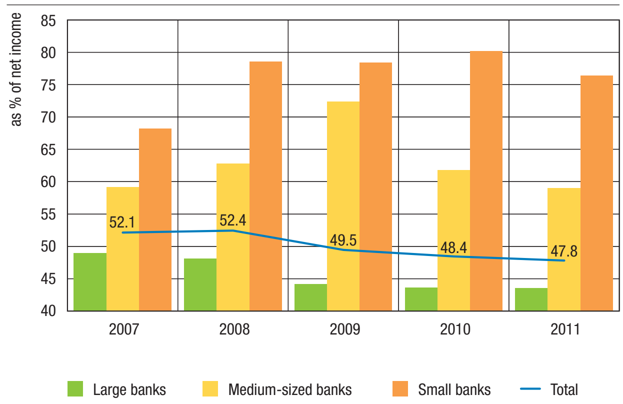
Source: CNB.

3.13 Weighted averages of bank monthly interest rates
on annual basis



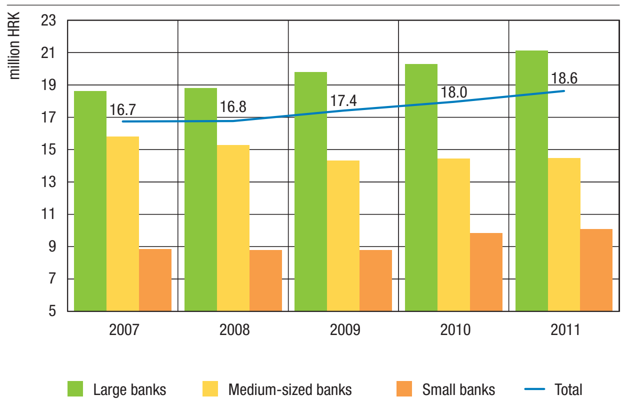
Source: CNB.

3.15 Bank operating expenses
end of period



Source: CNB.

3.14 Bank assets per employee
end of period



Source: CNB.

corporate loans continued to fall. Interest rates on long-term loans with a currency clause also fell.

A small decline in interest rates on foreign currency deposits was due to the keeping in check of interest expenses on household time deposits and an increase in foreign financing costs. Influenced by an increase in interest rates on short-term and long-term corporate kuna deposits, kuna deposits were the only deposits that rose and that only slightly.

The number of bank employees rose by a modest 95 employees or 0.4%, reaching 21,865. This led to a further increase in the average amount of assets per employee of all banks, a trend present for many years, from HRK 18.0m to HRK 18.6m. Though increasing in all bank groups, this indicator was again the biggest in large banks where it stood at HRK 21.1m. Medium-sized banks again saw the fastest increase in the number of employees in 2011, with the asset to employee amount in that bank group holding steady at HRK 14.5m. The number of employees in small banks fell by 115 or 3.3% from the end of 2010, due to the exit of one bank from the system. Despite a fall in the assets of small banks on an annual level, the average amount of assets per employee in this bank group rose slightly, reaching HRK 10.1m.

The cost-to-income ratio of banks stood at 47.8% at the end of 2011, a decrease of 0.6 percentage points from the end of 2010. Despite a small increase in general administrative expenses and depreciation during that period (HRK 104.8m or 1.4%), the cost-to-income ratio of banks continued to increase for the third consecutive year. All bank groups increased their cost-to-income ratios, particularly small banks, which maintained the worst ratio (76.4%). Large banks had the best cost-to-income ratio (43.5%) while medium-sized banks used 59.0% of net income for the coverage of operating expenses.

3.1.3 Credit risk

Placements and assumed off-balance sheet liabilities

The growth in exposure to credit risk accelerated slightly in 2011, however, due to further worsening of its quality, risk aversion remained elevated. Total placements and assumed off-balance sheet liabilities of banks that are exposed to credit risk and are subject to classification into risk categories rose by HRK 18.8bn or 4.5% in 2011, reaching HRK 438.2bn. Compared to the previous year[5], the total exposure to credit risk[6] grew slightly faster, driven primarily by growth in the riskiest component, i.e. loans granted. The remaining components of total exposure also increased, though at a slower rate with the result that the structure of total exposure saw a more considerable increase

5 Excluding the effect of methodological changes (with the portfolio of financial assets available for sale excluded from the scope of items classified into risk categories), the total exposure to credit risk rose by 3.1% in 2010.

6 Total exposure to credit risk comprises placements (balance sheet items) and assumed off-balance sheet liabilities. The placements can be divided into a loan and receivables portfolio and a portfolio of held-to-maturity financial assets, with the receivables on interest and fees being covered by a separate item (receivables based on income). The portfolio of financial assets comprises various instruments such as loans, deposits, bonds, T-bills while assumed off-balance sheet liabilities comprise guarantees, credit lines, etc.

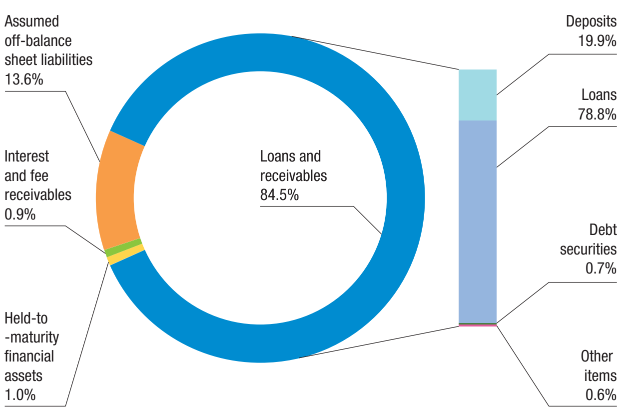
only in the share of loans. They accounted for a little over two thirds of the total credit exposure and were followed by deposits given that rose only slightly in 2011. There were considerable changes in their structure, mainly under the influence of two regulatory changes. An increase in the percentage of allocation led to an increase in the amount of allocated reserve requirements in the account with the CNB, in contrast with a level of deposits with foreign banks that fell as a result of a reduction in the prescribed percentage of coverage of foreign currency liabilities by liquid foreign currency claims. At the end of 2011, this percentage considerably exceeded the prescribed minimum, indicating, together with the level of cash and a considerable increase in the settlement accounts, increased caution in risk-taking. It was driven by unfavourable developments in the economy and further deterioration in the quality of credit exposure.

Large banks witnessed the largest growth rate in exposure to credit risk, having increased all the components of exposure to credit risk, including off-balance sheet liabilities. Due to a sharp increase in payments based on issued guarantees and probably due to the diminishing demand, issued guarantees fell in 2009 and 2010. Their fall had the largest impact on the decline in the total off-balance sheet liabilities during the observed years. Similar developments continued into 2011. The quality of issued guarantees deteriorated sharply, while their total amount fell slightly. However, total off-balance sheet liabilities rose slightly due to a simultaneous considerable increase in the amount of lines of credit and other commitments. Only the group of large banks witnessed an increase in off-balance sheet liabilities, owing to an increase in credit lines to public enterprises and household overdraft facilities. As this bank group also witnessed the highest growth rate in loans granted as a result of increased lending to the biggest clients and the public sector, total placements and assumed off-balance sheet liabilities also rose the most in this bank group.

The year 2011 saw a further, though slower, increase in claims that will not be fully recoverable. The best quality risk category, category A, accounted for 91.0% of the total amount of placements and assumed off-balance sheet liabilities. This risk category includes placements with no objective evidence of value impairment and off-balance sheet liabilities for which no outflows are expected, or where outflows do take place, they are expected to be fully recovered. Partly recoverable placements and assumed off-balance sheet liabilities (risk categories B-1, B-2 and B-3) and fully irrecoverable placements and assumed off-balance sheet liabilities (risk category C) accounted for the remaining 9.0% of the total amount of placements and assumed off-balance sheet liabilities. One year ago, this indicator was much lower and stood at 7.9%. The share of risk categories B[7] and C in total credit risk exposure rose slowly for the second consecutive year, helped in 2011 by a much slower growth in risk categories B and C (18.3% compared to 31.7%, in 2010) and a small recovery in credit activity and an increase in risk category A exposure.

The level of new credit activities was not sufficient to halt deterioration in the quality of exposure. Credit portfolio losses continued to grow while their share in the total exposure to credit risk (total value adjustments and provisions to total placements and assumed off-balance sheet liabilities ratio) rose for the third consecutive year, reaching 4.7%. Value adjustments

3.16 Structure of bank placements and assumed off-balance sheet liabilities
as at 31 December 2011



Source: CNB.

Table 3.7 Classification of bank placements and assumed off-balance sheet liabilities by risk categories
end of period, in million HRK and %

Risk category	2009			2010			2011		
	Placements and assumed off-balance sheet liabilities	Value adjustments and provisions	Coverage	Placements and assumed off-balance sheet liabilities	Value adjustments and provisions	Coverage	Placements and assumed off-balance sheet liabilities	Value adjustments and provisions	Coverage
A	403,906.5	3,613.0	0.9	386,077.1	3,564.8	0.9	398,846.8	3,600.8	0.9
B-1	10,764.0	1,416.9	13.2	16,233.9	2,151.0	13.2	16,702.9	2,320.3	13.9
B-2	5,303.4	2,225.6	42.0	9,327.2	4,147.6	44.5	13,916.8	6,163.0	44.3
B-3	1,283.3	931.8	72.6	1,895.2	1,518.0	80.1	1,843.9	1,478.2	80.2
C	5,366.6	5,281.8	98.4	5,784.8	5,784.4	100.0	6,847.0	6,847.3	100.0
Total	426,623.8	13,469.1	3.2	419,318.2	17,165.8	4.1	438,157.3	20,409.6	4.7

Note: Since 2010, the portfolio of financial assets available for sale has been excluded from the scope of placements and assumed off-balance sheet liabilities classified into risk categories.
Source: CNB.

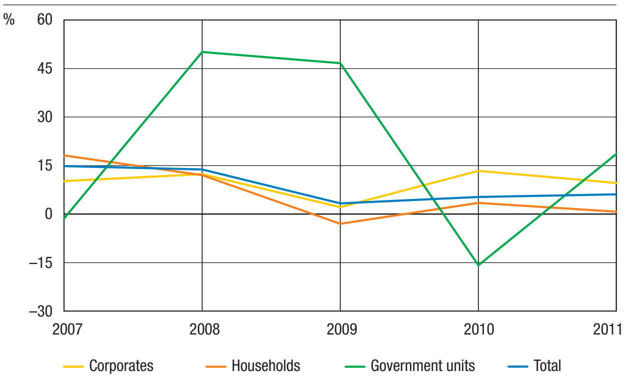
7 The sum total of placements and assumed off-balance sheet liabilities classified into risk categories B-1, B-2 and B-3.

and provisions for B and C category loans rose by 23.6%, i.e. by just a little bit less than in 2010. Namely, the ageing of the part of the portfolio distributed into B and C categories resulted in rising arrears and growing losses. Within B and C categories, risk category B-2 (losses in the range from 30% and 70%) rose the most. Risk category C placements which are deemed fully irrecoverable by banks (100% losses) also rose considerably and much faster than in the previous year. After a downward trend present for many years, the average loss on exposures classified into risk categories B and C, i.e. the coverage of these exposures by value adjustments and provisions, rose in 2011. This could also be attributed to a fall in the value of instruments of collateral taken into account in the calculation of cash flows and the amount of losses, particularly real estate property. Collectively assessed value adjustments and provisions rose only slightly so the coverage of risk category A loans was the same as in the previous year (0.9%).[8]

Reduced possibility of repayment of liabilities towards the banks, particularly in the case of corporates, led to increased repayment term extensions and placements restructuring. This in turn had an impact on the amount of due but unpaid receivables and the amount of B and C category placements. Risk category A placements with payment delay of over 90 days[9] fell slightly in 2011 and so did their share in total placements (from 1.0% to 0.9%). A lower amount of due but unpaid risk category A placements resulted in a much slower growth in total due but unpaid receivables in 2011. At the same time, placement rollover and restructuring increased. The data on the amount of placements rolled over and restructured in individual months of 2011 point to a rapid growth in the intensity of such activities which peaked in December, when HRK 5.7bn in placements were rolled over and restructured. It should be noted that, in accordance with the regulations, placement restructuring caused by financial difficulties of debtors calls for reclassification into worse risk categories so the use of this regulation has a significant impact on the amount of reported B and C risk category placements.

B and C risk category placements and off-balance sheet liabilities grew the fastest in large banks, thus continuing the upward trend from the previous two years. Nevertheless, large banks again had the highest quality of placements and off-balance sheet liabilities, partly owing to credit portfolio structure. As regards the distribution of loans of large banks, the less risky household and government sectors and the public enterprises subsector accounted for a much larger share of large bank loans. All bank groups witnessed an almost equal slowdown in the growth of risk category B and C placements and off-balance sheet liabilities. However, the share of these categories, while almost equal in medium-sized and small banks at the end of 2010, was somewhat higher in medium-sized banks in 2011 owing to a considerable increase in B and C category loans in one medium-sized bank.

3.17 Rates of change of bank loans



Note: From 2010, loans comprise loans classified into loans and receivables portfolio, distribution by sectors is carried out in accordance with ESA 95 and loans to non-profit institutions serving households are included in household loans.
Source: CNB.

Loans

Credit activities of banks steadily picked up throughout 2011. Granted bank loans (distributed in the loans and receivables portfolio, gross) stood at HRK 291.7bn at the end of 2011, which is an increase of HRK 16.8bn or 6.1%, compared to the end of the previous year. The reported growth in bank loans was largely influenced by exchange rate changes and if their effects are excluded, bank loans grew by 4.3% effectively. This slight acceleration in bank loan growth from 3.5% (effectively) in 2010 was due mainly to the acceleration of credit activities in the corporate sector. The loans to that sector rose by 9.6% (8.1% effectively) with a particularly fast growth rate being seen in loans to public enterprises. The trend of household sector deleveraging present for the third consecutive year continued. If exchange rate effects are excluded, household loans fell by 1.3%.

Because of the adverse economic developments, the quality of loans continued to deteriorate, though at a slower rate that was due to credit activity strengthening, coupled with a slower growth in B and C risk category loans, particularly evident in the last quarter of the year. The share of B and C category loans rose from 11.2% at the end of 2010 to 12.4% at the end of 2011. In line with the developments so far and a traditionally higher degree of risk involved in corporate lending, the growth in B and C category loans to that sector had the biggest influence on the growth in total loans classified into these risk categories. The share of B and C risk category loans in the corporate sector was over 20% (20.1%) while the relatively good quality of household loans, which again accounted for the largest share of the credit portfolio of banks, brought down the level of the indicator of total loan quality. However, the growth in the share of B and C category loans in the household sector was only slightly less pronounced than that in the corporate sector. The share of B and C category loans rose to 8.6% of total household loans.

8 Credit institutions have to maintain the level of impairment (value adjustment) for placements and provisions for off-balance sheet liabilities graded A in the amount that is not below 0.85% or above 1.20% of the total balance of placements and off-balance sheet liabilities graded A.

9 Under the applicable regulations, placements with a payment delay of over 90 days may be classified as risk category A provided the bank has taken legal steps towards collecting its receivables by exercising the instruments of collateral and no more than two years have elapsed since the bank has taken legal actions towards collecting such receivables.

In search of less risky clients, in 2011 the banks turned increasingly to government units and public enterprises as well to other big clients. The growth in corporate loans had a key impact on the growth in total loans while loans to government units grew the fastest (18.6%). The bulk of growth in loans to government units took place in the first quarter of the year, spurred by changes in the regulations on the minimum required amount of foreign currency claims and freeing up of a considerable amount of foreign currency that had been immobilised until then. A little over one third of the increase in loans to corporates went to the public sub-sector in which the already good quality of loans further improved. The share of B and C risk category loans of public enterprises stood at only 2.4%, compared to 25.3% in other corporates. Loans to public enterprises rose by 15.3%, mostly reflecting the increase in loans to construction activities (corporates involved in the construction and management of state roads and motorways), electricity supply and transport and storage. Loans to other corporates grew by a considerably lower rate (8.1%), though higher than in the previous year with the domination of construction activity in newly granted loans coming to a halt. Manufacturing, particularly the manufacture of food products, agriculture and real estate activities accounted for the largest share of the increase in loans. Loans to manufacturing accounted for the largest share of loans to other corporates at the end of 2011, increasing by 9.4% during the observed period. Loans to agriculture and real estate activities grew noticeably (28.0% and 15.0%, respectively), leading to a considerable increase in their shares in the distribution

Table 3.8 Bank loans

end of period, in million HRK and %

	2009			2010			2011		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
Loans									
Government units	31,547.7	12.1	46.7	26,559.3	9.7	–15.8	31,500.2	10.8	18.6
Corporates	98,924.4	37.9	2.2	112,139.4	40.8	13.4	122,936.1	42.1	9.6
Households	122,195.0	46.8	–3.0	127,139.1	46.2	4.0	128,068.2	43.9	0.7
Home loans	52,959.6	20.3	1.2	57,981.0	21.1	9.5	59,642.3	20.4	2.9
Mortgage loans	3,084.2	1.2	–1.5	3,513.3	1.3	13.9	3,261.3	1.1	–7.2
Car loans	7,810.5	3.0	–19.0	6,236.8	2.3	–20.1	4,539.5	1.6	–27.2
Credit card loans	5,022.3	1.9	–9.2	4,386.8	1.6	–12.7	4,109.3	1.4	–6.3
Other household loans	53,318.4	20.4	–3.6	55,021.2	20.0	3.2	56,515.8	19.4	2.7
Other sectors	8,472.0	3.2	0.6	9,111.8	3.3	7.6	9,220.0	3.2	1.2
Total	**261,139.0**	**100.0**	**3.3**	**274,949.6**	**100.0**	**5.3**	**291,724.5**	**100.0**	**6.1**
Partly recoverable and fully irrecoverable loans									
Government units	62.1	0.3	–7.4	75.5	0.2	21.7	93.3	0.3	23.5
Corporates	12,736.0	62.6	76.0	20,257.0	65.6	59.1	24,712.1	68.2	22.0
Households	7,081.3	34.8	41.7	9,930.1	32.2	40.2	11,022.3	30.4	11.0
Home loans	1,446.6	7.1	62.2	2,584.7	8.4	78.7	3,110.5	8.6	20.3
Mortgage loans	368.0	1.8	21.1	788.6	2.6	114.3	695.6	1.9	–11.8
Car loans	330.3	1.6	19.0	257.6	0.8	–22.0	181.5	0.5	–29.5
Credit card loans	152.6	0.7	48.4	174.6	0.6	14.4	164.3	0.5	–5.9
Other household loans	4,783.8	23.5	39.8	6,124.6	19.8	28.0	6,870.3	19.0	12.2
Other sectors	481.7	2.4	170.5	616.1	2.0	27.9	412.0	1.1	–33.1
Total	**20,361.1**	**100.0**	**63.2**	**30,878.6**	**100.0**	**51.7**	**36,239.6**	**100.0**	**17.4**
Value adjustments of partly recoverable and fully irrecoverable loans									
Government units	5.5	0.1	–61.9	6.0	0.1	8.8	19.4	0.1	221.4
Corporates	4,232.1	48.6	45.7	6,481.5	54.1	53.1	8,659.1	57.8	33.6
Households	4,309.5	49.5	27.1	5,269.9	44.0	22.3	6,042.4	40.3	14.7
Home loans	516.7	5.9	34.4	749.8	6.3	45.1	1,039.7	6.9	38.7
Mortgage loans	116.6	1.3	–1.7	226.9	1.9	94.5	185.0	1.2	–18.5
Car loans	206.4	2.4	0.8	141.5	1.2	–31.4	138.9	0.9	–1.9
Credit card loans	125.6	1.4	41.2	149.9	1.3	19.4	147.9	1.0	–1.3
Other household loans	3,344.2	38.4	28.9	4,001.7	33.4	19.7	4,531.0	30.2	13.2
Other sectors	163.5	1.9	37.5	230.0	1.9	40.7	263.1	1.8	14.4
Total	**8,710.6**	**100.0**	**35.5**	**11,987.3**	**100.0**	**37.6**	**14,984.0**	**100.0**	**25.0**

Note: From 2010, loans comprise loans classified into loans and receivables portfolio, distribution by sectors is carried out in accordance with ESA 95 and loans to non-profit institutions serving households are included in household loans.
Source: CNB.

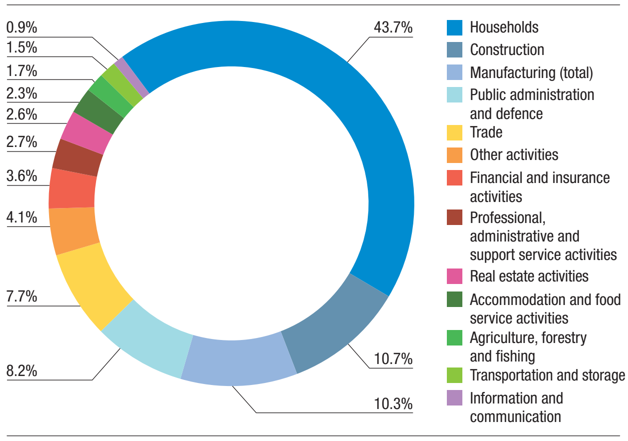
of loans. Nevertheless, their values were still relatively low, with the bulk of the credit portfolio of other corporates again being accounted for by manufacturing, trade and construction.

The banks continued to provide direct and indirect support to construction due to the significant share that financing the construction and sale of residential and other property has in the credit portfolios of banks. Loans to that activity (loans to corporates involved in the construction and management of state roads and motorways excluded) rose slightly in 2011 but fell in the last quarter of the year. This brought their sharp increase from the previous years to a halt. However, the worsening of the quality of these loans also made the biggest contribution to total bank loan quality deterioration in 2011. The share of B and C category loans reached 33.5% and the coverage of these categories by value adjustments and provisions was again low and stood at (29.7%). New project lending slowed down, and the banks rolled over and restructured large amounts of loans and continued to provide various forms of direct support to boost activities on the real estate market and avoid greater losses. Loans to corporates in the real estate business rose considerably, with some of them belonging to the same business groups that manage unsold units. Individual segments of home lending also rose considerably, partly driven by government incentives introduced in March 2011 and associated with government subsidies and government-guaranteed home loans.[10] Euro home loans rose considerably in 2011 (kuna loans with a currency clause in euro included), while the second part of the year saw a visible, relatively sharp, though small, increase in kuna home loans (without a currency clause). The issue of the exchange rate of the Swiss franc and aggravated repayment of home loans indexed to that currency pushed some banks increasingly towards heavier advertising of kuna home loans. To make the position of debtors with home loans indexed to the Swiss franc easier, the Government of the Republic of Croatia and the leading banks signed a Memorandum on alleviating the position of users of housing loans denominated in Swiss francs in June 2011 and in August of the same year they signed the first Annex to this Memorandum, fixing the exchange rate of the kuna against the Swiss franc at 5.80 and transferring the balance between the annuity calculated at the fixed and the actual exchange rate to the so called "deferred claim". At the end of 2011, only seven users of home loans in Swiss francs had used the deferred claim option.

In 2011, the banks turned increasingly to the existing and the biggest debtors. Unlike the previous year, there was a marked absence of any significant increase in loans to new clients from low-risk and relatively poorly represented activities such as art, entertainment and other service activities and activities related to environment protection and renewable sources of energy. By contrast, loans to large clients, particularly in construction, shipbuilding, trade and transport grew. Loan rollover and restructuring activities were on the increase in these activities, so that the reason for a part of the increase in exposure to large clients, which are as a result usually more stable and less risky, does not lie solely in the need for safer placements but also has elements of forced lending. This defers the recognition of losses, so that value adjustments, though larger, still provide a relatively poor coverage of non-performing loans. The coverage of corporate B and C category loans stood at 35.0%, largely influenced by the indicator in the construction activity. The low coverage in this activity might be due to well-collateralised loans, i.e. the use of real estate property as an instrument of collateral and loan rollover and restructuring. It is of key importance to provide a realistic appraisal of the value of real estate property and in the case of a client's financial position worsening to apply correctly the rule on the reclassification of restructured loans into higher risk categories.

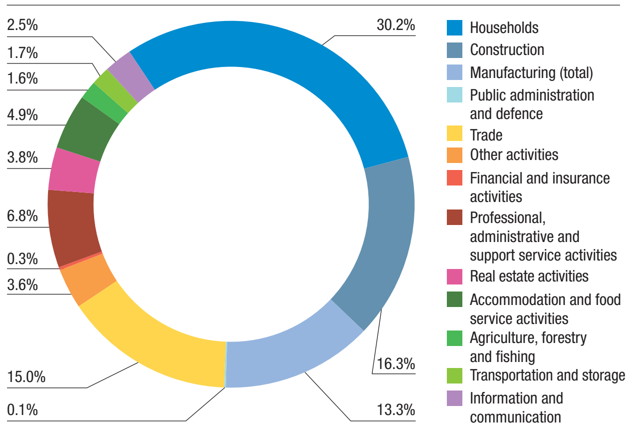
The share of loans exposed to currency-induced credit risk rose in 2011 and so did the share of loans unhedged against this risk. Euro loans and loans in kuna with a euro currency clause

3.18 Structure of bank loans by activities
as at 31 December 2011



Source: CNB.

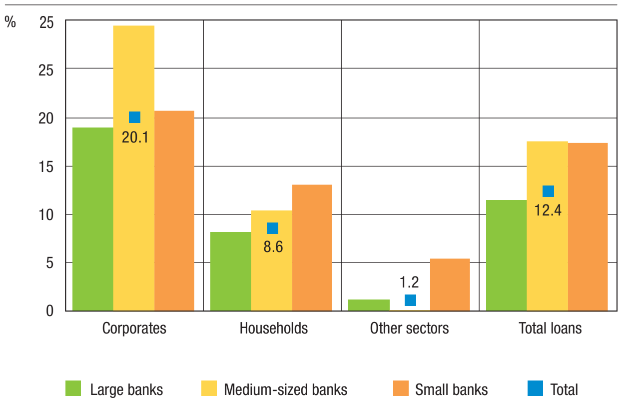
3.19 Structure of bank partly recoverable and fully irrecoverable loans by activities
as at 31 December 2011



Source: CNB.

10 Act on Subsidies and Government Guarantees for Housing Loans (OG 31/2011).

3.20 Share of bank partly recoverable and fully irrecoverable loans
as at 31 December 2011



Source: CNB.

accounted for almost the entire increase in loans in 2011 with the share of these loans in total bank loans reaching 63.7%. Loans in Swiss francs (kuna loans with a currency clause in Swiss francs included) that had been withdrawn from the market due to their diminished appeal, continued to trend downwards while kuna loans (without a currency clause) also fell slightly. Loans in the remaining foreign currencies had a very small impact on total loan growth. Their considerable relative increase was due to assets and liabilities currency adjustments, i.e. to growing deposits in other, poorly represented foreign currencies whose increase reflected insecurities in the eurozone. The euro component was dominant in the increase in loans to corporates and government units, with the result that these sectors as well as total loans granted witnessed a considerable increase in currency-induced credit risk. Over three quarters of total bank loans (net) were exposed to currency induced credit risk and a little over 90% of that amount was unhedged against this risk, i.e. placed to clients with an unmatched currency position. The materialisation of this risk is one of the reasons for a considerably higher level of B and C risk category claims in loans in Swiss francs. At the end of 2011, the quality of loans in Swiss francs was for the first time worse than the quality of euro loans. The major part of the loans in Swiss francs was granted to the household sector, mainly in the form of home loans. The quality of these loans was much worse than that of home loans in euro, the main contributory factors being the increased loan repayments resulting from exchange rate and interest rate changes and a sharp increase in this part of the portfolio during relaxation of lending terms. In terms of quality, kuna loans rated worst, as a result of the predominant share of riskier corporate sector in total granted kuna loans, particularly poor quality loans for payments made based on guarantees and investment loans.

The banks reduce direct exposure to interest rate risk by applying administered interest rates[11] and by transferring risk to clients. However, the management of this risk is limited due to the competitive position and the ability of clients to settle their credit liabilities as they fall due in potentially changed circumstances. Of the total amount of loans (net), one half was granted at an administered interest rate, 40% at a variable interest rate and the remaining loans were granted at a fixed interest rate. The bulk of loans were thus exposed to interest rate-induced credit risk. This was particularly evident in the household sector where a little over 90% of the total amount of loans were granted at an administered interest rate. In this sector, the share of loans granted at an administered interest rate fell slightly while the share of loans with variable interest rates rose in 2011. Similar developments were seen on total loans level, though they were of much smaller scope. Loans granted at variable interest rates rose by 19.4%, raising their share in total loans by almost five percentage points. This was due to an almost equal amount of growth in corporate loans and loans to government units.

As in 2010, the largest number of clients used bank loans to finance working capital and refinance their existing obligations. The amount of loans for working capital rose the most in the corporate sector, thus maintaining their leading share in the distribution of loans to that sector (37.3%). The growth of loans to large clients, particularly those in the public sector was seen in the growth in syndicated loans. Investment loans also rose slightly during the observed period. They were followed by overdraft facilities, factoring and loans for payments made based on guarantees, which had also grown sharply and had considerably increased their shares in 2010. Households saw an increase in general-purpose loans, i.e. the types of loans that can be used for servicing other due liabilities towards the banks and other creditors. These data, coupled with a further trend of payment terms extensions and loan restructuring, point to a further worsening of the financial position of debtors.

The household sector was again increasingly cautious as regards consumption and borrowing. In 2011, household loans fell slightly in real terms, influenced by the fall in car purchase loans and most other types of household loans. Car purchase loans continued to fall at an accelerated rate. They fell by 30.0% effectively. After falling steadily for three years, the amount of these loans fell by almost one half. An increase was seen only in cash general-purpose loans and overdraft facilities which rose by 6.3% and 1.6%, respectively.

The level of home loans was equal to that at the end of 2010, while deterioration in their quality, particularly deterioration in the quality of home loans indexed to the Swiss franc was the major factor that led to total household loans worsening. Despite a significant increase in the euro component (indexed loans included) of 7.6%, the total amount of home loans remained the same in real terms; i.e. if the effects of exchange rate changes are excluded. This is due to a further fall in loans in Swiss francs (indexed loans included). Accelerated ageing of home loans in Swiss francs contributed to further worsening of the quality of these loans while due to their considerable share in total home loans (41.3%), it has a key impact on the

11 Subject to change based on a decision of a bank's management board.

worsening of the quality of total home loans. The share of B and C category claims in home loans in Swiss francs stood at 7.3% while the share of such claims in home loans in euros stood at 3.3%. Combined, the share of B and C category loans in total home loans stood at 5.2%. Car purchase and credit card loans rated better in terms of quality, with the share of B and C category loans accounting for 4.0% of both types of these loans. A relatively good quality of car purchase loans can partly be attributed to the fact that most car purchase loans are covered by insurance while the good quality of credit card loans can largely be attributed to loan repayments in one bank guaranteed by one credit card company.

3.1.4 Liquidity risk

Sources of financing

The sources of bank financing[12] rose by 3.6% in 2011 or HRK 11.6bn, which was a slight increase compared to that of 2010 (3.1%). The total sources thus stood at HRK 330.6bn. This increase was due entirely to an increase in received deposits of HRK 12.2bn, or 4.5%. By contrast, loans received by banks fell by HRK 0.6bn or 1.2%. Despite their three-fold increase in the previous year (191.7%), the share of issued subordinated and hybrid instruments in the total amount of bank sources remained very low, only a little over one percent.

This increase is almost entirely due to an increase in the kuna sources of HRK 7.3bn, given that foreign sources, if the developments in the domestic currency against the three most represented currencies (the Euro as the most dominant and the American dollar and the Swiss franc) in bank sources are included in the calculation, fell by HRK 0.7bn in real terms, with the real change in the sources of bank financing standing at 2.1%.

Both large and medium-sized banks witnessed an increase in the sources of financing. In large banks these sources rose by 4.2% and in medium-size banks by 3.8%. By contrast, the sources of financing of small banks fell by 1.7% or HRK 0.5bn over the previous year, largely due to the exit of one small bank from the banking system whose sources of financing at the end of 2010 stood at HRK 1.5bn.

Over two thirds of the increase in financial sources of banks (69.0%) were due to an increase in foreign sources of HRK 8.0bn (10.1%) while domestic sources rose by a modest 1.5% or HRK 3.6bn. Such developments were primarily due to developments in large banks as medium-sized banks managed to increase domestic sources by 5.8%, reducing at the same time foreign funds by 15.5%. Small banks increased foreign sources by 3.8% and reduced domestic sources by 2.2%. Foreign sources were by far more significant in the group of large banks compared to the other two bank groups and with this increase, they accounted for almost one third (30.2%) of their total sources. In the remaining two groups of banks, the share of foreign sources in the total sources of financing declined further and again accounted for less than ten percent (7.9% and 8.3%, respectively) of the total.

The domestic financial sources rose exclusively as a result of an increase in the funds received from households (which account for the largest, or a two-third share of domestic sources) of 4.5% or HRK 6.8bn while all other domestic sources (except non-profit institutions which accounted for a negligible share of the total) declined. The foreign sources rose only as a result of an increase in the sources from majority foreign owners of 16.6% (HRK 9.8bn) while the sources of other non-residents fell by 9.0%. The share of foreign funding in the total financial sources of banks thus rose from 18.5% to 20.8%.

In addition to an increase in household deposits of HRK 6.8bn which account for over one half or 56.7% of the total received deposits of banks, the increase in deposits was due even more to an increase in non-resident deposits of HRK 7.7bn or 16.3%. The share of these deposits in total deposits also grew, reaching 19.6%. They included almost entirely deposits of majority foreign owners which rose by 21.5%. Corporate deposits, the third in terms of size (15.8%), and deposits of all other sectors fell by 3.0%.

All bank groups reported an increase in household deposits. These deposits accounted for over one half of total deposits in all bank groups and their share was particularly high in small banks (70.8%) while it was the lowest in large banks (53.9%). Household deposits as the source of financing rose the most in medium-sized banks (7.6%), then in large banks (4.2%) and

Table 3.9 Structure of bank sources of financing
end of period, in %

	Large banks		Medium-sized banks		Small banks		Total	
	2010	2011	2010	2011	2010	2011	2010	2011
Deposits	82.2	83.0	89.3	89.2	87.4	86.3	83.3	83.9
Loans	16.7	15.6	8.2	8.6	11.3	11.5	15.4	14.7
Debt securities issued	0.2	0.0	0.1	0.0	0.1	0.0	0.0	0.0
Hybrid and subordinated instruments issued	0.9	1.3	2.3	2.1	1.3	2.2	1.2	1.5
Total sources of financing	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Deposits and loans of majority foreign owner	21.3	24.0	6.3	4.5	2.9	4.1	18.2	20.5

Source: CNB.

12 Sources of financing are composed of received deposits, received loans, issued debt securities and issued subordinated and hybrid instruments.

Table 3.10 Sectoral structure of received loans
end of period, in million HRK and %

	2009		2010			2011		
	Amount	Share	Amount	Share	Change	Amount	Share	Change
Loans from government units	62.2	0.1	15.2	0.0	–75.5	8.5	0.0	–44.3
Loans from financial institutions	21,180.5	40.0	18,178.8	36.5	–14.2	17,316.5	35.2	–4.7
Loans from corporates	4.6	0.0	1.7	0.0	–62.7	1.6	0.0	–5.0
Loans from foreign financial institutions	31,712.7	59.9	31,571.0	63.4	–0.4	31,841.5	64.8	0.9
Loans from other non-residents	8.0	0.0	6.4	0.0	–20.3	4.9	0.0	–23.0
Total loans received	52,968.0	100.0	49,773.1	100.0	–6.0	49,173.0	100.0	–1.2
Loans from majority foreign owner	23,641.7	44.6	23,033.5	46.3	–2.6	25,128.2	51.1	9.1

Source: CNB.

finally in small banks (3.4%). Non-resident deposits fell only in the group of medium-sized banks while all bank groups witnessed a fall in corporate deposits.

Loans received by banks were down by a little over half a billion kuna, or HRK 600.2m, and stood at HRK 49.2bn in 2011. Their 1.2% fall was due to a decline in loans received by large banks (HRK 0.9bn or 1.9%) while the remaining two bank groups witnessed a growth in loans received. Loans received by medium-sized banks rose by 8.4% and those received by small banks rose by 1.6%.

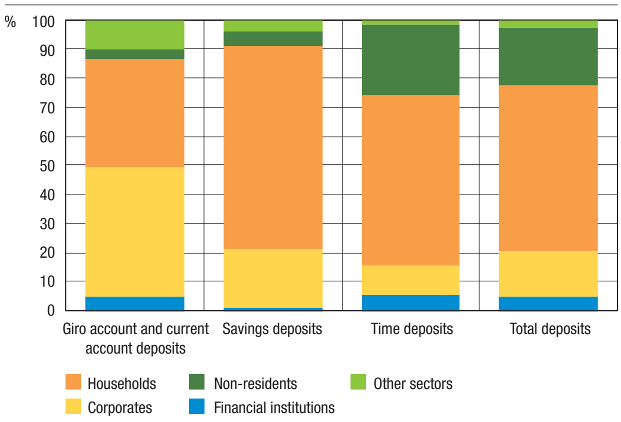
Loans received fell primarily as a result of a fall in the amount of loans received from domestic financial institutions. Over the previous year, these loans fell by 4.7% (HRK 0.9bn), mainly as a result of a fall in loans from the CBRD of 7.9% (HRK 1.3bn). The banks partly compensated for this fall by borrowing from other domestic financial institutions and non-residents. Due to a decline in the funds received from foreign financial institutions, a considerable increase in loans from majority foreign owners of HRK 2.1bn (9.1%) led only to a modest increase of less than one percent (0.9%) in loans received from non-residents.

Because they grew slightly faster (5%) than overall deposits, time deposits increased their already biggest share in received deposits of banks and accounted for over three quarters or 76.5% of total deposits at the end of last year. Giro and current account deposits rose even faster (6.4%). These deposits accounted for 14.1% of all deposits while the remaining amount of a little less than 10% went to savings deposits which were the only deposits that fell during the observed period (1.2%).

Unlike 2010, when deposit growth was based on an increase in deposits in foreign currencies, in contrast with kuna deposits that held steady, in 2011 three quarters of the increase in deposits were attributable to an increase in kuna deposits that rose by 9.9% (HRK 9.0bn). Foreign currency deposits and indexed deposits, i.e. deposits with a currency clause grew much slower (1.7% or HRK 3.2bn). Euro deposits again accounted for the bulk of these deposits (85.4%) while deposits in Swiss francs and American dollars accounted for the remaining 6.7% and 6.6%, respectively, of these deposits. However, after developments in foreign currency deposits are corrected for the developments in the exchange rate of the kuna against the three most represented currencies, foreign currency deposits fell by 0.5% in real terms. As a result, total deposits grew by only 3.0% in real terms.

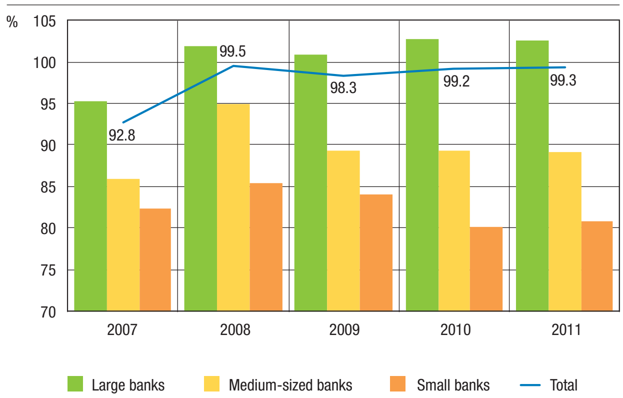
The ratio of loans granted to deposits received increased only slightly. This was due to an increase in this ratio in small banks of a little less than one percentage point. Nevertheless, this group of banks again had the lowest loans granted to

3.21 Sectoral structure of received deposits
as at 31 December 2011



Source: CNB.

3.22 Bank loans granted/deposits received
end of period



Source: CNB.

deposits received ratio (80.8%). This ratio was again the highest in large banks (102.5%), though it fell slightly similarly as in the group of medium-sized banks in 2011.

Maturity adjustment of bank assets and liabilities

The mismatch between short-term assets and short-term liabilities of banks continued to widen in 2011. The short-term cumulative gap[13] up to one year rose by HRK 3.0bn and stood at HRK 67.4bn, as a result of a sharper increase in short-term liabilities than in short-term assets. Total liabilities with the remaining maturity up to one year rose by HRK 8.3bn or 3.2% during the observed period, while short-term assets rose by HRK 5.4bn or 2.7%. As a result, the share of short-term assets in short-term liabilities of banks fell from 75.46% to 75.11%.

The liquidity coefficient, which represents the ratio of total assets with maturity up to one month to total liabilities with the same maturity, rose again, from 0.79 to 0.84, due to a considerable increase in the assets of this maturity of 6.7% in 2011. This indicator has been improving for the third consecutive year. The gap for this maturity category fell by HRK 6.2bn.

The largest increase in mismatch was seen in the maturity category from one to three months (HRK 7.0bn) while the biggest gap, that for the maturity category from three months to one year, which stood at HRK 32.5bn, rose by additional HRK 2.2bn (due to an increase in time deposits of this maturity and a simultaneous decline in assets, mostly securities).

Minimum liquidity coefficient

Towards the end of 2011, the banks maintained minimum liquidity coefficients (MLC) for both kuna and convertible currencies and both given time periods, i.e. one week and one month, above the prescribed minimum. A slight increase in MLC level from the end of 2010 was due to an increase in the expected inflows and a simultaneous decline or stagnation in the total expected outflows, for both observed periods in the case of kuna and for a period up to one week in the case of convertible currencies. As regards the period of observation up to one month, for convertible currencies, the expected decline in inflows was smaller than the expected decline in outflows.

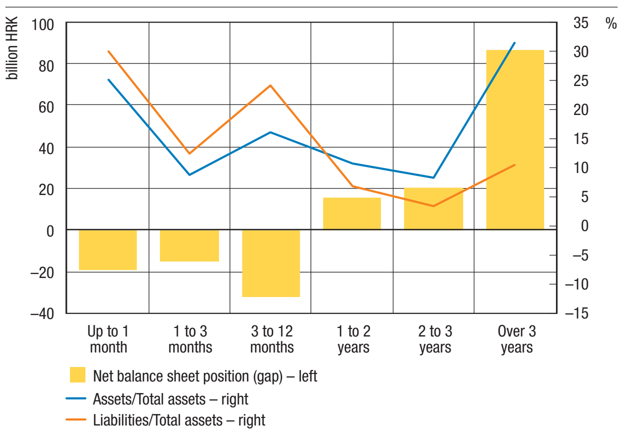
Last year was the second year of the application of the obligatory calculation of the MLC which is determined on the basis of a relation between the expected inflows and outflows in the two given periods separately for kuna and separately for all convertible currencies combined (and for any larger volume non-convertible currencies). Inflows and outflows, or assets and liabilities are reported according to the estimated or remaining agreed maturity and do not represent the actual cash flow but the cash flow under an acute short-term stress scenario specified by the CNB so as to determine whether the credit institution has sufficient liquid assets to meet its liquidity needs within a given period. The MLC, as the measure of meeting thus defined liquidity needs, must be at least one in both given periods and by all currencies in question.

The MLC of banks for kuna stood at 1.92 in the period up to one week and at 1.58 in the period up to one month while the MLC for convertible currencies stood at 2.25 in the period up to one week and at 1.56 in the period up to one month.

Similarly as at the end of 2010, small banks had the highest coefficients, in both given time periods, both for kuna and for convertible currencies. However, the coefficients of this bank group trended downwards during the previous period while those of the other two groups of banks trended upwards.

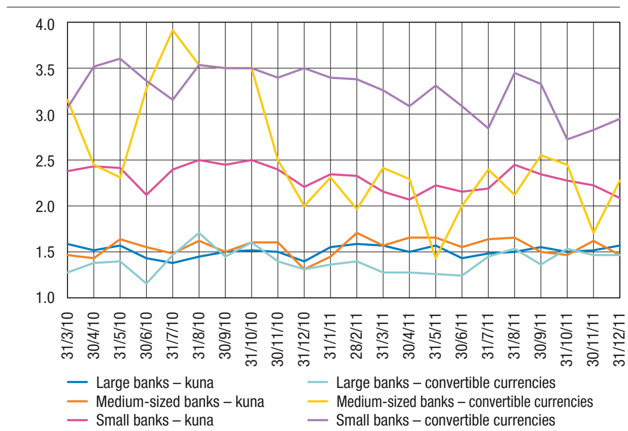
At the end of 2011, only one bank had the MLC below one in both periods and for both kuna and convertible currencies, while another six banks reported the values of these indicators between 1 and 1.50 in the period up to one week. Twelve banks had the MLC within this range in the period up to one month.

3.23 Asset and liability maturity match or mismatch
as at 31 December 2011



Source: CNB.

3.24 Minimum liquidity coefficient



Source: CNB.

13 This represents the difference between net assets and liabilities with the same period until maturity.

Readily marketable assets[14] (RMA) of banks stood at HRK 59.3bn at the end of 2011. Over the past year it rose by HRK 2.3bn or 4.1% and at the end of December it accounted for 14.6% of the total assets of banks. Since the assets of banks grew at an almost identical rate, the share of readily marketable assets in bank assets remained unchanged. Their increase was mainly the result of an increase in deposits with the CNB and deposits and loans with credit institutions.

There were no significant changes in the structure of readily marketable assets with the deposits/loans with credit institutions remaining the largest item, accounting for a little over one third of these assets (34.84%) while deposits with the CNB came next and accounted for 26.74% of the share in RMA.

3.1.5 Currency adjustment of bank assets and liabilities

At the end of 2011, foreign currency items and items in kuna with a currency clause accounted for 64.9% of total assets and 67.7% of total liabilities of banks (capital excluded). Such a high share of these items exposes the banks significantly to the risk of changes in the exchange rate of the kuna, so the banks attempt to contain this risk by balancing their total foreign exchange positions. The banks were again particularly sensitive to the three currencies which account for 98.9% of the total foreign exchange assets, i.e. to the euro, the Swiss franc and the American dollar.

In 2011, the exchange rate of the kuna weakened against all these three currencies, (2.0% against the euro and 4.5% against the Swiss franc and the American dollar). The effects of these changes excluded, almost the entire growth in assets and liabilities can be attributed to kuna assets, while foreign currency assets and liabilities rose by only 0.4% and 0.2%, respectively. Much faster growth in the kuna component led to an increase in the share of kuna in assets and liabilities (35.1% and 32.3%, respectively) for the first time since end-2007.

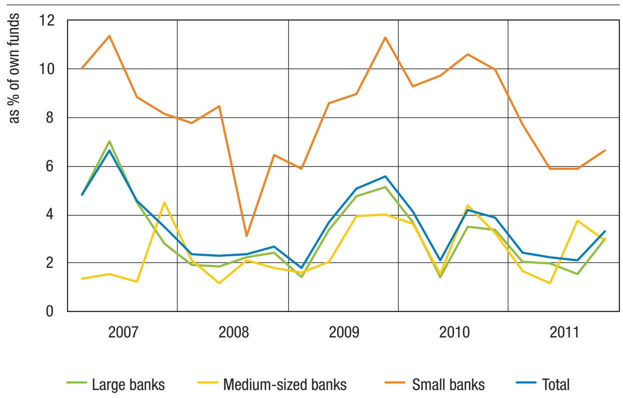
The annual growth in kuna assets of HRK 9.1bn or 6.8% was based on an increase in deposits with the CNB, T-bills of the Ministry of Finance and investments in subsidiaries and associates, while the increase in kuna liabilities of HRK 9.0bn or 8.6% was based on an increase in kuna household deposits and corporate deposits.

Foreign currency assets rose by HRK 7.2bn or 2.8% nominally, driven by the increase in assets in all foreign currencies except the Swiss franc, most notably the euro. As at the end of the previous year, euro deposits fell considerably, while the entire annual increase in foreign currency assets was based on an increase in loans denominated in the euro (HRK 16.9bn or 10.6%). Eventually, euro assets rose by HRK 8.8bn or 4.2% while those in American dollars rose by almost HRK 1.0bn or 9.3%. By contrast, assets in Swiss francs fell considerably (HRK 3.1bn or 8.7%) as a result of a fall in loans granted in that currency.

If exchange rate effects are excluded, the growth in total bank assets in 2011 was almost two times slower than the nominal growth (4.2%) and stood at 2.6%. The foreign currency component of bank assets held steady and changes in the three dominant currencies were almost equal to those in the previous year, with the assets in euros and American dollars, the exchange rate effects excluded, rising by 2.3% and 4.6%, respectively, in contrast with the assets in Swiss francs which fell by 12.6%.

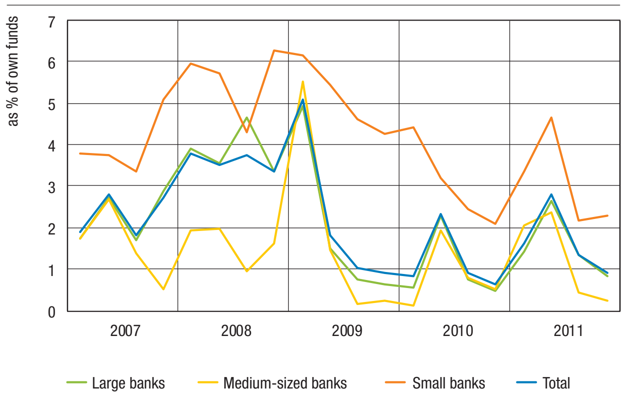
Foreign currency liabilities rose nominally by HRK 5.8bn or 2.5% and much in the same way as in the case of assets were attributable to changes in the exchange rate of the kuna. The exchange rate effects excluded, foreign currency liabilities held steady, growing by only 0.2%. The annual changes in these liabilities were marked by a small substitution of the euro by the Swiss franc, the American dollar and some less significant currencies that grew at a two-digit growth rate due to their lower

3.25 Long foreign exchange position of banks
quarterly averages



Source: CNB.

3.26 Short foreign exchange position of banks
quarterly averages



Source: CNB.

14 Readily marketable assets (RMA) are those liquid assets which are available to the credit institution and which may be turned into cash quickly (within four working days) and easily (with no significant losses).

base. This involved mainly household foreign currency deposits and their response to problems in individual eurozone member states. The liabilities in the Swiss franc and the American dollar thus rose by HRK 3.2bn and 18.1% and HRK 1.4bn or 11.6%, respectively, in real terms, while at the same time liabilities in the euro fell in real terms by HRK 4.8bn or 2.4%. In nominal terms, the increase in liabilities in the Swiss franc and the American dollar were slightly more pronounced (22.6% and 16.1%, respectively) while the decline in euro liabilities was very small and amounted to only HRK 0.8bn or 0.3%.

The euro again accounted for the largest share, or 82.5%, of foreign currency assets and kuna assets with a currency clause at the end of 2011. It was followed by the Swiss franc (12.1%) and the US dollar (4.3%), while all other foreign currencies accounted for only 1.1% of total foreign currency assets of banks. The trend of decline in the share of assets in Swiss franc continued from the end of 2010 while the shares of the other two currencies increased. The share of the euro in foreign currency liabilities, despite its considerable fall, was again slightly bigger (83.8%) than its share in foreign currency assets. The same applies to the share of the American dollar (5.8%), while the share of the Swiss franc in foreign currency liabilities was again lower (9.2%) than its share in assets.

The opposite developments in the euro and the Swiss franc in the assets and liabilities of banks increased the need for off-balance sheet instruments in these currencies (particularly the euro), while bank exposure to currency risk measured by an open foreign exchange position remained low in relation to own funds and stood at 1.8% at the end of the year. A slightly higher level of exposure to currency risk was again seen in small banks that generally do not operate with derivative financial instruments and that manage currency risk by means of balance sheet items.

Throughout the whole of 2011, the average long foreign exchange position was larger than the short position, except in the second quarter when, spurred by a significant increase in the short position in the euro in one large bank, the total average open position of banks was short. In the second half of the year[15], the average open foreign exchange position of banks amounted to 3.5% of own funds. All bank groups maintained on average a long foreign exchange position for a larger number of business days (88 out of 127) and small banks again reported the highest average exposure to currency risk (7.8% of their own funds). Large and medium-sized banks again reported a two times lower average open position which amounted to 3.0% an 3.6%, respectively of average own funds of the banks in this group.

3.1.6 Interest rate risk in the non-trading book

Interest rate risk in the non-trading book arises from core business activities of banks, with the maturity mismatch and a revaluation of interest rates of non-trading book positions being the major source of this risk. For the purposes of measuring the effect of interest rate risk in the non-trading book, the banks are obligated to apply the standard interest rate shock which assumes a simultaneous parallel positive or negative shift in all interest bearing positions in the non-trading book (regardless of the interest rate type and currency) on the reference yield curve of 200 basis points. All interest rate-sensitive non-trading book positions are distributed in 13 time zones, each of which is assigned an appropriate weight calculated as the estimated modified duration for that zone multiplied by the assumed interest rate shock. The result is the estimate of the change in the economic value of the non-trading book, i.e. the estimate of the present value of all expected net cash flows measured by the net weighted position, which may not exceed 20% of own funds.

Bank exposure to a sudden change in interest rates that might lead to worsening of the financial position of banks was again low at the end of 2011 and considerably smaller than the prescribed maximum, as a result of well-matched interest rate-sensitive assets and liabilities across time zones. The banks distributed the bulk of interest rate sensitive assets and liabilities into time zones up to one year and these were the only zones with significant mismatches. However, due to low weights ascribed to short-term zones these mismatches had a small impact on economic value. The change in the economic value of the non-trading book of all banks stood at HRK 991.8m at the end of 2011, which, measured in relation to total own funds, amounted to 1.9%. At the end of 2010, this ratio stood at 1.5%, indicating a small increase in the level of exposure. The increase in this ratio in 2011 was due to a simultaneous decline in own

Table 3.11 Interest rate risk in the non-trading book
as at 31 December 2011, in million HRK and %

Currency	Interest rate type	Net position (before weighting)	Net weighted position
HRK	Administered interest rate	–16,853.3	–281.8
	Variable interest rate	31,373.0	395.9
	Fixed interest rate	10,292.4	574.5
EUR	Administered interest rate	–3,189.1	390.2
	Variable interest rate	57,192.1	110.4
	Fixed interest rate	–40,021.9	40.4
CHF	Administered interest rate	24,321.2	223.9
	Variable interest rate	–9,869.3	–39.3
	Fixed interest rate	–4,141.8	–339.7
USD	Administered interest rate	–905.9	–13.1
	Variable interest rate	1,304.4	1.0
	Fixed interest rate	–1,248.8	–6.4
Other	Administered interest rate	–7,098.4	–44.2
	Variable interest rate	3,502.2	0.2
	Fixed interest rate	1,615.8	–20.3
Change in the economic value of the non-trading book			991.8
Own funds			53,593.6
Change in the economic value of the non-trading book as % of own funds			1.9

Source: CNB.

15 Since 1 July 2011, the system of collecting and analysing daily open foreign exchange positions that credit institutions submit on a daily basis has been changed somewhat for the purposes of aggregate data calculation.

funds of banks and an increase in the amount of change in the economic value of the non-trading book. The economic value of the trading book rose by HRK 189.8m or 23.7%, mainly influenced by an increase in the net weighted position of items with a fixed interest rate.

At the end of 2011, a total of 93.7% of assets and 95.4% of liabilities of banks were sensitive to interest rate changes. Items with a variable interest rate accounted for the largest share (39.8%) of interest rate-sensitive assets. Items with an administered interest rate accounted for the next largest share (35.5%), while items with a fixed interest rate accounted for the lowest share (24.7%) of interest rate-sensitive assets. Items with an administered interest rate accounted for the largest share (41.5%) of interest rate-sensitive liabilities. They were followed by items with a fixed interest rate (38.1%) while items with a variable interest rate accounted for the smallest share (20.4%) of interest rate-sensitive liabilities.

Compared to the end of 2010, asset positions with a fixed interest rate rose by 5.9% while liabilities positions with a fixed interest rate rose by 9.2%. While the increase in liabilities involved short-term positions with the remaining maturity up to one year, the increase in short-term items in the part of assets was also accompanied by an increase in items with longer remaining maturities. The increase in long-term assets, most notably securities, coupled with a simultaneous decline in long-term liabilities, mainly corporate deposits and received loans, had a major impact on the increase in the total net weighted position of banks in 2011. Namely, the increase in the positive gap, i.e. a surplus of interest rate-sensitive assets relative to interest rate-sensitive liabilities was seen in long-term time zones, whose higher weights reflect higher sensitivity to interest rate changes and to a great extent lead to changes in the economic value of the trading book. A relatively significant increase in assets and liabilities with a variable interest rate (20.8% and 26.4%, respectively) was largely due to an increase in loans and allocated reserve requirements in assets and time deposits in liabilities. However, as these increases mainly involved items which can be subject to interest rate change over a short-term, they did not have a big impact on the change in the economic value of the non-trading book. The items of assets and liabilities with an administered interest rate were the only items that fell from the end of 2010 (5.6% and 7.8%, respectively).

The amount of net weighted position had the highest value for items with a variable interest rate, mainly as a result of a surplus of assets over liabilities due to deposits associated with reserve requirements. Looking by currencies, the positions in kuna were the most sensitive to changes in interest rates. Due to a surplus of assets over liabilities, the total net weighted position in kuna was positive and stood at HRK 688.6m. The banks also had a total positive net weighted position in the euro (HRK 541.0m) while their position in other currencies was negative.

The ratio of change in the economic value and own funds was almost equal in all bank groups. At the end of 2011, this ratio stood at 2.0% in both medium-sized and small banks and, only slightly lower, at 1.8% in large banks which thus had the smallest potential for change in the net present value of the non-trading book. The median of distribution of the ratio of change in the economic value and own funds in banks stood at 2.7%.

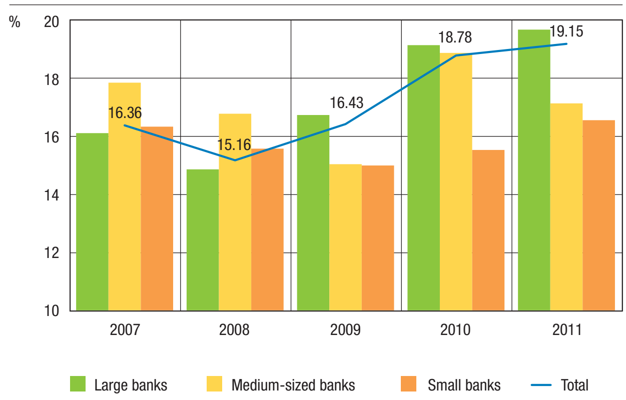
3.1.7 Capital adequacy

The second year of the application of the Basel II[16] standard in the reporting on capital adequacy, as expected, led to a further increase in this ratio, from 18.78% at the end of 2010 to 19.15% at the end of 2011. A small increase in the capital adequacy ratio was due to a decline in the capital requirements for credit risk, although on an annual level the banks also reported a fall in the level of own funds.

Small banks witnessed the biggest increase in the capital adequacy ratio (1.0 percentage point) which amounted to 16.54%, as a result of an increase in own funds and a simultaneous decline in capital requirements. Medium-sized banks reported opposite developments and a considerable fall in the capital adequacy ratio of 1.7 percentage points, to 17.13%. Owing to a further increase of 0.5 percentage points, large banks again had the highest capital adequacy ratio (19.67%). All banks in this group of banks had a capital adequacy ratio above 15%. This, as a result, led to an increase in the share of bank assets (89.4%) with a capital adequacy ratio above 15%. At the end of the year, none of the banks had a capital adequacy ratio below the legally prescribed minimum.

At the end of 2011, banks' own funds amounted to HRK 53.6bn. Compared to end-2010, this was a decrease of HRK 788.4m, or 1.5%, attributable to a fall of HRK 1.8bn or 3.5% in the most important component, original own funds. All the three bank groups reported a fall in original own funds, particularly medium-sized banks (of 3.8%). This decline was the result of

3.27 Bank capital adequacy ratio
end of period



Source: CNB.

16 The Basel II Accord (International Convergence of Capital Measurement and Capital Standards, Bank for International Settlements (BIS)) was issued in June 2004. It was implemented in Directives 2006/48/EC and 2006/49/EC by the European Commission and the Republic of Croatia incorporated it in the Credit Institutions Act and a line of subordinate legislation. The part of the Act that implements Basel II and the related subordinate legislation entered into force on 31 March 2010.

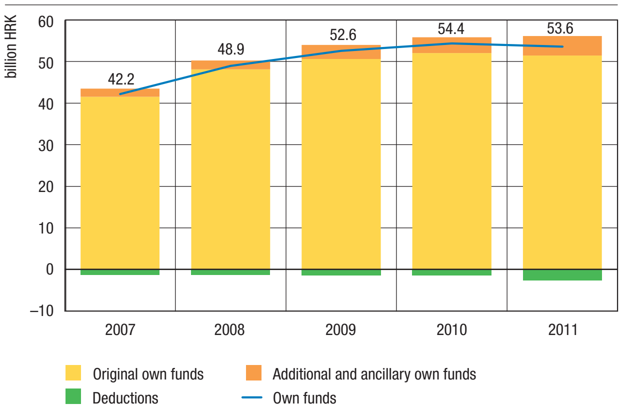
Table 3.12 Own funds, capital requirements and capital adequacy ratio of banks
as at 31 December 2011, in million HRK and %

	Large banks		Medium-sized banks		Small banks		Total	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share
Own funds	44,967.2	100.0	4,293.2	100.0	4,333.3	100.0	53,593.6	100.0
Original own funds	43,772.9	97.3	3,943.7	91.9	3,722.5	85.9	51,439.1	96.0
Paid up capital (excl. cumulative preferential shares) net of own shares	26,445.5	58.8	3,714.2	86.5	3,600.5	83.1	33,760.2	63.0
Reserves and retained earnings	17,589.1	39.1	356.1	8.3	249.8	5.8	18,195.1	34.0
Other	–261.7	–0.6	–126.6	–2.9	–127.8	–3.0	–516.1	–1.0
Additional own funds	3,692.0	8.2	417.0	9.7	624.5	14.4	4,733.5	8.8
Paid-up cumulative preferential shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hybrid and subordinated instruments	3,692.0	8.2	417.0	9.7	646.3	14.9	4,755.3	8.9
Other	0.0	0.0	0.0	0.0	–21.8	–0.5	–21.8	0.0
Items deducted from original own funds and additional own funds	–2,497.7	–5.6	–67.6	–1.6	–13.7	–0.3	–2,579.0	–4.8
Ancillary own funds (for market risk coverage)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital requirements	27,430.3	100.0	3,007.7	100.0	3,142.9	100.0	33,580.9	100.0
Credit, counterparty credit and dilution risks and free deliveries	24,509.8	89.4	2,622.9	87.2	2,807.8	89.3	29,940.5	89.2
Standardised approach	21,049.1	76.7	2,622.9	87.2	2,807.8	89.3	26,479.8	78.9
Corporates	9,087.3	33.1	1,118.1	37.2	1,094.8	34.8	11,300.3	33.7
o/w: Secured by real estate property	28.7	0.1	0.2	0.0	48.9	1.6	77.8	0.2
Retail	10,080.8	36.8	1,272.2	42.3	1,380.2	43.9	12,733.2	37.9
o/w: Secured by real estate property	327.6	1.2	7.9	0.3	37.8	1.2	373.3	1.1
Other	1,880.9	6.9	232.6	7.7	332.7	10.6	2,446.3	7.3
IRB approach	3,460.7	12.6	–	–	–	–	3,460.7	10.3
Corporates	2,256.4	8.2	–	–	–	–	2,256.4	6.7
Retail	817.7	3.0	–	–	–	–	817.7	2.4
Settlement/delivery risks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Position, foreign exchange and commodity risks	400.4	1.5	55.8	1.9	39.9	1.3	496.1	1.5
o/w: Internal models	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Traded debt instruments	301.7	1.1	17.5	0.6	6.5	0.2	325.8	1.0
Foreign exchange	85.1	0.3	14.7	0.5	30.7	1.0	130.5	0.4
Other risks	13.6	0.0	23.5	0.8	2.7	0.1	39.8	0.1
Risk of exceeding the permitted exposure limits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operational risk	2,520.0	9.2	329.0	10.9	295.3	9.4	3,144.3	9.4
Simplified approach	0.0	0.0	126.1	4.2	267.5	8.5	393.6	1.2
Standardised approach	1,329.1	4.8	203.0	6.7	27.7	0.9	1,559.8	4.6
Advanced measurement approach	1,190.9	4.3	0.0	0.0	0.0	0.0	1,190.9	3.5
Surplus/deficit of own funds	17,537.0	–	1,285.4	–	1,190.3	–	20,012.7	–
Capital adequacy ratio	19.67	–	17.13	–	16.54	–	19.15	–

Source: CNB.

dividend payments from reserves and retained earnings in two banks from this group as well as an increase in unrealised loss on assets available for sale. The fall in original own funds of large banks (3.6%) was spurred by a significant increase in investment in other financial institutions in one large bank in the first half of the year. This led to a sharp increase in deduction items from original own funds in that bank and affected all banks combined as well. The fall in original own funds of large banks was very much influenced by the announced reduction in the initial capital (12.3%) through a withdrawal of common shares in one bank in that group. Despite this reduction, the bank maintained a high capital adequacy ratio at the end of 2011. One large bank underwent a significant recapitalisation in the second half of the year by means of profits from previous years accumulated in the reserves. Although this did not affect the level of original own funds, it did lead to a considerable increase in the quality of capital in that bank. The fall in original own funds in the group of small banks was largely influenced by losses in 2010 which, together with losses from previous years, reached half a billion kuna. This negative effect was partly offset by recapitalisation efforts in five banks from that group, so that original own funds fell ultimately by only 1.7% from the previous year.

3.28 Bank own funds
end of period



Source: CNB.

In contrast to original own funds, in 2011 the banks increased additional own funds considerably (by almost HRK 1.0bn or 26.6%). This was the result of an issue of new instruments, mainly subordinated but also hybrid bonds in one large and two small banks. Several small banks increased additional own funds by issuing standard hybrid deposit-like instruments. As a result, additional own funds rose by high 33.0% and 81.9%, respectively, in large and small banks but fell by 34.9% in medium-sized banks due to an obligatory exclusion of hybrid instruments from the calculation of own funds in the last year to maturity in one bank in that group. Greater reliance of banks on additional own funds resulted in some banks (particularly small banks) in a very high share of this capital in own funds; however, its average share at the level of all banks remained low and stood at 8.8% (compared to 6.8% at the end of 2010).

Thus, only small banks witnessed an increase in own funds (5.2%) as the increase in additional own funds exceeded the fall in original own funds. Large banks failed to compensate for the fall in original own funds by an increase in additional own funds, so their own funds fell slightly (1.4%). Medium-sized banks reported the largest decline in own funds (7.7%) due to a fall in both its components.

The capital requirement for credit risk kept falling throughout the year, despite a concomitant increase in the base for the calculation of this requirement, i.e. an increase in the exposure (net of expected losses and provisions). The net amount of balance and off-balance sheet exposure that is subject to weighting thus rose by HRK 16.3bn or 3.6% from the end of the previous year, while the capital requirement for credit risk fell by HRK 1.2bn or 3.8%. Such opposite developments were particularly due to a further increase in the use of credit risk mitigation techniques, exposure restructuring in favour of low-risk categories, a considerable increase in the use of the so called preferential weights for exposures secured by real estate property and finally, improved methodologies as a result of the introduction of the advanced measurement approach for the assessment of the capital requirement for credit risk.

In accordance with the provisions of the Credit Institutions Act, a credit institution may use an internal ratings-based approach[17] to calculate the amount of exposure weighted by credit risk, provided it has obtained a permission to use this approach from the CNB. Starting from 30 September 2011, one large bank was granted permission to use an IRB approach for the calculation of the amount of exposure weighted by credit risk.

All the banks use some of the credit risk mitigation techniques, with the total amount of credit protection recognised as eligible[18] rising in 2011 from HRK 38.6bn to HRK 55.1bn or by a high 42.8%. The banks used funded and unfunded credit protection equally. The bulk of the total annual increase went to an increase in the instruments of unfunded credit protection (HRK 8.6bn), with the remaining share being attributable to an increase in instruments of funded credit protection recognised as eligible. Of all the forms of unfunded credit protection that may be recognised as eligible, the banks again used only guarantees, which were again the most significant individual instrument of credit protection. At the end of 2011, these guarantees totalled HRK 27.5bn, an increase of 45.6% from the end of the previous year. Financial collateral recognised as eligible[19] came next in terms of importance. At the end of the year it accounted for HRK 20.7bn, growing annually by 6.1%. The bulk of these funded credit protection instruments was recognised as eligible by means of the financial collateral comprehensive method, which allows for a direct reduction in net exposure (HRK 16.6bn). This method was again used mostly by large banks and to a lesser extent by medium-sized banks and by two small banks, with the total level of this credit protection falling slightly compared to the previous year (5.7%). The remaining amount of funded credit protection was accounted for by eligible collateral of HRK 6.8bn.

As regards credit risk mitigation techniques recognised as eligible, the banks again used them mainly for the purpose of the substitution of weight of the obligor. The analysis of inflows and outflows by exposure categories (regardless of the approach used in credit risk assessment) shows that banks again tended to reduce the most exposures in the categories of public sector entities and corporates while inflows were the biggest in the category central governments and central banks. The increase in the original exposures of this category whose average risk weight stood at a low 3.5% had an additional impact on the

17 The scope of implementation of the IRB approach encompasses the FIRB approach (foundation IRB approach), the AIRB approach (advanced IRB approach) and permanent exemptions. A credit institution may, in accordance with the said permission, sequentially implement the IRB approach but at the moment of implementation it has to cover by this approach at least 60% of the risk-weighted exposure amounts for credit risk on an individual basis or on a group basis, in case of a group of credit institutions.

18 A credit institution may use funded or unfunded credit protection. Funded credit protection recognised as eligible can take the form of collateral, on-balance sheet netting, master netting agreement and other forms of funded credit protection. Unfunded credit protection recognised as eligible can take the form of guarantees and counter-guarantees and credit derivatives.

19 Financial collateral recognised as eligible includes: deposits, debt securities issued by central governments or central banks, institutions, other legal persons, which securities have an appropriate credit quality step, equities or convertible bonds that are included in a main index and gold.

Table 3.13 Breakdown of net exposure to credit risk by risk weights
as at 31 December 2011, in million HRK

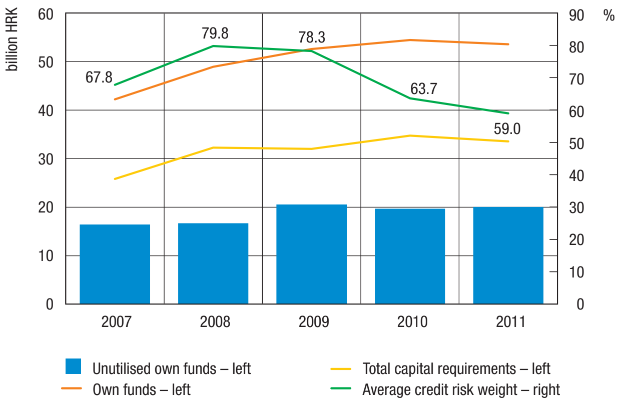
	Retail	Corporates	Central governments and central banks	Institutions	Public sector entities	Local and regional self-government	Collective investment undertakings	Other	Equity investment	Total
Standardised approach										
Total exposure	119,069.0	91,749.3	105,538.8	26,569.8	5,902.5	3,392.5	374.3	18,218.2	–	370,814.3
On-balance sheet items	113,418.0	77,693.0	103,724.7	23,793.3	4,885.7	3,330.1	374.3	17,735.7	–	344,954.8
Off-balance sheet items	5,650.7	13,321.6	1,614.1	513.5	717.5	62.3	0.0	236.0	–	22,115.6
Securities transactions and long settlement transactions	0.0	330.8	0.6	1,080.3	299.3	0.0	0.0	246.5	–	1,957.5
Derivative financial instruments	0.3	403.9	199.4	1,182.8	0.0	0.0	0.0	0.0	–	1,786.4
Contracts for novation and other netting agreements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	–	0.0
Breakdown of total exposure by risk weights										
Weight 0%	0.0	0.0	102,326.3	911.0	3,816.2	0.0	0.0	9,212.6	–	116,266.1
Weight 10%	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	–	0.2
Weight 20%	0.0	14.7	17.1	20,198.6	13.1	0.0	0.0	524.3	–	20,767.8
Weight 35% (residential real estate property)	8,572.1	271.0	0.0	0.0	0.0	0.0	0.0	3.0	–	8,846.1
Weight 50%	222.0	1,123.0	3,138.8	4,893.4	2,071.3	3,319.7	0.0	0.0	–	14,768.2
o/w: Commercial real estate property	222.0	1,107.1	0.0	0.4	0.0	0.0	0.0	0.0	–	1,329.5
Weight 75%	35,099.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	–	35,099.3
Weight 100%	72,177.9	83,775.9	39.8	562.7	0.3	34.0	309.3	8,360.6	–	165,260.4
o/w: Past due items	2,697.3	5,727.4	0.0	1.1	0.0	3.0	0.1	77.9	–	8,506.8
Weight 150%	2,997.7	6,423.4	16.8	4.1	1.6	38.7	64.9	17.5	–	9,564.9
o/w: Past due items	2,565.1	4,116.4	16.3	3.4	1.6	38.7	0.0	7.5	–	6,749.1
Other risk weights	0.0	141.3	0.0	0.0	0.0	0.0	0.0	100.0	–	241.2
Credit risk mitigation techniques – substitution effects										
Total outflow	–1,292.1	–11,311.6	0.0	–209.4	–15,365.2	–35.0	0.0	–435.3	–	–28,648.7
Total inflow	19.1	173.2	24,354.2	374.5	40.0	728.8	0.0	1,688.1	–	27,377.8
IRB approach										
Total exposure	18,267.0	18,976.3	13,437.9	1,512.7	–	–	–	–	114.6	52,308.7
On-balance sheet items	17,737.3	16,856.9	13,307.0	1,354.8	–	–	–	–	114.6	49,370.8
Off-balance sheet items	529.7	2,100.7	130.9	15.7	–	–	–	–	–	2,777.0
Securities transactions and long settlement transactions	0.0	0.0	0.0	26.0	–	–	–	–	–	26.0
Derivative financial instruments	0.0	18.7	0.0	116.2	–	–	–	–	–	134.9
Contracts for novation and other netting agreements	0.0	0.0	0.0	0.0	–	–	–	–	–	0.0
Credit risk mitigation techniques – effects of PD adjustment										
Total outflow	0.0	–711.5	0.0	0.0	–	–	–	–	0.0	–711.5
Total inflow	0.0	0.0	1,967.8	14.5	–	–	–	–	0.0	1,982.3

Source: CNB.

reduction in the weighted exposure. The advancement in the methodology for credit risk assessment led to a reduction in the average risk weight in the retail category of 2.4 percentage points (89.1%). The fall in risk weight of that part of exposure in this category that is subject to a standardised approach was mostly due to an increase in the use of a preferential weight of 35% for exposures secured by real estate property (from HRK 1.2bn to HRK 8.6bn, which is an increase of 603.9%). This extraordinary increase was almost entirely attributable to two large banks and is not based on the growth in original exposure in the household category but is associated with the creation of conditions for monitoring strict criteria for the use of the preferential weight. In the part of exposure in this category that is subject to the advanced measurement approach, the reported average risk weight at the end of the year stood at 37.3% and was considerably lower than the average risk weight of the retail category exposure under the standardised approach. Finally, the weighted exposure was down HRK 9.8bn or 3.8% from the end of 2010, while the average weight for credit risk was down by an additional 4.7 percentage points, and amounted to 59.0%.

3.29 Unutilised bank own funds

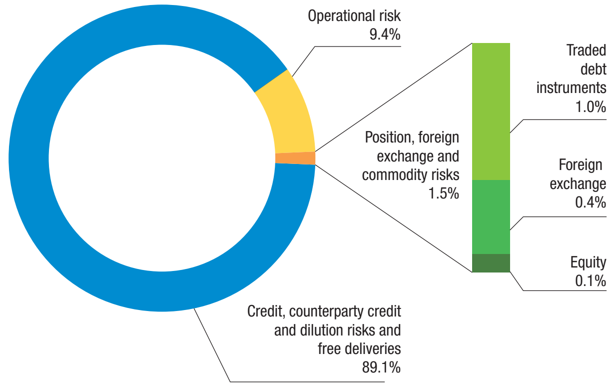
end of period



Source: CNB.

3.30 Structure of bank total capital requirements

as at 31 December 2011



Source: CNB.

The fall in the weighted exposure amount was accompanied by a fall in the capital requirements for credit risk (HRK 1.2bn), which stood at HRK 29.9bn. As there were no significant changes in the remaining capital requirements, owing to the described fall in the capital requirements for credit risk, total capital requirements of banks fell by HRK 1.2bn or 3.4% and stood at HRK 33.6bn. The decline notwithstanding, capital requirements for credit risk continued to be the most significant component of total capital requirements (89.1%), followed by capital requirements for operational risk, which accounted for 9.4% of total capital requirements. The remaining 1.5% went to capital requirements for market risks which, influenced by opposite changes in its components (a decline in capital requirements for currency risk and an increase in capital requirements for position risks) remained almost unchanged.

Capital requirements for operational risk, with a share of 9.4% in total capital requirements, stood at HRK 3.1bn at the end of the year. The bulk of this amount (80.1%), i.e. HRK 2.5bn was allocated by large banks, and accounted for 9.2% of their total capital requirements. Capital requirements for operational risks of medium-sized banks totalled HRK 329.0m or 10.9% of their total capital requirements, while capital requirements for operational risks of small banks accounted for HRK 295.3m or 12.6% of their total capital requirements.

In the assessment of capital requirements for operational risk[20], the number of banks using the advanced measurement approach increased by one large bank at the beginning of 2011. By deciding on the advanced measurement approach, this bank reduced its capital requirements for operational risk by 6.5%. Four large banks, two medium-sized and one small bank decided on the standardised approach and the remaining 23 banks on the basic indicator approach. The classification of business activities of banks in business lines for the purposes of the calculation of the capital requirements for operational risk by means of the standardised approach again suggests that the highest values of the relevant indicator were reported in the business

Table 3.14 Breakdown of bank capital adequacy ratio

end of period, in %

	2009		2010		2011	
	Number of banks	Share in bank assets	Number of banks	Share in bank assets	Number of banks	Share in bank assets
Ratio lower than 10%	0	0.0	3	1.0	0	0.0
Ratio from 10% to 12%	6	5.8	0	0.0	0	0.0
Ratio from 12% to 15%	11	25.9	9	13.2	10	10.6
Ratio from 15% to 20%	9	55.3	11	55.2	13	34.0
Ratio higher than 20%	8	13.0	10	30.6	9	55.4

Note: From 31 March 2010 on, the minimum capital adequacy ratio is 12% (10% prior to this date).
Source: CNB.

20 The banks have three approaches at their disposal for the measurement of exposure to operational risk. They are the basic indicator approach, the standardised approach and the advanced measurement approach. The regulatory capital requirements under the basic indicator approach have been set at approximately 15% of the average value of the last three annual calculations of the so called relevant indicator, which is based on net income from all bank activities. The standardised approach implies the classification of business activities into set business lines, where for each business activity a relevant indicator is calculated, weighted by the given rate of initial capital requirements, which ranges from 12% to 18%. The advanced measurement approach is a fully internally-based model for operational risk measurement which best reflects specific bank exposure and implies fulfilment of a number of conditions before permission to use it can be obtained.

lines retail and corporate banking, while other business lines were mainly estimated as less important.

The unused own funds of banks rose slightly compared to 2010, from HRK 19.6bn to HRK 20.0bn, or 37.3% of the total own funds of banks. All bank groups reported unused own funds, but large banks accounted for the bulk of these funds. Compared to the previous year, they reported a further increase in the amount of own funds (HRK 17.5bn or HRK 2.9bn per bank on average). The amount of unused capital fell in medium-sized banks, influenced by a fall in their own funds to HRK 1.3bn or HRK 0.4bn per bank. Small banks again had the lowest level of unused capital (HRK 1.2bn or HRK 51.8m per bank).

3.2 Business operations of housing savings banks

The share of assets of housing savings banks, which grew much faster (13.9%) than those of banks rose slightly in 2011, and accounted for 1.9% of total banking system assets in the Republic of Croatia. At the end of 2010, this share stood at 1.7% of the total assets of credit institutions. The number of housing savings banks has not changed since mid-2006, there being again five housing savings banks operating in the country.

Four housing savings banks were again directly or indirectly owned by foreign shareholders. Three housing savings banks, which accounted for almost three quarters of the total assets of all housing savings banks (73.5%), were in the ownership of Austrian shareholders, while one housing savings bank that accounted for 23.0% of assets was Italian owned. The only housing savings bank in majority domestic ownership continued to increase its share in the total assets of all housing savings banks, reaching 3.5%.

3.2.1 Balance sheet

The changes in the balance sheet total of housing savings banks in 2011, i.e. its increase of HRK 958.2m or 13.9% were primarily due to an increase in received household deposits and to a lesser extent to an increase in received loans. Four housing savings banks reported an increase in assets (between 14.0% and 24.3%) while the remaining housing savings bank reported a small decline in assets.

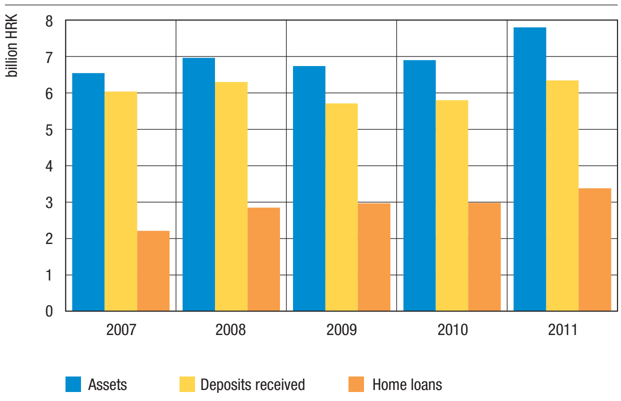
Over 90% of the increase in the balance sheet total of housing savings banks (HRK 958.2m) was channelled to deposits with financial institutions (HRK 484.7m) and to securities investments (HRK 384.6m). These components of assets grew sharply last year. The securities portfolio thus rose by one quarter of 23.9% (with a particular growth being seen in the portfolio of securities and other financial instruments held for trading,

Table 3.15 Structure of housing savings bank assets
end of period, in million HRK and %

	2009		2010			2011		
	Amount	Share	Amount	Share	Change	Amount	Share	Change
Money assets and deposits with the CNB	0.0	0.0	0.0	0.0	–28.6	0.0	0.0	60.0
Money assets	0.0	0.0	0.0	0.0	–28.6	0.0	0.0	60.0
Deposits with the CNB	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deposits with banking institutions	177.8	2.6	185.0	2.7	4.1	669.7	8.5	262.1
MoF treasury bills and CNB bills	295.4	4.4	570.6	8.3	93.2	668.1	8.5	17.1
Securities and other financial instruments held for trading	0.0	0.0	0.0	0.0	0.0	275.1	3.5	0.0
Securities and other financial instruments available for sale	71.5	1.1	137.4	2.0	92.3	129.3	1.6	–5.9
Securities and other financial instruments held to maturity	794.5	11.8	798.6	11.6	0.5	820.4	10.5	2.7
Securities and other financial instruments not traded in active markets but carried at fair value	99.7	1.5	101.6	1.5	1.9	99.9	1.3	–1.6
Derivative financial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans to financial institutions	117.0	1.7	73.6	1.1	–37.1	90.9	1.2	23.5
Loans to other clients	4,847.8	71.9	4,689.1	68.1	–3.3	4,756.1	60.7	1.4
Investments in subsidiaries, associates and joint ventures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreclosed and repossessed assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tangible assets (net of depreciation)	7.5	0.1	7.2	0.1	–3.5	6.2	0.1	–14.1
Interest, fees and other assets	383.2	5.7	368.3	5.4	–3.9	379.1	4.8	2.9
Net of: Collectively assessed impairment provisions	55.9	0.8	50.8	0.7	–9.0	56.1	0.7	10.4
Total assets	6,738.5	100.0	6,880.6	100.0	2.1	7838.8	100.0	13.9

Source: CNB.

3.31 Assets, deposits and loans of housing savings banks
end of period



Source: CNB.

which rose by HRK 275.1m) and deposits with banking institutions by a factor of over three and a half. These investments of housing savings banks were associated with the fulfilment of the provisions of the Decision on the management of interest rate risk in the non-trading book whose implementation began on 31 March 2011 related to the maximum permitted exposure to interest rate risk in the non-trading book. The housing savings banks thus increased their long-term sources of financing from parent banks and placed them into short-term deposits and securities. This led to an increase in the share of investments in bank deposits in assets, which amounted to 8.5% and investments in securities which amounted to over one quarter of the assets of housing savings banks, or 25.4%.

The biggest asset item, granted net loans, held steady, growing at a much slower rate of only 1.8% compared to overall assets. As a result, their share in the total assets of housing savings banks fell from 69.2% to 61.8%. Household loans grew at a rate only slightly slower than that of overall assets (13.4%)

Table 3.16 Structure of housing savings bank liabilities and capital
end of period, in million HRK and %

	2009		2010			2011		
	Amount	Share	Amount	Share	Change	Amount	Share	Change
Loans from financial institutions	134.6	2.0	183.1	2.7	36.0	458.9	5.9	150.7
Short-term loans	134.5	2.0	183.0	2.7	36.0	172.7	2.2	–5.6
Long-term loans	0.1	0.0	0.1	0.0	–31.9	286.2	3.7	371,598.7
Deposits	5,713.3	84.8	5,791.5	84.2	1.4	6,345.2	80.9	9.6
Giro account and current account deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Savings deposits	0.0	0.0	172.8	2.5	–	154.1	2.0	–10.8
Time deposits	5,713.3	84.8	5,618.7	81.7	–1.7	6,191.0	79.0	10.2
Other loans	0.0	0.0	0.0	0.0	0.0	94.1	1.2	0.0
Short-term loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term loans	0.0	0.0	0.0	0.0	0.0	94.1	1.2	0.0
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
Debt securities issued	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term debt securities issued	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term debt securities issued	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subordinated instruments issued	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hybrid instruments issued	96.1	1.4	96.7	1.4	0.6	97.7	1.2	1.0
Interest, fees and other liabilities	375.1	5.6	344.6	5.0	–8.1	361.8	4.6	5.0
Total liabilities	6,319.2	93.8	6,415.9	93.2	1.5	7,357.6	93.9	14.7
Share capital	487.9	7.2	487.9	7.1	0.0	487.9	6.2	0.0
Current year profit/loss	49.4	0.7	17.1	0.2	–65.4	6.9	0.1	–59.6
Retained earnings/loss	–50.0	–0.7	–1.3	0.0	–97.4	15.0	0.2	–
Legal reserves	4.8	0.1	5.5	0.1	13.7	6.2	0.1	14.0
Reserves provided for by the articles of association and other capital reserves	0.1	0.0	10.9	0.2	7,879.6	8.5	0.1	–21.9
Unrealised gains/losses on value adjustments of financial assets available for sale	–72.9	–1.1	–55.3	–0.8	–24.1	–43.4	–0.6	–21.5
Reserves arising from hedging transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Previous year profit/loss	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total capital	419.3	6.2	464.8	6.8	10.8	481.2	6.1	3.5
Total liabilities and capital	6,738.5	100.0	6,880.6	100.0	2.1	7,838.8	100.0	13.9

Source: CNB.

while loans granted to government units[21], in particular loans to central government funds, fell sharply (19.5%) to below one half of their 2010 values.

Received deposits, the main source of financing of housing savings banks, which account for 81.0% of the total liabilities and capital, rose by a little over half a billion kuna (HRK 553.6m) or 9.6%. The second most important source of financing, received loans, grew sharply, rising by over a factor of three (202.1%) compared to 2010. Even though their share in the total balance sheet assets of housing savings banks was much smaller than the share of deposits and stood at 7.1%, such a high growth rate resulted in a high absolute increase in received deposits of HRK 370.0m. As mentioned previously, their increase was due to the fulfilment of the provisions of the Decision on the management of interest rate risk in the non-trading book.

A solid increase in received deposits which was much higher than the increase in loans granted, led to a fall in the loans granted to deposits received ratio which stood at 76.4%, down from 82.2% at the end of 2010.

The balance sheet capital of housing savings banks rose by 3.5% or HRK 16.4m from the end of 2010. The overall increase was due to an increase in reinvested earnings resulting from a distribution of a part of the 2010 profit. The housing savings banks did not increase their share capital in 2011. An increase in capital much slower than that in assets led to a decline in the share of capital in the total liabilities of housing savings banks, from 6.8% to 6.1%.

3.2.2 Income statement

For the second consecutive year, the pre-tax profits of housing savings banks were half those of the previous year and stood at HRK 12.8m at the end of 2011. They declined by 50.3% compared to 52.2% at the end of 2010. Only two housing savings banks generated profit (HRK 30.9m) while the remaining three generated losses ranging between HRK 4.6m and HRK 8.1m.

The generation of only half of the profits generated in the year before was primarily due to big changes in expenses on loss provisions. At the end of 2010, the housing savings banks estimated that the quality of their placements had improved during the year so they reduced their level of loss provisions by HRK 7.3bn, generating as a result additional income that led to an increase in the realised net operating income before loss provisions and resulting in HRK 25.7m in pre-tax profit.

In 2011, the net operating income before loss provisions of housing savings banks rose by a high 8.72%. This was mostly due to an increase in net interest income of HRK 5.9m (or 5.25%) while the contribution of net non-interest income to the growth in net operating income before loss provisions was only half a million kuna. Despite increased allocation by housing

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

	Jan. – Dec. 2010	Jan. – Dec. 2011	
	Amount	Amount	Change
Total interest income	304.6	344.1	13.0
Total interest expenses	192.5	226.1	17.4
Net interest income	112.1	118.0	5.3
Total income from fees and commissions	70.1	70.4	0.5
Total expenses on fees and commissions	8.4	8.7	3.2
Net income from fees and commissions	61.7	61.8	0.1
Other non-interest income	10.4	–9.0	–186.0
Other non-interest expenses	36.1	16.3	–55.0
Net other non-interest income	–25.7	–25.3	–1.7
Net non-interest income	36.0	36.5	1.4
General administrative expenses and depreciation	129.7	134.4	3.7
Net operating income before loss provisions	18.5	20.1	8.7
Expenses on value adjustments and provisions for identified losses	–2.1	1.9	–
Expenses on collectively assessed impairment provisions	–5.1	5.4	–
Total expenses on loss provisions	–7.3	7.3	–
Income/loss before taxes	25.7	12.8	–50.3
Income tax	8.7	5.9	–31.8
Current year profit/loss	17.1	6.9	–59.6

Source: CNB.

21 This includes loans to all entities financed by special extra-budgetary taxes such as the Croatian Institute for Health Insurance, Croatian Pension Insurance Administration, Croatian Motorways, Croatian Roads, etc.

savings banks for general administrative expenses and depreciation of HRK 4.8bn (3.68%), the net operating income before loss provisions rose by HRK 1.6bn or 8.72% compared to 2010.

However, as a result of deductions for expenses on loss provisions (the amount of which was identical to the decline towards the end of 2010), which stood at HRK 7.3m, the profit of housing savings banks, as previously mentioned, stood at HRK 12.8m.

The mentioned considerable fall in profit led to a further fall in the profitability of housing savings banks and a significant decline in indicators of return in 2011. The return on average assets (ROAA) of housing savings banks halved, falling from 0.4% to 0.2%, while the return on average equity (ROAE) fell from 4.0% to 1.5% during the same period.

3.2.3 Credit risk

At the end of 2011, total placements and off-balance sheet liabilities of housing savings banks rose by 7.8%, or HRK 465.8m and stood at HRK 6.4bn. The risk category A placements again accounted for the bulk of total placements and assumed off-balance-sheet liabilities. The increase in this category of HRK 468.8m was almost equal to or only slightly higher than total placements growth so that at 99.5% its share remained unchanged. Partly recoverable or fully irrecoverable placements fell by 9.1% owing to a decline in partly recoverable risk category B placements of 11.7% while risk category C or fully irrecoverable placements rose by almost one half or 49.7%.

The bulk of total value adjustments and provisions were again accounted for by collectively assessed impairment provisions which rose by 10.6%, or from HRK 51.0m to HRK 56.4m. Given that, by contrast, value adjustments and provisions for partly recoverable and irrecoverable placements fell by approximately half a percentage point, the total value adjustments and provisions grew at a slower annual growth rate of 8.7% or by HRK 5.0m.

In the same way as at the end of 2010, only one housing savings bank estimated all its placements and assumed off-balance sheet liabilities as fully recoverable, classifying them entirely into risk category A. The remaining four housing savings banks estimated only a very small portion of their placements as partly recoverable or fully irrecoverable, classifying between 0.1% and 1.1% of these placements into risk categories B and C.

The loans and receivables portfolio was again predominant in the structure of total placements and assumed off-balance sheet liabilities with its share rising from 85.3% to 85.9%. This portfolio consisted mainly of loans (over two thirds, or 68.3%, though the share of loans fell gradually) and to a lesser extent of debt securities (19.3%) and deposits, the share of which rose the most, from 3.6% to 12.1%. Home loans accounted for the bulk (89.5%) of loans classified in the portfolio of loans and receivables.

Home loans accounted for almost all placements and assumed off-balance sheet liabilities classified into risk categories B and C, while the share of risk categories B and C in home loans fell from 1.1% to 0.9%. At the same time, the coverage of B and C home loans rose from 18.0% to 18.9%.

3.2.4 Capital adequacy

At the end of 2011, the capital adequacy ratio of housing savings banks stood at 19.4%, which is a decline of 0.9 percentage points compared to 20.3% in 2010. This decline was due to a faster increase in total capital requirements, which rose by 8.0% over the past year, than in own funds, which rose by 3.2%.

The own funds of housing savings banks rose by HRK 16.7m and totalled HRK 547.0m. The mentioned increase in

Table 3.18 Classification of housing savings bank placements and assumed off-balance sheet liabilities by risk categories
end of period, in million HRK and %

	2009		2010			2011		
	Amount	Share	Amount	Share	Change	Amount	Share	Change
A	6,385.1	99.6	5,945.1	99.5	–6.9	6,416.5	99.5	7.9
B-1, B-2 and B-3	18.8	0.3	31.5	0.5	67.9	27.8	0.4	–11.6
C	4.2	0.1	1.4	0.0	–67.6	2.0	0.0	49.6
Total	6,408.1	100.0	5,978.0	100.0	–6.7	6,446.4	100.0	7.8

Source: CNB.

Table 3.19 Coverage of housing savings bank total placements and assumed off-balance sheet liabilities by total value adjustments and provisions
end of period, in million HRK and %

	2009	2010	2011
Total value adjustments against placements and provisions for assumed off-balance sheet liabilities	64.2	57.3	62.3
Value adjustments and provisions	8.1	6.2	5.9
Collectively assessed value adjustments and provisions	56.2	51.0	56.4
Total placements and assumed off-balance sheet liabilities	6,408.1	5,978.0	6,446.4
Coverage	1.0	1.0	1.0

Source: CNB.

own funds was almost entirely due to an increase in original own funds of HRK 15.7m or 3.6%, in contrast with additional own funds that rose by only HRK 1.1m or a little over one percent. Original own funds rose primarily as a result of an increase in retained earnings of HRK 32.6m or 37.7%, while the increase in additional own funds was due to subscriptions of hybrid instruments.

The increase in total capital requirements of HRK 25.1m was due to an increase in capital requirements for credit risk of HRK 10.8m (4.0%) and a considerable increase in capital requirements for position, currency and commodity risks of HRK 15.2m. These capital requirements rose by a high factor of six compared to 2010 as a result of an increase in capital requirements for general position risk of debt instruments. This was due to transactions in two housing savings banks resulting from alignment with the provisions of the Decision on the management of interest rate risk in the non-trading book relating to the largest permissible exposure to interest rate risk in the non-trading book that began to be applied from 31 March 2011. Capital requirements for operational risk, introduced in 2010, fell by some 2% in 2011.

As regards the structure of total capital requirements, capital requirements for credit risk again accounted for dominant 82.0% of total capital requirements (despite their fall from 85.1% at the end of 2010 and particularly from 99% in the year before), capital requirements for operational risk accounted for 12.6% and capital requirements for market risks for 5.4% of total capital requirements.

3.3 Report on prudential regulation and supervision

Among CNB tasks regulated by the Act on the Croatian National Bank[22] is the exercise of supervision and oversight of credit institutions and credit unions in accordance with the Credit Institutions Act[23] and the Credit Unions Act[24], the fundamental acts governing the conditions for the establishment, operation and dissolution of these institutions, as well as supervision of their operation. The main objectives of supervision exercised by the CNB are to maintain confidence in the Croatian banking system, and promote and safeguard its safety and stability.

Supervision of credit institutions consists of several coordinated activities aimed at verifying compliance on the part of credit institutions (banks, savings banks and housing savings banks) with risk management rules, provisions of the Credit Institutions Act and regulations adopted under that Act, other laws and regulations governing the conduct of financial activities, their own rules, and professional standards and rules. In addition to supervision, the CNB exercises oversight of the implementation of the Act on the Croatian National Bank, regulations adopted under that Act, and the implementation of other laws and regulations for which it is competent.

The CNB exercises supervision of credit institutions by:

- collecting and analysing prescribed reports and other reports and information;
- ongoing monitoring of the lawfulness of operation of credit institutions, by carrying out on-site examinations of credit institutions' operations; and
- imposing supervisory measures in order to take actions at an early stage to improve the safety and stability of credit institutions' operation and to eliminate the determined illegalities.

The CNB exercises supervision of credit unions in a similar manner.

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

Towards the end of 2010, the European Parliament and the Council of the European Union adopted two directives (Directive 2010/76/EU and Directive 2010/78/EU) significantly amending the Capital Requirements Directive – CRD[25]. Directive 2010/76/EU[26] amends the CRD as regards capital requirements for the trading book, the securitisation framework and the supervisory review of remuneration policies. Directive 2010/78/EU[27] amends the parts of the CRD which relate to the authorities of the new European Banking Authority (EBA). The EBA was established pursuant to Regulation 1093/2010[28] as a successor to the Committee of European Banking Supervisors and became operative on 1 January 2011. The task of the EBA is to ensure financial system stability, market and financial products transparency and protection of depositors and investors.

The EBA has the following authorities:

- in regulatory sense, the EBA suggests binding regulatory and implementing technical standards which are adopted by the European Commission, thus avoiding a lengthy parliamentary procedure,

22 OG 75/2008.
23 OG 117/2008, 74/2009 and 153/2009.
24 OG 141/2006, 25/2009 and 90/2011.
25 The Capital Requirements Directive is the common name for the Directive 2006/48/EC relating to the taking up and pursuit of the business of credit institutions and Directive 2006/49/EC on the capital adequacy of investment firms and credit institutions.
26 Directive 2010/76/EU (the so called CRD III) of 24 November 2010.
27 Directive 2010/78/EU of 24 November 2010.
28 Regulation (EU) No 1093/2010 of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC.

- and in a supervisory sense, the EBA supervises proper implementation of EU regulations by national supervisors, conducts conciliation among the national supervisors, coordinates the activities and takes decisions in crisis situations.

In the Republic of Croatia, the EBA's authorities will fully enter into force following the country's accession to the EU. Following the signing of the Accession Treaty with the EU, CNB Prudential Regulation and Bank Supervision Area staff joined in the work of EBA as observers.

In 2011, the CNB implemented the provisions of CRD III in the domestic legal framework relating to the pursuit of business of credit institutions by means of amendments to subordinate legislation. Amendments to the following decisions were published in the Official Gazette 118/2011:

- Decision on the capital adequacy of credit institutions,
- Decision on own funds of credit institutions, and
- Decision on public disclosure of compliance with prudential requirements by credit institutions.

The provisions of CRD III relating to the securitisation framework and the calculation of initial capital requirements for market risks by means of internal models were implemented by means of amendments to the Decision on the capital adequacy of credit institutions. The amendments to the Decision on the capital adequacy of credit institutions will enter into force on 30 June 2012, except for that part thereof that pertains to the extended scope of capital requirements for settlement risk and to the calculation of initial capital requirements for currency risk, the implementation of which began on 1 January 2012.

The amendments to the Decision on own funds of credit institutions implementing the provisions of CRD III relate to the widening of the scope of securitisation positions that are treated as deduction items in the calculation of own funds. For the purpose of alignment with the amendments to the Decision on the capital adequacy of credit institutions, the changes in the provisions of the Decision on own funds of credit institutions relating to securitisation positions as deduction items will enter into force on 30 June 2012, the provision on the change in the definition of intangible assets will enter into force on 31 December 2012, while all other amendments to the Decision on own funds of credit institutions entered into force on 1 January 2012.

The amendments to the Decision on public disclosure of compliance with prudential requirements by credit institutions introduce the obligation of a credit institution to disclose publicly additional required information if it assesses that the information prescribed by the Decision is not sufficient to present to market participants the full extent of the risk profile of the credit institution. The amendments to the Decision on public disclosure of compliance with prudential requirements by credit institutions provide for far wider obligations of credit institutions regarding public disclosure of information related to the use of internal models for the calculation of capital requirements for market risks and securitisation.

The implementation of the provisions of amendments to the Decision on public disclosure of compliance with prudential requirements by credit institutions will enter into force on 30 June 2012 and credit institutions should for the first time publicly disclose the information prescribed under the amendments to this Decision with balance as at 30 June 2010.

In addition to changes in subordinate legislation for the purpose of alignment with the EU regulations, amendments were also made in 2011 to the Decision on the internal capital adequacy assessment process for credit institutions, the Decision on foreign exchange exposure limits of credit institutions and Decision on liquidity risk management. These amendments promote the implementation of the existing decisions.

All the proposed draft amendments to these decisions were posted on the CNB website and publicly discussed. Presentations were held for credit institutions, and the final proposals of these decisions took into account the comments and suggestions received during public discussion.

In 2011, the CNB continued to post unofficial consolidated versions of subordinate legislation on its website and to provide their English translations to facilitate their use by credit institutions and the general public.

Prompted by the financial crisis, the European Commission submitted into the legislative procedure in 2011 a new legislative package entitled Capital Requirements Directive IV (CRD IV) which consists of a regulation[29] and a directive[30] and is intended to replace the existing Capital Requirements Directive (CRD).

In the last quarter of 2011, the CNB took appropriate steps and set up working groups for the implementation and use of CRD IV. The Directive will be implemented in the Croatian legislation and the Regulation will be directly applicable in the banking system of Croatia from the moment of its accession to the EU.

It is very indicative that the European Union is striving towards greater harmonisation and a single rule book. The areas that will not be fully prescribed by CRD IV remain in the jurisdiction of the EU, with more detailed regulation being left to EBA regulatory technical standards and implementing technical standards that will be binding for all EU member states. The colleges of supervisors, set up on EU level for individual groups of credit institutions, will also play a significant role in the regulation of such open issues.

29 A regulation is a piece of EU legislation that is directly applicable and binding in its entirety in all member states and that does therefore not require special implementing measures to be incorporated into the national legislation. A regulation is binding in all member states from the date indicated therein, which is most commonly 20 days from the date of its publication in the Official Journal. The reference lists the responsible institution (EU Council, Commission, Parliament, etc.), the number of the document and the year.

30 A directive is a piece of EU legislation that requires member states to achieve a particular result without dictating the means of achieving that result. However, in practice, the directives tend to be very precise and leave member states with only limited leeway. The text of a directive prescribes the deadline for its transposition into the national legislation. The reference of a directive, unlike that of a regulation, first lists the relevant year, then the number of the relevant directive. The competent authorities of the member states are required to implement directives into their national law. It is exactly this implementation that has a constitutive character for the implementation, there are options and discretions.

With a view to enhancing the transparency and uniformity of credit institutions' procedures, in 2011, the CNB continued to provide opinions and replies to queries, most of which are posted on the CNB website. In 2011, the CNB received a total of 244 queries from credit institutions, answering 236 by the end of the year.

3.3.2 Supervision of credit institutions

3.3.2.1 On-site examination of credit institutions

The CNB carries out on-site examinations in accordance with the adopted methodology for supervision, based on an 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 2011. Emphasis was placed on core tasks that include the on-site examination of credit institutions.

During 2011, on-site examination was carried out in 22 credit institutions, the assets of which account for 65.57% of the total assets of credit institutions, and in one credit institution, which, after a winding-up procedure was initiated in it in December 2011, is no longer included in the system of credit institutions (according to unaudited data as at 31 December 2011).

A total of 31 on-site examinations were carried out in these institutions, covering 54 areas of operation and adding up to 3237 supervisory days. In one credit institution, on-site examination was carried out for the purpose of validation of the internal ratings-based approach (IRB) and for the purpose of assessing the framework for the use of the advanced measurement approach for the calculation of capital requirements for operational risk.

The on-site examination plan for 2011 was based on the established cycle of conducting regular on-site examinations of credit institutions. Different specialised on-site examinations covering 68.99% of total assets of the group of large banks were carried out. The on-site examination of medium-sized and small banks covered 55.30% and 51.92%, respectively, of total assets of these bank groups. The examined assets of housing savings banks make up 26.51% of total assets of housing savings banks.

In 2011, twelve on-site examinations of risk management were carried out in twelve credit institutions, comprising 56.45% of banking system assets with balance as at 31 December 2011. On-site examination was also carried out in Credo banka d.d., which, after a winding-up procedure was initiated in December 2011, is no longer included in the system of credit institutions. However, were it to be included, this institution would account for 0.29% of total assets.

In 2011, CNB employees participated in on-site examination of a part of the operations of one bank that was carried out by the competent supervisory authority of the superordinate credit institution with a registered office in another state and a certified auditor. The areas covered by the on-site examination included insight into this bank's credit risk portfolio as well as risk assumption and risk management procedures and the amount of determined value adjustments.

The priorities in 2011 were on-site examinations of credit institutions, with a particular emphasis on asset quality control, credit risk management and value adjustments and provisions for bad placements (ten credit institutions), while full scope on-site examination of the entire operations was conducted in two small credit institutions.

The analysis of asset quality and credit risk management focused in particular on 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 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 legal persons.

Table 3.20 On-site examinations carried out in 2011

in thousand HRK and %

	Examined areas												Assets covered by on-site examinations as at 31 December 2011[a]	The share of assets covered by on-site examinations in total assets of the group[b]
	ICS	ITS	IMFEPM	Credit risk	On-site examinations of entire operations (CAMELS)	Capital	Assets	Earnings	Liquidity	Market risk	Validation of IRB model	Assessment of AMA framework		
Large banks	1	2	1				3	1	2	2	1	1	232,084,096	69.0%
Medium-sized banks	1						2						20,356,747	55.3%
Small banks	4	3	5		2	2	5	2		1			17,763,536	51.9%
Total (all banks)	6	5	6		2	2	10	3	2	3	1	1	270,204,379	66.3%
Housing savings banks	2			2									2,077,892	26.5%
Total (banking system)	8	5	6	2	2	2	10	3	2	3	1	1	272,282,271	65.6%

[a] Unaudited data.

[b] The percentage refers to the total amount of credit institution assets covered by on-site examinations and examined by using a representative sample that was selected in line with the best global supervisory practices.

ICS – internal control systems, ITS – IT systems, IMFEPM – implementation of monetary and foreign exchange policy measures

Source: CNB.

In addition, on-site examinations in 2011 focused on the process of making placements, including the assessment of the methodology of client creditworthiness analysis and internal scoring/rating systems used in the process of placement making. Special attention was also paid to the process of subsequent placement monitoring with a particular emphasis on early warning indicators of increased credit risk and their integration in the framework of placement distribution process.

As a result of all the above mentioned activities, on-site examination revealed considerable additional value adjustments in the credit portfolios of almost all credit institutions that were subjected to on-site examination. The total amount of additional value adjustments and provisions determined in the course of on-site examinations in 2011 stood at HRK 600,747, or 16.63% of the total expenses on value adjustments and provisions for identified losses of credit institutions in 2011. In addition, in the course of on-site examinations, the credit institutions made additional value adjustments and provisions of HRK 167,791 for clients covered by the sample, with the share of additional value adjustments made during the on-site examinations rising to 21.27% of the total expenses on value adjustments and provisions of credit institutions in 2011. These additional adjustments accounted for 4.57% of the total value adjustments and provisions for identified losses of credit institutions.

In 2011, four on-site examinations of credit unions were also carried out. In terms of assets, these credit unions accounted for 11.89% of the total assets of credit unions as at 31 December 2011. Fifty supervisory days were employed for these on-site examinations.

In terms of type and scope, the following on-site examinations were also carried out in 2011:

- eight examinations of the assessment of the system of internal controls in the operating procedures of credit institutions;
- six examinations of the implementation of monetary and foreign exchange policy measures;
- five examinations of credit institutions' IT systems; and
- two examinations of credit risk function organisation.

Within the framework of on-site supervision of credit institutions in 2011, on-site examinations of the implementation of legal provisions in the segment of money laundering and terrorist financing were carried out in 9 credit institutions.

Following the on-site examinations, and the violations, irregularities and weaknesses that were established in reports, the CNB issued recommendations for the improvement of business processes and IT systems and imposed measures for the elimination of established violations and irregularities and improvement of the situation. Based on issued reports, eight decisions on 63 supervisory measures were issued, of which 41.27% of the measures were related to IT system, 20.63% to organisation and risk management, 14.29% each to credit risk and the internal control system, 7.94% to capital adequacy and 1.59% to liquidity risk. In addition to measures imposed by the mentioned decisions, two banks are also in the process of adopting a credit portfolio, i.e. securities portfolio, restructuring plan, in accordance with the findings of on-site examination. A decision was also issued approving the use of the internal ratings-based approach (IRB approach) for the calculation of the amount of exposure weighted by credit risk. The issuance of two more decisions for credit institutions based on on-site examinations carried out in 2011 is underway.

In addition to the described main activities, CNB employees were also active in the following areas in 2011:

- improvement of the existing methodology of on-site examination of the internal control system and the methodology of operational risk assessment,
- ongoing efforts to provide explanations and feedback on outsourcing and IRB issues, and participation as observers at HROK (Croatian Registry of Credit Obligations) User Council sessions,
- participation in the college of supervisors mostly related to the IRB approach and the coordination of activities for the banks that plan to implement the IRB approach,
- participation in the meetings with supervisors from other countries under the auspices of EBA or in the context of the college of supervisors for individual groups of credit institutions in relation to operational risk,
- participation in the work of the Standing Coordination Group for Monitoring the Implementation of International Restrictive Measures,
- definition of guidelines, exchange of information and coordination of supervisory activities relating to the implementation of the Act on the Prevention of Money Laundering and Terrorist Financing at the forum of supervisory bodies set up in the context of the IMF technical assistance project for the strengthening of the system for the prevention of money laundering and terrorist financing in the Republic of Croatia,
- participation in the work of the inner task force of the Inter-institutional Working Group for Preventing Money Laundering and Terrorist Financing,
- organisation of seminars in 2011 related to the prevention of money laundering and terrorist financing for the banks, housing savings banks and credit unions,
- provision of technical assistance to the supervisory authority of Bosnia and Herzegovina in the area of adoption of subordinate legislation related to IT system management and outsourcing,
- working meetings held with the representatives of the supervisory authority of Montenegro related to the application of legislation in the area of housing savings and state incentives for housing savings.

Special activities in 2011

From October 2010 to January 2012, one CNB employee performed the task of a trustee/liquidator of one credit institution undergoing a winding-up procedure. From December 2010 to end-December 2011, one credit institution was under a continuous on-site examination.

3.3.2.2 Off-site examination

The supervisory cycle of the assessment of credit institutions is an ongoing assessment of the risk profile of a credit institution in relation to all the risks to which a credit institution is exposed or might be exposed in its business operations, an assessment of the adequacy of the process of assessment and maintenance of the internal capital of a credit institution, continuous cooperation based on a dialogue between the supervisors and the credit institution and the imposition and monitoring of the execution of supervisory measures, should the need for such measures arise. Off-site examination is one of the segments of supervision of credit institutions' operations that is carried out by the CNB. It implies supervision of credit institutions by collecting and analysing reports and information, ongoing communication with credit institutions and the analysis of additional information submitted by credit institutions at the request of the CNB. The purpose of off-site examination is to establish the risk profile of a credit institution and adopt timely measures to ensure and maintain the stability of each credit institution and the system as a whole.

The methodology of the process of CNB supervision was slightly modified in 2011 to make it as compatible as possible with European supervisory guidances. The previously used CAMELS methodology was thus replaced by a new Methodology for the Risk Assessment of Credit Institutions. Under this methodology, each credit institution is assigned a risk profile assessment that is based on an assessment of the following components of the business of credit institutions: credit risk, market risk, operational risk, liquidity risk, interest rate risk in the non-trading book, earnings, capital, balance sheet developments, risk assumption and strategy and corporate management. The basic added value of the new methodology (in addition to risk assessment introduced by new subordinate legislation, most notably the operational risk and interest rate risk in the non-trading book) lies in the division of the assessment into the quantitative and the qualitative component for each individual segment covered by this methodology, i.e. in the determination of the effect of the level of exposure to an individual risk on the one hand and the quality of management of the relevant risk on the other hand, on total risk assessment.

In all, 100 written analyses based on off-site examinations were made in 2011, 95 of which were for individual credit institutions and the remaining 5 for groups of credit institutions. Detailed specific analyses of individual parts of the business of credit institutions were also made where required. Off-site risk assessment is based on the assessment of the risk profile of a credit institution in accordance with the Methodology for the Risk Assessment of Credit Institutions. Off-site examinations still comprise a credit institution's performance indicators, a review and an analysis of key financial and supervisory reports, a review of the implementation of supervisory measures (if imposed on a credit institution) as well as compliance with legal restrictions. Written off-site analyses also provide general information on a credit institution and its main operating guidelines, data on the market share of the particular credit institution in the entire system and its market share by individual types of products, recommendations for on-site examinations, important decisions made at the general meeting and other relevant information.

In addition to off-site examinations of individual credit institutions, the CNB also analysed consolidated financial statements of groups of credit institutions. In 2011, the CNB monitored the operation of seven groups of credit institutions. In 2011, credit institutions again accounted for the dominant share of the assets and total income of the groups of credit institutions, with the indicators of business operations of credit institutions having a crucial impact on performance indicators of the groups. As a result, the conclusions of consolidated reports analyses were in line with those of an individual credit institution's analyses.

In accordance with the supervisory cycle of the assessment of credit institutions, in 2011 analyses were made of 33 internal capital adequacy assessment reports (ICAAP reports), submitted for the first time by credit institutions in accordance with subordinate legislation[31]. ICAAP reports provide a comprehensive review of the organisation of the internal capital assessment process, identified risks, and the manner of determining their significance, the approach that a credit institution uses in the assumption, management and control of risks (separately for each risk identified as significant), the manner of determining the required internal capital and its amount as well as the comparison between internal and regulatory capital requirements and the manners of ensuring additional capital in the case where the internal capital adequacy assessment process identifies the need for such capital. The analysis of the submitted internal reports and self-assessments by credit institutions makes it possible for the supervisor to assess the adequacy of procedures prescribed and implemented by a credit institution with a view to timely identification, measuring, control and management of risks and the adequacy of the determined required internal capital. Combined, all these factors, together with the risk profile assessment, provide a basis for the planning of the next supervisory cycle for an individual credit institution.

Ongoing monitoring of credit risk exposure

In 2011, the CNB continued its activities on the analysis of data on due but unpaid receivables and credit risk quality. Monthly data on due but unpaid receivables of credit institutions and data on rolled over and restructured placements were analysed in 2011. Data collected and templates created provided information and enabled a comparison of data series by sectors (government, financial institutions, state enterprises, other enterprises, non-profit institutions, households, non-residents) and by maturity.

Depending on the determined developments in credit portfolio quality indicators, in 2011, the CNB conducted detailed analyses of credit portfolio on an individual basis classified into risk category A with a payment delay of over 90 days (A90) and into risk category B as well as rescheduled and newly-granted loans. These detailed analyses comprised 14 credit institutions or 34.00% of the total banking system assets. In terms of the

31 Credit institutions which are members of groups of credit institutions in the Republic of Croatia are not required to submit these reports.

type and scope of information collected, these analyses can be compared to targeted on-site examinations of individual segments of credit risk management. Supervisory measures were imposed on credit institutions whose classifications were found not to have been conducted in accordance with the law or whose credit risk management was found not to be adequate.

Reports, decisions and written warnings

Following off-site examinations of credit institutions in 2011, the CNB prepared 16 reports on examination findings, 17 decisions on the imposition of supervisory measures and 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.

Cooperation with foreign supervisors

The guidelines and instructions of the European Banking Authority place an important emphasis on the strengthening of the role of the college of supervisors on the European level, thus prompting enhanced CNB cooperation with foreign supervisors, particularly as regards joint assessments of the risk of the business operations of a banking group and the adequacy of the allocated amounts of capital for individual group members.

In 2011, the CNB signed a memorandum of understanding in the field of supervision of the group of credit institutions with the Turkish supervisory authority, and memoranda of understanding in the field of supervision of housing savings banks with the Austrian supervisory authorities, in which field the activities of the college of supervisors have already begun. Based on signed memoranda of understanding and for the purpose of improving cooperation with foreign supervisors, in 2011 CNB representatives participated in fourteen workshops and/or colleges of supervisors relating to the supervision of banking groups that include domestic credit institutions. Presentations on the risk profiles of credit institutions and the impact of the financial crisis on the business operations of credit institutions, the measures taken to reduce risk exposure and/or improve risk management and future business issues, particularly from the standpoint of adequacy of available internal capital were also made for these colleges of supervisors in the CNB.

In 2011, the CNB delivered to consolidating supervisors the main findings, conclusions and recommendations of on-site examinations of domestic credit institutions that are members of banking groups. Within the framework of cooperation with foreign supervisors, the CNB is responsible for the drafting of a Supervisory Risk Report, i.e. an annual risk assessment of a domestic credit institution, which serves as an element for making the final joint risk assessment decision and for a joint decision on the required amount of capital of a banking group. Ten supervisory reports were prepared in 2011 for 2010; the said reports were updated with the data for the first half of 2011.

In 2011, the CNB continued to co-operate with the Austrian supervisory authority on the preparation of a Supervisory Newsletter that deals with the business of domestic banks in majority ownership of Austrian banks. Twelve such newsletters were prepared.

Other regular activities

Regular meetings with the management boards of credit institutions were held in 2011, where required, to exchange information on business strategy and policies, possible operating problems, expected difficulties and methods to resolve identified problems.

Cooperation with external auditors continued in 2011 at regular annual meetings. In addition, in 2011, special attention was paid to the analysis of annual audit reports for 2010 since these were the first reports pursuant to the "new" Decision on the contents of audits of credit institutions, which introduced the obligation of the auditor to provide an assessment of the adequacy of risk management, information system, control functions and report accuracy for the purposes of the CNB. Two presentations on the results of report analysis and CNB expectations as regards the contents of the mentioned reports in the future periods were made. Meetings were also held with some auditors at which the established weaknesses of the reports were presented in more detail and amendments to the reports required.

In 2011, the CNB continued to cooperate with HANFA through a joint working committee and with other government authorities (the Ministry of Finance, the courts, the state/county attorney's office, etc.).

As mentioned in earlier reports, over the past few years, the CNB has been adjusting the prudential reporting system for the purposes of supervision, including financial reporting of credit institutions (FINREP, Consolidated Financial Reporting Framework) and reporting on the capital adequacy of credit institutions (COREP, Common Reporting Framework). Though lower in volume since the bulk of adjustment activities had been completed in 2010, the adjustment of the system of reporting of the CNB on the business of credit institutions with EU directives and guidelines continued into 2011. The bulk of new reporting had been implemented in 2010 so that in 2011 only system improvements were made, mainly those relating to the introduction of reporting on currency risk on a daily basis and IT development and testing of reporting records whose implementation is expected in 2012 (income statement) and preparation for the submission of records on a consolidated basis.

The growing number of customer complaints in 2011 required significant allocation of resources to deal with these complaints. This involved a detailed analysis of complaints and correspondence with credit institutions (requests for statements and additional documentation) but does not include consumer complaints, which are dealt with by a separate organisational unit of the CNB.

3.3.2.3 Banking system analysis

In the framework of its regular activities, the CNB publishes annual, semi-annual and quarterly reports and information to provide market participants and the general public with data on the state and trends in the banking system and the basic indicators of the business operations of individual credit institutions. Data are also prepared for the meetings with credit rating agencies and different domestic and foreign institutions and questionnaires are completed and replies to queries of different interested parties, particularly the press, are prepared. In addition to published publications, internal analyses, both regular and ad hoc are also made for the supervision and CNB management.

Of the regular publications, No. 22 and No. 23 of Banks Bulletin were issued in 2011. After the expiry of each quarter, a quarterly report on the banking system is made for CNB management and the CNB Council, a report on debtors whose debt exceeds HRK 5m (data transmitted to the credit institutions) and Performance indicators and the SDDS format relating to the banking system (data on operations of credit institutions for the CNB website). As in the previous years, the CNB prepared a contribution for the BSCEE (Banking Supervisors from Central and Eastern Europe) consisting of quantitative data and written information on the situation in the Croatian banking system and CNB supervisory activities.

3.3.3 Supervision of credit unions

In accordance with the Credit Unions Act[32], the CNB is the institution responsible for granting authorisations for the operation of credit unions, the supervision of operations of credit unions through off-site and on-site examination. Based on the amendments of the Act on Amendments to the Credit Unions Act, enacted in 2011, credit unions may conduct payment transactions for their members provided they meet the conditions prescribed by the Payment System Act[33] and obtain authorisation from the CNB. Credit unions are also allowed to take monetary deposits from unions and chambers of trades and crafts and to receive non-refundable funds from international institutions. This Act entered into force on 10 August 2011.

As at 31 December 2011, there were 22 credit unions enrolled in the register of companies of the Republic of Croatia whose assets totalled HRK 569.2m. Compared to end-2010, the number of credit unions fell by one. In 2011, a voluntary winding-up procedure was initiated in one credit union based on a decision reached by the general meeting, and on 20 December 2011, the Commercial Court registered the dissolution of the credit union and the change of company name. Ten credit unions are currently in the process of winding-up, while one credit union is undergoing bankruptcy proceedings.

In December 2011, the CNB issued two authorisations for the operation of credit unions. Neither of these credit unions has been enrolled in the register of companies until now.

In 2011, the CNB continued to supervise the operation of credit unions by collecting, monitoring and analysing data presented in financial and supervisory reports. Additional data submitted by credit unions after requests by the CNB were also analysed. An on-site examination was also carried out in four credit unions in 2011.

In 2011, regular analyses were made of the submitted quarterly financial and supervisory reports and monthly liquidity reports of all credit unions. The analysis of the received reports revealed irregularities pertaining to the limits that had been exceeded, and two reports on the irregularities determined were issued. Three decisions were issued to eliminate irregularities. A report on the operation and supervision of the system of credit unions was prepared for the purposes of the CNB Council in 2011.

In 2011, the CNB again dealt with individual queries made by credit unions. The CNB also replied to queries and requests for information by other competent bodies pertaining to the business of credit unions.

3.3.4 Issuance of authorisations and approvals to credit institutions and credit unions

Pursuant to its statutory powers arising from the Act on the Croatian National Bank, and in accordance with the provisions of the Credit Institutions Act, the Act on Housing Savings and State Incentives for Housing Savings, and the Credit Unions Act, the CNB, within its supervisory powers, is also responsible for issuing different authorisations and approvals necessary for the establishment and operation of credit institutions and credit unions.

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, and thus, 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
- to make the credit institution implement the imposed supervisory measures.

Under the Credit Institutions Act, the following authorisations and approvals are prescribed:

- authorisation of credit institutions;
- authorisation to provide banking and financial services;
- authorisation for acquisition of/merger with another credit institution, or transfer of a part of the assets and liabilities of a credit institution to another legal person;
- authorisation to establish a branch of a credit institution abroad;
- authorisation to establish a branch and a representative office of a foreign credit institution in the Republic of Croatia;
- prior approval to acquire a qualifying holding in the share capital of a credit institution;
- approval for the appointment of the chairperson or a member of the management board of a credit institution;
- approval to a credit institution for the acquisition of a 20% share in another undertaking, which exceeds 10% of a credit institution's own funds;
- approval to a credit institution for the acquisition of a majority holding or of a majority of the voting rights in another legal person;

32 OG 141/2006, 25/2009 and 90/2011.
33 OG 133/2009.

- approval for a credit institution to entrust the conduct of internal audit to a person not employed with the credit institution.

In addition, pursuant to the Act on Housing Savings and State Incentives for Housing Savings, the CNB is responsible for authorising the general operating conditions of housing savings banks.

As provided by the Credit Unions Act, the CNB also issues authorisations for the operation of credit unions and for the appointment of management board members of credit unions.

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, the CNB is also responsible for the withdrawal of such authorisations and approvals.

The same authorisation is also provided for by the provisions of the Credit Unions Act.

In 2011, a total of 77 decisions to issue or withdraw authorisations and approvals were issued to banks, housing savings banks, savings banks and credit unions. The largest number of these decisions involved approvals for the appointment of the chairperson and members of the management boards of credit institutions (45) and approvals for the acquisition of a qualified holding, i.e. a share of over 10% in the initial capital of credit institutions. In 2011, the CNB withdrew authorisation from one bank, issued a decision on the initiation of a compulsory winding-up procedure in that bank, and withdrew authorisation from one bank at this bank's request as a result of termination of the provision of investment services.

3.3.5 Market competition

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. In the context of its activities in the area of protection of market competition, in 2011, the CNB made three assessments of compatibility of concentrations. All the three concentrations were cleared on the first level instance (undisputed concentrations).

The analysis of the survey on household mobility in the current account market with the banks launched in the previous year was also published. In 2011, the CNB launched a survey on the behaviour of banks in the market for individual types of compensations charged in deposit and credit operations with customers.

In addition, in the context of the provisions of Article 374 of the Credit Institutions Act that provide that this authority of the CNB will be transferred to the Croatian Competition Agency (Agency) as of the date of accession of Croatia to the EU, further activities were undertaken in connection with the draft Memorandum of Understanding.

CNB representatives also participated in the work of the Steering Committee of the Twinning project implemented by the Croatian Competition Agency in cooperation with the Italian competition agency.

As in the previous years, ongoing efforts were made in 2011 to develop a map of dominant positions, to monitor the main indicators of sector concentration, comparative practice, regulation and economic theory.

In accordance with CNB practice so far, in 2011 the central bank again provided interpretations and opinions to the requests submitted by natural and legal persons pertaining to the implementation of market competition policy and CNB activities in this context.

3.3.6 Consumer protection

In 2011, the CNB stepped up its activities in the field of consumer protection policy. In terms of internal organisation, a Consumer Protection and Market Competition Department was set up within the Prudential Regulation and Bank Supervision Area.

In addition to the internal activities associated with the organisational set up and recruitment of new staff, considerable efforts were also made in handling consumer complaints in the field of banking and financial services. The CNB continued to pursue relationships and communicate with various media representatives who often approached the CNB with specific topics and queries related to the consumer protection policy and the CNB's role in consumer protection. Meetings were also held with the representatives of consumer protection associations so as to present, in direct communication, the activities of the CNB in this area and the legislative framework regulating this area.

A project of the development and/or documenting of a methodology for changes in interest rates and a methodology for changes in the fees charged in deposit and lending transactions to consumers was completed towards the end of 2011. These projects (the first of which, involving a variable interest rate, had been launched in December 2009) involved all banks and housing savings banks (the latter in the part relating to fee changes). A considerable number of meetings were held with bank representatives regarding these projects. These projects aimed at achieving legislative compliance with the provisions of the Consumer Credit Act, the Civil Obligations Act and the Credit Institutions Act, improving transparency and comparability that facilitate decision-taking on the part of end users and at indirectly ensuring that consumers are better acquainted with a specific bank or a housing savings bank.

In March 2011, the CNB sent a consumer protection questionnaire to credit institutions to get a better insight into the way that individual credit institutions have regulated this area. The questionnaire focuses in particular on procedural matters and consumer complaint statistics. Based on the analysis of information obtained from the credit institutions, meetings were held with some of these institutions, while all the credit institutions were informed about the planned CNB activities in this area over the next short-term period. Based on an analysis of information obtained from the respondents, a form was developed that will be used for semi-annual collection of data on the type and quantity of consumer complaints. Towards the end of the year, the CNB sent to all the credit institutions a questionnaire on procedures relating to guarantors. With these activities, the CNB is trying to collect sufficient information that will, together with information obtained from individual consumer complaints, be used to amend the existing and draft new legislation, bearing in mind the role of the CNB in activities related to the implementation of EU legislation.

CNB representatives also participated regularly in the work of the National Consumer Protection Council. A number of documents relating to the area of consumer protection and market competition were also posted on the CNB website during the year.

HNB

Payment operations

HNB

4.1 Alignment of domestic payment system regulations with the acquis communautaire

The Payment System Act (OG 133/2009) and the Electronic Money Act (OG 139/2010) entered into force on 1 January 2011, with the exception of some provisions that will become applicable as of the day the Republic of Croatia accedes to the EU.

Pursuant to the Payment System Act, the national regulations have been harmonised with the provisions of Directive 2007/64/EC on payment services in the internal market. This Act regulates the payment system, i.e. 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 Electronic Money Act is a result of the alignment of the Croatian legislation with Directive 2009/110/EC on the taking up, pursuit and prudential supervision of the operation of electronic money institutions. This Act regulates electronic money, electronic money issuers, the issuance and redemption of electronic money, conditions for the establishment, operation and dissolution of electronic money institutions having their registered offices in the Republic of Croatia, including electronic money institutions under exemption, and the prudential supervision of their operation, as well as conditions under which electronic money institutions having their registered office outside the Republic of Croatia may operate in the Republic of Croatia.

Under this legislation, payment services, electronic money and electronic money issuers are regulated in the same manner as in the EU Member States. Consequently, Croatian citizens are entitled to use payment services and electronic money under the same conditions as EU citizens.

4.2 Subordinate regulations

Pursuant to the Payment System Act and the Electronic Money Act, subordinate regulations for the implementation of these acts were adopted during 2011.

The Croatian National Bank prepared and published on its website most of these regulations as early as the first half of 2010, and they entered into force immediately before the new Acts (OG 3/2011) became applicable.

The following subordinate regulations, adopted pursuant the Payment System Act, entered into force early in 2011:

- Decision on the manner of opening transaction accounts (OG 3/2011, 35/2011, 50/2011, 89/2011, 101/2011 and 135/2011),
- Decision on payment orders (OG 3/2011),
- Decision on own funds of payment institutions (OG 3/2011), and
- Decision on safeguarding the payment service users' funds (OG 3/2011).

The following subordinate regulations entered into force on 1 June 2011:

- Decision on the rules of operation of the Croatian Large Value Payment System (OG 55/2011), and
- Decision on the rules of operation of the National Clearing System (OG 55/2011).
- The following subordinate regulations, adopted pursuant the Electronic Money Act, entered into force in early 2011:
- Decision on own funds of electronic money institutions (OG 3/2011), and
- Decision on safeguarding the funds of electronic money holders (OG 3/2011).

The following subordinate regulation was adopted pursuant to the Payment System Act and the Electronic Money Act:

Decision on the register of payment institutions and registers of electronic money institutions (OG 15/2011).

4.3 Granting authorisation to provide payment services and authorisation to issue electronic money (licensing)

The new EU regulations governing payment services and the issuance of electronic money introduce new payment service providers and new electronic money issuers into the market, with a view to encouraging market competition, which is expected to improve the quality and level of payment services provided to payment service users.

According to the Payment System Act, new payment service providers are payment institutions and electronic money institutions. The Electronic Money Act regulates electronic money and defines electronic money issuers. These Acts prescribe the manner and conditions of applying for authorisation to the Croatian National Bank by legal persons intending to provide payment services or issue electronic money. They also define the time limits within which all legal persons that provided payment services/issued electronic money as at the date of entering into force of these Acts, were obliged to submit applications for authorisation to the Croatian National Bank no later than 31 March 2011.

Within this time limit, applications for authorisation to issue electronic money and provide payment services were received from three mobile operators and two credit card issuers.

During 2011, the Croatian National Bank received applications for authorisation to provide payment services from two legal entities that had not provided payment services before submitting the applications and an application for authorisation to issue electronic money from a legal entity in the process of foundation.

In accordance with these Acts, the Croatian National Bank in 2011 issued authorisation to the following electronic money institutions:

- Hrvatski telekom d.d., Zagreb,
- VIPnet, Zagreb (a limited liability company for public communication services),
- PBZ Card, Zagreb (a limited liability company for credit card business, travel agency), and
- Erste Card Club, Zagreb (a joint stock company for financial intermediation and services).

In addition, the Croatian National Bank adopted a decision granting the authorisation to issue electronic money (and to provide payment services related to the issuance of electronic money) to an electronic money institution under exemption – paysafecard.com d.o.o., Zagreb.[1]

In accordance with the issued authorisations and adopted regulations, the Croatian National Bank started to maintain a register of electronic money institutions, which is publicly available on the Croatian National Bank's website.

The Register contains a list of electronic money institutions which have been authorised by the Croatian National Bank to issue electronic money (and to provide payment services linked thereto), including the date of issue of the authorisation and a list of payment services to which the authorisation applies.

4.4 Interinstitutional/interbank cooperation in the payment operations area

The National Payment System Committee (NPSC) held one meeting in 2011, at which members of the NPSC (the representatives of the Croatian National Bank, Ministry of Finance, Croatian Chamber of Economy Banking Association and Croatian Bank Association) were informed about the implementation of the Act on Execution of Cash Assets (OG 91/2010). Moreover, issues related to the preparations for the introduction of the IBAN structure[2] of transaction accounts into the domestic payment system were addressed.

At the NPSC meeting, it was concluded that payment service users (bank clients) were not adequately informed about the effects of introducing the IBAN structure on their operations. Its was therefore agreed that the beginning of the application of the IBAN structure should be postponed until 1 June 2012, and that the deadline for the structural adjustment of transaction accounts for non-residents with the IBAN structure should be postponed until 31 May 2013. The NPSC unanimously agreed that the deadline for the harmonisation of all transaction accounts of payment service users in the Republic of Croatia with the IBAN structure should be 1 June 2013. In accordance with the agreed conclusions, the Croatian National Bank prepared a draft proposal for a Decision on the manner of opening transaction accounts. The Decision proposal was published on the Croatian National Bank's website and, after an additional public hearing, the final text of the Decision was compiled and published in the Official Gazette (OG 135/2011).

The introduction of the IBAN structure of transaction accounts into the national payment system has multiple benefits. It ensures safety of payments (the application of the IBAN enables control over the entire transaction account structure, thus eliminating the possibility of error, and it guarantees the uniqueness of the account structure within the banking system), facilitates payment transactions for payment service users, by providing the same transaction account structures for both domestic and international payment transactions. It also enables the automatic payment and booking of payment transactions in the international payment operations (STP – Straight-Through Processing). Introducing the IBAN structure will facilitate the adjustment of the Croatian payment system to SEPA standards (SEPA – the Single Euro Payments Area).

The Council of NCS participants, consisting of the representatives of the CNB, banks and FINA, held three sessions in 2011. At the sessions, agreement was reached on the new NCS Tariffs and on a further adjustment of the functions and tariffs in order to keep the participants in the current clearing system. Announcements were made regarding the introduction of a new clearing cycle and implementation of a new Work Schedule.

Preparations were started for the introduction of new services (direct debiting) and application of the SEPA standard and interoperability framework. A working group for SEPA implementation was established and workshops were held on direct debiting.

1 An electronic money institution under exemption is an electronic money institution defined in Title V of the Electronic Money Act that has been authorised to issue electronic money in the Republic of Croatia and to provide only the services that are linked to the issuance of electronic money. Upon Croatia's accession to the EU, this authorisation will not be valid in other EU Member States (the "single passport" principle will not apply). The legally prescribed initial capital for these institutions is lower and amounts to HRK 260,000. The maximum amount of e-money stored in the account (or on a payment instrument) may not exceed HRK 1,125.00 and the average outstanding e-money may not exceed HRK 3,700,000.00.

2 IBAN (International Bank Account Number) is an international standard for identifying the transaction accounts of payment service users in a credit institution, aimed at facilitating and accelerating the execution of external payment transactions.

During the meetings, discussions were held on topical issues and an action plan related to the participation in the European Association of Clearing Houses (EACH), as well as on experiences with and difficulties in introducing SEPA payment instruments and establishing interoperability.

4.5 Complaints raised by payment service users and electronic money holders

As of the entry into force of the Payment System Act and Electronic Money Act, the provisions aimed at protecting the rights of payment service users and electronic money holders became applicable.

According to Article 56 of the Payment System Act, payment service users and other legally interested parties, including consumer associations, may submit complaints to the Croatian National Bank against a payment service provider, if they deem that the payment service provider has acted contrary to the provisions of Titles II and III of the Act. Similarly, according to Article 9 of the Electronic Money Act, electronic money holders and other legally interested parties, including consumer associations, may submit complaints to the Croatian National Bank against an electronic money issuer, if they deem that the electronic money issuer has acted contrary to the provisions of Title II of the Act.

Upon receipt of a complaint, the Croatian National Bank invites the respondent payment service provider/electronic money issuer to submit its response. Should it be established that the payment service provider has committed a violation, a proposal to initiate violation proceedings is submitted.

Information on the rights of payment service users and electronic money holders and instructions for submitting complaints have been published on the Croatian National Bank's website.

4.6 Interbank payment systems

In 2011, interbank payment systems operated without any major deviations from the payment execution schedule and there were no serious situations that could in any way compromise the operational safety of interbank payment systems as the basic infrastructure of the domestic payment system.

The accessibility of the CLVPS to payment system participants in 2011 was as high as 99.99%. The CLVPS was inaccessible for a total of 55 minutes, and the deviation from the payment execution schedule was 57 minutes.

The accessibility of the NCS to payment system participants was 99.97%. In 2011, the NCS was inaccessible for a total of 85 minutes, and the deviation from the payment execution schedule was 365 minutes.

Minor difficulties in the use of certain payment system services were due to technical and technological reasons.

Compared with 2010, there was a decrease in the number and an increase in the value of payment transactions settled through the CLVPS, while an upward trend was observed in both the number and value of payment transactions cleared through the NCS.

Below are the basic data on payment transactions settled through the CLVPS in 2011, and a comparison of some data with the data from the previous calendar year.

The number of payment transactions settled through the CLVPS fell by 3.2% from 2010. A total of 270,767 payment transactions were settled through the CLVPS in 2011, with the daily average of settled transactions standing at 1,074.

The total value of transactions settled through the CLVPS increased by 14.2% from 2010. The increase in the said values from 2010 was mostly due to a rise in overnight deposits by 27.2%. The total value of payment transactions settled through

Table 4.1 CLVPS – payment transactions executed in 2011

Month	CLVPS	
	Payment transaction number	Payment transaction value (in million HRK)
January	20,237	357,590
February	19,723	369,884
March	23,350	428,354
April	20,005	453,265
May	22,392	509,639
June	22,807	529,763
July	23,962	469,473
August	23,418	262,715
September	24,772	360,084
October	23,277	324,277
November	22,925	271,582
December	23,899	316,726
Total	270,767	4,653,352

Source: CNB.

Table 4.2 CLVPS – overview of payment transactions settled

	2010	2011
Payment transaction number	279,730	270,767
Payment transaction value (in million HRK)	4,073,154	4,653,352
Payment transaction average value (in million HRK)	14.6	17.2

Source: CNB.

Table 4.3 CLVPS – concentration index in 2011

	Payment transaction number	Payment transaction value (in million HRK)
5 banks[a]	173,558	2,272,903
Share (in %)	64.1	48.8
Total	270,767	4,653,352

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

the CLVPS in 2011 was HRK 4,653,352.31m. The average value of a payment transaction was HRK 17,185,817.72 and the daily average value stood at HRK 18,465.68m.

The largest value of payment transactions settled through the CLVPS was recorded in June, totalling HRK 529,763m, and the largest number (24,772) in September.

The share of five major banks in the total number of payment transactions settled through the CLVPS in 2011 was 64.1% and their share in the total value of payment transactions stood at 48.8%.

As shown by the structure of exchanged payment messages, as many as 61.6% of total messages were payment messages (MT103) used by banks for executing client payments. Payment messages used by banks for executing their own payments (MT202) and direct transfers accounted for 31.3% and 7.1% of total payment messages respectively. Direct transfers are payment messages used by the central bank for carrying out its legal obligations and managing payment systems, as well as for executing payments ordered by participants experiencing technical and communication difficulties.

4.6.1 National Clearing System

Below are the basic data on payment transactions cleared through the NCS in 2011, and a comparison of some data with the data from the previous calendar year.

The number of payment transactions cleared through the NCS went up by 1.9% from 2010. A total of 134,055,704 payment transactions were cleared through the NCS in 2011, with the daily average of cleared transactions standing at 531,967.

The total value of transactions cleared through the NCS

Table 4.4 NCS – payment transactions executed in 2011

Month	NCS	
	Payment transaction number	Payment transaction value (in million HRK)
January	9,884,116	48,125
February	10,048,161	47,361
March	11,546,691	56,246
April	10,734,926	54,018
May	11,769,978	57,927
June	11,504,660	57,976
July	11,703,290	60,317
August	11,155,001	59,548
September	11,483,311	60,104
October	11,419,481	56,310
November	11,162,007	56,169
December	11,644,082	64,337
Total	134,055,704	678,439

Source: FINA.

Table 4.5 NCS – overview of payment transactions cleared

	2010	2011
Payment transaction number (in million)	132	134
Payment transaction value (in million HRK)	650,196	678,439
Payment transaction average value (in HRK)	4,944	5,061

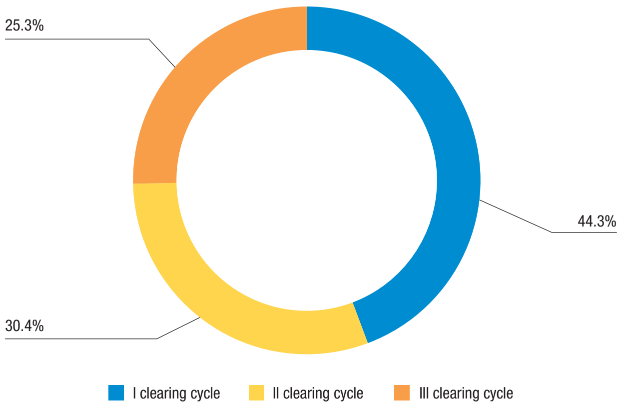
Source: FINA.

Table 4.6 NCS – total value and number of payment transactions by clearing cycles in 2011

	I clearing cycle	II clearing cycle	III clearing cycle	Total
Payment transaction number	59,354,939	40,776,312	33,924,453	134,055,704
Share (in %)	44.3	30.4	25.3	100.0
Payment transaction value (in million HRK)	191,113	257,079	230,247	678,439
Share (in %)	28.2	37.9	33.9	100.0

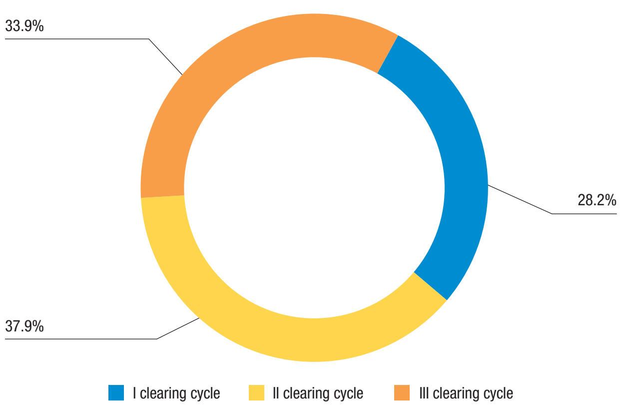
Note: I clearing cycle – from 18.30 T_{-1} to 10.00 T_0 • II clearing cycle – from 11.00 T_0 to 13.00 T_0 • III clearing cycle – from 14.00 T_0 to 18.30 T_0
Source: FINA.

4.1 NCS – number of payment transactions by clearing cycles in 2011



Source: FINA.

4.2 NCS – value of payment transactions by clearing cycles in 2011



Source: FINA.

increased by 4.3% from 2010. The total value of payment transactions cleared through the NCS in 2011 was HRK 678,438.81m. The average value of a payment transaction was HRK 5,060.87 and the daily average value of transactions cleared through the NCS stood at HRK 2,692.22m.

The largest value of payment transactions cleared through the NCS was recorded in December, totalling HRK 64,336.54m, and the largest number (11,769,978) in May.

The largest value of transactions (37.9%) was cleared in the second clearing cycle. The largest number of payment transactions was cleared in the first clearing cycle, 44.3% of the total. In 2010, the largest number of payment transactions was cleared in the second clearing cycle, 35.1%, and 29.8% were cleared in the first clearing cycle. The change from 2010 was due to changes in the Work Schedule for Clearing through the NCS, according to which the first clearing cycle has been extended to 10 a.m. (under the former Work Schedule, the first cycle ended at 6 a.m.).

In 2011, five major banks participated with 71.9% in the total number of payment transactions cleared through the NCS, and with 62.6% in the total value of payment transactions.

Table 4.7 NCS – concentration index in 2011

	Payment transaction number	Payment transaction value (in million HRK)
5 banks[a]	96,449,410	424,732
Share (in %)	71.9	62.6
Total	134,055,704	678,439

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

4.7 Payment statistics reports

Pursuant to 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.

Below is an overview of the statistical data received from reporting entities.

Business entities and individuals held a total of 5,884,104 bank accounts. Individuals had 5,413,462 bank accounts, which made up 92% of all accounts. In detail, 74.4% were

Table 4.8 Number of transaction accounts
as at 31 December 2011

Business entities' accounts	470,642
Business entities' regular operating accounts	419,246
Business entities' sub-accounts	51,396
Citizens' accounts	5,413,462
Giro accounts	1,153,529
Current accounts	4,025,710
Other citizens' accounts[a]	234,223
Total	5,884,104

[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 2011

	Total
Operating units	1,268
ATMs	3,975
ATMs owned by banks	3,381
ATMs owned by other legal persons	594
POS (EFTPOS) terminals	100,012
POS (EFTPOS) owned by banks	62,483
POS (EFTPOS) owned by other legal persons	37,529

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	
			Number	Value
Credit card	160,303	1.7	2,274,083	703,042,793
Revolving card[b]	748,103	8.1	28,704,577	7,320,254,852
Deferred debit card[c]	511,243	5.6	28,881,859	10,145,050,574
Charge card[d]	563,539	6.1	34,163,681	9,620,771,713
Debit card	7,062,580	76.7	187,870,562	79,822,978,116
Prepaid card	156,846	1.7	296,655	56,761,317
Other	4,783	0.1	53,358	17,465,719
Total	9,207,397	100.0	282,244,775	107,686,325,084

[a] As at 31 December 2011.
[b] Revolving card – the card user may pay total expenses in full or gradually (in instalments) in line with the agreed model of payment.
[c] Deferred debit card – total expenses are debited directly to the transaction account of the user in the bank following the receipt of the payment order issued by the card issuer.
[d] Charge card – the card user pays total expenses in full, at the latest when total expenses made fall due.
Source: CNB.

current accounts, 21.3% giro accounts and 4.3% "other retail accounts".

Of the total number of business entities, accounts opened with banks, as many as 89.1% were accounts for regular operations, and only 10.9% were business entities' sub-accounts.

As at 31 December 2011, there were more than 1,268 bank operating units in the Republic of Croatia. Of the total of 3,975 ATMs in the country, 85.1% were owned by banks and the remaining 14.9% by other legal entities.

Of the total of 100,012 POS (EFTPOS) terminals, 62.5% were owned by banks and the rest by other legal entities.

As at 31 December 2011, there were 9,207,397 payment cards in circulation in the Republic of Croatia, 95% of which were general payment cards (payment cards issued in the names of individuals) and 5% were business payment cards (payment cards issued in the names of business entities). With respect to payment card types, debit cards accounted for the largest share in the total number of cards, 76.7%.

As regards payment card functions, of the total number of cards, as many as 80.6% have a chip function (payment cards containing one or more chips for data storage, identification or special purpose processing).

Currency department operations

HNB

5.1 Currency outside banks

As of 31 December 2011, currency outside banks amounted to HRK 16.7bn, which is an increase of 9.3% from the end of 2010.

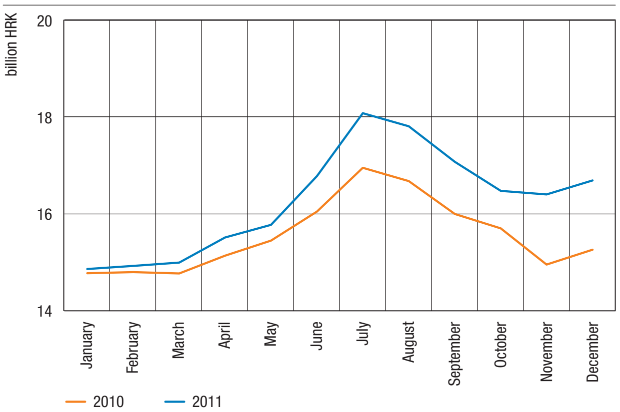
On 31 December 2011, there were 154.5m banknotes, worth HRK 20.0bn, outside the CNB vault and cash centres (CC). In comparison with the end of 2010, the number of banknotes outside the CNB vault and CCs rose by 6.4%, while their total value increased by 8.6%.

The total number of banknotes outside the CNB vault and CCs increased by 9.3m in 2011, which includes an increase in all denominations except 50 kuna banknotes, the number of which decreased by 0.6m, and 5 kuna banknotes, the number of which fell by 0.02m. The number of 20 and 10 kuna banknotes increased by 3.8m, which accounts for 41.1% of the total increase in currency outside the CNB vault and CCs in 2011. The number of 200 kuna banknotes recorded the largest individual increase, 3.5m, which is 37.0% of the total increase in currency outside the CNB vault and CCs in 2011.

Of banknotes outside the CNB vault and CCs, 200 kuna banknotes, with a share of 29%, and 10 kuna banknotes, with a share of 21%, were the most numerous, jointly accounting for HRK 9.3bn or 46.6% of the total value of banknotes in circulation in 2011. The large share of 200 kuna banknotes in total banknotes outside the CNB vault and CCs is attributed to their widespread use in ATM payments.

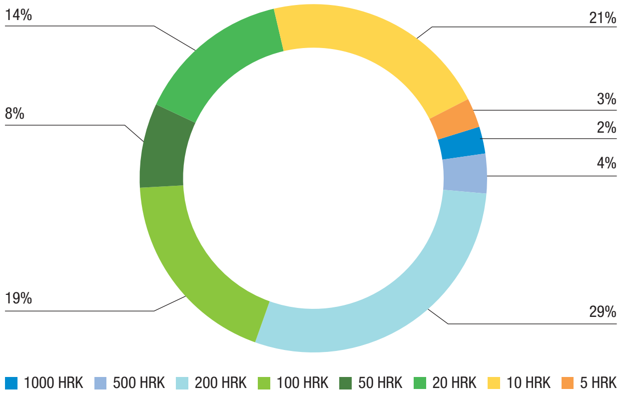
As at 31 December 2011, there were 1.72bn coins outside the CNB vault and CCs, worth a total of HRK 0.96bn. The number of coins outside the CNB vault and CCs rose by 4.3% at the end of 2011 relative to 2010, while their total value

5.1 Currency outside banks
end of period



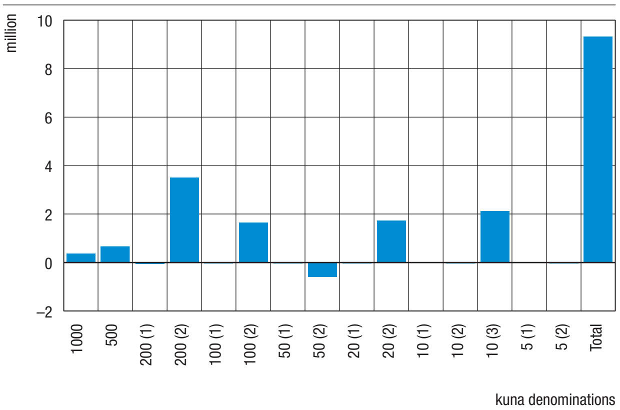
Source: CNB.

5.3 Structure of total volume of banknotes outside the CNB and CCs by denomination
end-2011



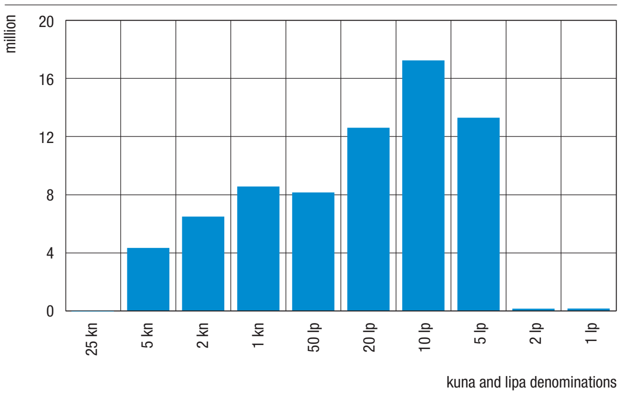
Source: CNB.

5.2 Change in the number of banknotes outside the CNB and CCs in 2011 as compared to 2010



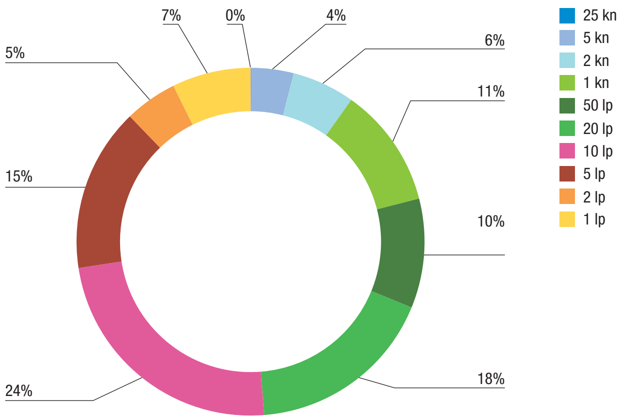
Note: 1, 2 and 3 in the brackets mark the series of issuance.
Source: CNB.

5.4 Change in the number of coins outside the CNB and CCs in 2011 as compared to 2010



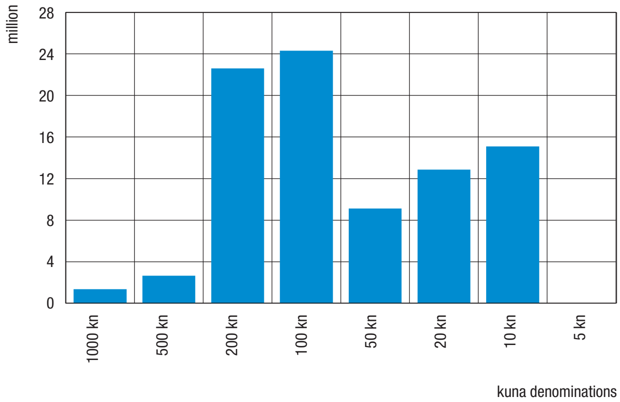
Source: CNB.

5.5 Structure of total volume of coins outside the CNB and CCs by denomination
end-2011



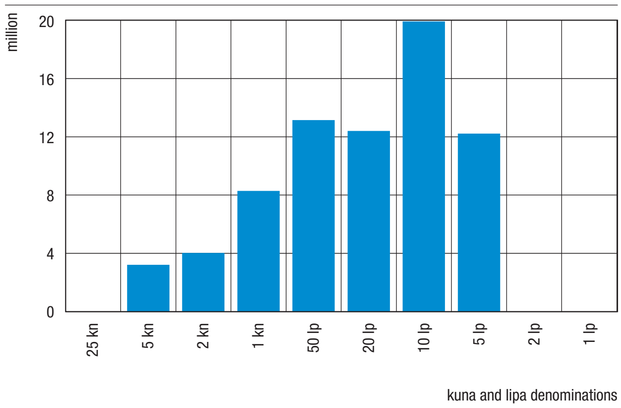
Source: CNB.

5.6 Banknotes issued to CCs in 2011



Source: CNB.

5.7 Coins issued to CCs in 2011



Source: CNB.

increased by 5.7%. The number of coins outside the CNB vault and CCs rose by 70.6m in 2011.

Of these coins, the most numerous in 2011 were 10 lipa coins (409.9m pieces or 23.8% of the total number of coins outside the CNB and CCs). In terms of value, 5 kuna coins accounted for the largest share, HRK 338.4m or 35.1% of the total value of coins in circulation.

5.2 Cash supply

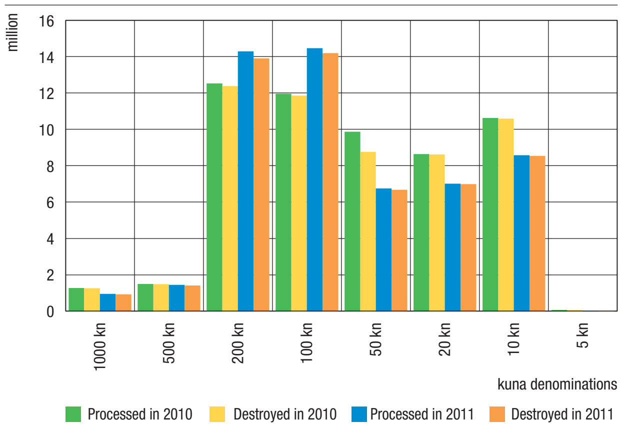
In all, 10.5bn worth of kuna banknotes (88.0m pieces) and 44.1m worth of coins (73.2m pieces) were issued from the CNB vault to cash centres in 2011 to meet the needs of banks for cash based on their orders, and to maintain adequate reserves in cash centres. The total value of issued banknotes increased by HRK 3.3bn (45.6%) from 2010, while the number increased by 28.1m or 46.8%. The total value of issued coins decreased by 16.0% and their total number dropped by 19.3%.

5.3 Withdrawal and processing of worn-out banknotes

In 2011, the Currency Department withdrew a total of 70.1m banknotes, worth a total of HRK 7.9bn, from cash centres. The banknote processing system processed a total of 53.5m banknotes, of which 98.4% or 52.6m banknotes, worth HRK 6.4bn, were destroyed as the banknotes failed to meet the quality standards set for circulation banknotes.

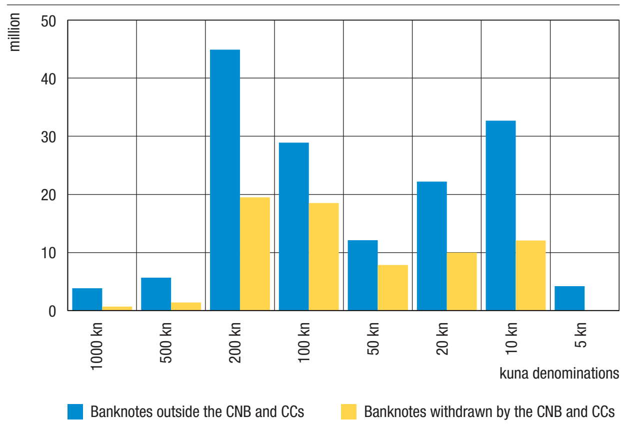
The renewal index (destroyed banknotes/banknotes outside the CNB vault and CCs × 100) was approximately 35% in 2011, with the number of banknotes outside the CNB vault and CCs and the number of destroyed banknotes totalling 154.5m and 52.6m respectively on 31 December 2011.

5.8 Processed and destroyed banknotes by denomination



Source: CNB.

5.9 Ratio of withdrawn banknotes and banknotes outside the CNB and CCs in 2011



Source: CNB.

5.4 Banknote authentication

In 2011, the National Analysis Centre, in banknote authentication procedures, registered 444 counterfeit banknotes, worth a total of HRK 232,430 (in 2010, out of 681 registered counterfeits, 364 were registered in circulation and 317 prior to putting into circulation). The number of registered counterfeit kuna banknotes increased by 22% from 2010. As shown by these indicators, 3 counterfeits were detected per 1 million banknotes in circulation in 2011.

In 2011, 932 counterfeit foreign currency banknotes were registered in banknote authentication procedures. Of the total number of registered foreign counterfeit banknotes, the largest share (664 banknotes) was accounted for by counterfeit euro banknotes, the second largest share (246 banknotes) went to counterfeit US dollar banknotes, and the remaining 22 banknotes were counterfeits of the following currencies: the convertible mark, Canadian dollar, Swiss franc, German mark, pound sterling, Italian lira and Serbian dinar.

Registered euro counterfeits decreased by 48% in 2011 from 2010, whereas the number of registered counterfeit US dollar banknotes grew by 89%.

In the same period, the Coin National Analysis Centre registered 24 counterfeit 5 kuna coins and 568 counterfeit euro coins in coin authentication procedures.

Of the counterfeit euro coins, 392 pieces were 2-euro coins (69%), 158 pieces were 1-euro coins (28%) and 18 pieces were 0.50-euro coins (3%). The number of registered counterfeit coins decreased by 4% in 2011 from 2010.

In 2011, the National Counterfeit Centre held 20 specialist one-day courses for employees of banks and institutions specialised for cash operations, as part of the National Programme of Training Courses on Banknote and Coin Authentication for Bank and Financial Institution Employees. 274 employees of banks and financial institutions received expert training.

Table 5.1 Registered counterfeit banknotes in 2011

	1000	500	200	100	50	20	10	5	Total
Number	150	116	106	17	18	26	11	0	444
Share (in %)	33.8	26.1	23.9	3.8	4.1	5.9	2.5	0.0	100.0

Source: CNB.

5.5 Commemorative coin issues

In 2011, the CNB issued 1,000 numismatic sets of kuna and lipa circulation coins, with the year of issue 2011.

The CNB also issued 1,000 sets of 25 kuna commemorative circulation coins in 2011. One set comprises three issues of 25 kuna commemorative circulation coins, including:

- "10th Anniversary of the International Recognition of the Republic of Croatia, 15th January 1992 – 15th January 2002",
- "Republic of Croatia Becomes a European Union Membership Candidate, 18th June 2004", and
- "European Bank for Reconstruction and Development Annual Meeting, Zagreb 2010".

In cooperation with the Croatian Monetary Institute, to which it contractually assigned the minting and sale, the CNB issued the following commemorative gold and silver coins:

- a 10 kuna gold coin "Lacemaking in Croatia", 5,000 items, and
- a 200 kuna silver coin "300th Anniversary of the Birth of Ruđer Bošković", 5,000 items.

HNB

Publicness

In 2011, public continued to show great interest in the CNB's decisions, positions, projections and other information related to matters within its competence; accordingly, efforts were made to supply the fullest possible information in the shortest possible time. To this aim, the CNB website, www.hnb.hr, presents relevant primary and subordinate legislation, documents, guidelines, press releases, replies to inquiries on the implementation of specific regulations and numerous regular and occasional CNB publications, providing information and professional updates to the professional and the general public.

Individual communication with various segments of the interested public was also very vigorous. The Public Relations Office answered 1,554 e-mail and 1,000 telephone inquiries from citizens, corporations, government institutions, embassies and media representatives requesting information or data. The replies were given promptly by telephone and some 500 written responses were sent.

In public appearances at conferences in the country and abroad, interviews and public media statements, central bank officials informed the public of current events, projections of future trends and the measures required to preserve macroeconomic stability and generate economic recovery. CNB officials and other experts also held lectures in institutions of higher education, embassies, etc.

The CNB also continued to organise visits for pupils, students and others interested in learning about its aims and tasks, and measures to achieve them, through lectures given by responsible central bank employees. Nine such groups from various parts of Croatia and two groups of foreign visitors visited the CNB in 2011.

In 2011 the central bank hosted presentations of regional analyses and annual reports by some international institutions (UNCTAD), and co-hosted, with the Central Bank of Ireland, the Ante Čičin-Šain Lecture, held in memory of the first CNB Governor and the first ambassador of the Republic of Croatia to Ireland.

World-renowned scientists and monetary and economic policy makers participated in the 17th Dubrovnik Economic Conference, organised by the CNB, engaging in discussion on current international, regional and domestic economic and financial developments. The conference was covered by domestic and some foreign media.

The Consumer Protection and Market Competition Department became operational in 2011. The Department is to contribute significantly to improving communication with consumers of services that are provided by financial institutions supervised by the CNB. In its very first year of operation, this unit received and processed 425 complaints from consumers claiming to have been damaged by a bank, housing savings bank, savings bank or credit union that had acted in contravention of the regulations in effect.

HNB

International relations

HNB

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

The accession negotiations of the Republic of Croatia were completed on 30 June 2011 and the EU Accession Treaty was signed on 9 December 2011. The dynamics of the closing of the chapters in the negotiations of which the CNB participated as competent or co-competent authority was as follows: the chapter Economic and monetary policy was closed in December 2008, the chapter Financial services was closed in November 2009, the chapter Financial control was closed in July 2010 and the chapter Free movement of capital was closed in November 2010. The only remaining restriction, at the moment of the closing of the chapter Free movement of capital, involved resident deposit transactions the liberalisation of which entered into force on 1 January 2011. Despite the fact that negotiations have been completed, the CNB continues to monitor changes in the acquis communautaire regularly and to align its regulations accordingly. The CNB also regularly organises seminars and workshops on the acquis communautaire in the field of its competence for external entities and CNB employees.

From the date of signing the EU Accession Treaty, CNB representatives started participating in the work of EU institutions and other EU bodies as observers. In the last quarter of 2011, a number of in-house lectures were held in the CNB with the aim of better acquainting CNB employees with the organisation and work of EU institutions and bodies and the role that CNB employees will play in their work.

In 2011, CNB experts continued to participate in the drafting of documents related to the accession of Croatia to the EU. CNB experts thus participated in the drafting of the eighth Pre-accession Economic Programme 2012-2014 and the annual Programme of the Government of the Republic of Croatia for the Adoption and Implementation of the Acquis Communautaire for 2012. In 2011, the CNB met all the implementing measures within its field of competence envisaged under the 2011 Annual Action Plan for the Transposition and Implementation of the Acquis Communautaire. CNB representatives also participated in the work of the Subcommittee on Economic and Financial Matters and Statistics and the Subcommittee on the Internal Market and Market Competition, two out of the total of five bodies set up pursuant to the Stabilisation and Association Agreement and prepared materials for these bodies. CNB experts also prepared relevant materials for the meetings of the Stabilisation and Association Council and the Stabilisation and Association Committee.

Croatia's further progress in accession negotiations was confirmed by the European Commission Progress Report on the RC 2011. The macroeconomic policy stance proved largely adequate for addressing macroeconomic challenges, in the conditions of given limitations. The monetary policy maintained exchange rate and financial stability, while maintaining at the same time adequate flexibility in the context of weakened economic activities. A high external debt level and a relatively high exposure of the non-tradable goods and services sector to exchange rate risks are again key external vulnerabilities of the Croatian economy. As regards the chapters that fall within the field of competence of the CNB, such as Free movement of capital, the Progress Report states that further progress has been achieved in the field of payment system, capital account liberalisation and the fight against money laundering. Although legislative alignment in this area is almost completed, the Progress Report stresses that continued efforts are needed to achieve full liberalisation of capital movements and legislative consolidation in the area of fight against money laundering. The chapter Financial services has been assessed as highly compliant. Considerable progress was achieved in legislative alignment and administrative capacities strengthening. As regards the chapter Economic and monetary policy, the Progress Report notes that alignment with the acquis communautaire in this area has been completed but that further improvement should be achieved in policy coordination. As regards the chapter Financial control, the Progress Report notes that certain progress has been achieved in the area of protection of the euro against counterfeiting but that further efforts are needed to improve cooperation between the CNB and the Ministry of the Interior.

In 2011, the representatives of the CNB continued to make contacts with representatives of EU member state central banks and representatives of the ECB and other EU institutions and bodies. Particularly noteworthy were a regular annual pre-accession dialogue with representatives of the Executive Board of the European Central Bank and the sixth annual dialogue with representatives of the Austrian National Bank.

Two IPA (instrument for pre-accession assistance) funded programmes were conducted in the CNB in 2011. The first of them was aimed at strengthening macroprudential and microprudential supervision in candidate and potential candidate countries and was launched in early 2010 as a part of a broader programme entitled Crisis Response Programme. This programme consists of three components. The first component was carried out in 2010 (regional training activities), the second in the first half of 2011 (work with twinning partners, which, in the case of CNB, is the Austrian central bank), while the third component was carried out in the second half of 2011 and involved cross-border cooperation simulation. The project was completed in January 2012. The second programme was aimed at developing an efficient system for the fight against banknote and coin counterfeiting. The project was conducted in cooperation with the central bank of the Federal Republic of Germany and the Czech National Bank and was launched in April and completed towards the end of 2011.

The year 2011 was marked by deepening of the fiscal crisis in the eurozone and by efforts to resolve this crisis. In July 2011, the ministers of eurozone countries agreed to increase the credit potential of the European Financial Stability Facility and to extend its jurisdiction to debt market intervention, bank recapitalisation and granting of preventive credit lines to countries in financial difficulties. In December 2011, it was agreed that the European Stability Mechanism, which was to replace the European Financial Stabilisation Mechanism and the European Financial Stability Facility, should become operative in mid-2012. This mechanism had first been scheduled to become operative in mid-2013, but the worsening of the situation in the market and increased pressures on Italy and Spain prompted the moving of this deadline to mid-2012. In early 2011, the European Systemic Risk Board and three new EU supervisory bodies (one each for the banking, insurance and pension insurance and capital market sectors) became operative. In June 2011, the European Banking Authority published the results of the third EU-wide banking system stress test. As these tests had not taken into account the scenario of potential Greek bankruptcy, it became evident over the year that the amounts needed for bank recapitalisation would be greater than those envisaged. In October 2011, proposals for the reform of the system of surveillance of public finances and macroeconomic imbalances were adopted (the so called "six pack"). These measures are aimed at improving coordination of economic policies and economic governance in the EU.

7.2 International Monetary Fund (IMF)

The quota of the Republic of Croatia in the IMF remained unchanged in 2011 in absolute terms and stood at SDR 365.1m. However, under the Sixth Amendment to the IMF Articles of Agreement on the increase in the number of votes and representation in the IMF which entered into force in March 2011, the relative share of the Republic of Croatia in the total IMF quota fell to 0.153% from 0.171%. Under this Amendment, the voting power of the Republic of Croatia also fell and stood at 0.174% of the total voting power, down from 0.179%. The Republic of Croatia continued to exercise its interests within the IMF through the Dutch constituency, which in addition to Croatia includes 12 other countries (Armenia, Bosnia and Herzegovina, Bulgaria, Cyprus, Georgia, Israel, Macedonia, Moldova, Montenegro, the Netherlands, Romania and Ukraine). The voting power of the Constituency, following the entry into force of the Sixth Amendment to the IMF Articles of Agreement, accounts for 4.5% of the total voting power. Until October 2011, the Constituency was headed by Age F.P. Bakker, the Dutch representative, and from October 2011 by Menno Snel.

The regular annual Article IV consultations with the Republic of Croatia were concluded on 24 June 2011. In its conclusion, the IMF Executive Board agreed with most of the findings of IMF Mission report. Even though the Executive Directors commended Croatia's progress towards membership of the EU, they noted a number of key issues that needed to be addressed. Domestic demand continued to contract in 2010, employment fell and low confidence hampered investment. The rebound in exports that had taken place was insufficient to pull the country out of the recession due to the given narrow export base. All these factors led to a fall in real GDP of 1.2%, while the growth was expected to reach approximately 1% in 2011. To improve the medium-term growth prospects of the economy, the Executive Directors stressed the need to tackle structural rigidities and weak competitiveness and to take action to reduce the vulnerabilities arising from large external debt and deteriorating public finances. The Executive Directors generally agreed on the need for internal devaluation via reduction of prices and wages to more competitive levels, stressing that this would need to be complemented by productivity-enhancing measures. Despite progress achieved in some areas of the government's Economic Recovery Programme, further efforts are needed towards labour market reform, reduction of the size of public administration, privatisation of public companies and improvement in the business climate. The Executive Directors also stressed the need for substantial fiscal consolidation, especially by identifying additional spending cuts, to preserve market confidence and keep interest rates in check. For the medium term, they saw a need for continued expenditure-based consolidation, as envisaged in the Fiscal Responsibility Act, until an overall cyclically-adjusted balanced budget is achieved. This would create sufficient fiscal space and ensure debt sustainability. The monetary policy was considered appropriate. Although a number of Executive Directors found the reserves adequate, most noted the country's relatively low reserve coverage. The Executive Directors underscored the need for adequate buffers in light of the high degree of euroisation in the financial sector. They therefore generally agreed that monetary policy in the forthcoming period should aim at building up international reserves to increase Croatia's resilience to external vulnerabilities. The financial sector was found to be resilient because of the significant capital and liquidity. Nevertheless, the Executive Directors noted that challenges arose from weak growth prospects, rising non-performing loans and liquidity risks due to reliance on financing from parent banks and therefore called for continued strong regulatory and supervisory measures and close coordination with home supervisors.

The Croatian National Bank and the Ministry of Finance provided their opinion on the IMF Mission report and conclusions of IMF Executive Board.

Even though the Croatian National Bank agreed with most of the recommendations given by the IMF Mission, their different views on the adequacy of the amount of international reserves and the suggested changes in the conduct of foreign exchange interventions prompted the CNB to issue a statement. The CNB finds that the methodological approach to the analysis of adequacy of international reserves in the case of Croatia is inadequate and that it does not take into account a number of specific factors (such as a large share of foreign banks on the Croatian market). Had all country-specific factors been taken into account, it would have been found unquestionable that international reserves are more than adequate under all the applicable criteria. The CNB disagrees, as do most Executive Directors, with the view that there is a need to change the techniques used in foreign exchange interventions, which arises from the view held by the IMF Mission that the country's international reserves are low and that reduced prudential foreign currency buffers will limit room for the CNB to intervene in the foreign exchange market. In view of the fact that the existing system of foreign exchange interventions has proved effective, the suggested changes in these techniques are not necessary. The suggested technique might have an unfavourable effect on exchange rate expectations and undermine market confidence and thus lead to undesirable results such as a drop in international reserves, instead of their increase and/or an interest rate hike and lower credit growth that would negatively impact the fragile economic recovery underway. The CNB also expressed its disagreement over IMF Mission statement that the stable exchange rate policy has contributed to the accumulation of vulnerabilities arising from overleveraging in foreign currencies (euroisation). Euroisation in Croatia is due to a long history of exchange rate instabilities and the fact that households tend to save in foreign currency, as a result of which banks extend foreign currency indexed loans in order to offset their balance sheet foreign exchange exposures. With respect to exchange rate policy changes, the CNB notes that changes in the exchange rate regime cannot substitute the needed structural and fiscal reforms and that the stable exchange rate policy is the only sound alternative in Croatia's circumstances.

In its statement related to the same IMF Mission report, the Ministry of Finance agreed that the issue of competitiveness is a key issue as regards growth dynamics in Croatia, though it did not fully agree with the recommendations for achieving higher competitiveness via reduction of prices and wages. The Ministry stressed that it did not see the future of Croatian economy in increased competitiveness through cheaper labour force, but in increased competitiveness to be achieved through fewer investment obstacles, increased public administration efficacy, particularly on the local level, reduction in government spending through strict compliance with the Fiscal Responsibility Act and total improvement in the entrepreneurial and investment climate in Croatia. As noted by the Ministry, the Government of the Republic of Croatia has already taken a number of measures to this end.

IMF experts again visited Zagreb towards the end of January and in early February 2012 to update their projections. In a concluding statement issued after that visit, IMF experts noted that Croatia's growth remained stagnant and that, assuming unchanged policies, economic prospects for 2012 and the medium term are weak. They noted that the situation was further aggravated by the country's vulnerability to the crisis in the eurozone. IMF experts therefore reiterated most of the recommendations given in the course of consultations under Article IV of the IMF's Articles of Agreement and in that context supported the intentions of Croatian authorities to start fiscal consolidation in 2012 and encouraged them rapidly to pursue legal and institutional changes necessary for a full implementation of the envisaged spending cuts.

The cooperation and exchange of opinions with IMF experts continued in 2011, the main occasion being the visit of the CNB and Ministry of Finance 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 Washington. The Washington meetings, and particularly the meetings of the Constituency provided a ground for obtaining more in-depth information about current activities of the IMF of relevance to the entire membership. In an effort to promote its role as a global economic analyst, forecaster and advisor, in 2011 the IMF published for the first time special spillover reports for major economies (the USA, Japan, China, the euro area and the United Kingdom). These reports, together with other multilateral reports prepared and published by the IMF on a regular basis have been combined into a Consolidated Multilateral Surveillance Report.

The crisis in public finances in some euro area countries that emerged in the wake of a fragile global economic recovery following the 2008 crisis, in addition to spurring heightened IMF activities in providing support to its members and adjusting financial relief provided to the members, raised again the issue of sufficiency of IMF funds. In this context, the members were invited first and foremost to implement as soon as possible the Resolution on the 14th General Review of Quotas and Reform of the Executive Board that the Board of Governors adopted in December 2010, which, among other things, proposes the doubling of the total IMF quota to SDR 476.8bn. Once this Resolution was approved, member countries were invited to provide their opinions regarding the acceptance of the proposed increase in their quotas by the end of 2011, the time limit that was later extended.

The Republic of Croatia accepted the proposed increase in its quota from the present SDR 365.1m to SDR 717.4m in accordance with the Regulation on accepting the increase in quota of the Republic of Croatia in the International Monetary Fund, published in the Official Gazette No. 142 of 9 December 2011. This increase in its quota means that the Republic of Croatia will retain the voting power and the share in the total IMF quota at approximately the same level (a reduction of the present voting power from 0.174% to 0.172%, and a reduction in the share of its quota from 0.153% to 0.150%). The increase in the quota of the Republic of Croatia will enter into force following the entry into force of the proposed increase in total IMF quota and after Croatia has paid the amount of the increase in its quota.

In early 2011, member countries were also invited to accept the proposed amendment to the Articles of Agreement of the IMF on the Reform of the Executive Board, the other important component of the said Resolution. Under this amendment, the category of appointed Executive Directors is cancelled and replaced by the rule of election for all Executive Directors. The Republic of Croatia accepted the proposed amendment to the IMF Articles of Agreement by means of a Government

Regulation issued in the Official Gazette, International Agreements, No. 16 of 9 December 2011. As provided by IMF Articles of Agreement, to enter into force, at least three-fifths of IMF member countries representing a minimum of 85% of the total voting power have to accept the amendment. In accordance with the Resolution, the entry into force of the increase in total IMF quota is also conditional upon acceptance of this amendment by member states that are expected to accept both amendments until the 2012 Annual IMF Meeting at the latest.

In the context of the broadening of its activities, several years ago the IMF started preparing economic analyses and projections for individual regions and presenting them in the relevant countries. The last presentation of this type in the Republic of Croatia that was held at the premises of the CNB in May 2011, dealt with the issue of publications on economic recovery in Europe.

In 2011, the Republic of Croatia continued to use technical assistance of the International Monetary Fund. In this context, note should be taken of further technical assistance provided to CNB experts in the area of macroeconomic modelling and forecasting and technical assistance provided to the Republic of Croatia in the area of prevention of money laundering and fight against terrorist financing.

As the fiscal agent of the Republic of Croatia and a depository of the IMF, the CNB is responsible for keeping deposit accounts of the IMF and, in the name and for the account of the Republic of Croatia, for regular servicing of obligations arising from the allocation of special drawing rights.

7.3 Bank for International Settlements (BIS)

At its Annual General Meeting, held on 26 June 2011, the BIS adopted its Annual Report.

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 these areas. Committees and expert bodies operating within the BIS, which include CNB representatives, are also important in the context of promoting this cooperation.

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 the 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. The CNB 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 carrying out these legally prescribed tasks, in 2011 CNB representatives exchanged views at meetings with World Bank and EBRD representatives on the macroeconomic situation in the Republic of Croatia and the planned strategy of these development banks in the Republic of Croatia.

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] which governs entering into and executing current and capital transactions between residents and non-residents. The subordinate legislation adopted by the CNB based on the Foreign Exchange Act regulates measures for the implementation of the foreign exchange policy. Foreign exchange policy measures determine the conditions and the manner of using foreign means of payment between residents and between residents and non-residents in the Republic of Croatia, as well as the amount of foreign cash that resident legal persons may keep in their vaults.

1 OG 96/2003, 140/2005, 132/2006, 150/2008, 92/2009, 153/2009 and 145/2010.

7.5.1 Free movement of capital

Within its field of competence, the CNB actively participates in the implementation of measures and activities related to the prevention of money laundering and terrorist financing. Under the Stabilisation and Association Agreement, which entered into force on 1 February 2005, the Republic of Croatia has undertaken to ensure full freedom in concluding and executing current transactions and to gradually abolish restrictions on capital transactions.

The repeal of restrictions on capital transactions started towards the end of 2006, when restrictions on securities transactions and investment funds holdings were lifted. In early January 2010, the authorities lifted 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. The provision preventing residents from granting non-residents short-term loans with a repayment term of less than three months was repealed on 1 July 2010 and the last restriction in the field of capital transactions, which provided that, in order to open an account abroad and hold funds in an account abroad, residents needed to have an approval issued by the CNB, was repealed on 1 January 2011.

7.5.2 Authorised exchange offices

Pursuant to the Foreign Exchange Act, the CNB issues authorisations to conduct exchange transactions to legal persons and crafts and trades (authorised exchange offices). A total of 59 authorisations were issued in 2011 while six were withdrawn, so that the number of valid authorisations towards the end of 2011 stood at 1,391.

As concerns their legal form, 64% of authorised exchange offices are limited liability companies, 26% are crafts and trades, 8% are joint stock companies and 2% are other legal persons.

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 the policy of prevention of money laundering and terrorist financing. Five computer programme certificates were issued in 2011.

According to the data on the turnover of authorised exchange offices, received and processed by the CNB, the turnover of authorised exchange offices in transactions with natural persons totalled HRK 29.5bn in 2011. Of that amount, HRK 21.5bn went to the purchase of foreign cash and checks denominated in foreign currency and HRK 8bn went to the sale of foreign cash. The bulk of authorised exchange offices' transactions (90%) were in euro. The turnover in euro increased by 2.4% from 2010.

7.5.3 Activities related to anti-money laundering and terrorist financing

In accordance with the obligations assumed by the CNB under the Action Plan for the Prevention of Money Laundering and Terrorist Financing, a Croatian National Bank Committee for the Prevention of Money Laundering and Terrorist Financing was established in March 2007.

The role of the Committee, which acts as an internal consultative body, is to formulate and coordinate procedures and activities of the CNB in carrying out legislative tasks within the jurisdiction of the central bank in the field of the prevention of money laundering and terrorist financing and to cooperate with other competent government bodies for the purpose of monitoring and implementing the acquis in this field.

In 2011, the Committee prepared, in the field of competence of the CNB, answers to MONEYVAL questionnaire for the drafting of the second written progress report on Croatia in relation to the third round evaluation, that was adopted at MONEYVAL's 35th plenary session held in April in Strasbourg.

The Committee continued to cooperate with the Office for Money Laundering Prevention on issues such as giving opinions to credit institutions regarding the interpretation of the Act on the Prevention of Money Laundering and Terrorist Financing, CNB Guidelines, and the drafting of reports on the measures and activities taken in the implementation of the Action Plan for the Prevention of Money Laundering and Terrorist Financing for the Government of the Republic of Croatia.

Upon invitation from the IMF Secretary's Department sent to the Republic of Croatia in July 2011, the Committee prepared a notification on restrictions on foreign current and capital transactions that are implemented pursuant to decisions of the Government of the Republic of Croatia, exclusively for the purpose of safeguarding national and international security.

The seminars and special educational content provided on CNB web page in 2011 to entities supervised by the CNB provided headway in the implementation of the measures for the prevention of money laundering and terrorist financing in the financial sector.

HNB

Statistics

HNB

The Croatian National Bank performs official statistics activities in accordance with the provisions of the Official Statistics Act (OG 103/2003 and 75/2009), Article 66 of the Act on the Croatian National Bank and special acts. The CNB Statistics Department has in the last few years invested significant efforts into harmonising existing statistics with the reporting requirements of the European Commission (i.e. the Statistical Office – Eurostat) and the European Central Bank, which are to become mandatory on the date the Republic of Croatia gains full membership of the European Union. In 2011, CNB representatives participated as observers in the work of two Eurostat committees and three working groups. Starting in early 2012, they will participate in the ESCB Statistics Committee and seven statistics working groups. They have also actively participated in working group meetings at the Bank for International Settlements (BIS), the Organisation of Economic Cooperation and Development (OECD) and the International Monetary Fund (IMF). In order to fulfil the obligations assumed regarding compliance with the acquis under Chapter 18 – Statistics, the Croatian Bureau of Statistics, the Ministry of Finance and the Croatian National Bank have signed the Cooperation Agreement in the Field of National Accounts of the General Government and Associated Statistics. The CNB staff has thereby been included in the development of fiscal statistics pursuant to the provisions of the Agreement. Late this year, CNB representatives were included in a pilot project of the Bank for International settlements (BIS) dealing with the development of a global statistical data and metadata exchange system (SDMX Sandbox). Out of sixty-six central banks that are members of the BIS, sixteen are project participants.

The results of statistical surveys carried out by the CNB are published in CNB publications (CNB Bulletin and Annual Report) and in the publications of the CBS (Statistical Yearbook, Statistical Information and Monthly Statistical Report). All the data are also available on the CNB website, as well as in the publications and on the websites of international financial and statistical institutions.

8.1 Monetary and financial statistics

Many methodological improvements introduced in monetary and financial statistics in 2011 were primarily related to the ECB's reporting requirements.

The CNB started the process of harmonisation of monetary statistics with ECB requirements as soon as early 2006. The new reporting system provides for the compilation of macroeconomic aggregates and reports, the sectorisation and classification of financial instruments pursuant to ECB requirements, the compilation of financial positions at the end of period and transactions during the period, a detailed maturity structure of financial instruments and the establishment of counterparties, reporting currency and scope. The activities conducted in 2011 were focused on the improvement of the quality of collected data in the new system and the development and improvement of reports.

Interest rate statistics of monetary financial institutions was also brought in compliance with ECB requirements, with the new reporting system now enabling the compilation of data on interest rates on both new placements and liabilities and the whole portfolio. New test reports were prepared and collected data were tested for accuracy of results and report structure.

The reporting system for investment fund statistics was developed in 2011 in cooperation with the Croatian Financial Services Supervisory Agency (HANFA). This included the development of most of the software for receiving and processing data from pension fund management companies. Reporting units submitted statistics for three reporting periods in late 2011. As the process involves the collection of a complex set of statistics, the software is planned to be completed and connected with other applications by the end of 2012.

The CNB compiles and publishes annual financial account statistics. The methodological improvements made, including the compilation and publishing of quarterly financial account statistics, were also in line with ECB requirements.

8.2 Balance of payments and international investment statistics

Development activities related to balance of payments and international investment position statistics were in 2011 focused on methodological improvements in order to achieve the fullest possible compliance with the reporting requirements imposed by Eurostat (as presented in the BOP Vademecum), the International Monetary Fund (BPM6) and the Organisation for Economic Cooperation and Development (BD4).

Due to the abolishment of the International Transaction Reporting System in early 2011, the balance of payments was left without a source of data for a large number of service account positions. To compensate for this, a pilot survey on trade in international services was introduced in 2010 to become, in early 2011, an official source of data for compiling a large number of balance of payment positions.

The abolishment of the International Transaction Reporting System in early 2011 also meant a loss of a source of data for compiling the current transfers account. In 2010, a model was created to replace the International Transaction Reporting System as a source of data on current transfers of natural persons, and another model to estimate current transfers of other sectors based on aggregated bank data on international transactions. In early 2011, the results achieved by the application of these models became an official source of data for most of other sectors' current transfer positions in the balance of payments.

The reporting channel for the submission of MoF data related to estimates of the current government transfers was established, as a replacement for data on international transactions.

In order to achieve compliance with the OECD Benchmark Definition 4 in the area of foreign direct investments statistics, the existing forms were methodologically improved and new forms were added, which enhanced the coverage of transactions arising from foreign direct investments in the capital and financial accounts and related income recorded in the balance of payments current account.

8.3 External debt statistics

Two important methodological changes were implemented in the external debt statistics in 2011. The scope of the statistics was enlarged to include data on non-resident investments in debt securities issued by residents quoted on domestic markets (the monthly data series was revised from December 2005 onwards). A new source of data was introduced within corrections for the effects of the secondary market of bonds of resident issuers quoted on foreign markets by including data on investments by domestic insurance companies in these bonds (the monthly data series was revised from March 2010 onwards).

Due to the liberalisation of international economic relations, the reporting obligation was extended to include the opening of an account abroad, foreign lending through an account abroad and cash pooling.

8.4 Other statistics

Securities statistics includes a systematic collection and processing of data on the issuance of securities by RC residents on financial markets in the RC and abroad, on investors in securities issued in the RC and on resident investments in securities issued abroad. In 2011, as an initial step towards the development of the system, cooperation was established with the Central Depository and Clearing Company and Zagreb Stock Exchange. This cooperation enables the monthly collection of data on securities issued in the RC, on the position of investment in securities issued in the RC (collected individually according to the issuer's ISIN code and aggregated at the level of the institutional sector, government, activity, type of investing financial institution and ownership links between the investor and the issuer of the security), on the implementation of corporate actions and trading prices (the highest, lowest, last and average monthly trading price) and on the market capitalisation of quoted securities.

In 2011, pursuant to the Cooperation Agreement in the Field of National Accounts of the General Government and Associated Statistics, Croatian National Bank employees worked intensively on the development of the methodology of fiscal and related statistic falling within their competence (Financial Accounts and Quarterly Financial Accounts of the Government Sector).

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 Statement of Financial Position as at 31 December 2011, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and explanatory notes to the financial 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 Croatian National Bank Act. This responsibility includes: designing, carrying out 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 independent 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 2011 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 Croatian National Bank Act.

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

Zagreb, Republic of Croatia
24 February 2012

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24 February 2012

Income statement

(All amounts are expressed in thousands of kunas)

	Notes	2011	2010
Interest and similar income	3	777,723	454,593
Interest and similar expense	4	(69,361)	(215,569)
Net interest income/(expense)		**708,362**	239,024
Fee and commission income		5,150	5,455
Fee and commission expenses		(5,612)	(5,595)
Net fee and commission income/(expense)		**(462)**	(140)
Dividend income		5,887	14,283
Net investment result – equity method		396	713
Net securities trading result	5	184,294	225,096
Net effect on revaluation of precious metals	5	151	3,536
		184,445	228,632
Net exchange differences	6	2,000,638	1,861,595
Other income	7	6,504	10,255
Operating income		**2,905,770**	**2,354,362**
Operating expenses	8	(290,526)	(341,363)
Decrease/(increase) in provisions	9	(1,378)	(1,431)
Net income		**2,613,866**	**2,011,568**
– Allocated to general reserves		(2,133,789)	(2,011,568)
– Allocated to the State Budget		(480,077)	–

Statement of comprehensive income

(All amounts are expressed in thousands of kunas)

	Notes	2011	2010
1 Net profit		**2,613,866**	**2,011,568**
2 Other comprehensive income			
2.1 Change in the reserve on revaluation of tangible fixed assets (IAS 16)		–	30,470
2.2 Gains or losses on remeasurement of financial assets available for sale (IAS 39)		1,334	3,464
Other comprehensive income, net		**1,334**	**33,934**
3 Total comprehensive income (1 + 2)		**2,615,200**	**2,045,502**

Statement of financial position

(All amounts are expressed in thousands of kunas)

	Notes	31 December 2011	31 December 2010
Assets			
Cash and current accounts with other banks	10	1,888,745	1,484,132
Deposits with other banks	11	18,685,511	22,709,757
Trading securities	12	31,080,475	51,906,505
Loans	13	126,859	95
Held-to-maturity securities	14	30,191,208	–
Balances with the International Monetary Fund	15	5,981,465	5,765,326
Equity investments	16	63,670	61,940
Accrued interest and other assets	17	227,520	200,426
Tangible and intangible assets	18	623,496	618,061
TOTAL ASSETS		**88,868,949**	**82,746,242**
Liabilities			
Banknotes and coins in circulation	19	20,943,013	19,311,462
Due to banks and other financial institutions	20	46,982,193	41,735,214
Due to the State and State institutions	21	1,673,444	4,255,422
Due to the International Monetary Fund	22	5,974,821	5,759,299
Accrued interest and other liabilities	23	768,360	1,292,850
Total liabilities		**76,341,831**	**72,354,247**
Equity			
Initial capital	24	2,500,000	2,500,000
Reserves	24	10,027,118	7,891,995
Total equity		**12,527,118**	**10,391,995**
TOTAL EQUITY AND LIABILITIES		88,868,949	82,746,242

The financial statements set out on pages 123 to 149 were approved on 24 February 2012 by:

Director of the Accounting Department:

Ivan Branimir Jurković

Governor:

D.Sc. Željko Rohatinski

Statement of changes in equity

(All amounts are expressed in thousands of kunas)

	Initial equity	General reserves	Revaluation reserves	Unrealised profit / (loss)	Operating surplus/(deficit)	Total capital
Balance at 1 January 2010	2,500,000	5,491,192	358,598	(3,297)	–	8,346,493
Net profit	–	–	–	–	2,011,568	2,011,568
Profit transferred to general reserves	–	2,011,568	–	–	(2,011,568)	–
Exchange differences on financial assets available for sale	–	–	–	3,464	–	3,464
Revaluation of tangible fixed assets	–	–	30,470	–	–	30,470
Depreciation of tangible fixed assets at revalued amounts	–	5,002	(5,002)	–	–	–
Balance at 31 December 2010/1 January 2011	2,500,000	7,507,762	384,066	167	–	10,391,995
Net profit	–	–	–	–	2,613,866	2,613,866
Profit transferred to general reserves	–	2,133,789	–	–	(2,133,789)	–
Profit transferred to the State Budget	–	–	–	–	(480,077)	(480,077)
Exchange differences on financial assets available for sale	–	–	–	1,334	–	1,334
Depreciation of tangible fixed assets at revalued amounts	–	7,032	(7,032)	–	–	–
Balance at 31 December 2011	2,500,000	9,648,583	377,034	1,501	–	12,527,118

Statement of cash flows

(All amounts are expressed in thousands of kunas)

	2011	2010
Cash flows from operating activities		
Interest received	542,072	557,535
Interest paid	(97,589)	(220,833)
Fees and commissions received	5,329	5,379
Fees and commissions paid	(5,235)	(5,635)
Dividends received	5,887	14,283
Other receipts	29,308	23,760
Expenses paid	(262,161)	(271,985)
	217,611	**102,504**
Changes in operating assets and liabilities		
Decrease/(increase) in deposits with other banks	5,240,631	(4,231,914)
Decrease/(increase) in loans	(126,764)	8
Decrease/(increase) in trading securities	22,018,632	3,889,292
Decrease/(increase) in held-to-maturity securities	(29,508,902)	–
Decrease/(increase) in other assets	(19,325)	(51,419)
Increase/(decrease) in other liabilities	3,765	148
Increase/(decrease) in amounts due to the IMF	(37)	(23)
Increase/(decrease) of currency in circulation	1,631,551	369,739
Increase/(decrease) in amounts due to banks and other financial institutions	4,489,376	(1,252,156)
Increase/(decrease) in amounts due to the State	(3,518,944)	1,254,412
	209,983	**(21,913)**
Net cash from operating activities	**427,594**	**80,591**
Cash flows from investing activities		
Purchases of property and equipment	(27,694)	(34,617)
Net cash from investing activities	**(27,694)**	**(34,617)**
Cash flows from financing activities		
Payments to the State Budget	–	(318,755)
Net cash from financing activities	**–**	**(318,755)**
Effect of changes in exchange rates – positive/(negative) exchange differences	**86,509**	**204,054**
Net increase/(decrease) in cash	**486,409**	**(68,727)**
Cash at beginning of year	**4,118,616**	**4,187,343**
Cash at end of year (Note 26)	**4,605,025**	**4,118,616**

The notes on pages 123 to 149 form an integral part of these financial statements.

Notes to the financial statements for the year ended 31 December 2011

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 the laws governing the operation of credit institutions, credit unions, payment institutions, payment transaction settlement systems , foreign exchange operations and the operation of authorised foreign exchange offices;
- Performing supervision and oversight in accordance with the laws governing the operation of credit institutions, credit unions, payment institutions and payment transaction 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 Vice Governors 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:

- D.Sc. Željko Rohatinski, Governor
- Prof. Boris Vujčić, D.Sc., Deputy Governor
- Davor Holjevac, Vice Governor
- Relja Martić, Vice Governor
- M.Sc. Tomislav Presečan, Vice Governor
- M.Sc. Adolf Matejka, Vice Governor

- Prof. Boris Cota, D.Sc.
- Prof. Vlado Leko, D.Sc.
- D.Sc. Branimir Lokin
- D.Sc. Željko Lovrinčević
- Prof. Silvije Orsag, D.Sc.
- Prof. Jure Šimović, D.Sc.
- D.Sc. Sandra Švaljek
- Prof. 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.

1.2.1 The accounting policies of the Croatian National Bank applicable to the reporting periods from 1 January 2011 differ from those applied in the preparation of the most recent annual financial statements of the Croatian National Bank in the following:

- The provision about the reclassification of financial assets at fair value through profit or loss has been revised to read as follows:
  "Securities may be reclassified out of the fair value through profit or loss category if they are no longer held for the purpose of selling or repurchasing them in the near future. Such reclassification is possible only in rare circumstances and if there is the intention and ability to hold the security for the foreseeable future or until maturity".

- The provisions governing general and administrative expenses and depreciation have been amended in the part concerning the adoption of the decision on depreciation which now reads as follows:
  "The decision on depreciation is passed by the Governor of the Croatian National Bank."

1.2.2 The pronouncements of the Croatian Financial Reporting Standards Board promulgated in 2011 comprise the following:

1 Decision on the Amendments to the Decision on the Promulgation of International Financial Reporting Standards (Official Gazette No. 58 of 27 May 2011), resulting in amendments to the following standards:
- International Financial Reporting Standard 1 – First-time Adoption of International Financial Reporting Standards;
- International Financial Reporting Standard 3 – Business Combinations;
- International Financial Reporting Standard 7 – Financial Instruments: Disclosures;
- International Accounting Standard 1 – Presentation of Financial Statements;
- International Accounting Standard 21 – The Effects of Changes in Foreign Exchange Rates;
- International Accounting Standard 28 – Investments in Associates;
- International Accounting Standard 31 – Interests in Joint Ventures;
- International Accounting Standard 32 – Financial Instruments: Presentation;
- International Accounting Standard 34 – Interim Financial Reporting;
- International Accounting Standard 39 – Financial Instruments: Recognition and Measurement.

The adoption of the Decision has lead to amendments to IFRIC 13 "Customer Loyalty Programmes".

2 Correction of the Decision on the Amendments to the Decision on the Promulgation of International Financial Reporting Standards (Official Gazette No. 140 of 6 December 2011) revising the following standard:

- International Financial Reporting Standard 5 – Non-current Assets Held For Sale and Discontinued Operations;

The Decision and the correction thereof are applicable from 1 January 2011 and do not have any significant impact on the accounting policies and financial statements of the Croatian National Bank.

1.2.3 In addition to the decisions specified under 1.2.2. above, the Board adopted the following decisions in 2010 applicable to the preparation and presentation of the annual financial statements for the current period:

1 Decision on the Promulgation of International Financial Reporting Interpretations Committee's (IFRIC) Interpretation 19 (Official Gazette No. 120 of 27 October 2010).
Promulgating IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"

2 Decision on the Amendments to the Decision on the Promulgation of International Financial Reporting Standards (Official Gazette No. 120 of 27 October 2010).
By the Amendments, the Financial Reporting Standards Board has adopted the following Standards:

- Amendments to International Financial Reporting Standard 1 "First-time Adoption of International Financial Reporting Standards"
- Amendments to International Financial Reporting Standard 7 "Financial instruments: Disclosures";
- International Accounting Standard 24 (revised) "Related Party Disclosures"
- Amendments to International Financial Reporting Standard 8 "Operating Segments"
- Amendments to IFRIC 14 "IAS 19 - the limits on a defined benefit asset, minimum funding requirements and their interaction".

It is anticipated that the adoption of the Decisions specified under 1.2.3 above will have no significant 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 are expressed in thousands of kunas.

The preparation of the financial statements in accordance with generally accepted accounting principles requires the use of estimates and judgements 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, and 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 Income Statement on an accruals basis.

Interest income includes coupons earned on fixed income financial instruments and accrued discount on purchased securities.

Interest income on financial instruments at amortised cost is recognised in the Income Statement using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

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 Income Statement for the period in which services are received.

2.3 Dividend income

Dividend income on equity investments is recognised in the Income Statement when the right to receive dividends is established.

2.4 Foreign exchange gains and losses

Transactions in foreign currencies are translated into Croatian kunas at the rates of exchange in effect at the dates of the transactions. At each date of the statement of financial position, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates in effect on that date. Gains and losses on translation are included in the Income Statement for the period in which they arise using the midpoint exchange rate of the Croatian National Bank, except for Special Drawing Rights (SDRs), which are translated to Croatian kunas at the XDR exchange rate provided by the International Monetary Fund.

Foreign exchange gains and losses arising from fluctuations in exchange rates are reported in the Income Statement 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 2011 were as follows:

- USD 1 = HRK 5.819940 (2010: HRK 5.568252)
- EUR 1 = HRK 7.530420 (2010: HRK 7.385173)
- XDR 1 = HRK 8.943310 (2010: HRK 8.675295)

2.5 Provision charge and reversal

Impairment provisions for identified losses are recognised in the Income Statement 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.

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) Held-to-maturity investments
Included in this category are investments in debt securities that the Croatian National Bank intends to hold to maturity for the purpose of generating interest income.

c) Loans and receivables
This category comprises loans approved by the Croatian National Bank without the intention of short-term profit taking.

d) 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 Reclassifications

Securities may be reclassified out of the fair value through profit or loss category if they are no longer held for the purpose of selling or repurchasing them in the near future. Such reclassification is possible only in rare circumstances and if there is the intention and ability to hold the security for the foreseeable future or until maturity. In the reporting period, the Croatian National Bank reclassified certain debt securities out of the category designated at fair value through profit or loss into held-to-maturity investments, as disclosed in Note 14.

2.6.4 Measurement

Financial instruments are measured initially at fair value plus, in the case of a financial asset or financial liability not designated 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 Income Statement within “Net securities trading result”. Foreign exchange gains and losses are presented within “Net foreign exchange differences”. Held-to-maturity securities comprise debt securities with fixed or determinable payments and fixed maturities. They are measured at amortised cost using the effective interest method less any impairment. 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 the each reporting 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 statement of financial position.

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 Deposits with 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 on translation are included in the Income Statement for the period in which they arise.

2.12 Currency 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 reported in the Statement of Financial Position at cost less accumulated depreciation, 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 revaluation surplus previously recognised in equity, and any loss in excess of the previously recognised surplus is charged to the Income Statement for the reporting period.

Based on a review of useful lives of tangible and intangible assets and the increased experience and new information, the accounting estimates concerning the useful life of individual classes of tangible and intangible assets were revised as presented in the table below:

Depreciable asset class	Depreciation rates applied in 2011 (in %)	Depreciation rates applied in 2010 (in %)
Business buildings	2.0	2.0
Apartments	5.0	5.0
Garages	2.0	2.5
Mobile phones	25.0	50.0
Fixed-line switchboard and phones	20.0	25.0
Office equipment	20.0	25.0
Restaurant equipment	20.0	25.0
Machinery and other equipment	15.0	20.0
Furniture	15.0	20.0
Safety vaults	5.0	10.0
Vehicles	25.0	25.0
Personal computers	20.0	33.33
Servers and other hardware	20.0	25.0
Software	10.0	33.33
Intangible assets	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)

	2011	2010
Deposits	164,332	81,445
Trading securities	207,707	373,145
Held-to-maturity securities	403,459	–
International Monetary Fund	2	1
Loans to domestic banks	814	–
Utilisation of mandatory reserve funds	1,407	–
Other	2	2
	777,723	454,593

Pursuant to the Decision on amendments to the Decision on reserve requirements (OG 136/2011), the Croatian National Bank may approve a bank facing liquidity problems to reduce the obligation to maintain and/or allocate total reserve requirements; the Croatian National Bank calculates and charges interest on the amount by which this obligation has been reduced.

Note 4 – Interest and similar expenses

(All amounts are expressed in thousands of kunas)

	2011	2010
Kuna reserve requirements	13,652	167,858
Repurchase transactions	30,085	13,611
Economic development deposits	665	10,147
Overnight deposits with banks – kuna denominated	14,849	18,748
Other	10,110	5,205
	69,361	215,569

Note 5 – Net trading result and precious metal revaluation

(All amounts are expressed in thousands of kunas)

	2011	2010
Net securities trading result, including net changes in fair value of trading securities	184,294	225,096
Net effect on revaluation of precious metals	151	3,536
	184,445	228,632

Note 6 – Net exchange differences

(All amounts are expressed in thousands of kunas)

	2011	2010
Net exchange differences	2,000,638	1,861,595
	2,000,638	1,861,595

Note 7 – Other income

(All amounts are expressed in thousands of kunas)

	2011	2010
Gains on sale of numismatics	356	3,897
Other income	6,148	6,358
	6,504	10,255

Note 8 – Operating expenses

(All amounts are expressed in thousands of kunas)

	2011	2010
Staff costs (Note 8.1)	173,352	171,976
Materials, services and administrative expenses	77,357	92,290
Costs of production of banknotes and coins in Croatian kunas	13,864	40,654
Depreciation and amortisation	25,953	36,443
	290,526	341,363

Operating expenses include staff costs in the amount of HRK 173,352 thousand (2010: HRK 171,976 thousand), out of which HRK 5,333 thousand relate to the Croatian National Bank management (2010: HRK 5,456 thousand). Materials, services and administrative expenses include compensations to the members of the Croatian National Bank Council which amount to HRK 3,355 thousand (2010: HRK 3,272 thousand).

Change in estimate: Based on a review of the useful life of banknotes and coins in Croatian kuna denominations as well as the experience and current practice, the useful life of the banknotes and coins has been revised to reflect the number of periods to which the costs of their production are deferred, allowing a more faithful representation of the operating expenses.

Description	Circulation period 2011	Circulation period 2010
Banknotes	10 years	3 years
Coins	12 years	7 years

As a result of the revised estimate, the cost of producing banknotes and coins during the reporting period was lower by HRK 34,186 thousand than the cost that would have been recognised had the previously used periods of banknote and coin circulation been applied.

The effect of the revised estimate of the annual depreciation rates (see Note 2.15) resulted in the depreciation charge for the reporting period being lower by HRK 10,241 thousand than it would have been had the previously used depreciation rates been applied.

Note 8.1 – Staff costs

(All amounts are expressed in thousands of kunas)

	2011	2010
Net salaries	72,451	71,850
Contributions from and on salaries	42,772	42,370
Taxes and surtaxes	19,364	19,785
Other staff costs	38,765	37,971
	173,352	171,976

The average number of staff during 2011 was 635 (2010: 630).

Note 9 – (Decrease)/Increase in provisions

(All amounts are expressed in thousands of kunas)

	2011	2010
a) Accrued interest and receivables		
Amounts collected	(8)	–
b) Provisions for risks and charges		
New provisions made	8,968	8,230
Released provisions	(7,582)	(6,799)
	1,378	1,431

Note 10 – Cash and current accounts with other banks

(All amounts are expressed in thousands of kunas)

	31 December 2011	31 December 2010
Cash on hand	1,519	1,173
Foreign currency cash in the CNB treasury vault	1,505,526	1,477,752
Current accounts with foreign banks	381,700	5,207
	1,888,745	1,484,132

Note 11 – Deposits with other banks

(All amounts are expressed in thousands of kunas)

	31 December 2011	31 December 2010
Deposits with foreign central banks	15,978,459	6,161,705
Deposits with foreign commercial banks	2,694,998	16,535,483
Deposits with domestic commercial banks	12,054	12,569
	18,685,511	22,709,757

Geographical concentration of deposits with other banks:

(All amounts are expressed in thousands of kunas)

	31 December 2011	31 December 2010
Croatia	12,054	12,569
Europe	18,352,196	22,462,208
USA	321,261	234,980
	18,685,511	22,709,757

At 31 December 2011, the largest credit risk exposure to a single counterparty was to a central bank rated “Aaa” and amounted to HRK 14,831,423 thousand (31 December 2010: HRK 5,927,610 thousand).

Note 12 – Trading securities

(All amounts are expressed in thousands of kunas)

	31 December 2011	31 December 2010
EUR-denominated securities	17,896,134	40,855,890
USD-denominated securities	13,184,341	11,050,615
	31,080,475	51,906,505

Note 13 – Loans

By type of loan

(All amounts are expressed in thousands of kunas)

	31 December 2011	31 December 2010
Loans to domestic banks		
– Liquidity loans	126,772	–
Other loans	768	776
Gross loans	**127,540**	**776**
Less: provision for loan impairment	(681)	(681)
	126,859	95

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.

Note 14 – Held-to-maturity securities

a) During 2011 the Croatian National Bank started to invest in foreign-currency denominated debt securities which it classified as investments held to maturity. These are investments in securities with fixed or determinable payments and with fixed maturities that the Croatian National Bank has the positive intent and ability to hold to maturity. They are carried initially at fair value, plus transaction costs, and subsequently measured at amortised cost determined using the effective interest method. Interest income determined using the effective interest method is recognised in the Income Statement.

Held-to-maturity investments comprise the following:

(All amounts are expressed in thousands of kunas)

	31 December 2011	31 December 2010
Debt securities	29,550,396	–
Amortisation of premium/discount and accrued interest	389,814	–
	29,940,210	–

b) In 2011, the Croatian National Bank invested, in addition to foreign-currency denominated securities held to maturity, in kuna-denominated treasury bills issued by the Ministry of Finance of the Republic of Croatia.

The structure of these investments is as follows:

(All amounts are expressed in thousands of kunas)

	31 December 2011	31 December 2010
Treasury bills	250,000	–
Amortisation of discount	998	–
	250,998	–

Reclassified financial assets

According to a Governor Decision adopted under International Accounting Standard 39.50 "Financial Instruments: Recognition and Measurement", as of 31 May 2011 the Croatian National Bank reclassified its financial assets out of the fair value through profit or loss category (trading assets) to financial assets held to maturity at the fair value of those assets in the amount of HRK 2,639,527 thousand (the equivalent of EUR 355,162,001.65 using the exchange rate in effect at 31 May 2011), with the fair value at the reclassification date serving as the basis for the initial measurement.

The reclassification has been performed to reduce the sensitivity of the Income Statement to changes in the fair values of debt securities that arise from higher interest rate risk caused by the financial crisis. It enhances the stability and predictability of the impact of all investments on the Income Statement while preserving high liquidity of reserves, as a result of which the international reserve management policy continues to be compliant with the provisions of the Act on the Croatian National Bank.

The carrying amount and fair value of the reclassified assets (including accrued interest not yet due) are presented in the table below:

(All amounts are expressed in thousands of kunas)

	31 May 2011		31 December 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets at fair value through profit or loss reclassified to financial assets held to maturity	2,639,527	2,639,527	2,665,550	2,761,025

At the reclassification date, i.e. 31 May 2011, the effective interest rates on the reclassified assets ranged from 1.43 to 2.25 percent and the expected recoverable cash flows amounted to HRK 2,817,525 thousand (equivalent to EUR 374,152,397.25 using the exchange rate as at 31 December 2011).

Had the assets not been reclassified, unrealised losses on the fair value of the reclassified assets (i.e. fair value excluding accrued interest not yet due) in the amount of HRK 79,337 thousand would have been included in the financial result reported in the Income Statement for the period.

Following the reclassification, the positive effect of the reclassified assets recognised in the Income Statement for the period amounts to HRK 27,959 thousand.

The effects of the reclassified assets on the Income Statement prior to the reclassification comprised losses on changes in the fair value during the reporting period in the amount of HRK 45,981 thousand and gains on changes in the fair value during the prior reporting period in the amount of HRK 15,003 thousand. The fair value is presented net of accrued interest not yet due.

Note 15 – Balances with the International Monetary Fund

(All amounts are expressed in thousands of kunas)

	31 December 2011	31 December 2010
Membership quota	3,265,185	3,130,842
Special Drawing Rights (SDR) and deposits	2,716,280	2,634,484
	5,981,465	5,765,326

Note 16 – Equity investments

(All amounts are expressed in thousands of kunas)

	31 December 2011	31 December 2010
Membership in other international institutions	44,530	43,197
Investments in domestic companies	19,140	18,743
	63,670	61,940

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 17 – Accrued interest and other assets

(All amounts are expressed in thousands of kunas)

	31 December 2011	31 December 2010
Accrued interest	11,571	12,956
Prepaid expenses	175,703	132,985
Numismatics	9,864	9,924
Gold and other precious metals	8,447	8,268
Other assets	80,829	95,195
	286,414	**259,328**
Impairment allowance	(58,894)	(58,902)
	227,520	200,426

(All amounts are expressed in thousands of kunas)

	31 December 2011	31 December 2010
Movements in impairment allowance:		
Balance at 1 January	(58,902)	(58,901)
Amounts collected	8	–
Amounts written off	–	(1)
Balance at 31 December	(58,894)	(58,902)

The major portion of prepaid expenses in the amount of HRK 170,685 thousand (2010: HRK 126,595 thousand) relates to the prepaid expenses of printing banknotes and minting coins.

Note 18 – Tangible and intangible assets

(All amounts are expressed in thousands of kunas)

	Land and buildings	Computers	Furniture and equipment	Motor vehicles	Other assets	Assets under development	Software and licences	Total
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 **Year ended 31 December 2010**	**393,339**	**27,380**	**41,476**	**2,236**	**4,272**	**98,774**	**23,077**	**590,554**
Opening net book amount	393,339	27,380	41,476	2,236	4,272	98,774	23,077	590,554
Additions	–	–	–	–	160	33,420	–	33,580
Assets put into use	66,899	4,915	2,548	–	–	(81,124)	6,762	–
Revaluation	30,470	–	–	–	–	–	–	30,470
Transfer	28,587	–	(28,587)	–	–	–	–	–
Net written off	–	–	(100)	–	–	–	–	(100)
Charge for the year	(6,930)	(11,716)	(4,155)	(1,570)	–	–	(12,072)	(36,443)
Closing net book amount	**512,365**	**20,579**	**11,182**	**666**	**4,432**	**51,070**	**17,767**	**618,061**
Balance at 31 December 2010								
Cost or revaluation	514,986	91,003	42,421	10,225	4,432	51,070	63,295	777,432
Accumulated depreciation/amortisation	(2,621)	(70,424)	(31,239)	(9,559)	–	–	(45,528)	(159,371)
Net book value	**512,365**	**20,579**	**11,182**	**666**	**4,432**	**51,070**	**17,767**	**618,061**

(All amounts are expressed in thousands of kunas)

	Land and buildings	Computers	Furniture and equipment	Motor vehicles	Other assets	Assets under development	Software and licences	Total
Balance at 31 December 2010								
Cost or revaluation	514,986	91,003	42,421	10,225	4,432	51,070	63,295	777,432
Accumulated depreciation/amortisation	(2,621)	(70,424)	(31,239)	(9,559)	–	–	(45,528)	(159,371)
Net book value **Year ended 31 December 2011**	**512,365**	**20,579**	**11,182**	**666**	**4,432**	**51,070**	**17,767**	**618,061**
Opening net book amount	512,365	20,579	11,182	666	4,432	51,070	17,767	618,061
Additions					36	31,362		31,398
Assets put into use	8,423	4,868	841	–	–	(19,261)	5,129	–
Transfers	2,237	–	(2,237)	–	–	–	–	–
Net written off	–	–	(11)	–	–	–	–	(11)
Charge for the year	(8,865)	(9,995)	(2,868)	(444)	–	–	(3,780)	(25,952)
Closing net book amount	**514,160**	**15,452**	**6,907**	**222**	**4,468**	**63,171**	**19,116**	**623,496**
Balance at 31 December 2011								
Cost or revaluation	525,897	95,315	39,893	10,225	4,468	63,171	68,424	807,393
Accumulated depreciation/amortisation	(11,737)	(79,863)	(32,986)	(10,003)	–	–	(49,308)	(183,897)
Net book value	**514,160**	**15,452**	**6,907**	**222**	**4,468**	**63,171**	**19,116**	**623,496**

Assets (land and buildings) were last revalued by independent experts in 2010. 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 2011 would be HRK 137,126 thousand. The tangible fixed assets of the Croatian National Bank are subject neither to a mortgage nor to a fiduciary relationship.

Note 19 – Banknotes and coins in circulation

(All amounts are expressed in thousands of kunas)

	2011	2010
Banknotes and coins put into circulation as of January 1	19,311,462	18,941,723
Increase/(decrease) in circulation during the year	1,631,551	369,739
Banknotes and coins put into circulation - total as of December 31	20,943,013	19,311,462

In HRK	Nominal value	31 December 2011		31 December 2010	
		Pieces	Value In thousands of kunas	Pieces	Value In thousands of kunas
Coins	0.01	125,706,925	1,257	125,697,068	1,257
Coins	0.02	83,943,443	1,679	83,948,334	1,679
Coins	0.05	261,909,941	13,095	248,638,364	12,432
Coins	0.10	409,893,125	40,989	392,680,979	39,268
Coins	0.20	301,996,450	60,399	289,410,855	57,882
Coins	0.50	174,821,240	87,411	166,676,579	83,338
Coins	1	192,326,914	192,327	183,776,918	183,777
Coins	2	100,157,465	200,315	93,671,799	187,344
Coins	5	67,643,928	338,220	63,314,097	316,570
Coins	25	1,121,018	28,025	1,116,451	27,911
Banknotes	5	4,168,993	20,845	4,192,890	20,964
Banknotes	10	32,653,160	326,532	30,546,262	305,463
Banknotes	20	22,180,309	443,606	20,465,582	409,312
Banknotes	50	12,115,470	605,774	12,709,164	635,458
Banknotes	100	28,887,316	2,888,732	27,267,981	2,726,798
Banknotes	200	44,878,624	8,975,725	41,429,153	8,285,831
Banknotes	500	5,688,985	2,844,492	5,025,291	2,512,646
Banknotes	1,000	3,873,590	3,873,590	3,503,532	3,503,532
Total			20,943,013		19,311,462

Note 20 – Due to banks and other financial institutions

(All amounts are expressed in thousands of kunas)

	31 December 2011	31 December 2010
Kuna reserve requirements	25,754,960	22,705,131
Foreign currency reserve requirements	5,538,279	4,773,226
Other deposits from domestic banks	15,681,132	14,245,061
Deposits from foreign banks and other financial institutions	423	8,685
Court-mandated deposits	7,399	3,111
	46,982,193	41,735,214

Note 21 – Due to the state and state institutions

(All amounts are expressed in thousands of kunas)

	31 December 2011	31 December 2010
Domestic currency account balances	1,083,988	1,529,024
Foreign currency account balances	589,456	2,726,398
	1,673,444	4,255,422

Note 22 – Due to the International Monetary Fund

(All amounts are expressed in thousands of kunas)

	31 December 2011	31 December 2010
Kuna-denominated bills of exchange	3,255,600	3,121,651
Net cumulative allocations	2,711,047	2,629,802
Other IMF's accounts	8,174	7,846
	5,974,821	5,759,299

The bills of exchange denominated in Croatian kuna relate to the membership of the Republic of Croatia in the International Monetary Fund.

Note 23 – Accrued interest and other liabilities

(All amounts are expressed in thousands of kunas)

	31 December 2011	31 December 2010
Accrued interest	1,267	17,059
Due to employees	6,184	5,974
Taxes and contributions	6,811	6,926
Due to the Ministry of Finance	486,160	5,746
Trade accounts payable	10,057	9,386
Other liabilities	257,881	1,247,759
	768,360	1,292,850

Other liabilities include funds on a transaction account opened on the basis of a contractual arrangement between the Croatian National Bank and the Croatian Bank for Reconstruction and Development ('HBOR') for the purpose of the Financing Models provided within the Measures for Economic Recovery and Development adopted by the Government of the Republic of Croatia. The funds indented for economic recovery and development account for the most part of other liabilities and amount to HRK 153,480 thousand (2010: HRK 1,144,572 thousand). Included in other liabilities are long-term provisions for risks and charges, out of which HRK 41,580 thousand (2010: HRK 41,780 thousand) are in respect of legal actions and HRK 20,498 thousand (2010: HRK 18,911 thousand) are in respect of employee benefits.

Note 24 – 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 used as collateral.

Reserves comprise general and specific reserves. General reserves are formed for the purpose of covering general risks of operations of the Croatian National Bank, they are not limited in size, 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.

Note 25 – Contingent liabilities and commitments and treasury inventory system

Legal actions: At 31 December 2011, 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, the Bank may lose certain cases, and, consequently, provisions for potential losses on such cases were made by the Bank in the amount of HRK 41,580 thousand (see Note 23).

Capital commitments: At 31 December 2011 the capital commitments of the Croatian National Bank amounted to HRK 3,544 thousand (2010: HRK 13,559 thousand).

Treasury inventory system

(All amounts are expressed in thousands of kunas)

	31 December 2011	31 December 2010
Banknotes and coins not in circulation	79,562,868	79,116,486
Inventory of government stamps and bill-of-exchange forms	317,579	318,722
	79,880,447	79,435,208

Note 26 – Cash and cash equivalents

(All amounts are expressed in thousands of kunas)

	31 December 2011	31 December 2010
Cash on hand	1,519	1,173
Foreign currency cash in the CNB treasury vault	1,505,526	1,477,752
Current accounts with foreign banks	381,700	5,207
Special Drawing Rights (SDR) and deposits with the IMF	2,716,280	2,634,484
	4,605,025	4,118,616

Note 27 – Appropriations

(All amounts are expressed in thousands of kunas)

	31 December 2011	31 December 2010
Operating surplus	2,613,866	2,011,568
Transfer of surplus to general reserves	(2,133,789)	(2,011,568)
Surplus allocated to the State Budget	(480,077)	–
	–	–

Note 28 – Fair values 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, and held-to-maturity securities for which comparison of carrying value and fair value could be presented as follows:

(All amounts are expressed in thousands of kunas)

	31 December 2011	
	Carrying value	Fair value
Held-to-maturity securities	29,940,210	30,933,121

Note 29 – 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 29.1 – Credit risk

Credit risk is the risk that the counterparty will not settle its liability i.e. that invested funds will not be recovered in full or within the planned schedule.

The Croatian National Bank manages its credit risk exposure, by investing its foreign currency reserves into high-quality instruments with minimum risk, such as government bonds, government guaranteed bonds, bank bonds with government guarantees and secured bonds, into instruments of international financial institutions with high credit rating 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 and government guaranteed bonds of countries rated Aaa to Aa3 (Moody's), secured bonds with ratings from Aaa to Aa1, 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 of the rating agencies.

29.1.1 Credit risk concentration by type of asset

(All amounts are expressed in thousands of kunas)

	31 December 2011	31 December 2010
Foreign-currency denominated securities held for trading		
Government securities	30,848,563	51,739,461
Securities of international financial institutions	231,912	167,044
Total foreign-currency denominated securities held for trading	**31,080,475**	**51,906,505**
Foreign-currency denominated securities held to maturity		
Government securities	24,495,834	–
Guaranteed bonds (public sector collateral)	1,557,870	–
Securities of international financial institutions	3,886,506	–
Total foreign-currency denominated securities held to maturity	**29,940,210**	**–**
Total foreign-currency denominated securities	61,020,685	51,906,505
Foreign currency account balances		
Reverse repo agreements	1,375,533	11,379,736
Deposits	16,956,746	7,327,318
Deposits with international financial institutions	3,442,081	6,635,499
Total foreign-currency denominated deposits	**21,774,360**	**25,342,553**
Subtotal	82,795,045	77,249,058
Loans (banks in Croatia)	127,329	–
Kuna-denominated securities held to maturity (treasury bills of the Croatian Ministry of Finance)	250,998	–
Subtotal	**378,327**	**–**
Total	83,173,372	77,249,058

29.1.2 Credit risk by counterparty credit rating

(All amounts are expressed in thousands of kunas)

	31 December 2011	31 December 2010
Rating (Moody's)		
	Government securities	Government securities
Aaa	48,978,795	48,470,242
Aa1	–	1,241,080
Aa2	–	2,028,139
Aa3	4,675,807	–
A1	164,332[a]	–
AA	1,525,463[b]	–
Total	**55,344,397**	**51,739,461**
	Guaranteed bonds	Guaranteed bonds
Aaa	1,557,870	–
Total	**1,557,870**	**–**
	Securities of international financial institutions	Securities of international financial institutions
Aaa	4,118,418	167,044
Total	**4,118,418**	**167,044**
Total foreign-currency denominated securities	61,020,685	51,906,505
	Reverse repo agreements	Reverse repo agreements
Aaa	321,266	234,961
Aa2	1,054,267	1,182,161
Aa3	–	9,962,614
Total	**1,375,533**	**11,379,736**
	Deposits	Deposits
Aaa	16,037,784	6,412,240
Aa2	294	210,729
Aa3	917,931	704,296
A1	83	–
A2	441[c]	–
Not rated	213	53
Total	**16,956,746**	**7,327,318**
	Deposits with international financial institutions	Deposits with international financial institutions
Not rated	3,442,081	6,635,499
Total	**3,442,081**	**6,635,499**
Total foreign-currency denominated deposits	21,774,360	25,342,553
Subtotal	82,795,045	77,249,058

(All amounts are expressed in thousands of kunas)

	31 December 2011	31 December 2010
Rating (Moody's)		
	Loans (banks in Croatia)	Loans (banks in Croatia)
Not rated	127,329	–
Total loans	**127,329**	**–**
	Kuna-denominated securities of the Croatian Ministry of Finance	Kuna-denominated securities of the Croatian Ministry of Finance
Baa3	250,998	–
Total kuna-denominated securities	**250,998**	**–**
Subtotal	378,327	–
Total	83,173,372	77,249,058

[a] The investment's ratings according to Standard&Poor's and Fitch
[b] The investment's ratings according to Standard&Poor's
[c] Demand deposits with banks at which foreign-exchange payment operation accounts are opened.

29.1.3 Geographical concentration of credit risk

(All amounts are expressed in thousands of kunas)

Instrument	Eurozone	Other	Total
Balance at 31 December 2011			
Government securities	45,715,111	9,629,286	55,344,397
Guaranteed bonds	1,557,870	–	1,557,870
Securities of international financial institutions	4,118,418	–	4,118,418
Total foreign-currency denominated securities	**51,391,399**	**9,629,286**	**61,020,685**
Reverse repo agreements	1,054,272	321,261	1,375,533
Deposits	16,952,974	3,772	16,956,746
Deposits with international financial institutions	–	3,442,081	3,442,081
Total foreign-currency denominated deposits	**18,007,246**	**3,767,114**	**21,774,360**
Subtotal	69,398,645	13,396,400	82,795,045
Loans (banks in Croatia)	–	127,329	127,329
Kuna-denominated securities of the Croatian Ministry of Finance	–	250,998	250,998
Subtotal	–	378,327	378,327
Total 31 December 2011	69,398,645	13,774,727	83,173,372

29.1.3 Geographical concentration of credit risk (continued)

(All amounts are expressed in thousands of kunas)

Instrument	Eurozone	Other	Total
Balance at 31 December 2010			
Government securities	43,572,297	8,167,164	51,739,461
Securities of international financial institutions	167,044	–	167,044
Total securities	**43,739,341**	**8,167,164**	**51,906,505**
Reverse repo agreements	6,574,765	4,804,971	11,379,736
Deposits	6,671,828	655,490	7,327,318
Deposits with international financial institutions	–	6,635,499	6,635,499
Total deposits	**13,246,593**	**12,095,960**	**25,342,553**
Total at 31 December 2010	56,985,934	20,263,124	77,249,058

Note 29.2 – 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 Income Statement and, consequently, the financial performance of the Croatian National Bank.

The Croatian National Bank takes on exposure to foreign exchange risk only in respect of the net international reserves, which are the international reserve funds formed out of foreign exchange funds purchased from banks on foreign exchange intervention and foreign exchange funds from the Croatian Ministry of Finance.

International reserves formed out of the allocated foreign exchange reserve requirement, Ministry of Finance funds, repo deals and funds in Special Drawing Rights (XDRs) are managed passively, based on the currency structure of foreign currency obligations; hence, there is no exposure to foreign exchange risk on this basis.

29.2.1 Sensitivity analysis – impact of percentage fluctuations in exchange rates on the Income Statement

2011 Sensitivity analysis

(All amounts are expressed in thousands of kunas)

2011	USD	EUR
	±5%	±1%
Impact of fluctuations in exchange rates on the Income Statement	726,000/(726,000)	609,400/(609,400)

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 figure 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 be lower.

In case of a 1-percent decrease in the EUR/HRK as at 31 December 2011, the financial result of the CNB for the year would be lower by approximately HRK 609,400 thousand, while for a 5-percent decrease in the USD/HRK exchange rate, the result would be lower by approximately HRK 726,000 thousand.

Calculation methodology:

The amount of the net euro and net US dollar international reserves as at reporting 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 the relevant percentages.

2010 Sensitivity analysis

(All amounts are expressed in thousands of kunas)

2010	USD	EUR
	±5%	±1%
Impact of fluctuations in exchange rates on the Income Statement	655,400/(655,400)	554,800/(554,800)

29.2.2 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
Balance at 31 December 2011						
Assets						
Cash and current accounts with other banks	1,883,472	2,151	–	2,787	335	1,888,745
Deposits with other banks	14,290,809	4,382,648	–	–	12,054	18,685,511
Trading securities	17,896,134	13,184,341	–	–	–	31,080,475
Loans	–	–	–	–	126,859	126,859
Held-to-maturity securities	29,940,210	–	–	–	250,998	30,191,208
Balances with the IMF	–	–	5,981,465	–	–	5,981,465
Equity investments	79	–	44,451	–	19,140	63,670
Accrued interest and other assets	2,816	119	–	–	224,585	227,520
Tangible and intangible assets	–	–	–	–	623,496	623,496
Total assets	**64,013,520**	**17,569,259**	**6,025,916**	**2,787**	**1,257,467**	**88,868,949**

	EUR	USD	XDR	Other foreign currencies	HRK	Total
Liabilities						
Banknotes and coins in circulation	–	–	–	–	20,943,013	20,943,013
Due to banks and other financial institutions	2,960,976	2,577,302	–	–	41,443,915	46,982,193
Due to the State and State institutions	119,364	469,394		699	1,083,987	1,673,444
Due to the IMF	–	–	5,974,821	–	–	5,974,821
Accrued interest and other liabilities	590	10	–	9	767,751	768,360
Total liabilities	**3,080,930**	**3,046,706**	**5,974,821**	**708**	**64,238,666**	**76,341,831**
Net position	60,932,590	14,522,553	51,095	2,079	(62,981,199)	12,527,118
Balance at 31 December 2010						
Assets						
Cash and current accounts with other banks	1,477,945	1,748	–	4,257	182	1,484,132
Deposits with other banks	15,648,628	7,048,560	–	–	12,569	22,709,757
Trading securities	40,855,890	11,050,615	–	–	–	51,906,505
Loans	–	–	–	–	95	95
Balances with the IMF	–	–	5,765,326	–	–	5,765,326
Equity investments	78	–	43,119	–	18,743	61,940
Accrued interest and other assets	4,913	763	–	–	194,750	200,426
Tangible and intangible assets	–	–	–	–	618,061	618,061
Total assets	**57,987,454**	**18,101,686**	**5,808,445**	**4,257**	**844,400**	**82,746,242**
Liabilities						
Banknotes and coins in circulation	–	–	–	–	19,311,462	19,311,462
Due to banks and other financial institutions	2,463,804	2,309,421	–	–	36,961,989	41,735,214
Due to the State and State institutions	42,397	2,683,415	–	586	1,529,024	4,255,422
Due to the IMF	–	–	5,759,299	–	–	5,759,299
Accrued interest and other liabilities	535	75	–	1	1,292,239	1,292,850
Total liabilities	**2,506,736**	**4,992,911**	**5,759,299**	**587**	**59,094,714**	**72,354,247**
Net position	55,480,718	13,108,775	49,146	3,670	(58,250,314)	10,391,995

Note 29.3 – 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.

The Croatian National Bank has an open interest rate position only with the held-for-trading euro and dollar portfolios, while the held-to-maturity euro portfolio has almost no interest rate risk; all other foreign exchange assets are managed by the CNB in line with the maturities of obligations.

The Croatian National Bank limits the interest rate risk of the held-for-trading portfolios by setting the strategic modified average remaining term to maturity (strategic duration) to less than one year.

29.3.1 Sensitivity analysis – exposure of the CNB's net international reserves to fluctuations in interest rates

2011 Sensitivity analysis

(All amounts are expressed in thousands of kunas)

2011	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	(36,300)/36,300	(86,000)/86,000

Should as at 31 December 2011 the entire USD yield curve increase by 50 basis points (0.5%), the result of the CNB reported in the Income Statement for the year would be lower by approximately HRK 36,300 thousand, while in the case of the EUR yield curve increasing by 50 basis points, the result would be lower by approximately HRK 86,000 thousand.

For a 50 b.p. decrease of the yield curve, the result reported in the Income Statement would be higher by approximately the same amounts.

Calculation methodology:

The net amount of dollar and euro reserves as at 31 December 2011 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.

2010 Sensitivity analysis

(All amounts are expressed in thousands of kunas)

2010	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	(32,800)/32,800	(180,000)/180,000

The lower exposure of the Croatian National Bank's net international reserve funds to the interest rate risk at 31 December 2011 versus 31 December 2010 is a result of forming the euro-denominated held-to-maturity portfolio and of a shorter modified duration of the CNB's euro-denominated portfolio held for trading.

29.3.2 Interest rate risk analysis

(All amounts are expressed in thousands of kunas)

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Non-interest bearing	Total
Balance at 31 December 2011						
Assets						
Cash and current accounts with other banks	–	–	–	–	1,888,745	1,888,745
Deposits with other banks	16,386,899	2,286,558	–	–	12,054	18,685,511
Trading securities	31,080,475	–	–	–	–	31,080,475
Loans	41,859	85,000	–	–	–	126,859
Held-to-maturity securities	–	198,825	878,553	28,606,572	507,258	30,191,208
Balances with the IMF	2,711,636	–	–	–	3,269,829	5,981,465
Equity investments	–	–	–	–	63,670	63,670
Accrued interest and other assets	–	–	–	–	227,520	227,520
Tangible and intangible assets	–	–	–	–	623,496	623,496
Total assets	50,220,869	2,570,383	878,553	28,606,572	6,592,572	88,868,949

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Non-interest bearing	Total
Liabilities						
Banknotes and coins in circulation	–	–	–	–	20,943,013	20,943,013
Due to banks and other financial institutions	8,514,279	–	–	–	38,467,914	46,982,193
Due to the State and State institutions	777,128	–	–	–	896,316	1,673,444
Due to the IMF	2,711,048	–	–	–	3,263,773	5,974,821
Accrued interest and other liabilities	–	–	–	–	768,360	768,360
Total liabilities	**12,002,455**	**–**	**–**	**–**	**64,339,376**	**76,341,831**
Net position	38,218,414	2,570,383	878,553	28,606,572	(57,746,804)	12,527,118
Balance at 31 December 2010						
Assets						
Cash and current accounts with other banks	–	–	–	–	1,484,132	1,484,132
Deposits with other banks	18,338,933	4,358,255	–	–	12,569	22,709,757
Trading securities	51,906,505	–	–	–	–	51,906,505
Loans	95	–	–	–	–	95
Balances with the IMF	2,629,980	–	–	–	3,135,346	5,765,326
Equity investments	–	–	–	–	61,940	61,940
Accrued interest and other assets	–	–	–	–	200,426	200,426
Tangible and intangible assets	–	–	–	–	618,061	618,061
Total assets	**72,875,513**	**4,358,255**	**–**	**–**	**5,512,474**	**82,746,242**
Liabilities						
Banknotes and coins in circulation	–	–	–	–	19,311,462	19,311,462
Due to banks and other financial institutions	31,464,757	–	–	–	10,270,457	41,735,214
Due to the State and State institutions	1,278,162	–	–	–	2,977,260	4,255,422
Due to the IMF	2,629,802	–	–	–	3,129,497	5,759,299
Accrued interest and other liabilities	1,144,572	–	–	–	148,278	1,292,850
Total liabilities	**36,517,293**	**–**	**–**	**–**	**35,836,954**	**72,354,247**
Net position	36,358,220	4,358,255	–	–	(30,324,480)	10,391,995

Note 29.4 – 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, with the securities in the trading portfolio readily convertible into cash at any time.

At 31 December 2011, around 42 percent of net international reserves were liquid, whereas the average level of net international reserves liquid on a daily basis during 2010 approximated 84 percent. The lower percentage of liquid funds versus prior year is a result of reclassifying a part of net international reserves into the held-to-maturity portfolio, i.e. instruments not available for sale until their maturity.

In the following tables, the financial liabilities of the Croatian National Bank are analysed into relevant groupings by the remaining contractual maturity from the reporting 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.

(All amounts are expressed in thousands of kunas)

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Balance at 31 December 2011						
Liabilities						
Banknotes and coins in circulation	20,943,013	–	–	–	–	20,943,013
Due to banks and other financial institutions	46,981,770	–	–	–	423	46,982,193
Due to the State and State institutions	1,673,444	–	–	–	–	1,673,444
Due to the IMF	–	–	–	–	5,974,821	5,974,821
Accrued interest and other liabilities	184,414	481,960	62,077	38,126	1,805	768,382
Total liabilities	**69,782,641**	**481,960**	**62,077**	**38,126**	**5,977,049**	**76,341,853**
Balance at 31 December 2010						
Liabilities						
Banknotes and coins in circulation	19,311,462	–	–	–	–	19,311,462
Due to banks and other financial institutions	41,726,529	–	–	–	8,685	41,735,214
Due to the State and State institutions	4,255,422	–	–	–	–	4,255,422
Due to the IMF	–	–	–	–	5,759,299	5,759,299
Accrued interest and other liabilities	1,193,666	1,784	60,691	38,126	2,096	1,296,363
Total liabilities	**66,487,079**	**1,784**	**60,691**	**38,126**	**5,770,080**	**72,357,760**

HNB

Management and internal organisation of the Croatian National Bank

Members of the Council of the Croatian National Bank

Chairman of the Council	Željko Rohatinski
Members of the Council	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

Governor	Željko Rohatinski
Deputy Governor	Boris Vujčić
Vicegovernor	Davor Holjevac
Vicegovernor	Relja Martić
Vicegovernor	Adolf Matejka
Vicegovernor	Tomislav Presečan

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
- 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*)
  - Market Strategy Division

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 Department
- Consumer Protection and Market Competition Department

Payment Operations Area
- Payment Operations Regulation and Development Department
- Payment Operations Supervision Department
- Payment Systems Operations Department
- 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 2011

HNB

Authorised banks

BANCO POPOLARE CROATIA d.d.
Petrovaradinska 1
10000 Zagreb
Phone: + 385 1 46 53 400
Fax: + 385 1 46 53 799
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 40 34 03
Fax: + 385 42 21 21 48
SWIFT: SKOVHR22

BANKA SPLITSKO-DALMATINSKA d.d.
114. brigade 9
21000 Split
Phone: + 385 21 54 02 80
Fax: + 385 21 54 02 90
SWIFT: DALMHR22

BKS BANK d.d.
Mljekarski trg 3
51000 Rijeka
Phone: + 385 51 35 35 55
Fax: + 385 51 35 35 66
SWIFT: BFKKHR22

CENTAR BANKA d.d.
Amruševa 6
10000 Zagreb
Phone: + 385 1 48 03 444
Fax: + 385 1 48 03 441
SWIFT: CBZGHR2X

CROATIA BANKA d.d.
Kvaternikov trg 9
10000 Zagreb
Phone: + 385 1 23 91 111
Fax: + 385 1 23 32 470
SWIFT: CROAHR2X

ERSTE & STEIERMÄRKISCHE BANK d.d.
Jadranski trg 3a
51000 Rijeka
Phone: + 385 62 37 50 00
Fax: + 385 51 62 37 60 00
SWIFT: ESBCHR22

HRVATSKA POŠTANSKA BANKA d.d.
Jurišićeva 4
10000 Zagreb
Phone: + 385 1 48 04 574
Fax: + 385 1 48 10 791
SWIFT: HPBZHR2X

HYPO ALPE-ADRIA-BANK d.d.
Slavonska avenija 6
10000 Zagreb
Phone: + 385 1 60 30 000
Fax: + 385 1 60 35 100
SWIFT: HAABHR22

IMEX BANKA d.d.
Tolstojeva 6
21000 Split
Phone: + 385 21 40 61 00
Fax: + 385 21 40 61 38
SWIFT: IMXXHR22

ISTARSKA KREDITNA BANKA UMAG d.d.
E. Miloša 1
52470 Umag
Phone: + 385 52 70 23 00
Fax: + 385 52 70 23 88
SWIFT: ISKBHR2X

JADRANSKA BANKA d.d.
A. Starčevića 4
22000 Šibenik
Phone: + 385 22 24 22 42
Fax: + 385 22 33 58 81
SWIFT: JADRHR2X

KARLOVAČKA BANKA d.d.
I. G. Kovačića 1
47000 Karlovac
Phone: + 385 47 41 75 00
Fax: + 385 47 61 42 06
SWIFT: KALCHR2X

KREDITNA BANKA ZAGREB d.d.
Ul. grada Vukovara 74
10000 Zagreb
Phone: + 385 1 61 67 333
Fax: + 385 1 61 16 466
SWIFT: KREZHR2X

MEĐIMURSKA BANKA d.d.
V. Morandinija 37
40000 Čakovec
Phone: + 385 40 34 00 00
Fax: + 385 40 34 00 10
SWIFT: MBCKHR2X

NAVA BANKA d.d.
Tratinska 27
10000 Zagreb
Phone: + 385 1 36 56 777
Fax: + 385 1 36 56 700
SWIFT: NAVBHR22

OTP BANKA HRVATSKA d.d.
Domovinskog rata 3
23000 Zadar
Phone: + 385 62 20 15 55
Fax: + 385 62 20 19 50
SWIFT: OTPVHR2X

PARTNER BANKA d.d.
Vončinina 2
10000 Zagreb
Phone: + 385 1 46 02 222
Fax: + 385 1 46 02 289
SWIFT: PAZGHR2X

PODRAVSKA BANKA d.d.
Opatička 1a
48300 Koprivnica
Phone: + 385 62 65 50 00
Fax: + 385 62 65 52 39
SWIFT: PDKCHR2X

PRIMORSKA BANKA d.d.
Scarpina 7
51000 Rijeka
Phone: + 385 51 35 57 77
Fax: + 385 51 33 27 62
SWIFT: SPRMHR22

PRIVREDNA BANKA ZAGREB d.d.
F. Račkoga 6
10000 Zagreb
Phone: + 385 1 63 60 000
Fax: + 385 1 63 60 063
SWIFT: PBZGHR2X

RAIFFEISENBANK AUSTRIA d.d.
Petrinjska 59
10000 Zagreb
Phone: + 385 1 45 66 466
Fax: + 385 1 48 11 624
SWIFT: RZBHHR2X

SAMOBORSKA BANKA d.d.
Trg kralja Tomislava 8
10430 Samobor
Phone: + 385 1 33 62 530
Fax: + 385 1 33 61 523
SWIFT: SMBRHR22

SLATINSKA BANKA d.d.
V. Nazora 2
33520 Slatina
Phone: + 385 33 84 04 00
Fax: + 358 33 55 15 66
SWIFT: SBSLHR2X

SOCIÉTÉ GÉNÉRALE – SPLITSKA BANKA d.d.
R. Boškovića 16
21000 Split
Phone: + 385 21 30 43 04
Fax: + 385 21 30 40 34
SWIFT: SOGEHR22

ŠTEDBANKA d.d.
Slavonska avenija 3
10000 Zagreb
Phone: + 385 1 63 06 666
Fax: + 385 1 61 87 015
SWIFT: STEDHR22

VABA d.d. BANKA VARAŽDIN
Aleja kralja Zvonimira 1
42000 Varaždin
Phone: + 385 42 65 94 00
Fax: + 385 42 65 94 01
SWIFT: VBVZHR22

VENETO BANKA d.d.
Draškovićeva 58
10000 Zagreb
Phone: + 385 1 48 02 666
Fax: + 385 1 48 02 571
SWIFT: CCBZHR2X

VOLKSBANK d.d.
Varšavska 9
10000 Zagreb
Phone: + 385 1 48 01 300
Fax: + 385 1 48 01 365
SWIFT: VBCRHR22

ZAGREBAČKA BANKA d.d.
Paromlinska 2
10000 Zagreb
Phone: + 385 1 61 04 000
Fax: + 385 1 61 10 533
SWIFT: ZABAHR2X

Authorised savings banks

TESLA ŠTEDNA BANKA d.d.
Koturaška cesta 51
10000 Zagreb
Phone: + 385 1 22 26 522
Fax: + 385 1 22 26 523
SWIFT: ASBZHR22

Representative offices of foreign banks

BKS BANK AG, Zagreb
COMMERZBANK AKTIENGESELLSCHAFT, Zagreb
DEUTSCHE BANK AG, Zagreb
LHB INTERNATIONALE HANDELSBANK AG, Zagreb

Authorised housing savings banks

HPB – STAMBENA ŠTEDIONICA d.d.
Savska cesta 58
10000 Zagreb
Phone: + 385 1 55 53 903
Fax: + 385 1 55 53 905

PBZ STAMBENA ŠTEDIONICA d.d.
Radnička cesta 44
10000 Zagreb
Phone: + 385 1 63 63 730
Fax: + 385 1 63 63 731

PRVA STAMBENA ŠTEDIONICA d.d.
Savska 60
10000 Zagreb
Phone: + 385 1 60 65 111
Fax: + 385 1 60 65 120

RAIFFEISEN STAMBENA ŠTEDIONICA d.d.
Radnička cesta 47
10000 Zagreb
Phone: + 385 1 60 06 100
Fax: +385 1 60 06 199

WÜSTENROT STAMBENA ŠTEDIONICA d.d.
Heinzelova 33a
10000 Zagreb
Phone: + 385 1 48 03 777
Fax: + 385 1 48 03 798

Statistical appendix

HNB

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
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	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
2010	December	56,249.1	49,151.7	49,748.5	232,869.6	188,845.0	247,520.2	2.81	1.67	1.18	0.17	3.24	0.52
2011	January	56,847.0	49,467.6	50,086.6	231,800.0	190,919.0	246,211.2	1.06	0.64	0.68	–0.46	1.10	–0.53
	February	57,627.2	49,436.2	50,148.0	231,562.5	192,815.1	247,554.2	1.37	–0.06	0.12	–0.10	0.99	0.55
	March	57,569.9	49,093.2	49,815.0	229,344.9	192,761.5	248,100.5	–0.10	–0.69	–0.66	–0.96	–0.03	0.22
	April	59,632.7	50,362.2	51,258.1	228,898.1	195,543.3	250,233.1	3.58	2.58	2.90	–0.19	1.44	0.86
	May	61,310.3	50,478.9	51,488.7	230,682.4	200,055.9	254,328.8	2.81	0.23	0.45	0.78	2.31	1.64
	June	62,981.2	52,756.8	53,723.4	232,457.5	200,836.6	253,514.2	2.73	4.51	4.34	0.77	0.39	–0.32
	July	57,131.7	53,931.6	54,879.6	236,860.9	198,533.6	258,375.4	–9.29	2.23	2.15	1.89	–1.15	1.92
	August	58,080.3	54,014.2	55,022.2	241,379.1	198,798.8	257,381.7	1.66	0.15	0.26	1.91	0.13	–0.38
	September	59,603.2	51,154.7	52,088.1	241,200.3	199,260.9	257,122.8	2.62	–5.29	–5.33	–0.07	0.23	–0.10
	October	58,962.5	50,998.6	51,899.1	241,353.8	201,077.8	257,229.1	–1.08	–0.31	–0.36	0.06	0.91	0.04
	November	60,091.7	50,946.2	51,922.2	241,661.5	203,421.2	258,893.3	1.92	–0.10	0.04	0.13	1.17	0.65
	December	62,379.5	52,850.9	53,767.9	241,056.9	207,581.7	261,048.8	3.81	3.74	3.55	–0.25	2.05	0.83

Table A1 Monetary and credit aggregates • The table shows data on some basic monetary and credit aggregates, including their monthly growth rates.

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

	2010	2011											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
ASSETS													
1 Foreign assets (net)	44,024.6	40,880.9	38,747.4	36,583.5	33,354.8	30,626.5	31,620.9	38,327.3	42,580.3	41,939.4	40,276.0	38,240.3	33,475.2
2 Domestic credit	272,601.4	273,798.4	277,104.9	276,897.9	280,003.2	286,022.9	286,421.5	286,304.5	286,385.1	287,704.0	289,576.8	293,519.5	299,152.6
2.1 Claims on central government and funds (net)	25,081.2	27,587.2	29,550.7	28,797.5	29,770.1	31,694.2	32,907.3	27,929.1	29,003.4	30,581.2	32,347.6	34,626.2	38,103.8
2.2 Claims on other domestic sectors	244,039.2	242,852.4	244,126.5	244,097.9	246,065.2	250,426.0	249,444.7	253,553.1	252,854.3	252,888.7	253,378.0	255,144.5	257,620.2
2.3 Claims on other banking institutions	890.9	1,021.3	1,006.4	1,629.2	1,861.9	1,787.1	1,809.2	1,966.3	1,994.2	1,751.6	1,501.2	1,463.1	1,350.3
2.4 Claims on non-banking financial institutions	2,590.0	2,337.5	2,421.3	2,373.4	2,306.0	2,115.7	2,260.3	2,856.1	2,533.3	2,482.5	2,350.0	2,285.6	2,078.3
Total (1+2)	**316,626.0**	**314,679.4**	**315,852.4**	**313,481.4**	**313,358.0**	**316,649.5**	**318,042.4**	**324,631.8**	**328,965.4**	**329,643.4**	**329,852.8**	**331,759.8**	**332,627.8**
LIABILITIES													
1 Money	49,151.7	49,467.6	49,436.2	49,093.2	50,362.2	50,478.9	52,756.8	53,931.6	54,014.2	51,154.7	50,998.6	50,946.2	52,850.9
2 Savings and time deposits	34,823.4	35,521.7	35,748.1	36,530.2	36,802.8	37,506.5	37,812.9	37,981.9	39,614.8	40,674.1	41,176.1	41,864.5	40,926.9
3 Foreign currency deposits	147,557.1	145,494.5	145,244.9	142,502.6	140,505.8	141,505.7	140,739.0	143,185.3	145,760.0	147,324.7	147,067.3	146,831.8	145,166.1
4 Bonds and money market instruments	1,337.4	1,316.2	1,133.3	1,219.0	1,227.3	1,191.2	1,148.8	1,762.2	1,990.1	2,046.7	2,111.8	2,019.0	2,112.9
5 Restricted and blocked deposits	2,389.0	2,331.5	2,626.6	2,749.4	2,649.1	2,639.8	2,784.2	2,800.8	3,067.9	2,859.3	2,903.8	2,928.6	3,293.4
6 Other items (net)	81,367.5	80,547.9	81,663.3	81,387.0	81,810.8	83,327.2	82,800.7	84,970.1	84,518.4	85,583.9	85,595.2	87,169.7	88,277.4
Total (1+2+3+4+5+6)	**316,626.0**	**314,679.4**	**315,852.4**	**313,481.4**	**313,358.0**	**316,649.5**	**318,042.4**	**324,631.8**	**328,965.4**	**329,643.4**	**329,852.8**	**331,759.8**	**332,627.8**

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
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	December	36	3	5	3	10	7	8	2	1	1	–
2010	December	36	3	5	2	9	9	8	2	1	1	–
2011	January	36	3	5	2	10	8	8	2	1	1	–
	February	36	3	5	2	10	8	8	2	1	1	–
	March	36	4	4	2	10	8	8	2	1	1	–
	April	36	4	4	2	10	8	8	2	1	1	–
	May	36	4	4	2	10	8	8	2	1	1	–
	June	36	4	4	2	10	8	8	2	1	1	–
	July	36	4	4	2	10	8	8	2	1	1	–
	August	36	4	4	2	10	8	8	2	1	1	–
	September	36	4	4	2	10	8	8	2	1	1	–
	October	36	4	4	2	10	8	8	2	1	1	–
	November	36	4	4	2	9	9	8	2	1	1	–
	December	36	4	4	1	10	9	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

	2010	2011											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
ASSETS													
1 Foreign assets	**78,728.2**	**77,451.0**	**77,588.7**	**84,340.0**	**83,371.0**	**84,682.2**	**84,227.2**	**83,708.1**	**83,802.5**	**84,838.5**	**83,989.1**	**85,636.8**	**84,302.0**
1.1 Gold	–	–	–	–	–	–	–	–	–	–	–	–	–
1.2 Holdings of SDRs	2,634.5	2,558.5	2,568.6	2,525.0	2,438.3	2,529.8	2,492.3	2,524.1	2,534.1	2,606.1	2,544.8	2,633.7	2,716.3
1.3 Reserve position in the IMF	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.4	1.3	1.4	1.4
1.4 Currency and demand deposits with foreign banks	1,483.0	1,487.0	1,486.5	1,699.5	1,767.8	1,780.4	1,707.4	1,705.1	1,791.5	1,801.6	1,799.6	1,773.3	1,887.2
1.5 Time deposits with foreign banks	22,702.9	21,780.2	19,805.0	28,266.3	27,704.4	20,457.8	19,553.5	21,799.4	21,036.4	21,406.4	19,406.8	20,142.0	18,676.4
1.6 Securities in f/c	51,906.5	51,623.9	53,727.3	51,847.9	51,459.2	59,912.9	60,472.6	57,678.1	58,439.1	59,023.0	60,236.6	61,086.5	61,020.7
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	**0.3**	**–**	**2.4**	**2.4**	**2.0**	**5.1**	**–**	**–**	**–**	**–**	**–**	**250.0**	**251.8**
2.1 Claims in kuna	0.3	–	2.4	2.4	2.0	5.1	–	–	–	–	–	250.0	251.8
2.2 Claims in f/c	–	–	–	–	–	–	–	–	–	–	–	–	–
3 Claims on other domestic sectors	**3.8**	**3.8**	**3.8**	**3.7**	**3.7**	**3.6**	**3.6**	**3.6**	**3.6**	**3.6**	**3.6**	**3.5**	**3.5**
4 Claims on banks	**12.9**	**12.9**	**12.9**	**12.8**	**12.7**	**12.8**	**12.6**	**12.5**	**12.5**	**12.6**	**12.4**	**114.1**	**139.2**
4.1 Credits to banks	12.9	12.9	12.9	12.8	12.7	12.8	12.6	12.5	12.5	12.6	12.4	114.1	139.2
Lombard credits	–	–	–	–	–	–	–	–	–	–	–	–	–
Short-term liquidity credits	–	–	–	–	–	–	–	–	–	–	–	101.8	126.8
Other credits	12.9	12.9	12.9	12.8	12.7	12.8	12.6	12.5	12.5	12.6	12.4	12.3	12.4
Reverse repo transactions	–	–	–	–	–	–	–	–	–	–	–	–	–
4.2 Overdue claims	–	–	–	–	–	–	–	–	–	–	–	–	–
5 Claims on other banking institutions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total (1+2+3+4+5)	78,745.2	77,467.6	77,607.7	84,358.8	83,389.3	84,703.7	84,243.4	83,724.1	83,818.6	84,854.6	84,005.1	86,004.5	84,696.5
LIABILITIES													
1 Reserve money	**56,249.1**	**56,847.0**	**57,627.2**	**57,569.9**	**59,632.7**	**61,310.3**	**62,981.2**	**57,131.7**	**58,080.3**	**59,603.2**	**58,962.5**	**60,091.7**	**62,379.5**
1.1 Currency outside banks	15,262.7	14,863.2	14,929.8	14,998.2	15,511.4	15,776.0	16,781.3	18,072.3	17,804.0	17,074.3	16,471.1	16,399.1	16,689.1
1.2 Banks' cash in vaults	4,048.7	3,831.4	3,823.3	3,603.9	3,991.3	3,908.8	4,609.5	4,389.1	4,704.3	4,250.4	4,261.1	3,948.8	4,253.9
1.3 Banks' deposits	36,937.6	38,152.4	38,873.6	38,967.8	40,129.9	41,624.8	41,588.7	34,670.3	35,571.5	38,277.9	38,230.3	39,742.7	41,436.0
Settlement accounts	10,246.1	8,427.9	8,958.9	9,833.6	10,194.1	8,036.6	10,193.3	9,714.8	9,229.9	9,167.8	11,400.7	12,118.6	12,705.0
Statutory reserves	22,705.1	22,863.4	23,037.1	23,121.2	23,268.8	23,187.8	23,375.4	23,770.4	23,775.6	23,815.1	25,679.6	25,659.0	25,755.0
CNB bills on obligatory basis	–	–	–	–	–	–	–	–	–	–	–	–	–
Overnight deposits	3,986.4	6,861.1	6,877.7	6,013.0	6,667.0	10,400.4	8,020.0	1,185.1	2,566.0	5,295.0	1,150.0	1,965.0	2,976.0
1.4 Deposits of other banking institutions	–	–	–	–	–	–	–	–	–	–	–	–	–
1.5 Deposits of other domestic sectors	0.0	0.0	0.4	0.0	0.0	0.6	1.6	–	0.5	0.7	–	1.2	0.6
2 Restricted and blocked deposits	**4,833.9**	**4,718.2**	**4,831.4**	**4,851.6**	**4,899.3**	**5,007.9**	**5,046.0**	**5,090.0**	**5,009.1**	**5,033.0**	**5,288.1**	**5,561.4**	**5,600.2**
2.1 Statutory reserve in f/c	4,773.2	4,660.0	4,777.3	4,787.1	4,850.8	4,954.1	4,975.4	5,009.8	4,965.2	4,980.3	5,229.2	5,496.1	5,538.3
2.2 Restricted deposits	60.7	58.3	54.1	64.4	48.5	53.8	70.5	80.1	43.9	52.7	58.9	65.2	61.9
2.3 Escrow deposits	–	–	–	–	–	–	–	–	–	–	–	–	–
3 Foreign liabilities	**8.7**	**8.4**	**8.4**	**2.7**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**26.9**	**0.4**
3.1 Use of IMF credit	–	–	–	–	–	–	–	–	–	–	–	–	–
3.2 Liabilities to international organisations	8.7	8.4	8.4	2.7	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
3.3 Liabilities to foreign banks	–	–	–	0.0	–	–	–	–	–	–	0.0	26.5	0.0
4 Central government and funds' deposits	**5,356.3**	**4,052.0**	**3,262.1**	**10,705.0**	**8,630.1**	**6,658.2**	**5,150.5**	**9,371.3**	**8,382.7**	**6,728.3**	**6,850.8**	**6,374.2**	**1,773.1**
4.1 Demand deposits	2,629.9	2,084.2	1,341.7	1,436.8	5,681.2	4,023.4	2,365.5	7,193.8	6,331.1	3,468.9	4,160.8	3,401.3	1,183.6
Central government demand deposits	1,379.8	866.1	131.6	95.2	4,353.3	2,523.0	1,188.6	6,230.8	5,564.7	3,001.0	3,676.8	2,963.1	849.7
Central government funds' demand deposits	1,250.1	1,218.1	1,210.1	1,341.6	1,327.9	1,500.4	1,177.0	963.0	766.5	467.9	483.9	438.2	333.9
4.2 Central government f/c deposits	2,726.4	1,967.9	1,920.4	9,268.2	2,948.9	2,634.8	2,785.0	2,177.4	2,051.6	3,259.4	2,690.1	2,972.9	589.5
4.3 CNB bills	–	–	–	–	–	–	–	–	–	–	–	–	–
5 CNB bills	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

	2010	2011											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
5.1 CNB bills in kuna	–	–	–	–	–	–	–	–	–	–	–	–	–
5.2 CNB bills in f/c	–	–	–	–	–	–	–	–	–	–	–	–	–
6 Capital accounts	13,090.1	12,641.5	12,678.5	12,032.9	11,047.6	12,544.0	11,894.8	12,962.3	13,181.5	14,328.1	13,741.5	14,786.0	15,787.9
7 Other items (net)	–792.9	–799.6	–799.9	–803.1	–820.8	–817.1	–829.5	–831.5	–835.5	–838.4	–838.2	–835.8	–844.6
Total (1+2+3+4+5+6+7)	78,745.2	77,467.6	77,607.7	84,358.8	83,389.3	84,703.7	84,243.4	83,724.1	83,818.6	84,854.6	84,005.1	86,004.5	84,696.5

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, overdue claims on the budget of the Republic of Croatia and investments in short-term securities 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

	2010	2011											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
ASSETS													
1 Reserves with the CNB	45,759.6	46,648.6	47,483.1	47,358.7	48,972.8	50,486.6	51,176.6	44,067.8	45,231.3	47,507.7	47,722.0	49,202.4	51,238.7
1.1 In kuna	40,986.4	41,988.6	42,705.8	42,571.5	44,122.0	45,532.6	46,201.2	39,057.9	40,266.1	42,527.4	42,492.9	43,706.3	45,700.5
1.2 In f/c	4,773.2	4,660.0	4,777.3	4,787.1	4,850.8	4,954.1	4,975.4	5,009.8	4,965.2	4,980.3	5,229.2	5,496.1	5,538.2
2 Foreign assets	47,245.4	44,705.0	44,131.8	38,042.0	37,032.6	37,864.8	38,420.2	41,390.7	42,405.2	43,393.4	41,290.5	40,632.1	39,450.1
3 Claims on central government and funds	50,307.6	51,122.4	51,291.5	57,151.9	56,008.3	56,224.1	55,542.0	54,549.8	54,913.1	54,920.6	56,752.1	58,694.1	57,869.9
4 Claims on other domestic sectors	244,035.4	242,848.6	244,122.7	244,094.2	246,061.6	250,422.4	249,441.1	253,549.5	252,850.7	252,885.1	253,374.4	255,141.0	257,616.6
4.1 Claims on local government	2,412.8	2,526.1	2,520.9	2,547.0	2,428.3	2,436.3	2,411.9	2,552.0	2,685.7	2,578.8	2,567.5	2,530.5	2,712.3
4.2 Claims on enterprises	114,089.7	114,450.0	115,269.3	115,699.3	118,054.3	119,676.8	119,107.2	120,599.2	120,717.8	121,552.9	122,205.6	124,111.3	126,195.8
4.3 Claims on households	127,532.9	125,872.6	126,332.5	125,847.9	125,579.0	128,309.3	127,921.9	130,398.3	129,447.2	128,753.4	128,601.3	128,499.2	128,708.6
5 Claims on other banking institutions	890.9	1,021.3	1,006.4	1,629.2	1,861.9	1,787.1	1,809.2	1,966.3	1,994.2	1,751.6	1,501.2	1,463.1	1,350.3
6 Claims on non-banking financial instituions	2,590.0	2,337.5	2,421.3	2,373.4	2,306.0	2,115.7	2,260.3	2,856.1	2,533.3	2,482.5	2,350.0	2,285.6	2,078.3
Total (1+2+3+4+5+6)	390,829.0	388,683.4	390,456.8	390,649.4	392,243.1	398,900.7	398,649.4	398,380.0	399,927.6	402,940.9	402,990.2	407,418.4	409,604.0
LIABILITIES													
1 Demand deposits	33,888.9	34,604.4	34,505.9	34,095.0	34,850.8	34,702.2	35,973.9	35,859.3	36,209.7	34,079.7	34,527.5	34,545.9	36,161.3
2 Savings and time deposits	34,823.4	35,521.7	35,748.1	36,530.2	36,802.8	37,506.5	37,812.9	37,981.9	39,614.8	40,674.1	41,176.1	41,864.5	40,926.9
3 Foreign currency deposits	147,557.1	145,494.5	145,244.9	142,502.6	140,505.8	141,505.7	140,739.0	143,185.3	145,760.0	147,324.7	147,067.3	146,831.8	145,166.1
4 Bonds and money market instruments	1,337.4	1,316.2	1,133.3	1,219.0	1,227.3	1,191.2	1,148.8	1,762.2	1,990.1	2,046.7	2,111.8	2,019.0	2,112.9
5 Foreign liabilities	81,940.4	81,266.6	82,964.6	85,795.9	87,048.3	91,920.0	91,026.0	86,771.0	83,627.0	86,292.0	85,003.2	88,001.7	90,276.5
6 Central government and funds' deposits	19,870.3	19,483.2	18,481.0	17,651.8	17,610.1	17,876.8	17,484.2	17,249.4	17,527.0	17,611.1	17,553.6	17,943.7	18,244.9
7 Credit from central bank	12.9	12.9	12.9	12.8	12.7	12.8	12.6	12.6	12.6	12.6	12.4	114.1	139.1
8 Restricted and blocked deposits	2,328.3	2,273.2	2,572.5	2,685.0	2,600.6	2,586.1	2,713.7	2,720.7	3,023.9	2,806.6	2,844.8	2,863.3	3,231.5
9 Capital accounts	71,826.9	72,243.4	72,736.4	73,433.2	73,736.0	74,411.9	74,679.1	75,462.6	75,608.7	76,019.0	76,520.6	76,785.8	76,624.4
10 Other items (net)	–2,756.6	–3,532.6	–2,942.9	–3,276.0	–2,151.1	–2,812.6	–2,940.7	–2,624.8	–3,446.1	–3,925.6	–3,827.2	–3,551.4	–3,279.6
Total (1+2+3+4+5+6+7+8+9+10)	390,829.0	388,683.4	390,456.8	390,649.4	392,243.1	398,900.7	398,649.4	398,380.0	399,927.6	402,940.9	402,990.2	407,418.4	409,604.0

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

	2010	2011											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Foreign assets in f/c	46,920.2	44,331.2	43,836.1	37,742.4	36,729.6	37,564.7	38,117.1	41,031.6	41,586.0	42,413.4	40,447.9	40,005.2	39,159.2
1.1 Claims on foreign financial institutions	32,069.1	30,463.2	30,718.8	24,866.3	23,345.4	23,368.7	23,998.3	28,968.7	30,585.8	31,727.9	29,953.9	30,605.2	29,698.4
Foreign currencies	1,628.4	1,443.8	1,455.7	1,558.7	1,756.6	1,663.8	2,105.1	2,376.0	2,164.0	1,891.8	1,621.3	2,188.7	1,944.8
Demand deposits	1,584.7	1,357.7	1,476.5	1,317.2	1,553.9	1,817.2	1,928.9	2,004.8	1,651.8	2,165.2	1,769.1	2,096.6	2,486.3
Time and notice deposits	26,728.1	25,532.7	25,661.9	19,814.1	18,027.8	17,863.5	17,993.1	21,484.3	23,719.5	24,448.0	23,512.6	23,335.8	22,302.7
Securities	1,896.5	1,975.7	1,971.9	2,028.4	1,874.0	1,884.1	1,823.7	2,973.5	2,919.3	3,088.6	2,924.6	2,854.6	2,840.4
Loans and advances	170.1	92.4	91.9	87.6	73.6	81.6	89.4	71.4	72.4	72.0	63.9	66.1	67.7
Shares and participations	61.3	60.8	61.0	60.4	59.4	58.5	58.0	58.8	58.9	62.3	62.4	63.5	56.4
1.2 Claims on foreign non-banks	14,851.2	13,868.0	13,117.2	12,876.1	13,384.1	14,196.0	14,118.8	12,062.9	11,000.2	10,685.5	10,494.0	9,400.0	9,460.8
Claims on foreign governments	13,047.3	12,196.9	11,196.7	10,900.6	11,400.7	11,825.8	11,650.9	9,555.9	8,848.5	8,464.8	8,394.0	7,305.6	7,544.3
Claims on other non-residents	1,785.9	1,653.3	1,876.2	1,932.1	1,939.9	2,325.0	2,421.3	2,459.7	2,102.1	2,169.7	2,047.0	2,037.8	1,857.5
Securities	131.0	93.7	74.7	80.9	79.3	71.5	55.1	56.5	47.5	48.7	53.3	58.9	62.8
Loans and advances	1,654.9	1,559.7	1,801.5	1,851.3	1,860.6	2,253.5	2,366.2	2,403.2	2,054.6	2,120.9	1,993.7	1,979.0	1,794.6
Shares and participations	17.9	17.7	44.4	43.3	43.5	45.2	46.7	47.3	49.6	51.0	53.0	56.6	59.0
2 Foreign assets in kuna	325.2	373.8	295.7	299.6	303.0	300.1	303.1	359.1	819.2	980.0	842.6	626.8	290.9
2.1 Claims on foreign financial institutions	72.4	133.4	53.7	59.6	62.7	54.4	64.0	114.8	570.2	732.7	598.3	383.4	122.9
2.2 Claims on foreign non-banks	252.8	240.5	242.0	240.0	240.3	245.8	239.1	244.3	249.0	247.3	244.3	243.5	168.0
o/w: Loans and advances	252.5	240.2	241.7	239.7	240.0	245.4	238.8	244.0	248.7	247.0	244.0	243.2	167.7
Total (1+2)	47,245.4	44,705.0	44,131.8	38,042.0	37,032.6	37,864.8	38,420.2	41,390.7	42,405.2	43,393.4	41,290.5	40,632.1	39,450.1

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

	2010	2011											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 In kuna	28,491.6	29,245.3	29,053.3	30,471.0	29,387.9	29,292.9	29,137.3	31,171.1	30,594.7	28,221.2	29,271.5	30,147.0	30,089.7
1.1 Claims on central government	21,461.5	22,113.3	21,735.1	23,320.1	22,300.6	22,058.6	22,232.5	24,218.6	23,717.1	21,337.7	22,357.9	23,180.8	22,981.1
Securities	17,752.1	18,348.8	17,809.2	18,646.9	18,186.1	17,979.7	18,199.4	20,151.3	19,646.3	18,914.0	19,108.0	19,997.7	19,749.9
o/w: Bonds (c'part to f/c savings deposits)	6.7	6.6	6.4	6.2	5.9	5.8	5.6	6.0	5.9	5.7	6.0	5.9	5.8
Loans and advances	3,709.4	3,764.5	3,925.9	4,673.3	4,114.5	4,078.9	4,033.1	4,067.4	4,070.8	2,423.7	3,249.9	3,183.1	3,231.2
1.2 Claims on central government funds	7,030.2	7,132.0	7,318.3	7,150.8	7,087.3	7,234.3	6,904.8	6,952.5	6,877.6	6,883.5	6,913.5	6,966.2	7,108.6
Securities	–	–	–	–	–	–	–	–	–	–	–	–	–
Loans and advances	7,030.2	7,132.0	7,318.3	7,150.8	7,087.3	7,234.3	6,904.8	6,952.5	6,877.6	6,883.5	6,913.5	6,966.2	7,108.6
2 In f/c	21,815.9	21,877.2	22,238.1	26,680.9	26,620.4	26,931.2	26,404.7	23,378.6	24,318.4	26,699.4	27,480.6	28,547.1	27,780.1
2.1 Claims on central government	14,901.3	14,961.1	14,988.6	20,114.9	20,080.1	20,322.4	19,862.0	16,786.6	16,985.2	18,993.6	19,033.1	20,085.4	18,262.6
Securities	207.7	223.7	246.5	207.6	249.5	282.7	347.3	1,163.7	1,333.4	1,349.6	1,404.8	1,301.1	1,281.2
Loans and advances	14,693.5	14,737.4	14,742.1	19,907.3	19,830.6	20,039.7	19,514.7	15,622.8	15,651.8	17,644.0	17,628.3	18,784.3	16,981.4
2.2 Claims on central government funds	6,914.7	6,916.1	7,249.5	6,566.1	6,540.3	6,608.8	6,542.7	6,592.1	7,333.2	7,705.8	8,447.5	8,461.7	9,517.6
Securities	84.7	85.3	85.9	85.3	85.0	85.6	84.8	85.5	85.7	85.4	85.8	85.3	71.3
Loans and advances	6,830.0	6,830.8	7,163.6	6,480.8	6,455.3	6,523.2	6,457.9	6,506.6	7,247.5	7,620.4	8,361.7	8,376.4	9,446.3
Total (1+2)	50,307.6	51,122.4	51,291.5	57,151.9	56,008.3	56,224.1	55,542.0	54,549.8	54,913.1	54,920.6	56,752.1	58,694.1	57,869.9

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

	2010	2011											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Claims in kuna	221,988.6	220,537.3	221,791.5	221,959.2	223,858.6	227,834.2	227,301.0	231,240.6	230,409.3	230,287.5	230,643.2	231,607.5	233,543.4
1.1 Money market instruments	1,873.2	1,846.0	1,878.4	1,934.5	1,969.8	2,043.3	2,008.9	1,986.3	1,958.3	2,012.8	2,067.4	2,052.1	2,258.8
1.2 Bonds	1,702.7	1,672.2	1,624.9	1,655.0	1,679.7	1,645.2	1,684.3	1,692.0	1,690.8	1,680.7	1,675.7	1,676.3	1,618.7
1.3 Loans and advances	215,923.2	214,522.4	215,812.7	215,898.3	216,661.5	220,589.3	220,037.3	223,974.9	223,168.9	223,036.0	223,365.1	224,382.5	226,136.0
1.4 Shares and participations	2,489.5	2,496.7	2,475.5	2,471.4	3,547.6	3,556.3	3,570.5	3,587.4	3,591.1	3,557.9	3,534.9	3,496.7	3,530.0
2 Claims in f/c	22,046.8	22,311.3	22,331.3	22,134.9	22,203.0	22,588.2	22,140.1	22,308.8	22,441.4	22,597.6	22,731.2	23,533.5	24,073.2
2.1 Securities	105.7	142.1	135.9	144.2	157.0	182.3	180.6	160.8	214.8	214.6	191.0	161.8	163.1
2.2 Loans and advances	21,941.1	22,169.2	22,195.3	21,990.7	22,046.0	22,405.9	21,959.5	22,148.0	22,226.7	22,383.0	22,540.3	23,371.6	23,910.1
Total (1+2)	244,035.4	242,848.6	244,122.7	244,094.2	246,061.6	250,422.4	249,441.1	253,549.5	252,850.7	252,885.1	253,374.4	255,141.0	257,616.6

Table D4 Banks' claims on other domestic sectors • The table shows banks' kuna and foreign currency claims on other domestic sectors, classified according to financial instruments: money market instruments (including factoring and forfeiting since January 2004), loans and advances (including acceptances and purchased claims), and equities.

Table D5 Distribution of banks' loans by domestic institutional sectors

end of period, in million HRK

	2010	2011											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
LOANS IN KUNA													
1 Loans to central government and funds	10,739.6	10,896.5	11,244.2	11,824.1	11,201.8	11,313.2	10,937.9	11,019.9	10,948.4	9,307.2	10,163.5	10,149.3	10,339.8
1.1 Loans to central government	3,709.4	3,764.5	3,925.9	4,673.3	4,114.5	4,078.9	4,033.1	4,067.4	4,070.8	2,423.7	3,249.9	3,183.1	3,231.2
1.2 Loans to central government funds	7,030.2	7,132.0	7,318.3	7,150.8	7,087.3	7,234.3	6,904.8	6,952.5	6,877.6	6,883.5	6,913.5	6,966.2	7,108.6
2 Loans to local government	2,168.1	2,288.7	2,296.8	2,305.1	2,159.9	2,166.3	2,145.6	2,288.4	2,421.6	2,383.9	2,376.4	2,340.0	2,528.2
3 Loans to enterprises	86,564.6	86,684.9	87,507.9	88,097.7	89,272.7	90,471.2	90,321.6	91,640.0	91,643.0	92,231.6	92,717.7	93,899.1	95,224.8
4 Loans to households	127,190.5	125,548.8	126,008.0	125,495.5	125,228.9	127,951.8	127,570.1	130,046.4	129,104.4	128,420.5	128,270.9	128,143.3	128,382.9
o/w: Housing loans	57,984.0	57,027.2	57,375.5	56,863.4	56,808.4	58,824.7	58,853.7	60,653.2	60,009.5	59,405.9	59,310.1	59,236.7	59,610.9
5 Loans to other banking institutions	293.2	246.7	272.1	735.2	860.7	735.7	556.4	737.6	781.3	630.3	612.2	549.0	532.0
6 Loans to non-banking financial institutions	2,063.0	1,884.2	1,966.3	1,938.4	1,834.8	1,659.2	1,770.6	2,370.0	2,071.1	1,914.3	1,749.2	1,655.9	1,480.0
A Total (1+2+3+4+5+6)	**229,018.9**	**227,549.8**	**229,295.3**	**230,396.1**	**230,558.9**	**234,297.4**	**233,302.1**	**238,102.2**	**236,969.7**	**234,887.8**	**235,890.0**	**236,736.7**	**238,487.8**
LOANS IN F/C													
1 Loans to central government and funds	21,523.5	21,568.2	21,905.8	26,388.1	26,285.9	26,562.9	25,972.6	22,129.4	22,899.2	25,264.5	25,990.0	27,160.6	26,427.7
1.1 Loans to central government	14,693.5	14,737.4	14,742.1	19,907.3	19,830.6	20,039.7	19,514.7	15,622.8	15,651.8	17,644.0	17,628.3	18,784.3	16,981.4
1.2 Loans to central government funds	6,830.0	6,830.8	7,163.6	6,480.8	6,455.3	6,523.2	6,457.9	6,506.6	7,247.5	7,620.4	8,361.7	8,376.4	9,446.3
2 Loans to local government	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3
3 Loans to enterprises	21,598.3	21,845.0	21,870.5	21,637.9	21,695.5	22,048.0	21,607.3	21,795.8	21,883.5	22,049.7	22,209.5	23,015.4	23,584.1
4 Loans to households	342.4	323.8	324.5	352.4	350.1	357.5	351.8	351.9	342.8	332.9	330.4	355.9	325.7
5 Loans to other banking institutions	0.6	54.2	48.7	83.2	44.6	49.0	62.6	28.7	10.1	29.9	72.9	56.6	69.1
6 Loans to non-banking financial institutions	341.3	260.0	259.2	242.2	279.7	264.6	297.1	299.6	274.7	393.8	426.1	453.9	452.6
B Total (1+2+3+4+5+6)	**43,806.5**	**44,051.6**	**44,409.0**	**48,704.2**	**48,656.1**	**49,282.4**	**48,291.8**	**44,605.8**	**45,410.7**	**48,071.1**	**49,029.1**	**51,042.8**	**50,859.5**
TOTAL (A+B)	272,825.4	271,601.4	273,704.3	279,100.3	279,215.0	283,579.8	281,593.9	282,708.0	282,380.4	282,959.0	284,919.2	287,779.5	289,347.3

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, and purchased claims.

Table D6 Demand deposits with banks

end of period, in million HRK

	2010	2011											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Local government	1,303.3	1,119.2	1,034.8	1,206.2	1,326.8	1,262.5	1,151.0	1,209.7	1,397.9	1,425.8	1,489.1	1,527.7	1,616.9
2 Enterprises	15,860.4	16,800.2	16,539.8	15,959.6	16,735.7	15,495.0	16,129.8	16,780.5	16,839.2	15,445.3	15,779.6	15,534.8	17,127.7
3 Households	15,581.9	15,320.9	15,311.8	15,220.4	15,237.7	15,470.8	16,004.6	16,354.2	16,648.6	16,341.1	16,305.2	16,063.3	16,156.0
4 Other banking institutions	347.5	591.2	812.4	633.0	639.6	1,190.8	1,439.1	548.6	224.6	188.8	244.4	363.5	397.9
5 Non-banking financial institutions	796.0	773.1	807.2	1,075.8	911.2	1,283.3	1,249.6	966.3	1,099.5	678.8	709.3	1,056.8	862.9
6 Less: Checks of other banks and checks in collection	–0.2	–0.2	–0.2	–0.1	–0.2	–0.1	–0.1	–0.1	–0.1	–0.1	–0.1	–0.1	–0.1
Total (1+2+3+4+5+6)	33,888.9	34,604.4	34,505.9	34,095.0	34,850.8	34,702.2	35,973.9	35,859.3	36,209.7	34,079.7	34,527.5	34,545.9	36,161.3

Table D6 Demand deposits with banks • The table shows demand deposits with banks, classified by domestic institutional sectors.

Demand deposits are the sum of other domestic sectors', other 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

	2010	2011											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Savings deposits	2,503.2	2,514.0	2,488.5	2,418.4	2,412.9	2,500.3	2,459.0	2,535.2	2,568.0	2,510.0	2,448.8	2,432.5	2,506.4
1.1 Local government	0.1	7.6	7.2	5.9	5.6	5.8	5.7	5.7	2.0	1.5	1.2	7.7	21.2
1.2 Enterprises	318.9	330.4	332.2	299.6	284.5	388.8	351.1	424.8	459.9	423.0	365.4	370.7	440.5
1.3 Households	2,167.4	2,164.4	2,134.5	2,101.6	2,106.1	2,071.4	2,083.2	2,088.0	2,091.2	2,062.1	2,066.1	2,017.4	2,016.9
1.4 Other banking institutions	–	–	–	–	–	–	–	–	–	–	–	–	4.3
1.5 Non-banking financial institutions	16.9	11.6	14.5	11.3	16.6	34.4	19.0	16.7	15.0	23.3	16.2	36.7	23.4
2 Time and notice deposits	32,320.2	33,007.7	33,259.6	34,111.8	34,389.9	35,006.2	35,353.9	35,446.7	37,046.8	38,164.2	38,727.3	39,432.0	38,420.6
2.1 Local government	355.2	604.9	677.8	691.5	679.1	687.9	686.8	681.4	704.1	753.3	812.9	792.8	314.6
2.2 Enterprises	8,933.3	9,111.8	8,787.6	9,153.9	9,131.8	9,471.1	9,117.2	9,779.9	10,746.3	11,560.1	11,994.3	12,090.9	11,249.5
2.3 Households	17,188.1	17,537.9	17,730.1	17,840.3	17,752.8	17,908.0	17,810.6	17,987.1	17,967.1	18,191.8	18,371.9	18,639.7	19,129.1
2.4 Other banking institutions	2,448.8	2,607.5	2,730.8	3,166.0	3,722.8	3,761.1	4,433.4	4,213.7	4,615.2	4,384.7	4,233.8	4,133.5	4,041.8
2.5 Non-banking financial institutions	3,394.8	3,145.6	3,333.4	3,260.1	3,103.4	3,178.0	3,305.9	2,784.7	3,014.1	3,274.2	3,314.4	3,775.2	3,685.5
Total (1+2)	34,823.4	35,521.7	35,748.1	36,530.2	36,802.8	37,506.5	37,812.9	37,981.9	39,614.8	40,674.1	41,176.1	41,864.5	40,926.9

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

	2010	2011											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Savings deposits	22,906.1	22,319.5	22,474.0	21,589.9	21,443.3	21,750.9	23,008.1	23,025.9	23,894.5	23,457.5	23,321.8	23,479.9	22,833.9
1.1 Local government	15.8	14.8	13.6	16.3	14.6	14.9	15.5	17.1	16.6	16.7	17.3	17.6	8.9
1.2 Enterprises	5,738.5	5,442.5	5,719.1	5,445.5	5,283.7	5,458.1	6,419.9	5,590.3	6,015.4	5,687.4	5,873.4	5,767.1	5,552.0
1.3 Households	16,313.0	16,152.3	16,021.4	15,712.9	15,706.9	15,905.8	16,008.6	16,579.2	17,155.2	17,145.6	16,907.8	16,964.6	16,821.4
1.4 Other banking institutions	268.5	182.5	149.3	196.7	189.8	146.4	229.1	188.2	140.4	131.2	85.8	189.7	66.6
1.5 Non-banking financial institutions	570.2	527.5	570.7	218.5	248.3	225.8	335.0	651.0	567.0	476.6	437.4	541.0	385.0
2 Time deposits	124,651.0	123,175.0	122,770.9	120,912.7	119,062.4	119,754.8	117,730.9	120,159.5	121,865.5	123,867.3	123,745.5	123,351.9	122,332.2
2.1 Local government	2.3	2.3	2.2	2.2	2.1	2.2	2.9	2.2	3.7	9.1	9.0	11.0	11.2
2.2 Enterprises	15,097.8	12,750.5	12,479.5	11,854.3	11,512.2	10,790.1	9,683.9	10,759.8	11,439.9	11,706.4	11,189.9	11,272.9	10,372.5
2.3 Households	104,621.4	105,360.5	105,710.3	105,146.9	104,291.4	105,885.4	105,083.1	106,671.3	107,479.2	108,844.1	108,759.5	108,538.9	109,304.8
2.4 Other banking institutions	1,384.1	1,337.9	1,131.8	952.6	940.6	958.9	809.2	781.5	864.9	911.6	1,005.0	771.0	682.5
2.5 Non-banking financial institutions	3,545.4	3,723.9	3,447.1	2,956.7	2,316.2	2,118.2	2,151.8	1,944.6	2,077.8	2,396.1	2,782.1	2,758.0	1,961.2
Total (1+2)	147,557.1	145,494.5	145,244.9	142,502.6	140,505.8	141,505.7	140,739.0	143,185.3	145,760.0	147,324.7	147,067.3	146,831.8	145,166.1

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

	2010	2011											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Money market instruments (net)	–	–	–	–	–	–	–	–	–	–	–	–	–
2 Bonds (net)	1,016.7	1,027.0	911.8	921.8	920.6	922.5	959.8	1,601.4	1,678.1	1,705.6	1,701.9	1,689.4	1,769.1
3 Other domestic borrowing	320.7	289.2	221.5	297.1	306.7	268.8	189.0	160.8	312.1	341.0	410.0	329.6	343.8
3.1 Local government	–	–	–	–	–	–	–	–	–	–	–	–	–
3.2 Enterprises	2.4	2.4	1.9	1.8	1.7	1.7	1.5	1.8	1.8	1.7	1.7	1.7	1.6
3.3 Other banking institutions	318.1	286.7	219.4	295.3	305.0	267.1	187.5	159.0	310.3	339.3	408.3	327.9	205.1
3.4 Non-banking financial institutions	0.1	0.1	0.1	–	–	–	–	–	–	–	–	–	137.0
Total (1+2+3)	1,337.4	1,316.2	1,133.3	1,219.0	1,227.3	1,191.2	1,148.8	1,762.2	1,990.1	2,046.7	2,111.8	2,019.0	2,112.9

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

	2010	2011											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Foreign liabilities in f/c	58,715.8	57,198.5	59,083.8	63,439.7	64,004.4	67,555.2	67,454.4	63,531.9	61,998.6	63,748.6	63,699.3	66,028.6	67,938.6
1.1 Liabilities to foreign financial institutions	48,789.0	47,251.8	49,148.2	53,551.7	54,226.9	57,520.5	57,414.1	53,420.2	51,904.7	53,655.9	53,616.0	56,063.5	58,001.2
Demand deposits	208.3	222.6	214.3	197.0	183.4	221.6	175.1	187.4	234.2	253.9	286.9	173.9	184.4
Time and notice deposits	20,188.9	21,177.5	22,778.4	24,198.9	23,991.9	25,838.2	25,111.8	22,073.3	22,518.9	23,929.7	23,519.0	25,713.7	27,444.5
Loans and advances	28,391.9	25,851.6	26,155.5	29,155.8	30,051.6	31,460.7	32,127.2	31,159.5	29,151.6	29,472.2	29,810.1	30,175.9	30,372.2
o/w: Subordinated and hybrid instruments	2,079.8	2,069.4	2,076.5	2,013.7	2,008.7	2,040.0	2,229.9	2,273.3	2,265.4	2,254.8	2,251.7	2,253.8	2,268.1
Bonds	–	–	–	–	–	–	–	–	–	–	–	–	–
1.2 Liabilities to foreign non-banks	9,926.7	9,946.6	9,935.5	9,887.9	9,777.5	10,034.7	10,040.4	10,111.7	10,093.8	10,092.7	10,083.4	9,965.1	9,937.5
Savings and time deposits	9,909.3	9,929.2	9,918.1	9,871.1	9,761.2	10,018.1	10,023.9	10,094.9	10,077.1	10,076.6	10,067.3	9,949.0	9,921.2
Sight deposits	1,434.3	1,417.1	1,406.5	1,357.9	1,409.3	1,542.9	1,571.9	1,547.4	1,490.8	1,450.8	1,482.4	1,461.3	1,434.3
Time and notice deposits	8,475.0	8,512.1	8,511.6	8,513.2	8,351.9	8,475.3	8,452.0	8,547.5	8,586.3	8,625.7	8,584.8	8,487.7	8,486.9
Loans and advances	17.5	17.4	17.5	16.8	16.3	16.6	16.5	16.8	16.8	16.1	16.1	16.1	16.2
o/w: Subordinated and hybrid instruments	11.1	11.1	11.1	11.1	11.0	11.1	11.1	11.2	11.2	11.2	11.2	11.2	11.3
2 Foreign liabilities in kuna	23,224.6	24,068.2	23,880.8	22,356.2	23,043.9	24,364.8	23,571.6	23,239.0	21,628.4	22,543.5	21,303.9	21,973.1	22,337.9
2.1 Liabilities to foreign financial institutions	22,817.7	23,658.5	23,455.3	21,887.3	22,565.2	23,902.4	23,113.6	22,778.4	21,152.8	22,050.0	20,840.4	21,496.6	21,806.5
Demand deposits	696.3	831.1	566.0	614.2	704.5	803.2	947.3	888.3	602.9	938.1	535.8	710.7	655.0
Time and notice deposits	15,963.5	16,702.9	16,743.0	15,344.9	16,389.9	17,574.2	17,486.8	17,153.1	15,848.3	16,358.0	15,647.4	16,124.8	16,449.5
Loans and advances	6,158.0	6,124.6	6,146.3	5,928.2	5,470.8	5,525.0	4,679.4	4,736.9	4,701.6	4,753.8	4,657.2	4,661.1	4,702.1
o/w: Subordinated and hybrid instruments	899.0	865.6	877.3	862.4	865.2	928.4	943.1	995.9	968.8	940.9	937.7	948.5	964.6
2.2 Liabilities to foreign non-banks	406.8	409.6	425.6	468.9	478.8	462.4	458.0	460.7	475.6	493.5	463.5	476.5	531.4
Demand deposits	250.3	258.4	258.3	304.4	317.8	305.8	298.2	293.7	318.0	326.9	299.2	305.4	355.0
Time and notice deposits	148.0	136.7	152.7	150.0	146.4	148.1	151.3	153.8	144.5	153.5	150.4	157.0	162.7
Loans and advances	8.5	14.5	14.5	14.5	14.5	8.5	8.5	13.1	13.1	13.2	13.9	14.1	13.7
o/w: Subordinated and hybrid instruments	8.5	14.5	14.5	14.5	14.5	8.5	8.5	13.1	13.1	13.2	13.9	14.1	13.7
Total (1+2)	81,940.4	81,266.6	82,964.6	85,795.9	87,048.3	91,920.0	91,026.0	86,771.0	83,627.0	86,292.0	85,003.2	88,001.7	90,276.5

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

	2010	2011											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 In kuna	16,089.9	15,819.8	15,842.5	15,701.7	15,727.6	16,019.7	15,512.8	15,372.4	15,621.1	15,462.3	15,476.6	15,987.1	15,857.4
1.1 Central government deposits	806.8	791.8	821.4	734.9	728.3	805.2	674.1	652.1	671.2	730.5	684.8	1,129.3	664.2
Demand deposits	306.0	304.8	342.6	411.2	501.0	546.8	470.6	473.4	492.4	491.3	434.3	477.3	424.6
Savings deposits	0.5	0.5	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Time and notice deposits	485.3	471.5	463.1	308.1	211.8	242.8	187.9	173.2	173.3	238.7	249.9	651.4	230.9
Loans and advances	15.0	15.0	15.0	15.0	15.0	15.0	15.0	5.0	5.0	–	–	–	8.3
1.2 Central government funds' deposits	15,283.1	15,028.0	15,021.1	14,966.8	14,999.2	15,214.5	14,838.7	14,720.2	14,949.9	14,731.8	14,791.9	14,857.7	15,193.2
Demand deposits	290.9	314.2	369.6	310.6	394.9	463.6	497.6	474.7	516.1	442.9	466.2	499.9	493.0
Savings deposits	0.0	0.0	0.0	0.0	–	–	–	–	–	–	–	–	–
Time and notice deposits	329.0	318.9	286.9	511.4	503.2	405.0	562.3	407.0	509.9	523.3	625.2	410.7	87.6
Loans and advances	14,663.3	14,394.9	14,364.6	14,144.7	14,101.2	14,345.8	13,778.9	13,838.5	13,923.9	13,765.6	13,700.4	13,947.1	14,612.6
2 In f/c	3,780.4	3,663.3	2,638.5	1,950.1	1,882.5	1,857.1	1,971.4	1,877.1	1,905.9	2,148.8	2,077.0	1,956.7	2,387.5
2.1 Central government deposits	1,656.1	1,646.7	1,644.9	1,631.6	1,636.0	1,650.5	1,645.2	1,708.5	1,553.1	1,551.0	1,626.8	1,837.4	1,467.8
Savings deposits	993.9	802.6	894.1	875.5	840.6	828.7	852.9	754.0	710.8	404.6	529.8	510.5	620.3
Time and notice deposits	662.0	844.0	750.5	755.9	795.2	821.6	792.1	954.3	842.1	1,146.2	1,096.8	1,326.7	847.2
Refinanced loans and advances	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
2.2 Central government funds' deposits	2,124.3	2,016.6	993.6	318.6	246.5	206.6	326.2	168.5	352.8	597.8	450.2	119.2	919.7
Savings deposits	90.2	114.4	746.0	183.5	165.6	110.0	171.4	123.8	91.3	185.7	128.3	66.7	94.4
Time and notice deposits	601.3	465.2	247.7	135.1	80.9	96.6	154.9	44.7	186.8	374.6	209.6	52.5	381.8
Loans and advances	1,432.7	1,437.0	–	–	–	–	–	–	74.7	37.5	112.3	–	443.5
Total (1+2)	19,870.3	19,483.2	18,481.0	17,651.8	17,610.1	17,876.8	17,484.2	17,249.4	17,527.0	17,611.1	17,553.6	17,943.7	18,244.9

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

	2010	2011											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Restricted deposits	2,328.3	2,273.2	2,572.5	2,685.0	2,600.6	2,586.1	2,713.7	2,720.7	3,023.9	2,806.6	2,844.8	2,863.3	3,231.5
1.1 In kuna	1,428.9	1,407.1	1,432.5	1,448.6	1,453.6	1,499.4	1,583.1	1,560.8	1,603.0	1,630.1	1,676.5	1,694.7	1,751.7
1.2 In f/c	899.4	866.1	1,140.0	1,236.4	1,147.0	1,086.7	1,130.6	1,159.9	1,421.0	1,176.5	1,168.4	1,168.6	1,479.8
2 Blocked f/c deposits of housholds	–	–	–	–	–	–	–	–	–	–	–	–	–
Total (1+2)	2,328.3	2,273.2	2,572.5	2,685.0	2,600.6	2,586.1	2,713.7	2,720.7	3,023.9	2,806.6	2,844.8	2,863.3	3,231.5

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

	2010	2011											
	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	3,315.9	3,352.0	3,503.0	3,457.4	3,437.7	3,441.5	3,406.0	3,370.8	3,377.5	3,344.5	3,324.1	3,323.6	3,367.6
3 Claims on other domestic sectors	2,987.3	2,980.5	2,971.9	2,983.0	2,987.7	3,080.0	3,130.0	3,312.2	3,340.4	3,369.7	3,360.5	3,362.8	3,387.0
o/w: Claims on households	2,987.3	2,980.5	2,971.9	2,983.0	2,987.7	3,080.0	3,130.0	3,312.2	3,340.4	3,369.7	3,360.5	3,362.8	3,387.0
4 Claims on banks	258.5	209.7	212.5	621.4	607.8	577.8	701.4	698.1	674.4	687.8	652.1	675.4	760.6
5 Claims on other banking institutions	–	–	–	–	–	–	–	–	–	–	–	–	–
Total (1+2+3+4+5)	**6,561.8**	**6,542.2**	**6,687.4**	**7,061.8**	**7,033.1**	**7,099.4**	**7,237.5**	**7,381.1**	**7,392.4**	**7,402.1**	**7,336.6**	**7,361.9**	**7,515.2**
LIABILITIES													
1 Time deposits	5,791.5	5,761.1	5,881.1	5,814.4	5,772.6	5,817.7	5,778.5	5,831.1	5,853.5	5,883.8	5,867.5	5,865.4	6,115.0
2 Bonds and money market instruments	279.7	286.8	290.4	727.3	740.3	732.2	673.8	761.8	735.6	716.2	672.5	671.1	650.9
3 Capital accounts	512.1	514.9	530.0	533.8	538.1	542.7	544.5	542.9	543.4	538.0	541.3	539.8	544.0
4 Other items (net)	–21.5	–20.6	–14.1	–13.6	–17.9	6.9	240.7	245.4	259.9	264.2	255.2	285.6	205.2
Total (1+2+3+4)	**6,561.8**	**6,542.2**	**6,687.4**	**7,061.8**	**7,033.1**	**7,099.4**	**7,237.5**	**7,381.1**	**7,392.4**	**7,402.1**	**7,336.6**	**7,361.9**	**7,515.2**

Table E1 Housing savings banks' accounts • Housing savings banks' accounts include data on claims and liabilities of the Croatian housing savings banks. All housing savings banks' claims and liabilities refer exclusively to domestic sectors.

Housing savings banks' required reserves held at the central bank include funds in vaults.

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	On intervention credits	On intra-day refinance facility	On short-term liquidity credits	On inaccurately calculated statutory reserves	On arrears
1	2	3	4	5	6	7	8	9	10
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[b]	–	–	8.50[b]	15.00	15.00
2006	December	4.50	3.50	7.50	–	–	8.50	15.00	15.00
2007	December	9.00[c]	4.06	7.50	–	–	8.50	15.00	15.00
2008	December	9.00	6.00	9.00	–	–	10.00	15.00	14.00
2009	December	9.00	–	9.00	–	–	10.00	15.00	14.00
2010	December	9.00	–	9.00	–	–	10.00	15.00	14.00
2011	January	9.00	–	9.00	–	–	10.00	15.00	14.00
	February	9.00	–	9.00	–	–	10.00	15.00	14.00
	March	9.00	–	9.00	–	–	10.00	15.00	14.00
	April	9.00	–	9.00	–	–	10.00	15.00	14.00
	May	9.00	–	9.00	–	–	10.00	15.00	14.00
	June	7.00[d]	–	9.00	–	–	10.00	15.00	12.00
	July	7.00	–	9.00	–	–	10.00	15.00	12.00
	August	7.00	–	9.00	–	–	10.00	15.00	12.00
	September	7.00	–	9.00	–	–	10.00	15.00	12.00
	October	7.00	–	9.00	–	–	10.00	15.00	12.00
	November	7.00	–	6.25[e]	–	–	7.25[e]	15.00	12.00
	December	7.00	–	6.25	–	–	7.25	15.00	12.00

[a] Weighted averages of weighted repo rates achieved at regular reverse repo auctions of the CNB in the reporting month. [b] Since 14 December 2005. [c] Since 31 December 2007. [d] Since 23 June 2011. [e] Since 28 November 2011.

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.

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 8 refer to interest rate on short-term liquidity credit with a maturity over 3 months which is 1 percentage point higher than interest rate on Lombard credits. Interest rate on short-term liquidity credit up to 3 months is 0.5 percentage point higher than interest rate on Lombard credits.

Table F2 Deposit rates of the Croatian National Bank

in percentage, on annual basis

Year	Month	Interest rates on statutory reserves dep. with the CNB	Interest rates on CNB bills on an obligatory basis	Interest rates on CNB bills on a voluntary basis				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
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	December	0.75	0.25	–	–	–	–	–	–	–	–	–	0.50
2010	December	0.75	–	–	–	–	–	–	–	–	–	–	0.50
2011	January	0.25[a]	–	–	–	–	–	–	–	–	–	–	0.50
	February	0.25	–	–	–	–	–	–	–	–	–	–	0.50
	March	–[b]	–	–	–	–	–	–	–	–	–	–	0.25[b]
	April	–	–	–	–	–	–	–	–	–	–	–	0.25
	May	–	–	–	–	–	–	–	–	–	–	–	0.25
	June	–	–	–	–	–	–	–	–	–	–	–	0.25
	July	–	–	–	–	–	–	–	–	–	–	–	0.25
	August	–	–	–	–	–	–	–	–	–	–	–	0.25
	September	–	–	–	–	–	–	–	–	–	–	–	0.25
	October	–	–	–	–	–	–	–	–	–	–	–	0.25
	November	–	–	–	–	–	–	–	–	–	–	–	0.25
	December	–	–	–	–	–	–	–	–	–	–	–	0.25

[a] Since 6 January 2011. [b] Since 19 March 2011.

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. From March 2011 on, the CNB pays no remuneration on the reserve requirement funds (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 April 1998 on, columns 9 through 13 report the weighted average interest rates on CNB bills on a voluntary basis in EUR 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 • 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

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
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	December	14.00	40,423.5	33,693.7	6,729.8	30.9	23,585.6	4,898.0	0.52	–
2010	December	13.00	38,990.6	32,374.8	6,615.8	–	22,662.4	4,736.7	0.52	–
2011	January	13.00	39,248.7	32,581.8	6,666.9	–	22,807.2	4,776.8	0.23	–
	February	13.00	39,528.1	32,839.2	6,688.9	–	22,987.4	4,798.1	0.17	–
	March	13.00	39,709.3	32,999.3	6,710.0	–	23,099.5	4,819.4	0.10	–
	April	13.00	39,924.9	33,156.8	6,768.1	–	23,209.8	4,887.7	–	–
	May	13.00	39,921.5	33,162.8	6,758.8	–	23,213.9	4,910.2	–	–
	June	13.00	40,123.9	33,330.9	6,793.0	–	23,331.6	4,956.0	–	–
	July	13.00	40,592.5	33,739.3	6,853.2	–	23,617.5	5,010.0	–	–
	August	13.00	40,803.2	33,963.0	6,840.2	–	23,774.1	4,991.0	–	–
	September	13.00	40,848.2	33,997.1	6,851.0	–	23,798.0	4,979.0	–	–
	October	13.65	42,957.3	35,740.0	7,217.4	–	25,018.0	5,217.5	–	–
	November	14.00	44,220.4	36,763.1	7,457.3	–	25,565.5	5,392.2	–	–
	December	14.00	44,443.2	36,936.6	7,506.7	–	25,654.6	5,437.9	–	–

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. From March 2011 on, the CNB pays no remuneration on the reserve requirement funds.

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
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	December	880.0	24,885.6	0.91	–	–	–	4,776.6
2010	December	407.1	30,511.9	0.42	–	–	–	5,705.9
2011	January	318.5	28,629.6	0.33	–	–	–	5,797.1
	February	218.7	26,853.3	0.22	–	–	–	6,567.5
	March	374.9	21,478.6	0.38	–	–	–	7,940.8
	April	412.1	19,231.5	0.42	–	–	–	7,649.0
	May	397.7	18,519.1	0.40	–	–	–	7,266.7
	June	367.6	18,533.1	0.37	–	–	–	7,798.3
	July	448.1	19,926.2	0.44	–	–	–	7,701.8
	August	405.5	22,503.3	0.39	–	–	–	7,497.8
	September	521.2	22,902.5	0.50	–	–	–	7,160.3
	October	490.5	21,069.3	0.48	–	–	–	7,099.3
	November	280.1	17,789.9	0.27	10.4	–	–	7,132.9
	December	333.0	15,693.8	0.32	97.3	–	–	8,157.7

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	Households
							Total average	Credit lines	Other			
1	2	3	4	5	6	7	8	9	10	11	12	13
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	December	1.20	1.50	11.12	11.22	9.29	12.68	13.24	4.89	9.77	8.27	11.33
2010	December	1.28	1.70	9.90	10.05	6.98	12.64	13.17	4.66	8.38	6.45	11.29
2011	January	0.69	1.34	10.29	10.39	7.08	12.73	13.17	4.25	8.76	5.58	11.55
	February	0.66	0.83	10.21	10.30	7.01	12.73	13.17	4.14	8.96	5.70	11.31
	March	0.65	0.83	9.86	9.99	6.88	12.66	13.16	4.34	8.39	5.90	10.94
	April	0.59	0.98	9.72	9.82	6.49	12.66	13.15	4.59	8.45	5.70	11.16
	May	0.57	0.74	10.23	10.43	6.85	12.68	13.15	4.22	8.07	5.32	11.21
	June	0.47	0.75	9.82	10.03	6.60	12.56	13.03	3.99	7.70	5.21	10.34
	July	0.61	0.95	8.93	9.04	6.37	11.20	11.62	3.94	7.90	5.62	9.92
	August	0.83	1.40	9.17	9.36	6.62	11.24	11.62	3.76	7.42	5.26	9.87
	September	1.02	1.91	9.17	9.36	6.89	11.23	11.61	3.84	7.58	5.72	9.51
	October	2.05	2.58	9.77	9.92	7.60	11.22	11.61	3.90	8.40	6.35	9.53
	November	1.61	2.71	9.68	9.82	7.67	11.22	11.59	3.91	8.33	6.47	9.39
	December	0.61	1.73	9.36	9.49	7.48	11.18	11.58	4.21	8.15	6.76	9.21
Relative significance[a]		–	–	68.33	61.71	28.24	33.47	31.67	1.80	6.62	2.86	3.75

[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	Enterprises	Housholds	Total average	Enterprises	Households			Total average	On short-term credits	On long-term credits
								Total average	Housing credits	Other			
1	2	3	4	5	6	7	8	9	10	11	12	13	14
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	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
2010	December	7.78	7.95	7.91	8.86	7.67	7.19	8.16	6.02	8.94	6.38	7.12	6.06
2011	January	7.50	7.41	7.28	9.37	7.54	7.00	8.06	6.02	8.85	5.55	6.05	5.10
	February	7.70	7.61	7.52	9.13	7.75	7.04	8.23	6.01	9.00	6.93	6.90	6.98
	March	7.84	7.95	7.89	8.58	7.79	7.20	8.18	5.93	8.95	6.56	6.73	6.42
	April	7.37	7.99	7.85	9.92	7.12	6.22	7.98	5.77	8.72	6.04	6.65	5.61
	May	7.35	7.30	7.25	8.09	7.37	6.74	7.92	5.60	8.72	6.16	6.90	5.52
	June	7.34	7.92	7.92	7.96	7.05	6.46	7.60	5.25	8.67	6.45	6.78	6.11
	July	7.26	7.49	7.40	8.31	7.18	6.68	7.57	5.19	8.64	6.43	6.21	6.74
	August	7.24	7.80	7.78	8.05	6.97	6.39	7.43	5.10	8.68	6.70	6.82	6.49
	September	7.04	8.17	8.20	7.84	6.70	5.93	7.42	5.15	8.60	6.65	6.81	6.41
	October	7.13	7.70	7.69	7.86	6.91	6.41	7.47	5.15	8.61	6.07	6.71	5.32
	November	7.16	7.20	7.17	7.84	7.13	6.59	7.62	5.32	8.54	6.10	6.63	5.76
	December	7.15	7.60	7.56	8.49	6.82	6.37	7.53	5.26	8.48	6.49	6.27	6.87
Relative significance[a]		**26.05**	**11.00**	**10.63**	**0.38**	**15.05**	**9.12**	**5.93**	**1.75**	**4.18**	**5.62**	**3.55**	**2.07**

[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
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	December	2.22	0.43	2.52	2.49	4.89	2.04	2.76	6.12	2.07
2010	December	1.61	0.34	1.93	1.85	3.66	1.41	4.26	4.76	3.03
2011	January	1.61	0.35	1.90	1.83	3.60	1.14	2.14	4.69	1.73
	February	1.59	0.34	1.47	1.42	3.42	0.98	1.68	4.61	1.32
	March	1.60	0.33	1.66	1.70	3.48	1.16	1.51	4.58	1.13
	April	1.60	0.34	1.37	1.36	3.44	0.90	1.40	4.60	1.17
	May	1.63	0.34	1.31	1.33	3.50	0.88	1.22	4.50	0.91
	June	1.58	0.35	1.60	1.74	3.49	1.06	1.21	4.70	0.87
	July	1.58	0.35	1.67	1.59	3.49	0.98	1.96	4.59	1.67
	August	1.65	0.35	2.07	1.91	3.45	1.45	2.59	4.76	2.39
	September	1.81	0.36	2.20	1.83	3.50	1.40	3.69	4.58	3.61
	October	1.91	0.35	2.82	2.42	3.41	2.17	4.43	4.32	4.44
	November	1.93	0.34	2.50	2.14	3.46	1.82	3.97	4.59	3.90
	December	1.88	0.36	2.46	2.33	3.55	1.88	2.98	4.58	2.78
Relative significance[a]		**52.71**	**35.00**	**15.02**	**11.87**	**3.18**	**8.69**	**3.15**	**0.34**	**2.81**

[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
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	December	3.01	3.12	3.31	3.98	0.18	0.22	0.16	0.10	0.07
2010	December	2.91	2.75	3.46	3.09	0.19	0.21	0.14	0.18	0.07
2011	January	2.85	2.51	1.29	2.97	0.18	0.21	0.14	0.13	0.06
	February	2.81	2.84	2.75	2.97	0.18	0.21	0.14	0.12	0.09
	March	3.03	2.86	3.53	2.90	0.18	0.21	0.14	0.13	0.07
	April	2.81	2.61	3.04	2.90	0.19	0.21	0.15	0.16	0.07
	May	3.11	3.00	3.47	2.90	0.19	0.21	0.15	0.16	0.06
	June	2.91	3.08	3.72	2.86	0.20	0.22	0.15	0.16	0.06
	July	3.00	2.67	2.98	2.88	0.19	0.21	0.14	0.16	0.05
	August	2.85	2.81	3.15	2.89	0.19	0.21	0.14	0.15	0.06
	September	3.20	3.25	3.77	2.90	0.19	0.21	0.14	0.14	0.06
	October	3.08	2.52	5.59	2.86	0.19	0.21	0.14	0.15	0.07
	November	3.10	2.76	3.07	2.86	0.19	0.21	0.14	0.15	0.06
	December	2.86[a]	2.75	3.62	2.90	0.19	0.21	0.14	0.13	0.08
Relative significance[b]		**0.39**	**0.17**	**0.22**	**46.90**	**21.92**	**14.69**	**2.09**	**4.63**	**0.52**

[a] Of the total amount of deposits to which this interest rate refers, 44.22% 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 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

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
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	December	3.58	3.40	4.33	2.73	2.64	1.77	5.13	5.43	3.86	2.85	0.13
2010	December	2.69	2.15	3.13	2.45	1.63	0.76	5.36	4.28	3.20	6.91	3.80
2011	January	2.57	2.31	3.00	2.43	1.71	0.90	4.24	4.29	3.22	3.77	0.85
	February	2.47	2.19	3.00	2.37	1.69	0.69	4.26	4.30	3.43	3.46	1.10
	March	2.36	2.15	2.97	2.37	1.66	0.73	3.97	4.01	3.21	3.64	2.60
	April	2.45	2.22	2.88	2.38	1.84	0.83	4.03	4.12	3.16	2.46	2.01
	May	2.40	2.20	2.87	2.39	1.90	0.71	3.89	3.96	3.54	3.67	2.42
	June	2.46	2.24	2.85	2.39	1.87	0.79	3.94	4.03	3.34	3.04	2.40
	July	2.51	2.27	2.86	2.45	1.88	0.65	3.88	3.95	3.84	3.52	3.10
	August	2.48	2.23	2.97	2.38	1.69	0.71	4.00	4.04	3.40	3.22	0.00
	September	2.49	2.26	2.96	2.40	1.63	0.84	3.97	4.00	3.30	4.17	3.80
	October	2.54	2.36	2.87	2.35	1.78	1.27	3.83	3.85	3.38	3.31	0.72
	November	2.59	2.36	2.83	2.36	2.06	0.85	3.87	3.92	3.30	3.33	2.39
	December	2.76	2.56	2.87	2.45	2.37	0.86	3.84	3.92	3.27	3.54	1.70
Relative significance[a]		**24.98**	**21.20**	**11.40**	**0.93**	**7.74**	**1.12**	**3.78**	**3.27**	**0.31**	**0.20**	**0.01**

[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).

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

	2010	2011											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
A Purchase of foreign exchange													
1 Legal persons	2,311.6	1,958.6	1,393.6	1,704.5	1,434.4	1,736.9	1,760.8	1,887.0	1,862.2	1,712.8	1,737.0	1,653.7	1,787.4
2 Natural persons	367.7	300.7	302.4	388.2	395.8	439.2	466.9	577.9	582.8	434.5	375.3	495.2	506.2
2.1 Residents	362.4	295.1	296.3	380.6	380.6	414.9	415.2	488.5	462.3	391.1	359.8	486.6	496.9
2.2 Non-residents	5.3	5.6	6.1	7.6	15.2	24.3	51.7	89.4	120.5	43.4	15.5	8.5	9.2
3 Domestic banks	1,174.1	668.4	702.9	1,091.5	503.5	817.4	1,306.8	1,260.0	1,070.2	868.6	748.2	734.8	634.3
4 Foreign banks	705.2	590.9	316.5	527.6	226.5	389.1	521.5	610.1	378.7	353.3	380.7	565.9	365.5
5 Croatian National Bank	233.7	–	–	–	–	–	–	238.9	–	357.8	–	–	–
Total (1+2+3+4)	**4,792.2**	**3,518.5**	**2,715.4**	**3,711.9**	**2,560.1**	**3,382.6**	**4,056.0**	**4,573.8**	**3,893.8**	**3,727.0**	**3,241.2**	**3,449.7**	**3,293.3**
B Sale of foreign exchange													
1 Legal persons	2,682.9	1,580.2	1,327.0	1,930.4	1,404.5	1,661.2	1,730.3	2,305.9	2,022.8	1,859.2	1,560.4	1,625.9	1,801.2
2 Natural persons	224.2	156.2	90.8	115.6	92.5	114.4	101.0	178.6	173.5	140.9	119.9	220.5	256.2
2.1 Residents	223.6	155.6	90.2	115.1	91.5	113.0	97.3	176.4	170.2	139.2	119.1	220.0	255.7
2.2 Non-residents	0.7	0.6	0.6	0.5	1.0	1.4	3.8	2.3	3.3	1.7	0.8	0.5	0.5
3 Domestic banks	1,174.1	668.4	702.9	1,091.5	503.5	817.4	1,306.8	1,260.0	1,070.2	868.6	748.2	734.8	634.3
4 Foreign banks	762.3	297.9	348.5	520.6	344.9	500.8	638.5	764.4	602.0	572.2	362.7	397.7	380.1
5 Croatian National Bank	–	–	–	–	–	–	–	–	–	–	–	–	–
Total (1+2+3+4)	**4,843.5**	**2,702.7**	**2,469.2**	**3,658.1**	**2,345.4**	**3,093.8**	**3,776.6**	**4,509.0**	**3,868.5**	**3,440.9**	**2,791.3**	**2,978.9**	**3,071.8**
C Net purchase (A-B)													
1 Legal persons	–371.3	378.4	66.5	–225.9	29.9	75.7	30.5	–418.9	–160.6	–146.4	176.6	27.8	–13.8
2 Natural persons	143.5	144.5	211.6	272.6	303.3	324.8	365.9	399.2	409.3	293.6	255.3	274.6	250.0
2.1 Residents	138.8	139.5	206.2	265.5	289.1	301.8	317.9	312.1	292.1	251.9	240.6	266.7	241.2
2.2 Non-residents	4.6	5.0	5.4	7.1	14.2	23.0	48.0	87.2	117.2	41.7	14.7	8.0	8.8
3 Foreign banks	–57.1	293.0	–31.9	7.0	–118.4	–111.7	–116.9	–154.4	–223.4	–218.8	18.0	168.3	–14.6
4 Croatian National Bank	233.7	–	–	–	–	–	–	238.9	–	357.8	–	–	–
Total (1+2+3)	**–51.3**	**815.9**	**246.2**	**53.7**	**214.7**	**288.9**	**279.4**	**64.9**	**25.3**	**286.1**	**449.9**	**470.8**	**221.6**
Memo items: Other Croatian National Bank transactions													
Purchase of foreign exchange	218.5	1.7	0.3	2.4	852.9	0.3	0.6	101.2	2.9	0.2	4.3	0.4	1.2
Sale of foreign exchange	–	–	–	–	–	–	–	–	–	–	–	–	0.0

Table G5 Banks' trade with foreign exchange • Data on trade with foreign exchange between banks comprise the spot purchase and sale of foreign exchange in domestic foreign exchange market. Spot transactions are contracted obligations to buy/sell foreign currency within maximally 48 hours.

The transactions are classified by category of participants (legal and natural persons, domestic and foreign banks and the CNB). Sources of data are banks' reports on trading with foreign exchange, including data on exchange transactions with natural persons conducted by authorised currency exchange offices.

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

	2007	2008	2009	2010	2011[c]	2011			
						Q1	Q2	Q3	Q4[c]
A CURRENT ACCOUNT (1+6)	–3,150.6	–4,258.1	–2,292.5	–472.1	–446.3	–1,644.0	–359.0	2,485.0	–928.4
1 Goods, services, and income (2+5)	–4,193.6	–5,328.5	–3,328.8	–1,560.1	–1,563.5	–1,879.7	–634.8	2,208.7	–1,257.7
1.1 Credit	19,614.5	21,237.2	17,114.1	18,618.5	19,751.4	3,195.5	5,055.7	7,662.7	3,837.5
1.2 Debit	–23,808.0	–26,565.7	–20,442.9	–20,178.5	–21,314.9	–5,075.2	–5,690.5	–5,454.0	–5,095.2
2 Goods and services (3+4)	–3,103.3	–3,780.6	–1,529.9	–4.0	50.2	–1,370.0	–78.6	2,556.1	–1,057.3
2.1 Credit	18,271.3	19,843.3	16,314.7	17,713.0	18,800.8	3,000.5	4,794.9	7,406.7	3,598.6
2.2 Debit	–21,374.6	–23,623.8	–17,844.6	–17,717.0	–18,750.6	–4,370.5	–4,873.5	–4,850.7	–4,655.9
3 Goods	–9,469.9	–10,855.2	–7,415.5	–5,990.7	–6,358.5	–1,535.6	–1,674.0	–1,645.9	–1,503.1
3.1 Credit	9,156.6	9,752.7	7,674.5	9,063.6	9,784.2	2,238.7	2,573.7	2,527.6	2,444.2
3.2 Debit	–18,626.5	–20,607.8	–15,090.1	–15,054.3	–16,142.8	–3,774.3	–4,247.7	–4,173.5	–3,947.3
4 Services	6,366.6	7,074.6	5,885.7	5,986.7	6,408.7	165.6	1,595.4	4,201.9	445.8
4.1 Credit	9,114.7	10,090.6	8,640.2	8,649.4	9,016.5	761.7	2,221.2	4,879.2	1,154.4
4.2 Debit	–2,748.1	–3,016.0	–2,754.5	–2,662.7	–2,607.8	–596.2	–625.8	–677.2	–708.6
5 Income	–1,090.2	–1,548.0	–1,798.9	–1,556.1	–1,613.7	–509.7	–556.2	–347.4	–200.4
5.1 Credit	1,343.2	1,393.9	799.4	905.5	950.7	195.0	260.7	256.0	238.9
5.2 Debit	–2,433.5	–2,941.9	–2,598.3	–2,461.5	–2,564.3	–704.7	–817.0	–603.4	–439.3
6 Current transfers	1,043.0	1,070.5	1,036.3	1,088.0	1,117.1	235.7	275.8	276.3	329.3
6.1 Credit	1,576.1	1,684.4	1,607.8	1,684.6	1,679.6	374.6	405.8	410.9	488.3
6.2 Debit	–533.1	–613.9	–571.5	–596.6	–562.4	–138.9	–129.9	–134.6	–159.0
B CAPITAL AND FINANCIAL ACCOUNT	4,437.6	5,774.9	3,466.0	1,319.4	1,335.8	1,406.9	184.6	–1,059.3	803.5
B1 Capital account	**28.5**	**14.9**	**43.1**	**34.5**	**–8.3**	**–1.6**	**–4.5**	**–1.8**	**–0.4**
B2 Financial account, excl. reserves	**5,130.8**	**5,429.6**	**4,319.3**	**1,368.7**	**1,744.7**	**2,277.4**	**220.8**	**–1,291.6**	**538.2**
1 Direct investment	3,435.2	3,248.4	1,526.6	408.2	1,022.6	45.7	253.8	544.4	178.7
1.1 Abroad	–216.1	–970.2	–888.2	112.9	–25.8	–295.5	25.8	248.4	–4.6
1.2 In Croatia	3,651.3	4,218.6	2,414.8	295.3	1,048.4	341.2	228.0	296.0	183.3
2 Portfolio investment	335.9	–810.1	420.9	477.0	645.7	413.8	–584.2	626.4	189.7
2.1 Assets	–421.6	–380.8	–558.1	–368.3	508.6	79.9	–153.1	345.8	236.0
2.2 Liabilities	757.5	–429.2	979.1	845.4	137.1	333.9	–431.1	280.6	–46.3
3 Financial derivatives	0.0	0.0	0.0	–252.7	–59.7	–6.9	–45.8	–84.4	77.4
4 Other investment	1,359.7	2,991.2	2,371.7	736.2	136.1	1,824.9	597.0	–2,378.0	92.3
4.1 Assets	–1,653.3	–1,621.6	748.0	657.7	296.9	698.1	92.4	–923.3	429.8
4.2 Liabilities	3,012.9	4,612.8	1,623.8	78.5	–160.8	1,126.8	504.6	–1,454.7	–337.5
B3 Reserve assets	**–721.6**	**330.4**	**–896.4**	**–83.8**	**–400.6**	**–868.8**	**–31.7**	**234.1**	**265.7**
C NET ERRORS AND OMISSIONS	–1,287.0	–1,516.8	–1,173.4	–847.3	–889.4	237.0	174.4	–1,425.8	124.9

[a] The CBRD is reclassified from the subsector central government funds to the subsector non-banking financial institutions. The reclassification covers the entire statistical series (from January 1999 onwards). Moreover, CM is reclassified from the subsector central government funds to the subsector public enterprises. The reclassification covers the statistical series from January 2008 onwards. [b] 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

Table H2 Balance of payments – goods and services

in million EUR

	2007	2008	2009	2010	2011[a]	2011			
						Q1	Q2	Q3	Q4[a]
Goods	–9,469.9	–10,855.2	–7,415.5	–5,990.7	–6,358.5	–1,535.6	–1,674.0	–1,645.9	–1,503.1
1 Credit	9,156.6	9,752.7	7,674.5	9,063.6	9,784.2	2,238.7	2,573.7	2,527.6	2,444.2
1.1 Exports (f.o.b.) in trade statistics	9,001.6	9,585.1	7,529.4	8,905.2	9,589.7	2,193.9	2,529.9	2,477.4	2,388.5
1.2 Adjustments for coverage	155.0	167.5	145.1	158.3	194.6	44.9	43.8	50.2	55.7
2 Debit	–18,626.5	–20,607.8	–15,090.1	–15,054.3	–16,142.8	–3,774.3	–4,247.7	–4,173.5	–3,947.3
2.1 Imports (c.i.f.) in trade statistics	–18,826.6	–20,817.1	–15,220.1	–15,137.0	–16,275.9	–3,811.5	–4,285.4	–4,211.4	–3,967.6
2.2 Adjustments for coverage	–370.4	–421.4	–331.1	–376.0	–360.0	–78.3	–92.2	–89.7	–99.9
2.3 Adjustments for classification	570.4	630.8	461.2	458.7	493.2	115.5	129.8	127.6	120.2
Services	6,366.6	7,074.6	5,885.7	5,986.7	6,408.7	165.6	1,595.4	4,201.9	445.8
1 Transportation	641.3	625.3	482.9	512.3	481.0	82.8	128.1	166.7	103.3
1.1 Credit	1,165.4	1,209.4	938.2	973.0	962.4	192.2	258.9	292.1	219.2
1.2 Debit	–524.0	–584.1	–455.3	–460.7	–481.5	–109.3	–130.8	–125.3	–116.0
2 Travel	6,035.2	6,694.0	5,655.8	5,600.8	5,970.2	143.3	1,457.0	3,991.0	378.9
2.1 Credit	6,752.6	7,459.4	6,379.7	6,230.0	6,598.6	274.5	1,611.0	4,169.8	543.3
2.1.1 Business	389.2	386.4	255.7	236.3	209.7	29.7	78.1	54.0	47.9
2.1.2 Personal	6,363.4	7,073.1	6,124.0	5,993.6	6,388.8	244.8	1,532.9	4,115.8	495.3
2.2 Debit	–717.3	–765.5	–724.0	–629.2	–628.4	–131.3	–153.9	–178.8	–164.4
2.2.1 Business	–266.9	–261.3	–240.8	–180.6	–184.3	–45.9	–42.2	–41.9	–54.4
2.2.2 Personal	–450.4	–504.2	–483.1	–448.6	–444.0	–85.4	–111.7	–137.0	–109.9
2.3 Other services	–310.0	–244.6	–253.0	–126.4	–42.5	–60.6	10.2	44.2	–36.3
2.3.1 Credit	1,196.8	1,421.8	1,322.2	1,446.4	1,455.5	295.0	351.3	417.2	391.9
2.3.2 Debit	–1,506.7	–1,666.4	–1,575.2	–1,572.8	–1,498.0	–355.6	–341.1	–373.0	–428.3

[a] Preliminary data.

exchange rate in the case the transaction date is not available;

- by applying the end-of-period exchange rate for the calculation of a change in the transaction value between the two periods; the end-of-period balances reported in the original currency serve as a basis for calculating the change in the original currency value, which is converted, by applying the average midpoint exchange rate in the observed period, into the value of change in the reporting currency.

The Report of the Central Bureau of Statistics on 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 freight transportation are not adopted from that research. They are compiled by using ITRS data. Staring from January 2011, as the ITRS was abolished, the position of revenues from road freight transportation is complied on the basis of the econometric model having the

Table H3 Balance of payments – income and current transfers
in million EUR

	2007	2008	2009	2010	2011[a]	2011			
						Q1	Q2	Q3	Q4[a]
Income	–1,090.2	–1,548.0	–1,798.9	–1,556.1	–1,613.7	–509.7	–556.2	–347.4	–200.4
1 Compensation of employees	494.2	564.1	586.5	620.8	657.0	153.5	169.1	166.4	168.1
1.1 Credit	527.8	599.7	624.2	657.1	695.5	162.6	178.3	176.3	178.4
1.2 Debit	–33.6	–35.5	–37.6	–36.3	–38.5	–9.2	–9.2	–9.8	–10.3
2 Direct investment income	–920.6	–1,137.1	–1,172.9	–1,100.0	–1,037.4	–359.5	–415.3	–216.0	–46.6
2.1 Credit	174.5	194.6	–62.6	87.6	60.1	8.0	33.2	19.8	–0.9
o/w: Reinvested earnings	123.3	118.6	–114.9	8.5	–6.5	–9.6	1.4	13.6	–11.9
2.2 Debit	–1,095.1	–1,331.7	–1,110.3	–1,187.6	–1,097.5	–367.6	–448.4	–235.8	–45.7
o/w: Reinvested earnings	–483.3	–508.5	–314.1	–495.2	–300.7	–208.5	17.5	–128.5	18.9
3 Portfolio investment income	–176.5	–158.0	–173.4	–304.1	–339.5	–79.2	–88.0	–81.2	–91.1
3.1 Credit	89.9	82.3	73.5	41.0	48.7	11.1	14.5	13.3	9.8
3.2 Debit	–266.4	–240.3	–246.9	–345.1	–388.2	–90.2	–102.4	–94.6	–101.0
4 Other investment income	–487.3	–817.0	–1,039.2	–772.7	–893.8	–224.4	–222.0	–216.6	–230.7
4.1 Credit	551.0	517.4	164.3	119.7	146.3	13.3	34.9	46.6	51.6
4.2 Debit	–1,038.4	–1,334.3	–1,203.5	–892.5	–1,040.1	–237.7	–256.9	–263.1	–282.4
Current transfers	1,043.0	1,070.5	1,036.3	1,088.0	1,117.1	235.7	275.8	276.3	329.3
1 General government	–16.7	–20.0	–30.0	–39.8	–68.6	–27.3	–31.9	–21.4	12.0
1.1 Credit	260.2	342.6	309.0	304.6	234.7	44.4	40.7	52.2	97.4
1.2 Debit	–276.8	–362.7	–339.0	–344.4	–303.3	–71.7	–72.6	–73.6	–85.4
2 Other sectors	1,059.6	1,090.5	1,066.3	1,127.8	1,185.7	263.0	307.7	297.8	317.3
2.1 Credit	1,316.0	1,341.7	1,298.8	1,379.9	1,444.8	330.2	365.1	358.7	390.8
2.2 Debit	–256.3	–251.2	–232.5	–252.2	–259.1	–67.2	–57.3	–61.0	–73.6

[a] Preliminary data.

volume of trade in goods as a dependent variable. Expenditures on the basis of road freight transportation equal transportation and insurance costs related to imports of goods which belong to non-residents and which are 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 and Central Bureau of Statistics data on the number of foreign and domestic travellers, along with the data on distribution of foreign travellers by countries contained in the CBS Report on tourism, in order to assess the corresponding balance of payment items.

Other services position is complied by using different data sources: apart from revenues and expenditures related to communication and construction services, which have been determined by the CNB special statistical research since 2001, the values of all other services were adopted from the ITRS until the end of 2010, when it was abolished. As of 2011, the uniform statistical survey is used for estimating the position of Other services, which encompasses 30 different types of services, the classification of which is prescribed by the IMF's Balance of Payments Manual, 6th edition. That survey also includes communication services, as a result of which a special survey on communication services was abolished, while insurance and construction services continued to be monitored through separate surveys.

Transactions in the income account are classified into four main groups. Compensation of employees item was compiled on the basis of the ITRS until the end of 2010, when it was abolished. As of 2011, this position on the revenues side is estimated by a model based on the aggregate data of banks on inflows of resident natural persons from non-residents. On the expenditures side, the existing surveys on services are used, containing a part which relates to compensation of employees paid to non-residents. 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.

Table H4 Balance of payments – direct and portfolio investments[a,b]

in million EUR

	2007	2008	2009	2010	2011[c]	2011			
						Q1	Q2	Q3	Q4[c]
Direct investment	3,435.2	3,248.4	1,526.6	408.2	1,022.6	45.7	253.8	544.4	178.7
1 Abroad	**–216.1**	**–970.2**	**–888.2**	**112.9**	**–25.8**	**–295.5**	**25.8**	**248.4**	**–4.6**
1.1 Equity capital and reinvested earnings	–270.2	–1,075.9	–894.4	253.8	–184.9	–84.6	–52.1	–30.4	–17.8
1.1.1 Claims	–273.3	–1,075.9	–1,009.3	237.4	–206.4	–94.2	–52.1	–30.4	–29.7
1.1.2 Liabilities	3.1	0.0	114.9	16.3	21.5	9.6	0.0	0.0	11.9
1.2 Other capital	54.1	105.7	6.2	–140.9	159.1	–210.9	77.9	278.8	13.3
1.2.1 Claims	20.3	106.8	–30.1	–371.5	345.3	–26.4	77.9	280.0	13.9
1.2.2 Liabilities	33.9	–1.1	36.3	230.6	–186.2	–184.5	0.0	–1.1	–0.6
2 In Croatia	**3,651.3**	**4,218.6**	**2,414.8**	**295.3**	**1,048.4**	**341.2**	**228.0**	**296.0**	**183.3**
2.1 Equity capital and reinvested earnings	2,688.1	2,708.0	983.9	877.4	2,213.7	309.2	563.5	334.6	1,006.5
2.1.1 Claims	0.0	–6.9	–106.8	–70.0	–36.3	0.0	–17.5	0.0	–18.9
2.1.2 Liabilities	2,688.1	2,714.9	1,090.8	947.3	2,250.1	309.2	581.0	334.6	1,025.3
2.2 Other capital	963.2	1,510.6	1,430.9	–582.1	–1,165.3	32.0	–335.5	–38.6	–823.2
2.2.1 Claims	–4.5	–26.4	–29.1	–21.5	13.7	25.1	–3.5	–5.3	–2.7
2.2.2 Liabilities	967.7	1,537.0	1,460.0	–560.6	–1,179.0	6.9	–332.1	–33.3	–820.5
Portfolio investment	335.9	–810.1	420.9	477.0	645.7	413.8	–584.2	626.4	189.7
1 Assets	**–421.6**	**–380.8**	**–558.1**	**–368.3**	**508.6**	**79.9**	**–153.1**	**345.8**	**236.0**
1.1 Equity securities	–842.6	148.9	–111.4	–474.3	–115.9	–176.5	–41.1	26.8	74.8
1.1.1 General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.1.2 Banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.1.3 Other sectors	–842.6	148.9	–111.4	–474.3	–115.9	–176.5	–41.1	26.8	74.8
1.2 Debt securities	421.0	–529.7	–446.7	105.9	624.4	256.3	–112.0	319.0	161.1
1.2.1 Bonds	315.6	–431.4	–86.2	263.9	350.4	11.8	–80.5	416.6	2.5
1.2.1.1 General government	0.1	0.0	0.0	–1.5	0.0	0.0	0.0	0.0	0.0
1.2.1.2 Banks	267.8	–226.5	–52.5	167.3	348.8	20.3	–55.1	373.7	9.9
1.2.1.3 Other sectors	47.7	–204.9	–33.7	98.1	1.6	–8.5	–25.4	42.8	–7.4
1.2.2 Money market instruments	105.4	–98.3	–360.5	–157.9	274.0	244.5	–31.5	–97.6	158.6
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	109.7	–100.9	–341.4	–124.3	310.7	265.0	–26.0	–76.7	148.4
1.2.2.3 Other sectors	–4.3	2.5	–19.0	–33.6	–36.7	–20.5	–5.5	–20.9	10.2
2 Liabilities	**757.5**	**–429.2**	**979.1**	**845.4**	**137.1**	**333.9**	**–431.1**	**280.6**	**–46.3**
2.1 Equity securities	315.9	–85.1	16.4	168.0	17.7	140.6	–76.5	–15.1	–31.2
2.1.1 Banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.1.2 Other sectors	315.9	–85.1	16.4	168.0	17.7	140.6	–76.5	–15.1	–31.2
2.2 Debt securities	441.6	–344.2	962.7	677.3	119.5	193.3	–354.6	295.7	–15.0
2.2.1 Bonds	519.1	–329.9	817.3	380.8	431.4	113.4	–128.3	447.5	–1.1
2.2.1.1 General government	83.0	–245.0	862.9	389.1	638.0	277.7	–108.9	467.4	1.8
2.2.1.2 Banks	0.1	–4.7	–447.2	–0.2	–7.0	–8.9	0.0	2.7	–0.8
2.2.1.3 Other sectors	436.0	–80.1	401.7	–8.1	–199.5	–155.4	–19.4	–22.6	–2.1
2.2.2 Money market instruments	–77.5	–14.3	145.3	296.5	–312.0	79.9	–226.2	–151.8	–13.9
2.2.2.1 General government	–77.5	–14.4	145.4	296.5	–312.1	79.9	–226.2	–151.8	–14.1
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	0.1	0.0	0.0	0.0	0.1

[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.

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 survey, whereas data on debt portfolio investment income have been compiled since 1999, based on statistics on foreign credit relations, which also encompasses 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 was changed in 2007 to include the reporting of income on an accrual basis. This basically means that income from debt investment and interest

Table H5 Balance of payments – other investment[a]

in million EUR

	2007	2008	2009	2010	2011[b]	2011			
						Q1	Q2	Q3	Q4[b]
Other investment (net)	1,359.7	2,991.2	2,371.7	736.2	136.1	1,824.9	597.0	–2,378.0	92.3
1 Assets	**–1,653.3**	**–1,621.6**	**748.0**	**657.7**	**296.9**	**698.1**	**92.4**	**–923.3**	**429.8**
1.1 Trade credits	–99.4	–126.5	138.4	183.9	–47.5	–147.9	52.6	–19.4	67.3
1.1.1 General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.1.1.1 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	–99.4	–126.5	138.4	183.9	–47.5	–147.9	52.6	–19.4	67.3
1.1.2.1 Long-term	–63.5	26.7	58.0	22.2	2.9	–2.6	1.8	–0.4	4.2
1.1.2.2 Short-term	–35.9	–153.2	80.5	161.7	–50.4	–145.3	50.8	–18.9	63.1
1.2 Loans	–4.5	–107.5	41.5	–95.1	–1.4	8.8	–65.3	44.2	10.9
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	–32.6	–66.7	20.5	–75.4	7.2	–10.2	–76.6	60.6	33.5
1.2.2.1 Long-term	–25.4	–26.8	–28.7	–46.9	–22.4	–28.2	–62.7	36.9	31.5
1.2.2.2 Short-term	–7.3	–39.9	49.2	–28.5	29.7	18.0	–13.9	23.6	1.9
1.2.3 Other sectors	28.1	–40.8	21.0	–19.7	–8.7	19.0	11.3	–16.4	–22.6
1.2.3.1 Long-term	28.1	–37.6	20.9	17.4	–34.7	4.7	11.5	–26.1	–24.8
1.2.3.2 Short-term	0.0	–3.2	0.1	–37.1	26.0	14.3	–0.2	9.7	2.2
1.3 Currency and deposits	–1,549.4	–1,387.5	568.0	568.9	345.8	837.2	105.1	–948.1	351.6
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	–1,317.1	–136.4	423.7	417.0	523.9	925.8	77.1	–828.5	349.6
1.3.3 Other sectors	–232.3	–1,251.2	144.3	151.9	–178.1	–88.6	28.0	–119.6	2.1
1.4 Other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2 Liabilities	**3,012.9**	**4,612.8**	**1,623.8**	**78.5**	**–160.8**	**1,126.8**	**504.6**	**–1,454.7**	**–337.5**
2.1 Trade credits	313.5	32.0	–143.7	60.2	–586.2	–253.5	20.0	–132.2	–220.5
2.1.1 General government	–0.6	–0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.1.1.1 Long-term	–0.6	–0.5	0.0	0.0	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	314.2	32.5	–143.7	60.2	–586.2	–253.5	20.0	–132.2	–220.5
2.1.2.1 Long-term	165.0	34.9	–58.0	–25.4	–147.6	3.1	–42.2	–55.0	–53.5
2.1.2.2 Short-term	149.2	–2.4	–85.7	85.6	–438.6	–256.6	62.2	–77.2	–167.0
2.2 Loans	2,890.3	3,703.9	590.5	36.3	–505.0	861.4	73.0	–947.7	–491.6
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	161.0	96.7	–7.4	134.4	90.7	162.8	157.5	–182.6	–47.0
2.2.2.1 Long-term	161.0	65.0	24.3	134.4	90.7	–12.2	157.5	–7.6	–47.0
2.2.2.1.1 Drawings	523.5	330.1	306.0	368.9	347.2	22.9	235.7	51.1	37.4
2.2.2.1.2 Repayments	–362.5	–265.2	–281.7	–234.5	–256.5	–35.1	–78.2	–58.8	–84.4
2.2.2.2 Short-term	0.0	31.7	–31.7	0.0	0.0	175.0	0.0	–175.0	0.0
2.2.3 Banks	–1,065.0	115.2	–166.5	–192.7	–48.3	116.0	148.9	–407.6	94.4
2.2.3.1 Long-term	–630.8	–276.1	158.1	–322.9	375.1	304.4	15.6	13.0	42.1
2.2.3.1.1 Drawings	1,216.2	609.4	1,219.2	849.3	1,108.3	360.9	306.1	101.7	339.6
2.2.3.1.2 Repayments	–1,847.0	–885.4	–1,061.1	–1,172.2	–733.2	–56.5	–290.5	–88.7	–297.5
2.2.3.2 Short-term	–434.2	391.3	–324.6	130.2	–423.4	–188.4	133.3	–420.6	52.3
2.2.4 Other sectors	3,794.4	3,492.0	764.4	94.5	–547.4	582.6	–233.4	–357.5	–539.1
2.2.4.1 Long-term	3,184.9	3,175.7	488.1	–96.7	–922.3	155.1	–89.8	–320.3	–667.4
2.2.4.1.1 Drawings	5,960.8	6,700.9	4,403.7	4,336.5	2,935.3	845.5	807.6	581.9	700.4
2.2.4.1.2 Repayments	–2,775.9	–3,525.2	–3,915.5	–4,433.2	–3,857.6	–690.3	–897.3	–902.2	–1,367.7
2.2.4.2 Short-term	609.5	316.2	276.2	191.2	374.9	427.5	–143.6	–37.2	128.3
2.3 Currency and deposits	–193.6	875.7	1,175.0	–19.0	929.7	518.8	411.3	–374.9	374.6
2.3.1 General government	–0.1	–0.1	–1.2	0.0	–1.0	0.5	–1.6	0.0	0.0
2.3.2 Banks	–193.6	867.1	1,197.2	–19.0	930.8	518.2	412.9	–374.9	374.6
2.3.3 Other sectors	0.1	8.7	–21.1	0.0	0.0	0.0	0.0	0.0	0.0
2.4 Other liabilities	2.7	1.3	2.0	1.1	0.6	0.1	0.2	0.2	0.1

[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

	2007	2008	2009	2010	2011[b]	2011			
						Q1	Q2	Q3	Q4[b]
A CURRENT ACCOUNT (1+6)	–22,796.1	–30,093.5	–16,130.7	–2,787.7	–2,620.6	–12,066.1	–2,538.8	18,640.6	–6,656.4
1 Goods, services, and income (2+5)	–30,447.0	–37,822.4	–23,735.6	–10,686.9	–10,978.4	–13,810.2	–4,568.7	16,563.5	–9,163.0
1.1 Credit	144,196.8	154,043.8	126,335.3	136,296.8	147,453.9	23,740.7	37,475.0	57,189.1	29,049.0
1.2 Debit	–174,643.8	–191,866.2	–150,070.9	–146,983.6	–158,432.2	–37,550.9	–42,043.7	–40,625.6	–38,212.1
2 Goods and services (3+4)	–22,425.6	–26,606.4	–10,513.1	648.6	930.1	–10,044.3	–461.3	19,153.5	–7,717.8
2.1 Credit	134,345.7	143,978.2	120,464.4	129,708.4	140,321.0	22,292.4	35,545.2	55,280.7	27,202.7
2.2 Debit	–156,771.3	–170,584.7	–130,977.5	–129,059.8	–139,390.9	–32,336.7	–36,006.6	–36,127.2	–34,920.4
3 Goods	–69,481.9	–78,426.2	–54,458.0	–43,648.2	–47,273.5	–11,364.8	–12,376.1	–12,265.5	–11,267.1
3.1 Credit	67,161.6	70,414.9	56,336.3	66,044.6	72,731.4	16,568.9	19,012.9	18,841.7	18,308.0
3.2 Debit	–136,643.4	–148,841.1	–110,794.2	–109,692.7	–120,004.9	–27,933.6	–31,389.0	–31,107.2	–29,575.1
4 Services	47,056.3	51,819.8	43,944.9	44,296.8	48,203.6	1,320.5	11,914.8	31,419.0	3,549.4
4.1 Credit	67,184.2	73,563.3	64,128.1	63,663.9	67,589.6	5,723.5	16,532.4	36,439.0	8,894.7
4.2 Debit	–20,127.8	–21,743.5	–20,183.3	–19,367.1	–19,385.9	–4,403.0	–4,617.6	–5,020.0	–5,345.3
5 Income	–8,021.4	–11,215.9	–13,222.5	–11,335.5	–11,908.5	–3,765.9	–4,107.3	–2,589.9	–1,445.3
5.1 Credit	9,851.0	10,065.6	5,870.9	6,588.3	7,132.9	1,448.3	1,929.8	1,908.4	1,846.4
5.2 Debit	–17,872.5	–21,281.5	–19,093.4	–17,923.8	–19,041.4	–5,214.2	–6,037.1	–4,498.4	–3,291.7
6 Current transfers	7,650.9	7,728.8	7,604.9	7,899.1	8,357.8	1,744.2	2,029.9	2,077.1	2,506.6
6.1 Credit	11,562.1	12,159.5	11,797.8	12,254.8	12,546.2	2,772.3	2,995.5	3,080.3	3,698.0
6.2 Debit	–3,911.1	–4,430.6	–4,192.9	–4,355.7	–4,188.4	–1,028.2	–965.6	–1,003.2	–1,191.4
B CAPITAL AND FINANCIAL ACCOUNT	32,478.5	41,419.3	25,548.7	9,715.6	9,884.3	10,406.2	1,341.7	–7,886.2	6,022.5
B1 Capital account	**209.1**	**108.2**	**314.1**	**252.6**	**–61.5**	**–11.8**	**–33.2**	**–13.5**	**–2.9**
B2 Financial account, excl. reserves	**37,584.4**	**39,002.8**	**31,745.7**	**9,925.0**	**12,868.4**	**16,841.9**	**1,609.1**	**–9,612.0**	**4,029.5**
1 Direct investment	25,241.5	23,055.9	11,260.4	2,945.8	7,600.2	337.7	1,868.3	4,055.2	1,338.9
1.1 Abroad	–1,588.3	–6,981.4	–6,505.5	878.1	–179.8	–2,185.5	189.8	1,849.9	–34.0
1.2 In Croatia	26,829.8	30,037.3	17,765.9	2,067.8	7,780.0	2,523.2	1,678.5	2,205.4	1,372.9
2 Portfolio investment	2,495.2	–5,711.7	2,991.6	3,356.3	4,799.5	3,057.6	–4,319.8	4,642.5	1,419.3
2.1 Assets	–3,107.9	–2,678.2	–4,042.4	–2,700.4	3,805.3	591.9	–1,128.7	2,574.2	1,768.0
2.2 Liabilities	5,603.1	–3,033.5	7,034.0	6,056.7	994.2	2,465.7	–3,191.1	2,068.3	–348.8
3 Financial derivatives	0.0	0.0	0.0	–1,838.9	–438.9	–51.3	–338.5	–629.3	580.2
4 Other investment	9,847.7	21,658.6	17,493.7	5,461.8	907.7	13,497.8	4,399.1	–17,680.4	691.1
4.1 Assets	–12,078.3	–11,592.5	5,591.2	4,831.8	2,184.1	5,160.6	673.0	–6,871.8	3,222.3
4.2 Liabilities	21,926.0	33,251.1	11,902.5	629.9	–1,276.4	8,337.2	3,726.1	–10,808.5	–2,531.2
B3 Reserve assets (CNB)	**–5,315.0**	**2,308.3**	**–6,511.2**	**–462.0**	**–2,922.6**	**–6,423.9**	**–234.1**	**1,739.4**	**1,996.0**
C NET ERRORS AND OMISSIONS	–9,682.4	–11,325.8	–9,418.0	–6,927.9	–7,263.7	1,659.9	1,197.0	–10,754.5	633.8

[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.
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.

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 was used as the main data source on current transfers for both sectors until the end of 2010, when it was abolished. As of 2011, transfers of the general government sector are recorded on the basis of the data of the Ministry of Finance and the Croatian Pension Insurance Administration in the case of pensions paid out to non-residents. In addition to taxes and excise duties, pensions, gifts and donations, which are included in current transfers of both sectors, the central government sector also encompasses data on multilateral cooperation, whereas other sectors include data on workers' remittances. As of 2011, the position of workers' remittances and gifts and donations for other sectors is estimated through a model based on aggregate data of banks on inflows of resident natural persons from abroad and outflows of resident natural persons abroad. Pensions from abroad are estimated on the basis of the available data of the Croatian Pension Insurance Administration. Furthermore, other sector transfers are supplemented by the data from the survey on trade in international services, containing a special part for possible transfers from and to foreign countries. 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.

Until the end of 2010, capital account in the part relating to capital transfers was compiled on the basis of the ITRS. As of the beginning of 2011, data of the Ministry of Finance and data from the survey on trade in international services, containing a special part for possible transfers from and to foreign countries, are used for compiling the capital transfers account. Data on possible debt forgiveness also constitute a part of the capital account.

Foreign direct investments include equity capital, reinvested earnings and debt relations between ownership-related residents and non-residents. Direct investments are investments whereby a foreign owner acquires a minimum of 10% interest in equity capital of a company, regardless of whether a resident invests abroad or a non-resident invests in Croatian residents. The CNB Research on foreign direct investments started in 1997 when companies included in the survey also delivered data on direct investments for the 1993–1996 period. For the same period, no data are available on reinvested earnings and other capital under direct investment position, where all debt relations between related residents and non-residents are classified (excluding the banking sector). Such data actually became available only after the stated research had 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 residents abroad were compiled on the basis of the ITRS until the end of 2010, whereas in 2011, monitoring through the obligatory reporting to the CNB's Statistics Department was introduced. These purchase and sale transactions are also a constituent part of direct investments.

Data on equity portfolio investments are collected from the same data source as the data on direct equity 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. Since 2009, these positions have been modified by the statistics on trade in equity and debt securities submitted by the Central Depository and Clearing Company and commercial banks providing securities custody services. Portfolio investments are modified by these data in the parts not fully covered by the existing research. Data for the 2006–2009 period have also been revised. As a result, from 2006 on, the balance of payments includes data on debt securities issued by domestic issuers and traded by non-residents in the domestic market (portfolio investment, debt securities on the liabilities side).

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 also relate to the effect of the EMU countries' currencies changeover to the euro. Data for the fourth quarter of 2008 were modified by estimates of currency and deposit withdrawals from the financial system driven by fears of the effects of the global financial crisis.

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	
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	December	10,375.8	331.7	0.2	–	10,043.9	2,641.4	7,402.6	4,293.9
2010	December	10,660.3	356.7	0.2	–	10,303.4	3,274.9	7,028.5	3,828.9
2011	January	10,456.2	345.4	0.2	–	10,110.6	3,141.2	6,969.4	3,596.5
	February	10,464.0	346.4	0.2	–	10,117.4	2,871.5	7,245.9	3,662.9
	March	11,423.8	342.0	0.2	–	11,081.6	4,058.9	7,022.8	2,926.6
	April	11,336.3	331.5	0.2	–	11,004.6	4,007.4	6,997.1	2,748.5
	May	11,394.4	340.4	0.2	–	11,053.8	2,992.3	8,061.6	2,714.7
	June	11,422.3	338.0	0.2	–	11,084.1	2,883.2	8,200.8	2,836.0
	July	11,232.9	338.7	0.2	–	10,894.0	3,154.1	7,739.9	3,442.2
	August	11,217.3	339.2	0.2	–	10,877.9	3,055.6	7,822.3	3,560.6
	September	11,323.8	347.8	0.2	–	10,975.8	3,097.7	7,878.1	3,670.2
	October	11,220.5	340.0	0.2	–	10,880.3	2,833.1	8,047.3	3,446.1
	November	11,420.4	351.2	0.2	–	11,069.0	2,922.6	8,146.4	3,545.3
	December	11,194.9	360.7	0.2	–	10,834.0	2,730.7	8,103.2	3,463.7

[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 • 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

Table H8 International reserves and foreign currency liquidity

end of period, in million EUR

		2010	2011											
		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		**10,660.3**	**10,456.2**	**10,464.0**	**11,423.8**	**11,336.3**	**11,394.4**	**11,422.3**	**11,232.9**	**11,217.3**	**11,323.8**	**11,220.5**	**11,420.4**	**11,194.9**
(1) Foreign currency reserves (in convertible f/c)		8,794.8	8,516.6	8,701.5	9,435.8	8,607.0	10,188.8	10,444.1	10,331.9	10,877.9	10,619.7	10,220.3	10,959.0	10,694.0
(a) Securities		7,028.5	6,969.4	7,245.9	7,022.8	6,997.1	8,061.6	8,200.8	7,739.9	7,822.3	7,878.1	8,047.3	8,146.4	8,103.2
o/w: Issuer headquartered in reporting country but located abroad		–	–	–	–	–	–	–	–	–	–	–	–	–
(b) Total currency and deposits with:		1,766.3	1,547.2	1,455.5	2,413.0	1,609.8	2,127.3	2,243.2	2,592.0	3,055.6	2,741.6	2,173.0	2,812.6	2,590.7
(i) Other national central banks, BIS and IMF		1,576.4	1,416.1	1,319.4	2,306.2	1,496.9	1,087.5	975.2	1,033.2	1,488.8	1,177.3	2,031.1	2,719.8	2,468.7
(ii) Banks headquartered in the reporting country		–	–	–	–	–	–	–	–	–	–	–	–	–
o/w: Located abroad		–	–	–	–	–	–	–	–	–	–	–	–	–
(iii) Banks headquartered outside the reporting country		189.9	131.2	136.1	106.8	113.0	1,039.8	1,268.1	1,558.8	1,566.8	1,564.3	141.8	92.8	122.1
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		356.7	345.4	346.4	342.0	331.5	340.4	338.0	338.7	339.2	347.8	340.0	351.2	360.7
(4) Gold		–	–	–	–	–	–	–	–	–	–	–	–	–
(5) Other reserve assets		1,508.6	1,593.9	1,415.9	1,645.9	2,397.6	865.0	640.0	562.1	–	356.1	660.1	110.0	140.0
– Reverse repo		1,508.6	1,593.9	1,415.9	1,645.9	2,397.6	865.0	640.0	562.1	–	356.1	660.1	110.0	140.0
B Other foreign currency assets (specify)		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– Time deposits		–	–	–	–	–	–	–	–	–	–	–	–	–
C Total (A+B)		**10,660.3**	**10,456.2**	**10,464.0**	**11,423.8**	**11,336.3**	**11,394.4**	**11,422.3**	**11,232.9**	**11,217.3**	**11,323.8**	**11,220.5**	**11,420.4**	**11,194.9**
II Predetermined short-term net drains on f/c assets (nominal value)														
1 F/c loans, securities, and deposits (total net drains up to one year)		**–1,234.9**	**–1,227.8**	**–1,257.3**	**–685.3**	**–679.3**	**–688.0**	**–673.8**	**–517.3**	**–500.8**	**–515.4**	**–519.5**	**–723.8**	**–679.5**
(a) Croatian National Bank		–	–	–	–	–	–	–	–	–	–	–	–	–
Up to 1 month	Principal	–	–	–	–	–	–	–	–	–	–	–	–	–
	Interest	–	–	–	–	–	–	–	–	–	–	–	–	–
More than 1 and up to 3 months	Principal	–	–	–	–	–	–	–	–	–	–	–	–	–
	Interest	–	–	–	–	–	–	–	–	–	–	–	–	–
More than 3 months and up to 1 year	Principal	–	–	–	–	–	–	–	–	–	–	–	–	–
	Interest	–	–	–	–	–	–	–	–	–	–	–	–	–
(b) Central government (excl. central government funds)		–1,234.9	–1,227.8	–1,257.3	–685.3	–679.3	–688.0	–673.8	–517.3	–500.8	–515.4	–519.5	–723.8	–679.5
Up to 1 month	Principal	–16.4	–0.3	–743.0	–15.4	–11.0	–38.2	–14.8	–17.8	–11.6	–14.9	–12.5	–220.7	–140.2
	Interest	–8.1	–0.2	–4.4	–1.3	–6.6	–1.6	–5.0	–0.2	–5.1	–1.0	–6.8	–0.9	–6.5
More than 1 and up to 3 months	Principal	–882.2	–842.6	–165.3	–125.4	–124.3	–92.0	–285.7	–105.0	–134.5	–151.0	–170.9	–54.7	–112.5
	Interest	–15.1	–18.1	–26.5	–18.3	–17.4	–10.5	–24.2	–15.1	–22.5	–16.9	–22.7	–16.4	–20.5
More than 3 months and up to 1 year	Principal	–170.5	–166.1	–155.4	–298.3	–298.6	–295.1	–134.3	–129.3	–122.5	–99.3	–109.8	–204.6	–208.7
	Interest	–142.5	–200.6	–162.8	–226.6	–221.5	–250.6	–209.8	–249.8	–204.7	–232.3	–196.8	–226.6	–191.2
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		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–3.5**	**–**
– Outflows related to repos (–)		–	–	–	–	–	–	–	–	–	–	–	–3.5	–
Up to 1 month	Principal	–	–	–	–	–	–	–	–	–	–	–	–3.5	–
	Interest	–	–	–	–	–	–	–	–	–	–	–	–	–
More than 1 and up to 3 months	Principal	–	–	–	–	–	–	–	–	–	–	–	–	–
	Interest	–	–	–	–	–	–	–	–	–	–	–	–	–
More than 3 months and up to 1 year	Principal	–	–	–	–	–	–	–	–	–	–	–	–	–
	Interest	–	–	–	–	–	–	–	–	–	–	–	–	–
4 Total predetermined short-term net drains on f/c assets (1+2+3)		**–1,234.9**	**–1,227.8**	**–1,257.3**	**–685.3**	**–679.3**	**–688.0**	**–673.8**	**–517.3**	**–500.8**	**–515.4**	**–519.5**	**–727.4**	**–679.5**

		2010	2011											
		Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
III Contingent short-term net drains on f/c assets (nominal value)														
1 Contingent liabilities in foreign currency		**–1,734.2**	**–1,721.6**	**–1,463.1**	**–1,495.2**	**–1,502.9**	**–1,552.7**	**–1,579.8**	**–1,644.3**	**–1,649.1**	**–2,088.6**	**–1,972.6**	**–1,919.7**	**–1,741.7**
(a) Collateral guarantees on debt falling due within 1 year		–1,087.9	–1,092.5	–818.8	–846.8	–843.3	–886.1	–905.0	–972.0	–984.5	–1,423.8	–1,274.0	–1,186.7	–1,005.2
– Croatian National Bank		–	–	–	–	–	–	–	–	–	–	–	–	–
– Central government (excl. central government funds)		–1,087.9	–1,092.5	–818.8	–846.8	–843.3	–886.1	–905.0	–972.0	–984.5	–1,423.8	–1,274.0	–1,186.7	–1,005.2
Up to 1 month		–0.2	–301.9	–106.6	–27.0	–35.4	–52.4	–8.4	–4.0	–94.1	–35.6	–236.1	–275.1	–8.0
More than 1 and up to 3 months		–438.5	–166.5	–110.0	–143.6	–113.9	–64.0	–139.4	–173.3	–247.3	–503.2	–258.2	–69.5	–111.2
More than 3 months and up to 1 year		–649.2	–624.0	–602.2	–676.2	–694.1	–769.7	–757.2	–794.7	–643.2	–885.0	–779.7	–842.0	–885.9
(b) Other contingent liabilities		–646.3	–629.1	–644.3	–648.4	–659.6	–666.6	–674.7	–672.3	–664.6	–664.7	–698.6	–733.0	–736.5
– Croatian National Bank		–646.3	–629.1	–644.3	–648.4	–659.6	–666.6	–674.7	–672.3	–664.6	–664.7	–698.6	–733.0	–736.5
Up to 1 month		–	–	–	–	–	–	–	–	–	–	–	–	–
More than 1 and up to 3 months		–646.3	–629.1	–644.3	–648.4	–659.6	–666.6	–674.7	–672.3	–664.6	–664.7	–698.6	–733.0	–736.5
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)		**–1,734.2**	**–1,721.6**	**–1,463.1**	**–1,495.2**	**–1,502.9**	**–1,552.7**	**–1,579.8**	**–1,644.3**	**–1,649.1**	**–2,088.6**	**–1,972.6**	**–1,919.7**	**–1,741.7**
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		–	–0.7	–0.8	–9.5	–1.7	–3.4	–	–	–	–	–0.2	–	–0.4
– 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		1,458.5	1,554.1	1,416.9	1,631.9	2,354.4	856.5	664.7	567.2	–	342.8	661.9	110.0	136.9
(e) Financial derivative assets (net, marked to market)		–	–	–	–	–	–	–	–	–	–	–	–	–
(f) Currency composition of official reserves assets														
– Currencies in SDR basket		10,660.0	10,455.8	10,463.9	11,423.8	11,336.2	11,394.3	11,422.2	11,232.8	11,217.2	11,323.7	11,220.4	11,420.3	11,194.7
– Currencies not in SDR basket		0.3	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
– By individual currencies	USD	2,451.0	2,259.9	2,267.5	2,200.9	2,311.5	2,368.2	2,346.3	2,315.8	2,301.7	2,392.7	2,287.6	2,378.1	2,333.0
	EUR	7,851.8	7,850.2	7,849.7	8,880.5	8,692.8	8,685.3	8,737.4	8,577.7	8,575.8	8,582.7	8,592.4	8,690.5	8,500.6
	Other	357.5	346.1	346.9	342.5	332.0	340.9	338.5	339.3	339.8	348.4	340.5	351.8	361.2

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	EUR/HRK	CHF/HRK	GBP/HRK	USD/HRK
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
2010		7.286230	5.285859	8.494572	5.500015
2011		7.434204	6.035029	8.566138	5.343508
2011	January	7.396420	5.794304	8.724773	5.537878
	February	7.410873	5.710786	8.753128	5.431365
	March	7.393749	5.746383	8.546276	5.285354
	April	7.362212	5.671406	8.340644	5.105235
	May	7.391226	5.882541	8.407499	5.142271
	June	7.412196	6.121611	8.368008	5.148899
	July	7.419738	6.288996	8.367082	5.193281
	August	7.454965	6.657745	8.505480	5.192441
	September	7.486844	6.250744	8.578141	5.420572
	October	7.483324	6.085039	8.602293	5.467645
	November	7.487735	6.082743	8.721751	5.512767
	December	7.507179	6.112429	8.883743	5.688661

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	EUR/HRK	CHF/HRK	GBP/HRK	USD/HRK
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
2010		7.385173	5.929961	8.608431	5.568252
2011		7.530420	6.194817	8.986181	5.819940
2011	January	7.407203	5.709707	8.566211	5.393333
	February	7.414820	5.786951	8.648029	5.376954
	March	7.382807	5.688709	8.424015	5.244216
	April	7.354349	5.706354	8.245710	4.947426
	May	7.431895	6.123338	8.573944	5.203315
	June	7.373946	6.163961	8.205125	5.127205
	July	7.452071	6.512340	8.488519	5.215980
	August	7.470858	6.333383	8.463643	5.183776
	September	7.492023	6.137481	8.611521	5.493894
	October	7.485329	6.116464	8.509924	5.282519
	November	7.498586	6.101372	8.740629	5.588869
	December	7.530420	6.194817	8.986181	5.819940

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		Real effective exchange rate of the kuna[a]; deflator	
			Consumer price index	Producer price index	Unit labour costs in industry	Unit labour costs in the total economy
2002	December	102.98	103.92	101.67	111.98	106.10
2003	December	103.17	104.36	102.21	104.65	105.82
2004	December	101.23	102.11	99.97	103.20	102.54
2005	December	100.26	99.62	100.99	100.75	100.20
2006	December	98.76	98.03	101.09	91.20	94.34
2007	December	97.20	94.18	98.64	87.08	89.94
2008	December	96.12	92.10	94.82	87.70	86.27
2009	December	96.36	91.83	92.00	88.10	87.09
2010	December	100.14	95.58	95.15	89.25	92.10
2011	January	100.31	94.77	95.65		
	February	100.30	94.72	94.81		
	March	99.66	94.46	94.28	91.79	92.99
	April	98.78	93.92	93.80		
	May	99.41	94.33	93.77		
	June	99.72	95.01	94.34	90.17	91.70
	July	99.97	95.27	94.79		
	August	100.55	96.12	94.49		
	September	101.05	96.81	95.25	89.78[b]	92.95[b]
	October	100.91	96.43	94.56		
	November	100.83	96.23	94.27		
	December	101.50	97.54	94.87		

[a] The values shown are quaterly data. [b] Preliminary data.

Table H11 Indices of the effective exchange rate of the kuna • The index of the nominal effective exchange rate of the kuna is a weighted geometric average of the index of bilateral nominal exchange rates of the kuna against the selected currencies of the main trading partners. The currencies of the main trading partners and their weights are determined based on the structure of imports and exports of manufactured goods, where the weights used reflect direct import competition, direct export competition and export competition in third markets (see Box 2 in CNB Bulletin No. 165, 2011). The group of countries included in the formation of the index of the effective exchange rate of the kuna comprises the following 16 partner countries: a) eight eurozone countries: Austria (a 6.9% weight), Belgium (2.8%), France (6.4%), Germany (22.5%), Italy (21.4%), the Netherlands (3.2%), Slovenia (6.5%) and Spain (2.6%); b) five EU countries outside the eurozone: the Czech Republic (2.8%), Hungary (2.6%), Poland (2.8%), Sweden (1.9%) and the United Kingdom (3.9%); and c) three non-EU countries: the United States (7.6%), Japan (4.0%) and Switzerland (2.2%). The reference period for the calculation of the weights is the average for the 2007–2009 period. 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 or costs (the ratio of price indices or costs in partner countries to domestic prices). Producer price indices, consumer price indices and the harmonised consumer price indices for EU member states, unit labour costs in the total economy and in industry 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. Unit labour costs in Croatia are calculated as the ratio of compensation per employee at current prices to labour productivity at constant prices (for more details on the calculation of unit labour costs, see Box 1 in CNB Bulletin No. 141, 2008). Data on the real effective exchange rate for the last month are preliminary. The historical data may be corrected for the subsequent changes in the data on deflators used 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

	2010	2011											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Government	6,602.2	6,447.9	6,507.6	6,989.1	6,882.6	6,890.3	6,767.6	7,144.0	7,092.5	6,983.6	6,938.2	7,022.6	6,996.0
Short-term	**469.2**	**469.8**	**507.6**	**722.9**	**697.1**	**651.5**	**496.4**	**323.2**	**275.7**	**171.7**	**168.0**	**190.7**	**157.9**
Money market instruments	468.3	469.8	507.6	547.9	521.5	475.3	321.4	323.2	275.7	171.7	168.0	190.7	157.9
Credits	0.0	0.0	0.0	175.0	175.6	176.2	175.0	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	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Principal arrears	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	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	**6,133.1**	**5,978.1**	**6,000.1**	**6,266.2**	**6,185.5**	**6,238.8**	**6,271.1**	**6,820.8**	**6,816.8**	**6,811.9**	**6,770.2**	**6,831.8**	**6,838.1**
Bonds	4,313.1	4,177.9	4,191.7	4,467.9	4,349.4	4,403.1	4,318.0	4,865.4	4,863.3	4,859.8	4,837.7	4,904.2	4,926.5
Credits	1,819.9	1,800.2	1,808.4	1,798.2	1,836.1	1,835.7	1,953.2	1,955.4	1,953.5	1,952.1	1,932.5	1,927.6	1,911.6
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	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	1.2	1.1	1.1	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1	3.6	0.1
Short-term	**1.2**	**1.1**	**1.1**	**0.4**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**3.6**	**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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.5	0.0
Currency and deposits	1.2	1.1	1.1	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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	10,753.0	10,639.6	10,849.0	11,289.8	11,504.0	12,038.1	11,996.4	11,264.6	10,828.1	11,155.8	10,994.6	11,384.4	11,627.9
Short-term	**3,003.5**	**2,746.7**	**2,835.0**	**2,927.7**	**3,049.6**	**3,249.2**	**3,450.2**	**2,993.2**	**2,717.2**	**3,264.3**	**3,117.8**	**3,300.4**	**3,572.0**
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	930.1	596.2	626.2	740.4	818.6	894.4	877.9	612.1	391.1	467.5	401.0	445.6	511.1
Currency and deposits	2,073.0	2,150.2	2,208.6	2,187.1	2,230.7	2,354.6	2,572.1	2,381.0	2,325.9	2,796.7	2,716.7	2,854.7	3,060.6
Other debt liabilities	0.4	0.3	0.3	0.3	0.4	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.2
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	0.4	0.3	0.3	0.3	0.4	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.2
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	**7,749.5**	**7,892.9**	**8,014.0**	**8,362.0**	**8,454.4**	**8,788.9**	**8,546.2**	**8,271.4**	**8,110.9**	**7,891.4**	**7,876.8**	**8,084.0**	**8,056.0**
Bonds	8.9	8.9	0.0	0.0	0.0	0.0	0.0	0.4	0.6	2.7	2.7	2.4	1.9
Credits	3,355.7	3,335.8	3,342.3	3,628.0	3,626.0	3,692.2	3,705.8	3,790.4	3,733.2	3,693.6	3,799.1	3,799.5	3,739.7
Currency and deposits	4,384.9	4,548.2	4,671.7	4,734.0	4,828.4	5,096.7	4,840.3	4,480.6	4,377.0	4,195.1	4,075.0	4,282.1	4,314.4
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
4 Other sectors	20,929.2	21,223.2	21,180.7	21,342.2	21,051.2	21,127.8	21,110.3	21,164.5	20,919.0	20,714.9	20,671.5	20,570.4	20,181.7
Short-term	**1,613.5**	**1,714.9**	**1,870.3**	**1,756.7**	**1,555.0**	**1,570.1**	**1,619.7**	**1,626.0**	**1,626.8**	**1,611.1**	**1,594.9**	**1,615.7**	**1,485.2**
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Credits	519.1	648.5	802.4	834.5	646.3	654.3	647.7	647.6	627.6	579.9	569.4	583.3	415.7
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	30.9	33.3	32.6	33.0	32.7	33.0	31.1	30.9	30.8	30.0	27.6	30.8	33.9
Other debt liabilities	1,063.5	1,033.1	1,035.3	889.2	876.0	882.8	940.9	947.5	968.4	1,001.3	997.9	1,001.6	1,035.5
Principal arrears	892.8	862.0	863.4	746.6	732.0	740.4	789.4	793.2	811.8	835.9	832.1	834.3	861.8
Interest arrears	170.7	171.1	171.9	142.6	144.0	142.4	151.5	154.2	156.6	165.3	165.8	167.3	173.7
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	**19,315.7**	**19,508.3**	**19,310.4**	**19,585.5**	**19,496.2**	**19,557.7**	**19,490.6**	**19,538.4**	**19,292.3**	**19,103.7**	**19,076.6**	**18,954.7**	**18,696.5**
Bonds	1,590.1	1,748.0	1,450.6	1,437.5	1,442.8	1,443.9	1,413.0	1,399.4	1,401.0	1,392.0	1,404.5	1,419.0	1,386.2
Credits	17,437.1	17,482.8	17,568.9	17,857.5	17,797.5	17,854.0	17,829.7	17,871.0	17,623.2	17,518.2	17,463.9	17,326.8	17,178.8

	2010	2011											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
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	288.4	277.6	290.8	290.4	255.9	259.9	247.8	268.1	268.1	193.5	208.1	208.9	131.4
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
5 Direct investment	8,197.8	8,036.0	7,955.9	7,863.9	7,787.4	7,549.7	7,456.0	7,470.7	7,671.6	7,705.3	7,409.6	7,477.2	6,927.7
Short-term	**923.8**	**886.6**	**979.2**	**945.9**	**908.6**	**931.0**	**1,008.4**	**1,006.6**	**1,111.0**	**1,148.1**	**1,207.2**	**1,151.3**	**1,324.2**
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	765.2	726.8	812.8	763.5	728.0	741.8	812.8	805.1	875.5	910.1	960.4	900.2	1,068.3
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	158.6	159.8	166.4	182.4	180.6	189.2	195.6	201.5	235.4	238.0	246.7	251.1	255.9
Principal arrears	124.5	124.7	130.3	147.0	144.2	153.8	159.3	162.3	195.6	197.5	203.9	206.6	207.5
Interest arrears	34.2	35.1	36.1	35.4	36.4	35.4	36.3	39.3	39.8	40.5	42.8	44.5	48.4
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	**7,274.0**	**7,149.4**	**6,976.7**	**6,918.1**	**6,878.8**	**6,618.6**	**6,447.6**	**6,464.1**	**6,560.7**	**6,557.3**	**6,202.4**	**6,325.8**	**5,603.6**
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	7,271.0	7,146.4	6,973.7	6,915.0	6,875.8	6,615.6	6,444.6	6,461.1	6,556.3	6,553.6	6,198.7	6,322.2	5,600.0
Trade credits	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	4.4	3.7	3.7	3.6	3.6
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
Total (1+2+3+4+5)	46,483.4	46,347.9	46,494.5	47,485.3	47,225.3	47,605.9	47,330.3	47,043.9	46,511.3	46,559.6	46,013.9	46,458.2	45,733.4

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) and, from December 2005 on, non-resident investment in debt securities issued in the domestic market.

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.

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.

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

	2010	2011											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Public sector	14,364.3	14,198.0	14,150.3	14,683.2	14,470.2	14,467.8	14,290.5	14,689.5	14,547.6	14,382.4	14,355.7	14,295.9	14,076.2
Short-term	**651.1**	**755.2**	**933.8**	**1,149.9**	**985.0**	**962.9**	**779.1**	**617.5**	**571.4**	**416.7**	**342.4**	**375.4**	**337.3**
Money market instruments	468.3	469.8	507.6	547.9	521.5	475.3	321.4	323.2	275.7	171.7	168.0	190.7	157.9
Credits	108.6	212.0	353.0	529.9	392.0	415.4	385.3	221.1	222.6	170.3	100.5	109.7	103.7
Currency and deposits	1.2	1.1	1.1	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
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	73.1	72.2	72.2	71.7	71.4	72.2	72.2	73.1	72.9	74.8	73.8	74.9	75.7
Principal arrears	69.3	68.5	68.4	68.0	67.6	68.3	68.2	68.9	68.8	70.4	69.7	70.8	71.6
Interest arrears	3.8	3.8	3.8	3.8	3.9	3.9	4.1	4.2	4.2	4.4	4.1	4.1	4.1
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	**13,346.4**	**13,143.4**	**12,935.7**	**13,305.1**	**13,250.3**	**13,266.9**	**13,425.3**	**13,984.8**	**13,824.0**	**13,782.8**	**13,793.7**	**13,766.5**	**13,522.1**
Bonds	5,579.9	5,451.6	5,162.4	5,440.7	5,325.8	5,384.3	5,297.2	5,825.1	5,828.0	5,819.0	5,801.5	5,872.9	5,882.0
Credits	7,495.1	7,430.9	7,501.7	7,593.2	7,687.4	7,641.5	7,898.0	7,909.1	7,745.3	7,787.7	7,801.4	7,702.2	7,525.3
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	271.4	260.9	271.6	271.2	237.1	241.1	230.1	250.6	250.7	176.1	190.8	191.4	114.8
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	**366.8**	**299.4**	**280.8**	**228.2**	**235.0**	**238.0**	**86.2**	**87.2**	**152.2**	**182.9**	**219.6**	**154.0**	**216.7**
2 Publicly guaranteed private sector	5.4	4.9	4.9	3.9	3.9	3.9	3.9	3.8	3.8	2.7	2.7	2.7	2.7
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
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	**5.4**	**4.9**	**4.9**	**3.9**	**3.9**	**3.9**	**3.9**	**3.8**	**3.8**	**2.7**	**2.7**	**2.7**	**2.7**
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	5.4	4.9	4.9	3.9	3.9	3.9	3.9	3.8	3.8	2.7	2.7	2.7	2.7
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	32,113.7	32,144.9	32,339.2	32,798.3	32,751.2	33,134.3	33,035.9	32,350.6	31,959.9	32,174.6	31,655.5	32,159.6	31,654.5
Short-term	**4,436.3**	**4,177.4**	**4,280.2**	**4,257.8**	**4,316.8**	**4,508.0**	**4,787.3**	**4,325.0**	**4,048.4**	**4,630.5**	**4,538.4**	**4,735.1**	**4,877.8**
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	0.1
Credits	1,340.6	1,032.7	1,075.6	1,219.9	1,248.5	1,309.6	1,315.2	1,038.6	796.1	877.1	869.8	922.8	823.1
Currency and deposits	2,073.0	2,150.2	2,208.6	2,187.1	2,230.7	2,354.6	2,572.1	2,381.0	2,325.9	2,796.7	2,716.7	2,854.7	3,060.6
Trade credits	30.9	33.3	32.6	33.0	32.7	33.0	31.1	30.9	30.8	30.0	27.6	30.8	33.9
Other debt liabilities	991.8	961.1	963.4	817.8	804.9	810.7	868.8	874.5	895.6	926.7	924.3	926.8	960.0
Principal arrears	824.3	793.5	795.0	678.7	664.5	672.0	721.2	724.3	743.0	765.6	762.4	763.5	790.3
Interest arrears	167.5	167.6	168.4	139.1	140.5	138.7	147.7	150.2	152.6	161.2	161.8	163.3	169.8
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	**19,846.4**	**20,231.0**	**20,383.9**	**20,904.7**	**20,881.9**	**21,314.5**	**20,878.8**	**20,642.1**	**20,392.1**	**20,021.6**	**19,927.1**	**20,101.3**	**20,065.7**
Bonds	332.2	483.2	479.9	464.7	466.4	462.7	433.9	440.0	436.9	435.5	443.4	452.8	432.6
Credits	15,104.9	15,175.7	15,182.9	15,656.7	15,538.2	15,706.2	15,556.8	15,673.8	15,530.6	15,343.5	15,361.2	15,318.7	15,272.1
Currency and deposits	4,384.9	4,548.2	4,671.7	4,734.0	4,828.4	5,096.7	4,840.3	4,480.6	4,377.0	4,195.1	4,075.0	4,282.1	4,314.4
Trade credits	24.3	23.9	49.4	49.3	48.9	49.0	47.8	47.7	47.6	47.5	47.5	47.7	46.6
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
Direct investment	**7,831.0**	**7,736.6**	**7,675.1**	**7,635.8**	**7,552.4**	**7,311.7**	**7,369.8**	**7,383.5**	**7,519.4**	**7,522.5**	**7,190.0**	**7,323.2**	**6,711.0**
Total (1+2+3)	46,483.4	46,347.9	46,494.5	47,485.3	47,225.3	47,605.9	47,330.3	47,043.9	46,511.3	46,559.6	46,013.9	46,458.2	45,733.4

Table H14 Gross external debt by domestic sectors and projected future payments

in million EUR

	Gross external debt 31/12/2011	Immediate	Projected future principal payments												
			Q1/2012	Q2/2012	Q3/2012	Q4/2012	2012	2013	2014	2015	2016	2017	2018	2019	Other
1 Government	6,996.0	0.0	257.4	102.7	37.7	89.2	487.0	290.8	653.3	980.7	133.5	114.2	481.9	1,220.0	2,634.7
Short-term	**157.9**	**0.0**	**109.4**	**13.9**	**5.1**	**29.5**	**157.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Money market instruments	157.9	0.0	109.4	13.9	5.1	29.5	157.9	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	0.0	0.0	0.0	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	**6,838.1**	**0.0**	**148.1**	**88.7**	**32.6**	**59.6**	**329.1**	**290.8**	**653.3**	**980.7**	**133.5**	**114.2**	**481.9**	**1,220.0**	**2,634.7**
Bonds	4,926.5	0.0	117.7	32.6	0.2	0.0	150.5	118.0	486.2	700.7	6.3	18.5	401.8	1,151.0	1,893.4
Credits	1,911.6	0.0	30.4	56.1	32.4	59.6	178.6	172.7	167.1	280.0	127.2	95.7	80.1	69.0	741.3
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	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	0.1	0.0	0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term	**0.1**	**0.0**	**0.1**	**0.0**	**0.0**	**0.0**	**0.1**	**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	0.1	0.0	0.1	0.0	0.0	0.0	0.1	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	11,627.9	0.2	3,604.5	620.5	621.3	806.5	5,652.8	1,820.7	855.6	365.7	736.2	1,198.2	588.4	330.9	79.2
Short-term	**3,572.0**	**0.2**	**2,653.7**	**298.5**	**283.5**	**336.0**	**3,571.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	511.1	0.0	443.7	15.0	0.0	52.4	511.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	3,060.6	0.0	2,210.0	283.5	283.5	283.5	3,060.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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	**8,056.0**	**0.0**	**950.8**	**322.0**	**337.8**	**470.5**	**2,081.0**	**1,820.7**	**855.6**	**365.7**	**736.2**	**1,198.2**	**588.4**	**330.9**	**79.2**
Bonds	1.9	0.0	0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	1.8	0.0	0.0	0.0
Credits	3,739.7	0.0	287.1	84.6	100.4	232.4	704.5	921.0	644.6	115.9	344.8	900.5	54.0	13.7	40.8
Currency and deposits	4,314.4	0.0	663.6	237.4	237.4	238.1	1,376.4	899.7	211.0	249.8	391.4	295.9	534.4	317.2	38.5
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4 Other sectors	20,181.7	1,035.5	1,547.7	1,721.9	1,112.1	1,196.5	5,578.2	2,834.5	1,781.8	1,357.9	1,498.4	1,564.6	824.4	602.6	3,103.8
Short-term	**1,485.2**	**1,035.5**	**217.8**	**52.4**	**135.8**	**43.7**	**449.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Money market instruments	0.1	0.0	0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	415.7	0.0	217.7	52.4	101.9	43.7	415.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	33.9	0.0	0.0	0.0	33.9	0.0	33.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	1,035.5	1,035.5	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
Principal arrears	861.8	861.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	173.7	173.7	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
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

	Gross external debt 31/12/2011	Immediate	Projected future principal payments												
			Q1/2012	Q2/2012	Q3/2012	Q4/2012	2012	2013	2014	2015	2016	2017	2018	2019	Other
Long-term	**18,696.5**	**0.0**	**1,329.9**	**1,669.5**	**976.3**	**1,152.8**	**5,128.5**	**2,834.5**	**1,781.8**	**1,357.9**	**1,498.4**	**1,564.6**	**824.4**	**602.6**	**3,103.8**
Bonds	1,386.2	0.0	21.9	0.5	265.9	15.6	303.9	42.6	30.5	30.4	457.2	517.8	0.0	0.0	3.9
Credits	17,178.8	0.0	1,307.3	1,667.8	703.3	1,090.1	4,768.5	2,723.4	1,750.5	1,325.7	1,039.5	1,045.2	823.4	602.6	3,099.9
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	131.4	0.0	0.7	1.2	7.1	47.2	56.2	68.5	0.8	1.7	1.7	1.5	1.0	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	6,927.7	255.9	743.1	659.6	399.4	1,251.9	3,054.0	604.9	580.6	319.7	324.7	231.1	119.5	438.5	999.0
Short-term	**1,324.2**	**255.9**	**233.0**	**320.5**	**12.9**	**501.8**	**1,068.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	1,068.3	0.0	233.0	320.5	12.9	501.8	1,068.3	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	255.9	255.9	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	207.5	207.5	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
Interest arrears	48.4	48.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	**5,603.6**	**0.0**	**510.1**	**339.1**	**386.5**	**750.1**	**1,985.8**	**604.9**	**580.6**	**319.7**	**324.7**	**231.1**	**119.5**	**438.5**	**999.0**
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	5,600.0	0.0	509.9	338.4	385.9	749.1	1,983.3	604.1	580.2	319.7	324.7	231.1	119.5	438.5	999.0
Trade credits	3.6	0.0	0.2	0.6	0.7	0.9	2.4	0.8	0.4	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
Total (1+2+3+4+5)	45,733.4	1,291.6	6,152.8	3,104.6	2,170.6	3,344.1	14,772.1	5,550.8	3,871.2	3,023.9	2,692.8	3,108.1	2,014.1	2,592.1	6,816.8
Supplement: Projected interest payments			203.9	294.0	306.2	346.8	1,150.9	1,141.6	953.7	811.7	706.6	587.9	487.4	559.0	1,349.6

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. Projected principal payments and estimated interest payments on currency and deposits of non-residents under item Banks are reported in accordance with the available monetary statistics data on original and remaining maturity.

Estimated interest payments do not include interest on repo transactions and hybrid and subordinated instruments, as well as late interest on these instruments. Future interest payments of banks are estimated on the basis of contractual interest rates and do not reflect changes of variable interest rates. Future interest payments of other sectors are estimated on the basis of the benchmark interest rate applicable on the reporting date. 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

	2010	2011											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Other sectors	20,929.2	21,223.2	21,180.7	21,342.2	21,051.2	21,127.8	21,110.3	21,164.5	20,919.0	20,714.9	20,671.5	20,570.4	20,181.7
Short-term	1,613.5	1,714.9	1,870.3	1,756.7	1,555.0	1,570.1	1,619.7	1,626.0	1,626.8	1,611.1	1,594.9	1,615.7	1,485.2
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Credits	519.1	648.5	802.4	834.5	646.3	654.3	647.7	647.6	627.6	579.9	569.4	583.3	415.7
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	30.9	33.3	32.6	33.0	32.7	33.0	31.1	30.9	30.8	30.0	27.6	30.8	33.9
Other debt liabilities	1,063.5	1,033.1	1,035.3	889.2	876.0	882.8	940.9	947.5	968.4	1,001.3	997.9	1,001.6	1,035.5
Principal arrears	892.8	862.0	863.4	746.6	732.0	740.4	789.4	793.2	811.8	835.9	832.1	834.3	861.8
Interest arrears	170.7	171.1	171.9	142.6	144.0	142.4	151.5	154.2	156.6	165.3	165.8	167.3	173.7
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	19,315.7	19,508.3	19,310.4	19,585.5	19,496.2	19,557.7	19,490.6	19,538.4	19,292.3	19,103.7	19,076.6	18,954.7	18,696.5
Bonds	1,590.1	1,748.0	1,450.6	1,437.5	1,442.8	1,443.9	1,413.0	1,399.4	1,401.0	1,392.0	1,404.5	1,419.0	1,386.2
Credits	17,437.1	17,482.8	17,568.9	17,857.5	17,797.5	17,854.0	17,829.7	17,871.0	17,623.2	17,518.2	17,463.9	17,326.8	17,178.8
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	288.4	277.6	290.8	290.4	255.9	259.9	247.8	268.1	268.1	193.5	208.1	208.9	131.4
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
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**
1.2 Non-banking financial institutions	**4,633.0**	**4,621.1**	**4,318.6**	**4,319.2**	**4,167.6**	**4,178.8**	**4,127.4**	**4,150.0**	**4,128.5**	**4,044.0**	**4,122.4**	**4,087.0**	**4,068.1**
Short-term	109.1	127.8	131.8	161.9	121.2	119.2	157.7	163.9	160.2	157.4	219.4	219.2	217.3
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	94.1	122.1	126.2	156.2	115.0	113.0	150.9	157.0	153.2	150.1	212.1	211.8	209.8
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	15.0	5.7	5.6	5.8	6.2	6.2	6.8	6.9	7.0	7.4	7.4	7.5	7.5
Principal arrears	11.6	2.1	2.1	2.2	2.4	2.5	2.7	2.7	2.7	3.0	3.1	3.1	3.4
Interest arrears	3.4	3.6	3.5	3.6	3.8	3.8	4.1	4.2	4.2	4.4	4.3	4.4	4.1
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	4,523.9	4,493.3	4,186.8	4,157.2	4,046.4	4,059.6	3,969.7	3,986.1	3,968.3	3,886.6	3,902.9	3,867.7	3,850.8
Bonds	936.4	940.9	638.9	647.0	649.8	653.5	650.6	647.3	650.8	643.9	647.2	650.6	636.8
Credits	3,587.5	3,552.4	3,547.8	3,510.3	3,396.6	3,406.1	3,319.1	3,338.8	3,317.5	3,242.7	3,255.7	3,217.1	3,213.9
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	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	**5,778.2**	**5,828.1**	**5,998.7**	**6,087.6**	**5,972.9**	**5,946.5**	**6,047.2**	**6,070.8**	**5,897.5**	**5,825.2**	**5,781.3**	**5,707.8**	**5,400.3**
Short-term	180.8	284.2	425.1	426.7	287.8	311.3	282.4	294.1	295.4	244.9	174.4	181.1	179.4
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	108.6	212.0	353.0	354.9	216.3	239.1	210.3	221.1	222.6	170.3	100.5	106.2	103.7
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	72.2	72.2	72.2	71.7	71.4	72.2	72.1	72.9	72.8	74.7	73.8	74.9	75.7
Principal arrears	68.6	68.5	68.4	68.0	67.6	68.3	68.2	68.9	68.8	70.4	69.7	70.8	71.6
Interest arrears	3.7	3.8	3.8	3.8	3.9	3.9	3.9	4.0	4.0	4.3	4.1	4.1	4.1
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	5,597.4	5,543.9	5,573.6	5,660.9	5,685.2	5,635.2	5,764.8	5,776.8	5,602.1	5,580.2	5,607.0	5,526.7	5,220.9
Bonds	330.4	332.8	331.8	325.8	326.6	327.6	328.6	312.5	313.9	315.3	316.7	318.0	318.7
Credits	4,995.6	4,950.2	4,970.2	5,064.0	5,121.4	5,066.5	5,206.2	5,213.7	5,037.5	5,088.8	5,099.5	5,017.3	4,787.4
Trade credits	271.4	260.9	271.6	271.2	237.1	241.1	230.1	250.6	250.7	176.1	190.8	191.4	114.8
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
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**
1.5 Other enterprises	**10,303.5**	**10,562.4**	**10,651.9**	**10,727.6**	**10,679.1**	**10,770.3**	**10,706.1**	**10,713.6**	**10,663.9**	**10,619.9**	**10,553.2**	**10,560.2**	**10,495.6**
Short-term	1,316.7	1,296.0	1,306.4	1,163.2	1,141.1	1,134.5	1,175.5	1,163.9	1,167.1	1,204.8	1,197.2	1,211.5	1,082.6
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	0.1
Credits	309.4	307.5	316.3	318.5	310.0	297.1	282.4	265.3	247.6	255.6	252.8	261.5	96.2
Trade credits	30.9	33.3	32.6	33.0	32.7	33.0	31.1	30.9	30.8	30.0	27.6	30.8	33.9
Other debt liabilities	976.4	955.2	957.5	811.7	798.4	804.4	862.0	867.6	888.7	919.3	916.7	919.2	952.3
Principal arrears	812.7	791.4	792.9	676.5	662.1	669.6	718.5	721.6	740.3	762.6	759.4	760.4	786.8

	2010	2011											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
Interest arrears	163.7	163.8	164.6	135.2	136.3	134.8	143.6	146.0	148.4	156.7	157.4	158.8	165.5
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	8,986.8	9,266.4	9,345.5	9,564.4	9,538.1	9,635.7	9,530.6	9,549.8	9,496.8	9,415.1	9,356.0	9,348.7	9,413.0
Bonds	323.4	474.3	479.9	464.7	466.4	462.7	433.8	439.6	436.2	432.8	440.7	450.3	430.7
Credits	8,646.5	8,775.4	8,846.3	9,080.4	9,052.9	9,154.3	9,079.0	9,092.6	9,043.2	8,964.9	8,898.0	8,880.9	8,965.7
Trade credits	16.9	16.6	19.3	19.2	18.8	18.7	17.8	17.5	17.4	17.4	17.3	17.5	16.6
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
1.6 Non-profit institutions	**2.6**	**2.6**	**2.6**	**2.2**	**2.2**	**2.2**	**2.2**	**3.9**	**3.9**	**3.9**	**4.8**	**4.8**	**4.8**
1.7 Craftsmen and sole traders	**7.2**	**6.9**	**6.8**	**6.5**	**6.3**	**6.2**	**5.9**	**5.8**	**5.7**	**5.5**	**5.4**	**5.4**	**5.2**
1.8 Households	**204.7**	**202.1**	**202.3**	**199.1**	**223.0**	**223.8**	**221.4**	**220.2**	**219.6**	**216.3**	**204.4**	**205.3**	**207.9**

Table H16 International investment position – summary[a,b]

in million EUR

	2007	2008	2009	2010	2011[c]	2011			
						Q1	Q2	Q3	Q4[c]
1 International investment position (net)	–40,180.2	–34,976.1	–39,038.6	–41,976.9	–40,208.0	–44,083.1	–43,835.0	–41,591.8	–40,208.0
2 Assets	21,642.8	22,507.7	24,438.2	23,410.5	23,255.4	23,594.0	23,504.2	23,823.0	23,255.4
2.1 Direct investment abroad	2,580.3	3,750.4	4,556.3	3,283.5	3,500.1	3,658.2	3,556.6	3,430.3	3,500.1
2.2 Portfolio investment	3,250.9	2,646.0	3,219.4	3,562.6	2,894.6	3,552.5	3,655.3	3,089.4	2,894.6
2.2.1 Equity securities	1,745.5	656.7	804.9	1,255.5	1,213.5	1,501.6	1,492.7	1,245.8	1,213.5
2.2.2 Debt securities	1,505.4	1,989.3	2,414.5	2,307.0	1,681.1	2,050.9	2,162.5	1,843.6	1,681.1
Bonds	1,225.0	1,606.9	1,685.8	1,420.4	1,068.7	1,408.8	1,489.0	1,072.4	1,068.7
Money market instruments	280.4	382.4	728.7	886.6	612.5	642.1	673.6	771.2	612.5
2.3 Financial derivatives	0.0	0.0	24.1	16.5	16.2	38.5	26.3	106.2	16.2
2.4 Other investment	6,504.2	6,990.5	6,262.5	5,887.7	5,649.6	4,920.8	4,843.8	5,873.3	5,649.6
2.4.1 Trade credits	248.9	224.7	123.3	80.5	85.9	86.8	85.2	85.5	85.9
2.4.2 Loans	296.4	435.9	384.5	480.0	490.0	475.0	539.3	501.3	490.0
2.4.3 Currency and deposits	5,958.9	6,329.8	5,754.6	5,327.1	5,073.8	4,359.0	4,219.3	5,286.5	5,073.8
2.4.4 Other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.5 Reserve assets (CNB)	9,307.4	9,120.9	10,375.8	10,660.2	11,194.8	11,423.9	11,422.3	11,323.8	11,194.8
3 Liabilities	61,823.1	57,483.8	63,476.8	65,387.4	63,463.4	67,677.1	67,339.2	65,414.8	63,463.4
3.1 Direct investment in Croatia	30,611.5	22,190.9	25,344.0	26,166.3	23,868.4	27,121.1	26,521.7	25,719.5	23,868.4
3.2 Portfolio investment	6,639.5	5,443.7	6,479.1	7,118.5	7,068.3	7,289.8	6,793.4	7,095.9	7,068.3
3.2.1 Equity securities	1,522.3	613.8	657.6	738.0	595.7	836.4	740.9	669.7	595.7
3.2.2 Debt securities	5,117.1	4,829.9	5,821.5	6,380.5	6,472.7	6,453.4	6,052.4	6,426.1	6,472.7
Bonds	5,073.5	4,805.3	5,651.2	5,912.1	6,314.6	5,905.5	5,731.0	6,254.5	6,314.6
Money market instruments	43.7	24.6	170.3	468.3	158.1	547.9	321.4	171.7	158.1
3.3 Financial derivatives	–	–	–	197.5	193.6	98.2	202.3	171.3	193.6
3.4 Other investment	24,572.1	29,849.2	31,601.6	31,905.1	32,333.0	33,168.0	33,821.8	32,428.2	32,333.0
3.4.1 Trade credits	337.8	367.5	344.4	370.2	216.7	373.1	328.2	273.8	216.7
3.4.2 Loans	20,088.8	24,343.4	24,929.1	25,075.4	24,741.0	25,873.1	26,080.9	25,162.3	24,741.0
3.4.3 Currency and deposits	4,145.5	5,138.3	6,328.1	6,459.5	7,375.3	6,921.8	7,412.7	6,992.1	7,375.3
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.

Data on foreign direct and portfolio equity investment are compiled on the basis of market prices, whenever available. Market prices on the last day of the reporting period taken from the Zagreb Stock Exchange are used in the part related to investment in the Republic of Croatia, while in the part related to investment abroad, the reporting units participating in the research on direct and portfolio equity investments are obliged to state the value at market prices of their equity investment abroad. When this is not possible, the book value of total equity held by direct or portfolio investors is used, regardless of whether investments are made in the Republic of Croatia or abroad (the own funds at book value method).

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 and monetary statistics data.

Data on portfolio equity and debt investment are modified by the data submitted by the Central Depository and Clearing Company and commercial banks providing securities custody services, particularly in the part Assets of other sectors.

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. The Bank for International Settlement quarterly data are used for other sectors.

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

	2007	2008	2009	2010	2011[b]	2011			
						Q1	Q2	Q3	Q4[b]
Direct investment (net)	–28,031.2	–18,440.6	–20,787.7	–22,882.8	–20,368.3	–23,462.9	–22,965.1	–22,289.1	–20,368.3
1 Abroad	**2,580.3**	**3,750.4**	**4,556.3**	**3,283.5**	**3,500.1**	**3,658.2**	**3,556.6**	**3,430.3**	**3,500.1**
1.1 Equity capital and reinvested earnings	2,479.3	3,560.6	4,463.1	3,042.4	3,034.1	3,161.6	3,031.9	2,964.3	3,034.1
1.1.1 Claims	2,479.3	3,560.6	4,463.1	3,042.4	3,034.1	3,161.6	3,031.9	2,964.3	3,034.1
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	101.0	189.7	93.2	241.1	466.0	496.6	524.6	466.0	466.0
1.1.1 Claims	175.4	220.2	217.0	608.7	641.5	669.4	698.9	638.7	641.5
1.2.2 Liabilities	74.4	30.5	123.8	367.6	175.5	172.8	174.3	172.7	175.5
1.3 Financial derivatives (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2 In Croatia	**30,611.5**	**22,190.9**	**25,344.0**	**26,166.3**	**23,868.4**	**27,121.1**	**26,521.7**	**25,719.5**	**23,868.4**
2.1 Equity capital and reinvested earnings	26,777.2	16,409.8	17,699.5	18,404.5	17,166.8	19,471.1	19,284.5	18,238.0	17,166.8
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	26,777.2	16,409.8	17,699.5	18,404.5	17,166.8	19,471.1	19,284.5	18,238.0	17,166.8
2.2 Other capital	3,834.3	5,781.1	7,644.5	7,761.9	6,701.6	7,650.0	7,237.2	7,481.5	6,701.6
2.2.1 Claims	24.2	24.3	52.9	68.3	50.7	41.1	44.6	51.2	50.7
2.2.2 Liabilities	3,858.5	5,805.4	7,697.4	7,830.2	6,752.3	7,691.2	7,281.7	7,532.7	6,752.3
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

	2007	2008	2009	2010	2011[b]	2011			
						Q1	Q2	Q3	Q4[b]
Portfolio investment (net)	–3,388.6	–2,797.7	–3,259.6	–3,555.9	–4,173.7	–3,737.4	–3,138.1	–4,006.5	–4,173.7
1 Assets	**3,250.9**	**2,646.0**	**3,219.4**	**3,562.6**	**2,894.6**	**3,552.5**	**3,655.3**	**3,089.4**	**2,894.6**
1.1 Equity securities	1,745.5	656.7	804.9	1,255.5	1,213.5	1,501.6	1,492.7	1,245.8	1,213.5
1.1.1 Banks	8.3	11.6	13.7	11.1	15.6	14.7	15.3	15.8	15.6
1.1.2 Other sectors	1,737.2	645.1	791.2	1,244.5	1,197.9	1,486.9	1,477.5	1,230.0	1,197.9
1.2 Debt securities	1,505.4	1,989.3	2,414.5	2,307.0	1,681.1	2,050.9	2,162.5	1,843.6	1,681.1
2 Liabilities	**6,639.5**	**5,443.7**	**6,479.1**	**7,118.5**	**7,068.3**	**7,289.8**	**6,793.4**	**7,095.9**	**7,068.3**
2.1 Equity securities	1,522.3	613.8	657.6	738.0	595.7	836.4	740.9	669.7	595.7
2.1.1 Banks	164.7	66.5	62.4	56.8	45.3	57.8	61.4	55.7	45.3
2.1.2 Other sectors	1,357.6	547.3	595.2	681.2	550.3	778.6	679.6	614.0	550.3
2.2 Debt securities	5,117.1	4,829.9	5,821.5	6,380.5	6,472.7	6,453.4	6,052.4	6,426.1	6,472.7
2.2.1 Bonds	5,073.5	4,805.3	5,651.2	5,912.1	6,314.6	5,905.5	5,731.0	6,254.5	6,314.6
2.2.1.1 General government	3,406.2	3,162.1	3,976.4	4,313.1	4,926.5	4,467.9	4,318.0	4,859.8	4,926.5
2.2.1.2 Banks	459.0	456.8	9.0	8.9	1.9	0.0	0.0	2.7	1.9
2.2.1.3 Other sectors	1,208.3	1,186.4	1,665.8	1,590.1	1,386.2	1,437.5	1,413.0	1,392.0	1,386.2
2.2.2 Money market instruments	43.7	24.6	170.3	468.3	158.1	547.9	321.4	171.7	158.1
2.2.2.1 General government	43.7	24.6	170.3	468.3	157.9	547.9	321.4	171.7	157.9
2.2.2.2 Other sectors	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1

[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

	2007	2008	2009	2010	2011[b]	2011			
						Q1	Q2	Q3	Q4[b]
Other investment (net)	–18,067.8	–22,858.7	–25,339.1	–26,017.5	–26,683.4	–28,247.2	–28,978.0	–26,554.9	–26,683.4
1 Assets	**6,504.2**	**6,990.5**	**6,262.5**	**5,887.7**	**5,649.6**	**4,920.8**	**4,843.8**	**5,873.3**	**5,649.6**
1.1 Trade credits	248.9	224.7	123.3	80.5	85.9	86.8	85.2	85.5	85.9
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	248.9	224.7	123.3	80.5	85.9	86.8	85.2	85.5	85.9
Long-term	228.8	202.6	96.3	61.4	58.3	62.9	60.7	61.9	58.3
Short-term	20.1	22.1	27.0	19.2	27.6	23.9	24.4	23.6	27.6
1.2 Loans	296.4	435.9	384.5	480.0	490.0	475.0	539.3	501.3	490.0
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	0.0	0.0	0.0	0.0	0.0
Long-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.2.3 Banks	214.8	285.3	270.1	340.4	344.7	356.9	433.3	377.0	344.7
Long-term	160.0	193.6	233.7	286.3	310.1	311.2	375.8	340.9	310.1
Short-term	54.8	91.7	36.5	54.2	34.6	45.7	57.5	36.1	34.6
1.2.4 Other sectors	81.1	150.0	113.8	139.0	144.6	117.6	105.4	123.7	144.6
Long-term	81.0	146.8	113.6	101.3	140.0	96.4	84.3	112.1	140.0
Short-term	0.1	3.3	0.2	37.7	4.6	21.2	21.2	11.6	4.6
1.3 Currency and deposits	5,958.9	6,329.8	5,754.6	5,327.1	5,073.8	4,359.0	4,219.3	5,286.5	5,073.8
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	4,715.1	4,863.6	4,442.9	4,060.1	3,565.6	3,081.9	2,993.3	3,870.3	3,565.6
1.3.4 Other sectors	1,243.8	1,466.2	1,311.7	1,267.0	1,508.2	1,277.1	1,226.0	1,416.2	1,508.2
1.4 Other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2 Liabilities	**24,572.1**	**29,849.2**	**31,601.6**	**31,905.1**	**32,333.0**	**33,168.0**	**33,821.8**	**32,428.2**	**32,333.0**
2.1 Trade credits	337.8	367.5	344.4	370.2	216.7	373.1	328.2	273.8	216.7
2.1.1 General government	1.2	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	1.2	0.7	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
2.1.2 Other sectors	336.6	366.7	344.4	370.2	216.7	373.1	328.2	273.8	216.7
Long-term	305.5	327.2	316.2	339.3	182.8	340.1	297.1	243.8	182.8
Short-term	31.1	39.5	28.2	30.9	33.9	33.0	31.1	30.0	33.9
2.2 Loans	20,088.8	24,343.4	24,929.1	25,075.4	24,741.0	25,873.1	26,080.9	25,162.3	24,741.0
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	2,613.7	1,574.6	1,592.7	1,820.8	1,911.6	1,973.2	2,128.2	1,952.2	1,911.6
Long-term	2,613.7	1,542.9	1,592.7	1,820.8	1,911.6	1,798.2	1,953.2	1,952.2	1,911.6
Short-term	0.0	31.7	0.0	0.0	0.0	175.0	175.0	0.0	0.0
2.2.3 Banks	4,276.8	4,496.7	4,352.8	4,285.8	4,250.8	4,368.4	4,583.7	4,161.1	4,250.8
Long-term	3,565.2	3,374.7	3,545.3	3,355.7	3,739.7	3,628.0	3,705.8	3,693.6	3,739.7
Short-term	711.7	1,122.0	807.5	930.1	511.1	740.4	877.9	467.5	511.1
2.2.4 Other sectors	13,198.2	18,272.0	18,983.6	18,968.9	18,578.6	19,531.5	19,369.1	19,049.0	18,578.6
Long-term	12,371.2	17,589.5	18,244.9	18,360.2	18,064.1	18,584.1	18,628.3	18,369.5	18,064.1
Short-term	827.1	682.5	738.7	608.6	514.5	947.4	740.8	679.5	514.5
2.3 Currency and deposits	4,145.5	5,138.3	6,328.1	6,459.5	7,375.3	6,921.8	7,412.7	6,992.1	7,375.3
2.3.1 Croatian National Bank	2.3	2.3	1.1	1.2	0.1	0.4	0.1	0.1	0.1
2.3.2 Banks	4,143.2	5,125.5	6,327.0	6,458.4	7,375.3	6,921.4	7,412.6	6,992.0	7,375.3
2.3.3 Other sectors	0.0	10.6	0.0	0.0	0.0	0.0	0.0	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

	2010	2011											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 REVENUE (A+B)	9,389.1	8,172.5	8,222.9	8,498.6	9,618.6	9,118.6	8,954.6	9,868.4	9,797.4	9,938.9	9,878.8	9,057.2	9,279.6
A) Budgetary central government	**9,073.7**	**7,901.6**	**8,011.8**	**8,268.5**	**9,326.1**	**8,881.8**	**8,701.3**	**9,539.9**	**9,526.2**	**9,674.5**	**9,541.8**	**8,766.6**	**8,927.2**
B) Extrabudgetary users	**315.5**	**271.0**	**211.1**	**230.1**	**292.5**	**236.8**	**253.3**	**328.5**	**271.2**	**264.5**	**337.0**	**290.5**	**352.4**
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	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	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	0.0
4 Croatian Waters	166.0	98.6	101.3	130.8	116.9	123.7	153.5	139.6	128.9	140.0	144.9	154.0	162.2
5 Fund for Environmental Protection and Energy Efficiency	99.9	57.4	100.5	70.5	60.5	91.2	75.8	68.8	125.6	98.4	74.2	122.6	145.6
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	0.0
7 Croatian Roads Ltd.	11.6	7.3	4.6	4.3	6.1	3.9	2.8	3.9	4.1	8.2	3.8	4.2	4.1
8 State Agency for Deposit Insurance and Bank Rehabilitation	34.1	107.4	3.7	23.8	107.0	14.5	15.3	113.3	4.4	15.1	109.7	5.9	32.7
9 Agency for Management of the Public Property[b]	3.9	0.3	1.0	0.6	1.9	3.6	5.8	2.9	8.2	2.8	4.4	3.7	7.8
2 EXPENSE (A+B)	12,521.5	9,585.4	9,451.2	10,829.4	10,056.6	10,156.4	9,967.9	10,558.1	9,330.6	10,482.9	9,381.6	10,562.6	12,065.0
A) Budgetary central government	**11,821.4**	**9,446.5**	**9,251.5**	**10,583.3**	**9,792.3**	**9,935.1**	**9,660.4**	**10,322.6**	**8,885.2**	**10,141.3**	**9,051.3**	**10,215.7**	**10,939.0**
B) Extrabudgetary users	**700.1**	**138.9**	**199.7**	**246.1**	**264.2**	**221.3**	**307.5**	**235.4**	**445.4**	**341.6**	**330.3**	**346.9**	**1,126.0**
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	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	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	0.0
4 Croatian Waters	329.8	18.3	44.1	70.4	102.0	95.4	136.4	121.7	126.6	170.2	156.3	114.7	302.2
5 Fund for Environmental Protection and Energy Efficiency	138.0	45.8	56.2	59.8	71.7	69.9	65.1	52.0	86.2	87.3	68.2	117.4	135.2
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	0.0
7 Croatian Roads Ltd.	222.1	69.8	94.9	106.5	85.2	50.5	91.7	55.1	224.5	73.5	94.8	102.9	271.5
8 State Agency for Deposit Insurance and Bank Rehabilitation	1.2	1.0	0.9	1.0	0.9	1.0	2.1	1.6	1.1	1.2	1.7	2.0	394.3
9 Agency for Management of the Public Property[b]	9.0	4.1	3.7	8.4	4.4	4.5	12.1	5.0	6.9	9.5	9.4	9.9	22.8
NET/GROSS OPERATING BALANCE (1–2)	–3,132.4	–1,412.9	–1,228.3	–2,330.8	–438.0	–1,037.8	–1,013.4	–689.7	466.8	–543.9	497.2	–1,505.4	–2,785.4
3 CHANGE IN NET WORTH: TRANSACTIONS (3.1+3.2-3.3)	–3,132.4	–1,412.9	–1,228.3	–2,330.8	–438.0	–1,037.8	–1,013.4	–689.7	466.8	–543.9	497.2	–1,505.4	–2,785.4
3.1 CHANGE IN NET ACQUISITION OF NON-FINANCIAL ASSETS	**665.8**	**83.2**	**111.4**	**173.7**	**247.9**	**256.5**	**283.0**	**235.3**	**360.8**	**317.4**	**333.0**	**343.9**	**626.3**
Acquisition	708.5	106.2	128.9	227.2	277.3	279.2	302.6	256.7	381.0	350.4	355.9	368.3	718.3
A) Budgetary central government	396.1	31.1	50.4	98.3	164.9	98.7	127.6	110.2	76.8	126.5	116.2	153.2	332.0
B) Extrabudgetary users	312.3	75.1	78.5	128.9	112.4	180.6	175.0	146.4	304.1	223.9	239.7	215.1	386.2
Disposals	42.6	23.0	17.4	53.5	29.4	22.7	19.6	21.3	20.2	33.0	22.9	24.4	91.9
A) Budgetary central government	42.3	22.1	17.4	53.5	29.4	22.2	19.2	21.0	10.9	25.8	21.2	24.4	80.2
B) Extrabudgetary users	0.3	1.0	0.0	0.1	0.1	0.6	0.4	0.3	9.3	7.3	1.7	0.1	11.7
NET LENDING/BORROWING (1-2–3.1)	**–3,798.2**	**–1,496.1**	**–1,339.7**	**–2,504.5**	**–685.9**	**–1,294.3**	**–1,296.4**	**–925.0**	**106.0**	**–861.3**	**164.2**	**–1,849.3**	**–3,411.7**
TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES (FINANCING) (3.3–3.2)	**3,798.2**	**1,496.1**	**1,339.7**	**2,504.5**	**685.9**	**1,294.3**	**1,296.4**	**925.0**	**–106.0**	**861.3**	**–164.2**	**1,849.3**	**3,411.7**
3.2 CHANGE IN NET ACQUISITION OF FINANCIAL ASSETS	**–3,715.0**	**–906.9**	**–735.5**	**7,578.7**	**–1,853.3**	**–1,987.9**	**–1,524.7**	**5,050.1**	**–677.8**	**–1,236.1**	**390.3**	**127.6**	**–4,578.4**
3.2.1 Domestic	–3,713.1	–906.9	–735.5	7,578.7	–1,853.3	–1,987.9	–1,524.7	5,050.1	–677.8	–1,236.1	390.3	127.2	–4,583.4
A) Budgetary central government	–3,539.9	–1,040.4	–779.9	7,513.8	–1,859.5	–2,033.4	–1,488.6	4,925.6	–852.9	–1,308.4	368.5	122.0	–4,384.9
B) Extrabudgetary users	–173.2	133.5	44.5	64.9	6.2	45.5	–36.1	124.5	175.1	72.3	21.7	5.2	–198.5
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	0.0
A) Budgetary central government	–1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	5.0
B) Extrabudgetary users	–1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	5.0
3.2.3 Monetary gold and SDRs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.3 CHANGE IN NET INCURRENCE OF LIABILITIES	**83.3**	**589.2**	**604.3**	**10,083.3**	**–1,167.4**	**–693.6**	**–228.3**	**5,975.1**	**–783.8**	**–374.7**	**226.1**	**1,976.9**	**–1,166.7**
3.3.1 Domestic	23.8	681.0	561.8	6,575.2	–1,507.0	–651.6	–1,087.9	1,716.4	–680.6	–365.2	250.1	2,050.8	–1,094.6
A) Budgetary central government	–144.1	709.5	563.7	6,477.7	–1,499.3	–715.6	–1,154.4	1,728.2	–1,138.4	–538.9	147.4	1,965.8	–1,752.6
B) Extrabudgetary users	167.9	–28.5	–1.9	97.5	–7.7	64.0	66.4	–11.8	457.7	173.7	102.8	85.0	658.0
3.3.2 Foreign	59.5	–91.8	42.5	3,508.1	339.6	–42.0	859.6	4,258.7	–103.2	–9.5	–24.1	–74.0	–72.1
A) Budgetary central government	–69.5	–82.1	42.8	3,518.9	347.2	–42.9	879.3	4,263.9	–105.4	–3.6	–4.5	–73.7	–142.9
B) Extrabudgetary users	129.0	–9.7	–0.3	–10.8	–7.7	0.9	–19.7	–5.2	2.2	–5.9	–19.6	–0.3	70.7

[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. [b] The Croatian Privatization Fund (CPF) ceased to operate on 31 March 2011. The Agency for Management of the Public Property (AUDIO) started to operate on 1 April 2011 and is composed of the CPF and the Central State Administrative Office for State Property Management.
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

	2010	2011											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 REVENUE	9,075.8	7,901.8	8,011.8	8,268.5	9,326.8	8,881.8	8,701.4	9,539.9	9,526.2	9,674.5	9,541.8	8,766.7	8,928.5
1.1 Taxes	4,879.9	4,372.8	4,511.0	4,699.0	5,732.6	5,251.5	4,746.8	5,208.2	5,719.1	5,949.5	5,541.8	4,973.2	4,716.8
1.2 Social contributions	3,480.1	3,131.3	3,052.1	3,122.8	3,169.3	3,191.4	3,201.8	3,337.7	3,211.7	3,275.9	3,229.5	3,242.2	3,439.3
1.3 Grants	239.3	37.6	67.4	51.9	38.3	30.8	85.6	86.2	69.4	65.6	73.6	45.3	217.2
1.4 Other revenue	476.4	360.1	381.4	394.7	386.6	408.1	667.2	907.8	526.0	383.3	696.9	506.0	555.3
2 EXPENSE	12,034.1	9,560.5	9,341.9	10,702.5	9,893.6	10,071.6	9,794.1	10,480.9	9,063.9	10,318.2	9,210.3	10,388.1	11,113.8
2.1 Compensation of employees	2,675.5	2,574.6	2,578.5	2,546.3	2,594.0	2,593.8	2,595.6	2,850.0	2,586.1	2,638.6	2,661.5	2,619.9	2,898.4
2.2 Use of goods and services	1,126.0	592.2	464.4	586.1	642.5	672.8	661.6	795.6	545.2	610.2	608.9	673.8	1,090.2
2.3 Consumption of fixed capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.4 Interest	432.4	778.5	361.7	1,325.2	234.2	688.8	428.1	464.7	335.8	1,319.7	77.8	708.6	374.5
2.5 Subsidies	644.9	329.2	560.7	651.8	918.9	642.7	593.4	805.6	286.6	332.1	268.5	540.4	625.3
2.6 Grants	749.3	517.6	284.3	395.8	380.0	384.6	360.6	476.3	373.0	397.2	398.8	513.7	601.8
2.7 Social benefits	5,396.2	4,445.3	4,558.5	4,702.5	4,694.9	4,729.5	4,752.5	4,691.5	4,568.0	4,615.6	4,781.8	4,913.0	5,029.9
2.8 Other expense	1,009.8	323.0	533.9	494.7	429.1	359.5	402.3	397.1	369.3	404.9	412.9	418.7	493.7
3 CHANGE IN NET WORTH: TRANSACTIONS	–2,958.4	–1,658.8	–1,330.0	–2,434.0	–566.8	–1,189.8	–1,092.6	–941.0	462.2	–643.8	331.5	–1,621.4	–2,185.3
3.1 Change in net acquisition of non-financial assets	353.8	9.0	33.0	44.8	135.6	76.5	108.5	89.3	65.9	100.8	95.0	128.8	251.8
3.1.1 Fixed assets	350.9	11.5	33.6	65.0	136.7	68.0	105.8	75.5	59.5	101.2	95.2	125.9	241.0
3.1.2 Inventories	2.6	0.0	0.0	–0.1	0.1	0.0	1.2	1.4	0.0	0.0	0.0	0.0	0.0
3.1.3 Valuables	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.4	1.3
3.1.4 Non-produced assets	–0.5	–2.4	–0.6	–20.1	–1.2	8.5	1.5	12.4	6.4	–0.4	–0.2	0.6	9.6
3.2 Change in net acquisition of financial assets	–3,525.8	–1,040.4	–756.6	7,517.8	–1,854.4	–2,024.9	–1,476.1	4,961.9	–847.4	–1,287.1	379.4	141.9	–4,332.5
3.2.1 Domestic	–3,524.0	–1,040.4	–756.6	7,517.8	–1,854.4	–2,024.9	–1,476.1	4,961.9	–847.4	–1,287.1	379.4	141.5	–4,337.5
3.2.2 Foreign	–1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	5.0
3.2.3 Monetary gold and SDRs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.3 Change in net incurrence of liabilities	–213.6	627.4	606.5	9,996.6	–1,152.0	–758.6	–275.0	5,992.1	–1,243.7	–542.5	142.9	1,892.1	–1,895.4
3.3.1 Domestic	–144.1	709.5	563.7	6,477.7	–1,499.3	–715.6	–1,154.4	1,728.2	–1,138.4	–538.9	147.4	1,965.8	–1,752.6
3.3.2 Foreign	–69.5	–82.1	42.8	3,518.9	347.2	–42.9	879.3	4,263.9	–105.4	–3.6	–4.5	–73.7	–142.9

[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

	2010	2011											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Domestic debt of central government	87,556.8	88,706.2	89,052.6	94,996.4	94,038.6	95,739.1	94,604.9	98,310.6	99,095.9	98,794.2	100,210.9	102,917.0	101,512.3
1.1 Domestic debt of the Republic of Croatia	**82,952.1**	**84,094.1**	**84,431.4**	**90,579.7**	**89,609.8**	**91,145.1**	**90,075.8**	**93,728.3**	**94,149.8**	**93,637.4**	**94,977.0**	**97,559.6**	**95,720.8**
Treasury bills	16,886.5	17,681.4	17,977.7	18,882.5	18,210.1	19,300.6	18,280.7	17,797.4	18,049.8	17,833.0	18,047.3	19,616.5	18,990.4
Money market instruments	20.5	20.5	20.5	20.5	20.5	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6
Bonds	48,862.5	49,047.0	48,853.2	48,456.5	48,728.9	48,910.4	49,507.4	57,420.0	57,471.0	55,497.2	55,774.9	55,602.9	56,191.2
Credits from the CNB	0.3	–	2.4	2.4	2.0	5.1	–	–	–	–	–	–	0.8
Credits from banks	17,182.3	17,345.2	17,577.6	23,217.8	22,648.3	22,908.4	22,267.2	18,490.4	18,608.4	20,286.7	21,134.3	22,319.7	20,517.7
1.2 Domestic debt of central government funds	**4,604.7**	**4,612.2**	**4,621.2**	**4,416.7**	**4,428.8**	**4,594.0**	**4,529.0**	**4,582.3**	**4,946.1**	**5,156.8**	**5,233.8**	**5,357.4**	**5,791.5**
Money market instruments	–	–	–	–	–	–	–	–	–	–	–	–	–
Bonds	–	–	–	–	–	–	–	–	–	–	–	–	–
Credits from banks	4,604.7	4,612.2	4,621.2	4,416.7	4,428.8	4,594.0	4,529.0	4,582.3	4,946.1	5,156.8	5,233.8	5,357.4	5,791.5
2 External debt of central government	48,433.6	47,471.1	47,961.2	51,309.9	50,358.5	50,946.9	49,644.6	53,011.2	52,759.2	52,096.9	51,712.1	52,435.0	52,457.4
2.1 External debt of the Republic of Croatia	**46,445.4**	**45,483.4**	**45,966.5**	**49,331.8**	**48,400.3**	**48,972.9**	**47,701.7**	**51,048.7**	**50,697.8**	**50,009.9**	**49,650.2**	**50,373.5**	**50,365.2**
Money market instruments	3,458.6	3,480.1	3,763.5	4,045.2	3,835.4	3,532.1	2,370.3	2,408.6	2,060.0	1,286.0	1,257.7	1,430.2	1,189.2
Bonds	31,684.5	30,779.6	30,912.5	32,818.8	31,850.2	32,585.3	31,702.9	36,120.3	36,195.0	36,274.7	36,078.6	36,640.1	36,962.4
Credits	11,302.3	11,223.8	11,290.5	12,467.9	12,714.8	12,855.5	13,628.5	12,519.8	12,442.8	12,449.2	12,313.9	12,303.3	12,213.6
2.2 External debt of central government funds	**1,988.2**	**1,987.7**	**1,994.7**	**1,978.1**	**1,958.2**	**1,974.0**	**1,942.9**	**1,962.5**	**2,061.4**	**2,087.1**	**2,062.0**	**2,061.5**	**2,092.2**
Money market instruments	–	–	–	–	–	–	–	–	–	–	–	–	–
Bonds	–	–	–	–	–	–	–	–	–	–	–	–	–
Credits	1,988.2	1,987.7	1,994.7	1,978.1	1,958.2	1,974.0	1,942.9	1,962.5	2,061.4	2,087.1	2,062.0	2,061.5	2,092.2
3 Total (1+2)	135,990.4	136,177.4	137,013.8	146,306.3	144,397.0	146,686.0	144,249.4	151,321.8	151,855.1	150,891.2	151,923.0	155,352.0	153,969.6
Supplement: Central government guaranteed debt													
– guarantees for domestic debt	20,052.8	20,128.2	20,741.3	19,571.1	19,959.2	20,294.7	19,634.7	19,649.1	20,135.5	20,735.1	21,366.0	21,790.4	22,149.3
– guarantees for external debt	39,333.9	39,366.4	37,736.0	37,582.0	37,291.1	37,762.2	38,246.8	38,843.6	39,096.9	39,292.6	39,207.4	38,280.2	37,720.8

[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. From December 2005 on, central government bonds and MoF T-bills issued in the domestic market and held by non-resident institutional units have been included in the external debt of the central government. 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 and statistical reports of other financial institutions 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.

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	
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	December	114.9	114.5	117.3	99.4	99.3	100.2	100.0	101.9	101.3	103.9	101.6
2010	December	117.1	117.1	117.6	100.0	100.1	99.9	101.0	101.8	102.2	100.3	105.7
2011	January	117.7	117.9	117.8	100.6	100.7	100.1	100.8	101.9	102.4	100.1	105.1
	February	118.3	118.6	118.0	100.5	100.6	100.2	101.6	102.2	102.8	100.1	106.9
	March	119.2	119.7	118.0	100.8	101.0	99.9	100.8	102.6	103.2	100.2	106.7
	April	119.5	120.0	118.2	100.2	100.3	100.2	100.6	102.4	102.8	100.9	106.7
	May	119.9	120.6	117.9	100.3	100.5	99.8	100.6	102.5	103.1	100.1	106.7
	June	119.3	119.6	118.7	99.5	99.2	100.7	99.7	102.0	102.7	99.7	106.0
	July	118.7	118.6	119.8	99.5	99.1	100.9	100.1	101.9	102.7	99.2	106.1
	August	118.6	118.6	119.4	99.9	100.0	99.7	100.7	102.0	102.9	98.7	106.6
	September	119.1	119.8	117.4	100.4	101.0	98.3	100.0	102.2	103.0	99.0	106.1
	October	119.8	120.7	117.0	100.6	100.8	99.7	100.6	102.6	103.6	99.2	106.3
	November	120.0	121.1	116.9	100.2	100.3	99.9	100.5	102.6	103.5	99.3	107.0
	December	119.5	120.6	116.4	99.6	99.6	99.6	99.8	102.1	103.0	98.9	105.8

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			Chain indices			Year-on-year indices		
		Total	Goods	Services	Total	Goods	Services	Total	Goods	Services
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	December	113.6	113.3	115.2	98.8	98.6	100.2	100.2	99.8	102.4
2010	December	113.7	113.4	114.9	99.1	99.0	99.7	100.1	100.1	99.8
2011	January	113.6	113.3	115.2	99.9	99.9	100.2	100.7	100.8	99.8
	February	114.1	113.8	115.5	100.4	100.4	100.3	101.1	101.4	99.6
	March	115.0	115.0	115.4	100.8	101.0	99.9	101.7	102.1	99.9
	April	115.4	115.4	115.5	100.3	100.4	100.1	101.5	101.7	100.5
	May	116.2	116.2	116.3	100.7	100.7	100.6	101.8	102.1	100.5
	June	116.2	115.9	117.8	100.0	99.7	101.3	101.8	102.1	100.1
	July	115.8	115.0	119.8	99.6	99.2	101.7	101.7	102.2	99.3
	August	115.6	114.8	120.1	99.9	99.8	100.3	101.7	102.2	99.2
	September	116.3	116.2	117.0	100.6	101.2	97.4	102.0	102.3	100.4
	October	117.3	117.5	116.2	100.8	101.1	99.4	102.6	103.0	100.7
	November	117.6	117.9	116.1	100.3	100.4	99.9	102.5	102.9	100.7
	December	117.0	117.2	116.1	99.5	99.4	100.1	102.9	103.3	101.1

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 account for a total of 29.3% in the basket in 2011 (agricultural products 6.1 percentage points, and administrative products 23.2 percentage points) and are 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
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	December	5,362.0	99.6	99.1	102.6
2010	December	5,450.0	97.6	101.7	100.6
2011	January	5,342.0	98.0	101.6	101.6
	February	5,242.0	98.1	101.7	101.6
	March	5,480.0	104.5	102.3	101.8
	April	5,396.0	98.5	102.9	102.1
	May	5,425.0	100.5	102.8	102.2
	June	5,498.0	101.4	101.5	102.1
	July	5,365.0	97.6	100.8	101.9
	August	5,514.0	102.8	102.3	102.0
	September	5,397.0	97.9	102.0	102.0
	October	5,406.0	100.2	101.0	101.9
	November	5,729.0	106.0	102.6	101.9
	December	5,493.0	95.9	100.8	101.8

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
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	December	–46.8	–32.7	–47.6	–35.7	–22.6	–64.5	–42.8	63.9	–42.5	–58.0
2010	December	–42.9	–30.6	–48.7	–40.7	–21.7	–65.9	–39.4	55.7	–39.4	–54.8
2011	January	–40.0	–26.4	–47.8	–37.7	–16.2	–67.3	–36.6	48.4	–38.5	–58.6
	February	–41.2	–27.8	–50.5	–37.2	–18.4	–70.3	–37.2	48.0	–44.1	–61.0
	March	–47.6	–37.2	–58.6	–46.4	–27.0	–79.4	–47.3	53.9	–50.1	–62.0
	April	–37.8	–27.9	–49.0	–37.9	–16.9	–69.7	–38.9	34.2	–39.5	–61.0
	May	–38.2	–28.4	–49.8	–38.5	–19.2	–70.5	–37.6	33.8	–40.4	–62.2
	June	–36.0	–24.7	–45.3	–34.2	–15.5	–64.4	–33.8	36.7	–37.2	–57.8
	July	–33.6	–20.8	–42.1	–32.1	–13.4	–55.8	–28.1	35.3	–38.4	–57.5
	August	–38.0	–27.3	–45.2	–36.5	–20.1	–61.3	–34.5	43.6	–37.7	–53.9
	September	–35.9	–25.2	–43.6	–32.4	–16.7	–60.1	–33.6	39.6	–38.3	–53.8
	October	–38.1	–23.8	–45.6	–32.7	–16.6	–59.9	–30.9	46.2	–44.2	–58.7
	November	–33.5	–19.2	–43.9	–30.8	–12.7	–59.2	–25.7	38.4	–41.7	–57.3
	December	–23.6	–8.9	–43.1	–31.6	–5.5	–56.5	–12.3	25.0	–41.2	–51.4

Sources: Ipsos Puls and CNB.

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

Abbrevations

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
CC – cash centre
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
NCA – National Classification of 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

CHF – Swiss franc
EUR – euro
GBP – pound sterling
HRK – Croatian kuna
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

HNB

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