Annual Report 2012

Zagreb, May 2013

HNB

HNB

ANNUAL REPORT 2012

PUBLISHER

Croatian National Bank
Publishing Department
Trg hrvatskih velikana 3, 10002 Zagreb
Phone: +385 1 45 64 555
Contact phone: +385 1 45 65 006
Fax: +385 1 45 64 687

www.hnb.hr

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

Printed in 420 copies

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

HNB

CROATIAN NATIONAL BANK

ANNUAL REPORT 2012

Zagreb, May 2013

Contents

Summary

The Croatian economy has been slow to recover from the consequences of the global crisis. This can be attributed to Croatia's poor competitiveness in European and world markets and to the imbalances inherited from previous periods when growth was fuelled by expansionary consumption and investments in sectors that do not participate in international trade. Hence, this is the fourth consecutive year in which there have been extremely unfavourable developments in the real sector, with real GDP declining by one tenth since 2008 and total domestic consumption and investment by about 15%. In such circumstances, the ILO unemployment rate reached 18% in the last quarter of 2012. The current account deficit has narrowed persistently since the beginning of the crisis due mainly to decreasing domestic demand. The balance in this account ended 2012 in positive territory. Furthermore, capital inflows, including FDIs, were increasingly lower. A temporary hike in inflation in 2012 was a consequence of the rise in the basic VAT rate and administrative decisions on price increases. As for the positive contributors, the conditions in the domestic financial market were somewhat better than in 2011 due to a fall in interest rates on euromarkets and a decline in the global risk premium. Against this background, risk perception regarding Croatia also improved in line with the developments in countries in the region, which in turn helped the government to borrow without obstacles in the foreign market. Domestic banking system liquidity was exceptionally high while interest rates on the interbank market and on T-bills fell to their record lows. In order to reverse unfavourable trends in the real sector, it is necessary to implement structural reforms aimed at increasing the competitiveness of the domestic economy and attracting more FDIs, and consequently stimulating higher exports. Monetary policy will support these trends by maintaining the stability and the adequate liquidity of the financial system.

Gross domestic product in the Republic of Croatia declined by 2.0% in real terms in 2012. In addition, 2012 was also the fourth year in which economic activity trended down or stagnated, with the total fall from the peak of the business cycle in 2008 amounting to 10%. The economic dynamics in Croatia in the period after the outbreak of the financial crisis remained thus the most unfavourable among Central and Eastern European countries.

Real activity, after the decrease in the first quarter of 2012, improved somewhat in the second and third quarters, due notably to good results in tourism. However, economic activity contracted again in the last quarter which may be associated with the strengthening of the recession in the EU.

On the demand side, the only positive contribution to the growth in 2012 came from exports of goods and services. All other components negatively contributed to growth, with personal consumption and gross fixed capital formation decreasing at the strongest rate.

Data on real gross value added in 2012 also indicate a decline of activity in almost all activities, as in the previous year, and notably in industry and construction. On an annual basis, activity intensified somewhat only in several service activities, notably those related to the private sector.

Unfavourable trends in the labour market were also exacerbated. As a result, the number of employed persons fell by 1.2% and the number of unemployed persons increased strongly in 2012. The ILO unemployment rate continued its strong growth, reaching 18% in the fourth quarter. The average ILO unemployment rate stood at 15.8% in 2012 and 13.5% in 2011. Labour productivity for the entire economy trended down due to the fall in GDP being much stronger than the fall in employment, contributing to a continued fall in real wages.

Consumer price inflation accelerated in 2012, its average year-on-year rate of change increasing from 2.3% in 2011 to 3.4% in 2012. To a large extent, this was the consequence of administrative decisions, i.e. the rise in the basic VAT rate and the increase in prices of electricity and gas in May. Prices of food products also trended up due to drought and rising food raw material prices in the global market. Import prices were negatively affected by the appreciation of the US dollar. Inflationary pressures were mitigated by domestic factors, primarily weak personal demand and unfavourable trends in the labour market.

For the first time in many years, the balance in the current account was positive, reaching EUR 35m according to the preliminary data. This improvement in the current account balance was above all the result of the continued growth in net service revenues. With total goods exports stagnating at an annual level and a decrease in imports, the deficit in the account of goods was slightly reduced. A lower negative balance in the factor income account and a small rise in the surplus in the account of current transfers helped bring the current account in balance.

Markedly lower foreign capital inflows in 2012 were associated with unfavourable economic trends and weak domestic demand as well as strong deleveraging of some domestic sectors. Hence, net capital inflows (excluding a mild increase in international reserves) stood at only EUR 0.4bn, accounting for one fourth of the inflows from the previous year. The reluctance of foreign investors was also seen in a smaller inflow of equity investment, with investment in new projects standing at a mere EUR 0.3bn. They were mostly accounted for by investment in real estate, recreational, cultural and sports activities and trade. At the same time, retained earnings were lower than in 2011.

The net debt position continued to improve, due mainly to strong bank deleveraging and smaller deleveraging of public enterprises and non-banking financial institutions, while the central government and private enterprises saw their net debt positions deteriorate. Net external debt (gross external debt stock net of foreign claims) declined by EUR 0.8bn, reaching a total of EUR 27.5bn (62.7% of GDP) at the end of 2012.

The decrease in interest rates in the euromarkets and the fall in the global risk premium marked the major part of 2012. Risk perception for Croatia improved in these circumstances, moving in line with trends in countries in the region, which, aided by the improvement in financing conditions of parent banks of major domestic banks, eased the access of domestic sectors to foreign capital in the second half of 2012.

The Croatian National Bank continued to implement the policy of a stable nominal kuna/euro exchange rate. International reserves increased and the year-end exchange rate stood at EUR/HRK 7.55, down by only 0.2% relative to the end of 2011. In addition, the central bank supported high primary liquidity in the monetary system and thus continued to pursue an expansive monetary policy. The average surplus of banking system liquidity stood at HRK 3.0bn on an annual basis and the average overnight interbank interest rate stood at a low 1.1%. After a temporary increase from 14% to 15% in January, the CNB decreased the reserve requirement rate to 13.5% from May, while deposits received from multilateral development banks were excluded from the reserve requirement calculation base. This resulted in liquidity in the amount of HRK 4.2bn and EUR 118.7m being released. The requirements set by the minimum foreign exchange liquidity rule were eased by the inclusion of euro-denominated T-bills in foreign currency claims in the amount of EUR 764m. In addition, the central bank strove to support the recovery of domestic lending in cooperation with the CBRD, Ministry of Finance and banks. As a result, a new loan incentive programme was launched in April which like the A and A+ models from 2010 and 2011 respectively was based on releasing liquidity by cutting the reserve requirement rate. The loan incentive programme was additionally supported by the widening of the coverage of liquid foreign currency claims in the amount of 50% of bank loans granted under the programme, potentially reaching the amount of HRK 1.7bn.

Exceptionally good liquidity of the domestic financial system, with minor oscillations, marked the domestic financial markets in 2012, prompting banks to reduce their financing in the money market. Yields on T-bills fell to their record low at the end of the year, all maturity terms and currencies included. At the same time, interest rates on government bonds issued in the domestic and international markets declined sharply.

The prolonged period of good liquidity of the financial system also contributed to a slight decrease in bank lending interest rates in 2012, while bank deposit interest rates remained stable.

However, credit aggregates failed to recover. Bank placements to the non-banking sector declined by 1.9% in 2012, while bank placements to the central government continued to trend up (8.9%). By contrast, the domestic sources of financing increased moderately, predominately during summer months, that increase being almost entirely accounted for by the growth in household deposits. Against the background of declining placements and increasing domestic sources in 2012 banks cut their foreign liabilities substantially. Moreover, these developments show that monetary policy capacity is limited and that the causes of prolonged recession do not lie in the monetary sphere but are instead inherent in the failure to implement structural reforms.

The long-standing challenges in the domestic economy and economic environment considerably affected the business activities and operating results of banks in 2012. Lending activity trended down, while the share of lower-risk investment increased in the structure of exposures, as in the previous year. In particular, this involved placements to the public sector and those supported by various incentive measures.

Risk aversion and weak outlooks for a more considerable economic recovery spurred banks to reduce their liabilities to foreign owners, notably towards year-end. Owing to the increase in domestic sources of financing, especially household and domestic financial institution deposits, liquidity reserves remained very good, with the deleveraging process failing to make any strong impact on the supply of loans. All domestic sectors simultaneously deleveraged towards banks, and the ageing of portfolios, accompanied by increased collection problems, pushed partly recoverable and fully irrecoverable loans to 13.8%. The quality of corporate loans deteriorated most notably, primarily attributable to the fall in construction and real estate activity, as in the previous years.

In turn, these developments resulted in the fall of bank profit, which declined by one fourth, while the indicators of return hit their record low since 1999. The return on average assets (ROAA) and the return on average equity (ROAE) fell to 0.9% and 4.8% respectively. This is attributed to the contraction of all margins, notably net interest margin, and to the rise in loss provision expenses. Pressures on net interest margin were coming from both the revenue and the expenditure side. On the expenditure side, the price of sources of all sectors (households excluded) went up. On the revenue side, the changes in the structure of investment, present since the beginning of crisis, accompanied by the rise in partly recoverable and fully irrecoverable loans, caused a decline in interest income.

The need for capital requirements diminished due to a lower level of assumed risks. The already abundant capital adequacy ratio went up additionally, to 20.55%, indicating banks' ample capacity to cover potential losses. All banks maintained a capital adequacy ratio above the legally prescribed minimum. However, some small banks had to strengthen their capital bases in order to cover their operating losses. More than one third of all banks operated at a loss.

Total international reserves of the Republic of Croatia rose by 0.4% year-on-year, ending 2012 at EUR 11.2bn. Net usable international reserves increased at a slightly higher rate of 1.7% in 2012 and reached EUR 10.2bn at year-end. The major contributors to the rise in reserves were the purchase of foreign exchange from the Ministry of Finance and income from reserve investment, while the most important factors contributing to the decrease in reserves were the sale of foreign exchange to banks via interventions in the domestic foreign exchange market. Indicators of international reserves adequacy improved. Moreover, the value of foreign liabilities that fall due in the coming year approached the amount of international reserves (which now cover 88.7% of the said liabilities), their ratio at the end of 2012 being the least favourable since the outbreak of crisis.

In 2012, international reserves continued to be managed according to the principles of high safety and liquidity. Due to the continuation of the debt crisis in Europe and the overall insecurity regarding the global economic growth outlooks, yields on the bonds of countries considered to be safe havens fell to extremely low levels. In such conditions, the 2012 annual rate of return on the CNB's euro-denominated held-for-trading portfolio was 0.30% and that of the US dollar-denominated held-for-trading portfolio 0.35%. The euro-denominated held-to-maturity portfolio had a rate of return of 2.31% in 2012.

After trending upward for three consecutive years, the overall fiscal deficit fell from 5.5% in 2011 to 4.0% in 2012. This is attributed to a substantial increase in revenues that was realised in spite of unfavourable economic trends. Expenditures, including the acquisition of non-financial assets, fell relatively modestly, considering that savings in the majority of key categories were largely offset by the rise in interest expenses. Although borrowing needs trended down, the public debt grew at an accelerated rate in 2012 due to the assumption of debts of shipyards (about 2.8% of GDP), reaching 53.7% of GDP at the end of 2012, up 6.5 percentage points of GDP relative to 2011.

HNB

Macroeconomic developments

HNB

1.1 International environment

After a noticeable slowdown in 2011, global economic growth slackened further in 2012 (the annual growth rate was 3.2%).[1] Emerging market and developing countries continued to be the main drivers of the global economy, but their real growth rate was much lower (5.1% in 2012 vs 6.3% in 2011). The deceleration in real growth was much less pronounced in developed economies (from 1.6% in 2011 to 1.3% in 2012). The contraction in global real activity was attributable to the prolonged debt crisis and the absence of the expected recovery in the eurozone, uncertainty about the dynamics of budgetary cuts and public debt limits in the American economy, and fiscal adjustments in a large number of countries. Instabilities in the eurozone mostly affected Central and Eastern European countries whose economies recorded the sharpest slowdown (from 5.3% in 2011 to 1.8% in 2012). The most prominent growth in real activity in 2012 was seen in the USA and Japan, largely due to personal consumption, and Middle East countries, due to the upturn in production and prices of oil in the first half of the year. The recovery from natural disasters in 2011 provided a boost to economic growth in some Asian developing countries. Prices of raw materials (excluding energy) dipped in 2012. Along with the fall in demand triggered by the global economic slowdown, this was reflected in lower inflationary pressures.

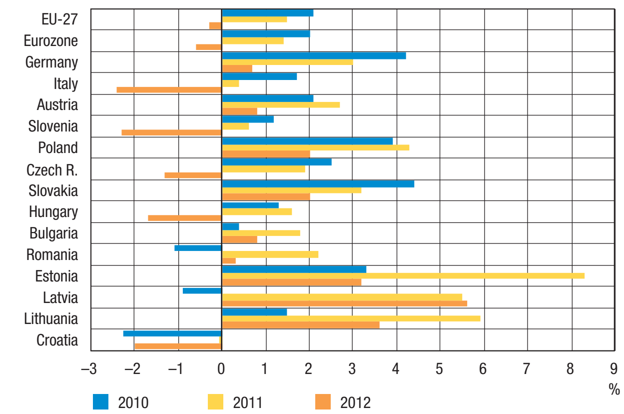
1.1.1 European Union and the eurozone

Real economic activity in the European Union slackened by 0.3% in 2012, while it grew by 1.5% in the year before. The slump was even more prominent in the eurozone (–0.6% vs 1.4% in 2011). Half of the countries recorded negative developments, with the sharpest drop being seen in Greece (–6.4%). In the first half of 2012, the eurozone economy was strongly affected by the mounting debt crisis in some member states, with additional pressure coming from the fiscal consolidation process and deleveraging by the private and public sectors. This prolonged the economic downturn that began in the last quarter of 2011.

Notwithstanding expansionary monetary policy measures, trends in European financial markets were characterised by high uncertainty in the first half of 2012. In such conditions, the ECB reduced its key interest rates by 0.25 percentage points (the key lending rate plummeted to a low of 0.75%, while the interest rate on overnight deposits with the ECB was 0%) in early July. Afterwards, in efforts to reduce the fragmentation of the sovereign bond markets, the ECB announced the possibility of using new non-standard monetary policy instruments (Outright Monetary Transactions). These transactions would enable the ECB to purchase in secondary markets bonds issued by member states that officially request financial assistance and accept a programme of fiscal adjustment and structural reforms. Although these measures had not been implemented, their announcement helped stabilise financial markets in the last quarter of 2012. Nevertheless, the slump in foreign demand, triggered by uncertainties related to budgetary cuts in the US, further deepened the decline in economic activity. The quarterly fall in GDP was –0.6%, a record high for the last three years.

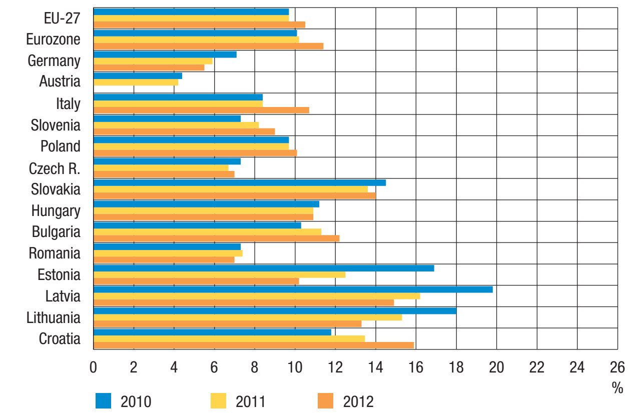
As in the eurozone, the pace of economic activity in EU member states outside the eurozone was slower than in 2011. Negative trends were seen in Hungary (–1.7%), the Czech Republic (–1.3%) and Denmark (–0.6%), while other countries recorded growth, but lower than in the year before. For the

1.1 Real GDP growth in EU countries and Croatia



Note: From 2011, data for the eurozone include Estonia.
Source: Eurostat.

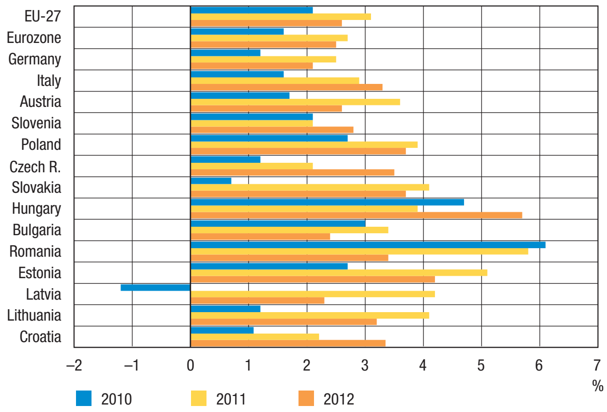
1.2 Unemployment rate in EU countries and Croatia



Note: From 2011, data for the eurozone include Estonia.
Source: Eurostat.

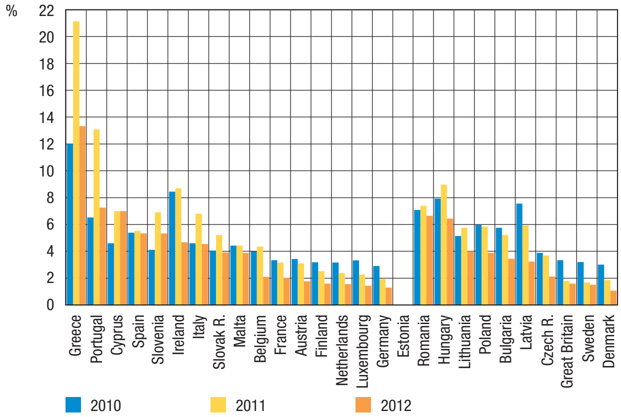
1 Estimate, *WEO Update,* IMF, January 2013.

1.3 HICP annual average rate of change in EU countries and Croatia



Note: From 2011, data for the eurozone include Estonia.
Source: Eurostat.

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



Source: Eurostat.

second consecutive year, the Baltic countries had the highest GDP growth rates of all European countries.

The downturn in real economic activity in the eurozone also affected the labour market; the average annual unemployment rate went up from 10.2% in 2011 to 11.4% in 2012, the highest level since the establishment of the eurozone. Trends in the labour markets of individual countries differed considerably. Affected by the debt crisis, some countries recorded an upsurge in unemployment (in particular, Greece, Cyprus, Spain, Portugal and Italy), while unemployment steadily declined in Estonia and Germany thanks to their relatively favourable economic performance.

The average annual inflation rate in the eurozone was lower in 2012 (2.5%) than in 2011 (2.7%), largely due to the slower annual increase in energy prices. This increase was still high (7.6%) and contributed to the 2012 inflation growth by 0.8 percentage points. Inflationary pressures were reinforced by several factors, such as the rise in prices of food products in the global market, particularly during the summer months (drought), as well as by the increase in indirect taxes and administrative prices in some countries. The average annual inflation rate also decreased in a number of EU countries outside the eurozone. By contrast, inflation picked up in Hungary, which may be attributed to higher indirect taxes, and the Czech Republic, due to the increase in administrative prices and the previously lowered VAT rate.

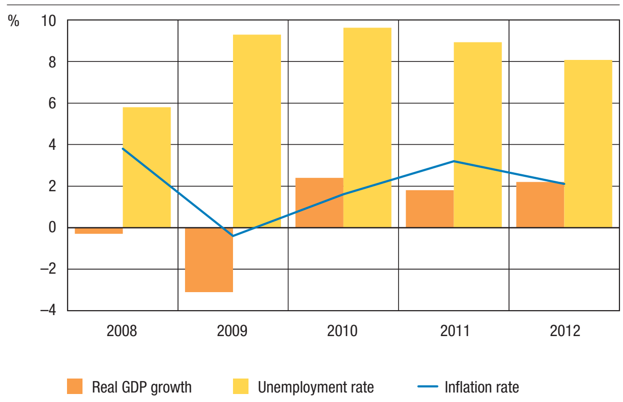
Risk premiums for most European emerging market countries narrowed in 2012 as instability in European financial markets eased. The narrowing trend began in early 2012, when the ECB began to supply the banking sector with ample liquidity, and was interrupted briefly at the beginning of the second quarter due to mounting uncertainty in financial markets triggered by the prolonged debt crisis. Once the ECB cut the benchmark rates in mid-2012 and announced the possibility of additional measures to preserve the eurozone, yields on the eurobonds of European emerging markets resumed their downward slope. The fall came to a halt in late 2012 as a result of the resurgence of the Greek debt crisis and publication of unfavourable economic indicators. Although monetary policy measures brought about a reduction in interest rates on long-term bonds for all EU member states in 2012, interest rates in Greece, Portugal and Cyprus remained very high as compared both to the pre-crisis period and other member states.

1.1.2 United States of America

The American economy saw an increase in real economic activity of 2.2% in 2012[2]. The pickup in growth from 2011 (1.8%) reflects a slower growth in imports, a lower decrease in government consumption and stronger investments. The main driver of GDP growth was the rise in personal consumption (above all of durable goods, as well as of services), which was spurred by favourable trends in the labour market. Private sector investments also had a positive influence on total economic activity; the bulk of the increase related to investments in equipment and computer programmes, with an additional impetus coming from investments in dwellings. Notwithstanding subdued foreign demand in the eurozone, the contribution of exports was positive, mainly due to larger exports to other markets. By contrast, changes in inventories and reduced consumption of federal and local authorities had a negative impact on the overall economic activity. The pace of economic growth was uneven during the year: growth slowed down in the second quarter and picked up in the third quarter only to lose momentum again in the last quarter. The last quarter slump was due to uncertainty triggered by the situation of government debt approaching a legally set ceiling (which is the outcome of a large budget deficit) and the absence of the expected recovery in the eurozone. Negative trends were mitigated by personal consumption growth spurred by the continued decline in unemployment; the

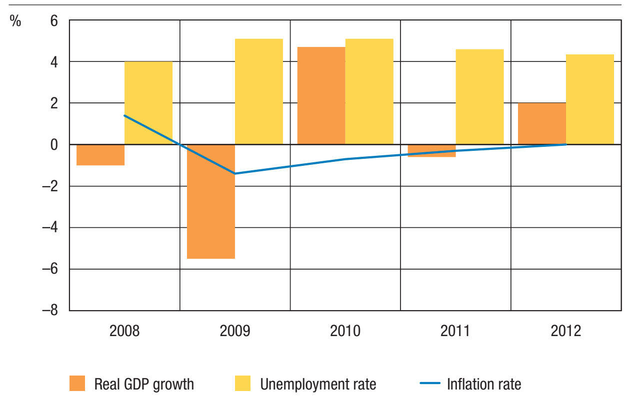
2 U. S. Department of Commerce, Bureau of Economic Analysis, *GDP: Fourth quarter and annual 2012 (third estimate)*, 28 March 2013.

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



Sources: Bureau of Economic Analysis and Department of Labor.

1.6 Real GDP growth, unemployment and inflation rates in Japan



Sources: Eurostat and Statistics Bureau of Japan.

average unemployment rate dipped from 8.5% in December 2011 to 7.8% in December 2012.

The consumer price index (CPI) grew by 2.1% in 2012, much less than in 2011, when the average price increase was 3.2%. The slowdown in inflation was mostly due to the slower increase in the index of energy and motor fuel prices than in 2011, when global prices rocketed. Food prices also went up, but at a much lower rate than in 2011, when prices in global markets peaked due to a long spell of drought. Against the background of low inflation, heightened unemployment and expansionary fiscal policy on the verge of the legal limits, the Fed kept its key interest rate at an extremely low level (0.25%) in order to accelerate the economy, bearing in mind stable long-term inflationary expectations.

1.1.3 Japan

After a fall in real activity in 2011 (–0.6%), the Japanese economy recovered noticeably in 2012 (2.0%), due largely to an upsurge in the first quarter. The growth was driven by the recovery in personal consumption after the introduction of temporary reliefs for the purchase of ecological cars, and the rise in government consumption due to the continued reconstruction of the country after the earthquake in 2011. By contrast, private sector investments plummeted, while net exports of goods and services held steady. Real GDP declined in the second and third quarter largely on account of the sharp drop in exports to the eurozone and China. In the same period, total imports contracted less as imports of fossil fuels grew markedly after the shutdown of nuclear power plants for security reasons. The negative trends were halted in the last quarter owing to stronger personal consumption and private investments in construction of dwellings (spurred by positive developments in the labour market). In line with the unstable global environment, as well as deflationary pressures in the domestic market, the Japanese central bank kept its key interest rate between 0.0% and 0.1% throughout the year and raised the value of its bond-buying programme in efforts to spur economic growth. As for price trends, the average annual rate of change in consumer prices in Japan was not negative for the first time in the last three years (standing at 0.0%).

1.1.4 Developing and emerging market countries

Notwithstanding slower economic growth, developing and emerging market economies continued to be the main generators of global economic growth in 2012, with the real GDP growth rate of 5.1%[3] (6.3% in 2011). The growth slowdown in most of the countries in the surveyed group was particularly noticeable in the Central and Eastern European countries, which were exposed to powerful negative shocks because of their strong trade integration with the eurozone, as well as their own structural problems. By contrast, the growth rate picked up in the Middle East countries due to higher oil prices in the global markets in the first half of the year and rising production, and in some Asian developing countries that were recovering from natural disasters in 2011.

The Chinese economy recorded real GDP growth of 7.8%[4] in 2012, 1.5 percentage points down from 2011. The main determinant of growth was personal consumption spurred by the continued rise in real incomes. By contrast, investments dropped in the first half of the year under the influence of monetary policy measures designed to ease price pressures in the real estate market. In the second half of the year, investments grew at stable but low rates due to intensified investments of the public sector. In addition, the central bank lowered the key interest and reserve requirement rate in mid-year.

3 Estimate, *WEO Update*, IMF, January 2013.
4 Estimate, *WEO Update*, IMF, January 2013.

India's economic growth also slowed down, from 7.9% in 2011 to 5.0% in 2012. Personal consumption was again the main generator of economic growth. Along with subdued foreign demand, the slowdown was attributable to structural problems in the domestic industry and agriculture, while the sectors of construction, trade and financial intermediation recorded more dynamic activity. In order to boost growth and lower interest rates on loans to the private sector, the central bank of India reduced its key interest rate in April 2012.

After a strong recovery in 2011 (4.3%), the rate of real economic growth in Russia went down to 3.6%[5] in 2012, slowing down towards the year-end. Although real incomes grew at a lower rate, personal consumption was the main generator of GDP growth. By contrast, government consumption stagnated while investment consumption lost much of its steam after being exceptionally buoyant in 2011. In 2012, imports grew more than exports as the latter were constrained by weak foreign demand. Notwithstanding the raising of the key interest rate by 0.25 percentage points in September 2012, the rate of inflation was higher than planned (5-6%).

The global economic slowdown was reflected in Latin American countries as well, which recorded a lower growth rate than in 2011 (3.0% vs 4.4%[6]). Dwindling foreign demand, in particular Chinese and American, and the drop in prices of some raw materials contributed the most to the economic slowdown in the countries observed. Notwithstanding instabilities in international financial markets, there were no major capital outflows and the exchange rates of most countries appreciated.

1.1.5 Southeast European countries

As economic developments in most Southeast European countries were strongly affected by trends in the eurozone, their economic growth slowed down noticeably in 2012, above all in Serbia and Macedonia. In conditions of the nominal weakening of the domestic currency, Serbia again stood out with a higher inflation rate, while inflationary pressures were not prominent in other countries.

After growing by 1.3% in 2011, the GDP of Bosnia and Herzegovina dropped by 0.8%[7] in 2012. This was due equally to domestic and foreign factors. With regard to foreign trade (in terms of the domestic currency), exports showed an annual decline of 4.4% in nominal terms, while imports contracted less, by 1.8%. Exports to CEFTA countries shrank markedly (by almost 14%), while exports to Austria and Turkey grew sharply. Croatia remained the most important trading partner of Bosnia and Herzegovina, notwithstanding the stagnation in overall trade flows.

Serbia's GDP shrank by 1.8% in 2012[8], in contrast with 2011 when it grew by 1.6%. The noticeable deceleration in economic activity was above all due to the fall in investments. Looking at foreign trade (in US dollars), exports dropped by 3.6% in nominal terms, while the fall in total imports of goods was even sharper (4.3%). Notwithstanding a slowdown on an annual level (from 11.1% to 7.3%), the rate of inflation was among the highest in the region.

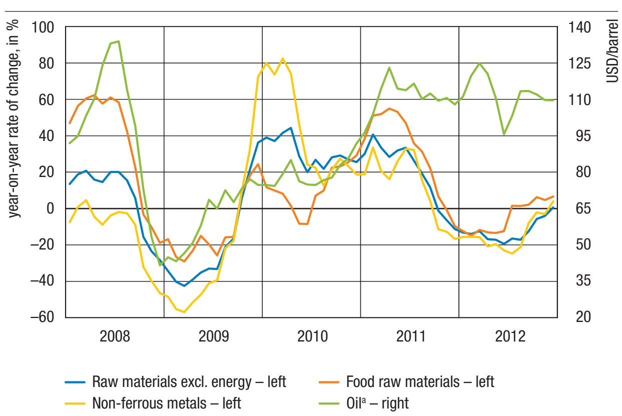
1.1.6 Trends in the prices of raw materials and foreign exchange rate

Oil prices fluctuated sharply during 2012. Crude oil prices in the world market jumped in the first quarter of 2012, prompted by an agreement among EU member states on the ban on oil imports from Iran and unusually cold weather in Western Europe, but dropped sharply in the following quarter. This was largely attributable to risks of a renewed escalation of the eurozone debt crisis that could spill over to the rest of the world and a surge in the crude oil supply from the OPEC. Crude oil prices increased again during the summer months amid renewed tensions with Iran and a drop in supply by OPEC member countries, especially Iran and Angola, but became stable towards the year-end at a level seen early in the year. The average price of Brent crude oil stood at USD 112 in 2012, almost the same as in 2011.

Looking at raw material prices (excluding energy), the year 2012 saw an increase in the annual rate of change in prices of food raw materials, in particular oil and oil seeds, which became much higher in the summer, driven up by the drought. The annual rate of change in prices of metals went up, while the annual decline in prices of agricultural raw materials (such as textiles) slowed down. The annual rate of change in the HWWI index of raw material prices (excluding energy) went up from –11.3% in December 2011 to 0.6% in December 2012. However, this indicator dropped by 12.7% on average in 2012, after growing by 18.1% in 2011.

In the first half of the year, the US dollar/euro exchange rate was mainly exposed to appreciation pressures stemming mostly from the debt crisis worsening in some eurozone countries, and from the failure of the expected economic recovery of

1.7 Raw material prices in the world market



[a] UK Brent oil price.
Sources: Bloomberg and HWWI.

5 Estimate, *WEO Update,* IMF, January 2013.
6 Estimate, *WEO Update,* IMF, January 2013.
7 *Eastern European Consensus Forecast*, February 2013.
8 *Eastern European Consensus Forecast*, February 2013.

the eurozone. The strengthening of the US dollar against the euro reached its peak at end-July, with the euro standing at 1.21 US dollar on the back of concerns over Spain's fiscal problems and possible escalation of the eurozone debt crisis. The trend reversed in the second half of the year, when the dollar mostly depreciated against the euro. Among other things, this was due to an increase in investor optimism regarding the resolution of the eurozone debt crisis, concerns about the failure to reach a compromise on the US public finance, and expectations that the Fed could begin a new cycle of monetary easing. The EUR/USD exchange rate closed the year at 1.32, which is an increase of 1.8% compared to end-2011. The Swiss franc/euro exchange rate was stable in 2012, moving around EUR/CHF 1.20, the floor set by the Swiss central bank in September 2011.

1.2 Economic activity

Gross domestic product fell by 2.0% in real terms in 2012.[9] The fourth consecutive year of decline or stagnation in economic activity led to a cumulative fall in economic activity of 10%, from the business cycle peak in 2008. On a quarterly level, GDP fell sharply in the first quarter but grew modestly in the following six months, mainly as a result of favourable developments in tourism. Real economic activity contracted again towards the end of the year, as a result of increasingly unfavourable developments in the labour market and the resultant weakening of personal consumption.[10]

1.2.1 Demand

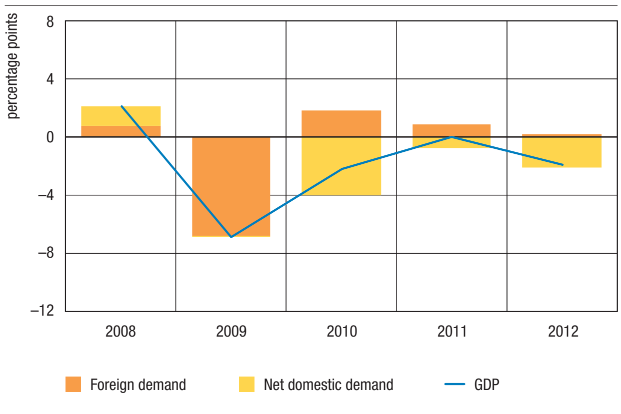
Unfavourable economic developments in 2012 were largely due to a sharp fall in domestic demand, in contrast with foreign demand, which rose slightly. Analysed by aggregate domestic demand components, there was a large fall in personal consumption and gross fixed capital formation as well as a fall in government consumption and a slower accumulation of inventories.[11] Unfavourable developments were also seen in goods and services imports, which resulted in a considerable fall in net domestic demand. At the same time, goods and services exports rose slightly, providing a positive statistical contribution to GDP developments.

Following stagnation in 2011, real household consumption fell 3.0% in the previous year. As a result, this component of aggregate demand had the biggest negative impact on real GDP dynamics. Such developments are due to a fall in the real net wage bill as a result of a fall in employment as well as stagnation in nominal wages in the conditions of growth in inflation. Domestic transfers to households and net transfers from abroad also shrank in real terms. As in the previous year, household consumer loan deleveraging continued. Unlike in 2011, exchange rate developments involving the Swiss franc and the euro stabilised on an annual level and had a smaller negative impact on disposable household income as regards loan repayments linked to these two currencies. Not only were there unfavourable developments in disposable income, but low consumer optimism also had a negative impact on personal consumption.

Government consumption fell in 2012, driven by a fall in social benefits in kind and expenditures on the use of goods and services. A small increase in the number of civil servants and public administration employees had an opposite effect. Overall, in 2012 it fell by 0.8% from the previous year.

Investment activity fell sharply in 2012, continuing its downward trend for the fourth consecutive year. The fall in investments of 4.6% was due primarily to low investment activity of the private sector as a result of unfavourable effects of domestic aggregate demand, under-utilisation of the existing production capacities and persistent uncertainty in the economy. The inflow from foreign direct investment in new production

1.8 Contributions of domestic and foreign demand to real GDP growth



Sources: CBS and CNB calculations.

9 The CBS data on GDP have been based since 2011 on quarterly GDP estimates and are preliminary data.

10 Based on seasonally adjusted statistical data. Data were seasonally adjusted by the CNB and the statistically adjusted data differ from the comparable data provided by the Central Bureau of Statistics. By seasonal adjustment, the effects of events of an economic and non-economic character that commonly take place during the year (e.g. holiday consumption) 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 can, to some extent, account for differences in the levels of these series (e.g. a fall in the number of hours worked). The adjusted data enable analysis of developments in changes during consecutive periods (month-on-month, quarter-on-quarter), whereas the changes from the same period in the previous year are analysed on the basis of original data, or on the basis of data time series adjusted only for the difference in the number of business days.

11 The category changes in inventories includes statistical discrepancies between the production and expenditure GDP calculation methods, but the CBS does not publish data for these two components separately. As a result, it is not possible to provide a sound economic explanation of the dynamics of this category.

capacities held steady at a very low level throughout 2012. At the same time, investment activity of the private sector was again negatively influenced by a surplus supply of residential real estate, which led to a fall in investments in the construction of residential buildings. Announced public sector investments (most notably those of public companies such as HEP) for the most part failed to materialise last year, while the implementation of fiscal consolidation also led to a fall in general government investment in non-financial assets.

As regards foreign trade, goods and services exports rose slightly in real terms last year. According to available balance of payments data, exports of goods fell in real terms relative to the previous year, indicating further unfavourable economic developments in Croatia's main foreign trading partner countries, except in Germany and Austria. By contrast, services exports rose in 2012 owing to good results in tourism and other business services. Developments in goods and services imports reflect unfavourable developments in domestic demand, with goods imports recording a somewhat bigger fall.

1.2.2 Output

GDP by the production approach shows that in 2012 gross value added[12] of the total economy fell by 2.6% compared to the previous year. The fall was seen in almost all activities, particularly in industry and construction. Modest growth was seen in only a few service activities, particularly those associated with the public sector, with the annual GVA increasing in the area of professional, scientific, technical, administrative and ancillary services and in public administration, education and health care and social welfare.

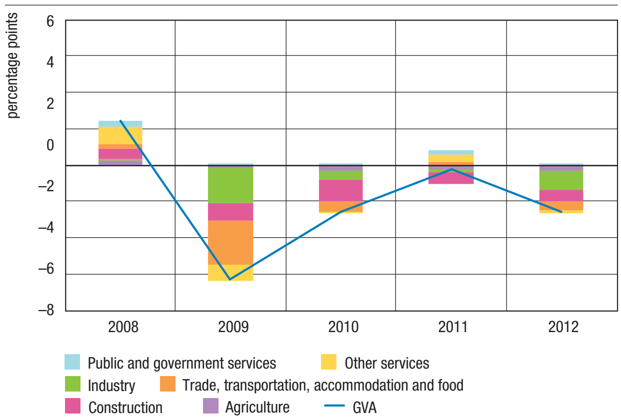
Industry and construction

The largest contribution to the total fall in GVA came from developments in GVA in industry. Gross value added in industry in 2012 continued to decline at a much faster rate (4.9%) than in 2011. Data on the total real industrial turnover indicate that the said decline in industrial production was mostly driven by a fall in domestic demand. In addition, the small fall in real goods exports also suggests a fall in foreign demand, though much smaller, for domestic products. Inventories in finished industrial goods also declined in 2012, attributable, in addition to low demand, to low business confidence and persistent uncertainty as regards future economic developments.

As shown by data on movements in the total volume of industrial production, production fell in all major industrial groupings, particularly in intermediate and capital goods. Detailed data by NCA sections and divisions show a large fall in most sections of manufacturing. The fall was particularly sharp in the manufacture of machinery and equipment, other manufacturing, manufacture of computers, electronic and optical products and manufacture of metal. Growth was present in only several divisions, and was slightly more noticeable only in the manufacture of basic pharmaceutical products and preparations and to a lesser extent in the manufacture of coke and refined petroleum products. Total volume of production also fell in mining and quarrying, particularly in other mining and quarrying, which may be associated with a further fall in construction works and a resulting smaller demand for construction material.

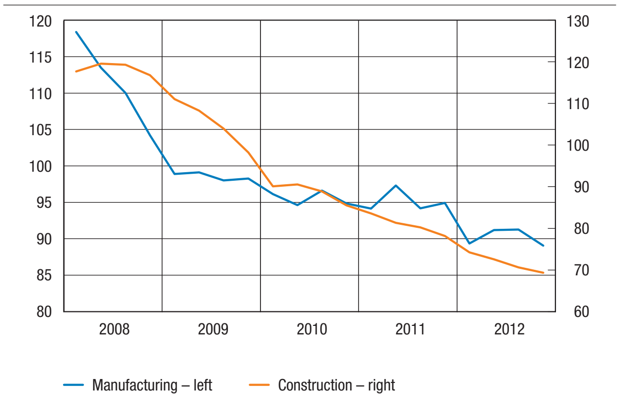
Developments in the gross value added in construction activity continued to be negative, with the gross value added falling by a high 11.4% on an annual level. It should be noted that the volume indices show a bigger fall in the construction of buildings, although there was also a sharp fall in other civil engineering works. Such developments were due to a repeated decrease in private sector investments, caused by a further decline in residential construction and a surplus supply of residential

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



Sources: CBS and CNB calculations.

1.10 Gross value added in manufacturing and construction
seasonally adjusted values, chain index, 2005 = 100

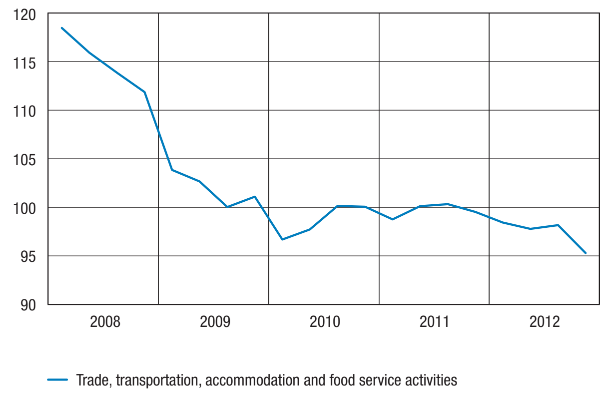


Source: CBS data seasonally adjusted by the CNB.

12 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).

1.11 Gross value added in trade, transportation, accommodation and food service activities

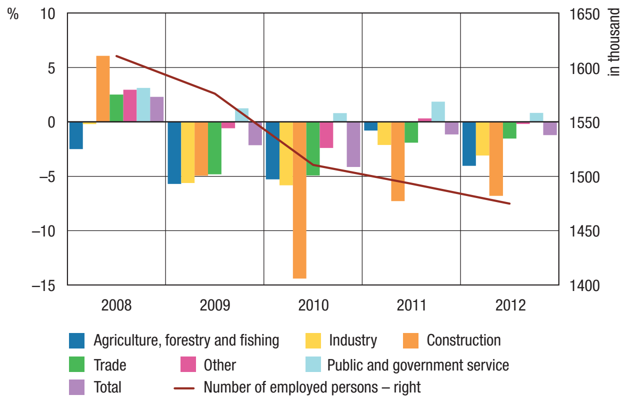
seasonally adjusted values, chain index, 2005 = 100



Source: CBS data seasonally adjusted by the CNB.

1.12 Total employment and employment by sectors

year-on-year rate of change



Note: Public and government services refer to O, P and Q activities according to NCA 2007.
Source: CPIA.

real estate and a fall in government infrastructure works as a result of slow launching of projects and the need for fiscal adjustment implementation.

Non-financial services

Gross value added in trade, transport and storage, accommodation and food service activities also fell in 2012. Following the June 2012 revision of the quarterly GDP estimate and the move to the new classification of activities (NCA 2007), the gross value added in these activities is not shown separately anymore. Nevertheless, it is certain that unfavourable developments in personal consumption in 2012 caused the fall in GVA in trade from the previous year.

As regards the transport activity, passenger transport, measured by the number of passengers carried, fell sharply, particularly in railway transport. Goods transport also fell relative to 2011 in almost all types of transport. By contrast, a positive contribution to GVA formation in this component that very probably came from a successful tourist season and the increased number of foreign arrivals spiralled growth in GVA in the area of accommodation and food service activities.

1.2.3 Labour market

Adverse labour market movements intensified during 2012, which was reflected in a fall in the number of employed persons and the concomitant rise in unemployment figures. The average Labour Force Survey unemployment rate continued to surge, reaching 18% in the last quarter of 2012. Overall labour productivity in the economy declined, as a result of GDP falling faster than employment. Against this background, real wages continued to go down.

Employment and unemployment according to administrative sources[13]

The number of employed persons continued to decrease during 2012, at an almost equal rate as in the previous year. According to the CPIA data, the average number of insured persons decreased by 18 thousand (1.2%) in 2012 from the year before. As suggested by seasonally adjusted data, the number of insured persons declined only slightly during the first half of the year, but rose in the second semi-annual period. Overall movements in the number of employed persons during 2012 reflect an economic downturn in the private sector, with the sharpest fall in employment observed in construction, industry and trade. The number of employed persons in government and public services rose a little. According to the CPIA data, a particularly sharp contraction of employment occurred in the categories of individual farmers (7%) and in crafts and trades and freelances (3.5%).

Administrative data on the number of unemployed persons during 2012 suggest a noticeable increase in unemployment from the previous year. The average number of unemployed persons went up by 6.2% in 2012 from 2011. As concerns outflows from and inflows into the CES register, the data on newly registered persons suggest a noticeable increase in inflows into the register directly from employment and by school leavers. Inflows into the register from inactivity decreased, which may be a sign of a large number of discouraged workers. Outflows from the register fell noticeably from the previous year, mostly due to a plunge in the number of persons employed from the register in other business activities. This was due to a decline in employment according to special regulations (parent-caregiver, or caregiver to a disabled war veteran status) by as much as 98%. The number of persons removed from the records also fell, while outflows from the register for employment rose slightly. As a result of the increase in the number of newly registered unemployed persons, coupled with the fall in outflows from the register, the number of unemployed persons registered

13 According to the CPIA data on the number of insured persons and administrative CBS data. Administrative CBS data on the number of employed persons and unemployment rate are preliminary and are planned to be revised in April 2013. The CPIA data on the number of insured persons are therefore considered to be 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 %

	2011/ 2010	1–6/2012 1–6/2011	7–12/2012 7–12/2011	2012/ 2011	Share in total flow		
					1–6/2012	7–12/2012	2012
1 Newly registered							
1.1 By type of inflow	**8.6**	**4.1**	**10.6**	**7.8**	**100.0**	**100.0**	**100.0**
– Directly from employment	–0.8	12.5	16.3	14.7	61.9	66.4	64.5
– From private agriculture or any other similar work	568.2	–70.7	76.9	–45.1	1.4	1.3	1.3
– Directly from school	10.3	1.7	19.5	15.7	4.0	12.5	8.9
– From inactivity	23.3	1.4	–10.3	–4.3	32.7	19.8	25.2
1.2 By previous work experience	**8.6**	**4.1**	**10.6**	**7.8**	**100.0**	**100.0**	**100.0**
– First-time job seekers	16.7	–4.8	10.9	4.6	16.1	20.4	18.6
– Previously employed	6.8	6.0	10.6	8.6	83.9	79.6	81.4
2 Outflow from the CES register	22.0	–3.7	–10.9	–7.1	100.0	100.0	100.0
– Employed based on work contract	18.7	10.8	–2.9	4.8	64.2	53.5	59.4
– Employed based on other business activities	220.6	–61.9	6.3	–40.0	2.8	4.5	3.6
– Deleted from the register for other reasons	16.5	–14.3	–20.7	–17.7	32.9	42.0	37.1

Source: CES.

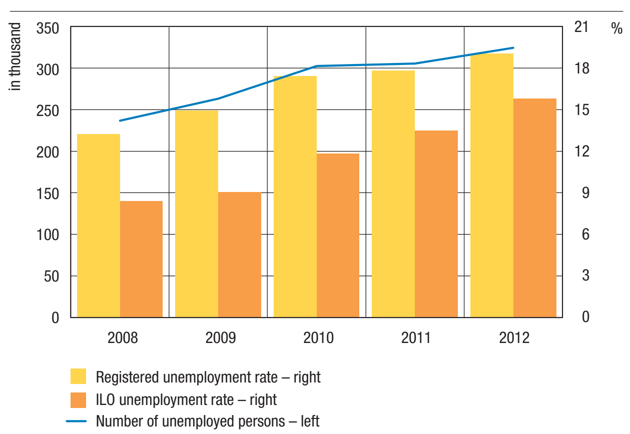
with the CES reached 358 thousand at the end of December 2012, up 42 thousand on end-December 2011.

Unemployment grew continuously throughout the year, but accelerated markedly over the last two quarters. These movements led to a surge in the average unemployment rate which stood at 19.1% during 2012 (17.8% in 2011) and even jumped to 21.1% at the end of 2012.

Employment and unemployment according to the Labour Force Survey data

The CBS Survey data[14] on labour market characteristics during 2012 and data from administrative sources show a similar direction of changes in the labour market. Also, the Labour Force Survey data suggest an annual decrease in the average number of employed persons and an increase in the average number of unemployed persons, coupled with a sharp rise in the average Labour Force Survey unemployment rate which was most pronounced during the fourth quarter, when the rate reached 18%, a record high since the introduction of the Labour Force Survey in 1996. The average unemployment rate stood at 15.8% during 2012 (13.3% in the same period in 2011). As suggested by official CBS data, the activity rate for the 15+ age group remained extremely low (45.3%), the lowest among the rates of all EU member states.

1.13 Registered and ILO unemployment rates and the number of unemployed persons registered with the CES



Sources: CES and CBS.

Wages and labour costs

Gross nominal wage growth continued in 2012 at a rate of 1.1%, a slight slowdown from the rate of 1.5% in 2011. Net

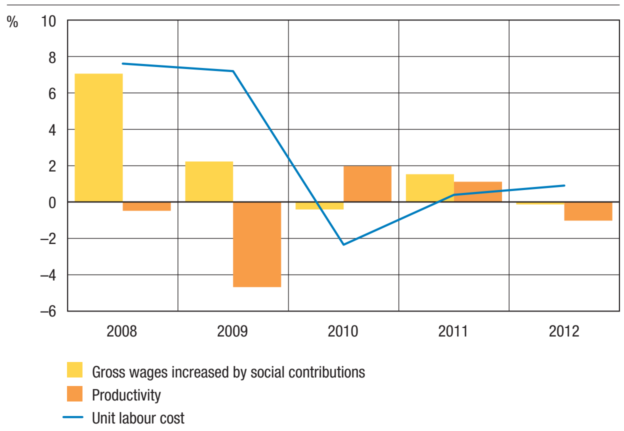
Table 1.2 Wages, productivity and unit labour costs
year-on-year rate of change

	2010	2011	2012
Average gross wage			
Nominal	–0.5	1.5	1.1
Real	–1.6	–0.8	–2.2
Average gross wage in the private sector[a]			
Nominal	–0.3	1.4	1.2
Real	–1.3	–0.8	–2.1
Average gross wage in public and government services[b]			
Nominal	–1.2	1.3	0.4
Real	–2.2	–1.0	–2.9
Productivity (total economy)	2.0	1.2	–0.9
Nominal unit labour cost	–2.3	0.4	0.8

[a] Wages in the private sector include all NCA 2007 activities except O, P and Q activities.
[b] Wages in public and government services are approximated by the change in wages in O, P and Q activities according to NCA 2007.
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.
Sources: CBS and CPIA.

14 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 Unit labour costs in total economy
year-on-year rate of change



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

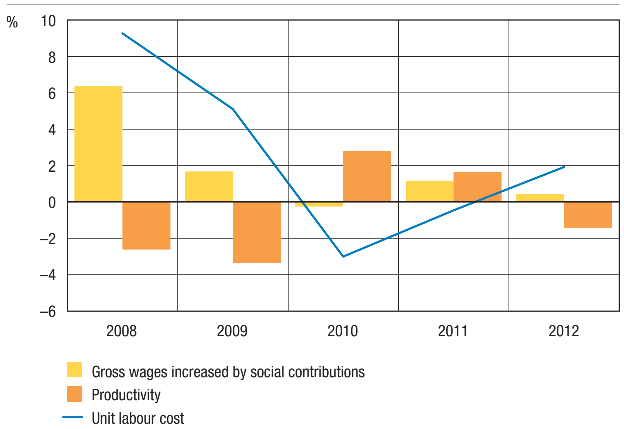
1.2.4 Prices and the exchange rate

Prices

Consumer price inflation accelerated in 2012, with its average annual rate of change up to 3.4% from 2.3% in 2011, primarily due to an administered increase in the basic VAT rate from 23% to 25% in March[15] and in electricity and gas prices in May.[16] The prices of water, public transport and heat energy were also increased administratively. In addition, food product prices grew in the third quarter as a result of drought and the growth of food raw material prices on the world market. The depreciation of the kuna/US dollar exchange rate had a negative effect on import price trends. Inflationary pressures were eased by domestic factors, above all by weak domestic demand and adverse labour market conditions. Unit labour costs decreased annually in the last two quarters because compensation per employee[17] dropped more sharply than labour productivity.

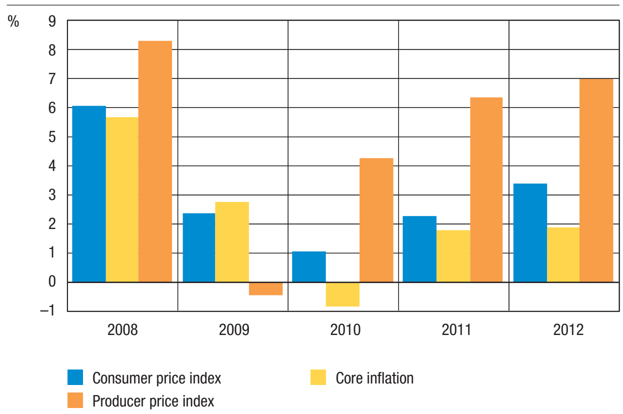
Core inflation[18] remained relatively low, its average annual

1.15 Unit labour costs in industry
year-on-year rate of change



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

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



Source: CBS.

wages paid in 2012 increased only negligibly (0.7%). Given the concurrent increase in consumer prices by 3.4%, average real net wages for the whole of 2012 decreased by 2.6% (real gross wages by 2.2%). The purchasing power of the average wage in the economy during 2012 was approximately equal to that in 2006.

Average real net wages by NCEA activity, paid in 2012, decreased from the year before, with the decrease in real wages being more pronounced in public and government services than in the private sector.

As suggested by the movements in wages and employment, as well as by CBS data on GDP in 2012, nominal unit labour costs for the entire economy went up slightly. Trends in unit labour costs in industry were less favourable than in the overall economy, so that unit labour costs in industry grew moderately during 2012, mostly due to a slowdown in this economic activity over that period and a slight increase in compensation.

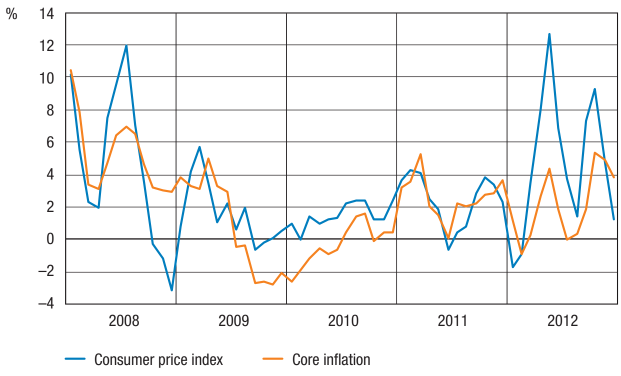
rate of change rising only slightly from 1.8% in 2011 to 1.9% in 2012. The average annual rate of change in domestic industrial producer prices increased from 6.4% in 2011 to 7.0% in 2012, mainly due to an energy price increase.

Consumer prices

The monthly rates of change in overall and core inflation (seasonally adjusted and annualised) were on average higher and considerably more volatile in 2012 than in 2011. These rates increased sharply in the second quarter, late in the third and early in the fourth quarter due to the mentioned administrative measures and drought. Inflationary pressures abated in the

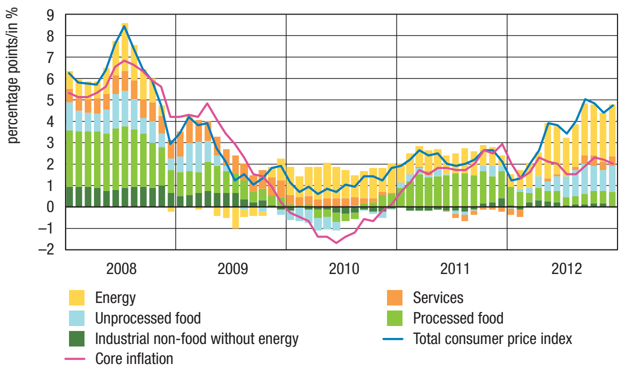
15 The net contribution of the changes in the VAT system to the monthly inflation rate in March is estimated at 0.7 percentage points.
16 The price increase in electricity and natural gas contributed a total of 1.5 percentage points to the monthly inflation rate in May.
17 This was also due to a reduction in health insurance contributions.
18 Core inflation excludes agricultural product prices and administered prices (including the prices of energy).

1.17 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.

1.18 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.

last two months of 2012 as a result of a decrease in world crude oil prices. In addition, a shock in the supply of food raw materials recorded in the summer months proved to be temporary so that food raw material prices dropped in the following months.

The annual inflation rate stood at 4.7% in December 2012, a considerable increase from 2.1% in December 2011, which mainly resulted from the growth of energy prices that contributed an additional 1.9 percentage points to inflation in the period under review, almost entirely due to price increases in electricity and gas. Energy prices contributed 2.4 percentage points to the overall annual inflation rate in December 2012. The contribution of unprocessed food product prices, especially vegetable prices, increased considerably due to drought, and fruit and meat prices grew. A price increase in feedingstuffs (e.g. corn) had an indirect impact on the growth of domestic meat prices. Service prices grew at a slightly accelerated but still relatively low rate of 2.0%. In contrast, the annual growth of processed food product prices decelerated, primarily as a result of a reduction in the VAT rate on oil, fats, sugar and baby food products from 23% to 10%. The annual rate of change in the prices of non-food and non-energy industrial products decreased, primarily due to a drop in clothing prices[19], making the largest contribution to the decrease in the annual core inflation rate from 2.9% in December 2011 to 2.0% in December 2012.

Domestic industrial producer prices

The annual rate of change in domestic industrial producer prices rose from 5.8% in December 2011 to 6.9% in December 2012. The annual growth in energy prices (electricity, gas and water supply) accelerated the most. The annual rate of change in producer prices, excluding energy, stood at 2.2% in December 2012, which is a decrease from 2.9% in December 2011. The most pronounced decline, brought about by the easing of inflationary pressures, was in the annual rate of change in the prices of intermediate goods, especially of rubber and plastic products and metal. The annual rate of change in prices for durable consumer goods (e.g. furniture) decreased.

Residential property prices

Residential property prices in Croatia increased slightly by 1.6% in 2012 from 2011. Having grown annually in the first half of 2012, real estate prices continued the downward trend, started in 2009, in the second half of the year. Downward pressures on real estate prices stemmed from abundant real estate

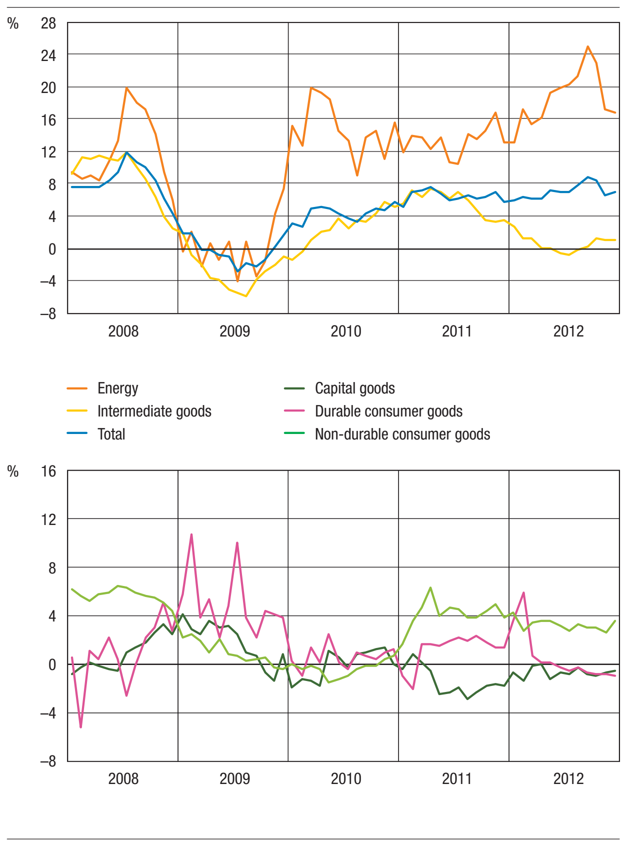
Table 1.3 Consumer price index, the five main categories of products
year-on-year rate of change

	Weight 2012	12/2011	3/2012	6/2012	9/2012	12/2012
Total	100.0	2.1	2.0	3.8	5.0	4.7
Energy	17.3	3.2	6.5	12.9	14.2	13.9
Unprocessed food	12.7	1.8	2.2	5.3	11.2	9.4
Processed food (incl. alcoholic drinks and tobacco)	21.6	5.3	1.9	2.5	2.2	3.2
Industrial non-food without energy	25.5	1.5	0.8	0.7	0.4	–0.3
Services	23.0	–1.1	–0.1	0.5	1.6	2.0

Source: CBS.

19 Changes in some seasonal product prices (e.g. clothing and footwear) in 2012 partly resulted from changes in the methodology of statistical processing of seasonal product prices. For more information, see Eurostat's release *Implementation of Commission Regulation (EC) No 330/2009 on the treatment of seasonal products, Information note and impacts on the HICP* (the methodological changes relating to the HICP also apply to the domestic CPI).

1.19 Industrial producer price index on the domestic market by main industrial groupings
year-on-year rate of change



Source: CBS.

supply, coupled with a drop in demand resulting from reduced real disposable household income, adverse labour market developments, weak consumer optimism and relatively high bank interest rates. The real value of newly extended home loans dropped at an annual rate of 10.3% in 2012, which was also an indication of a decline in demand for real estate. However, such weakened demand was mostly for high-quality real estate in attractive locations and in the first half of the year it was to some extent revived due to budget subsidies to first-time home buyers. The downward trend in the number of building permits for flats issued continued in 2012 and will tend to reduce the supply of real estate in the years to come. In total, 9742 permits were issued in 2012, a decrease of 27.7% from 2011.

Exchange rate

The kuna/euro exchange rate was stable in 2012, standing at EUR/HRK 7.55 at the year-end, which is a depreciation of 0.2% from end-2011. The nominal daily kuna/euro exchange rate moved between –1.7% and 0.9% around an average annual exchange rate of EUR/HRK 7.52, depreciating by 1.1% from 2011. The CNB stabilised the kuna/euro exchange rate, which was under pressure to depreciate in early 2012, by intervening in the foreign exchange market in January and February and by increasing the reserve requirement rate in February. However, with its international reserves rising sharply in the following two months due to inflows of funds proceeds from a government bond issue in the foreign market into government deposit accounts, the CNB immediately purchased a large amount of the government's foreign exchange and created kuna liquidity. A part of this amount was sold to banks through foreign exchange interventions in the second half of May and the exchange rate was stabilised as a result. An increase in the inflow of foreign exchange from tourism in the summer months created mild appreciation pressures on the domestic currency. As these pressures intensified in September due among other things to expected foreign borrowing by several large public and private enterprises, the CNB once again intervened in the foreign exchange market. The fourth quarter saw mild depreciation pressures caused by a seasonal deficit in the current account.

In 2012, the CNB purchased a total of EUR 103.9m net through foreign exchange market transactions with banks and the MoF, boosting kuna liquidity by HRK 768.2m. For the sake of comparison, in the previous year the central bank purchased EUR 547.1m net and increased kuna liquidity by HRK 4bn. The CNB intervened five times in the foreign exchange market in 2012, four times by selling foreign exchange to banks in order to curb depreciation pressures on the domestic currency (EUR 197m, EUR 130m, EUR 131m and EUR 266.4m on 4 January, 17 January, 23 February and 28 May respectively) and once by buying foreign exchange (EUR 58.1m on 19 September) in response to mounting appreciation pressures. The CNB also purchased EUR 770.2m net from the MoF in 2012.

In addition to depreciating versus the euro, the kuna also depreciated against most of the other currencies in the currency basket of the nominal effective exchange rate index (with the exception of the forint, Czech koruna and zloty). The kuna depreciated especially strongly vis-a-vis the US dollar (9.5%

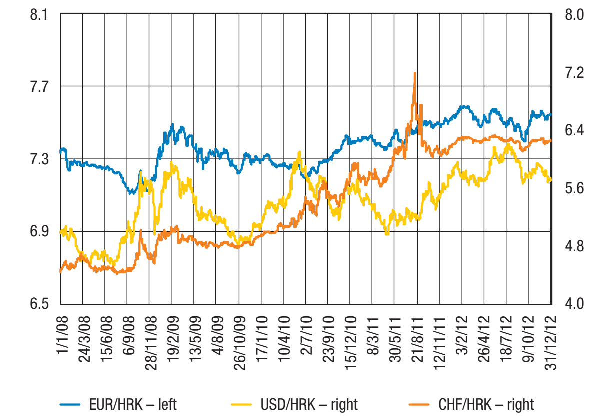
Table 1.4 Croatian residential real estate price index
year-on-year rate of change

	Weight	2008	2009	2010	2011	2012	2011		2012			
							Q3	Q4	Q1	Q2	Q3	Q4
Croatia	100.0	3.4	–3.9	–7.8	–3.4	1.6	–0.2	–1.1	4.9	6.6	–0.3	–4.8
Zagreb	68.30	2.6	–5.3	–8.6	–4.8	1.7	–0.3	–1.0	4.7	4.6	1.2	–3.4
Adriatic Coast	31.70	6.3	0.5	–5.4	0.0	1.0	0.1	–1.7	5.2	9.8	–3.6	–7.7

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.

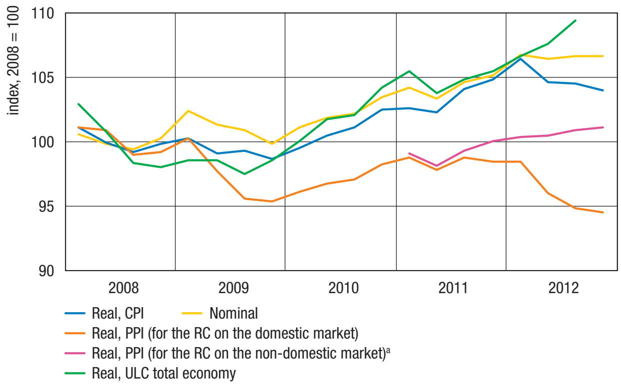
1.20 Daily nominal exchange rates EUR/HRK, USD/HRK and CHF/HRK

CNB midpoint exchange rate



Source: CNB.

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



[a] From the first quarter of 2011, the calculation includes the dynamics of the Croatian PPI on the non-domestic market.
Note: A fall in the index denotes an effective appreciation of the kuna.
Source: CNB calculations.

annually), yen (9.4%) and pound sterling (8.2%), reflecting global foreign exchange market trends. The US dollar/euro exchange rate appreciated on average by 7.7% in 2012 from 2011, primarily as a result of exchange rate movements in the first half of the year that were strongly influenced by adverse economic indicators, concerns over an escalation of the eurozone debt crisis and increased investor interest in safe investments. The Swiss franc/euro exchange rate was relatively stable in 2012, moving around the EUR/CHF 1.20 floor fixed by the Swiss central bank to prevent further strengthening of the franc. The average annual exchange rate of the Swiss franc against the euro strengthened by 2.2% in 2012 from 2011, which, coupled with the already mentioned depreciation of the kuna against the euro, resulted in the kuna weakening by 3.4% versus the Swiss franc. Due to changes in the bilateral exchange rates of the kuna against the currencies of the main trading partners, the nominal effective exchange rate of the kuna depreciated at an annual rate of 2.2% in 2012.

The export competitiveness indicators continued to improve for the third successive year. The real effective exchange rate of the kuna deflated by consumer prices depreciated at an annual rate of 1.4% in 2012 due to the nominal depreciation of the kuna versus a currency basket of the main trading partners, while domestic prices grew faster than foreign prices. The latest available data on trends in the real effective exchange rate of the kuna deflated by unit labour costs for the whole economy point to a depreciation of 3.0% in the first three months of 2012 from the same period in 2011, due to a nominal effective depreciation of the kuna and unit labour costs that grew more slowly in Croatia than in most of the main trading partners. The real effective exchange rate of the kuna deflated by producer prices appreciated annually by 2.5% in 2012. However, if it were calculated according to the dynamics of trends in Croatian producer prices in foreign markets[20], this indicator would also suggest an improvement in competitiveness as Croatia's industrial producer prices grew much more slowly in foreign markets than in the domestic market in 2012.

1.2.5 Monetary policy and monetary developments

In 2012, the Croatian National Bank continued to pursue the policy of a stable nominal kuna/euro exchange rate, while supporting a high level of primary liquidity in the monetary system. A stable exchange rate for the domestic currency as the main nominal anchor preserves financial stability and keeps inflation in the country at bay. The policy of abundant kuna liquidity in 2012 continued an expansive monetary policy orientation aimed at improving domestic financing conditions and supporting the recovery in domestic lending against a background of adverse economic developments. In agreement with the CBRD, the Ministry of Finance and banks, the CNB launched the Economic Development Programme in April 2012. Like models A and A+ in 2010 and 2011, the programme was based on releasing liquidity by cutting the reserve requirement rate.

Although expansive central bank policy contributed to a fall in short-term interest rates in the money and primary T-bill markets, long-term financing costs for domestic sectors did not decrease much in 2012. These trends confirmed the limited effects of monetary policy, particularly in view of the prolonged recession, which is a drag on recovery in loan demand and reduces banks' appetite for new risks.

Monetary policy and flows of creating and withdrawing reserve money

In 2012, foreign exchange transactions continued to be the main monetary policy instrument. The volume and frequency of foreign exchange transactions were directly linked to government foreign borrowing and developments in the exchange rate of the kuna against the euro. As regards other instruments,

20 Data on domestic producer prices are used for Croatia because the data series on foreign market prices is available no sooner than in January 2011.

reverse repo operations were not needed owing to a comfortable liquidity position and there was no demand for Lombard loans. Small amounts of short-term liquidity loans continued to be granted in the first four months of the year. In the period to August, banks with difficulties in liquidity management were allowed to use the allocated reserve requirement funds.

The year was marked by substantial net foreign currency purchases from the government and somewhat lower sales to banks. However, the monetary environment and exchange rate movements were different over the year. As the beginning of 2012 was marked by depreciation pressures on the kuna, the central bank resorted to foreign exchange interventions to restrain the weakening of the domestic currency. On three occasions, the CNB sold a total of EUR 458m to banks in January and February. Along with foreign exchange interventions, the central bank raised the reserve requirement rate by one percentage point (from 14% to 15%) in late January, thus withdrawing some excess liquidity from the system and stabilising the exchange rate. Kuna liquidity was given an additional boost by the purchase of EUR 400m from the government in February, which was associated with the issue of foreign-currency denominated T-bills.

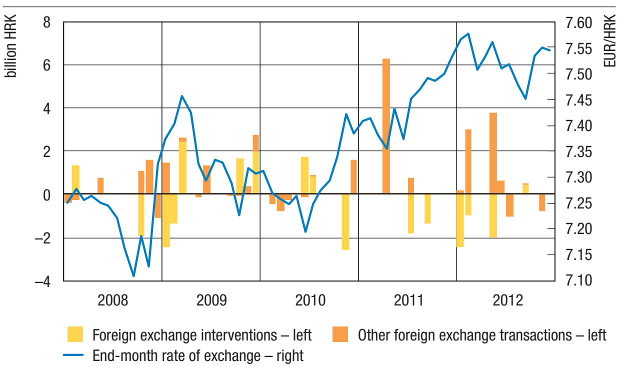
Conditions in the foreign exchange market became stable in the second quarter. This was due to capital inflows from the government's international bond issue; accordingly, the CNB purchased EUR 500m from the government in May. It returned some of that amount to the market by selling EUR 266m to banks. Apart from purchase and sale transactions with the government and banks, the CNB again changed the reserve requirement rate, cutting it from 15% to 13.5% in the second quarter. The cut was to release the funds that banks needed to extend loans to the CBRD (HRK 3.4bn) and launch a new credit programme for companies with development potential.[21] In addition, the amendment to the decision on reserve requirements expanded deduction items to include funds of multilateral development banks. The impact of these measures was an increase in kuna and foreign currency liquidity and a reduction in regulatory costs for banks, so as to expand the volume and lower the costs of lending to the economy.

In the third quarter, the monetary environment was characterised by mild appreciation pressures on the kuna/euro exchange rate. In that period liquidity surpluses at banks' disposal were somewhat lower due to the increase in currency in circulation and government deposits with the central bank. The drop in liquidity was also due to the sale of EUR 140m to the government in July. Accordingly, interest rates on overnight loans in the money market grew moderately, but still remained very low. When appreciation pressures mounted in September, the central bank intervened in the foreign exchange market by purchasing EUR 58m from banks, thus returning some kuna liquidity to the system.

In the remaining part of the year, monetary system liquidity resumed its upward trend, while the exchange rate depreciated mildly in line with usual seasonal movements. As conditions in the foreign exchange and the money market did not call for central bank interventions, the CNB sold to the government only the EUR 106.1m needed for the payment of foreign exchange liabilities falling due in November.

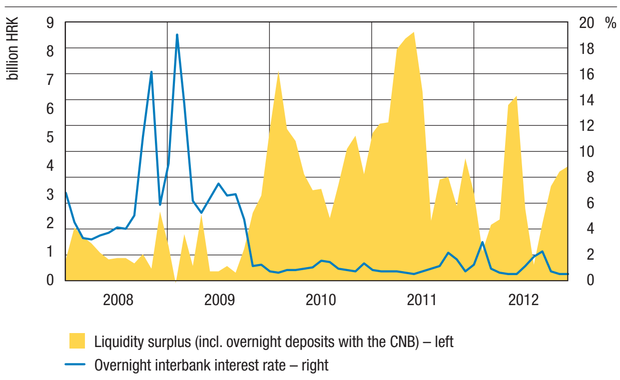
The average kuna surplus liquidity, including overnight deposits, stood at HRK 3.0bn in 2012 and was somewhat lower than in 2011, when it was HRK 5.3bn. The decrease was due to the rise in government deposits with the CNB and a higher level of currency in circulation. Nevertheless, the orientation of monetary policy continued to be expansive. Surplus liquidity in 2012 was several times larger than in the pre-crisis period, while money market interest rates held steady at historic lows. Banks deposited their own liquidity as overnight deposits with the CNB on a daily basis. These deposits peaked at HRK 11.7bn

1.22 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.

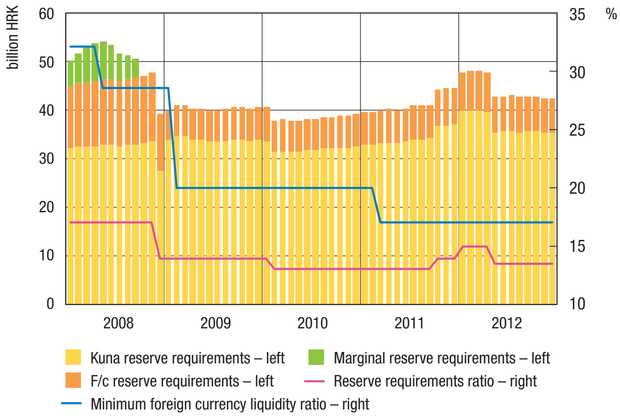
1.23 Bank liquidity and overnight interbank interest rate



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.

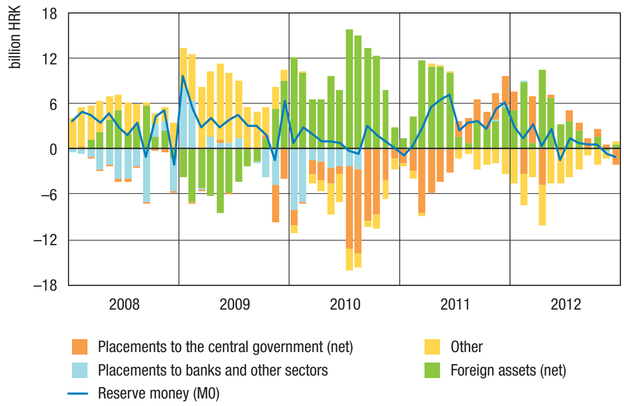
21 Under the loan programme economic entities with development potential are companies – potential loan users – which generate at least 10% of their income from the sale of goods/services in the international market and are at least 25% privately owned as at the date of the loan application. In addition, companies need to meet certain liquidity, indebtedness and profitability criteria.

1.24 Reserve requirements and minimum foreign currency liquidity



Source: CNB.

1.25 Flows of reserve money (M0) creation



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

and were particularly high towards the end of reserve maintenance periods.

The cut in the reserve requirement rate and an autonomous decrease in the base led to a fall in the total calculated reserve requirements in 2012. They dropped by 4.9% or HRK 2.2bn annually. The decrease of the calculation base was due to noticeable external deleveraging of banks, which reduced their total funding sources. At the end of the year, the total calculated reserve requirement reached HRK 42.2bn, of which HRK 35.0bn related to the kuna reserve requirement and HRK 7.2bn was the foreign currency reserve requirement.

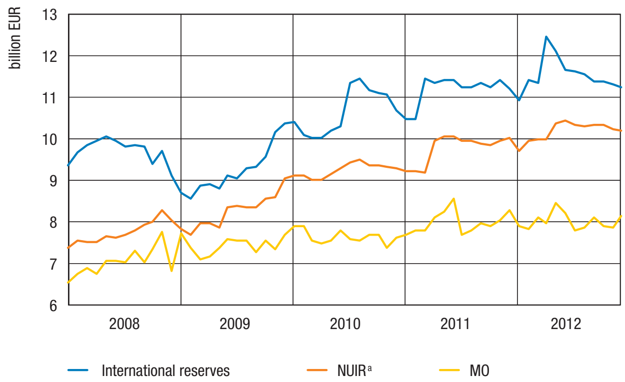
The foreign currency liquidity of the monetary system continued to be regulated in 2012 by the minimum required amount of foreign currency claims; the minimum foreign currency liquidity rate remained at 17% but the definition of foreign currency claims was broadened. In particular, the CNB recognised MoF T-bills (EUR 764m) subscribed by banks in February as liquid foreign currency claims. In addition, 50% of the loans granted to companies under the Economic Development Programme were also included in the minimum required foreign currency claims. Throughout 2012, foreign currency liquidity of banks was on average 3.6 percentage points above the legally prescribed minimum. By the end of the year, banks had EUR 6.1bn of liquid foreign currency claims at their disposal and their foreign currency liquidity surpluses came to EUR 1.2bn.

Reserve money and international reserves

Reserve money (M0) edged down by 1.8% or HRK 1.1bn in 2012, to HRK 61.3bn at the end of the year. The fall was due to the reduction in reserve requirement of banks, while its short-term fluctuations were largely due to changes in government kuna deposits with the CNB. These deposits ranged from HRK 0.4bn to as much as HRK 7.9bn.

Developments in government foreign currency deposits with the CNB were mostly determined by inflows of funds from government foreign borrowing and their subsequent withdrawal. Foreign currency deposits jumped in February after the issue

1.26 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.

of euro-denominated T-bills and again in April due to the issue of USD 1.5bn worth of government bonds. The government spent almost the entire amount by the year-end.

Gross international reserves stood at EUR 11.2bn at the end of 2012, growing by EUR 41m or 0.4% annually. Growth in reserves in 2012 was achieved primarily by the net purchase of foreign exchange from the government of EUR 770m as well as earnings from reserves management. The fall in gross reserves was spurred by the sale of foreign currency to banks totalling EUR 666m, the decrease in the foreign currency reserve requirements of banks of EUR 60m and net outflows of government foreign currency deposits of EUR 68m. Net usable reserves stood at EUR 10.2bn towards the end of December, having increased by 1.7% from the end of 2011.

Developments in monetary and credit aggregates

In 2012, movements in monetary and credit aggregates reflected unfavourable trends in the real sector. Net domestic assets (NDA) of the monetary system shrank noticeably (by HRK 8.4bn or 4.1%). Within their structure, placements to the non-banking sector dropped mildly (excluding the effect of the assumption of the debt of the shipyards by the Ministry of Finance in the first half of the year and the transfer of one bank's non-performing placements to a company indirectly owned by the parent bank in December), while placements to the government continued to trend up. Developments in placements were also affected strongly by the refinancing of non-financial corporate debt through the issuance of bonds abroad.

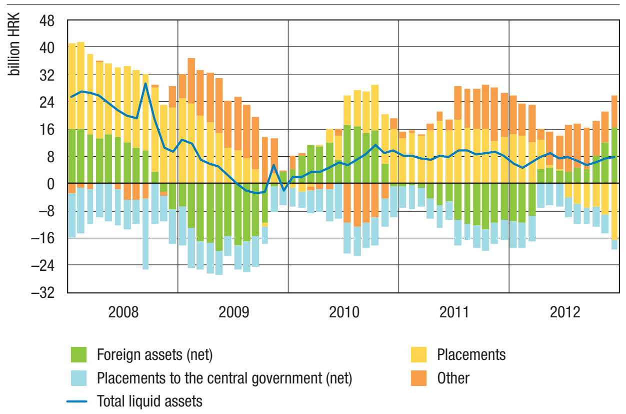
Net foreign assets (NFA) grew sharply in 2012 (by HRK 16.3bn or 48.7%). This was almost entirely due to the reduction of banks' external debt, above all to their majority foreign owners.[22] The whole of 2012, the second half in particular, was characterised by capital outflows based on bank deleveraging. Such movements reflect the abundant liquidity of banks, as well as sluggish demand for loans and the increase in aversion to new risks on the part of banks. It should be noted that the external deleveraging of banks in 2012 followed a several-year growth in their external debt, which was almost entirely related to loans and deposits by majority foreign owners.

As a result of movements in net domestic and net foreign assets, total liquid assets (M4) increased by HRK 7.9bn or 3.3% in 2012, which is around 1 percentage point more than in the previous year. In the structure of total liquid assets, quasi-money increased much more than money (M1).

M1 drifted higher by HRK 0.6bn or 1.1% in 2012, an increase several times lower than in 2011 when it grew by 7.5%. This was in line with reduced lending activity of banks and the overall economic downturn. Demand deposits and currency outside banks grew by 1.5% and 0.9% respectively.

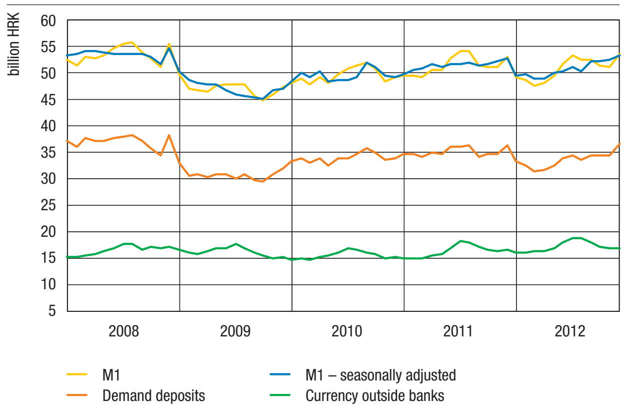
In contrast to money, the growth in quasi-money picked up

1.27 Flows of total liquid assets (M4) creation



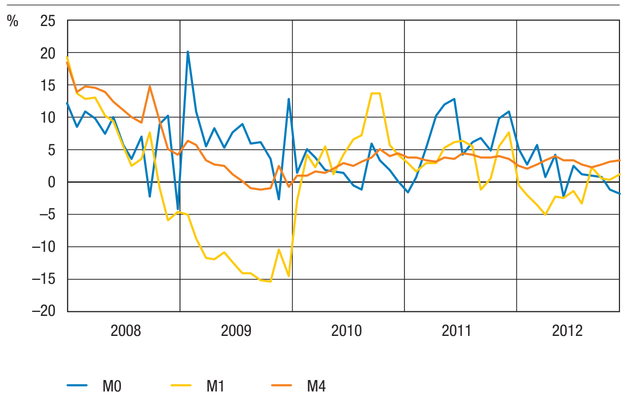
Note: The reported values denote the absolute annual changes.
Source: CNB.

1.29 Money (M1)



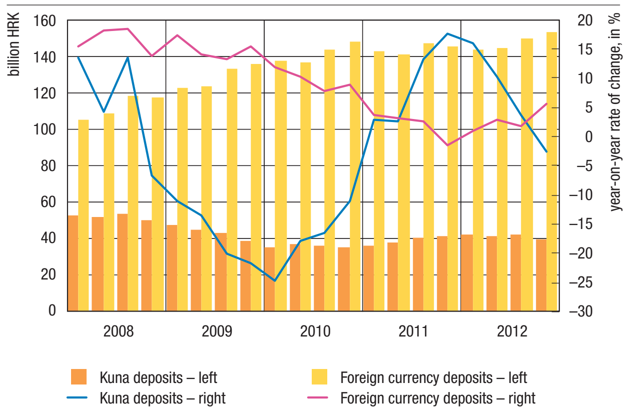
Source: CNB.

1.28 Monetary aggregates
year-on-year rate of change



Source: CNB.

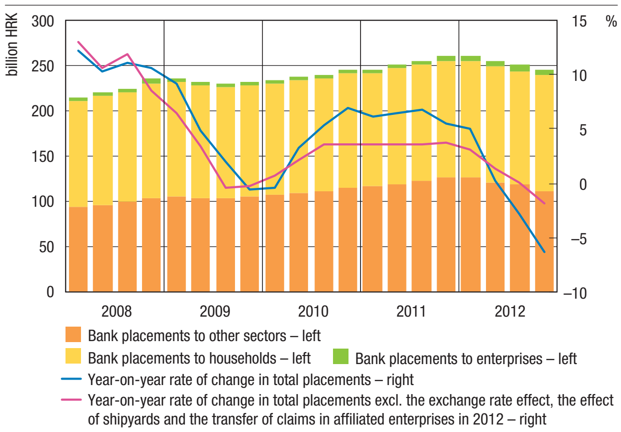
1.30 Kuna and foreign currency deposits



Source: CNB.

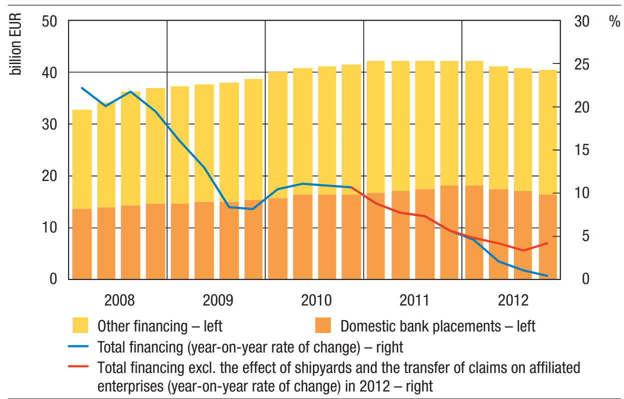
22 Some of the 2012 decrease in bank foreign liabilities was due to the mentioned transfer of non-performing placements.

1.31 Bank placements to the non-banking sector



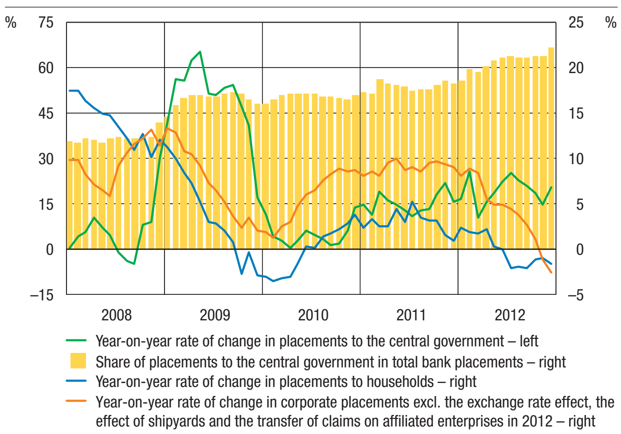
Source: CNB.

1.33 Corporate financing by sources



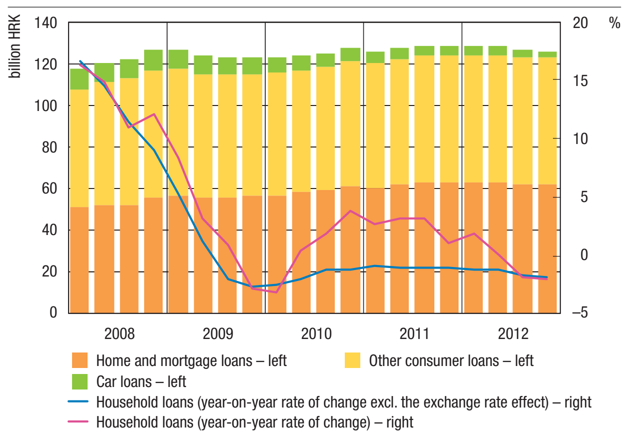
Note: Other financing includes corporate borrowing from domestic leasing companies and direct borrowing from the CBRD, as well as borrowing from foreign banks and affiliated enterprises abroad.
Sources: CNB, HANFA and CNB calculations.

1.32 Bank placements



Source: CNB.

1.34 Household loans by purpose



Source: CNB.

pace in 2012. Total savings and time deposits of domestic sectors increased by HRK 6.8bn or 3.7% on an annual basis, which is, in nominal terms, more than twice as much as in 2011. The increase was largely due to the household sector whose deposits grew by HRK 6.3bn or 4.3%. As usual, household deposits increased most in the third and early fourth quarter, which is related to household sector inflows during the tourist season. Apart from households, other banking and non-banking financial institutions also recorded strong growth in savings and time deposits (HRK 2.7bn or 25.3%), which suggests a greater propensity of investment and pension funds to deposit funds with banks. As in 2011, in 2012 also corporate savings and time deposits contracted, by HRK 2.2bn or 7.9%. Along with unfavourable conditions in the real sector, this was mainly due to the need to service the existing large debt of the corporate sector.

According to the currency structure, 2012 was marked by a growth in foreign currency and a contraction in kuna deposits. Foreign currency deposits increased by HRK 7.9bn or 5.5%, while kuna deposits dropped by HRK 1.1bn or 2.7%. In line with such developments, the banking system euroisation, measured as the share of foreign currency deposits in total deposits, increased further, to almost 80% at the end of 2012.

Bank placements to the non-banking sector dropped by 1.9% in 2012, excluding the effect of the exchange rate, the effect of the transfer of non-performing placements to a special purpose entity and the effect of the assumption of the shipyard debt. The fall in bank placements on an annual basis was last recorded in 2009, when the economic activity contracted the most. Although the crisis continued, both 2010 and 2011 saw a rise in bank placements. Placements decreased even more in nominal terms (HRK 16.5bn or 6.3%). A HRK 5.6bn decline in placements was due to transactions carried out by one bank which, aiming to reduce its partly recoverable and irrecoverable placements, transferred a portion of its claims to a company owned by its parent bank. Placements were further reduced by HRK 6.7bn based on the Government's decision on the restructuring of shipyards and assumption of their liabilities to domestic banks.

Bank placements to the central government increased by HRK 5.2bn or 8.9%, excluding the effect of the assumption of the shipyard debt, while they grew by HRK 11.8bn or 20.4% in nominal terms. As a result, domestic bank exposure to the central government continued to increase. Measured as the ratio of placements to the government to total placements, bank exposure to the government grew by 4 percentage points over the year, or 8.3 percentage points over the past four crisis years, reaching 22.2% at the end of 2012.

Bank placements to the corporate sector fell by HRK 2.8bn or 2.5% in 2012, excluding the stated effect of the shipyard debt and the transfer of claims (the nominal decrease was HRK 14.5bn or 11.5%). However, total corporate financing held steady in 2012 as enterprises increased their external debt. In addition, total corporate funding also includes other domestic financing, which comprises CBRD loans and funding under the Economic Development Programme. In 2012, HRK 1.4bn worth of loans, or around 20% of the total credit potential, was approved and disbursed under the programme.

Bank loans to households contracted by HRK 2.1bn or 1.6% annually, which implies that household deleveraging continued into 2012. This was attributable to persistently adverse economic conditions, especially the slumping labour market, high borrowing prices and uncertain economic outlook. The trends also continued as regards loan structure; the bulk of the decrease was accounted for by car loans, while there were no significant changes in any-purpose and housing loans.

1.2.6 Money market and interest rates

The year 2012 was predominantly marked by a decrease in euro interest rates and the global risk premium. In such circumstances, risk perception regarding Croatia improved in line with trends in countries in the region. Coupled with more favourable financing costs for parent banks of the largest domestic banks, this eased domestic sectors' access to foreign capital.

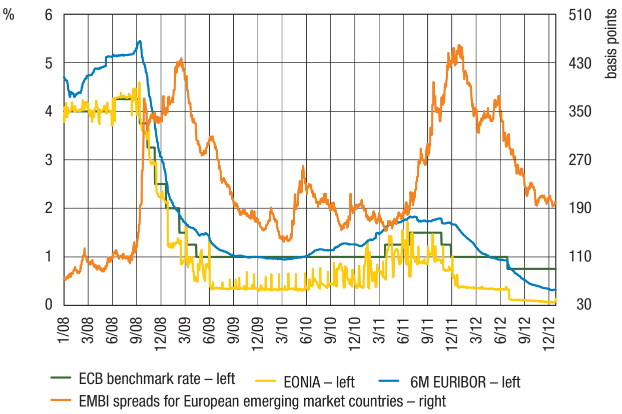
At the same time, domestic financial markets were characterised by exceptionally good liquidity of the domestic financial system, with minor oscillations. Banks were thus able to meet the need for financing primary liquidity in the money market through relatively modest trading volumes, which resulted in a slight decrease of the total money market turnover in relation to 2011, with interest rates mostly staying under 1%.

The downward trend in interest rates on MoF T-bills started in late 2011 and continued into 2012 due to an improvement in external financing conditions. By the end of the year, yields on all T-bills, irrespective of their currency of denomination and maturities, hit their historic lows. At the same time, interest rates on government bonds issued in the domestic and international markets dropped sharply. Nevertheless, the long-lasting period of strong liquidity in the financial system brought about only a minor cut in lending rates, while deposit rates held steady.

International interest rates

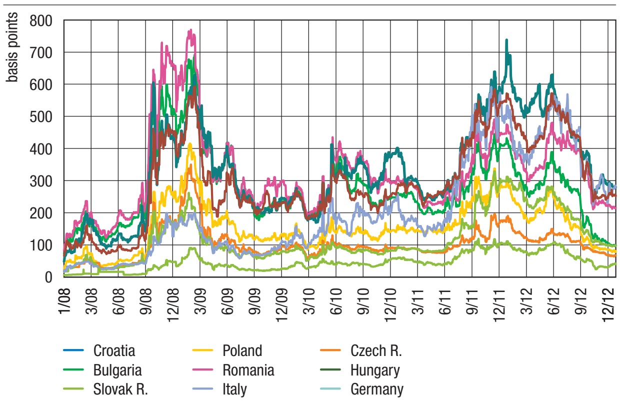
Due to comfortable liquidity in the eurozone banking system, euro benchmark interest rates in the international financial market were on a downward trend throughout most of 2012, which had a favourable impact on the price and availability of foreign financing. The same effect was produced by the drop in the global risk premium, which was spurred by ECB announcements of measures to preserve the eurozone. These announcements alleviated uncertainties in the government debt market of peripheral countries. In such circumstances, risk perception regarding Croatia also improved in 2012, but the risk indicators still put Croatia in a relatively less favourable position than most CEE countries. Despite this and notwithstanding the downgrading of Croatia's credit rating to below investment grade by one agency in late 2012, the fall in the global risk premium, lower euro interest rates and more favourable financing costs for the largest domestic banks' parents made access to foreign capital by domestic sectors easier than in late 2011.

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



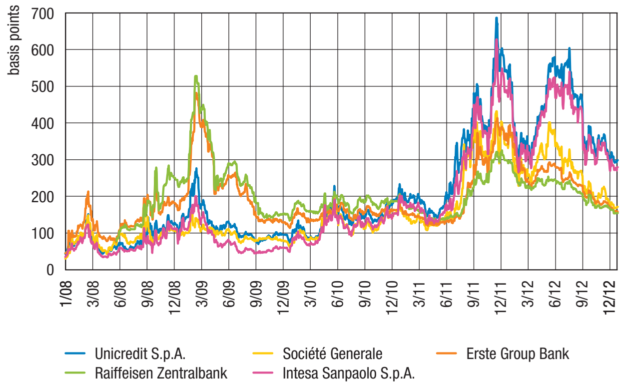
Sources: ECB, Bloomberg and J. P. Morgan.

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



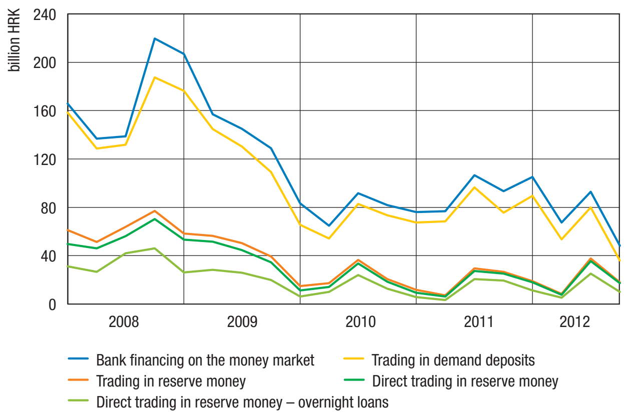
Note: Credit default swaps (CDS) spread is an annual premium that a CDS buyer pays for protection against credit risk associated with an issuer of an instrument.
Source: Bloomberg.

1.37 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.

1.38 Money market turnover



Source: CNB.

In the first half of 2012, the ECB decided to maintain its benchmark rate at 1.00%. However, as inflationary pressures mounted and as the risk of a slower-than-expected economic growth materialised, the benchmark rate was cut to 0.75% in July and held steady at this level through to the end of 2012. The six-month EURIBOR dropped somewhat more than the benchmark rate; it went down from 1.62% in early January to 0.32% at end-December 2012. The EONIA rate remained below the benchmark rate throughout 2012. It ranged between 0.06% and 0.63% and stood at 0.13% at the end of the observed period.

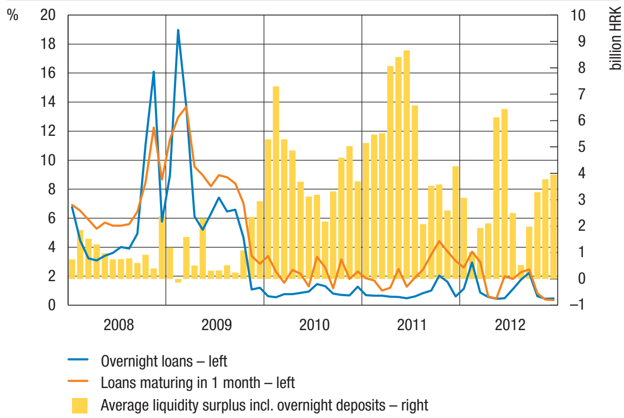
Lower investor risk aversion was evident in a relatively sharp decline in the EMBI yield spread. This spread narrowed by around 250 basis points in the observed one-year period, standing at 200 basis points at the end of the year. Similar movements were observed in the CDS spreads for the observed countries, with the largest fall in the period from the end of 2011 to the end of 2012 being reported in Hungary (344 b.p.), Bulgaria (315 b.p.) and Croatia (295 b.p). The highest CDS spreads among the reviewed countries at the end of December 2012 were registered in Hungary and Italy (around 279 b.p.) and Croatia (252 b.p.).

Financing conditions in the international markets improved also 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 narrowed by 190 b.p. in 2012. Although risk premiums on bonds issued by Italian banks declined the most, they were still the highest in the observed group in late December 2012.

Money market interest rates

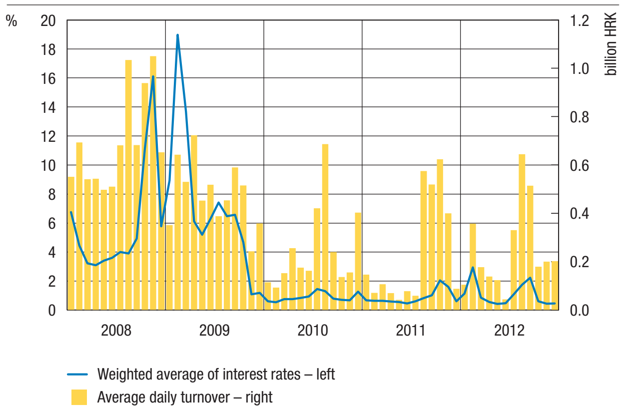
As a result of the exceptionally high liquidity of the financial system, which marked 2011 and continued in 2012, banks' needs for money market financing reduced slightly. In 2012, banks met their primary liquidity needs by means of secondary sources of liquidity in the money market in the average daily amount of HRK 1.3bn (HRK 313.6bn on the annual level), which represents a 11.1% decrease in relation to the year before.

1.39 Interest rates in direct interbank trading and bank liquidity surplus



Source: CNB.

1.40 Direct interbank trading in overnight loans
monthly averages



Source: CNB.

The decrease in money market turnover was accompanied by relatively low interest rates, with the interest rate on overnight interbank loans mostly staying below 1%.

The primary source of bank money market financing was again loans in demand deposits trading, although their trading volume in 2012 (HRK 259.3bn) decreased in relation to the year before, to 82.7% of the total money market turnover. At the same time, bank financing through repo agreements increased, accounting for around 17% of overall sources of financing in 2012. The remaining funding needs (around 0.8%) were met through securities trading. Within the structure of demand deposit trading, loans received from banks accounted for 32.0%, while loans from non-banking financial institutions and other legal persons accounted for 24.1% and 43.8% respectively. Notwithstanding the increase in the volume of interbank loans of HRK 7.8bn or 10.4% relative to 2011, their share in total trading kept trending downwards on an annual basis.

Interbank trading with Zagreb Money Market (ZMM) intermediation continued to decrease by approximately HRK 204.2m on average each quarter, i.e. by 35.6% at the entire 2012 level.

Overnight loans continued to be the most liquid and dominant instrument in direct interbank trading in reserve money in 2012 and their annual volume grew by HRK 2.9bn or 6.0% over the year. However, due to a parallel sharp increase in longer-term lending, the share of overnight loans in total interbank trading in reserve money dropped slightly (66.1%). After a marginal increase early in the year, the interest rate on overnight loans in direct interbank trading mostly stayed below 1% through to mid-2012. Overnight interest rates edged up again in the third quarter, but dropped to below 1% in the fourth quarter.

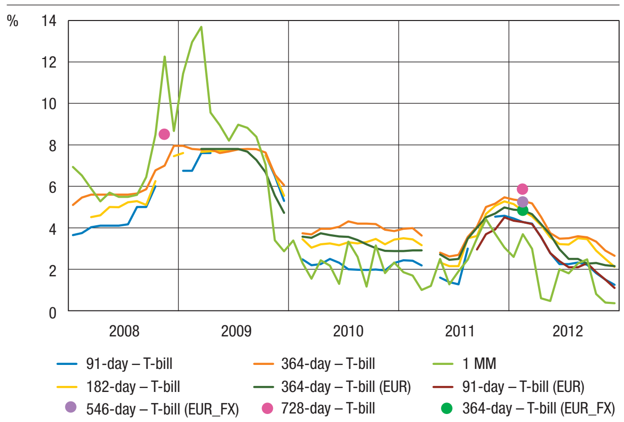
Interest rates in the short-term securities market

The Ministry of Finance held a total of 31 T-bill auctions in 2012, which raised a total of HRK 33.0bn, HRK 8.5bn more than in the previous year. Along with kuna-denominated T-bills, which raised HRK 23.1bn, euro-denominated T-bills payable in kuna were regularly auctioned as well, raising another HRK 4.0bn. Early in 2012, in addition to euro-indexed T-bills, the MoF issued euro bills payable in euros with maturities of 364 and 546 days, thus raising another HRK 5.8bn. As a result, the share of euro T-bills in the total amount of funds raised by means of T-bill issues rose steeply in relation to the previous year.

As a consequence of the downward trend in required yields of kuna-denominated T-bills, which began in late 2011 and continued in 2012, yields on kuna T-bills of all maturities dropped to record lows at the end of the year. Weighted interest rates on 91, 182 and 364-day kuna T-bills were 1.25%, 2.12% and 2.65% respectively at the end of 2012, decreasing on average by 3 percentage points from 2011. The fall in yields on euro-indexed T-bills was almost the same – weighted interest rates on 91 and 364-day bills stood at 1.10% and 2.15% respectively in December 2012. In addition to kuna T-bills with common maturities, two-year T-bills with a yield of 5.85% were auctioned again in early February, after more than three years. Euro T-bills payable in euros with maturities of 364 days (a yield of 4.85%) and 546 days (a yield of 5.25%) were also issued in that month. Yield spreads between the longest and shortest maturity T-bills thus expanded again in 2012, having shrunk significantly in the year before.

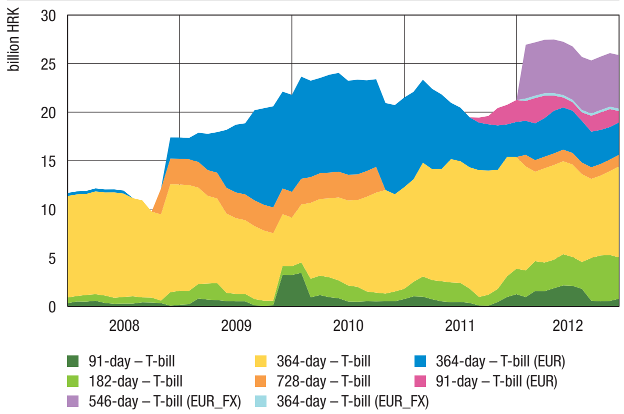
The stock of total subscribed MoF T-bills stood at HRK 25.6bn at the end of December, an increase of HRK 5.1bn or 24.6% from the end of 2011. The increase was entirely due to euro T-bills payable in euros. As a result, notwithstanding the fall in the debt arising from euro-indexed T-bills, the share of euro T-bills in the stock of subscribed T-bills grew to 39.6% at the end of 2012. As regards the structure of total subscribed kuna T-bills in 2012, the share of one-year T-bills fell the most, but continued to account for the largest share in the structure of total subscribed T-bills (accounting for some 36.4%). The shares of 91, 182 and 728-day T-bills stood at 3.00%, 16.4% and 4.6%, respectively, at end-December 2012.

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



Sources: MoF and CNB.

1.42 T-bill stock
maturity structure



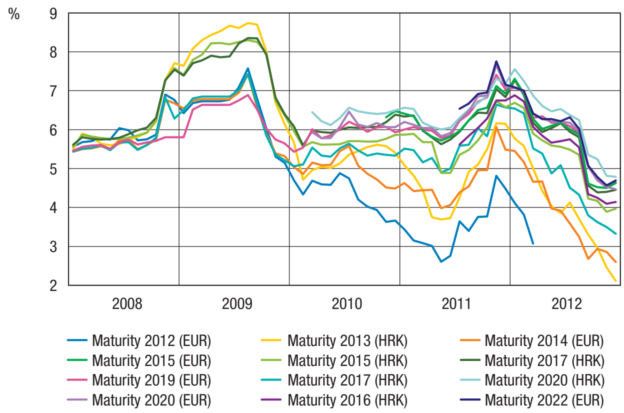
Sources: MoF and CNB.

Interest rates on Croatian government bonds

In mid-July 2012, the MoF issued second tranches of two government bonds issued in mid-2011. The nominal value of five-year kuna bonds was thus increased from HRK 1.5bn to HRK 3.5bn, while that of eleven-year euro-denominated bonds was increased by EUR 400m, to a total of EUR 1.0bn. As the euro-denominated ten-year bond nominally valued at EUR 500.0m fell due in mid-2012, the number of government bonds in the domestic market was 11 at the end of 2012, which is one less than at end-2011.

The growth in the prices of RC bonds traded on the Zagreb Stock Exchange was reflected in a decrease in their yields to maturity in 2012 from the end of the previous year. In relative terms, bonds with shorter remaining maturities recorded the sharpest decrease in yields (2.4 percentage points on average), particularly in the second half of 2012. Although yields on bonds with longer remaining maturities fell somewhat less (by 1.8 percentage points on average), in the last quarter of 2012 yields on bonds of all maturities hit record lows since mid-2007.

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



Source: Bloomberg.

In late April 2012, the Republic of Croatia issued a new five-year international bond, nominally valued at USD 1.5bn, at the interest rate of 6.25% a year. As no international government bonds fell due in 2012, the number of government bonds in international capital markets reached seven, which is one more than at end-2011. Three out of these seven international RC bonds were denominated in the euro and four in the US dollar. At the end of 2012, the total nominal value of all

Table 1.5 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-142A	Republic of Croatia	10/2/2004	10/2/2014	EUR	650,000,000	5.500%	103.15	5.332%
RHMF-O-19BA	Republic of Croatia	29/11/2004	29/11/2019	EUR	500,000,000	5.375%	105.14	5.112%
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%	102.50	5.122%
RHMF-O-137A	Republic of Croatia	11/7/2006	11/7/2013	HRK	4,000,000,000	4.500%	100.1	4.496%
RHMF-O-172A	Republic of Croatia	8/2/2007	8/2/2017	HRK	5,500,000,000	4.750%	100.15	4.743%
RHMF-O-203A	Republic of Croatia	5/3/2010	5/3/2020	HRK	5,000,000,000	6.750%	114.50	5.895%
RHMF-O-203E	Republic of Croatia	5/3/2010	5/3/2020	EUR	1,000,000,000	6.500%	113.00	5.752%
RHMF-O-17BA	Republic of Croatia	25/11/2010	25/11/2017	HRK	4,000,000,000	6.250%	100.47	6.221%
RHMF-O-167A	Republic of Croatia	22/7/2011	22/7/2016	HRK	3,500,000,000	5.750%	101.60	5.659%
RHMF-O-227E	Republic of Croatia	22/7/2011	22/7/2022	EUR	1,000,000,000	6.500%	116.30	5.589%

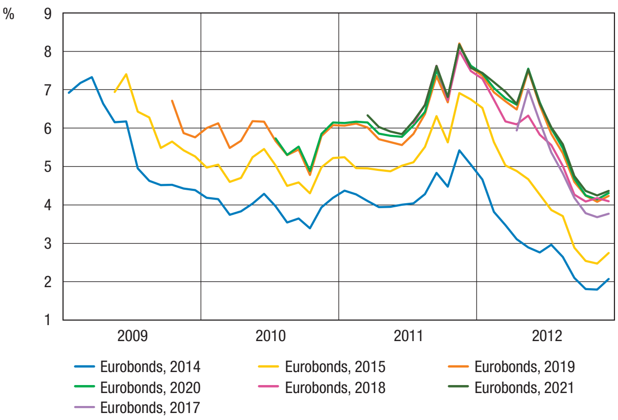
[a] Regularly traded.
Source: ZSE, monthly report, December 2012.

Table 1.6 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%
Eurobonds, 2017	27/4/2012	USD	1,500,000,000	6.250%	6.37%

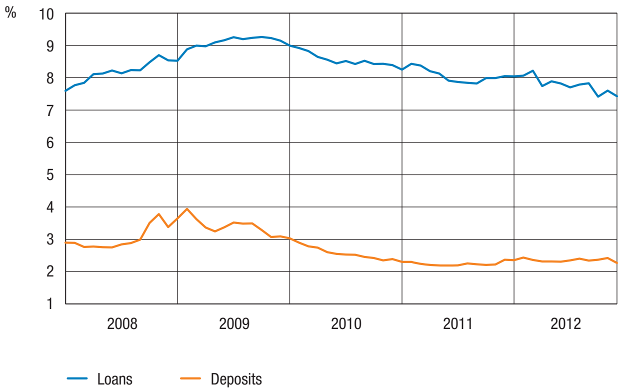
Source: Bloomberg.

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



Source: Bloomberg.

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

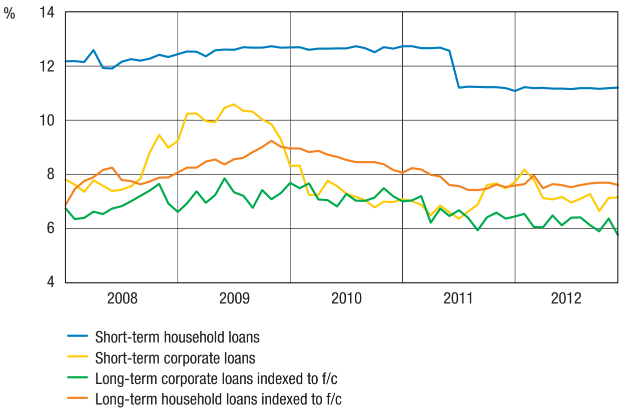


Source: CNB.

seven issues of Croatian bonds in foreign markets stood at HRK 48.0bn (EUR 6.4bn), which was HRK 8.2bn (EUR 1.1bn) up from the end of the previous year.

In 2012, required yields on Croatian international bonds mainly followed trends in the yields on comparable eurobonds issued by emerging market countries, thus reflecting changes in the global risk premium. The required yields on Croatian eurobonds decreased steeply from the end of 2011 to the end of the first half of 2012. The fall was more pronounced in eurobonds with shorter remaining maturities, whose required yields dropped to their lowest recorded levels since the onset of the financial crisis (2.8% on eurobonds maturing in 2014 and 4.3% on those maturing in 2015). Required yields steadily decreased in the second half of 2012 until two agencies, Standard and Poor's and Moody's, downgraded Croatia's credit rating late in the year. Nevertheless, although required yields on almost all Croatian international bonds edged higher (3.7% on average), they remained well below the several-year average.

1.46 Average bank interest rates[a] on kuna loans



[a] The average weighted interest rate on newly granted loans in the reporting period.
Source: CNB.

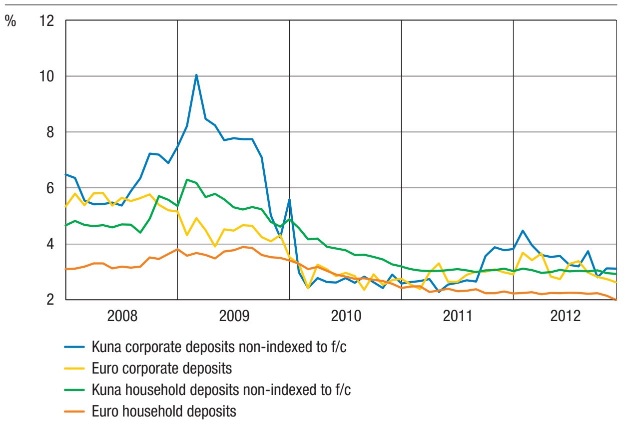
Bank interest rates

The long period of high liquidity in the financial system coupled with low interest rates in the money market triggered a slight decrease in lending interest rates, while deposit rates held steady in 2012. Such trends were facilitated by a reduction in regulatory costs (minimum required amount of foreign currency claims and reserve requirements). Cost pressures from international markets were also alleviated as euro benchmark interest rates continued to decline in parallel with the risk premium for Croatia. By contrast, persistently weak economic activity failed to spur demand for bank financing on the part of the private non-financial sector. In line with this, interest rates on household loans levelled off while those on corporate loans drifted lower. Interest rates on corporate loans were somewhat more volatile. These interest rates showed a slight downward trend in the course of 2012. Interest rates on short-term corporate loans without a currency clause stood at 7.15% in late 2012 (they were 7.48% in December 2011), while those on long-term loans with a currency clause were 5.76% (standing at 6.37% a year before). In contrast with 2011, the gap between these rates narrowed in 2012.

Interest rates on short-term kuna household loans without a currency clause were very stable in 2012 (standing on average at 11.2%), as they had been since mid-2011, after the reduced CNB discount rate limited them effectively to 12%. Interest rates on long-term kuna household loans with a currency clause exhibited a slight upward trend, especially in the second half of the year, reaching 7.61% in December 2012. The traditionally large share of these loans in newly-granted long-term household loans kept on falling throughout most of 2012, while the share of less represented and relatively more expensive long-term loans without a currency clause rose (from 35% in January to 42% in December), fuelling the growth in the weighted rate on these loans.

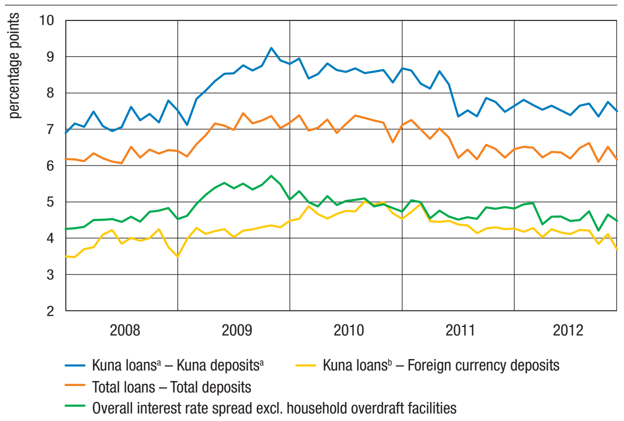
Deposit interest rates of banks remained mostly stable throughout 2012. This is primarily true of interest rates on

1.47 Average bank interest rates[a] on time deposits maturing in one to three months



[a] The average weighted interest rate on newly granted loans in the reporting period.
Source: CNB.

1.48 Spread between average bank interest rates on loans and deposits



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

household deposits. 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, came to a halt in mid-2011. In the period through to the end of 2012, these rates remained fairly stable at around 3.0%. Similar trends were recorded in interest rates on other comparable-maturity household deposits (with a foreign currency clause), which were close to 2.2% for most of the year and dropped to 2.0% in December 2012.

By contrast, interest rates on 1-3 month corporate time deposits were relatively more volatile in 2012, with a pronounced downward tendency. Short-term interest rates on corporate time deposits in kuna went down from 3.78% in December 2011 to 3.12% in December 2012. In the same period, short-term interest rates on corporate time deposits in foreign currency fell from 2.99% to 2.63%. Although the gap between these rates narrowed on several occasions, rates on kuna deposits were mostly higher than those on foreign currency deposits.

Such developments in lending and deposit interest rates in 2012 had a stabilising effect on the overall interest rate spread. Excluding the effect of overdraft facilities, which are recorded as new loans every month thus increasing their weight in interest rate statistics, the spread between lending and deposit rates was approximately 4.61 percentage points (year average).

1.2.7 Financial sector

The pace of growth in the assets of financial intermediaries slowed down in 2012 to only 0.8%, largely due to a drop in bank assets. The several-year trend of changes in the structure of the financial sector, in which the share of mandatory pension funds rose and the share of leasing companies fell, continued into 2012. The share of investment funds in other banking institutions increased, whereas the share of housing savings banks and the fund of Croatian war veterans decreased marginally. In the same period, the share of non-banking financial institutions – insurance, reinsurance and factoring companies in total financial sector assets increased.

Banks

Banking sector assets went down by 1.6% in nominal terms, while the share of banks in the financial sector edged down to 73.8% in 2012. The nominal decline in bank assets was only 0.7% excluding the transactions of one bank that were worth HRK 3.7bn (or HRK 5.6bn excluding value adjustments), whereby non-performing loans were transferred to a special-purpose entity, the assets of which are not included in Table 1.6. There is still only one savings bank in the market. Its assets dropped by 21.4% in 2012, to HRK 27.4m at the end of the year.

Other banking institutions

Having fallen sharply in 2011, assets of open-end investment funds grew by HRK 1.0bn or 8.7% in 2012. This was entirely due to the increase in assets of the least risky, money market funds (26.0%), while assets of other investment funds decreased despite stagnation in share prices and the rise in bond prices in the domestic market as measured by the CROBEX and CROBIS indices. In 2012, assets of bond funds decreased most (33.4%), while balanced and equity funds lost 18.7% and 12.7% respectively.

Assets of the fund for Croatian Homeland War Veterans and Members of their Families shrank by as much as 21.6%, or HRK 311.6m, in 2012. This was primarily caused by negative returns (the unit value fell by 15.3%) and the sale of shares.

Housing savings bank assets went down by 5.1%, or slightly less than HRK 400m. The reduction of assets of these intermediaries was very largely due to the continuation of their transition to the use of models of adjusted input data in the calculation of the change in the economic value of the non-trading book.

Credit unions are still financial intermediaries with a marginal share in the total assets of financial intermediaries. Their assets went up by HRK 32.9m or 5.8%. At the end of 2012, there were 26 credit unions in operation, two of which started operating late in the year.

Table 1.7 Assets and relative shares of financial intermediaries
in million HRK and %

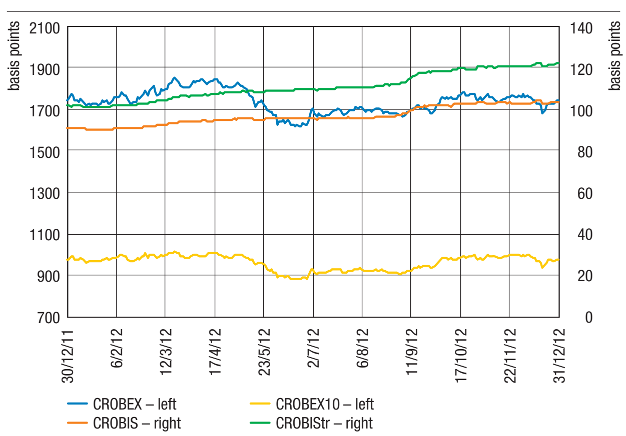
	12/2009			12/2010			12/2011			12/2012		
	Amount	Share	Number	Amount	Share	Number	Amount	Share	Number	Amount	Share	Number
Banks												
1 Banks[a]	378,726	75.3	32	391,060	75.2	32	406,903	75.6	31	400,230	73.8	30
2 Savings banks	155	0.0	2	11	0.0	1	35	0.0	1	27	0.0	1
Other banking institutions												
3 Open-end funds	12,042	2.4	128	13,674	2.6	124	11,929	2.2	121	12,962	2.4	114
4 Fund for Croatian Homeland War Veterans and Members of their Families[b]	2,223	0.4	1	2,005	0.4	1	1,446	0.3	1	1,134	0.2	1
5 Closed-end funds and venture capital funds	2,138	0.4	12	2,233	0.4	15	1,985	0.4	14	2,161	0.4	14
6 Housing savings banks[a]	6,738	1.3	5	6,881	1.3	5	7,847	1.5	5	7,450	1.4	5
7 Credit unions	515	0.1	33	530	0.1	23	569	0.1	22	602	0.1	26
Non-banking financial institutions												
8 Insurance and reinsurance companies	28,806	5.7	30	30,970	6.0	27	32,905	6.1	28	34,995	6.4	28
9 Factoring companies	7,007	1.4	15	5,748	1.1	19	5,801	1.1	17	7,212	1.3	16
10 Mandatory pension funds	29,265	5.8	4	36,328	7.0	4	41,067	7.6	4	51,134	9.4	4
11 Voluntary pension funds	1,363	0.3	21	1,760	0.3	21	1,969	0.4	21	2,429	0.4	23
12 Leasing companies	33,666	6.7	26	28,988	5.6	26	25,886	4.8	25	22,237	4.1	25
Total (1+2+3+4+5+6+7+8+9+10+11+12)	502,643	100.0		520,189	100.0		538,341	100.0		542,573	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.
Sources: CNB and HANFA.

Non-banking financial institutions

Assets of mandatory pension funds continued to grow fast, reaching almost one tenth of the total assets of financial intermediaries (HRK 51.1bn) in 2012. Ever since 2008 these funds have been predominant in the asset structure of non-banking intermediaries, taking the lead from insurance companies. The growth in assets of mandatory pension funds was faster than that of other intermediaries (24.5%), and only slightly slower was the rise in assets of voluntary pension funds, which account for a much smaller share in the market (23.4%). The rise in assets of mandatory pension funds was spurred equally by payments of fund members and the increase in the market value of their net assets (MIREX, the value index of average mandatory pension fund assets, rose by 12.3% in 2012). In 2012, the structure of assets of mandatory pension funds remained almost unchanged from the previous years. The largest portion of mandatory pension fund assets was invested in the domestic market (nearly 90%), bonds prevailing in the structure with 67.7%, of which 65.1% were bonds of the Republic of Croatia. In 2012, the bond index, CROBIS, went up by 13.7%, and taking into account accrued interest (measured by the new index CROBIStr), the yield on bonds in the Croatian market was 20.0%. However, as the pace of recovery of domestic equity indices still lagged behind that of regional and global indices, CROBEX did not grow in 2012.

1.49 Trends in ZSE share and bond indices in 2012



Source: ZSE.

According to the data for end-December 2012, total assets of insurance and reinsurance companies increased by HRK 2.1bn or 6.4% in 2012, almost the same as in 2011. As their gross written premium shrank by 1.2% in 2012, the increase in their assets was due to the rise in the value of their investment.

Total assets of leasing companies declined by HRK 2.7bn or 14.1% relative to the end of 2011. The downward trend in leasing companies' assets that had begun as early as 2009 thus continued, under the impact of reduced economic activity and weak interest in the purchase of new vehicles and machinery, as well as a significant increase in credit risk and deterioration of asset quality, which had a negative impact on business performance.

After holding steady in 2011, total assets of factoring companies shot up 24.3% in 2012. The years-long growth in the share of discounted bills of exchange in the total transactions of factoring companies (from 36% to 44%) continued in 2012.

1.2.8 Balance of payments

The current account balance was in equilibrium in 2012. It improved by 0.9% of estimated GDP from 2011, mostly on account of the continued growth in net revenues from services. Other positive contributions came from the fall in goods imports, a lower negative balance in the factor income account and a modest growth in the current transfers surplus.

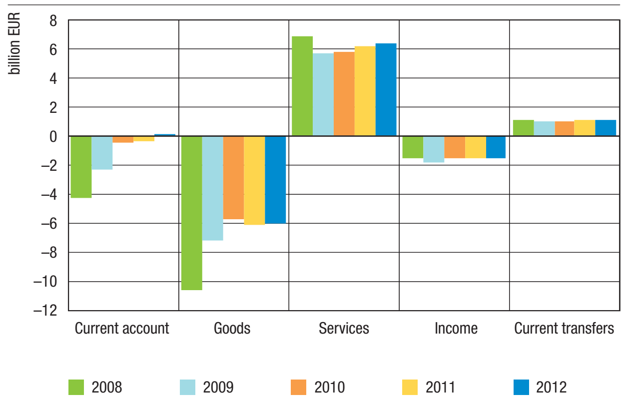
Capital flows decreased noticeably in 2012 due to unfavourable economic developments and weak domestic demand, which in turn brought the current account into balance, and strong deleveraging of some domestic sectors. Net capital inflows (excluding changes in international reserves) accounted for only a quarter of the inflows recorded in 2011.

Current account

The slightly positive balance in the account of current transfers (EUR 35m according to the preliminary data) was primarily the result of trends in the account of services, notably the growth in tourism revenues. Notwithstanding a slight decrease (2.1%) in 2012, the balance in the goods account was negative. Goods exports stagnated on an annual basis, while the fall in imports of oil and refined petroleum products contributed most to the decrease in total goods imports. Trends in the factor income account and the current transfers account also helped bring the current account into balance.

The trade in services surplus went up to EUR 6.4bn (or by 3.3%) from 2011, due notably to a further growth in revenues from tourism. In addition, the balance in trade in miscellaneous business services was positive for the first time. Revenues from telecommunication services and business consulting services grew the most, while weak economic activity resulted in an additional fall in imports of architectural, engineering and other technical services. The decrease in the transportation services surplus, due mostly to the continued fall in revenues from sea cargo transport, contributed negatively to the balance in services trade.

1.50 Current account balance



Source: CNB.

Tourism revenues rose by 3.2% in 2012, primarily as a result of growth in volume indicators. According to CBS data, which, however, cover only commercial accommodation capacities, arrivals and overnight stays of foreign tourists grew by 4.5% and 5.1% respectively. The breakdown of guests by outbound markets shows that guests from Germany, the Netherlands, Poland, Great Britain and Austria accounted for the largest share in the number of nights stayed, while the number of tourist from countries severely hit by the crisis, notably Italy, Slovenia, Hungary and Spain, fell the most. The number of nights stayed by German tourists went up by almost 12.0% in 2012 and the number of nights stayed by Italian tourists fell by more than 9.0%.

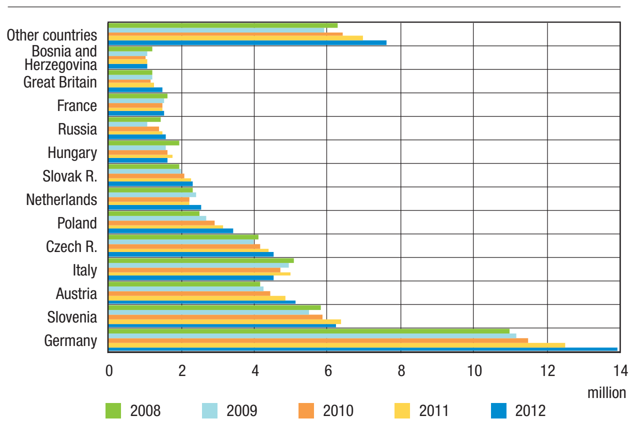
The factor income account deficit fell by 4.1% in 2012, largely due to a significant rise in compensation to employees abroad. Domestic owners of enterprises abroad generated lower profits due to weaker business performance, and direct investment expenditures were stagnant because the profitability

Table 1.8 Current account structure
as % of GDP

	2008	2009	2010	2011	2012[a]
Current account balance	–8.9	–5.1	–1.1	–0.9	0.1
Goods	–22.4	–16.1	–12.9	–13.8	–13.7
o/w: Oil and refined petroleum products	–3.9	–2.5	–3.0	–4.0	–3.4
Other transport equipment	0.5	0.6	1.8	2.1	0.6
Other goods	–20.3	–15.3	–12.8	–13.2	–12.2
Adjustments	1.3	1.1	1.1	1.2	1.2
Services	14.4	12.7	13.0	13.9	14.6
o/w: Tourism revenues	15.7	14.2	14.0	14.9	15.5
Income	–3.3	–4.0	–3.5	–3.5	–3.4
Current transfers	2.3	2.2	2.4	2.6	2.6

[a] Preliminary data.
Source: CNB.

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



Source: CBS.

of domestic enterprises in majority foreign ownership remained at last year's level. Broken down by activities, enterprises in the manufacturing sector (notably those engaged in the production of chemicals) doubled their total profits relative to the previous year, and enterprises in the tourism sector (hotels and restaurants) significantly improved their operating results. In contrast, profits of banks in foreign ownership were one-quarter lower in 2012 than in 2011. Accrued interest arrears remained at the level observed in 2011. Central government interest expenses grew on account of the rise in debt and high expenses related to bond issue, while corporate interest expenses trended down, due largely to deleveraging and somewhat more favourable financing conditions. Notwithstanding a considerable decrease in foreign liabilities, banks increased their interest expenses. CNB interest revenues from the investment of international reserves continued to trend upward.

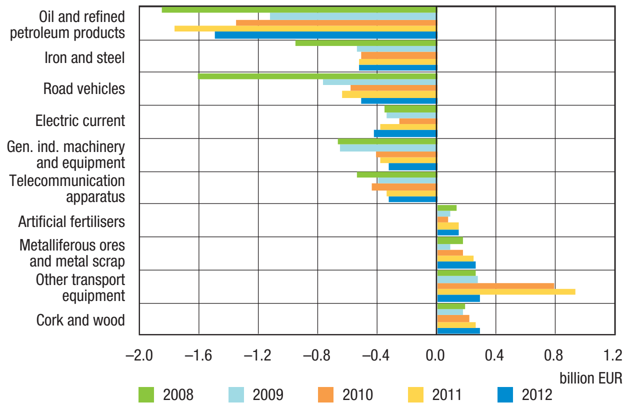
Positive trends continued in the current transfers account in 2012 as well, its positive balance increasing by 2.0% due to stronger growth in revenues than in expenditures (in absolute terms). Net revenues of the private sector grew the most, due to an increase in worker remittances, while net revenues of the government sector were only slightly higher than in 2011.

Trade in goods

Results for 2012 indicate subdued foreign trade dynamics, after a noticeable recovery in 2011. According to the CBS data, the goods deficit went down to EUR 6.6bn (a decrease of 2.2%) on account of lower imports, and total goods imports stagnated. The key determinant of overall trends was a sharp drop in net exports of ships, to a third of the value recorded in 2011, due also in part to exceptional results in 2011.[23] Net imports of oil and refined petroleum products trended down, due notably to a decrease in imports and a concurrent rise in exports. Similar trends, accompanied by a decrease in the negative balance, were observed in the trade in other goods, resulting in a record low deficit in the last eleven years.

Goods exports dynamics varied in 2012; after trending down in the first half of the year, goods exports recovered mildly in the second half of the year. The CBS data show that total exports of goods stagnated at an annual level of EUR 9.6bn. Exports of other transport equipment (largely ships), after being

1.52 Foreign trade balance by selected SITC divisions



Source: CBS.

Table 1.9 Exports and imports by economic classification of countries

in %

Economic classification of countries	Exports				Imports			
	2009	2010	2011	2012[a]	2009	2010	2011	2012[a]
EU-27	60.6	61.1	59.9	58.3	62.7	60.2	61.8	62.4
Italy	19.0	18.6	15.8	15.3	15.4	15.2	16.4	16.7
Germany	11.0	10.4	10.1	10.3	13.5	12.5	12.6	12.9
Slovenia	7.4	7.8	8.3	8.6	5.7	5.9	6.2	5.9
Austria	5.4	5.3	5.7	6.5	5.0	4.8	4.5	4.5
EFTA	1.7	1.1	2.4	1.3	2.6	2.0	2.0	2.5
CEFTA	21.3	18.7	19.2	21.0	5.1	5.4	5.9	6.1
Bosnia and Herzegovina	12.8	11.6	12.2	12.8	2.7	3.1	3.3	3.5
Serbia	5.3	3.9	3.9	4.3	1.3	1.5	1.8	1.7
Montenegro	1.6	0.9	0.9	1.5	0.2	0.0	0.0	0.3
Other	16.5	19.1	18.5	19.4	29.6	32.4	30.2	29.0
Russia	1.5	2.0	2.4	3.7	9.5	9.0	7.3	7.6
USA	2.2	2.5	2.7	2.9	2.5	2.2	2.3	2.2
Turkey	1.3	1.0	1.8	1.2	1.4	2.9	1.5	1.3
Japan	0.6	0.4	0.6	0.5	1.4	1.2	1.0	0.9
China	0.4	0.3	0.4	0.4	6.8	7.2	7.1	7.1

[a] Preliminary data.
Source: CBS.

23 Net exports of ships averaged EUR 0.3bn on an annual basis in the 2000-2009 period and hit a record high of EUR 0.8bn and EUR 0.9bn in 2010 and 2011 respectively.

extremely high in the previous two years, declined sharply in 2012 due to the impact of the base effect and the restructuring of shipyards. Exports of refined petroleum products grew for the third year running. Exports of other goods, excluding the impact of volatile exports of ships and oil and refined petroleum products, rose by 4.5% on an annual basis, the largest contributors being increased exports of gold (the value of exports was almost three times higher than in the previous year), some capital goods, cereals and cereal preparations and exports of medical and pharmaceutical products. In contrast, adverse developments were seen in exports of some chemical products and iron and steel.

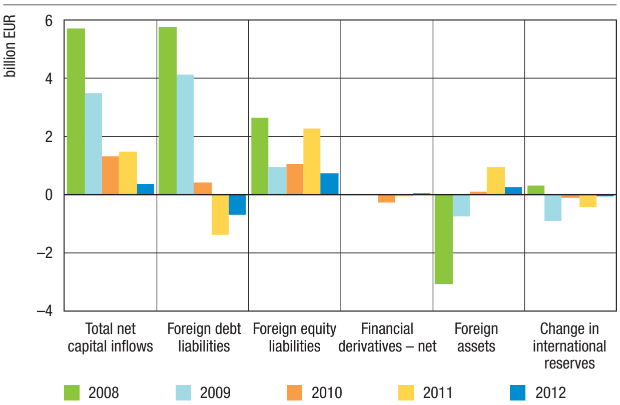
After a temporary halt in 2011, total imports of goods continued to trend downward in 2012, decreasing by 0.7% or to EUR 16.2bn according to the CBS data. Lower imports were almost entirely determined by a fall in imports of oil and refined petroleum products and road vehicles. A recovery in imports of ships for the purpose of finishing and a pick-up in imports of gas and electricity mitigated the unfavourable developments. Ships and energy products excluded, imports of other goods fell even more markedly, with imports of road vehicles decreasing at the strongest rate, to a third of their value in 2008. Adverse developments were particularly evident in imports of chemical products, iron and steel and manufactures of metals. Imports of telecommunications, sound recording and reproduction apparatus and some food and agricultural product trended up.

The geographical structure of Croatian goods exports shows that the share of exports to EU member states continued to trend downward in 2012, which was almost entirely the result of lower exports of ships to France and Luxembourg, relative to the previous year. However, if we exclude exports of ships, exports of other goods to EU member states trended up despite weaker foreign demand, exports of gold and wheat to Italy and manufactures of metals to Austria being particularly strong. In addition, the share of exports to EFTA countries declined in 2012 from 2011 when a one-off export of a ship was recorded. The share of exports to CEFTA countries grew additionally in 2012 on account of increased exports of electricity to Bosnia and Herzegovina and artificial fertilisers and electrical transformers to Serbia. Exports to Russia, noticeably contributing to larger exports of telecommunications equipment and medicine, should also be noted. After trending down for two years in a row, the share of imports from EU member states went up, due largely to increased imports of natural gas from Italy, capital goods from Germany and telecommunications equipment from Sweden. Concurrently, a substantial rise was seen in imports of electricity from Sweden.

Capital and financial account

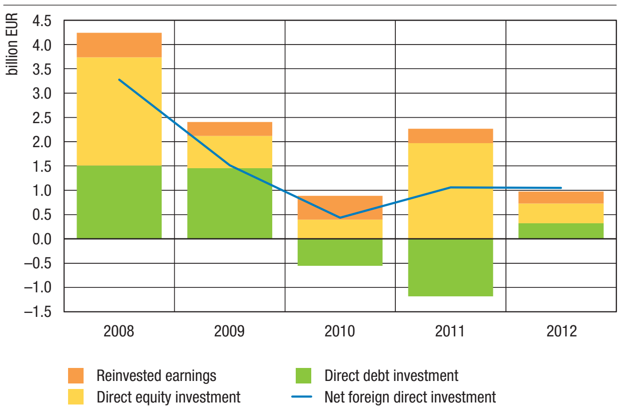
Capital inflows in the capital and financial account in 2012 accounted for only a fourth of inflows recorded in 2011. Excluding changes in international reserves, which grew modestly, net capital inflows reached EUR 0.4bn, primarily due to strong deleveraging by banks. In contrast, government and, to a smaller extent, private enterprises increased their debt liabilities. Net inflows from direct equity investment were lower than in 2011.

1.53 Financial transactions with foreign countries



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

1.54 Structure of foreign direct investment in Croatia

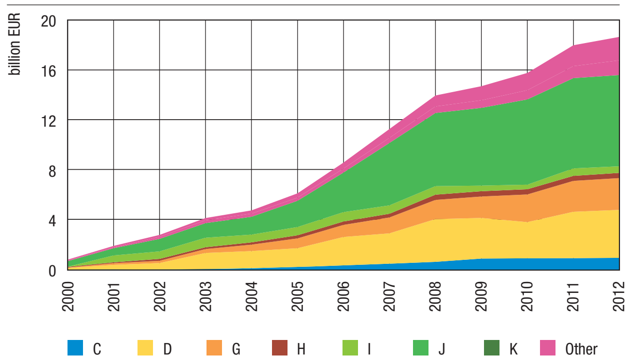


Source: CNB.

Total capital inflows in 2012 were to a large extent determined by a decrease in foreign assets, amounting to EUR 0.3bn, much lower than in 2011 (EUR 1.0bn). One half of that amount was accounted for by bank assets, which may in part be attributed to the fall in their foreign liabilities. Foreign assets of other domestic sectors also edged down on account of the decrease in loans granted to non-resident enterprises.

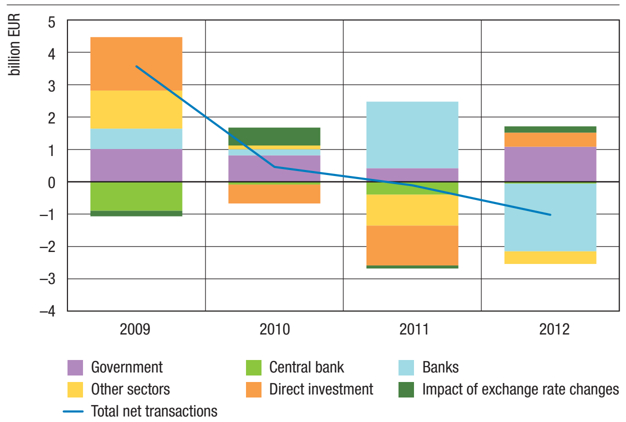
Total liabilities of domestic sectors failed to increase substantially on an annual level for the first time in recent history. This was due to a weakening of total economic activity and the equilibrium in the current account balance, accompanied by the deleveraging in some domestic sectors, notably banks, and the restraint of foreign investors. Specifically, total debt liabilities went down by EUR 0.7bn and equity liabilities grew by the same amount. Direct investment inflows declined from the previous year, with only EUR 0.3bn being accounted for by new investment (excluding the transaction of converting debt into capital), as compared to EUR 0.4bn in 2011. Reinvested earnings were

1.55 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.

1.56 Contributions of domestic sectors' net transactions and exchange rate changes to the annual growth of net external debt



Source: CNB.

also lower than in the previous year.

Broken down by activities, the bulk of FDIs in 2012 was accounted for by the investment in real estate, recreational, cultural and sport activities and in trade. Reinvested earnings remained the highest in financial intermediation and manufacture of chemical products and basic metals. Increased dividend payments contributed to a continued decrease in reinvested earnings (by almost 16.0% on an annual basis), that decrease being most pronounced in the banking sector.

Net external debt

Net external debt stock (gross external debt net of domestic sectors' foreign claims) contracted by EUR 0.8bn in 2012, showing that the trend of net deleveraging observed in 2011 intensified in 2012. The net debt position of domestic sectors improved, mainly on account of the deleveraging of banks, public enterprises and non-banking financial institutions, while the net debt position of the government sector and private enterprises deteriorated.

The rise in government external debt, present since the onset of the crisis, increased markedly in 2012. Net external debt of the central government, after increasing by a fifth on an annual basis, went up to EUR 8.3bn, mainly on account of a bond issue worth USD 1.5bn in the US market in April. Also contributing to the increase in debt in the same month was EUR 0.3bn in shipyards' foreign liabilities assumed within the restructuring process. The government settled liabilities falling due until the end of 2012, decreasing its debt by a small margin relative to the stock recorded at the end of April.

The most important contributors to the narrowing of total net debt position were banks, which reduced their net foreign liabilities by EUR 2.0bn in 2012 after increasing them by the same amount in 2011. One fourth of the decrease in the debt (EUR 0.5bn) was de facto the result of the reclassification of external debt from the sector of banks into the sector of direct investment, triggered by a transaction of one commercial bank aimed at transferring bad placements and corresponding foreign liabilities to the parent bank to a new company set up by the parent bank. Banks predominantly decreased the amount of their short-term foreign liabilities, their share in total bank debt falling to a relatively low level of 20.5% (from 30.7% at the end of 2011).

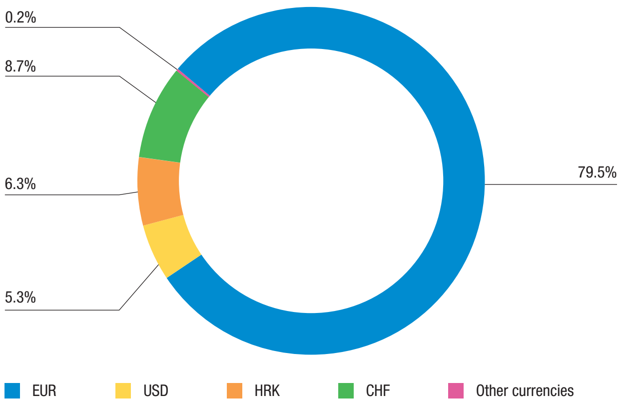
After being stagnant in 2010 and decreasing substantially in 2011, the net debt position of other domestic sectors (mainly companies and non-banking financial institutions) improved in 2012. Principal and interest payments on net external debt exceeded new debt withdrawals by almost EUR 0.4bn, and the

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

	2008	2009	2010	2011	2012	Year-on-year rate of change				
						2008	2009	2010	2011	2012
1 Government	4,732	5,739	6,601	6,994	8,340	–23.3	21.3	15.0	6.0	19.2
2 Croatian National Bank[a]	–9,118	–10,043	–10,302	–10,834	–10,883	–2.0	10.1	2.6	5.2	0.5
3 Banks	3,219	3,878	4,298	6,323	4,292	22.7	20.5	10.8	47.1	–32.1
4 Other sectors	19,632	20,443	20,459	19,651	18,953	34.4	4.1	0.1	–3.9	–3.6
5 Direct investment	5,705	7,551	7,521	6,236	6,843	51.8	32.4	–0.4	–17.1	9.7
Total (1+2+3+4+5)	24,170	27,570	28,576	28,370	27,546	35.3	14.1	3.7	–0.7	–2.9

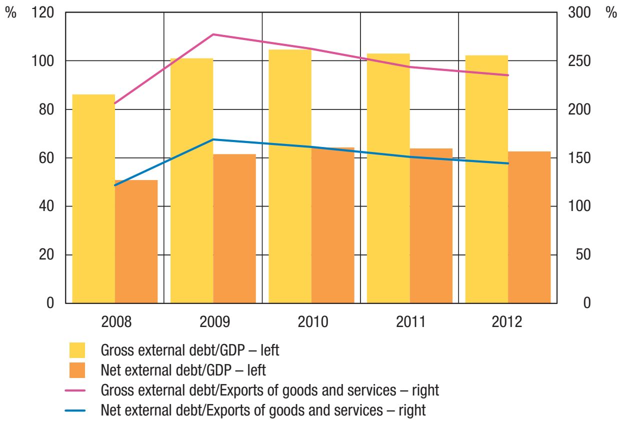
[a] Foreign claims of the central bank exclude SDRs. Negative values of net external debt indicate that the value of claims is higher than the value of liabilities.
Source: CNB.

1.57 Currency structure of gross external debt
as at 31 December 2012



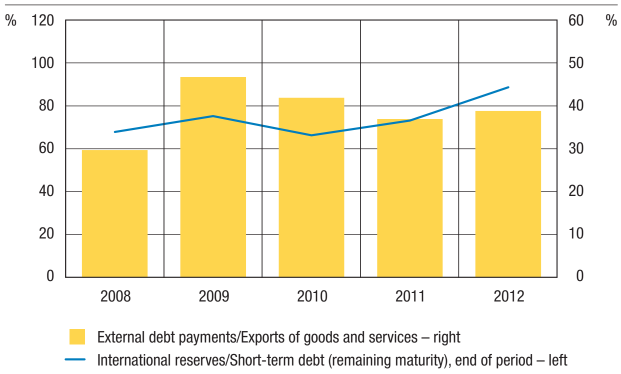
Source: CNB.

1.58 External debt indicators



Source: CNB.

1.59 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.

debt stock also reduced as a result of the government taking over a portion of debt generated by shipyards. Public enterprises and non-banking financial institutions continued a trend towards deleveraging which however eased off to a certain degree. Foreign liabilities of public enterprises went up in the last quarter of 2012 due to a HEP bond issue. After experiencing a decelerated growth rate for three consecutive years, foreign liabilities of private non-financial enterprises increased by 3.9% in 2012 mainly on account of the issue of two bond series worth a total of EUR 0.9bn by Agrokor d.d., while other non-financial enterprises only refinanced their due debts. The stock of net external debt arising from direct investment in domestic enterprises rose by EUR 0.6bn due exclusively to the debt reclassification and other adjustments, while other net transactions resulted in a mild decrease in debt amount.

Liabilities denominated in euros continued to prevail in the currency structure of gross external debt. The euro share stood at 79.5% at the end of 2012 or 2 percentage points more than at the end of 2011, while the shares of other currencies, notably the US dollar, trended down. The euro-denominated external debt was additionally pushed up by the issue of government bonds in April 2012. Although bonds were issued in the US market and denominated in US dollars, the liability denominated in US dollars was converted into the liability denominated in euros as a result of the currency swap arrangement contracted in the same period.

The share of short-term debt declined to 10.9% in 2012 or by 3.4 percentage points relative to the end of 2011. Banks, to a large extent, and lower short-term liabilities arising from direct investment, to a lesser extent, were the major contributors to the decrease in short-term debt. The private sector negligibly increased its share of short-term debt, mainly due to the rise in arrears.

Relative external debt indicators expressed in terms of GDP percentage were stagnant in 2012, while indicators expressed in terms of percentages of exports of goods and services improved. As a result, the ratio of gross external debt to exports of goods and services went down by 8.3 percentage points, to 235.3%. The relative indicator of net external debt improved slightly, the ratio of net external debt to exports of goods and services falling to 144.2% (from 151.1% in 2011). These developments were above all the result of the decrease in foreign debt liabilities as well as of the growth in exports of goods and services. The gross external debt to GDP ratio remained stagnant at 102.3% while the relative indicator of net external debt only slightly improved, to 62.7%.

Indicators of external debt servicing (the ratio of principal and interest payments on external debt to exports of goods and services) increased from 36.9% in 2011 to 38.9% in 2012. Adequacy of international reserves, measured by coverage of short-term external debt (by remaining maturity), rose from 73.1% at the end of 2011 to 88.7% at the end of 2012, due mostly to the decline in the short-term debt of banks. As a result, foreign liabilities falling due in the coming year approached the amount of international reserves, the ratio being more favourable at the end of 2012 that at any time since the outbreak of the crisis.

1.2.9 Government finance[24]

Fiscal policy features in 2012

After three years of uninterrupted growth, the total fiscal deficit decreased from 5.5% in 2011 to 4.0% in 2012, being somewhat lower than the deficit planned in the budget revision. This decrease in deficit is primarily ascribed to a significant increase in revenues, which grew despite unfavourable economic developments. Expenditures, including the acquisition of non-financial assets, decreased slightly, as the savings made in the majority of main categories were mostly offset by increased interest expenses. The reduction of the overall fiscal deficit is attributed to a change in the recording of expenditures for guarantees to shipyards invoked, which is the result of the assumption of the debts of state-owned shipyards in public debt as a part of the shipyard privatisation and restructuring process. Despite the decreased needs for borrowing, public debt growth accelerated in 2012 due to the assumption of shipyards' debts (around 2.8% of GDP), and at the end of 2012 it reached 53.7% of GDP, up by 6.5 percentage points of GDP relative to 2011.

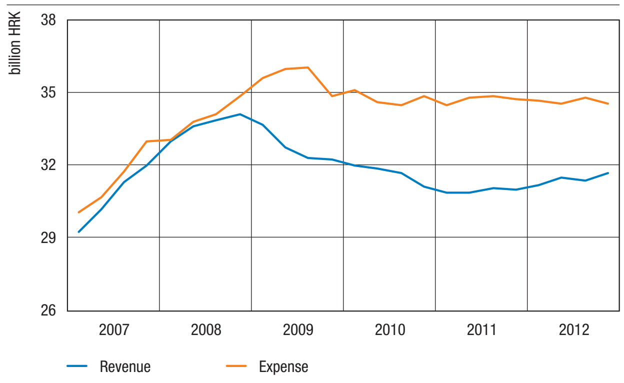
With respect to tax changes in 2012, the most significant were the changes regarding implementation of the so-called fiscal devaluation in accordance with which the tax burden is shifted from labour to consumption. March of last year thus saw an increase in the basic VAT rate by two percentage points, from 23% to 25%[25], while two months afterwards the health insurance contribution rate decreased from 15% to 13%[26].

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

Revenues of consolidated general government increased by 2.5% in 2012 from 2011 and reached HRK 126.1bn. Their share in GDP increased on an annual basis from 37.3% to 38.2%.

The said revenue growth was mostly attributable to the increase in VAT revenues resulting from the rise in the basic tax rate. The revenues from income tax also increased strongly despite the mild decrease in the nominal gross wage bill. Such a result may be explained by the abolition of most tax reliefs in the income tax system in mid-2010, which resulted in lower tax refunds generated from tax returns in 2012 relative to 2011. Profit tax revenues also increased, while excise revenues, which are in terms of share the second most important source of tax revenue, stagnated. The greatest decrease was seen in the revenues from excises on cars, and the largest negative contribution to excise revenues came from excises on refined petroleum products because they have the largest share. On the other hand, revenues from excises on tobacco products grew dramatically, mostly due to the increase in excise taxes on cigarettes at the end of last year[27], and so producers and traders increased the stock of those products so as to delay the payment of higher excises and the increase in retail prices.

1.60 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.

Given the decrease in the health insurance contribution rate, revenues from social contributions had the largest negative effect on total revenue trends. It needs to be noted that the adoption of the regulation prescribing that wages cannot be paid to employees without the prior payment of contributions[28] to the state significantly improved the collection of social contributions and noticeably cushioned the negative effects of the mentioned tax change.

Expenditures of the consolidated general government, including the acquisition of non-financial assets, amounted to HRK 138.0bn, which is 0.6% less than in 2011, their share in the GDP mildly decreasing to 41.8%. All major expenditure categories decreased, except for interest expenses and expenditures on grants.

The decrease in expenditures was mostly attributable to expenditure for subsidies, due to the decrease in subsidies to the agricultural sector. Staff expenses decreased mildly, even though initially a significant decrease was planned. This fall in staff expenses resulted from the decrease in the health insurance contribution rate, since the said change at the same time brought about a decrease in wage expenses for civil servants and government employees, and from the repeal of salary increases based on years of service for primary and secondary school teachers and from non-payment of Christmas bonuses. Social contributions, which have the largest share in total expenditures, decreased slightly, mostly due to savings in the health sector, while at the same time, due to the further growth in the number of pensioners and due to pension adjustments, pension expenditures increased. On the other hand, interest expenses

24 The analysis of public finance for 2012 was prepared based on preliminary MoF data.
25 The Act on Amendments to the Value Added Tax Act (OG 22/2012).
26 The Act on Amendments to the Contributions Act (OG 22/2012).
27 The Regulation on the excise duty on cigarettes, fine-cut and other smoking tobacco (OG 131/2012).
28 Regulation on the modality of payment of compulsory contributions, receipts accompanying the salary and monthly basis for calculation of contributions based on employment (OG 49/2012).

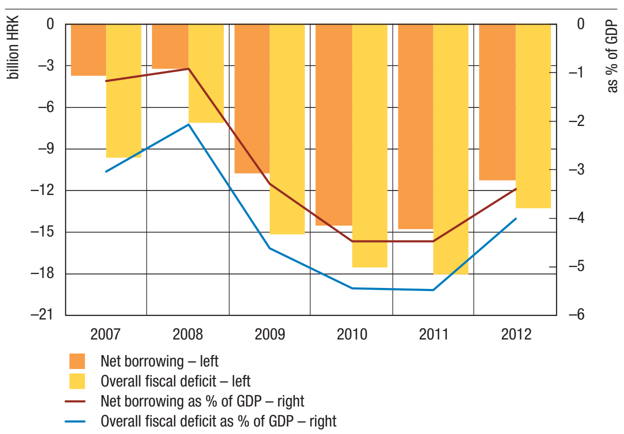
grew significantly and to a great extent offset the savings made. The growth of interest expenses was partly due to the inclusion of interests on the shipyards' debt in the state budget.

Capital investments of the consolidated general government in the form of acquisitions of non-financial assets decreased on an annual level, because the investments at the state budget level and at the local government level were lower. On the other hand, investments from extrabudgetary funds increased on an annual level, but significantly less than planned in the budget revision from November 2012.

Balance of the consolidated general government

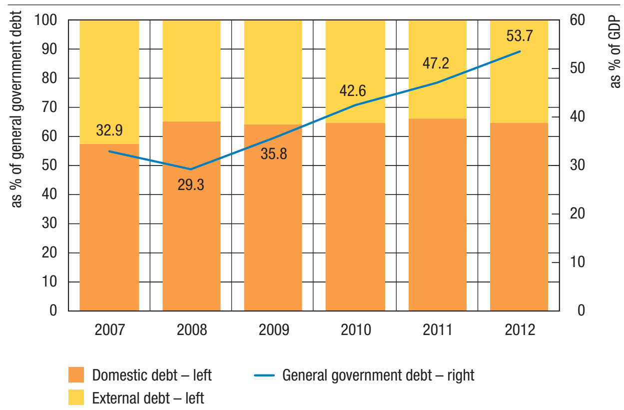
Preliminary MoF data show that consolidated general government net borrowing in 2012 reached HRK 11.2bn or 3.4% of GDP. In 2012 the total fiscal deficit of the consolidated general government, where the calculation of deficit does not include revenues from the disposal of non-financial assets, and the expenditure side includes expenditures on shares, net loans and the annual instalment of debt to pensioners, amounted to HRK 13.3bn (4.0% of GDP) in 2012, down by HRK 4.8bn since the previous year. Observing the general government levels, the majority of deficit was achieved at the state budget level, while the local government had a balanced overall fiscal balance in 2012. The deficit of the extrabudgetary funds stood at the 2011 level, amounting to HRK 1.6bn, Croatian Roads and Croatian Waters having achieved a deficit of HRK 2.1bn, which was to a great extent cushioned by the surplus of the State Agency for Deposit Insurance and Bank Rehabilitation.

1.61 Net borrowing and consolidated general government overall fiscal deficit (GFS 2001)



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

1.62 General government debt
end of period



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

Government debt

From January to December the public debt increased by HRK 21.5bn, HRK 9.2bn relating to assumed debt of state-owned shipyards, and at the end of 2012 it reached HRK 177.4bn (53.7% of GDP). Due to the assumption of the shipyards' debt in public debt the potential debt of the government in the form of issued government guarantees decreased, and at the end of December it reached HRK 55.5bn (16.7% of GDP). However, it needs to be noted that the fall in the amount of granted guarantees almost halved relative to the assumed shipyards' loan liabilities because new guarantees were issued in the observed period.

Somewhat more than one half of the public debt growth was accounted for by domestic debt. The increase of domestic general government debt was mostly due to the assumption of the domestic debt of shipyards (HRK 6.7bn) and due to the growth of borrowing arising from the issue of government bonds and T-bills. In July last year there were two issues of bonds in the domestic market in the amount of HRK 2.0bn and EUR 400m with foreign currency clauses, and in February last year for the first time "pure" euro T-bills in the amount of EUR 730m were issued, with a year and a half repayment term. Regarding domestic liabilities that the government settled in the observed period, a bond worth EUR 500m and the first instalment of the syndicated loan in the amount of EUR 380m need to be pointed out. In the foreign market the government decided to raise most of the required funds by issuing bonds. Thus, at the end of April 2012 it issued in the American market a bond in the amount of USD 1.5bn with a five year repayment term.

Monetary policy instruments and international reserves management

HNB

2.1 Monetary policy instruments in 2012

At the beginning of the year, the kuna was under pressure to depreciate against the euro continuing since the last quarter of 2011. The CNB raised the reserve requirement rate from 14% to 15% and intervened on two occasions in the foreign exchange market in January 2012, withdrawing some excess kuna liquidity from the monetary system and stabilising the exchange rate of the kuna. The reduced kuna liquidity caused a temporary spike in short-term interest rates in the money market at the beginning of the new reserve requirement maintenance period in mid-February. In March, overnight interest rates in the money market were again below 1% on average.

Once depreciation pressures eased, the Croatian National Bank continued with measures to support the Economic Development Programme, initiated by the CNB in cooperation with the CBRD and commercial banks to encourage a faster recovery of lending activity. The programme was supported by a cut in the reserve requirement rate from 15% to 13.5% in May and the decision to include some of the corporate loans granted within the Economic Development Programme in the minimum required foreign currency claims of banks.

The result of these measures was an increase in both kuna and foreign currency liquidity. However, as the reserve requirement funds released were deposited in a special account with the central bank and due to a seasonal rise in demand for currency over the summer months, an increase in the average balance of central government deposits with the CNB and government bond issuance in the domestic market, the kuna liquidity of the banking system decreased. Accordingly, interest rates on overnight loans in the money market grew moderately from the second quarter.

With the combination of these measures, the CNB ensured adequate market liquidity and stability of the domestic currency for the whole of 2012. In conditions of favourable kuna liquidity, there was no need for reverse repo operations, while the overnight deposit facility with the CNB was used on a regular basis. In such circumstances, the overnight interbank rate was low and stable through most of the year.

2.1.1 Open market operations

Open market operations were not used in 2012 due to the abundant liquidity in the domestic banking system.

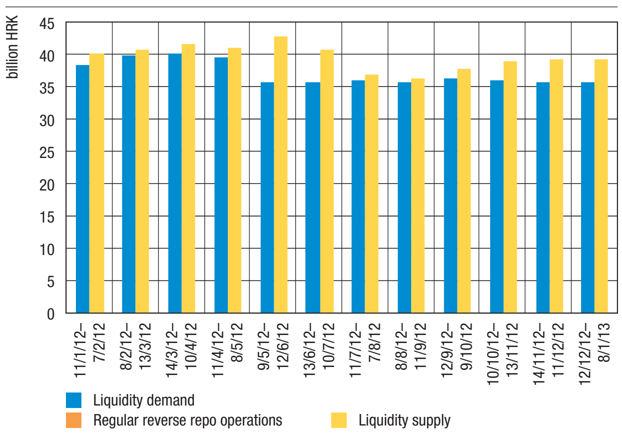
The supply of reserves, determined by autonomous factors, averaged HRK 39.7bn in 2012, an increase of 0.9% from 2011. Total average demand for reserves stood at HRK 37.0bn in 2012, up 7.3% over 2011.

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 2012 was the deposit facility. With average liquidity supplied by autonomous factors exceeding average demand, net liquidity sterilised by the deposit facility averaged HRK 2.7bn in 2012.

As a result of the ratio between liquidity supply and demand and the use of the overnight deposit facility, the average daily liquidity surplus stood at HRK 0.4bn in 2012. It ranged from HRK 0.2bn in the maintenance period that began in April 2012 to HRK 0.6bn in the maintenance period that began in September 2012.

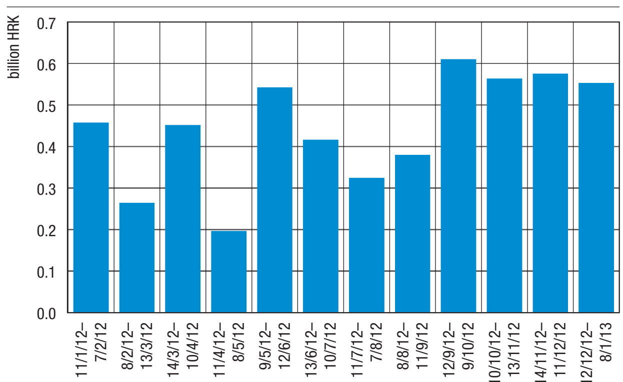
As there was a liquidity surplus in the system, i.e. liquidity supply exceeded demand, banks used overnight deposits to a large extent in 2012. These deposits averaged HRK 2.7bn, while the average daily surplus liquidity, including the overnight deposit funds, stood at HRK 3.1bn. The average daily surplus liquidity, including the funds deposited with the CNB as overnight deposits, bottomed out at HRK 0.9bn in the maintenance period that began in August 2012 and peaked at HRK 7.7bn 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 maintenance period beginning in May 2012.

In the conditions of favourable kuna liquidity, the overnight interest rate remained low for most of the year. Departures were recorded in the first and third quarters.

In the first quarter of 2012, foreign exchange interventions conducted in response to mounting depreciation pressures reduced money supply, while the rise in the reserve requirement rate boosted demand for reserves. In the third quarter 2012, money supply was reduced due to strong seasonal demand for currency and the increase in central government deposits with the CNB. This raised the levels and volatility of the overnight interest rate, which ranged from 0.23% to 5.88% in 2012 and from 0.34% to 3.62% in 2011. As a result, the variation coefficient stood at 100.81% in 2012 as against 79.77% in 2011.

Although there was no need for open market operations in 2012, the CNB had at its disposal regular operations, fine-tuning operations and structural operations.

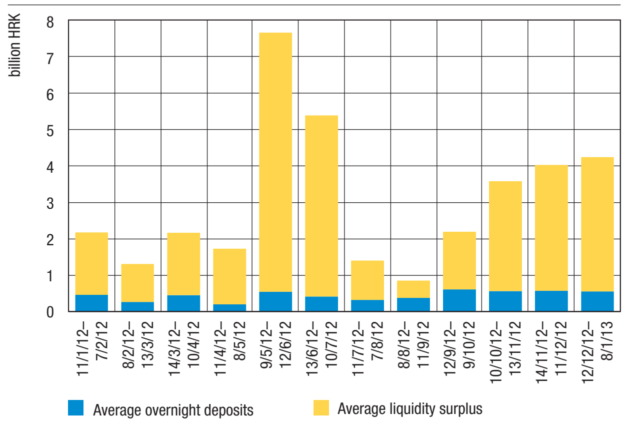
Regular operations are conducted at regular reverse repo auctions with one-week maturity. In contrast with regular operations, used exclusively to improve the liquidity in the system, fine-tuning and structural operations are used to boost or reduce liquidity and can be conducted through repo and reverse 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 acceptable collateral for regular and fine-tuning operations, while 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 frequently in 2012. 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 paid by the CNB on the deposit facility is the floor of the money market interest rate corridor. This rate was 0.25% annually in 2012.

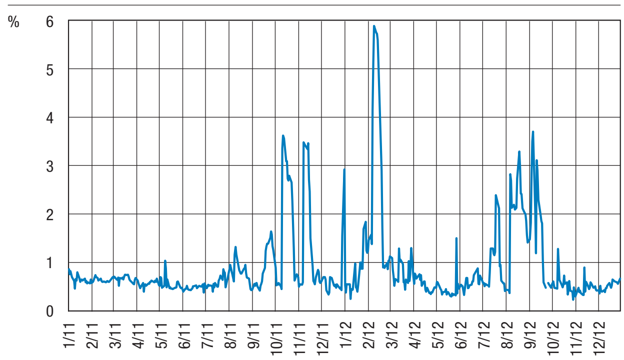
The average daily balance of the deposit facility was HRK 2.7bn in 2012. The largest daily amount of the overnight deposit of HRK 11.7bn was recorded in June 2012. The maximum average monthly amount of the facility, also registered in that month, stood at HRK 6.5bn. The minimum average monthly amount, of HRK 0.6bn, was recorded in February 2012. The deposit facility was not used for 31 working days in 2012. 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.

2.4 Average liquidity surplus including overnight deposits in reserve requirement maintenance periods
by maintenance periods



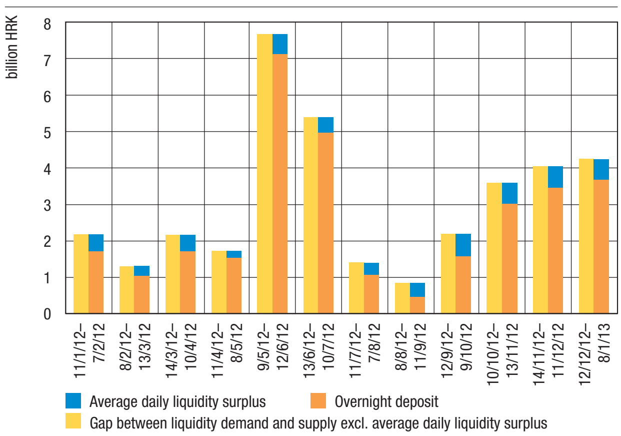
Source: CNB.

2.5 Overnight interest rates



Source: CNB.

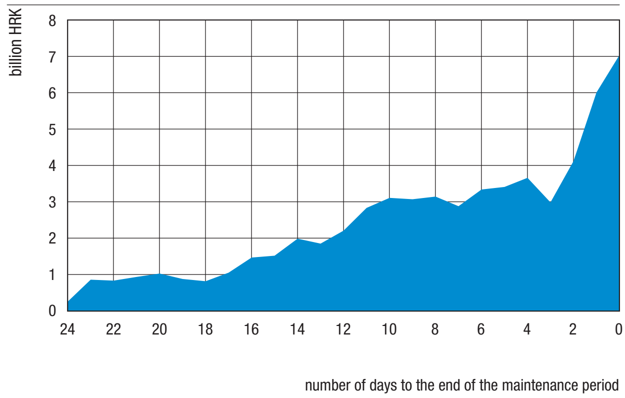
2.3 Liquidity demand and supply, overnight deposit and average daily liquidity surplus
average balance in reserve requirement maintenance periods



Source: CNB.

2.6 Average balance in overnight deposits in reserve requirement maintenance periods

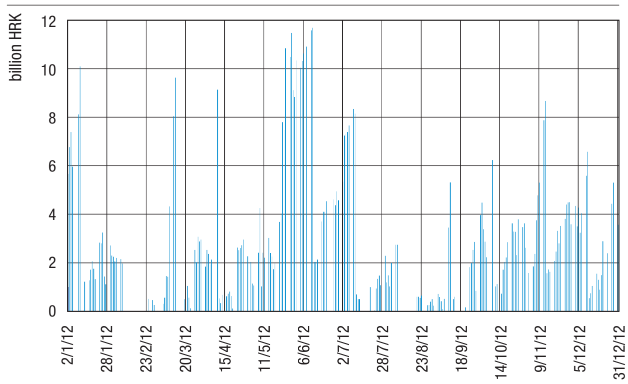
average daily balances



Source: CNB.

2.7 Overnight deposits

daily balances



Source: CNB.

In 2012, the Lombard facility was used for only one business day, in the amount of HRK 0.1bn. 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 end of a business day. It is repayable on the next business day. The CNB may at its discretion deny a bank, either temporarily or permanently, the use of the Lombard facility.

The Lombard rate provides a ceiling to the interest rate corridor on the money market. In 2012, it was set at 6.25%. The facility is granted against a pledge. Throughout 2012, 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

The Croatian National Bank raised the reserve requirement rate from 14% to 15% in January 2012 in an effort to halt depreciation pressures by sterilising excess liquidity in the banking system. In addition, the extraordinary calculation of reserve requirements on 27 January 2012 was made so that the rate increase would lead to exchange rate stabilisation as soon as possible.

The reserve requirement rate was reduced from 15% to 13.5% in May to support the Economic Development Programme, while the funds received from five multilateral development banks were excluded from the reserve requirement calculation base.

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 the reserve requirement is put aside in 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

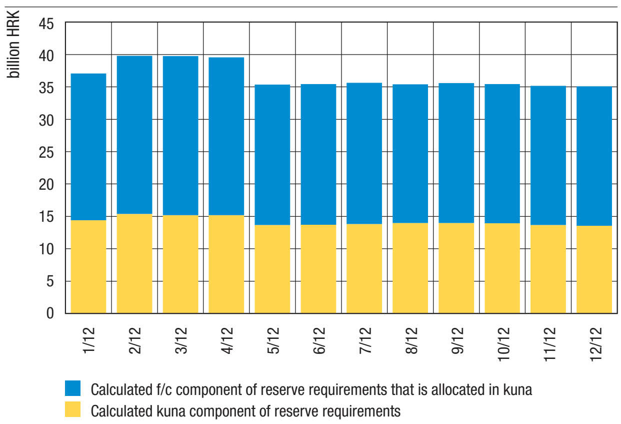
The kuna component of the reserve requirement base, consisting mainly of received kuna deposits and foreign currency-indexed kuna deposits, was on a downward trend in 2012, increasing only in the period from April to August. It peaked at HRK 103.7bn in August and bottomed out at HRK 98.2bn in December. The kuna component of the base decreased 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 218.4bn in February, its highest level in 2012. Periods of strong decline and periods of less pronounced growth in the foreign currency component alternated over the year; it was at its lowest level of HRK 211.5bn in July 2012. The foreign currency component of the base decreased by 2.2% annually.

The kuna component of reserve requirements peaked at HRK 39.8bn in February and bottomed out at HRK 35.1bn in

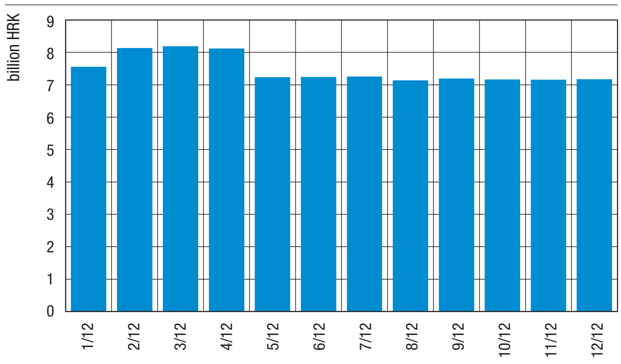
2.8 Total kuna component of reserve requirements

balance in maintenance periods



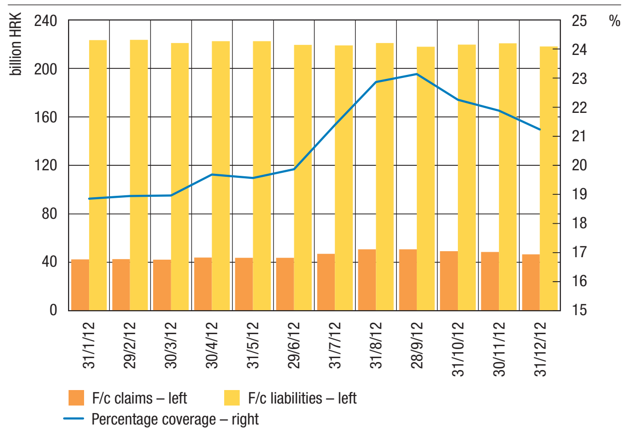
Source: CNB.

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



Source: CNB.

2.10 Minimum foreign currency liquidity
end-month balance



Source: CNB.

December 2012. It decreased on an annual level, largely due to the cut in the reserve requirement rate in May, which released HRK 4.2bn.

The foreign currency component of the base was HRK 8.2bn in March, which was its highest level in 2012. It bottomed out at HRK 7.1bn in August. In line with the trends in the foreign currency component of the base and the reduction in the reserve requirement rate, which released EUR 118.7bn, the foreign currency component of reserve requirements decreased, by 5.1% annually.

2.1.4 Other instruments

Minimum required foreign currency claims

One instrument used to maintain the foreign currency liquidity of banks is the minimum required foreign currency claims. In 2012, the minimum required amount of foreign currency claims was set at 17% of foreign currency liabilities.

The banks are obliged to maintain the prescribed percentage on a daily basis, with liquid foreign currency claims being those (with the exception of claims on loans) with a remaining maturity of less than three months.

Since June 2012, foreign currency claims have included claims arising from kuna loans and foreign-currency indexed loans granted to economic entities under the Economic Development Programme; this includes 50% of the outstanding principal amount that is financed from bank funds.

Under the amendments to the Decision on the minimum required amount of foreign currency claims, the coverage for the period from 16 February 2012 to 15 August 2013 was expanded further to include T-bills issued in February 2012.

The coverage of foreign currency liabilities by foreign currency claims in 2012 was at its annual minimum of 18.85% on 31 January and at its annual maximum of 23.14% on 28 September. This ratio stood at 21.23% at the end of the year.

Intraday loans

In 2012, the intraday loan was used for ten days in July and August in an average amount of HRK 436.1m.

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 2012, 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.

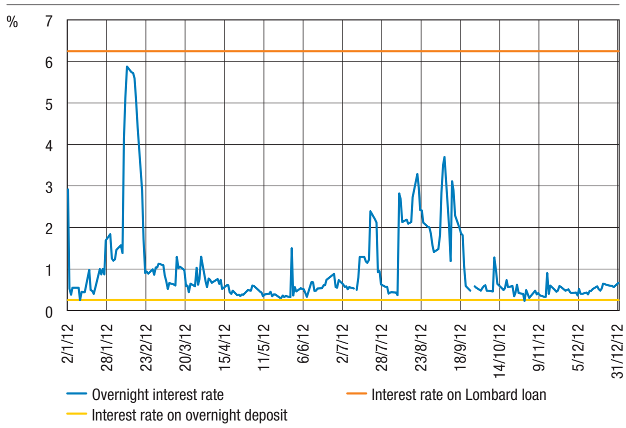
2.1.5 Liquidity of last resort

Notwithstanding comfortable levels of free reserves and low interbank interest rates, from late 2011 on some small banks experienced liquidity problems caused by deposit outflows 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 the first half of 2012, while the CNB provided for the reduction in the allocated and maintained reserve requirements.

From January to April 2012, two banks used short-term liquidity loans for 75 days and the largest individual amount used was HRK 53.0m.

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

2.11 Interest rate spread and overnight interest rates



Source: CNB.

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 written 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 January to August 2012, the maximum permitted reduction in the reserve requirement allocation was HRK 220m and the average daily reduction in the reserve requirement maintenance was HRK 12.0m.

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 Lombard loans, amounting to 6.25% annually. The corridor floor is the interest rate on an overnight deposit with the CNB, which stood at 0.25% annually. The CNB pays no remuneration on the allocated reserve requirements.

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 international reserves of the Republic of Croatia comprise all claims and all banknotes in a convertible foreign currency as well as special drawing rights. 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.

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 liquidity and safety of investment (Article 19 of the Act on the Croatian National Bank). In this context, it maintains the reserves at a high level of liquidity 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 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 way in which international reserves are formed.

The CNB manages international reserves acquired through outright purchases from banks and the MoF, through its membership in the IMF as well as income derived from the investment of international reserves and of other CNB assets in line with its own guidelines. The other component 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 according to the foreign currency liabilities assumed, the aim being to ensure protection against currency and interest rate risks.

The component 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 that component of the reserves managed by the CNB in line with its own guidelines.

2.2.2 International reserves in 2012

The ongoing European debt crisis and general uncertainty regarding the global economic outlook marked the whole of 2012. Periods of buoyant demand for the safest forms of assets alternated with periods of increased risk appetite over the year. Yields on bonds issued by the countries considered to be safe havens, such as Germany, the USA, France, Belgium, etc. hit record lows, while yields on bonds of peripheral eurozone countries remained high, though they trended downwards in 2012. The turning point in financial markets was marked by the statement of the head of the ECB that policy makers would do whatever was needed to preserve the euro, as well as the introduction of new ECB measures – outright monetary transactions, aimed at addressing the fragmentation of eurozone financial markets.

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

Month	Total reserves	Net reserves
December 2011	11,194.67	10,022.13
January 2012	10,916.56	9,705.96
February 2012	11,410.60	9,937.46
March 2012	11,339.86	9,959.22
April 2012	12,461.71	9,988.76
May 2012	12,105.86	10,348.93
June 2012	11,635.07	10,420.49
July 2012	11,607.06	10,340.94
August 2012	11,532.27	10,305.02
September 2012	11,383.78	10,312.37
October 2012	11,371.30	10,317.79
November 2012	11,301.47	10,215.40
December 2012	11,235.74	10,197.32
Change Dec. 2012 – Dec. 2011	41.07	175.19

Source: CNB.

Total international reserves of the CNB stood at EUR 11,235.74m on 31 December 2012, an increase of EUR 41.07m (0.4%) from EUR 11,194.67m on 31 December 2011. Net international reserves, which exclude foreign currency reserve requirements, IMF special drawing rights and MoF funds, grew by EUR 175.19m (1.7%) in 2012, up from EUR 10,022.13m to EUR 10,197.32m. The changes in international reserves in 2012 were brought about by foreign currency purchases from and sales to the MoF and banks through foreign exchange interventions, funds earned based on international reserves investments and the net reduction in allocated foreign currency reserve requirements.

Total CNB turnover in the foreign exchange market in 2012

In 2012, the Croatian National Bank intervened in the domestic foreign exchange market by conducting purchase and sale transactions with the MoF and banks. The CNB sold a

Table 2.2 Total CNB turnover in the foreign exchange market, 1 January – 31 December 2012
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	58.10	430.30	724.40	5,473.54	–666.30	–5,043.24
Ministry of Finance	1,016.30	7,665.63	246.09	1,854.20	770.21	5,811.44
Total	1,074.40	8,095.94	970.49	7,327.74	103.91	768.20

Source: CNB.

total of EUR 724.40m to banks through foreign exchange interventions in the domestic market in January, February and May, while it purchased EUR 58.10m from banks in September 2012. The CNB sold a net worth of EUR 666.30m to banks, with the result that kuna liquidity dropped by HRK 5,043.24m. The CNB purchased EUR 1,016.30m from the MoF, selling to it EUR 246.09m in the same period, with HRK 5,811.44m released into circulation.

Structure of international reserves investment

The CNB invests in funds of financial institutions and countries with the highest credit rating. The evaluation of creditworthiness is based on ratings issued by internationally recognised rating agencies (Moody's, Standard & Poor's and FitchRatings) and an internally-developed model for creditworthiness evaluation;

there are restrictions on investments in individual financial institutions and countries, which serves to diversify credit risk.

The lion's share of CNB foreign currency portfolios is invested in instruments such as government securities of selected countries, central bank instruments and instruments issued by international financial institutions.

Table 2.3 Structure of international reserves investment according to credit risk as at 31 December 2012

in %

Investment	31/12/2012		31/12/2011	
	Net reserves	Total reserves	Net reserves	Total reserves
1 Countries				
Government bonds	65.70	59.63	73.34	65.65
Reverse repo agreements	3.17	3.89	1.40	1.25
Central banks	13.32	15.82	15.56	21.19
Covered bonds	2.45	2.22	2.06	1.85
2 International financial institutions	11.40	13.49	6.42	8.97
3 Banks			1.22	1.09
Deposits	0.01	0.01		
Securities[a]	3.96	4.94		
Total	100.00	100.00	100.00	100.00

[a] Refers to securities guaranteed by German federal states.
Source: CNB.

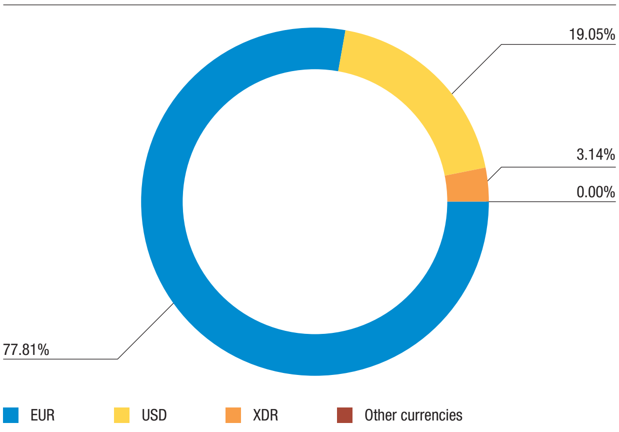
The structure of international reserve investments changed from 2011 to 2012 mainly because the CNB strove to attain higher returns in a setting of low yields, while adhering to the same limits regarding exposure to credit and interest rate risks.

In view of the lingering debt crisis in Europe and uncertainties in financial markets, strict guidelines for investment in some countries and banks remained in effect in 2012.

Currency structure of international reserves

On 31 December 2011, the share of the euro in the total international reserves was 77.81%, up from 75.93% at the end of 2011. The share of the American dollar decreased from 20.84% at the end of 2011 to 19.05% on the last day of December 2012. The share of SDRs dropped also, from 3.22% to 3.14% in the same period.

2.12 Currency structure of total international reserves
as at 31 December 2012



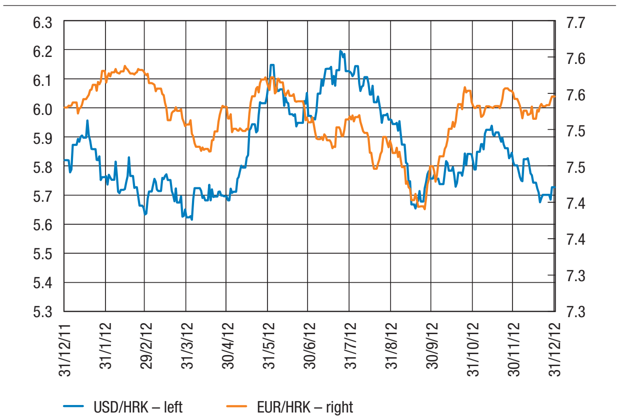
Source: CNB.

The portion of the reserves that arises from allocated foreign currency reserve requirements, MoF foreign exchange funds and repo operations with foreign banks 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 in 2012

The financial performance of the CNB, as of all central banks, depends on the volume and structure of assets and liabilities. The CNB belongs among banks with a large share of international reserves in their assets. As at 31 December 2012, the share of total international reserves in CNB assets was as high as 99.98%, 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

2.13 Daily changes in EUR/HRK and USD/HRK exchange rates in 2012



Source: CNB.

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 2012, the EUR/HRK exchange rate increased moderately, from 7.530 to 7.546 (0.20%), with the result that unrealised foreign exchange gains on the CNB euro portfolio totalled HRK 116m. The US dollar weakened from 5.820 to 5.727 (–1.60%) in the same period, so that unrealised foreign exchange losses on the dollar portfolio were HRK –218m in 2012. Total unrealised foreign exchange losses in the reporting period stood at HRK –102m. Adding to this realised foreign exchange gains arising from foreign exchange interventions of the CNB, which were HRK 28m, total foreign exchange rate differences were negative in 2012, standing at HRK –74m.

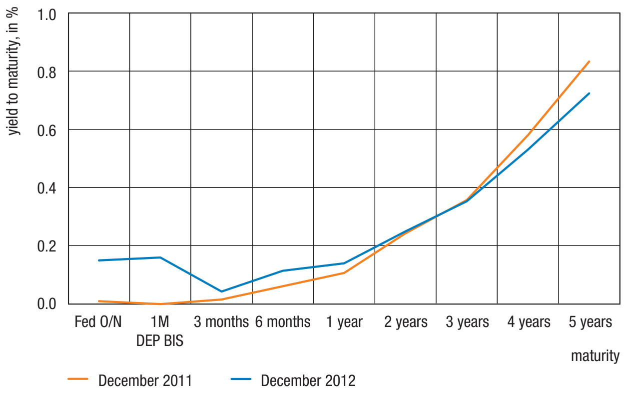
Results and analysis of CNB foreign currency portfolio management in 2012

The Fed's key interest rate remained unchanged throughout 2012, 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 through to mid-2015. In contrast, the ECB reduced its benchmark 1-week repo rate in July 2012, from 1.00% to 0.75%.

The traditional range of investment options for central banks was narrowed due to the downgrading of credit ratings for some countries and banks. At the same time, relatively low yields and the realised rates of return on the CNB foreign currency-denominated held-for-trading portfolios were the outcome of low interest rates and record low yields on American and German government bonds, as well as bonds of other developed countries that are considered relatively safe in crisis conditions and in which the bulk of international reserves is invested.

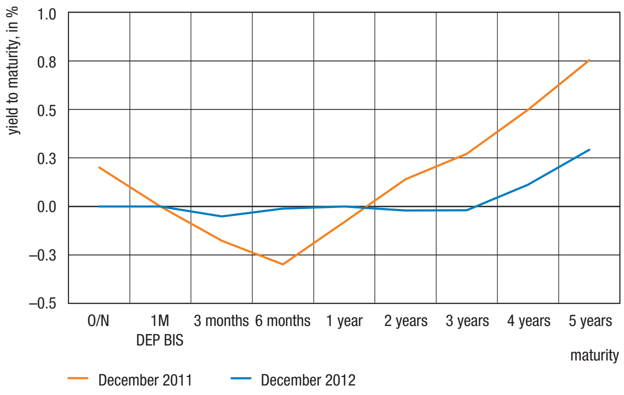
Net international reserves of the CNB comprise the euro- and dollar-denominated held-for-trading portfolios, the euro-denominated held-to-maturity portfolio and cash in the

2.15 Yield curve of American government bonds and other selected instruments



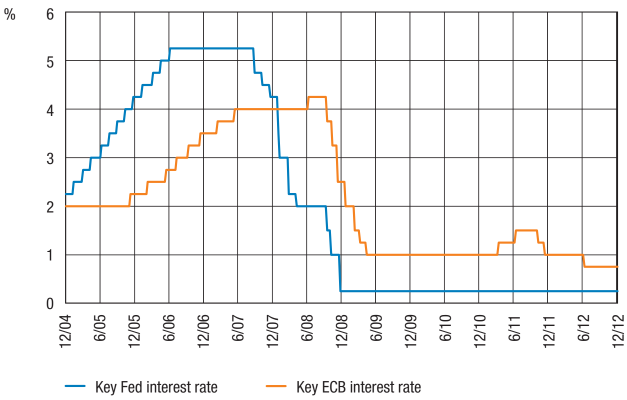
Note: Fed O/N stands for Fed's overnight interest rate and 1M DEP BIS stands for one-month deposit with the BIS.
Source: Bloomberg.

2.16 Yield curve of German government bonds and other selected instruments



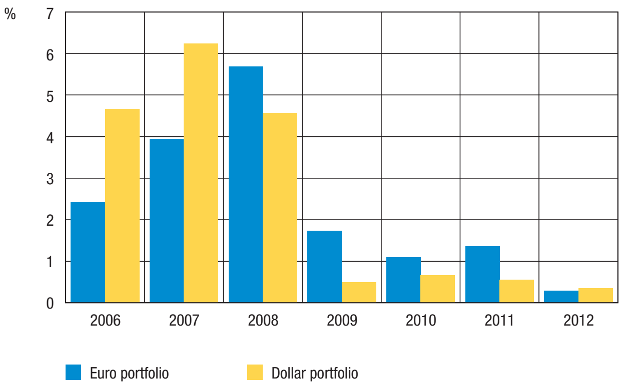
Note: O/N stands for overnight interest rate and 1M DEP BIS stands for one-month deposit with the BIS.
Source: Bloomberg.

2.14 Changes in key Fed and ECB interest rates



Source: CNB.

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



Source: CNB.

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						
	2012	2006	2007	2008	2009	2010	2011	2012
Held-for-trading euro portfolio	12.25	2.41	3.94	5.68	1.73	1.09	1.36	0.30
Held-for-trading dollar portfolio	8.53	4.67	6.23	4.57	0.50	0.67	0.56	0.35
Held-to-maturity euro portfolio	90.56	–	–	–	–	–	2.31[a]	2.31

[a] Effect in the period from 23 May 2011 to 31 December 2011.
Source: CNB.

CNB vault. In 2012, the annual rate of return on the CNB euro-denominated held-for-trading portfolio was 0.30% and that on the dollar-denominated held-for-trading portfolio 0.35%. The euro-denominated held-to-maturity portfolio had a rate of return of 2.31% in 2012.

The net euro portfolio generated a total income of EUR 102.81m, while the dollar-denominated held-for-trading portfolio generated USD 8.53m in 2012.

HNB

Business operations of credit institutions

HNB

3.1 Business operations of banks

There were 36 credit institutions or 30 banks, one savings bank and five housing savings banks operating in the country at the end of 2012. In 2012, the number of credit institutions decreased by one due to the merger between Međimurska banka d.d. and its parent bank (Privredna banka Zagreb d.d.). In terms of asset size, Međimurska banka d.d. was the twelfth largest bank in the banking system.

Bank assets (the savings bank included) fell by 1.6% in 2012 and stood at HRK 400.3bn at the end of the year.[1] These assets accounted for 98.2% of total assets of all credit institutions, which is a slight increase from the end of 2011. Assets of housing savings banks also declined from the end of 2011, by 5.1% or to HRK 7.4bn, their share in total assets of credit institutions dropping to 1.8%.

In 2012, six large banks[2] continued to dominate the market. Their assets accounted for 82.2% of total bank assets at the end of 2012 and their share in total bank assets decreased by a small margin relative from the end of 2011 due to a 2.1% fall in large bank assets. The group of medium-sized banks was the only group that increased the share of its assets in total bank assets (by 0.6 percentage point) which can be attributed to the increase in its assets by 5.1%. After the merger of Međimurska banka d.d. and its parent bank, the number of small banks decreased by one or to 22 banks at the end of 2012 during the year. Assets of Međimurska banka d.d. in total assets of small banks accounted for a share of slightly more than 8.0%. This change contributed to the decrease in small bank assets, which stood at 4.2% as compared with 2011. As a result, the share of small bank assets in total bank assets went down by 0.2 percentage point.

As regards the ownership, the structure of banks changed negligibly during 2012. After the merger of Međimurska banka d.d., which was in indirect foreign ownership, and its parent bank, the number of banks in foreign ownership decreased by one. On account of this change and a mild decrease in assets of other banks in foreign ownership, the share of assets of banks in majority foreign ownership in total bank assets dropped by 0.5 percentage point. In contrast to trends in banks in foreign ownership, which experienced a decrease in assets of 2.3%, banks in

Table 3.1 Number of credit institutions
end of period

	2010	2011	2012
Banks			
Number of banks at the beginning of the year	32	32	31
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	31	30
Savings banks			
Number of savings banks at the beginning of the year	2	1	1
Authorised savings banks	–	–	–
Savings banks whose authorisation has been withdrawn	1	–	–
Number of savings banks at the end of the year	1	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

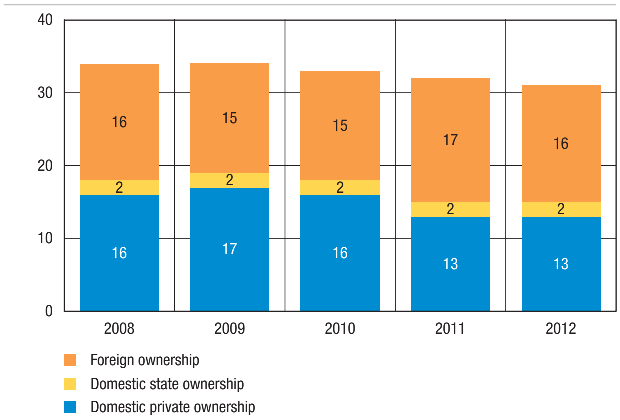
Source: CNB.

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

	Number of banks			Share		
	2010	2011	2012	2010	2011	2012
Large banks	6	6	6	82.1	82.6	82.2
Medium-sized banks	3	3	3	9.0	9.0	9.7
Small banks	24	23	22	8.8	8.4	8.2
Total	33	32	31	100.0	100.0	100.0

Source: CNB.

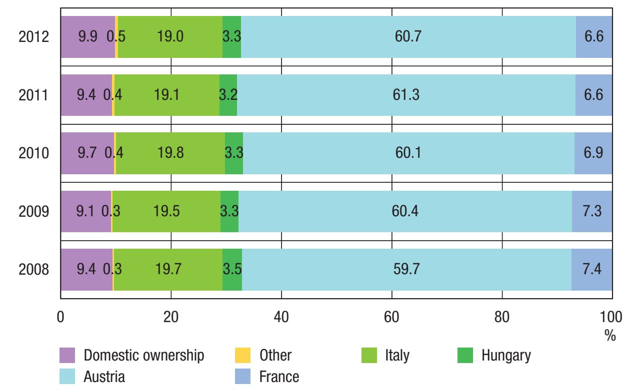
3.1 Number of banks by ownership residence and form of ownership
end of period



Source: CNB.

1 Data for 2012 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.

3.2 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.

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		
	2010	2011	2012
Banks in majority ownership of domestic shareholders	5.4	4.8	5.2
Banks in majority state ownership	4.3	4.5	4.8
Banks in majority ownership of foreign shareholders	90.3	90.6	90.1
Total	100.0	100.0	100.0

Source: CNB.

domestic ownership increased their assets by 4.5% over the year and thus increased their share in total bank assets.

Austrian shareholders owned the largest number of banks, six of them. The share of assets of these banks in total bank assets stood at 60.7% at the end of 2012, 0.7 percentage point lower than at the end of 2011. In terms of the share of assets, four banks in majority Italian ownership accounted for the next largest share or one bank fewer than at the end of 2011. The share of assets of these banks in total assets went down to 19.0% or by 0.1 percentage point. Shareholders from France, Hungary, San Marino, Turkey, Switzerland and Serbia were majority owners of other foreign banks.

3.1.1 Bank balance sheet and off-balance sheet items

Assets

At the end of 2012, total bank assets amounted to HRK 400.3bn, a decrease of HRK 6.7bn or 1.6% relative to the end of 2011. This halted the slight trend towards recovery present in the previous two years. The decline in bank assets was a feature of most of 2012, but was temporarily halted in the third quarter on account of the expected increase in domestic sources stimulated by the seasonal inflow of tourism receipts. The last year to see an annual decrease in assets was 1999. The years-long period of recession additionally worsened already weak outlooks for the recovery of the economy, which in turn and in spite of incentive measures of the CNB had a notably negative effect on total lending activity. The deleveraging of the most significant segments of the domestic sector, i.e. corporates and households, enabled banks to decrease their foreign liabilities, particularly liabilities to foreign owners. This trend accelerated towards the end of 2012.

The exchange rate of the kuna against the euro and the Swiss franc depreciated modestly (by 0.2% and 0.8% respectively) relative to the end of 2011, while the appreciation of the exchange rate of the kuna against the US dollar was somewhat more pronounced (1.6%). If we take into account the shares of these currencies in the balance sheet, and notably the share of the euro, the real rate of decline in bank assets was only somewhat higher than the nominal rate and stood at 1.8%.

The changes in assets of all banks in the system were largely determined by the changes in large banks. The assets of large banks fell by HRK 7.1bn or 2.1%. Only two banks from the group of large banks reported an increase in assets, while the four remaining banks reported a decrease. Among them, especially notable was the decrease in the assets of one bank from this group in which assets fell by 15.6% in 2012 due mostly to the sale of loans claims[3]. Assets of small banks declined by HRK 1.4bn (4.2%), which was almost entirely due to the merger between one small bank and the parent bank from the group of large banks. However, this effect excluded, the assets of small banks rose by HRK 1.4bn (4.6%). Since all banks from the group of medium-sized banks recorded solid rates of growth of assets, this group ended year 2012 with an increase in assets of HRK 1.9bn or 5.1% relative to the end of 2011.

The narrowing of the volume of bank operations was seen above all in the fall of total lending activity, by HRK 8.2bn or 2.9%. The decrease in net loans was influenced not only by the sale of claims but also by the deleveraging of all domestic sectors and a further deterioration in the quality of loan portfolio. Loan value adjustments went up by 11.3% in 2012. The decline in the loan amount was partly offset by the CNB measures. One of the measures included the decrease in the reserve requirement rate[4]. Banks used the funds released to finance the CBRD, which, together with banks, participates in the Programme for the Development of the Economy. The programme is aimed at stimulating lending to the private sector under terms more favourable than those in the market.

Both large and small banks reported a decrease in their net loans (by 3.6% and 5.6% respectively), the decrease in the

3 One large bank, as part of a project at the level of the whole of the foreign parent group, carried out a transaction aimed at decreasing partly recoverable and fully irrecoverable placements in mid-December 2012. Partly recoverable placements of a net book value of HRK 3.7bn (HRK 5.6bn in gross amount) were sold to the company in the indirect ownership of the foreign parent bank. The parent bank financed the purchase of the loan with deposits withdrawn from the bank and a loan granted to the company.

4 In line with the Decision on amendments to the Decision on reserve requirements (OG 43/2012), the reserve requirement rate was reduced from 15% to 13.5% in May 2012.

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

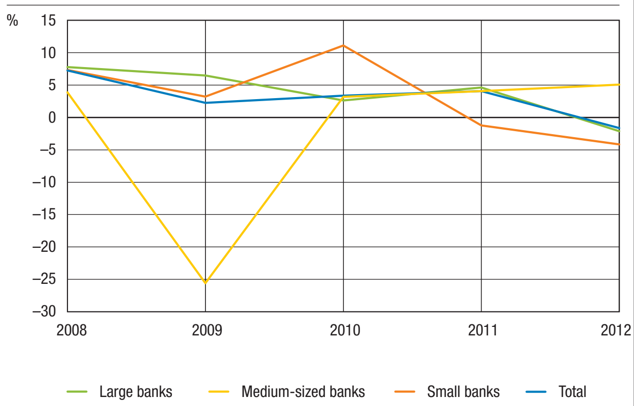
	2010		2011			2012		
	Amount	Share	Amount	Share	Change	Amount	Share	Change
Money assets and deposits with the CNB	47,373.5	12.1	53,058.7	13.0	12.0	51,176.2	12.8	–3.5
Money assets	5,675.4	1.5	6,198.2	1.5	9.2	6,445.7	1.6	4.0
Deposits with the CNB	41,698.2	10.7	46,860.5	11.5	12.4	44,730.5	11.2	–4.5
Deposits with banking institutions	30,160.0	7.7	26,957.3	6.6	–10.6	23,847.2	6.0	–11.5
MoF treasury bills and CNB bills	10,030.3	2.6	11,580.0	2.8	15.5	11,565.9	2.9	–0.1
Securities and other financial instruments held for trading	5,501.3	1.4	2,511.5	0.6	–54.3	1,975.9	0.5	–21.3
Securities and other financial instruments available for sale	14,872.5	3.8	14,289.1	3.5	–3.9	19,054.1	4.8	33.3
Securities and other financial instruments held to maturity	3,692.3	0.9	3,664.5	0.9	–0.8	4,455.5	1.1	21.6
Securities and other financial instruments not traded in active markets but carried at fair value	1,090.0	0.3	1,829.5	0.4	67.8	2,703.3	0.7	47.8
Derivative financial assets	154.6	0.0	673.9	0.2	335.9	910.6	0.2	35.1
Loans to financial institutions	6,389.5	1.6	6,162.3	1.5	–3.6	9,109.2	2.3	47.8
Loans to other clients	260,690.5	66.7	273,141.9	67.1	4.8	261,983.5	65.5	–4.1
Investments in subsidiaries, associates and joint ventures	2,195.6	0.6	3,288.7	0.8	49.8	3,120.0	0.8	–5.1
Foreclosed and repossessed assets	757.5	0.2	868.4	0.2	14.6	1,297.6	0.3	49.4
Tangible assets (net of depreciation)	4,319.6	1.1	4,417.7	1.1	2.3	4,324.6	1.1	–2.1
Interest, fees and other assets	6,853.3	1.8	7,592.0	1.9	10.8	7,624.9	1.9	0.4
Net of: Collectively assessed impairment provisions	3,009.3	0.8	3,070.6	0.8	2.0	2,891.3	0.7	–5.8
Total assets	391,071.2	100.0	406,965.0	100.0	4.1	400,257.2	100.0	–1.6

Source: CNB.

latter being the result of the merger already mentioned. Medium-sized banks increased their net loans by 6.0% relative to the end of 2011 on account of the growth in loans in all banks from this group.

Some types of liquid assets decreased relative to the end of 2011, notably deposits with the CNB (by 4.6%) and banking institutions (by 11.5%). These changes were enabled by the amendments to the rule on minimum foreign currency liquidity[5] and the decrease in the reserve requirement allocation rate. They were also a constituent part of the package of incentive measures and at the same time reflected the need to withdraw surplus liquidity in an environment in which lending had dried up. The changes in the rule on the minimum foreign currency liquidity enabled the inclusion of euro T-bills of the MoF subscribed at an auction on 14 February 2012 in liquid foreign currency claims. The subscription of these T-bills, worth EUR 758.8m, was financed from deposits withdrawn from foreign banks. Deposits with banking institutions went down by HRK 3.1bn (11.5%) in 2012, this decrease being entirely accounted for by time deposits with foreign banks, notably majority foreign owners. Concurrently, deposits with domestic banks increased negligibly. Deposits with the CNB fell by a total of HRK 2.1bn (4.5%), this decline being almost equally accounted for by allocated reserve requirements and funds in the settlement account. Throughout most of 2012, banks maintained the solid level of surpluses of liquid funds deposited overnight with the CNB. At the end of 2012, these funds reached HRK 3.6bn, an increase of 20.0% on an annual basis.

3.3 Rates of change in bank peer group assets

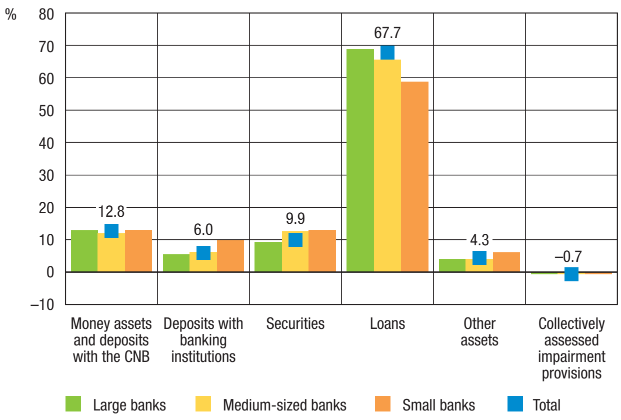


Source: CNB.

5 Decision on amendments to the Decision on the minimum required amount of foreign currency claims (OG 18/2012).

Investments of banks in securities stood at HRK 39.8bn, an increase of HRK 5.9bn or 17.4% from the end of 2011. In total, these investments reached a share of 9.9% in bank assets. A larger share of securities in bank assets has not been seen since the beginning of 2007, when it came to 10.5%. A marked increase of investment in securities was for the most part accounted for by bonds of domestic government and foreign financial institutions. The bulk of T-bills subscribed at the February 2012 auction had a maturity of 546 days, and they were reported by banks under bonds due to the long period of maturity. Banks distributed the better part of this issue into the portfolio of financial assets available for sale and the portfolio of financial assets measured at fair value through profit or loss. Their stock as at end 2012 shows that the total amount of the issue was kept in bank balance sheets. The substantial increase of investments in bonds of foreign financial institutions (by HRK 2.9bn or 174.0%) was accounted for by bonds issued by parent banks and banks affiliated with the parent and several European central governments.

3.4 Structure of bank peer group assets
as at 31 December 2012



Source: CNB.

A downward trend in bank investments in equity securities, present since 2007, continued into 2012 with a fall of 17.7%. As a result, their share in total securities went down from 1.3% to 0.9% relative to 2011.

An increase was recorded in all portfolios of securities, the largest growth (HRK 3.7bn or 16.8%) being recorded in the portfolio of available-for-sale instruments. This was a direct impact of the above mentioned issue of T-bills. Banks distributed the bulk of securities in this very portfolio which accounted for 65.2% of all investment in securities at the end of 2012. The marking to market of the securities in the available-for-sale portfolio resulted in an unrealised gain of HRK 328.1m at the end of 2012, which had a significant favourable effect on total bank capital.

Medium-sized banks reported the largest rate of growth of total investment in securities (27.8%), with the bulk of the growth expressed in nominal terms being accounted for by large banks (HRK 5.1bn) or 20.0%. Small banks decreased their investment in securities by 6.0% which was entirely due to the merger. This effect excluded, the growth in the remaining banks from this group stood at 8.9%.

Other items, less significant in the structure of assets, were marked by significant rates of changes due to the small base. Standing out among them were foreclosed and repossessed assets (in exchange for items past due), which, after growing by HRK 429.3m or 49.4%, reached a total of HRK 1.3bn. This largely included the acquisition of assets held for sale, construction projects and land. Notwithstanding the rise in foreclosed and repossessed assets acquired more than two years ago, the ratio between total investments in tangible assets and own funds remained at 9.5%, much lower than the allowed 40%. All bank groups reported high rates of growth of foreclosed and repossessed assets, this rate growing the strongest in large banks. Notwithstanding the accelerated growth in 2012, this category of assets continued to account for only a small share in total assets (0.3%). Small banks again reported a markedly higher share (1.7%). Difficulties in the collection of placements failed to result in significant acquisitions, i.e. the conversion of uncollected debt into equity holdings. Hence, the share of bank investment in the capital of non-financial institutions (which is limited to 30% of own funds) remained at only 1.6%. This share was higher only in several small banks but still markedly lower than allowed. Markedly higher funds were invested in the capital of financial institutions, 4.8% of own funds[6], their decrease in 2012 being exclusively the result of the merger between a small and a large bank.

In addition to the increase in the share of securities in total assets, in the structure of bank assets an increase was also observed in the share of other and less significant items, while the shares of all other asset items decreased. The share of net loans in assets decreased most, by 0.9 percentage point or to 67.7%. This share remained the largest in the group of large banks (68.9%) but also decreased most relative to the end of 2011. Medium-sized banks increased their share of net loans in assets to 65.6% and thus reversed the negative changes observed in 2011. Small banks continued to account for the smallest share of net loans in assets, this share additionally decreasing to 61.3% in 2012 on account of the aforementioned merger. Similar movements were observed in deposits with other banks. The decline in these deposits was the result of regulatory changes in the first half of the year, the withdrawal of surplus liquidity and the decrease in foreign liabilities, notably in the last quarter of 2012. As a result, the share of such deposits in bank assets fell from 6.6% at the end of 2011 to 6.0% at the end of 2012. As a rule, large banks maintained the smallest share of these deposits in assets (5.5%) and were followed by medium-sized banks with the share of 6.3%. In contrast, small banks accounted for the largest share, of 9.8%

6 Direct or indirect investments of credit institutions in other credit and financial institutions are not limited in terms of percentage of own funds and are treated (if they exceed 10% of the capital of credit or financial institutions in which an investment is made) as an item which is fully deducted from the own funds of a credit institution in which an investment is made.

Liabilities and capital

At the end of 2012, total bank liabilities went down by HRK 8.4bn or 2.4% (2.1%, if the exchange rate effects are excluded). This was predominately the result of strong changes in large banks which set the direction of changes in the system as a whole. The absence of stronger lending activities, accompanied by ample liquidity in the system and the growth of domestic savings, stimulated banks to decrease their foreign liabilities, this decrease being the strongest in the last quarter of 2012. The sharp fall in foreign sources of funds was almost entirely accounted for by deposit and loan repayments to majority foreign owners which fell by a total of HRK 16.0bn or 23.3%. This contributed to a significant decline in their share in total sources of funds, from 20.5% to 16.1%, and increased the reliance on domestic sources of funds. Solid growth in domestic sources of funds (3.8%) was above all based on the growth of household savings.

Domestic deposits grew in all sectors except corporates, in which deposits decreased more strongly in 2012 than in 2011 (HRK 2.5bn or 5.7%). The main reason for this was the negative changes observed in the first half of the year. Household deposits rate of growth (4.3%) decelerated for the third year in a row, while the total nominal increase remained at last year's level of HRK 6.8bn. Household deposits remained the most significant source of financing for banks, accounting for 51.4% of total sources and as much as 60.3% of total deposits. Notwithstanding the decelerated growth, the share of household deposits in total deposits was the largest since 2001 and is attributable to the concurrent decrease in the sources of domestic corporates and majority foreign owners. Deposits of financial institutions increased by a sizeable HRK 4.6bn or 33.4% on account of the rise in the deposits of other banking and non-banking sectors in all bank groups, notably in the group of medium-sized banks. A mild increase in deposits of other domestic sectors, government units and non-profit institutions had no major effect on total deposits due to its negligible importance.

Table 3.5 Structure of bank liabilities and capital

end of period, in million HRK and %

	2010		2011			2012		
	Amount	Share	Amount	Share	Change	Amount	Share	Change
Loans from financial institutions	18,178.8	4.6	17,316.5	4.3	–4.7	16,798.2	4.2	–3.0
Short-term loans	7,407.9	1.9	6,026.7	1.5	–18.6	3,899.3	1.0	–35.3
Long-term loans	10,770.9	2.8	11,289.8	2.8	4.8	12,898.9	3.2	14.3
Deposits	269,182.6	68.8	281,390.5	69.1	4.5	275,789.8	68.9	–2.0
Giro account and current account deposits	37,258.1	9.5	39,628.4	9.7	6.4	40,681.2	10.2	2.7
Savings deposits	26,705.5	6.8	26,376.2	6.5	–1.2	27,906.6	7.0	5.8
Time deposits	205,219.0	52.5	215,386.0	52.9	5.0	207,201.9	51.8	–3.8
Other loans	31,594.3	8.1	31,856.5	7.8	0.8	30,603.9	7.6	–3.9
Short-term loans	6,977.0	1.8	3,357.8	0.8	–51.9	4,399.3	1.1	31.0
Long-term loans	24,617.3	6.3	28,498.7	7.0	15.8	26,204.7	6.5	–8.0
Derivative financial liabilities and other financial liabilities held for trading	1,475.2	0.4	1,383.7	0.3	–6.2	1,752.3	0.4	26.6
Debt securities issued	124.3	0.0	0.0	0.0	–100.0	300.0	0.1	–
Short-term debt securities issued	0.0	0.0	0.0	0.0	–	0.0	0.0	–
Long-term debt securities issued	124.3	0.0	0.0	0.0	–100.0	300.0	0.1	–
Subordinated instruments issued	468.4	0.1	1,366.2	0.3	191.7	1,391.0	0.3	1.8
Hybrid instruments issued	3,431.2	0.9	3,601.1	0.9	5.0	3,243.0	0.8	–9.9
Interest, fees and other liabilities	12,288.2	3.1	14,283.6	3.5	16.2	12,953.6	3.2	–9.3
Total liabilities	336,743.0	86.1	351,198.2	86.3	4.3	342,831.8	85.7	–2.4
Share capital	29,468.2	7.5	33,805.6	8.3	14.7	34,231.0	8.6	1.3
Current year profit/loss	3,450.8	0.9	3,804.4	0.9	10.2	2,739.1	0.7	–28.0
Retained earnings/loss	8,927.9	2.3	13,705.2	3.4	53.5	15,705.8	3.9	14.6
Legal reserves	1,097.9	0.3	1,058.6	0.3	–3.6	1,081.1	0.3	2.1
Reserves provided for by the articles of association and other capital reserves	11,382.4	2.9	3,739.5	0.9	–67.1	3,390.6	0.8	–9.3
Unrealised gains/losses on value adjustments of financial assets available for sale	20.0	0.0	–283.9	–0.1	–	328.1	0.1	–
Reserves arising from hedging transactions	0.0	0.0	0.0	0.0	–	0.0	0.0	–
Previous year profit/loss	–19.0	0.0	–62.6	0.0	229.3	–50.1	0.0	–19.8
Total capital	54,328.2	13.9	55,766.8	13.7	2.6	57,425.4	14.3	3.0
Total liabilities and capital	391,071.2	100.0	406,965.0	100.0	4.1	400,257.2	100.0	–1.6

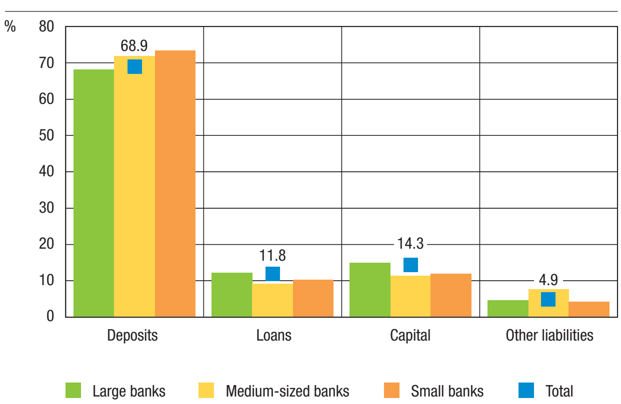
Source: CNB.

Total loans received stood at HRK 47.4bn at the end of 2012, down by HRK 1.8bn (3.6%) relative to the end of 2011. This is attributed to the fall in loans received from non-residents (6.4%), majority foreign owners and other foreign financial institutions. Concurrently, the debt to domestic sectors increased by a slight 1.5% on the account of the rise in repo loans received from domestic corporates, loans received from the CBRD and overnight bank loans.

The decrease in bank liabilities to their majority foreign owners was the most marked change in 2012. The major portion of the decrease was accounted for by deposits, with only a minor portion being accounted for by loans received. The decrease in these sources was observed as early as towards the end of the second quarter and accelerated in each subsequent quarter. Even when the effect of the sale of claims is excluded, the highest quarterly rate was observed in the last quarter of 2012. These sources fell by a total of HRK 16.0bn, or somewhat less than one fourth, which is entirely attributable to the 24.1% decrease in these sources in large banks. The use of these sources decreased in all large banks in the range between 3.1% and 62.3%. The decrease observed in medium-sized banks was somewhat weaker (19.2% on average). In contrast, the sources of funds from majority foreign owners trended up by 16.2% in the group of small banks due to their growth in the majority of small banks that use them.

In 2012, banks decreased the amount of hybrid instruments issued by 10.0% and increased the amount of subordinated instruments by a slight 1.8%. Financing by capital-like instruments was pronounced in 2011, a year in which these instruments went up by a strong 28.9% due mostly to their growth in one large bank. That bank issued a long-term kuna corporate bond worth HRK 300.0m at the end of 2012 in order to diversify its kuna sources and thus after three years again introduced issued securities in the sources of bank financing. The shares of hybrid and subordinated instruments fell slightly in the sources of financing of all banks, accounting for 1.4% of total sources. As compared to the other two groups of banks, small banks used these instruments somewhat more intensively, mainly in order to maintain a satisfactory capital adequacy level.

3.5 Structure of bank peer group liabilities and capital
as at 31 December 2012



Source: CNB.

Total balance sheet capital of banks amounted to HRK 57.4bn at the end of 2012. The increase in the balance sheet capital by HRK 1.7bn or 3.0% was based on the profit earned in 2012 and the markedly improved effects of value adjustments of financial assets distributed in the available-for-sale portfolio. The unrealised gain on value adjustment of financial assets available for sale amounted to HRK 328.1m at the end of 2012. In contrast, the loss on value adjustment of financial assets available for sale stood at HRK 283.9m at the end of 2011. The retained earnings edged up markedly due to the withholding of a share of the profit generated in 2011. In 2012, shareholders were paid HRK 2.1bn worth of dividends, a smaller portion of this amount being paid from retained earnings. The percentage of dividends paid out (55.6% of the amount of earnings from 2011) was markedly higher than in the previous year when one third of the earnings made in 2010 was paid out. Eight small banks were recapitalised in 2012 with a total of HRK 628.8m. However, due to the decrease in initial capital, brought about by the need to cover the losses from previous years, and the merger, the share capital went up by only 1.3%. It should be borne in mind that about 30% of this increase was the result of the conversion of hybrid instruments into shares. One large bank, which decreased its share capital by HRK 751.1m in 2011, paid out dividends to its shareholders on several occasions in 2012 on the basis of that obligation.

The continued strengthening of capital, notwithstanding the fall in total bank potential, contributed to the increase in the share of capital in bank liabilities and capital (to 14.3%) after the decrease in this share in 2011. The share of capital in liabilities and capital trended up in large and small banks and decreased by a small margin in medium-sized banks. Large banks once again reported the highest share of capital in liabilities and capital (14.9%). Small banks followed with a share of 12.0% and medium-sized banks had the smallest capital to liabilities ratio (11.4%). The growth of this ratio in large banks is attributed to a considerable decrease in liabilities and a concurrent increase in capital (3.0%), mostly on account of the retention of a portion of the profit generated in 2011. A marked increased in the current year's loss in one medium-sized bank had an adverse impact on the capital of the whole group, cutting its rate of growth to 4.7%. The growth in total liabilities was more pronounced and contributed to the fall in the share of capital in liabilities and capital in medium-sized banks. The capital of small banks was under the strong influence of the previous years' losses brought forward. This markedly negative trend is expected to continue due to a considerable increase in losses of small banks in 2012. The recapitalisations, the increase in capital reserves and the increase in unrealised gains on value adjustments of financial assets available for sale mitigated the described negative effects. As a result, a modest increase was observed in the total capital of small banks (1.5%) and in its share in total liabilities and capital.

Significant changes were also observed in the currency structure of bank balance sheets from the end of 2011. Foreign currency assets trended down by HRK 8.4bn (3.2%) due the decrease in loans to the non-financial sector and deposits with banking institutions. However, the kuna component trended up slightly (by 1.2%), due notably to the rise in kuna loans to financial institutions. Hence, the share of foreign currency items and kuna items with a currency clause in the currency structure of bank assets fell by 1.0 percentage point and the share of kuna items increased to 36.0% of total assets at the end of 2012. Changes in the currency structure of liabilities moved in the opposite direction. Kuna liabilities fell more markedly (by HRK 5.5bn or 4.8%) than foreign currency liabilities (by HRK 2.9bn or 1.2%). As a result, foreign currency liabilities of banks rose to 68.6%, while the share of kuna items in liabilities fell to 31.5%, after it had trended up in 2011.

Standard off-balance sheet items

After a very mild increase in 2011, the amount of standard off-balance sheet items continued to trend downwards in 2012. At the end of 2012, total standard off-balance sheet items stood at HRK 55.5bn, which is a decline of HRK 4.2bn or 7.1% from the end of 2011. Owing to a more intensive fall in bank assets, the standard off-balance sheet items to assets ratio decreased further, to 13.9% or by 0.8 percentage point. All categories of standard off-balance sheet items decreased relative to the end of 2011, the strongest decrease being observed in credit lines and commitments, by HRK 2.7bn or 10.3%. Issued guarantees recorded the next biggest fall (by HRK 1.1bn or 5.6%). Credit lines and commitments continued to account for the largest share (42.0%) of total standard off-balance sheet items. However, due to the negative changes present for most of 2012, this share fell by 1.5 percentage points, while the shares of all other items increased modestly due to the slower rate at which they decreased, notably guarantees, which accounted for 33.2% of all standard off-balance sheet items at the end of 2012.

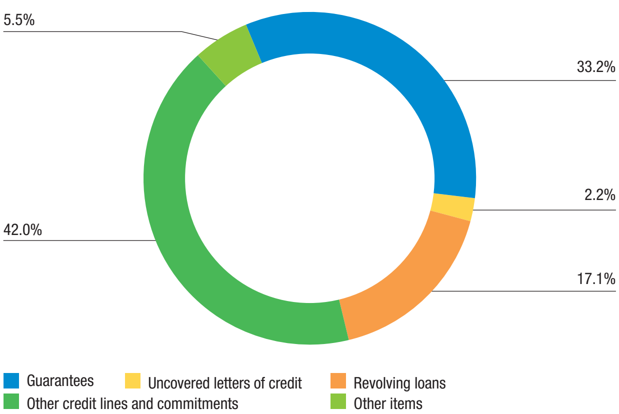
Only medium-sized banks increased the amount of standard off-balance sheet items in the previous year (3.4%) thanks to the rise in credit lines and other commitments and, to a lesser extent, revolving loans. In contrast, the fall in credit lines and in all other items triggered the decrease in standard off-balance sheet items in the remaining two bank groups (by 7.7% in large banks and by 9.3% in small banks). The decrease observed in the group of small banks was entirely the result of the merger.

Derivative financial instruments

The notional amount of derivative financial instruments fell by HRK 8.8bn or 6.5% at the end of 2012 relative to the end of 2011. With the exception of 2011, in which the notional amount of derivative financial instruments rose by a substantial 32.7%, these instruments have trended downwards in banks since the outbreak of the crisis. The notional amount of derivative financial instruments fell by a small margin in 2012. Hence, the notional amount of derivative financial instruments to bank assets ratio, although it had trended downward (31.9%), remained higher than in the 2008–2010 period. The changes in derivative financial instruments in 2012 are attributed to the strong decrease in forwards (by 79.9%), while swaps increased by 26.1%. However, these developments were under the strong influence of changes in one large bank which recorded as forwards the instruments it uses to hedge against the changes in the exchange rate and interest rates. But, as these were essentially swaps, the bank moved them to the appropriate positions at the end of 2012. This brought about a considerable change in the structure of derivative financial instruments, with almost the entire amount of these instruments being accounted for by swaps (92.1%). Forwards accounted for only 6.6% of all derivative financial instruments, while all other categories of these instruments accounted for the remaining 1.3%. If we exclude the effect of the change in recording in one large bank from the annual changes, both the decrease in forwards (26.2%) and the increase in swaps (2.5%) were considerably lower.

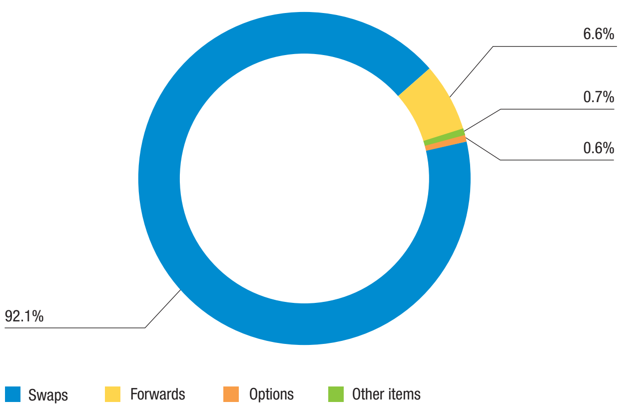
Almost the total amount of the decrease in derivative financial instruments was accounted for by instruments held for

3.6 Structure of bank standard off-balance sheet items
as at 31 December 2012



Source: CNB.

3.7 Structure of bank derivative financial instruments (notional amount)
as at 31 December 2012



Source: CNB.

trading (HRK 8.6bn). Embedded derivatives and hedge instruments were also marked by negative changes which had no major influence due to their small importance. The bulk of derivative financial instrumental remained distributed in the portfolio of instruments held for trading (99.3%). They were mainly held for hedging and regulatory arbitrage operations which, if carried out by banks on behalf of their clients, usually end in positions closed with parent banks.

After a strong increase from 27.6% in 2010 to 41.0% in 2011, the share of derivative financial instruments with the interest rate as the underlying variable grew to 43.5% at the end of 2012. Notwithstanding a decrease, derivative financial instruments with exchange rate as the underlying variable accounted for 56.2%.

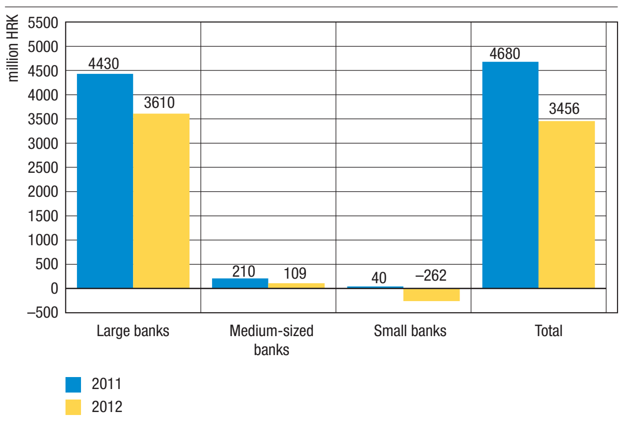
Large banks accounted for 95.6% of the total notional amount of derivative financial instruments. Hence, the derivative financial instruments-to-assets ratio was the largest (37.2%) in the group of large banks. It decreased by two percentage points relative to the end of 2011, due mostly to the developments observed in two large banks. In medium-sized banks, this ratio stood at 13.3% and in small banks at only 1.3%. Small banks mainly reported embedded derivatives (mostly including one-way currency clauses, which are treated as call options). Moreover, nine small banks did not have any category of derivative financial instruments.

3.1.2 Earnings

Income statement

The economic environment has had to face a number of challenges for several consecutive years. In 2012, these challenges affected bank operating results and profitability. Bank income before taxes went down by one fourth relative to 2011 and indicators of returns reached their record low since 1999. The fall of bank profitability is attributed to the contraction of all margins, notably net interest margin, and to the growth of loan portfolio losses. The number of banks operating with losses rose

3.8 Bank income before taxes



Source: CNB.

to more than one third of the total number of banks, all of these banks (except for one medium-sized bank) belonging to the group of small banks.

Net interest income went down by 8.8% in 2012 (Table 3.6) due to a marked increase in interest expenses, in particular in interest expenses on sources from foreign financial institutions, and a slight decrease in interest income. The increase in interest expenses on the sources from foreign financial institutions was highly affected by developments observed in one large bank which concurrently used derivative financial instruments to hedge against changes in the price of these sources. The bank so far reported these instruments as forwards, but, as these were essentially swaps, the bank moved them to the appropriate positions at the end of 2012. As a result, interest income from swaps strongly increased and counterbalanced the increased expenses, contributing to more realistic reporting of net interest income. If we take into account the effects of hedging, the impact of interest expenses on net interest income becomes smaller and the developments in bank interest income, notably interest income from loans, becomes more pronounced.

Since the outbreak of the crisis banks undertook a number of adjustments in an attempt to respond to the changes in operating conditions and the materialisation of credit risk. Among other things, they turned to new, low-risk clients and, in their absence, to large stable clients and to less risky sectors and forms of investment. The changes in risk preferences affected the movement in income. The growth in interest income brought about by stronger lending to government units and public enterprises and larger investment in high quality securities failed to compensate for the fall in interest income from loans to corporates and households, the most widely represented sectors. The new lending activity to these sectors was weak, and the level of non-interest bearing loans increased (B-1, B-2, B-3 and C risk category loans[7]). Interest income from loans to corporates and loans to households decreased by almost the same amount, the fall in interest income from loans to corporates being somewhat stronger in relative terms due to the additional influence of the movements in benchmark interest rates (such as EURIBOR). Interest income from all types of loans fell in the household sector, notably interest income from car purchase loans and home loans. These developments are attributed to several factors – the decline in lending, the deterioration of credit quality and to some extent to regulatory changes. The limitation of contract interest rates to at most 12%[8] in mid-2011 contributed to the fall in interest income from individual categories of loans to households, notably overdraft facilities. The fall in interest income from home loans was, in part, probably

7 Placements and off-balance sheet liabilities are classified into risk categories A, B-1, B-2, B-3 and C. Fully recoverable placements and off-balance sheet liabilities are classified into risk category A, partly recoverable placements and off-balance sheet liabilities into risk categories B-1, B-2 and B-3 and fully irrecoverable placements and off-balance sheet liabilities into risk category C. As a rule, interest income from partly recoverable placements is recognised in the income statement after it is collected.

8 In line with the decrease in the CNB discount rate from 9% to 7% from 1 July 2001, the legal penalty interest rate and the highest permitted interest rate in transactions between legal and natural persons may not exceed 12% (the CNB discount rate increased by 5 percentage points).

Table 3.6 Bank income statement

in million HRK

	Large banks		Medium-sized banks		Small banks		Total	
	Jan.–Dec. 2011	Jan.–Dec. 2012	Jan.–Dec. 2011	Jan.–Dec. 2012	Jan.–Dec. 2011	Jan.–Dec. 2012	Jan.–Dec. 2011	Jan.–Dec. 2012
Total interest income	17,686.6	17,844.3	1,977.6	1985.8	2,114.9	1,856.1	21,779.1	21,686.3
Total interest expenses	8,191.1	9,140.2	908.0	950.6	1,085.1	1,023.1	10,184.2	11,114.0
Net interest income	9,495.4	8,704.1	1,069.6	1035.2	1,029.8	833.0	11,594.9	10,572.3
Total income from fees and commissions	3,257.7	3,221.7	753.8	731.8	284.9	243.6	4,296.4	4,197.1
Total expenses on fees and commissions	774.1	838.7	437.4	413.0	77.0	68.5	1,288.5	1,320.2
Net income from fees and commissions	2,483.6	2,383.0	316.4	318.8	207.8	175.1	3,007.8	2,876.9
Other non-interest income	1,633.3	1,601.8	283.9	181.8	199.7	173.3	2,117.0	1,956.9
Other non-interest expenses	468.4	419.7	106.6	94.1	69.8	68.2	644.8	582.0
Net other non-interest income	1,164.9	1,182.1	177.4	87.6	129.9	105.1	1,472.2	1,374.8
Net non-interest income	3,648.5	3,565.1	493.8	406.4	337.7	280.2	4,480.0	4,251.7
General administrative expenses and depreciation	5,721.5	5,541.3	920.8	917.9	1,054.2	991.2	7,696.5	7,450.5
Net operating income before loss provisions	7,422.5	6,727.9	642.6	523.8	313.3	121.9	8,378.5	7,373.5
Expenses on value adjustments and provisions for identified losses	2,950.0	3,310.7	425.3	407.2	290.7	380.8	3,666.0	4,098.7
Expenses on collectively assessed impairment provisions	42.9	–192.5	7.7	7.8	1.7	3.3	52.3	–181.4
Total expenses on loss provisions	2,992.9	3,118.2	433.0	415.0	292.4	384.1	3,718.3	3,917.3
Income/loss before taxes	4,429.6	3,609.7	209.6	108.8	20.9	–262.2	4,660.2	3,456.3
Income tax	819.8	719.3	21.4	25.0	34.0	–27.1	875.2	717.2
Current year profit/loss	3,609.8	2,890.4	188.2	83.8	–13.1	–235.1	3,784.9	2,739.1
Memo items:								
Gains (losses) from trading activities	197.9	857.1	44.7	90.8	110.4	85.4	353.0	1,033.2
Gains (losses) from securities trading	–87.5	21.4	–18.6	5.9	1.5	–1.3	–104.6	25.9
Gains (losses) from foreign currency trading	557.0	636.4	0.5	105.4	107.8	87.0	665.2	828.8
Gains (losses) from domestic currency trading	3.4	3.8	0.1	0.0	–0.9	–0.8	2.6	3.1
Gains (losses) from derivatives trading	–274.9	195.5	62.7	–20.5	1.9	0.5	–210.3	175.4
Gains (losses) from exchange rate differentials	749.5	35.2	64.3	21.2	7.0	14.9	820.7	71.3
Number of banks operating with losses	0	0	0	1	9	10	9	11

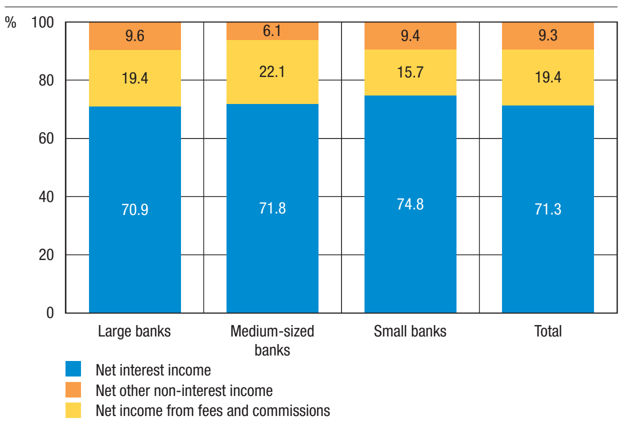
Source: CNB.

the result of lower interest rates on home loans granted under the programme of subsidies and government guarantees. This was particularly notable in the group of large banks in which the fall in interest income from household loans, largely brought about by the fall in income from home loans, was the major contributor to the fall in interest income from loans. In small and medium-sized banks the fall in interest income from loans was to a large extent the result of the fall in interest income in the corporate sector. Interest income decreased in the majority of banks and most in small banks.

As mentioned above, the rise in interest expenses was much affected by the growth in expenses on sources from foreign financial institutions in one large bank, i.e. expenses on the kuna sources from the majority foreign owner linked to ZIBOR, which should be interpreted in correlation with interest income from swaps. This bank, like the remaining banks that use the sources from majority foreign owners, experienced higher expenses on such financing in the first half of 2012, due notably

3.9 Structure of bank net income

as at 31 December 2012



Source: CNB.

to the worsening of risk premiums of foreign parent banks and the RC. The pressures created by these expenses diminished in the course of 2012. In addition to risk premium and benchmark interest rate developments, the third major contributor was the decrease in these sources, i.e. gradual bank deleveraging, notably vis-a-vis foreign parent banks. In contrast, deposits of domestic financial institutions, notably investment and pension funds, went up markedly, because of which there was a significant rise in the associated expenses. The significantly smaller contribution to the growth of interest expenses came from other domestic sectors. However, it should be noted that expenses trended up in all sectors. The average interest expenses edged down in the household sector due to the decline in interest rates on household deposits. Expenses on issued securities, notably expenses on issued subordinated and hybrid instruments, exerted an additional pressure on interest expenses. The major contributors to this effect were large banks and in particular one large bank, which issued a subordinated bond in mid-2011.

Net interest income, affected by unfavourable changes in both income and expenses, fell markedly and was the main reason for the weakening of bank operating results in 2012. Due to the domination of traditional banking activities, deposit-taking and lending, it remained the most important component of bank net income, accounting for 71.3% of total net income (Figure 3.9). Moreover, a fall was observed not only in this most important source of income but also in net income from fees and commission and net other non-interest income. Net income from fees and commissions went down for the second year in a row, its share in the structure of bank net income being on the decline for the fifth consecutive year. The fall in income from fees and commissions reflects weaker activities on the capital markets and a lower volume of off-balance sheet transactions and payment operations services as well as the absence of income from cross-selling due to low credit activity. Concurrently, due to the developments observed in the group of large banks, expenses on fees and commitments trended up considerably, notably those on non-resident services. Hence, net income from fees and commissions fell substantially in large banks, slightly in small banks and trended up modestly in medium-sized banks. In contrast, net other non-interest income increased only in large banks on account of a decrease in other non-interest expenses, involving business expenses, advertising and marketing expenses and expenses for different contingent liabilities (e.g. litigation, pensions and other compensations to employees, etc.). Large banks took additional efforts to improve their internal efficiency and were the only ones to succeed in decreasing their general administrative expenses and depreciation, due mainly to the decrease in expenses on employees. The number of employees fell modestly, contributing to the decrease in the average expense per employee. General administrative expenses and depreciation grew marginally in small banks due exclusively to the strong growth in one bank in this group. This was due to large investments of the new owner in the expansion and improvement of bank operations.

Unfavourable developments in all components, with the exception of a slight decrease in general operating expenses, brought about a fall in net operating income before loss provisions. It was HRK 1.0bn or 11.99% lower than at the end of 2011. Net operating income fell by somewhat less than 10% in large banks and by more than 50% in small banks. Nine small banks reported negative net operating income before loss provisions (their revenues were not sufficient for the coverage of general operating expenses). The most important contributor to the fall of net operating income of small banks was the fall in interest income from loans. The growth in risk categories B[9] and C, notably in the corporate sector, made a significant negative impact on net interest margin of small banks. Net interest margin was the lowest in this group of banks, which was in contrast with trends observed in previous years and historically high values of net interest margin in this very bank group. Small banks usually use increased net interest margin for the coverage of the fixed expense (which needs to be distributed over a narrow base of clients), which for example includes relatively large operating network. Expenses on loss provisions, which grew the most in this group of banks, by somewhat more than one third, were an additional burden.

Expenses on loss provisions went up by 5.35% in 2012 due mostly to the developments observed in the last quarter of 2012 marked by a more rigorous approach to the assessment of the quality of credit exposures by banks. Moreover, on-site examination carried out by the CNB also resulted in the additional provisioning. The increase in provision expenses was offset by the sale of partly recoverable claims in one large bank when the difference between the purchase and selling prices and the net book value of claims resulted in income from the repeal of expenses on provisions. The two key components of total provision expenses moved in the opposite directions. Banks reported income on the basis of repealed provision expenses on latent losses in risk category A which somewhat moderated the rise in provision expenses on risk categories B and C. Income reported on the basis of repealed provisions for risk category A is attributed to the decrease in exposures distributed into this risk category brought about by the reclassification of exposures, further decrease in off-balance sheet activities and the decrease in deposits held with banks. In contrast to provision expenses on risk category A, provision expenses on risk categories B and C went up markedly, the major contributors being the growth in exposures in these risk categories and the transfer of non-performing claims into higher risk categories, i.e. the rise in losses on exposures that were earlier recorded as partly recoverable. Due to these reasons and the weakening of income, provision expenses continued to weigh negatively on net operating income (53.13%). Losses before taxes were reported by twelve banks[10], three more than in 2011. With the exception of one medium-sized bank, they were all from the group of small banks, accounting for 4.9% of total bank assets.

9 Risk categories B-1, B-2 and B-3.

10 Eleven banks reported the current year loss (after taxes). This was the consequence of the transfer of unused tax losses from previous years, i.e. the booking of deferred tax assets in one bank.

Indicators of returns

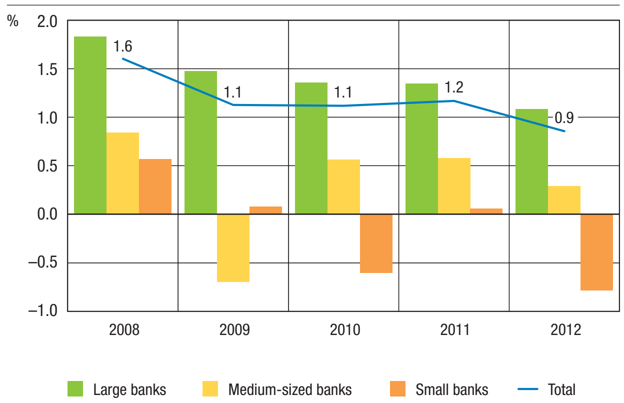
The mild recovery in indicators of return on assets and return on equity observed in 2010 and 2011 came to a halt in 2012. Moreover, these indicators fell to their record low since 1999. The return on average assets (ROAA) stood at 0.9% and the return on average equity (ROAE) at 4.8% respectively (Figures 3.10 and 3.11). The fall in profitability is attributed to the contraction of all margins and to the growth in loan loss provisions.

Trends in return indicators differed considerably in the different bank groups. Only four banks had ROAA higher than 1%. As they all belonged to the group of large banks, the ROAA in this group remained higher than 1%. It stood at 1.1%, while the ROAE was 6.0%. A markedly higher fall in profitability and weaker indicators were observed in medium-sized and small banks. The ROAA and ROAE stood at 0.3% and 1.9% respectively in the group of medium-sized banks and were negative in the group of small banks due to losses generated by the group as a whole.

The decline in profitability is closely related to the fall in the interest rate spread (Figure 3.12). It should be pointed out here that due to the use of swaps to hedge against interest rate risk and their being moved to the appropriate positions the real movement in the average interest income is unclear as it is the effect of the hedge. However, it may be concluded that the pressures on the interest rate spread were coming from both income and revenues in 2012. One way of dealing with such pressures is most certainly the improvement of the cost-to-income ratio.

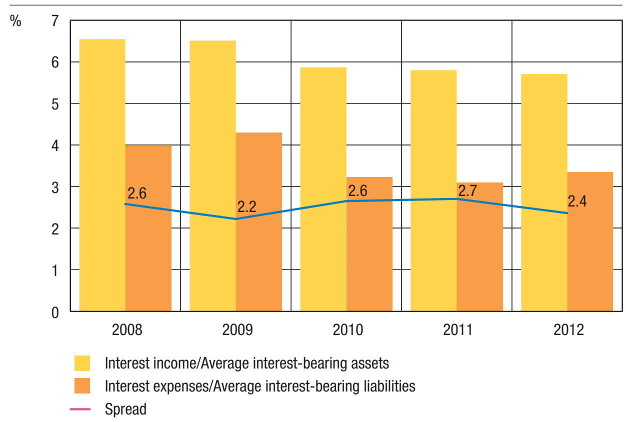
Cost-to-income indicators, assets per employee and the ratio between general operating expenses and net income (the cost-to-income ratio) deteriorated in 2012. The number of bank employees fell modestly (by 1.0%), while expenses per employee continued to account for more than one half of total general operating expenses. The decrease in the number of employees did not follow the dynamics of the decrease in banks' assets, with the amount of assets per employee trending down

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



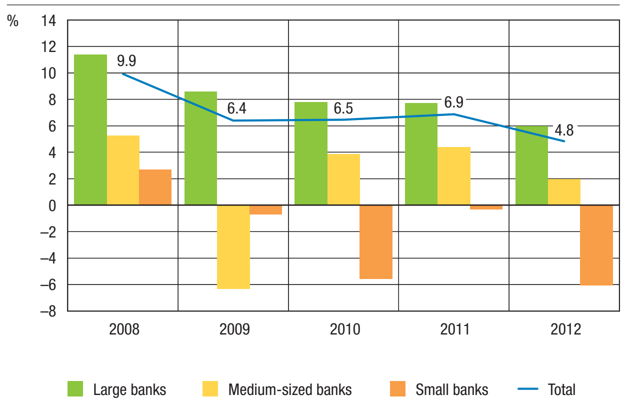
Source: CNB.

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



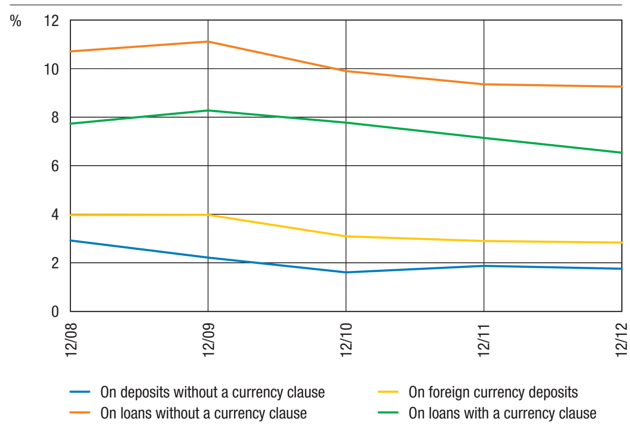
Source: CNB.

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



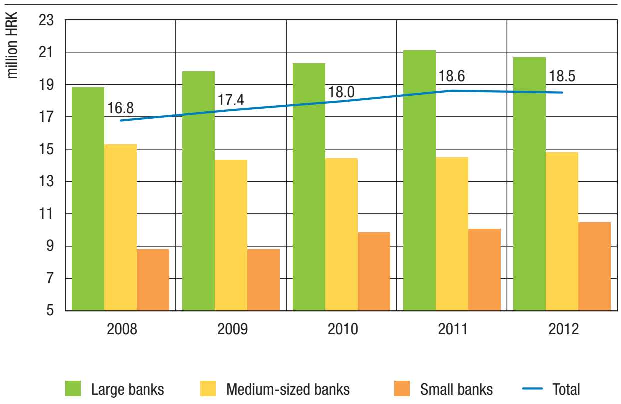
Source: CNB.

3.13 Weighted averages of bank monthly interest rates
on annual basis



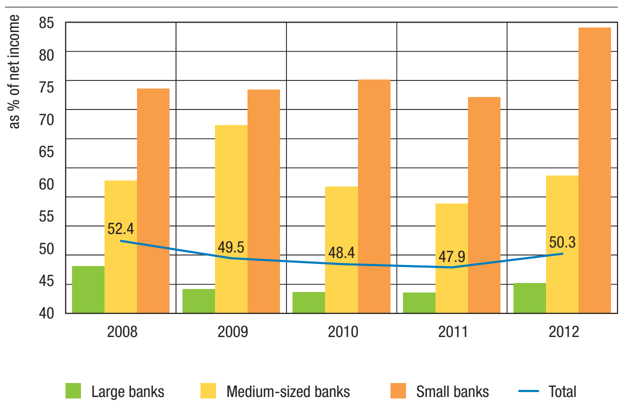
Source: CNB.

3.14 Bank assets per employee
end of period



Source: CNB.

3.15 Bank operating expenses
end of period



Source: CNB.

by a small margin, to HRK 18.5m (Figure 3.14). This was the result of developments in large banks, while the indicator grew modestly in the remaining groups of banks. The indicator value remained the most favourable in large banks.

The ratio between general operating expenses and net income trended up by more than 2 percentage points, exceeding 50% (Figure 3.15). It grew in all bank groups, most in the group of small banks (89.1%) traditionally marked by the worst cost-to-income ratio. This ratio deteriorated the least in large banks due to the fall in the average expense per employee and the least pronounced fall in net income. In large and medium-sized banks, it stood at 45.2% and 63.7% respectively.

3.1.3 Credit risk

Placements and assumed off-balance sheet liabilities

Total placements and assumed off-balance sheet liabilities that are exposed to credit risk[11] and are subject to classification into risk categories in accordance with the rules that govern classification, fell by HRK 15.5bn (3.5%) or to HRK 422.3bn relative to the end of 2011. This was due to the decrease in all major components of placements, i.e. loans granted, deposits and assumed off-balance sheet items. One half of the total decrease in placements and assumed off-balance sheet liabilities was accounted for by loans granted, which fell by HRK 7.8bn (2.7%) from the end of 2011. The other half was accounted for by deposits and assumed off-balance sheet liabilities which fell at a somewhat stronger rate than loans granted. These items fell by 7.1% each and thus contributed to a slight decrease in their shares in the structure of credit exposure. Deposits given and assumed off-balance sheet liabilities are usually assessed by banks as the placements of the highest quality. Their decrease in parallel with the growth of loan portfolio losses pushed up the shares of partly recoverable placements, fully irrecoverable placements and off-balance sheet liabilities in the total from 9.0% at the end of 2011 to 10.1% at the end of 2012.

The decrease in deposits with other institutions is in part attributable to the regulatory changes in the first half of 2012 aimed at making lending to the government and the private sector easier. The provision on the minimum required foreign currency claims was amended early in 2012 in order to enable banks to purchase euro-denominated T-bills more easily. Banks mainly distributed the purchased T-bills in the portfolios of financial assets that are not subject to the classification into risk categories. Hence, the effect of the restructuring of assets on the total amount of placements was negative. The bulk of the total decrease in deposits (HRK 5.2bn) was accounted for by deposits in foreign banks and parent banks, which declined by more than HRK 4.8bn (53.8%) from the end of 2011. Nevertheless, the coverage of foreign currency liabilities by foreign currency claims remained good in banks (21.2%) at end-2012 due to the change in the minimum foreign currency liquidity rule and the inclusion of T-bills in the coverage of liquid foreign currency claims. Deposits with the CNB trended down by 4.6% on the account of an equal decrease in allocated reserve requirements and the balances in bank settlement accounts.

The reluctance on the part of banks to be exposed additionally to credit risk was corroborated by the decrease in assumed liabilities to clients. As a result, banks decreased their standard risky off-balance sheet items by HRK 4.2bn relative to the end of 2011, notably credit lines and other commitments and guarantees. In nominal terms, the largest decrease was seen in assumed household financing commitments (HRK 1.8bn or 8.4%).

The rate of exposure to credit risk fell most in small banks (4.5%) on the account of the decrease in the number of banks in

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

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	2010			2011			2012		
	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	386,077.1	3,564.8	0.9	398,369.0	3,600.2	0.9	379,660.6	3,420.2	0.9
B-1	16,233.9	2,151.0	13.2	16,754.6	2,344.6	14.0	18,641.4	2,583.2	13.9
B-2	9,327.2	4,147.6	44.5	13,909.6	6,172.1	44.4	13,546.7	6,288.7	46.4
B-3	1,895.2	1,518.0	80.1	1,848.0	1,482.2	80.2	2,753.2	2,223.8	80.8
C	5,784.8	5,784.4	100.0	6,835.8	6,835.9	100.0	7,651.8	7,650.9	100.0
Total	419,318.2	17,165.8	4.1	437,716.9	20,434.9	4.7	422,253.7	22,166.8	5.2

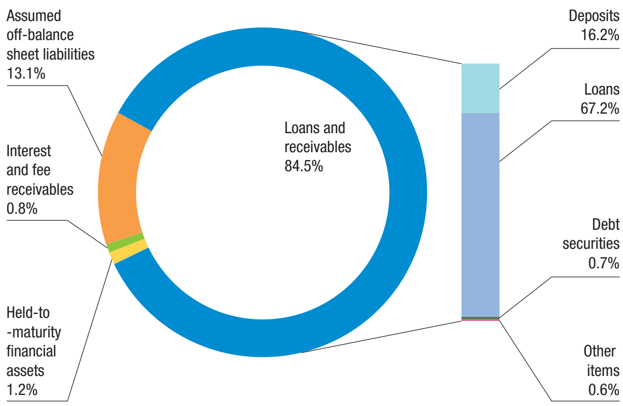
Note: Since 2010, the portfolio of financial assets available for sale has been excluded from the scope of placements and assumed off-balance sheet liabilities classified into risk categories.
Source: CNB.

this group. This effect excluded, total placements and assumed off-balance sheet liabilities of small banks trended up by 3.5% due to the growth in all components of exposure to credit risk, except for investment in held-to-maturity financial assets. Total placements and assumed off-balance sheet liabilities in medium-sized banks grew at the same rate as those in small banks, the base of their growth being loans granted to government units. In contrast, large banks witnessed a fall in exposure to credit risk, i.e. a decrease in placements and assumed off-balance sheet liabilities, by HRK 15.3bn (4.2%) which in turn set the direction of changes in the entire system. The major contributor to this was the decrease in loans in the group of large banks, which was mostly the result of the sale of these claims in one large bank. If we exclude the portion accounted for by claims sold from the decrease in loans of large banks, the fall in total placements and assumed off-balance sheet liabilities was weaker and stood at about 2.7%. Only large banks succeeded in decreasing the total amount of assumed liabilities to their clients, due mostly to the fall in household and corporate financing commitments.

The growth in claims which most probably will not be fully recovered continued in 2012, at a rate smaller (8.3%) than that in 2011. The deceleration of the growth dynamics continued for the third year in a row (31.7% in 2010 and 19.0% in 2011), with the proviso that the continuation of this trend in 2012 was exclusively the result of the sale of partly recoverable and fully irrecoverable claims. Otherwise, the downward trend in these claims would have been interrupted because the annual rate of growth of claims distributed into risk categories B and C would have been much higher and amount to 22.5%. Concurrently, claims usually assessed by banks as those of the highest quality (risk category A) fell substantially (4.8%). 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 if outflows do take place, they are expected to be fully recovered. This decrease was the consequence of lower bank placements in deposits and the fall in assumed liabilities and the concurrent deleveraging of bank clients and the ageing and deterioration of the existing loan portfolios. The described opposite trends in risk categories in 2012 relative to 2012 resulted in the decrease of the share of placements and assumed off-balance sheet liabilities classified into risk category A in total placements and assumed off-balance sheet liabilities (to 89.9%). The share of partly recoverable placements and assumed off-balance sheet liabilities and fully irrecoverable placements and assumed off-balance sheet liabilities went up to 10.1% or by 1.1 percentage points. The growth of total due but unpaid claims was less pronounced than in 2011 as was the activity of the rollover and restructuring of placements.

Due to the deterioration in exposure quality loan portfolio losses grew 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) trended up for the fourth consecutive year, reaching 5.2% at the end of 2012. The ageing of the portion of the portfolio classified into risk categories B and C resulted in increasingly larger amounts of arrears and growing losses, prompting banks to increase value adjustments and provisions in risk categories B and C by 11.2%. The sale of claims significantly reduced the rate of this growth relative to 23.9% in 2011. In B and C risk categories, only claims classified into risk category B-2 (losses accounting for between 30% and 70% of the amount of claims) fell modestly, while all other claims trended up markedly. As a result, the average loss

3.16 Structure of bank placements and assumed off-balance sheet liabilities
as at 31 December 2012

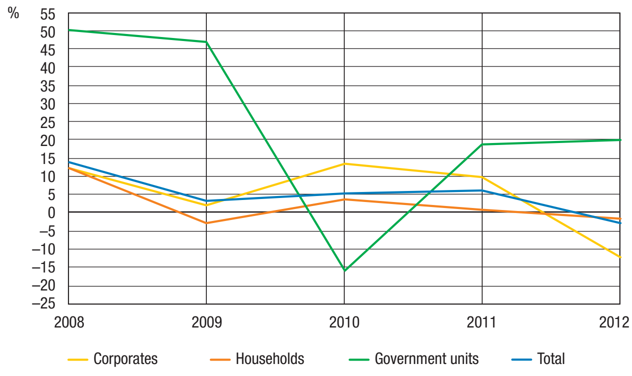


Source: CNB.

on exposures classified into risk categories B and C trended up, i.e. the coverage of these exposures by value adjustments and provisions rose to 44.0%. Following the decrease in claims in risk category A, value adjustments and collectively assessed impairment provisions decreased, with the coverage in this risk category remaining stable at 0.9%.[12]

Placements and off-balance sheet liabilities classified into risk categories B and C grew at the highest rate in small banks (15.9%) while the quality of placements and off-balance sheet liabilities worsened additionally. Claims classified into risk categories B and C in this group of banks accounted for 14.8% of total exposure to credit risk, up 2.6 percentage points from 2011. The quality of placements and off-balance sheet liabilities remained the highest in large banks, in which the share of risk categories B and C stood at 9.3%. In part, this was due to the structure of the loan portfolio because in the distribution of loans of large banks a considerably larger share is accounted for by the less risky sectors of households and government units and by the sub-sector of public enterprises. An additional influence was exerted by the above mentioned sale of claims due to which the growth in risk categories B and C in this group of banks was mitigated and stood at 7.1%. Risk categories B and C grew by 9.1% in medium-sized banks in 2012 from 2011, increasing their share in total placements and off-balance sheet liabilities to 13.4%.

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

A slight recovery in lending activities in 2010 and 2011 came to a halt in 2012. Granted bank loans (classified into the loans and receivables portfolio, in gross amount) stood at HRK 283.9bn at the end of 2012, which is a decrease of HRK 7.8bn or 2.7% from the end of the previous year. The reported growth in loans was not largely influenced by the exchange rate changes and if their effects are excluded, loans grew by 2.9% effectively.

In 2012, bank loan portfolios were under the influence of factors contributing to the changes in their amount and quality and the structure broken down by institutional sectors. The amount of loan portfolios was mostly influenced by the sale of claims to one large bank, contributing to the decrease in the amount of gross loans classified into risk categories B and C in that bank (by HRK 5.6bn). The amount of sold claims accounted for a major portion of total decreased in loans of all banks. This effect excluded, the decrease in loans in the system as a whole was much smaller and stood at about 0.4%. In contrast to the negative influence, a positive effect on the amount of total bank loans was made by the participation of banks in the Programme for the Development of the Economy. Within this programme, a total of 13 banks extended a syndicated loan of HRK 3.4bn to the CBRD. In accordance with the adopted Programme, the banks and the CBRD jointly, each contributing the same amount of funds, extend loans to the economy.

In 2012, these changes made a significant influence on the structure of granted loans broken down by institutional sectors. Due to the impact of the syndicated loan granted by banks to the CBRD total loans to financial institutions grew at a higher rate than to any other sector (38.0%). As a result, the share of loans to this sector in total bank loans increased from 2.5% in 2011 to 3.5% at the end of 2012. The rate of growth in loans granted to government units (19.8%) was also significant. The growth was based on the assumption of shipyards' liabilities (HRK 6.6bn) into the public debt of the RC in accordance with the Act on the Rights and Obligations of Shipyards in the Process of Restructuring.[13] Hence, the share of loans to government units in the sectoral structure of loans granted trended up by 2.5 percentage points (to 13.3%), while the share of loans to corporates trended down. Loans to non-residents went up by a slight 2.1%. However, due to their small share in the sectoral structure of loans granted the observed increase did not have a significant impact on the trends in and the structure of total loans. The trend of deleveraging continued in the household sector for the fourth consecutive year. Nevertheless, the share of household loans in total bank loans increased by a modest 0.6 percentage point, to 44.5%, on the account of changes observed in other sectors.

The consequence of the transfer of loans granted to shipyards into the public debt was the decrease in loans to public enterprises. The fall in loans to other corporates is attributed to the impact of the above mentioned sale of claims in one large bank. The total decrease in loans to the sector of corporates stood at HRK 15.0bn or 12.2% in 2012 relative to 2011, the major portion of that decrease being the result of these changes. If this effect were excluded, the amount of loans to corporates would decrease considerably, at a rate slightly higher than 2%. The decrease in loans to corporates resulted in the decrease of

12 Credit institutions have to maintain the level of impairment (value adjustment) for placements and provisions for off-balance sheet liabilities classified into risk category A in the amount that is not below 0.85% or above 1.20% of the total balance of risk category A placements and off-balance sheet liabilities.
13 OG 61/2011.

Table 3.8 Bank loans

end of period, in million HRK and %

	2010			2011			2012		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
Loans									
Government units	26,559.3	9.7	–15.8	31,496.8	10.8	18.6	37,720.1	13.3	19.8
Corporates	112,139.4	40.8	13.4	122,942.8	42.1	9.6	107,990.4	38.0	–12.2
Households	127,139.1	46.2	4.0	128,057.8	43.9	0.7	126,198.5	44.5	–1.5
Home loans	57,981.0	21.1	9.5	59,642.3	20.4	2.9	59,236.0	20.9	–0.7
Mortgage loans	3,513.3	1.3	13.9	3,261.3	1.1	–7.2	3,073.7	1.1	–5.8
Car loans	6,236.8	2.3	–20.1	4,539.4	1.6	–27.2	3,175.0	1.1	–30.1
Credit card loans	4,386.8	1.6	–12.7	4,109.3	1.4	–6.3	3,941.2	1.4	–4.1
Other household loans	55,021.2	20.0	3.2	56,505.5	19.4	2.7	56,772.7	20.0	0.5
Other sectors	9,111.8	3.3	7.6	9,219.5	3.2	1.2	11,990.1	4.2	30.1
Total	**274,949.6**	**100.0**	**5.3**	**291,716.9**	**100.0**	**6.1**	**283,899.0**	**100.0**	**–2.7**
Partly recoverable and fully irrecoverable loans									
Government units	75.5	0.2	21.7	97.4	0.3	29.0	68.2	0.2	–30.0
Corporates	20,257.0	65.6	59.1	24,744.7	68.2	22.2	26,646.6	68.0	7.7
Households	9,930.1	32.2	40.2	11,020.9	30.4	11.0	11,930.4	30.4	8.3
Home loans	2,584.7	8.4	78.7	3,111.4	8.6	20.4	3,652.7	9.3	17.4
Mortgage loans	788.6	2.6	114.3	699.8	1.9	–11.3	727.6	1.9	4.0
Car loans	257.6	0.8	–22.0	181.5	0.5	–29.5	157.8	0.4	–13.1
Credit card loans	174.6	0.6	14.4	164.3	0.5	–5.9	174.8	0.4	6.4
Other household loans	6,124.6	19.8	28.0	6,863.9	18.9	12.1	7,217.4	18.4	5.2
Other sectors	616.1	2.0	27.9	411.5	1.1	–33.2	552.3	1.4	34.2
Total	**30,878.6**	**100.0**	**51.7**	**36,274.5**	**100.0**	**17.5**	**39,197.5**	**100.0**	**8.1**
Value adjustments of partly recoverable and fully irrecoverable loans									
Government units	6.0	0.1	8.8	19.8	0.1	228.2	25.4	0.2	28.6
Corporates	6,481.5	54.1	53.1	8,687.7	57.8	34.0	9,727.3	58.1	12.0
Households	5,269.9	44.0	22.3	6,059.2	40.3	15.0	6,698.9	40.0	10.6
Home loans	749.8	6.3	45.1	1,040.3	6.9	38.7	1,257.1	7.5	20.8
Mortgage loans	226.9	1.9	94.5	185.1	1.2	–18.4	213.1	1.3	15.1
Car loans	141.5	1.2	–31.4	138.9	0.9	–1.9	125.0	0.7	–10.0
Credit card loans	149.9	1.3	19.4	147.9	1.0	–1.3	161.2	1.0	9.0
Other household loans	4,001.7	33.4	19.7	4,547.0	30.3	13.6	4,942.5	29.5	8.7
Other sectors	230.0	1.9	40.7	262.6	1.7	14.2	292.1	1.7	11.2
Total	**11,987.3**	**100.0**	**37.6**	**15,029.2**	**100.0**	**25.4**	**16,743.7**	**100.0**	**11.4**

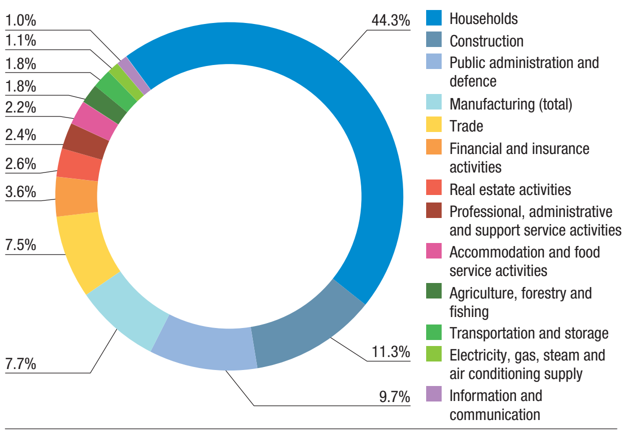
Note: From 2010, loans comprise loans classified into loans and receivables portfolio, distribution by sectors is carried out in accordance with ESA 95 and loans to non-profit institutions serving households are included in household loans.
Source: CNB.

their share in the sectoral structure of total loans in 2012 relative to 2011, by 4.1 percentage points, to a total of 38.0% at the end of 2012.

The weakening of lending activities, the continuation of unfavourable economic trends and the ageing of portfolios contributed to the further deterioration of the loan quality indicator. This trend continued, notably in the corporate sector, despite a decrease in total bank exposure to this sector on the basis of sold claims on loans classified into risk categories B and C. The effect of the sale of claims markedly slowed down the growth rate of total loans classified into risk categories B and C (to 8.1%). However, if this effect were excluded, this trend would accelerate, growing at a rate higher than 23.0%. The share of B and C risk category loans in total loans rose from 12.4% at the end of 2011 to 13.8% at the end of 2012. The share of B and C risk category loans in the corporate sector reached 24.7%, up 4.6 percentage points from the end of 2011. Due to the described effect of the sale of claims classified into risk categories B and C, the growth of both shares was mitigated as well.

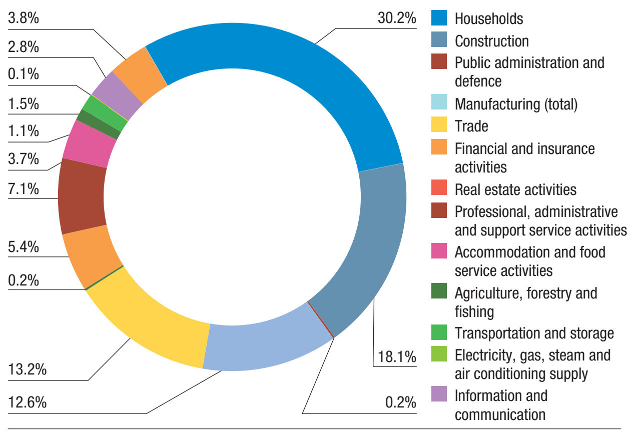
The rise in B and C risk category loans in the household sector decelerated somewhat, the growth rate of such loans amounting to 8.3%. Hence, the household loan quality indicator rose to 9.5%, an increase of 0.9 percentage point in the share of B and C risk category loans in total household loans from the end of 2011. The main reason for the fall in the quality was home loans in which the share of partly recoverable and

3.18 Structure of bank loans by activities
as at 31 December 2012



Source: CNB.

3.19 Structure of bank partly recoverable and fully irrecoverable loans by activities
as at 31 December 2012



Source: CNB.

fully irrecoverable loans increased to 6.2% on the account of the 17.4% growth in those claims. However, since household loans still account for the largest portion of bank loan portfolios, their relatively good quality as compared to the quality of corporate loans mitigated the level of the quality indicator of total loans.

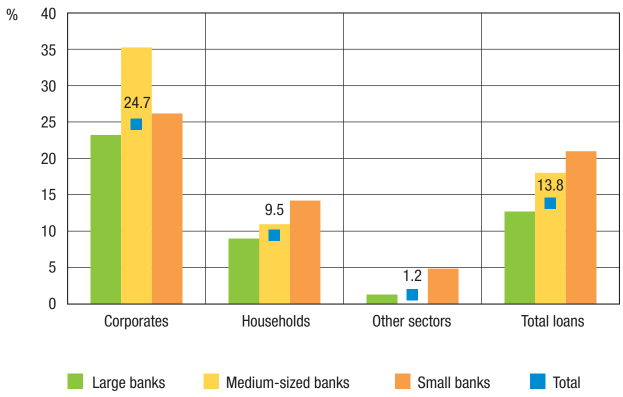
At the end of 2012, total B and C risk category loans were covered by value adjustments amounting to 42.7%. This indicator was higher than in 2011 owing to an increase in value adjustments of loans (11.4%) higher than that in value adjustments of partly recoverable and fully irrecoverable items. The aggregate indicator of the coverage of total loans from B and C risk categories continued to impact the coverage of the household sector (56.2%), while the coverage in the corporate sector was markedly lower (36.5%) despite a slight increase in the coverage of loans in B and C risk categories. The reason for this lies, among other things, in the quality of instruments of collateral. This was in particular visible in the markedly lower coverage of better collateralised loans such as home and mortgage loans, i.e. in larger coverage of loans in relation to which banks assess credit risk collectively on the basis of the criterion of timeliness in meeting the obligations (the portfolio of small loans).

In addition to the changes in the sectoral structure, the transfer of loans granted to shipyards into the public debt of the RC affected the distribution of total loans by activities. Due mainly to this change the exposure of banks to manufacturing, shipyards included, fell most (HRK 8.4bn or 27.8%). In addition, a decrease was also observed in loans to the majority of other manufacturing branches, decreasing the share of this activity in the distribution of bank loans to 7.7%, almost 3 percentage points less than at the end of 2011. Banks considerably decreased their exposure to another two activities: in trade, in which the decrease in loans stood at HRK 1.4bn (6.3%) and in professional, scientific, administrative and support services (HRK 1.1bn or 13.6%). In 2012, banks increased loans to the clients from relatively poorly represented activities such as electricity, gas, steam and air conditioning supply (17.5%) and transportation and storage (13.7%).

The strong growth in construction loans largely contributed to the change in total amount and quality of bank loans. However, banks' support to the financing of the construction and sale of residential and other property had already halted in 2011 and continued to decline in 2012. Within this activity, a sizeable growth in loans was only observed in loans to corporates from the government sector and public enterprises involved in construction and management of motorways and state roads, while loans to other corporates involved in construction went down. As a result, bank exposure to construction loans increased by HRK 1.1bn or 3.5% and the share of construction loans in total bank loans rose from 10.7% at the end of 2011 to 11.3% at the end of 2012. However, if we add to this share the related real estate business, the share of loans increases to 13.9%. All three bank groups are equally exposed to the these activities – the share in total loans ranged from the lowest share of 9.2% in medium-sized banks, 13.3% in small banks to the largest share of 14.5% in large banks at the end of 2012.

In 2012, the deterioration in credit quality in construction was the major contributor to the poorer quality of total bank loans as their increase of HRK 1.2bn or 4.5% accounted for almost 40% of total growth in B and C risk category loans. B and C risk category loans in this activity reached a share of 22.0%. When we exclude corporates involved in the construction and management of motorways and state roads from the data coverage, the share increases significantly, to as much as 43.2%. In the related real estate business, B and C risk category loans increased by a noticeable 10.1%, their share increasing to 29.2% of total loans to this activity. At the end of 2012, almost one fourth of the amount of partly recoverable and fully irrecoverable loans was accounted for by B and C risk category loans extended to these two activities. The coverage of irrecoverable loans in construction grew by a small margin, to 35.9%, which is considerably lower than the growth in the aggregate indicator for the corporate sector and markedly influences the level of this indicator. The low coverage in this activity might be due to the fact that these loans are well-collateralised, i.e. the use of real

3.20 Share of bank partly recoverable and fully irrecoverable loans
as at 31 December 2012



Source: CNB.

estate property as instruments of collateral.

The decrease in loans in 2012 was primarily accounted for by the decrease in foreign currency loans, including loans in kuna with a currency clause, while a slight increase was observed only in kuna loans. As a result, bank exposure to CICR trended down, i.e. the share of loans exposed to CICR and the share of loans unhedged against CICR in total loans. At the end of 2012, somewhat less than three fourths of total bank loans (net) were exposed to CICR and a little over 90% of that amount was unhedged against this risk, i.e. made to clients with an unmatched currency position. Euro loans and loans in kuna with a euro currency clause accounted for almost the entire amount of the decrease in loans in 2012, their share in total bank loans standing at 63.4%. Loans in Swiss francs accounted for the remaining portion of the decrease (kuna loans with a currency clause in Swiss francs included), continuing on the downward trend observed in 2011. The share of these loans in total bank loans fell to less than 10%. However, more than 90% of their amount is still accounted for by loans granted to households. The decrease in car purchase loans and home loans generated the bulk of the decrease in loans in Swiss francs in 2012 relative to 2011.

The quality of kuna loans remained the poorest at the end of 2012, their share in B and C risk category loans standing at 16.5%. Although the largest portion of kuna loans was placed to households, the ultimate indicator value is affected by corporates, due notably to the poor quality of loans for working capital and investment. Notwithstanding the fastest growth in partly recoverable and fully irrecoverable amounts in the segment of euro loans (kuna loans with a euro currency clause included), their share in total loans in that currency remained the lowest (12.8%) even after the increase in B and C risk category loans by 12.1%. Most euro loans, more than 80% of the total amount, were placed in equal amounts to corporates and households, with loans to households enhancing the quality of these loans (the share of B and C risky category loans in total loans in that currency stood at 7.4%).

The quality of loans in Swiss francs was for the first time poorer than the quality of euro loans at the end of 2011, this portfolio continuing to deteriorate in 2012 albeit at a slower pace. The slowdown was the result of the decrease in these loans in B and C risk categories in the corporate sector and loans other than home loans in the household sector. The share of B and C risk category loans in loans indexed to Swiss francs went up, making up 13.1% of total loans in that currency. In the portfolio of home loans, the growth in B and C risk category loans in Swiss francs continued to trend up at a rate of 18.1% or at a somewhat lower rate than in 2011. Although most of the loans in Swiss francs were granted to households, the quality of this portfolio was considerably influenced by corporates; although they accounted for only 7.8% of total loans in Swiss francs at the end of 2012, they were responsible for 29.5% of the loans in that currency classified into B and C risk categories. At the end of 2012, banks assessed almost one half of loans in Swiss francs granted to corporates as partly recoverable or fully irrecoverable claims, this share being much lower in the household sector (10.0%).

Home loans continued to account for the largest share in total bank loans (20.9%) at the end of 2012. Notwithstanding the decrease in these loans generated by the decline in the majority of other significant forms of lending, their share in total loans trended up slightly. The amount of loans for working capital and investment decreased most in the corporate sector. However, as this did not change the distribution of loans to this sector, they remained the most common form of lending to corporates. Loans for working capital and loans for investment accounted for 36.8% and 26.4% respectively in total corporate loans at the end of 2012.

The household sector deleveraged for the fourth consecutive year. Loans to this sector fell by 1.5% (1.7%, the exchange rate effect excluded) in 2012 due mostly to the decrease in car purchase loans and other forms of household lending, inclusive of home loans. The decrease in car purchase loans began in 2009, its dynamics becoming stronger in each subsequent year. In 2012, these loans fell by 30.1% and their share in total household loans went down to only 2.5%. The structure of the household debt to banks changed in favour of general-purpose loans, i.e. the types of loans that can be used for servicing other liabilities to various creditors. Hence, a noticeable increase was observed only in the amount of household overdraft facilities (5.3%) and other general-purpose loans (6.3%). In the structure of loans to this sector, a smaller increase was also observed in some less significant forms of lending such as Lombard loans, education loans and construction loans. The two types of loans continued to dominate the structure of total household loans: home loans, with a share of 46.9%, and cash general-purpose loans, with a share of 28.9%.

The change in the part of the portfolio of home loans granted in Swiss francs affected the developments in the total amount and the quality of home loans. Bank exposure to home loans in Swiss francs went down by HRK 1.5bn or 6.2% relative to 2011, this being the largest nominal change in the structure of home loans. Concurrently, the growth in home loans in euros of 4.1% was lower in nominal terms and thus partly mitigated the observed decrease. The deterioration in the quality of home loans in Swiss francs, i.e. the increase in B and C risk category loans (by 18.1%) contributed significantly to the deterioration in the quality of total home loans. The rise in partly recoverable and fully irrecoverable claims on home loans indicates a further diminution of the ability to repay bank loans, present since 2010, in which home loans ceased to be the highest quality component of household loans. Another contributor to this was the materialisation of currency-induced credit risk brought about by the rise in loan repayments resulting from exchange rate and interest rate changes. This was especially noticeable in the high level of B and C risk category claims on home loans in Swiss francs. Their share in total home loans in that currency rose from 7.3% at the end of 2011 to 9.2% at the end of 2012, accounting for the largest share among all currencies in which home loans are granted. A somewhat lower share in B and C risk categories was accounted for by home loans in kuna (8.6%), with by far the lowest share being accounted for by home loans in euros (3.7%). In total home loans, those granted in Swiss francs accounted for 39.0% at the end of 2012, while the component in Swiss francs had a share of 57.8% in home loans in B and C risk categories.

To alleviate the position of users of home loans indexed to the Swiss franc, in June 2011 the Government of the Republic of Croatia and leading banks signed a Memorandum on alleviating the position of users of home loans and in August of that year they signed the first Annex to this Memorandum providing for the fixing of the exchange rate of the kuna against the Swiss franc at 5.80 and the transfer of the balance between the annuity calculated at the fixed and the actual exchange rate to what was called a “deferred claim”. Citizens failed to show any very great interest in this option and only 25 users of home loans in that currency had opted for it by the end of 2012. The number of users of home loans in Swiss francs was considerably lower than in 2011. Moreover, a number of them probably used other options to reduce the credit burden.

Despite the increase in the share of B and C risk category loans in total home loans, this share remained favourable as compared with other types of household loans. Furthermore, the assessed quality of loans largely represented in the structure of the portfolio of household loans was much poorer in cash loans (9.0%), overdraft facilities (15.1%), mortgage loans (23.7%) and other general-purpose loans (31.0%).

3.1.4 Liquidity risk

Sources of financing

The total sources of bank financing[14] stood at HRK 328.1bn at the end of 2012, which is a decrease of HRK 7.4bn (2.2%) from the end of 2011. In view of developments in the exchange rates of the most widely represented currencies, the real change in the financial sources was almost identical. The decrease in the financial sources was entirely due to foreign sources (HRK 16.7bn or 18.5%), most of which come from majority foreign owners. Against the background of sluggish bank lending and a moderate increase in domestic sources (of HRK 9.3bn or 3.8%), banks used excess financial assets to reduce significantly their foreign liabilities. External deleveraging of banks continued throughout most of 2012, gaining momentum towards the year-end, even after exclusion of the effect of a sale transaction of receivables. Most of the funds were used for deposit repayments (HRK 14.7bn or 33.8%) and the rest were used for loan repayments (HRK 1.3bn or 5.1%) to foreign owners. Having grown sharply in 2011, financing by subordinated instruments levelled off in 2012, while hybrid instruments decreased (10.0%), largely due to their conversion into share capital.

The sharpest downturn in financing sources was recorded by large banks (2.8%), due to the reduction in sources from foreign owners. The fall in funding sources of small banks (4.8%) was entirely due one small bank being merged with its parent. Excluding that, funding sources of small banks increased (by 4.6%). Sources of financing of medium-sized banks rose by 5.6% in 2012, mainly as a result of the increase in time deposits of banks and other banking institutions and households.

There were no major changes in the structure of sources of financing. Deposits continued to account for the largest share

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

	Large banks		Medium-sized banks		Small banks		Total	
	2011	2012	2011	2012	2011	2012	2011	2012
Deposits	83.0	83.4	89.2	87.4	86.3	86.1	83.9	84.0
Loans	15.6	15.1	8.6	11.2	11.5	12.2	14.7	14.4
Debt securities issued	0.5	0.1	0.1	0.0	0.2	0.0	0.0	0.1
Hybrid and subordinated instruments issued	0.9	1.4	2.0	1.4	1.9	1.7	1.5	1.4
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	24.0	18.7	4.5	3.5	4.1	5.1	20.5	16.1

Source: CNB.

14 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 %

	2010		2011			2012		
	Amount	Share	Amount	Share	Change	Amount	Share	Change
Loans from government units	15.2	0.0	8.5	0.0	–44.3	6.0	0.0	–29.2
Loans from financial institutions	18,178.8	36.5	17,316.5	35.2	–4.7	16,798.2	35.4	–3.0
Loans from corporates	1.7	0.0	1.6	0.0	–5.0	788.6	1.7	48,253.5
Loans from foreign financial institutions	31,571.0	63.4	31,841.5	64.8	0.9	29,805.5	62.9	–6.4
Loans from other non-residents	6.4	0.0	4.9	0.0	–23.0	3.8	0.0	–23.2
Total loans received	49,773.1	100.0	49,173.0	100.0	–1.2	47,402.1	100.0	–3.6
Loans from majority foreign owner	23,033.5	46.3	25,128.2	51.1	9.1	23,846.2	50.3	–5.1

Source: CNB.

of bank sources of financing, 84.0%, and their decrease of 2.0% was entirely due to the repayment of deposits to foreign owners. Loans received dropped more (by 3.6%), due to the reduction in long-term loans from non-residents. Loans received from domestic sources edged up due to the rise in repo operations with domestic enterprises, while interbank lending (excluding overnight loans) halved. A smaller negative impact came from hybrid instruments, some of which were converted to share capital. Looking at types of funding sources, the only increase was accounted for by the issue of long-term kuna bonds by one large bank and a marginal increase in subordinated instruments in several small banks.

Changes in funding sources mostly related to large banks; their foreign sources dropped by 20.2% and domestic sources grew by 4.6%. The fall in foreign sources was due to the repayment of HRK 16.0bn to majority foreign owners, while the increase in domestic sources was largely the result of growth in household deposits, of HRK 6.9bn or 5.6%. Deleveraging vis-à-vis foreign owners was reflected in the fall in their significance in the group of large banks to 18.7%. The most important source is household deposits; their share in large banks (49.3%) continued to be slightly below the average. More moderate changes were seen in medium-sized banks – their foreign sources decreased (9.2%) as they reduced the share of foreign owners, while domestic sources went up (7.7%). The increase in domestic sources in this group of banks mostly stemmed from deposits of financial institutions, followed by households. Medium-sized banks (like small banks) rely much more on households, which account for 59.7% of all deposits and loans, and on domestic financial institutions (16.6%), among which the CBRD is the most important. Small banks recorded movements opposite to those of the previous two groups, showing a 7.9% increase in foreign sources and a 5.5% decrease in domestic sources. Nevertheless, the importance of foreign sources for this group of banks remained relatively low, at 9.4%. The fall in domestic sources was entirely due to a merger. Excluding that, the remaining banks in the group witnessed a 5.1% rise in domestic sources thanks to the increase in household deposits.

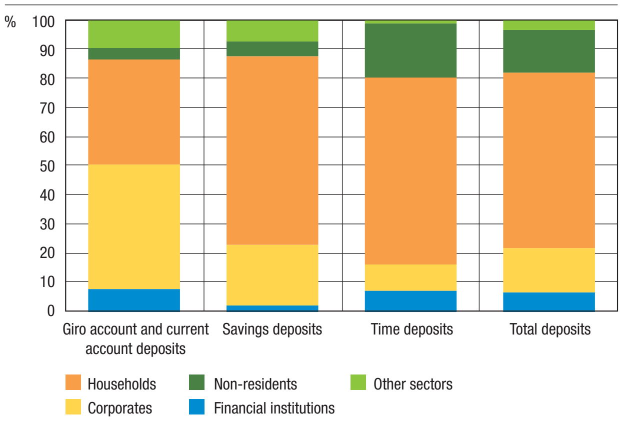
All domestic sectors were involved in an increase in domestic sources of financing, with the exception of sources received from enterprises, which decreased by HRK 1.8bn or 4.0%. Corporate deposits dropped even more, by HRK 2.5bn (5.7%), but the increase in granted repo loans somewhat softened the fall of this sector. The several-year recession exhausted the sources of domestic enterprises and reduced their importance in total sources of financing to 13.2%. This was mostly evident in the fall in kuna time deposits (40.2%), while foreign currency deposits increased. Dividend payments (triggered by the introduction of dividend taxes) had a strong adverse effect on the fall in corporate deposits in early 2012. Positive changes in the second half of the year, particularly in the third quarter, were insufficient to offset these outflows.

Household deposits account for more than a half of total sources in banks and for a two-third share of total domestic sources. Their increase of HRK 6.8bn (4.3%) in 2012 was almost the same as in 2011. This growth was mostly attributable to the rise in foreign currency time deposits, while kuna time deposits also grew noticeably, by almost HRK 2.0bn or 11.7%. All banks (with the exception of two small banks) recorded an increase in household deposits, ranging from 0.4% to as much as 34.2%. Growing by HRK 4.1bn or 13.2%, the funds received from domestic financial institutions were prominent among other domestic sources. This largely reflected the growth in time deposits of other banking and non-banking institutions held with large and medium-sized banks. The greater part of the total increase in sources of this sector was accounted for by the rise in kuna sources, of HRK 2.3bn (14.4%), in particular kuna time deposits.

Loans received by banks stood at HRK 47.4bn at the end of 2012, HRK 1.8bn (3.6%) down on the end of 2011. Loans from all sources decreased. The only exception was loans from domestic enterprises, which increased due to repo loans with several banks. Loans from foreign financial institutions contributed most to the fall in loans received. They dropped by more than HRK 2.0bn (6.4%) owing to the repayment of loans from majority foreign owners as well as other foreign financial institutions. The reduced funding needs were reflected in the fall of loans from banks, so that the rise in domestic loans (1.5%) was exclusively the result of loans received from the CBRD (3.0%). Along with intensified deleveraging, banks placed excess liquidity as time deposits with other banks or with the CNB.

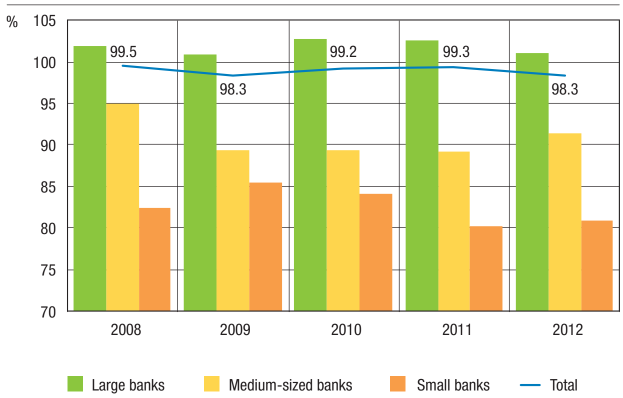
The drop in loans received was entirely due to the fall in the group of large banks (of HRK 2.7bn or 6.3%), while loans received by the other two groups increased. Looking at large banks, changes were triggered by the repayment of loans to foreign owners by three banks in this group. The sharp increase

3.21 Sectoral structure of received deposits
as at 31 December 2012



Source: CNB.

3.22 Bank loans granted/deposits received
end of period



Source: CNB.

in loans received by the group of medium-sized banks (36.5%) was due to changes in forms of financing in one bank. In mid-2012, this bank changed the method of owner financing by repaying deposits and increasing loans received, while also decreasing the total level of financing by the majority foreign owner. The change in the financing method may be related to the change in ownership at the parent bank level. This was evident in an exceptional increase in the share of these loans in total loans received by medium-sized banks, from 0.8% to a high of 31.0%. The level of loans received by small banks remained almost the same (an increase of 0.3%) in 2012 as in late 2011. However, as in medium-sized banks, the structure of loans received changed in favour of loans from majority foreign owners, which went up from 14.8% to 21.6%.

As a reflection of bank external deleveraging, the sectoral structure of deposits changed significantly, while changes in the maturity and currency structure were moderate. Time deposits dropped by HRK 8.2bn (3.8%) from the end of 2011, and their share in total deposits of banks went down from 76.5% to 75.1%. In the same period, giro and current account deposits, and savings deposits increased (by 2.7% and 5.8% respectively). Giro and current account deposits rose on account of the sharp increase in kuna deposits of financial institutions, while the rise in savings deposits was the result of the increase recorded by all institutional sectors, in particular the government and other corporates. Giro and current account deposits accounted for 14.8% and savings deposits accounted for 10.1% of all deposits.

Having grown strongly in 2011 (9.9%), kuna deposits dropped in 2012 (by HRK 3.7bn or 4.0%). Foreign currency and indexed deposits dropped by 0.5% and 24.6% respectively in the same period. The fall in kuna deposits was largely attributable to three large banks as such deposits accounted for a significant share of the funds these banks returned to foreign owners. Kuna time deposits of other enterprises also dipped noticeably mostly because they were replaced by foreign currency deposits. By contrast, kuna deposits of financial institutions and households rose sharply. Notwithstanding their decrease, the share of currency and indexed deposits edged up (to 67.9%), with euro deposits accounting for the major share of such deposits (84.8%). The remaining share was accounted for by deposits in USD (7.0%), which, growing by 5.0%, exceeded the share of Swiss franc deposits (6.1%). As annual changes in the exchange rate of the kuna against these three currencies were relatively mild, real changes in currency deposits did not deviate much from nominal changes. The most important among other, less significant, currencies, were deposits in Australian dollars, which doubled in 2012 and accounted for 1.2% of all currency and indexed deposits at end-2012.

As loans granted decreased faster than deposits received, their ratio continued to trend down, falling to 98.3% at end-2012. A decrease in this ratio was seen in large and small banks, while it grew in the group of medium-sized banks. The ratio remained the highest, and the only one exceeding 100%, in large banks (101.1%), medium-sized banks followed with 91.4%, while it was the lowest in small banks (80.2%).

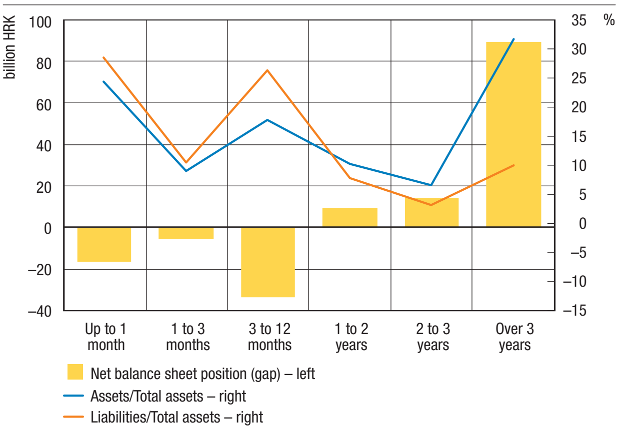
Maturity adjustment of bank assets and liabilities

Having widened for two consecutive years, the mismatch between short-term assets and short-term liabilities of banks narrowed significantly in 2012. The short-term cumulative gap[15] up to one year decreased by HRK 11.9bn, to HRK 55.7bn at the year-end. The decrease in the short-term mismatch was due both to the decline in short-term liabilities (in particular deposit liabilities) of HRK 8.6bn (3.2%) and the increase in short-term assets (securities in particular) of HRK 3.3bn (1.6%). As a result, the share of short-term assets in short-term liabilities of banks grew by 3.7 percentage points, to 78.7%.

In the same period, the liquidity coefficient[16] continued to grow for the fourth consecutive year, from 0.8 to 0.9 at

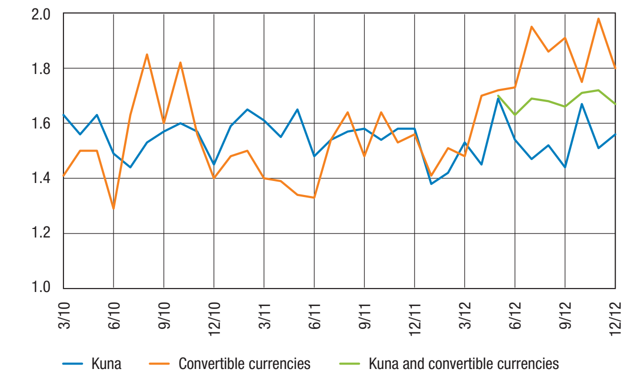
15 This represents the difference between net assets and liabilities with the same period until maturity.
16 This is the ratio of total assets with maturity up to one month to total liabilities with the same maturity.

3.23 Asset and liability maturity match or mismatch
as at 31 December 2012



Source: CNB.

3.24 Minimum liquidity coefficient for the period of up to 1 month



Note: From 1 May 2012 until 30 June 2013, by way of exception, the credit institutions meet the minimum liquidity coefficient requirement on a collective basis, i.e. for kuna and all convertible currencies combined.
Source: CNB.

end-2012. The gap decrease in the shortest term category, of HRK 3.0bn, was due to a faster downturn in liabilities than in assets with a maturity up to one month. The largest decrease in mismatch was seen in the maturity category from one to three months, which dropped from HRK 15.2bn to HRK 5.5bn. This was the consequence of the fall in time deposits of as much as HRK 8.3bn (18.1%) and a 3.4% increase in assets of the same maturity (loans granted). The biggest gap continued to be that for the maturity category from three months to one year. It edged up to HRK 33.7bn (growing by HRK 855.0m) as the increase in liabilities (in particular time deposits) in that maturity category exceeded the rise in assets.

Minimum liquidity coefficient[17]

To spur lending and accelerate economic recovery, regulations related to liquidity risk management were amended in 2012[18] so as to lower the requirements for the maintenance of the minimum liquidity coefficient. The changes enabled the banks to maintain only the MLC on a collective basis, i.e. for both kuna and all convertible currencies combined, in the period from 1 May 2012 until 30 June 2013. Also, during this period, the MLC on a collective basis may be 10% lower than 1 (i.e. 0.9) for a maximum period of seven calendar days within a reporting month, irrespective of whether it is a period up to one week or up to one month.

In the observed period, liquidity coefficients on a collective basis were kept within a narrow range and much above the prescribed minimum. At the end of 2012, the MLC on a collective basis stood at 2.3 in the period up to one week and at 1.7 in the period up to one month. As expected, small banks had the highest coefficients in both given time periods (4.0 and 2.8), although some of the banks from that group had difficulties in maintaining the prescribed minimum coefficient[19] on a collective basis. The MLC of large and medium-sized banks was much lower and closer to the average for all banks. At the end of 2012, the MLC on a collective basis was 2.0 in the period up to one week and 1.5 in the period up to one month for medium-sized banks, while it was 2.3 and 1.6 respectively for large banks.

The comparison with the previous year shows that the average values of the coefficient for convertible currencies increased in both given periods for the groups of large and small banks, in particular in the second half of the year. In large banks, the increase in the average coefficients in all convertible currencies was due to profound changes in transactions with group members and derivative financial instruments. In small banks, the increase in the MLC for convertible currencies was due to the rise in expected inflows (mostly deposits, as well as receivables from group members), while expected outflows dropped (in particular loans received).

Readily marketable assets[20] (RMA) of banks stood at HRK 59.8bn at the end of 2012, growing marginally (by HRK 0.5bn or 0.8%) from the end of the previous year. The share of these assets in total bank assets increased more, from 14.6% in 2011 to 14.9% in 2012. A slight upturn in RMA reflects the increase in MoF T-bills, as well as in other securities (that meet the

17 Minimum liquidity coefficient (MLC) is calculated as the ratio of expected inflows (currently negotiable assets included) and the expected outflows in periods of stress in the two given periods (up to one week and up to one month) and must be equal to or higher than one. MLC is calculated for kuna, all convertible currencies combined and for each non-convertible currency individually (if it is significant). By way of exception, in the period from 1 May 2012 until 30 June 2013, MLC may be met on a collective basis, i.e. for both kuna and all convertible currencies combined.
18 Decision on amendments to the Decision on liquidity risk management (OG 47/2012 and 142/2012).
19 It should be noted that for the purposes of calculating the minimum liquidity coefficient, inflows and outflows are reported according to an acute short-term stress scenario specified by the CNB, which is much more stringent than actual cash flows because of various requirements and volatility adjustments. The purpose of the stress scenario is to determine whether a credit institution has sufficient liquid assets to meet its liquidity needs in stressed conditions within a given period.
20 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).

conditions for inclusion in this type of assets) and deposits with the CNB. Deposits/loans with credit institutions decreased in the same period. These changes were associated with the mentioned regulatory changes that facilitated government financing and the purchase of the more than five billion kuna worth issue of long-term T-bills. The rise in the share of T-bills (to 19.3%) at the expense of deposits/loans with credit institutions was the major change in the structure of readily marketable assets. Deposits with the CNB thus became the largest item of RMA, accounting for 27.1%, with deposits/loans with credit institutions following with 26.1%.

3.1.5 Currency adjustment of bank assets and liabilities

Foreign currency assets and liabilities of banks, comprising items in foreign currencies and kuna items with a currency clause (indexed items) accounted for around two-thirds of total bank assets and liabilities at end-2012, the same as in the previous years. Three currencies that accounted for the lion's share in both foreign currency assets and liabilities (around 98%) were again the euro, the Swiss franc and the US dollar.

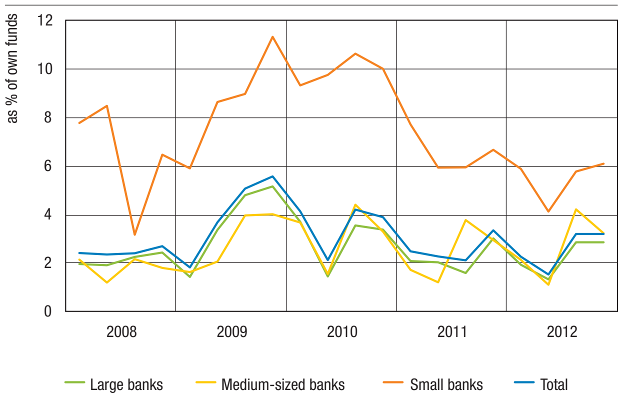
In 2012, the kuna depreciated against the Swiss franc by slightly less than one percent (0.8%) and by even less against the euro (only 0.2%), the most widely represented currency in bank balance sheets. In the same period, the kuna strengthened against the US dollar (1.6%). As a result, the real decline in bank assets, i.e. excluding the exchange rate effects, was slightly higher than the nominal decline, 1.8%.

Total foreign currency assets of banks declined almost twice as much as their total assets, by 3.2%, or HRK 8.4bn. The share of foreign currency assets thus steadily declined, falling to 64.0%, a record low for the past three and a half years. The bulk of the decrease was accounted for by kuna assets with a currency clause, which dropped by 4.3% (HRK 7.2bn). Foreign currency assets dipped by 1.2% (HRK 1.2bn). At the end of the period under review, they accounted for slightly less than one fourth (24.2%), while kuna assets indexed to a foreign currency accounted for 39.8% of total bank assets.

Total foreign currency liabilities of banks edged down by 1.2% in 2012 (HRK 2.9bn). Like total foreign currency assets, the decrease related mostly to foreign currency-indexed liabilities, which dropped by as much as 9.4% (HRK 1.5bn), while foreign currency-denominated liabilities fell by only 0.7%. However, as the latter's share in total liabilities is much larger, they decreased by almost the same amount (HRK 1.4bn). Still, since kuna liabilities decreased more (by 4.8%), the share of foreign currency liabilities in total liabilities went up by almost one percentage point, to 68.6%, reaching the highest level since the end of the first quarter of 2011. The share of foreign currency liabilities in total liabilities was 64.4%, while that of indexed liabilities was only 4.2%.

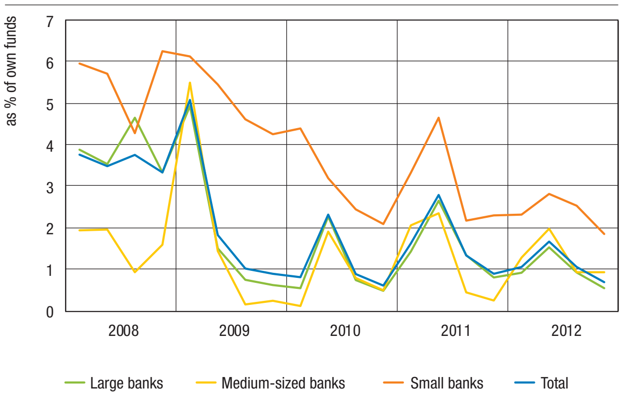
At the end of 2012, banks kept a long average open foreign exchange position, in the amount of 3.2% of own funds, which is somewhat lower than at the end of 2011. The open foreign exchange position was long in all bank groups; it was the highest in the group of small banks, 6.1% of own funds. Medium-sized banks maintained this position at 3.2% and were the only group that reported an increase relative to the year before. Large banks reported the lowest average open foreign exchange position, of 2.8% of own funds.

3.25 Long foreign exchange position of banks
quarterly averages



Source: CNB.

3.26 Short foreign exchange position of banks
quarterly averages



Source: CNB.

3.1.6 Interest rate risk in the non-trading book

Exposure of banks to interest rate risk, measured by the change in the economic value of the non-trading book (the total net weighted position)[21] in own funds, was at end-2012 again much below the prescribed maximum. The change in the economic value was HRK 954.8m, or 1.7% of own funds, which is the same as at end-2011. The ratio of the change in the economic value and own funds remained the same since the amount of the change in the economic value grew only slightly (below 5%) while own funds remained almost unchanged (growing marginally).

Table 3.11 Interest rate risk in the non-trading book
as at 31 December 2012, in million HRK and %

Currency	Interest rate type	Net position (before weighting)	Net weighted position
HRK	Administered interest rate	–19,767.5	–281.2
	Variable interest rate	35,816.7	421.9
	Fixed interest rate	8,039.8	447.6
EUR	Administered interest rate	–11,227.3	354.2
	Variable interest rate	62,296.8	146.9
	Fixed interest rate	–42,887.8	3.3
CHF	Administered interest rate	21,249.4	189.9
	Variable interest rate	–10,486.9	–34.0
	Fixed interest rate	–4,039.1	–206.1
USD	Administered interest rate	–1,014.8	–14.5
	Variable interest rate	880.4	0.7
	Fixed interest rate	–1,729.2	–6.1
Other	Administered interest rate	–7,798.4	–47.5
	Variable interest rate	3,338.9	–0.6
	Fixed interest rate	3,257.3	–19.7
Change in the economic value of the non-trading book			954.8
Own funds			54,859.1
Change in the economic value of the non-trading book as % of own funds			1.7

Source: CNB.

As previously, the largest share of interest rate-sensitive assets and liabilities was accounted for by those in the short-term time zones (up to one year). As the weight is extremely low in the shortest time zones, only the amount of net weighted position in the zone between six months and a year was significant (HRK 331.6m or slightly more than a third of the total net weighted position of banks).

As at the end of 2011, items with a variable interest rate accounted for the largest share of interest rate-sensitive assets (42.0%), and were the only items that grew, by more than two percentage points. The share of items with administered interest rates remained unchanged at just over a third, while items with a fixed interest rate again accounted for the smallest share (22.5%) in interest rate-sensitive assets. The share of both decreased in 2012 by more than one percent (1.2%). Looking at interest rate-sensitive liabilities, items with an administered interest rate accounted for the largest share (45.0%), items with a fixed interest rate accounted for more than a third (36.4%), while liabilities with a variable interest rate accounted for the smallest share, 18.7%. Like assets, only items accounting for the largest share, i.e. those with an administered interest rate, recorded an increase (3.5%), while the other two types of items dropped by more than 1.5%.

As in 2011, the amount of the net weighted position had the highest value for items with a variable interest rate, accounting for more than a half (56.0%) of the total change in the economic value. This was mainly a result of a surplus of assets over liabilities due to deposits associated with reserve requirements. The weighted position increased for items with variable and fixed interest rates, by 17.6% and 9.4% respectively, while that for items with administered interest rates dropped by 21.8%.

Positions in kuna showed the highest sensitivity to changes in interest rates in 2012, although it decreased somewhat (by 6.9%). The net weighted position in kuna was positive and stood at HRK 588.3m. The banks had only a slightly lower total positive net weighted position in the euro (HRK 504.4m), while their position in other currencies was negative as at the end of 2011.

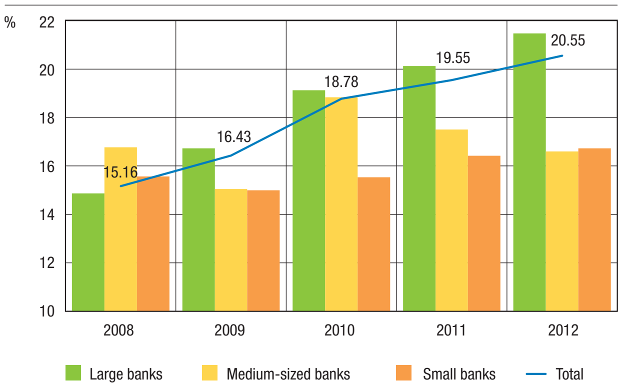
Compared with 2011, the ratio of the change in the economic value and own funds changed for all bank groups. It increased in all bank groups, but mostly for medium-sized banks, which also recorded the highest ratio, of 3.8%. The ratio was slightly lower in small banks (3.4%), while it was the lowest in large banks (2.6%), as at end-2011.

Exposure to interest rate risk was below the prescribed maximum in all banks. In two banks, the ratio of the change in the economic value and own funds was above 10% (15.3% and 12.8%).

3.1.7 Capital adequacy

The capital adequacy ratio of banks increased by precisely one percentage point in 2012. It grew in each quarter of the

3.27 Bank capital adequacy ratio
end of period



Note: Basel II has been applied since 31 March 2010 and the minimum capital adequacy ratio is 12% (as compared to the previous 10%).
Source: CNB.

21 Interest rate risk in the non-trading book is due to maturity mismatch/revaluation of interest rates of non-trading book positions. For the purposes of measuring the effect of interest rate risk in the non-trading book, credit institutions 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 (2%). 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.

Table 3.12 Own funds, capital requirements and capital adequacy ratio of banks

as at 31 December 2012, in million HRK and %

	Large banks		Medium-sized banks		Small banks		Total	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share
Own funds	46,321.4	100.0	4,370.7	100.0	4,166.9	100.0	54,859.1	100.0
Original own funds	45,488.3	98.2	4,028.7	92.2	3,710.9	89.1	53,227.9	97.0
Paid up capital (excl. cumulative preferential shares) net of own shares	26,462.9	57.1	3,714.2	85.0	4,011.8	96.3	34,188.9	62.3
Reserves and retained earnings	19,344.2	41.8	434.4	9.9	–168.2	–4.0	19,610.4	35.7
Other	–318.8	–0.7	–119.9	–2.7	–132.7	–3.2	–571.4	–1.0
Additional own funds	3,292.9	7.1	409.5	9.4	462.8	11.1	4,165.1	7.6
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	3,292.9	7.1	409.5	9.4	484.3	11.6	4,186.6	7.6
Other	0.0	0.0	0.0	0.0	–21.5	–0.5	–21.5	0.0
Items deducted from original own funds and additional own funds	–2,459.7	–5.3	–67.4	–1.5	–6.7	–0.2	–2,533.9	–4.6
Capital requirements	25,883.8	100.0	3,159.1	100.0	2,989.0	100.0	32,031.8	100.0
Credit, counterparty credit and dilution risks and free deliveries	22,852.6	88.3	2,698.6	85.4	2,692.5	90.1	28,243.7	88.2
Standardised approach	19,732.6	76.2	2,698.6	85.4	2,692.5	90.1	25,123.7	78.4
Corporates	8,333.3	32.2	1,162.9	36.8	1,087.2	36.4	10,583.4	33.0
o/w: Secured by real estate property	44.0	0.2	0.1	0.0	54.7	1.8	98.7	0.3
Retail	9,293.3	35.9	1,315.2	41.6	1,248.9	41.8	11,857.4	37.0
o/w: Secured by real estate property	472.3	1.8	13.4	0.4	38.1	1.3	523.9	1.6
Other	2,105.9	8.1	220.5	7.0	356.4	11.9	2,682.9	8.4
IRB approach	3,120.0	12.1	–	–	–	–	3,120.0	9.7
Corporates	1,870.6	7.2	–	–	–	–	1,870.6	5.8
Retail	740.4	2.9	–	–	–	–	740.4	2.3
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	477.1	1.8	115.3	3.7	25.2	0.8	617.7	1.9
o/w: Internal models	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Traded debt instruments	334.2	1.3	49.6	1.6	0.2	0.0	384.0	1.2
Foreign exchange	128.6	0.5	13.8	0.4	25.0	0.8	167.3	0.5
Other risks	14.4	0.1	51.9	1.6	0.1	0.0	66.4	0.2
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	2,554.0	9.9	345.1	10.9	271.3	9.1	3,170.4	9.9
Simplified approach	0.0	0.0	130.7	4.1	271.3	9.1	402.0	1.3
Standardised approach	1,286.5	5.0	214.4	6.8	0.0	0.0	1,500.9	4.7
Advanced measurement approach	1,267.5	4.9	0.0	0.0	0.0	0.0	1,267.5	4.0
Surplus/deficit of own funds	20,437.7	–	1,211.7	–	1,177.9	–	22,827.2	–
Capital adequacy ratio	21.5	–	16.6	–	16.7	–	20.6	–

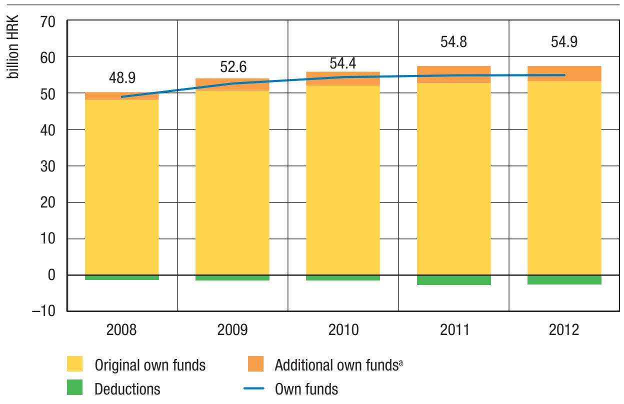
Source: CNB.

year, standing at 20.55% at the year-end. The ratio had thus kept trending upwards since the beginning of the application of the Basel II reporting standards (March 2010), hitting a record high since the end of 2000. As own funds of banks levelled off, the ratio increased exclusively due to a reduction in capital requirements.

Large banks witnessed the biggest increase in the capital adequacy ratio, exceeding the increase at the system level by 1.34 percentage points, and again had the highest capital adequacy ratio, of 21.48%. The capital adequacy ratio of small banks went up by around one-third of a percentage point, to 16.73%, while that of medium-sized banks dropped by slightly less than one percentage point. Medium-sized banks had the lowest capital adequacy ratio, of 16.60%.

Notwithstanding the increase, the share of bank assets with a capital adequacy ratio above 15% decreased (from 90.0% to

3.28 Bank own funds
end of period



[a] Ancillary own funds (for the coverage of market risks) included in the period before 2012.
Source: CNB.

88.2%). One bank, accounting for less than 0.3% in total bank assets, had a capital adequacy ratio below the legally prescribed minimum (12%)[22] at end-2012, while two other banks maintained this ratio at below 13%.

Own funds of banks remained almost unchanged from the end of 2011 (growing by less than one per mil), standing at HRK 54.9bn at end-2012. Their largest and the highest quality share, i.e. original own funds, rose by HRK 0.5bn (1.0%), mostly due to the allocation of a portion of the 2011 profits to reserves and retained earnings and recapitalisation of eight small banks (of HRK 0.6bn), with a final effect on own funds of HRK 0.2bn.

By contrast, additional own funds decreased by almost the same amount (11.6%) due to the exclusion of hybrid and subordinated instruments; these instruments fell by more than 10% (by HRK 0.4bn and HRK 0.2bn, respectively). As a result, the share of original own funds in own funds grew by a whole percentage point, to 97.0% at end-2012.

Large banks alone recorded an increase in own funds, of 0.4% (HRK 0.2bn). This was a result of the rise in original own funds, of 1.2%, which was in turn largely due to the allocation of a part of the profit generated in 2011 to retained earnings and reserves (growth of 3.2%), with a parallel 10.8% decline in additional own funds (hybrid instruments). Own funds of medium-sized and small banks decreased in 2012 by only 0.5% and a noticeable 3.1%, respectively. Small banks used capital injections to cover current and previous years' losses, their original own funds held steady and additional own funds decreased by almost one-fourth as a result of the sharp reduction in hybrid instruments (30.2%).

The total capital requirements of banks dropped by 4.8% (HRK 1.6bn) in 2012, to HRK 32.0bn. The sharpest decrease was seen in the largest capital requirement – the capital requirement for credit risk (including counterparty and dilution risks and free deliveries), which accounted for 88.2% of the total. This capital requirement fell by 5.6% and its share dropped by slightly less than one percentage point. Capital requirements for operational risk declined by a little more than 1%, while only capital requirements for position, currency and commodity risks increased, by almost one-fourth.

Capital requirements decreased in large (5.8%) and small banks (4.8%) and increased in medium-sized banks, by 4.9%. This was the result of the decrease in the largest capital requirement, which predominates in all bank groups – the capital requirement for credit risk. It fell in large and small banks (by 6.8% and 3.9% respectively) and increased in medium-sized banks (by 2.8%).

The largest share in the capital requirement for credit risk (and other mentioned risks) refers to the calculation under a standardised approach, which is applied by all banks but one, and which accounted for 89.0% of that capital requirement in late 2012 (slightly more than at end-2011). Only one large bank uses the internal ratings-based approach (IRB)[23], which accounted for the remaining share of the capital requirement for credit risk. The capital requirement for credit risk calculated under the standardised approach dropped by 5.1% in 2012, while that calculated under the IRB approach decreased by 9.9%.

The net value of total (on- and off-balance sheet) credit risk weighted exposure of banks decreased by 1.3% or HRK 5.4bn (the decrease was due to the fall in the value of exposures under the standardised approach, of 3.0%, while the net exposure under the IRB approach increased by 10.8%). However, the amount obtained after the application of the risk weight decreased more, by 5.1% (HRK 11.2bn).

All banks used credit risk mitigation techniques in 2012. The total amount of credit protection recognised as eligible stood at HRK 44.9bn, down by HRK 10.3bn or 18.7% relative to 2011. Slightly more than a half (52.0%) of the protection related to unfunded credit protection (guarantees, counter-guarantees and credit derivatives) and the rest was accounted for by funded credit protection (collateral, on-balance sheet netting, master netting agreements)[24]. Both forms of credit protection decreased in 2012 (by 15.3% and 22.1% respectively).

As at the end of 2011, the type of credit protection mostly used by banks (accounting for more than a half of the total amount) was guarantees and counter-guarantees (unfunded credit protection), which stood at HRK 23.3bn at the end of 2012 (down by HRK 4.2bn). Coming next in terms of amount was financial collateral, the most widely represented type of funded credit protection, which stood at HRK 19.4bn, down by one-fourth from a year ago. The bulk of these funded credit protection instruments was recognised as eligible by means of the financial collateral comprehensive method (HRK 11.8bn),

22 In January 2013, the operation of that bank was brought into alignment with the provisions on the minimum capital adequacy ratio.
23 A credit institution may use an IRB approach to calculate the amount of exposure weighted by credit risk, provided it has obtained a permission to use this approach from the CNB. In 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.
24 Funded and unfunded credit protection are two forms of credit protection credit institutions may use.

Table 3.13 Breakdown of net exposure to credit risk by risk weights
as at 31 December 2012, 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	113,658.2	86,679.8	105,657.3	25,651.3	7,094.5	3,159.2	559.3	17,013.9	–	359,473.6
On-balance sheet items	109,838.6	71,619.4	104,672.3	23,544.6	6,171.5	3,072.0	559.3	16,578.0		336,055.6
Off-balance sheet items	3,817.2	14,025.2	638.8	649.3	601.5	87.2	0.0	148.6		19,967.8
Securities transactions and long settlement transactions	0.0	416.5	0.2	357.0	106.4	0.0	0.0	287.3		1,167.3
Derivative financial instruments	2.5	618.8	346.0	1,100.4	215.2	0.0	0.0	0.0		2,282.8
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	102,306.4	17.8	4,068.2	0.0	0.0	7,741.2	–	114,133.6
Weight 10%	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	–	0.2
Weight 20%	0.0	23.8	15.3	16,183.3	17.5	233.6	40.0	665.7	–	17,179.3
Weight 35% (residential real estate property)	12,135.1	502.1	0.0	0.0	0.0	0.0	0.0	2.2	–	12,639.3
Weight 50%	236.8	1,293.8	3,285.0	8,635.3	2,933.4	2,909.6	11.4	0.0	–	19,305.3
o/w: Commercial real estate property	236.8	1,293.2	0.0	0.0	0.0	0.0	0.0	0.0	–	1,530.0
Weight 75%	34,143.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	–	34,143.1
Weight 100%	63,752.0	79,629.5	46.9	794.9	73.8	0.8	455.8	8,484.5	–	153,238.3
o/w: Past due items	2,981.0	5,108.5	0.0	0.2	0.0	0.0	0.0	13.4	–	8,103.1
Weight 150%	3,391.3	5,095.6	3.6	20.0	1.6	15.2	52.1	28.4	–	8,607.7
o/w: Past due items	2,843.7	4,303.3	3.3	16.8	1.6	15.1	0.0	19.6	–	7,203.5
Other risk weights	0.0	135.1	0.0	0.0	0.0	0.0	0.0	91.5	–	226.6
Credit risk mitigation techniques – substitution effects										
Total outflow	–1,087.8	–5,729.6	–6.0	–287.5	–17,526.9	–29.7	0.0	–86.8	–	–24,754.3
Total inflow	9.7	190.4	19,965.6	493.6	54.4	498.4	0.0	1,452.8	–	22,664.8
IRB approach										
Total exposure	18,303.8	18,417.2	18,561.7	2,534.2	–	–	–	–	115.1	57,932.1
On-balance sheet items	17,880.6	16,770.1	18,554.2	1,823.2	–	–	–	–	115.1	55,143.3
Off-balance sheet items	423.2	1,554.7	7.5	19.4	–	–	–	–	–	2,004.8
Securities transactions and long settlement transactions	0.0	62.3	0.0	597.1	–	–	–	–	–	659.3
Derivative financial instruments	0.0	30.1	0.0	94.6	–	–	–	–	–	124.7
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	–150.0	0.0	0.0	–	–	–	–	0.0	–150.0
Total inflow	0.0	0.0	2,220.1	19.4	–	–	–	–	0.0	2,239.5

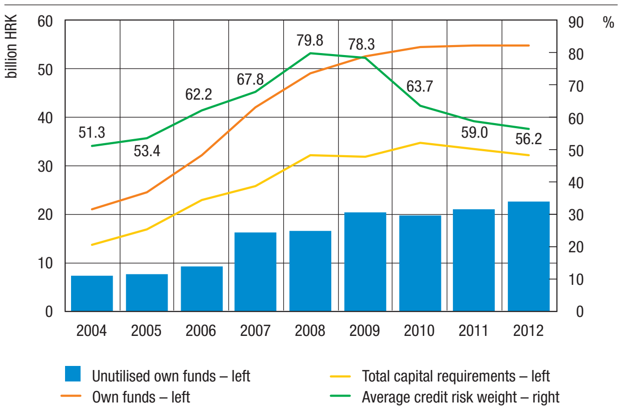
Source: CNB.

the method which was again used mostly by large banks. The total level of this type of credit protection fell by 28.7% from the previous year. Along with the fall in the total credit exposure, the decrease in credit risk mitigation techniques was due to reduced relations with parent banks.

The fall in the net value of bank exposure after the use of credit risk mitigation techniques under the standardised approach (of HRK 11.1bn) was almost entirely due to the decrease within the 100% weight class (by HRK 12.0bn or 7.3%). Therefore (with a parallel shift in other classes of net values being risk-weighted, i.e. the decrease in the 0% and 20% weights in favour of the 35% and 50% weights and, to a lesser extent, reduced use of the 150% weight), the risk-weighted amount decreased more than the net value, by 5.1% (the decrease was almost the same in absolute terms, HRK 11.2bn).

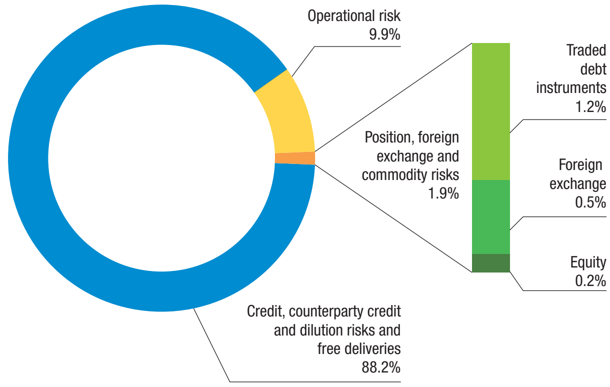
The reduction in the net value under the standardised approach for the 100% risk weight related above all to the retail category (HRK 8.4bn) and, half as much, to the corporate

3.29 Unutilised bank own funds
end of period



Source: CNB.

3.30 Structure of bank total capital requirements
as at 31 December 2012



Source: CNB.

category, exposure to which decreased by HRK 4.2bn. The overall exposure in each of these two categories dropped by more than HRK 5bn. In the institutions category, slightly less than HRK 4bn worth of exposures weighted by 20% were reallocated to the 50% class. Looking at the IRB approach, the entire increase in exposure of HRK 5.2bn related to the central government and central banks category.

The average total weight (under both approaches for the calculation of capital requirements for credit risk) steadily declined, a trend sustained for longer than three years. The weight dropped by 2.6%, to 56.2%. It dropped much more under the IRB approach, by 10.2% (down to 44.3%), due to the steep reduction in the weight applied to corporates (of 14.5%). The average weight under the standardised approach stood at 58.2%, down by 1.3%, largely on account of a 2.2% reduction in the weight in the retail category.

Falling less than capital requirements for credit risk, capital requirements for operational risk continued to increase their share in the total capital requirements and reached 9.9%. These requirements stood at HRK 3.2bn, down by 1.3%. Their share in the total capital requirements was the highest in the group of medium-sized banks (10.9%), which is also the only group that recorded an increase in these requirements, of 4.9%. Large banks, accounting for 80.6% of total operational risk, lowered these requirements by precisely 1.0%, while small banks recorded a decrease of as much as 10.1%. In both these groups, the share of this capital requirement in total capital requirements was below 10% (9.9% and 9.1% respectively).

The smallest capital requirements, those for position, currency and commodity risks, rose by 24.2% but continued to account for less than 2% of the total. Their largest share in total capital requirements was in the group of medium-sized banks, 3.7%. Two large banks used the advanced measurement approach for the calculation of capital requirements for operational risk.[25] Seven banks used the standardised approach, while the remaining banks used the basic indicator approach.

Table 3.14 Breakdown of bank capital adequacy ratio
end of period, in %

	2010		2011		2012	
	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%	3	1.0	0	0.0	0	0.0
Ratio from 10% to 12%	0	0.0	0	0.0	1	0.3
Ratio from 12% to 15%	9	13.2	10	10.0	10	11.6
Ratio from 15% to 20%	11	55.2	13	34.6	10	33.0
Ratio higher than 20%	10	30.6	9	55.4	10	55.1

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

25 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.

Thanks to the reduction in capital requirements, the unused amount of own funds continued to rise and reached HRK 22.8bn at the end of 2012. It grew by 7.8% or HRK 1.7bn; the unused amount accounted for 41.6% of the total own funds of banks, up from 38.6% at end-2011. The increase was due to a 9.7% increase in unused capital of large banks (in which it accounts for the largest share in own funds, of 44.1%). The amount of unused capital fell slightly in medium-sized banks, while in small banks it remained almost the same as in 2011.

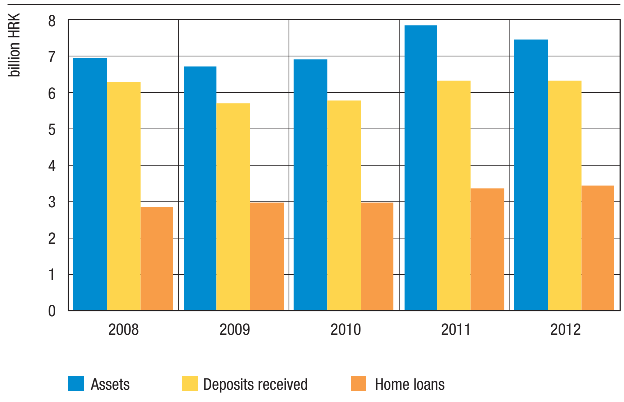
3.2 Business operations of housing savings banks

At the end of 2012, there were again five housing savings banks operating in the Republic of Croatia. Four savings banks were directly or indirectly owned by foreign shareholders, while the smallest and youngest was in domestic ownership. As assets of housing savings banks fell more than bank assets, their already small share in total assets of credit institutions dropped to 1.8%.

3.2.1 Balance sheet

Assets of housing savings banks steadily decreased in the first three quarters of 2012. They increased in the last quarter of the year as a result of a traditional increase in the deposits of housing savings bank savers attributable to government incentives paid to depositors in housing savings banks. However, this increase was insufficient to offset the changes in the former part of the year. Assets of housing savings banks dropped by 5.1% in 2012, to HRK 7.4bn (Table 3.15).

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



Source: CNB.

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

	2010		2011			2012		
	Amount	Share	Amount	Share	Change	Amount	Share	Change
Money assets and deposits with the CNB	0.0	0.0	0.0	0.0	60.0	0.0	0.0	–41.7
Money assets	0.0	0.0	0.0	0.0	60.0	0.0	0.0	–41.7
Deposits with the CNB	0.0	0.0	0.0	0.0	–	0.0	0.0	–
Deposits with banking institutions	185.0	2.7	669.7	8.5	262.1	723.1	9.7	8.0
MoF treasury bills and CNB bills	570.6	8.3	668.1	8.5	17.1	594.1	8.0	–11.1
Securities and other financial instruments held for trading	0.0	0.0	194.0	2.5	–	218.4	2.9	12.6
Securities and other financial instruments available for sale	137.4	2.0	210.4	2.7	53.1	417.5	5.6	98.5
Securities and other financial instruments held to maturity	798.6	11.6	820.4	10.5	2.7	647.8	8.7	–21.0
Securities and other financial instruments not traded in active markets but carried at fair value	101.6	1.5	99.9	1.3	–1.6	19.5	0.3	–80.5
Derivative financial assets	0.0	0.0	0.0	0.0	–	0.0	0.0	–
Loans to financial institutions	73.6	1.1	90.9	1.2	23.5	69.3	0.9	–23.8
Loans to other clients	4,689.1	68.1	4,756.1	60.6	1.4	4,451.4	59.8	–6.4
Investments in subsidiaries, associates and joint ventures	0.0	0.0	0.0	0.0	–	0.0	0.0	–
Foreclosed and repossessed assets	0.0	0.0	0.0	0.0	–	0.2	0.0	–
Tangible assets (net of depreciation)	7.2	0.1	6.2	0.1	–14.1	5.8	0.1	–5.9
Interest, fees and other assets	368.3	5.4	386.9	4.9	5.0	356.7	4.8	–7.8
Net of: Collectively assessed impairment provisions	50.8	0.7	56.1	0.7	10.4	54.1	0.7	–3.6
Total assets	6,880.6	100.0	7,846.5	100.0	14.0	7,449.8	100.0	–5.1

Source: CNB.

The decline in assets was strongly influenced by two housing savings banks which in 2012 began to use adjusted input data in the calculation of the change in the economic value of the non-trading book. The other three housing savings banks began to use this model in late 2011. Such models are based on the inclusion of the effects of renewal of housing savings banks' contracts, which reduces the need of housing savings banks for long-term sources of financing. Housing savings banks thus repaid in their entirety deposits and loans from their parents, which led to a decrease in total sources of financing. Deposits of housing savings bank savers edged up (3.8%) to HRK 6.3bn, so that the total amount of deposits held steady. Along with deposits received, which accounted for 85.2% of housing savings bank liabilities, the share of capital also increased. This increase took place owing to considerably higher profit in 2012 and a fall in unrealised losses on value adjustment of available-for-sale financial assets. Growing by 19.5% in 2012, capital accounted for 7.7% of total liabilities and capital of housing savings banks at the year-end.

The only increase among asset items was seen in deposits with banking institutions, which was due to the rise in deposits with parent banks. Table 3.15 shows that loans granted decreased most, in both absolute and relative terms. However, it should be noted that one housing savings bank held a considerable amount of securities issued by the Republic of Croatia in the loans and receivables portfolio and that the amount of these investments decreased sharply in 2012. If this is borne in mind it can be seen that the amount of loans granted actually held steady and accounted for slightly more than one half of assets of housing savings banks. A little more than a third of assets were accounted for by investments in securities, which included only T-bills and bonds issued by the Ministry of Finance.

The stagnation in granted loans was due to a decrease in loans to the corporate and financial institutions sectors, while

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

	2010		2011			2012		
	Amount	Share	Amount	Share	Change	Amount	Share	Change
Loans from financial institutions	183.1	2.7	458.9	5.8	150.7	0.0	0.0	–100.0
Short-term loans	183.0	2.7	172.7	2.2	–5.6	0.0	0.0	–100.0
Long-term loans	0.1	0.0	286.2	3.6	371,598.7	0.0	0.0	–100.0
Deposits	5,791.5	84.2	6,345.2	80.9	9.6	6,344.9	85.2	0.0
Giro account and current account deposits	0.0	0.0	0.0	0.0	–	0.0	0.0	–
Savings deposits	172.8	2.5	154.1	2.0	–10.8	160.7	2.2	4.3
Time deposits	5,618.7	81.7	6,191.0	78.9	10.2	6,184.2	83.0	–0.1
Other loans	0.0	0.0	94.1	1.2	–	94.3	1.3	0.2
Short-term loans	0.0	0.0	0.0	0.0	–	0.0	0.0	–
Long-term loans	0.0	0.0	94.1	1.2	–	94.3	1.3	0.2
Derivative financial liabilities and other financial liabilities held for trading	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	–
Short-term debt securities issued	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	–
Subordinated instruments issued	0.0	0.0	0.0	0.0	–	0.0	0.0	–
Hybrid instruments issued	96.7	1.4	97.7	1.2	1.0	97.8	1.3	0.1
Interest, fees and other liabilities	344.6	5.0	368.3	4.7	6.9	336.3	4.5	–8.7
Total liabilities	6,415.9	93.2	7,364.1	93.9	14.8	6,873.3	92.3	–6.7
Share capital	487.9	7.1	487.9	6.2	0.0	487.9	6.5	0.0
Current year profit/loss	17.1	0.2	10.6	0.1	–38.1	70.4	0.9	565.4
Retained earnings/loss	–1.3	0.0	15.0	0.2	–1,248.5	25.1	0.3	67.2
Legal reserves	5.5	0.1	6.2	0.1	14.0	6.7	0.1	7.6
Reserves provided for by the articles of association and other capital reserves	10.9	0.2	9.2	0.1	–16.3	3.6	0.0	–61.1
Unrealised gains/losses on value adjustments of financial assets available for sale	–55.3	–0.8	–46.5	–0.6	–15.9	–17.1	–0.2	–63.3
Reserves arising from hedging transactions	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	–
Total capital	464.8	6.8	482.4	6.1	3.8	576.5	7.7	19.5
Total liabilities and capital	6,880.6	100.0	7,846.5	100.0	14.0	7,449.8	100.0	–5.1

Source: CNB.

household loans edged up. The latter increase related to the rise in home loans (in gross amount) of a mere 1.5%. Home loans accounted for 91.9% of total loans by housing savings banks. Owing to the loans granted to a public enterprise (secured by a government guarantee), corporate loans in one housing savings bank accounted for 7.1% of the loan portfolio, while the remaining 1.8% related to loans to financial institutions. The ratio of loans granted to deposits received stood at 54.1%.

3.2.2 Income statement

In 2012, both the profits of housing savings banks and their indicators of return increased several times. The main reason for the rise in profits lay in the better results in securities trading, achieved thanks to favourable changes in the fair value of domestic government securities. Along with this less stable income source, the increase was also seen in the largest and most stable source of income – net interest income.

Housing savings banks generated pre-tax profits of HRK 86.0m in 2012 (Table 3.17). They all operated at a profit (pre-tax),[26] which is in contrast with 2011 when three housing savings banks reported losses. In 2011, housing savings banks generated losses of HRK 13.3m in securities trading. In 2012, they generated profits from this activity, of HRK 29m, which was the main reason for the rise in profits. Two housing savings banks which have financial assets in the portfolio held for trading hold only RC bonds.

In addition to the rise in profits from trading activities, the income statement of housing savings banks shows a number of other positive changes. An almost equal favourable effect was made by the rise in interest income from home loans and deposits invested, and the reduction in employee expenses, while the reduction in expenses on loss provisions had a lesser impact. Changes in the structure of interest-bearing assets and liabilities, above all the greater importance of home loans and repayment of more expensive sources of financing, led to a considerable widening of the interest rate spread. However, it remained relatively narrow compared with the interest rate spread of banks. Nevertheless, as the credit exposure of housing savings banks is of a much better quality, expenses on loss provisions weigh much less heavily on their net operating income. Furthermore, some housing savings banks rely strongly on the sales channels of parent banks, which provides for savings in costs. The costs were cut by 5.0% in 2012, mostly due to staff reductions. The cost to income ratio improved strongly, largely owing to the sharp increase in income. This ratio stood at 59.1% but varied greatly between different housing savings banks. It was much higher in two housing savings banks that rely more heavily on their own business networks and have an above average number of employees.

Expenses on loss provisions were sharply reduced, reflecting exclusively changes in provisioning expenses for latent losses in risk category A. In contrast with 2011, housing savings banks generated income from the abolished provisions for

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

	Jan. – Dec. 2011	Jan. – Dec. 2012	
	Amount	Amount	Change
Total interest income	343.5	358.2	4.3
Total interest expenses	226.1	224.0	–0.9
Net interest income	117.4	134.2	14.3
Total income from fees and commissions	70.4	68.9	–2.3
Total expenses on fees and commissions	8.7	9.4	9.0
Net income from fees and commissions	61.8	59.4	–3.9
Other non-interest income	–5.4	43.9	–
Other non-interest expenses	16.2	21.5	32.1
Net other non-interest income	–21.6	22.5	–
Net non-interest income	40.2	81.9	103.7
General administrative expenses and depreciation	134.4	127.7	–5.0
Net operating income before loss provisions	23.2	88.4	281.4
Expenses on value adjustments and provisions for identified losses	1.9	4.4	131.0
Expenses on collectively assessed impairment provisions	5.4	–2.0	–136.5
Total expenses on loss provisions	7.3	2.4	–67.2
Income/loss before taxes	15.9	86.0	441.6
Income tax	5.3	15.6	194.8
Current year profit/loss	10.6	70.4	565.4

Source: CNB.

26 One housing savings bank reported a current year loss (after-tax).

risk category A in 2012. This was due to the strong decrease in category A placements triggered by reduced investments in RC bonds held in the loans and receivables portfolio. Expenses on loss provisions for risk categories B and C more than doubled, but remained relatively insignificant. The ratio between total loss provision expenses and net income stood at only 2.7%.

The increase in net income of housing savings banks by more than one-third coupled with the fall in costs and provision expenses provided a strong boost to return indicators. Return on average assets (ROAA) went up from 0.2% to 1.1% and return on average equity (ROAE) grew from 2.2% to 13.3%.

3.2.3 Credit risk

In 2012, total housing savings bank placements and off-balance sheet liabilities (gross), i.e. items exposed to credit risk that are classified into risk categories, decreased by 7.0% and stood at HRK 6.0bn. This was the outcome of the mentioned reduction in investments in RC bonds. As loans granted held steady, their share in total exposure to credit risk went up (to 62.9%) and their quality had a crucial impact on the quality of total placements and off-balance sheet liabilities. The quality of total exposure was very good because of the dominance of home loans and their excellent quality. Risk categories B and C accounted for only 0.5% of total placements and off-balance sheet liabilities of housing savings banks. One housing savings bank assessed that its entire credit exposure was fully recoverable, i.e. it classified all its placements and off-balance sheet liabilities into risk category A.

Kuna loans indexed to the euro accounted for the largest share in home loans and kuna loans (without a currency clause) accounted for a much smaller share. Housing savings banks did not grant loans indexed to the Swiss franc and the entire portfolio of home loans was contracted with fixed interest rates. This was certainly the reason why the quality of their home loans was much better than that of loans granted by banks. Risk categories B and C accounted for 0.9% of total home loans by housing savings banks. The average loss, i.e. the average coverage of B and C category home loans by value adjustments, was 19.9%.

3.2.4 Capital adequacy

The capital adequacy ratio of housing savings banks stood at 19.47% at the end of 2012. It decreased from 19.87% at the end of 2011 due to the increase in the average weight for credit risk and the related rise in capital requirements for credit risk.[27] This was the outcome of growth in investment risk, i.e. the fall in the share of investments in RC bonds and the rise in the share of riskier exposure items. The capital adequacy ratio of all housing savings banks was higher than the minimum prescribed 12%, and in only one of them was this ratio below 14%.

The net exposure that is weighted by credit risk decreased due to much lower investments in RC bonds. However, as such investments are risk-free, i.e. receive a 0% risk weight, the structure of exposures changed considerably in favour of items to which higher risk weights apply. Although rising sharply, from 27.8% to 33.1%, the total average weight for credit risk remained low. This was due to the persistent dominance of risk-free exposures (receiving a 0% risk weight). They accounted for slightly more than a half of the total net exposure that is

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 %

	2010		2011			2012		
	Amount	Share	Amount	Share	Change	Amount	Share	Change
A	5,945.1	99.5	6,423.0	99.5	8.0	5,971.5	99.5	–7.0
B-1, B-2 and B-3	31.5	0.5	27.8	0.4	–11.6	29.7	0.5	6.6
C	1.4	0.0	2.0	0.0	49.6	2.7	0.0	31.5
Total	5,978.0	100.0	6,452.9	100.0	7.9	6,003.9	100.0	–7.0

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 %

	2010	2011	2012
Total value adjustments against placements and provisions for assumed off-balance sheet liabilities	57.3	62.3	61.2
Value adjustments and provisions	6.2	5.9	6.7
Collectively assessed value adjustments and provisions	51.0	56.4	54.5
Total placements and assumed off-balance sheet liabilities	5,978.0	6,452.9	6,003.9
Coverage	1.0	1.0	1.0

Source: CNB.

27 This includes counterparty and dilution risks and free deliveries.

weighted. Most of these exposures were original exposures in the central government and central bank category, and the lesser part was due to inflows in this category because of the use of government guarantees.

Owing to the growth in capital requirements for credit risk, their share in the total capital requirements edged up to 83.5%. The shares of other capital requirements decreased; capital requirements for operational and market risks accounted for 12.4% and 4.2% respectively of total capital requirements of housing savings banks.

A slight increase in own funds (3.1%) softened the fall in the capital adequacy ratio. The growth in own funds was due to a fall in unrealised losses on value adjustment of available-for-sale financial assets. Original own funds, which are the highest quality component of own funds, accounted for the bulk of own funds (84.9%) and their capital adequacy ratio stood at 16.54%.

3.3 Report on prudential regulation and supervision

The CNB's tasks regulated by the Act on the Croatian National Bank[28] include supervision and oversight of credit institutions and credit unions in accordance with the Credit Institutions Act[29] and Credit Unions Act[30], 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 to 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
- by imposing supervisory measures in order to take actions at an early stage to improve the safety and stability of credit institutions' operations and to eliminate any illegalities established.

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

As regards banking regulations, 2012 saw strong efforts in the preparation of draft amendments to the Credit Institutions Act and subordinate legislation, which is a final stage of the transposition of the EU acquis in the field of banking into the Croatian legislation. In late 2010, the European Parliament and the Council of the European Union adopted two directives, Directive 2010/76/EU[31] (CRD III) and Directive 2010/78/EU[32], significantly amending the Capital Requirements Directive – CRD[33]. December 2011 saw the adoption of Directive 2011/89/EU[34], which regulates the supervision of financial conglomerates incorporating mixed financial holding companies.

In 2011, the CNB, by means of amendments to subordinate legislation, implemented in the domestic legal framework 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. 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.

Amendments to the Decision on the capital adequacy of credit institutions took effect on 30 June 2012, with the exception of the provisions on the calculation of initial capital requirements, which came into effect on 1 January 2012 and the provisions on the extended scope of capital requirements for

28 OG 75/2008.
29 OG 117/2008, 74/2009, 153/2009 and 108/2012.
30 OG 141/2006, 25/2009 and 90/2011.
31 Directive 2010/76/EU of the European Parliament and of the Council of 24 November 2010, amending Directives 2006/48/EC and 2006/49/EC with regard to capital requirements for the trading book, the securitisation framework and the supervisory review of remuneration policies.
32 Directive 2010/78/EU of the European Parliament and of the Council of 24 November 2010 amending Directives 98/26/EC, 2002/87/EC, 2003/6/EC, 2003/41/EC, 2003/71/EC, 2004/39/EC, 2004/109/EC, 2005/60/EC, 2006/48/EC, 2006/49/EC and 2009/65/EC in respect of the powers of the European Supervisory Authorities (European Banking Authority, European Insurance and Occupational Pensions Authority and European Securities and Markets Authority) (the so-called Omnibus Directive).
33 The Capital Requirements Directive is the common name for 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.
34 Directive 2011/89/EU of the European Parliament and of the Council of 16 November 2011 amending Directives 98/78/EC, 2002/87/EC, 2006/48/EC and 2009/138/EC as regards the supplementary supervision of financial entities in a financial conglomerate.

settlement risk, coming into effect on 1 July 2013.

Amendments to the Decision on own funds of credit institutions implementing CRD III provisions related to the widening of the scope of securitisation positions treated as deduction items in the calculation of own funds for the purpose of alignment with amendments to the Decision on the capital adequacy of credit institutions took effect on 30 June 2012, and the provision on the change in the definition of intangible assets entered into force on 31 December 2012. All other amendments to the Decision on own funds of credit institutions entered into force on 1 January 2012.

Amendments to the Decision on public disclosure of compliance with prudential requirements by credit institutions took effect on 30 June 2012. Credit institutions for the first time publicly disclosed the information prescribed under the amendments to this Decision with balance as at 30 June 2012.

In 2012, two amendments were made to the Decision on liquidity risk management that were published in the Official Gazette 47/2012 and 142/2012. Amendments to the Decision of April 2012 were based on the measures of the programme to spur lending aimed at accelerating economic recovery and the experience gained during the application of the Decision. These amendments relate to the reduction of the haircut for some restricted deposits – funds set aside pursuant to a court order, and to alleviating the requirement for maintaining the minimum liquidity coefficient for a certain period (maintaining the minimum liquidity coefficient in an aggregate manner until 31 December 2012). The amendment to the Decision of December 2012 relates to the extension of the application of the minimum liquidity coefficient in an aggregate manner and the permitted deviations from the minimum coefficient until 30 June 2013.

In order to protect consumers using or intending to use the banking services of a credit institution, in the Official Gazette 130/2012 the CNB published the Decision on the content and form of information to be provided to consumers prior to the conclusion of a contract for a banking service. This Decision regulates the form and content of information that a credit institution is required to give to consumers before concluding a contract for a banking service; all credit institutions that operate or intend to operate with consumers and, as part of this operation, conclude or intend to conclude credit and/or deposit agreements, irrespective of the currency, maturity, amount or purpose, are required to apply this decision.

In addition, in 2012 amendments were made to the following decisions, aimed at shortening the deadline for the submission of semi-annual consolidated statements that credit institutions submit to the CNB: the Decision on the supervisory reports of credit institutions, Decision on reports on own funds and capital requirements of credit institutions and Decision on the management of interest rate risk in the non-trading book[35].

Also, the Guidelines for the release of General operating conditions and amendments to the General conditions for credit institutions' operations with consumers were published on the CNB website. The Guidelines aim to prompt credit institutions to improve the comprehensibility and availability of the General and specific operating conditions regulating business relations between credit institutions and consumers related to special product groups (deposit accounts, payment operations, credit card operations, etc.) aimed at consumers.

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 that is directly implemented in the national banking systems of member states and a directive that needs to be transposed into the national legislation. This legislative package replaces the Capital Requirements Directive (CRD). The fourth compromise proposal on the CRD IV was submitted in May 2012 and was under discussion throughout 2012. CNB representatives participated in the Ecofin working group together with the representatives of Croatia's mission to the EU.

As the European Union is striving towards greater harmonisation and a single rule book, the areas that will not be fully prescribed by the 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 the EU level for individual groups of credit institutions, will also play a significant role in the regulation of such open issues. In order to improve the working efficiency within the EBA, committees were established, with experts in various fields intensively preparing the drafts of technical standards. CNB representatives actively participated in the work of specific committees and sub-committees (own funds, credit risk, liquidity risk, operational risk, risk assessment, performance indicators, colleges of supervisors, exchange of information, FINREP, COREP). Their participation in the work of other sub-committees (market risks, accounting, consumer protection, transparency, supervisory public disclosure) involved monitoring the written materials and meeting reports through the internet.

In addition to these technical standards, the EBA is required to adopt some guidelines. The adoption of these standards and guidelines depends on the adoption of directives and regulations at the level of the European Commission, the Council and the European Parliament.

In June 2012, the European Commission released the proposal for the Directive of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms. It was agreed between the Ministry of Finance of the RC, HANFA and DAB that RC representatives on the Council would be from the CNB. Ten meetings were held in 2012.

In September 2012, the Commission proposed the adoption of two regulations on the Single Supervisory Mechanism (SSM) and the Bank Supervisory Mechanism (BSM), and the negotiations with the Parliament were launched on the text proposals.

Within the SSM, the European Central Bank would become responsible for the supervision of all banks in the banking

35 All the amendments were published in the Official Gazette 37/2012.

union and the single rulebook would be applied in the single market. The participation of the RC in these activities should also be coordinated with the Ministry of Finance of the RC, HANFA and DAB.

In 2012, the CNB hosted several workshops at which CRD IV drafts were presented in order to inform credit institutions authorised by the CNB of the forthcoming changes in EU regulations. The CNB also carried out a quantitative impact study for the application of a proposal for the new EU legislative package (CRD IV) and the results of the study were released in September 2012.

With a view to enhancing the transparency and uniformity of credit institutions' procedures, the CNB continued to provide opinions and replies to queries, most of which were posted on the CNB website. In 2012, the CNB received a total of 101 queries from credit institutions, answering all of them by the end of the year.

3.3.2 Supervision of credit institutions

On-site examination of credit institutions

The CNB carries out on-site examinations in accordance with the adopted methodology for supervision, based on an onsite 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 2012. Emphasis was placed on core tasks that include the on-site examination of credit institutions.

During 2012, on-site examination was carried out in 14 credit institutions (Table 3.20), the assets of which account for 92.6% of the total assets of the banking system according to unaudited data as at 31 December 2012. An on-site examination was conducted in an electronic money institution. A total of 25 on-site examinations were carried out in these institutions, covering 39 areas of operation and adding up to 2708 supervisory days.

The on-site examination plan for 2012 was based on the established cycle of conducting regular on-site examinations of credit institutions. In 2012, various examinations covering total assets of the group of large banks and of the group of medium-sized banks as well as 30.9% of the assets of small banks were carried out. There were no on-site examinations of housing savings banks in 2012.

In 2012, nine on-site examinations of risk management were carried out in nine credit institutions, comprising 60.9% of banking system assets with balance as at 31 December 2012. In addition, two on-site examinations were carried out in cooperation with the competent supervisory authority of the superordinate credit institution with a registered office in another state (home supervisor) in the area of risk management as well as regarding the assessment of the risk management system in place and the communication between the parent bank and their subsidiaries.

In addition, five on-site examinations in four credit institutions were carried out for the purpose of validation of the internal ratings-based approach (IRB) for credit risk, one in cooperation with the home supervisor.

The priorities in 2012 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 (five credit institutions), while full scope on-site examination of the entire operations was conducted in three credit institutions (one large and two small).

The analysis of asset quality and credit risk management focused in particular on the following areas:

- credit risk exposure to the construction and real estate management sectors;
- analysis of credit risk management adequacy in the segment of project financing and placements with a bullet payment;
- credit risk management in cases of extended collection deadlines or placement restructuring 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 2012
in thousand HRK and %

	Examined areas											Assets covered by on-site examinations as at 31 December 2012[a]	The share of assets covered by on-site examinations in total assets of the group[b]
	ICS	ITS	PML and TF	Parent bank report	On-site examinations of entire operations (CAMELS)	Capital	Assets	Earnings	Liquidity	Market risk	Validation of IRB model		
Large banks	2	1	2	1			5		3	3	5	328,864,997	100.0%
Medium-sized banks	1	1	1		1							38,669,734	100.0%
Small banks	3		3		2		2	1	1			10,113,828	30.9%
Total (all banks)	6	2	6	1	3	0	7	1	4	3	5	377,648,560	94.4%
Housing savings banks												–	–
Total (banking system)	6	2	6	1	3	0	7	1	4	3	5	377,648,560	92.6%
Small banks		1										–	–

[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, PML and TF – prevention of money laundering and terrorist financing
Source: CNB.

In addition, special attention was in 2012 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.

The adequacy of placements' value adjustments is established by examining credit records and, in most cases, by intensive testing of the credit institution's methodology according to relevant portfolio characteristics. As a rule, the tests are harmonised with the internal placement distribution process (mostly for large banks) including, among other things, simulations of maximum losses for the clients in the area of project financing, the placements of the clients on the watch list and the placements from the group of risky placements, as well as the placements not insured by quality collateral that recorded a deterioration in financial reports.

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 2012 stood at HRK 1,256,888, or 30.7% of the total expenses on value adjustments and provisions for identified losses of credit institutions in 2012. In addition, in the course of on-site examinations, credit institutions made additional value adjustments and provisions amounting to HRK 22,706 for clients covered by the sample, with the share of additional value adjustments made during the on-site examinations rising to 6.8% or 31.2% of the total expenses on value adjustments and provisions of credit institutions in 2012.

In 2012, two on-site examinations of credit unions were also carried out. In terms of assets, these credit unions accounted for 3.8% of the total assets of credit unions as at 31 December 2012. Twenty supervisory days were employed for these on-site examinations.

The on-site examinations of the internal control systems of credit institutions included adequacy assessment of the systems for the prevention of money laundering and terrorist financing in place in these institutions. In addition, some actions that these credit institutions had undertaken regarding the implementation of the Act on the Prevention of Money Laundering and Terrorist Financing in line with the requirements of the Office for Money Laundering Prevention were scrutinised. In 2012, CNB representatives participated in the following:

- the work of the inner task force of the Inter-institutional Working Group for Preventing Money Laundering and Terrorist Financing,
- working meetings with IMF representatives on the implementation of the Preliminary nationwide assessment of money laundering and terrorist financing risks in the fourth round of evaluation of the Republic of Croatia by the Special Committee of the Council of Europe – MONEYVAL, with regard to the implementation of money laundering and terrorist financing prevention measures,
- as lecturers, in training seminars for banks, housing savings banks, credit card issuers and electronic money institutions on the strengthening of the system for the prevention of money laundering and terrorist financing,
- in drafting the amendments to the Guidelines for the implementation of the Act on the prevention of money laundering and terrorist financing for credit institutions, credit unions and electronic money institutions.

In 2012, the examinations of credit institutions' IT systems included:

- working meetings with the representatives of all banks in the RC (heads of IT departments, of IT security and of internal audit and/or persons responsible for IT audit) on specific topics related to the management, security, functionality and audit of banks' IT systems,
- analyses of IT documentation submitted by all credit institutions,
- analyses of responses to questionnaires on IT systems sent to all credit institutions,
- analyses of reports on the audits IT systems of all credit institutions for the financial year 2011,
- the annual working meeting with all certified auditors regarding the presentation of the analyses of reports on the audits of IT systems of credit institutions for the financial year 2011,
- analyses of responses to questionnaires on IT systems sent to all external auditors of credit institutions,
- individual analyses of all banks' IT systems,
- the monitoring of the execution of measures under decisions relating to upgrading credit institutions' IT systems and the monitoring of the implementation of some key credit institutions' projects,
- compiling results of the analyses of incidents related to internet banking systems of credit institutions using the transaction authentication number (TAN) as the authentication mechanism for internet banking system users,
- compiling a summary Report on the condition of credit institutions' IT systems for 2012.

Following the on-site examinations, and with regard to 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, ten decisions on supervisory measures were issued. A total of 76 supervisory measures were ordered via the issued decisions, 42.11% of which were related to credit risk, 28.95% to risk management organisation, 19.74% to IT systems and the remaining measures were related to capital adequacy, reporting and liquidity risk. Two decisions were issued, one of which approved a change in the existing loss given default model (LGD), and the other refused an application for the gradual implementation of the IRB approach for the calculation of risk- weighted exposure amounts for a company in the group.

In addition to the described main activities, CNB employees also performed the following operations in 2012:

- validated the justification of the application of the

statistical sample methodology in on-site examinations of credit risk,
- continuously updated the methodology of on-site examinations of internal control systems and the methodology of operational risk assessment,
- analysed lawsuits that credit institutions considered to be examples of vexatious litigation and provided related opinions,
- participated in the work of the Standing Coordination Group for Monitoring the Implementation of International Restrictive Measures,
- coordinated the working group on externalisation.

Off-site examination

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. In 2012, the CNB carried out the supervisory cycle of the assessment of the risk profile of credit institutions in relation to all the risks to which credit institutions are exposed or might be exposed in their 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.

The internal Methodology for the risk assessment of credit institutions was used to assess the risk profile of credit institutions. The risk profile assessment is one of the tools used by the CNB to determine the scope of activities, the allocation of resources and priority credit institutions for the supervision in the forthcoming period.

The frequency of written analyses based on off-site examinations changed from the previous year: comprehensive off-site analyses are now compiled semi-annually, instead of quarterly, with short reports made for the first and third quarter on the changes in the relevant three months. This makes the supervisory resources more focused on the continuous monitoring of credit institutions' operations through communication or the analysis of specific operating areas assessed to carry an increased degree of risk. Off-site examinations still comprise credit institutions' 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. In addition, written off-site analyses also provide general information on a credit institution and its main operating guidelines, data on the market share of a particular credit institution in the whole 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 2012, 71 written off-site analyses of credit institutions' operations and 34 reports on operations were compiled as part of the off-site examination process. Detailed specific analyses of individual parts of the operation of credit institutions were also made where required.

The off-site examination process includes an analysis of consolidated financial statements of groups of credit institutions. In 2012, the CNB monitored the operations of seven groups of credit institutions in each of which in this year too one credit institution accounted for the dominant share of the assets and total income of the group, with the indicators of the business operations of the credit institution having a crucial impact on the performance indicators of the group.

The supervisory cycle of the assessment of credit institutions in 2012 also included the analyses of 33 internal capital adequacy assessment reports (ICAAP reports)[36]. ICAAP reports provide a comprehensive review of the organisation of the internal capital assessment process, the 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. The analyses of reports indicated areas requiring improvement so that the CNB is considering the possibility of amending the regulatory framework or issuing guidelines with its expectations related to ICAAP reports.

Ongoing monitoring of credit risk exposure

In 2012, the CNB continued its activities on the analysis of data on due but unpaid receivables and credit institutions' exposure to credit risk. Monthly data on due but unpaid receivables of credit institutions and data on rolled over and restructured placements were analysed in 2012. Based on the data broken down by credit institutions and data for the whole system, further supervisory activities were carried out. An analysis of reschedules and prolonged placements at the system level was carried out in 2012, encompassing 556 clients for 213 of which additional documentation and further explanations were

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

requested. In terms of the type and scope of information collected, these analyses can be compared to targeted on-site examinations of individual segments of credit risk management. Where deficiencies were established, appropriate supervisory measures were taken.

In accordance with the determined developments in credit portfolio quality indicators, in 2012 the CNB conducted a detailed analysis of the adequacy of value adjustments for four credit institutions, and a detailed analysis of the adequacy of establishing groups of connected persons regarding the limitations on the maximum permitted exposure. Supervisory measures were imposed on credit institutions whose placement classifications were not conducted in accordance with the law, whose credit risk management was not adequate and whose groups of connected persons were not established in accordance with the law.

Reports, decisions and written warnings

Following off-site examinations in 2012, the CNB prepared 12 reports on examination findings and 23 decisions, 10 of which were related to the exclusion of some companies from the scope of the consolidation and 13 to the imposition of supervisory measures to eliminate violations and irregularities established and improve the state of affairs. In 2012, one credit institution received a written warning as regards its failure to implement supervisory measures in the manner and within the time limits set in the CNB decision.

Cooperation with foreign supervisors

Based on the memoranda of understanding in effect and for the purpose of improving cooperation with foreign supervisors, in 2012 CNB representatives participated in ten colleges of supervisors relating to the supervision of banking groups that include domestic credit institutions and in four meetings on issues related to the application of internal models and the implementation of common supervision. 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 2012. Also in 2012, the CNB participated in the joint supervision of operations of two credit institutions with the home supervisor, and CNB employees participated in the colleges of supervisors, related mostly to the IRB approach and the coordination of activities for the banks that plan to implement the IRB approach.

In 2012, 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 2012 for 2011.

In 2012, 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 majority-owned by Austrian banks. Twelve such newsletters were prepared.

Other regular activities

Regular meetings with the management boards of credit institutions were held in 2012, where required, to exchange information on business strategy and policies, possible operating problems, expected difficulties and methods to resolve identified problems.

In 2012, the CNB continued to cooperate with the Croatian Financial Services Supervisory Agency (HANFA) by participating in the work of the joint Working Committee. At the Committee meetings (two were held in 2012) the institutions exchange information on current topics in the banking sector and the sector supervised by the Agency, resolve open issues on the exchange of data and arrange the coordination of supervisory activities. Cooperation by means of this Committee has continued for several years. Since its establishment, the Committee has been chaired by a CNB representative. There has also been active cooperation on the Cooperation Agreement; because the legislative framework for HANFA's operations has changed, it required amendments to be made to the Agreement in order for some sections to be harmonised with new legislative changes.

In addition, the CNB continued to cooperate with other government authorities (the Ministry of Finance, the courts, the State 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 CNB's system of reporting on the business of credit institutions with EU directives and guidelines continued into 2012. The submission of reporting records for income statement started in March 2012 and activities were continued for the submission of records on the consolidated basis.

In 2012, the number of complaints submitted by legal persons and crafts regarding the procedures of credit institutions rose, so that the CNB allocated significant resources to dealing with these complaints. This involved a detailed analysis of complaints and correspondence with credit institutions (requests for statements and additional documentation).

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, 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 24 and No 25 of Banks Bulletin were issued in 2012. After the expiry of each quarter, a quarterly report on the banking system was made for the CNB management and Council, as well as reports 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, the CNB is the institution responsible for granting authorisations for the operation of credit unions and for the supervision of operations of credit unions through off-site and on-site examination.

As at 31 December 2012, there were 26 credit unions enrolled in the register of companies of the Republic of Croatia, whose assets, according to the reports submitted to the CNB, totalled HRK 602.2m. Compared to end-2011, the number of credit unions increased by four. Two credit unions were authorised by the CNB in December 2011, but were enrolled in the register of companies in 2012, and two credit unions were authorised by the CNB in July and November 2012 respectively and enrolled in the register of companies in the same year. One credit union in the process of winding up was cleared from the register of companies in 2012. As at 31 December 2012, nine credit unions are currently in the process of winding up, while one credit union is undergoing bankruptcy proceedings.

In 2012, regular analyses continued to be made by the CNB of the 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 and ratios of the prescribed amounts that had been exceeded, and one report on the irregularities determined was issued. Four decisions were issued to eliminate irregularities. Additional data submitted by credit unions after requests by the CNB were also analysed. A report on the operation and supervision of the system of credit unions was prepared for the purposes of the CNB Council in 2012.

Meetings with members of management and supervisory boards of credit unions continued to be held in 2012.

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 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
- 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;
- 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 2012, a total of 80 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 (44) and credit unions (17). Other decisions involved issuing (7) and withdrawing (3) authorisations for the provision of financial services by credit institutions. The authorisations to provide financial services were withdrawn at the request of credit institutions that ceased to provide these services. In addition, four approvals were issued to acquire a share of over 10% in the share capital of a credit institution, one approval for a merger of credit institutions and one for the changes in general operating conditions of a housing savings bank. Three authorisations for the establishment of credit unions were issued in 2012.

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 2012 the CNB made two assessments of compatibility of concentrations on the first level instance (undisputed concentrations).

In late 2012, several investigations into alleged abuse of a dominant position were launched as a follow up to the survey on the behaviour of banks in the market for individual types of compensations charged in deposit and credit operations with customers, carried out by the CNB in 2011.

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, the on-going monitoring of comparative practice, regulation and economic theory continued in 2012. A workshop with a representative of the European Commission, DG Internal Market and Services, on banking and financial products and retail financial services, held in 2012, involved discussions on the trends and opinions on the transparency and amount of fees, mobility and access to the basic banking account.

In accordance with CNB practice so far, in 2012 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 2012, the CNB stepped up its activities in the field of consumer protection policy. Considerable efforts continued to be made in handling complaints by consumers using 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. In an effort to reduce the number of submitted complaints, a seminar for Consumer Protection Associations and Consumer Protection Counselling Centres was organised in May 2012 with the aim of educating consumer representatives.

In 2012, the Department was engaged in activities related to regulation, primarily involving amendments to the Credit Institutions Act aimed at improving consumer awareness, facilitating the comparison of offers and services, increasing transparency and facilitating the position of the guarantor. Amendments to the Credit Institutions Act incorporate additional warnings to consumers of specific risks from and protection against those products/services that had proved harmful for consumers in the previous periods. Significant changes were made in the so far unregulated area of variable interest rates, from two aspects: 1) the process of interest rate change is now more equitable as it is not able to be influenced by any of the contracting parties 2) the process is more transparent, which should have a positive impact on consumer decisions. These changes were harmonised with the changes implemented by the Act on amendments to the Consumer Credit Act (which fall within the sphere of competence of the Ministry of Finance), whose drafting involved the participation of the Department. Both acts supported the changes in the area of variable interest rates by the provisions increasing market mobility (specifically, loan rescheduling was enabled without an exit fee for clients). Besides providing additional benefits for consumers, the improved mobility will promote competitiveness among banks. The Decision on the content and form of information to be provided to consumers prior to the conclusion of a contract for a banking service was compiled and published, as well as the Guidelines for the release of General operating conditions and amendments to the General conditions for credit institutions' operations with consumers.

Activities were continued on collecting data to establish market conditions and determine the further course of actions (Questionnaire for the collection of information on the treatment of guarantors, Questionnaire on fees, Questionnaire for the collection of information on the basic payment account, complaints statistics).

As in the remaining segments falling within its competence, the CNB got involved in the work and monitoring of EBA operations, continuing to monitor the activities of the Financial Consumer Protection Network (FinCoNet) and the International Network on Financial Education (INFE). With financial education increasingly gaining in importance, the CNB started to cooperate with the Ministry of Finance in this regard and established contacts with the national PISA centre (Programme for International Student Assessment). Also underway is the redesign of the webpage to provide the general public with more informative and educative materials on consumer protection and protection of market competition.

CNB representatives also participated regularly in the work of the National Consumer Protection Council.

HNB

Payment operations

HNB

4.1 Alignment of domestic payment system regulations with the acquis communautaire

A new Act on Settlement Finality in Payment and Financial Instruments Settlement Systems (OG 59/2012) was passed in 2012 and entered into force on 5 June 2012, with the exception of certain provisions, which would enter into force on the day of accession of the RC to the EU. Moreover, for the purpose of alignment of the Payment System Act (OG 133/2009) with the provisions of the General Administrative Procedure Act (OG 47/2009) and the Criminal Code (OG 125/2011 and 144/2012), an Act on Amendments to the Payment System Act (OG 136/2012) was passed, which entered into force on 15 December 2012, with the exception of certain provisions that became effective on 1 January 2013.

The new Act on Settlement Finality in Payment and Financial Instruments Settlement Systems meant further alignment of the Croatian legislation with the EU acquis, since the new Act incorporates the provisions of the Directive 2009/44/EC of 6 May 2009 amending Directive 98/26/EC and Directive 2002/47/EC on financial collateral arrangements as regards linked systems and credit claims.

In the Act on Amendments to the Payment System Act, certain provisions of Title VII of the Payment System Act were adjusted in accordance with the Resolution of the Government of the Republic of Croatia on the Obligation to Align Special Laws with the General Administrative Procedure Act. Apart from these changes, the Payment System Act was aligned with the provisions of the Criminal Code, in accordance with the Decision on the Alignment of the Misdemeanour Legislation of the Republic of Croatia with the Criminal Code (OG 79/2012).

In line with the obligations in the area of payment system operations, to be assumed by the Republic of Croatia as of the date of its accession to the EU, an Act Proposal was drawn up during the fourth quarter of 2012, regulating the designation of a competent authority within the national legislation, in accordance with the Regulation 924/200/EC9[1] and Regulation 260/2012/EU)[2] to supervise the implementation of the Regulations, the manner of dealing with complaints, out-of-court complaint procedures and conciliation procedure, and violations consisting of non-compliance with the provisions of the said Regulations.

As these Regulations are directly applied in the EU Member States, without the previous incorporation of their provisions into the national legislation, preparations began for drafting a final proposal for an Act on the Implementation of EU Regulations Governing Payment Systems, with a view to its enactment during the first quarter of 2013 and entry into force on the date of Croatia's accession to the European Union.

The Regulations govern the functioning of the internal market in the way that an integrated payment market for electronic payments in euro will be established, with no difference in the manner of execution between national and cross-border payments. For this purpose, common payment instruments at the EU level have been developed to replace the existing national payment schemes. Common Single Euro Payment Area (SEPA) standards, rules and practices have been introduced, as well as the application of integrated processing of payments that should ensure safe, accessible and reliable payment services in euro.

The Regulation 924/2009/EC establishes the principle of equality of charges for national and cross-border payments in euro, i.e. the obligation is placed on payment service providers to apply the same charges for both cross-border and national payments of the same value and in the same currency.

The Regulation 260/2012/EU lays down rules and conditions for the execution of credit transfers and direct debits in euro within the European Economic Area, which are equal for national and cross-border payment transactions, and sets deadlines for their application.

By adopting these regulations, the obligation to align the regulations in the area of payment operations with the EU acquis communautaire has been fully met.

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

Since the introduction of the Payment System Act and the Electronic Money Act (both laws entered into force on 1 January 2011), the CNB has granted a total of 6 authorisations to electronic money institutions. Apart from the authorisations granted to electronic money institutions during 2011 (Hrvatski telekom d.d., VIPnet d.o.o., PBZ CARD d.o.o. and Erste Card Club d.o.o.) and to one electronic money institution under exemption (Paysafecard d.o.o.), after completing the procedure and the processing of the received documentation, the CNB granted authorisation to another electronic money institution, namely Tele2 d.o.o.

In accordance with the adopted regulations, the CNB keeps

1 Regulation (EC) No 924/2009 of the European Parliament and of the Council of 16 September 2009 on cross-border payments in the Community and repealing Regulation (EC) No 2560/2001.

2 Regulation (EU) No 260/2012 of the European Parliament and of the Council of 14 March 2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009.

a register of electronic money institutions which have been granted authorisation to issue electronic money (and provide payment services that are linked to the issuance of electronic money), which is publicly available on the CNB's website.

4.3 Complaints by payment service users and electronic money holders

According to the provisions of the Payment System Act and Electronic Money Act, payment service users and other legally interested parties, including consumer associations, may file complaints with the CNB against a payment service provider where they deem that it has acted contrary to the provisions of the aforementioned legislation in the part regulating the rights and obligations of payment service providers and payment service users.

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

During 2012, over 90 inquiries were received related to providing opinions and answers regarding payment system regulations. In addition, over 20 complaints made by payment service users were received, regarding the treatment by payment service providers, four of which served as grounds for initiating violation proceedings against payment service providers by the Croatian National Bank.

4.4 Interinstitutional cooperation in the area of payment operations

4.4.1 National Payment System Committee

The National Payment System Committee (hereinafter: the Committee), consisting of the representatives of the Croatian National Bank, Ministry of Finance, Croatian Bank Association and Croatian Chamber of Economy – Banking and Finance Department held three meetings at which current issues in the payment operations area were discussed. In accordance with its powers, the Committee issued conclusions and recommendations for acting within the payment system.

At a meeting in March, Committee members were informed of banks' activities, implemented and planned, regarding the introduction of the IBAN into the national payment system. It was concluded that all the necessary measures and actions had been taken in order to implement the IBAN structure within the prescribed deadlines. Banks have taken on the obligation to inform payment service users on all essential points regarding the introduction of the IBAN into the national payment system.

Also, the Committee discussed the application of certain provisions of the Payment System Act. In this respect, the CNB prepared materials including recommendations for changes in the operating procedures of banks and for the harmonisation of framework contracts and client relationships, in order to reduce the number of complaints made by payment service users.

At its thematic meetings (held in November and December), the Committee discussed a proposal for the organisation and management of the SEPA project in the Republic of Croatia.

SEPA is a single euro payments area, enabling individuals, business entities and public authorities to execute electronic payments in euro according to the same rules and with the same rights and obligations as those applying to national payments in the country, using a single set of basic payment instruments (credit transfer, direct debits and payment cards) regardless of the country in which the payments are made.

The Committee members are familiar with the provisions of the Regulation 260/2012/EU, prescribing, at the EU level, the deadline for migration to the SEPA payment instruments, which is 31 October 2016 for Member States outside the eurozone.

The Committee members supported the launching of the SEPA project in the RC, emphasizing that the project should have a transparent management and organisational structure to include all participants: payment service providers, payment service users and public authorities.

By the end of the first half of 2013, the SEPA project is expected to be developed at the national level and put into effect for the purpose of introducing SEPA standards in the Republic of Croatia.

4.4.2 Council of the National Clearing System (NCS) Participants

The Council of NCS Participants consists of the representatives of the Croatian National Bank, banks and the Financial Agency. During 2012, the Council held one meeting, featuring a presentation of the activities carried out during the year. The Financial Agency has regulated its contractual relationships with NCS participants (banks), and new NCS Tariffs have been issued, with a uniform transaction processing fee in all cycles during a clearing day, and a new range of fees, depending on the number of processed transactions. A new clearing cycle has been introduced along with the application of a new work schedule, the NCS message format has been changed as a consequence of the introduction of the IBAN, and there is a possibility of file transfer through the SWIFTNet FileAct.

The Working Group for the Implementation of Direct Debits in the RC, consisting of the representatives of the FINA, CNB and banks, conducted six workshops in 2012, during which conclusions were reached on further development and implementation of the national direct debit payment scheme in the RC, in accordance with SEPA standards. A workshop on SEPA credit transfers to be conducted in the course of 2013 has been announced.

4.4.3 Participation of employees in the working groups of the European Union bodies and cooperation with other central banks

During 2012, the appointed CNB representatives in the area of payment systems participated in nine meetings of committees of the European System of Central Banks, working bodies of the EU Council and committees of the European Commission.

Upon request of the Financial Services Volunteer Corps, a not-for-profit public-private partnership with a mission to help developing countries to build their financial systems, the CNB organised a two-day workshop at end-2012, for the purpose of providing technical assistance to the representatives of the central bank of Albania regarding the implementation of EU regulations in the payment operations area.

4.5 Interbank payment systems

In 2012, 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 the interbank payment systems as the basic infrastructure of the domestic payment system.

The accessibility of the CLVPS to payment system participants was as high as 99.98%. In 2012, the CLVPS was inaccessible for a total of 30 minutes, and there were no deviations from the payment execution schedule.

The accessibility of the NCS to payment system participants was 100% (excluding regular technical maintenance), with a deviation from the schedule standing at 255 minutes.

The only difficulties in the use of particular payment system services, which were very slight, were of a technical or technological nature.

Compared with 2011, there was an increase in the number and a decrease 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.

Table 4.1 CLVPS – payment transactions executed in 2012

Month	CLVPS	
	Payment transaction number	Payment transaction value (in million HRK)
January	21,202	291,890
February	22,484	209,575
March	23,371	253,942
April	23,081	247,451
May	25,832	392,262
June	22,459	416,371
July	28,522	334,204
August	24,630	230,169
September	23,942	250,972
October	27,148	306,691
November	24,616	326,975
December	24,740	312,911
Total	292,027	3,573,414

Source: CNB.

Table 4.2 CLVPS – overview of payment transactions settled

	2011	2012
Payment transaction number	270,767	292,027
Payment transaction value (in million HRK)	4,653,352	3,573,414
Payment transaction average value (in million HRK)	17.2	12.2

Source: CNB.

4.5.1 Croatian Large Value Payment System

Below are the basic data on payment transactions settled through the CLVPS in 2012, and a comparison of some data with the data from the previous calendar year.

The number of payment transactions settled through the CLVPS picked up by 7.9% from 2011. A total of 292,027 payment transactions were settled through the CLVPS in 2012, with the daily average of settled payment transactions standing at 1,168.

The total value of payment transactions settled through the CLVPS decreased by 23.2% from 2011. This decrease was mostly due to a fall in the value of banks' overnight deposits with the Croatian National Bank.

The total value of payment transactions settled through the CLVPS in 2012 was HRK 3,573,414m. The average value of a payment transaction was HRK 12,236,588.1 and the daily average value stood at HRK 14,293.7m.

The largest value of payment transactions settled through the CLVPS was recorded in June, totalling HRK 416,371m, and the largest number in July (28,522).

As shown by the structure of exchanged payment messages, as many as 64.2% 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 29.6% and 6.1% of total payment messages respectively. Direct transfers are payment messages used by the central bank to discharge its legal obligations and manage payment systems, as well as to execute payments ordered by the participants facing technical and communication difficulties.

4.5.2 National Clearing System

Below are the basic data on payment transactions cleared through the NCS in 2012, and a comparison of part of total data with the data from the previous calendar year.

The number of payment transactions cleared through the NCS picked up by 3.7% from 2011. A total of 138,969,995 payment transactions were cleared through the NCS in 2012, with the daily average of cleared transactions standing at 555,880.

The total value of payment transactions cleared through the NCS increased by 3.0% from 2011 and stood at HRK 699,019m in 2012. The average value of a payment transaction was HRK 5,030.0 and the daily average value of transactions

Table 4.3 NCS – payment transactions executed in 2012

Month	NCS	
	Payment transaction number	Payment transaction value (in million HRK)
January	10,312,342	51,082
February	10,302,238	53,677
March	11,473,544	54,860
April	11,274,849	56,196
May	12,459,210	59,895
June	11,313,796	55,423
July	12,756,598	66,055
August	11,807,267	61,398
September	11,422,893	56,582
October	12,488,681	63,093
November	11,588,225	58,182
December	11,770,352	62,576
Total	138,969,995	699,019

Source: FINA.

Table 4.4 NCS – overview of payment transactions cleared

	2011	2012
Payment transaction number (in million)	134	139
Payment transaction value (in million HRK)	678439.0	699019.0
Payment transaction average value (in HRK)	5,061	5,030

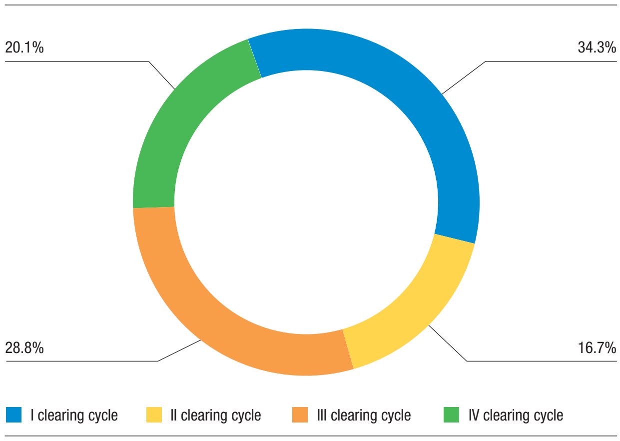
Source: FINA.

Table 4.5 NCS – total value and number of payment transactions by clearing cycles in 2012

	I clearing cycle	II clearing cycle	III clearing cycle	IV clearing cycle	Total
Payment transaction number	47,709,722	23,274,427	40,090,249	27,895,597	138,969,995
Share (in %)	34.33	16.75	28.85	20.07	100
Payment transaction value (in million HRK)	131,389	120,347	253,030	194,253	699,019
Share (in %)	18.80	17.22	36.20	27.79	100

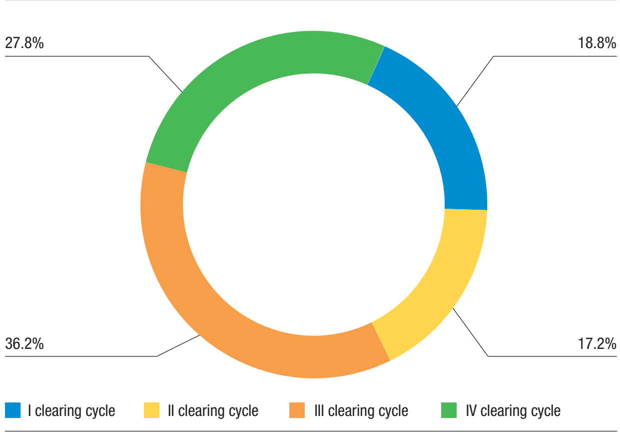
Note: I clearing cycle – from 18.30 T_{-1} to 8.30 T_0 • II clearing cycle – from 9.30 T_0 to 10.00 T_0 • III clearing cycle – from 11.00 T_0 to 13.00 T_0 • IV clearing cycle – from 14.00 T_0 to 18.30 T_0
Source: FINA.

4.1 NCS – number of payment transactions by clearing cycles in 2012



Source: FINA.

4.2 NCS – value of payment transactions by clearing cycles in 2012



Source: FINA.

cleared through the NCS stood at HRK 2,796.1m.

The largest value of payment transactions cleared through the NCS was recorded in July (HRK 66,055.2m). The largest number of payment transactions was also recorded in July (12,756,598).

The largest value of transactions (36.2%) was cleared in the third clearing cycle. The largest number of payment transactions was cleared in the first clearing cycle, 34.3% of the total.

A new Work Schedule for NCS has been applied since 2 April 2012, according to which payment transactions are cleared in four cycles.

4.6 Payment statistics reports

Pursuant to the Decision on the obligation to submit Reports 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 5,850,056 bank accounts. Individuals had 5,394,050 bank accounts, which made up 92.2% of all accounts held with banks. Out of the total, 74.1% were current accounts, 21.3% giro accounts and 4.5% 'other retail accounts'.

Of the total number of business entities' accounts opened with banks, as many as 98.0% were business purpose accounts, whereas only 2.0% were other business entities' accounts.

As at 31 December 2012, there were 1,256 bank operating units in the Republic of Croatia. Of 4,083 ATMs in the country, 82.6% were owned by banks and the remaining 17.4% by other legal entities. Of a total of 90,433 POS (EFTPOS) terminals, 56.1% were owned by banks and the rest by other legal entities.

As at 31 December 2012, there were 8,700,449 payment cards in circulation in the Republic of Croatia, 94.2% of which were general payment cards (payment cards issued in the names of individuals) and 5.8% were corporate 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, 76.6%.

As regards payment card functions, of the total number of cards, as many as 86.3% had chips (payment cards containing one or more chips for data storage, identification or special purpose processing).

Table 4.6 Number of transaction accounts
as at 31 December 2012

Business entities' accounts	456,006
Business accounts	446,664
Other accounts[a]	9,342
Citizens' accounts	5,394,050
Giro accounts	1,150,653
Current accounts	3,998,623
Other citizens' accounts[b]	244,774
Total	5,850,056

[a] Budgetary credit accounts. [b] Specific purpose citizens' accounts and accounts of non-residents – natural persons resident abroad.
Source: CNB.

Table 4.7 Number of bank operating units, ATMs and POS (EFTPOS) terminals
as at 31 December 2012

	Total
Operating units	1,256
ATMs	4,083
ATMs owned by banks	3,373
ATMs owned by other legal persons	710
POS (EFTPOS) terminals	90,433
POS (EFTPOS) owned by banks	50,746
POS (EFTPOS) owned by other legal persons	39,687

Source: CNB.

Table 4.8 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	161,231	1.9	2,436,755	771,295,632
Revolving card[b]	676,387	7.8	29,159,143	7,642,657,498
Deferred debit card[c]	477,577	5.5	29,065,316	9,817,362,479
Charge card[d]	557,754	6.4	36,202,785	9,651,119,088
Debit card	6,664,654	76.6	195,321,183	82,178,615,299
Prepaid card	146,512	1.7	463,536	76,536,836
Other	16,334	0.2	93,125	35,387,993
Total	8,700,449	100.0	292,741,843	110,172,974,825

[a] Reporting period as at 31 December 2012.
[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.

HNB

Currency department operations

HNB

5.1 Currency outside banks

As at 31 December 2012, currency outside banks (currency in circulation) amounted to HRK 16.9bn, which is an increase of 1.5% from the end of 2011.

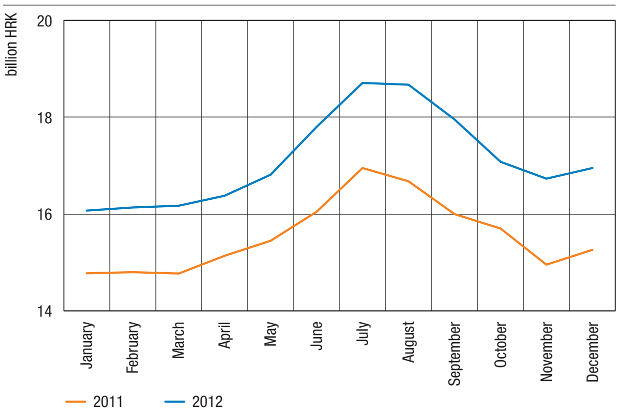
On 31 December 2012, there were 161m banknotes, worth HRK 20.6bn, outside the CNB vault and cash centres (CCs). In comparison with the end of 2011, the number of banknotes outside the CNB and CCs rose by 4.5% in 2012, while the total value of all banknotes outside the CNB vault and CCs increased by 3%.

The total number of banknotes outside the CNB vault and CCs increased by 6.4m in 2012, which includes an increase in all denominations except in 500 kuna banknotes, the number of which decreased by 0.1m, and in 5 kuna banknotes, the number of which fell by 0.009m. The number of 200 kuna banknotes recorded the largest individual increase, 2.4m, which is 60.9% of the total increase in currency outside the CNB vault and CCs in 2012.

Of banknotes outside the CNB vault and CCs, 200 kuna banknotes, with a share of 30%, and 10 kuna banknotes, with a share of 21%, were the most numerous and accounted for HRK 9.8bn, or 47.5% of the total value of banknotes in 2012. The large share of 200 kuna banknotes in total banknotes outside the CNB and CCs is attributed to their widespread use in ATM payments.

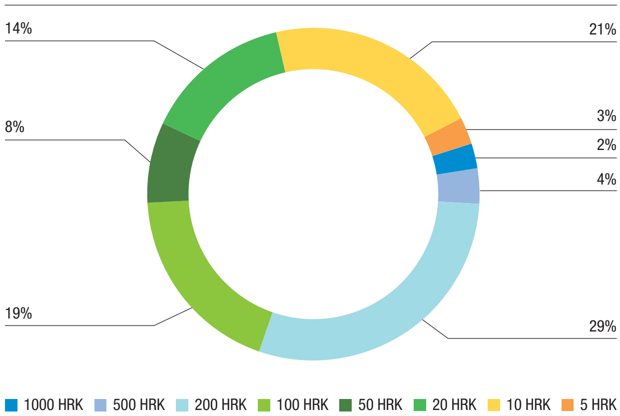
As at 31 December 2012, there were 1.8bn coins outside the CNB vault and CCs, worth a total of HRK 1.01bn. The number of coins outside the CNB vault and CCs rose by 4.6% at the end of 2012 relative to the end of 2011, while their total value increased by 5.2%. The number of coins outside the CNB vault and CCS rose by 76m in 2012.

5.1 Currency outside banks
end of period



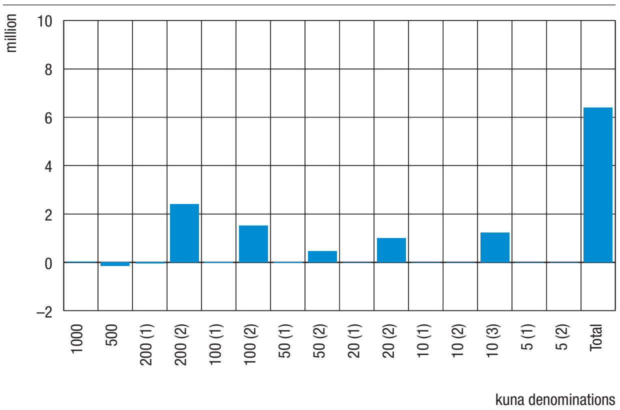
Source: CNB.

5.3 Structure of total volume of banknotes outside the CNB and CCs by denomination
end-2012



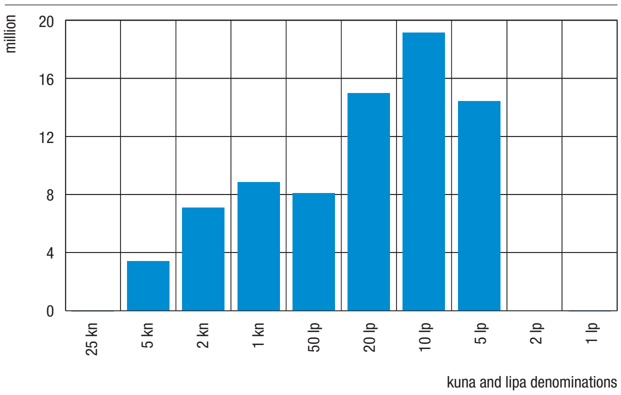
Source: CNB.

5.2 Change in the number of banknotes outside the CNB and CCs in 2012 as compared to 2011



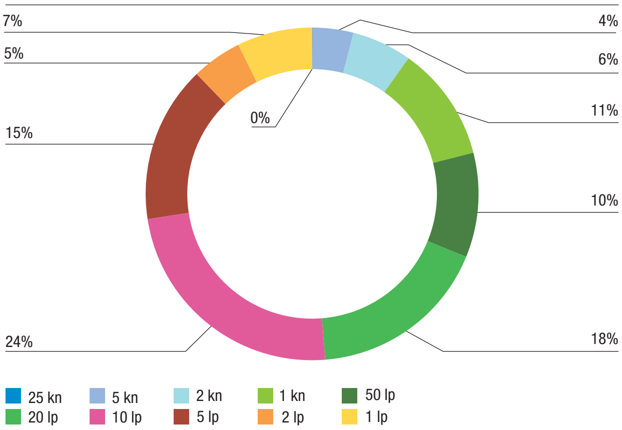
Note: 1, 2 and 3 in the brackets mark the series of issuance.
Source: CNB.

5.4 Change in the number of coins outside the CNB and CCs in 2012 as compared to 2011



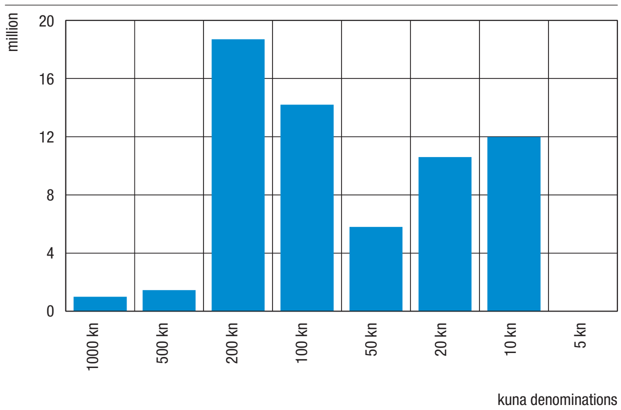
Source: CNB.

5.5 Structure of total volume of coins outside the CNB and CCs by denomination
end-2012



Source: CNB.

5.6 Banknotes issued to CCs in 2012



Source: CNB.

Of coins in circulation, the most numerous in 2012 were 10 lipa coins (429 million items, or 24% of the total number of coins outside the CNB vault and CCs). In terms of value, 5 kuna coins accounted for the largest share, HRK 355m, or 35% of the total value of coins outside the CNB vault and CCs.

5.2 Cash supply

A total of 7.5bn worth of kuna banknotes (63.7 million pieces) and 61.2m worth of coins (70.2 million pieces) was issued from the CNB vault to CCs in 2012 to meet the needs of banks for cash based on their orders, and to maintain adequate reserves in CCs. The total value of issued banknotes decreased by HRK 3.0bn (28.6%) from 2011 and their number decreased by 24.3m (27.6%). The total value of issued coins grew by 38.8% and their number decreased by 4.1%.

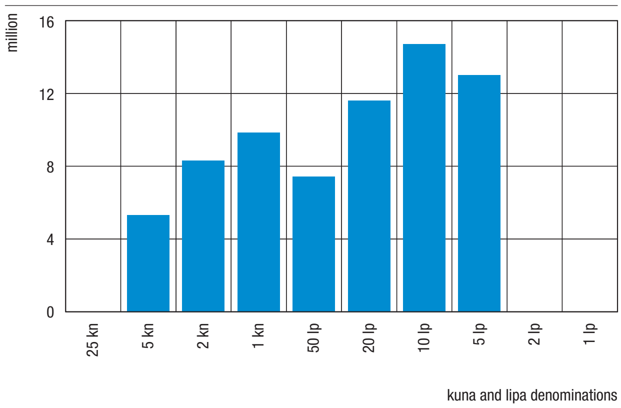
The number of 5, 2 and 1 kuna coins issued increased by a high 51.2% in 2012 from 2011, with the result that the total value of coins issued grew by 38.3%. The number of 50, 20, 10 and 5 lipa coins dropped by 18.9% so that the total number of coins issued in 2012 decreased by 3.4% from 2011.

5.3 Withdrawal and processing of worn-out banknotes

In 2012, the CNB withdrew a total of 55.3 million banknotes from CCs, worth a total of HRK 6bn. The banknote processing system processed a total of 51.2 million banknotes, of which 97.4% or 49.9m banknotes, worth HRK 5.2bn, were destroyed as the banknotes failed to meet the quality standards set for circulation banknotes.

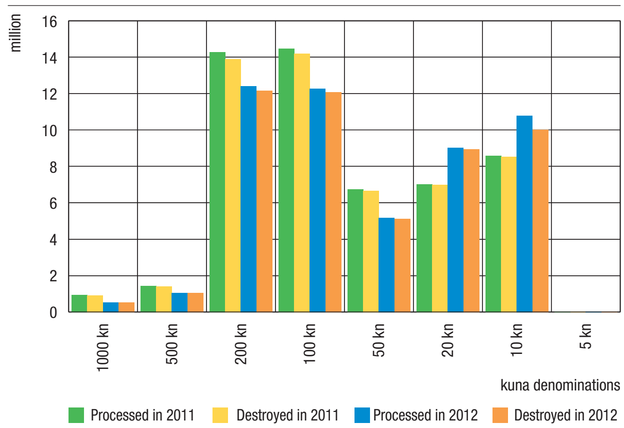
The renewal index (destroyed banknotes/banknotes outside the CNB and CCs × 100), was 31% in 2012, with the

5.7 Coins issued to CCs in 2012



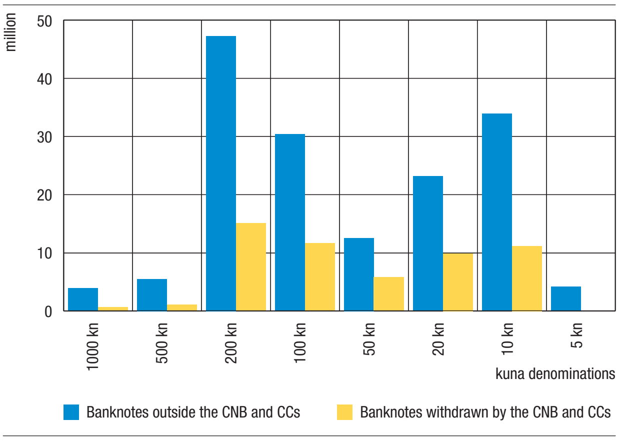
Source: CNB.

5.8 Processed and destroyed banknotes by denomination



Source: CNB.

5.9 Ratio of withdrawn banknotes and banknotes outside the CNB and CCs in 2012



Source: CNB.

number of banknotes outside the CNB and CCs and the number of destroyed banknotes totalling 161m and 49.9m respectively on 31 December 2012.

The Decision on the minimum standards for automated and manual fitness sorting of banknotes, which was issued by the CNB in September 2012 and applies as of December 2012, stipulates the standards for fitness sorting of banknotes, providing for more lenient standards for automated fitness sorting of banknotes in that it allows for a slightly larger degree of the distribution of dirt across the entire banknote. Banknotes will thus remain in circulation longer, which is important because 95% of banknotes are sorted as unfit based on this criterion. The number of banknotes to be sorted as unfit is expected to drop by about 15.7m on an annual basis as a result of the moderation of this criterion and total banknote printing expenses should be reduced by approximately HRK 5.4m.

5.4 Banknote authentication

In 2012, the National Analysis Centre registered 315 counterfeit kuna banknotes, worth a total of HRK 114,480.00, during banknote authentication procedures. The number of registered counterfeit kuna banknotes decreased by 29% from 2011. As shown by these indicators, and taking into account that the number of banknotes outside the CNB vault and CCs averaged 161.4m, two counterfeits were detected per 1 million kuna circulation banknotes in 2012.

In 2012, 994 counterfeit foreign currency banknotes were registered during banknote authentication procedures. Of the total number of registered foreign counterfeit banknotes, the largest share (861 banknotes) was accounted for by counterfeit euro banknotes, the second largest share (109 banknotes) went to counterfeit US dollar banknotes, and the remaining 24 banknotes were counterfeits of the following currencies: the convertible mark, Canadian dollar, Swiss franc, German mark, pound sterling, Italian lira and Serbian dinar.

The number of registered euro counterfeits increased by 29.7% in 2012 from 2011, whereas the total number of registered counterfeit US dollar banknotes declined almost three times.

Table 5.1 Registered counterfeit banknotes in 2012

	1000	500	200	100	50	20	10	5	Total
Number	34	122	81	16	23	14	25	0	315
Share (in %)	10.8	38.7	25.7	5.1	7.3	4.4	7.9	0.0	100.0

Source: CNB.

In the same period in 2012, the Coin National Analysis Centre registered 20 counterfeit 5 kuna coins and 537 counterfeit euro coins in coin authentication procedures.

Of the counterfeit euro coins, 403 pieces were 2-euro coins (75%), 101 pieces were 1-euro coins (19%) and 33 pieces were 0.50-euro coins (6%). The number of registered counterfeit coins decreased by 5.9% in 2012 from 2011.

In 2011, the National Counterfeit Centre held 32 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. 321 employees of banks and financial institutions and 354 final year students at schools of commerce received expert training.

5.5 Commemorative coin issues

In 2012, the CNB issued 1 000 numismatic sets of kuna and lipa circulation coins, with the year of issue 2012.

The CNB also issued 20 000 25 kuna commemorative circulation coins celebrating the Treaty on the Accession of the Republic of Croatia to the European Union, 9 December 2011.

HNB

Publicness

The Croatian National Bank informs the professional community and the public at large about the objectives, instruments and changes in its activities through various activities. The availability of information on central bank activities is made possible by prompt publication of press releases on the decisions of the highest central bank bodies at: www.hnb.hr, where all legislation in force and, wherever possible, legislation still in the making concerning the regulation of the activities of the central bank and financial institutions supervised by the central bank are also posted. Also published are regular publications of the CNB such as the Annual Report of the CNB, monthly Bulletin of the CNB, the Banks Bulletin and Financial Stability and so are data on foreign investments broken down in terms of structure by activities and countries and other numerous statistical indicators in the field of domestic and international financial developments and relations.

In accordance with the policy of openness to the public pursued by the CNB, the central bank consistently applies the provisions of the Act on the Right of Access to Information. Accordingly, all interested parties have access, free of charge or without having to make formal reference to the provisions of this Act, to various kinds of information, except those that under the relevant legislation such as the Act on the Croatian National Bank, the Credit Institutions Act, the Act on Official Statistics, and the Personal Data Protection Act, fall under the provisions governing business or banking confidentiality.

The Croatian National Bank has set up an e-mail address (info@hnb.hr) for requests for information by domestic and foreign media, businesses, citizens and institutions, and has compiled and published a catalogue of the information of a public nature at its disposal, and has appointed an information officer responsible for timely provision of the requested information or for referring the requesting party to the competent institutions.

In 2012, the Croatian National Bank received a total of 2,485 requests for various items of information. Of this number, 1,798 requests were submitted electronically, 99 by post and 588 by telephone. Of the total number of requests for information, 2,086 were submitted by citizens, companies, representatives of counties, municipalities, embassies and government institutions and 399 were submitted by the representatives of the domestic and foreign media. Of the total number of requests for information received, only three requests invoked the Act on the Right of Access to Information. A total of 2,482 requests for information were successfully handled and 3 requests were rejected based on relevant legislative provisions.

The central bank also uses other means to promote communication and openness to various public structures. Efforts to address the needs of the public media are made not only through prompt provision of the requested information and explanations but also through interviews and statements of the officials and other central bank employees, informal working meetings and, where the significance of the occasion so requires, through press conferences.

Interest in the role and activity of the CNB is clearly growing among the young, as evidenced by visits of 14 groups of university and high school students to the CNB in 2012 and the growing interest of students in topics in the area of operation of the CNB for their term papers or graduation theses.

The activities and views of the Croatian National Bank are also made known to the public through participation of CNB representatives at many domestic and international conferences and other professional gatherings. Particularly noteworthy in this context is the international Dubrovnik Economic Conference, hosted in 2012 for the 18th time by the CNB, which brings together prominent economists from Croatia and abroad and major international financial institutions.

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 in June 2011 and the EU Accession Treaty was signed in December that year. The process of Treaty ratification began in 2012. At the end of 2012, the ratification process was completed in 15 EU member states, it was in progress in nine of them, while it had not yet started in three member states.

For most institutions and bodies in Croatia, including the CNB, the signing of the Treaty marked the beginning of participation in the work of particular EU institutions and other bodies in the status of observers. CNB representatives participated in a total of 206 meetings of EU structures in the course of 2012. Out of that number, 101 were held under the auspices of the European Central Bank (ECB). The CNB Governor participated in regular quarterly meetings of the ECB General Council, dealing with topics such as current macroeconomic, monetary, fiscal and financial developments in the EU. CNB representatives participated in the work of 13 relevant ESCB committees and their sub-structures.

Within the European System of Financial Supervision (ESFS), the CNB Governor and the competent Vice Governor participated in regular quarterly meetings of the General Board of the European Systemic Risk Board (ESRB) at which topics related to systemic risk analysis and vulnerabilities in the EU financial system, EU macroprudential policy and the potential impact of pending changes in bank regulations were discussed. CNB representatives also took part in the work of the Advisory Technical Committee and the relevant ESRB working groups. The competent Vice Governor participated in meetings of the Board of Supervisors of the European Banking Authority (EBA). CNB managers and experts in particular fields took part in the work of other ESFS structures.

With regard to participation of CNB representatives in the work of ECB/ESCB and ESRB structures, it is noteworthy that in 2012 the CNB cooperated intensively with the relevant ECB's directorate in efforts to establish an IT infrastructure to provide the CNB access to DARWIN (Documents and Records Web-based Information Network), the IT system of the ECB and ESCB. This is the ECB's central network for distribution and storage of the entire documentation related to the work of governing bodies, committees and sub-structures of the ECB/ESCB and ESRB. This task was completed successfully in early 2013.

The CNB is also represented in individual working bodies of the EU Council and European Commission, most often together with the representatives of relevant ministries, above all the Ministry of Finance of the Republic of Croatia. For topics in the central bank domain discussed at these meetings, the CNB prepared the position of the Republic of Croatia in coordination with the Ministry of Finance. The Governor took part in informal meetings of finance ministers (the ECOFIN Informal Council) and relevant CNB management members participated in meetings of the Economic and Financial Committee (EFC). In other working bodies of the EU Council and in committees and working groups of the European Commission, the CNB was represented by heads of organisational units and experts in particular fields. It is worth noting that a CNB representative at the Mission of the Republic of Croatia to the European Union took part in numerous meetings of preparatory bodies of the EU Council.

In 2012, CNB experts continued to participate in the drafting of documents related to the accession process. Central bank representatives took part in preparing the Economic Programme, which was to replace the Pre-accession Economic Programme and which was, for the first time, prepared in 2013 within the informal participation of Croatia in the European Semester (a new framework of supervision and coordination of economic policies within the EU). CNB experts participated in the preparation of the annual Programme of the Government of the Republic of Croatia for the adoption and implementation of the acquis for 2013. CNB representatives also took part in the work of and preparation of materials for the Subcommittee on Economic and Financial Matters and Statistics. In addition, CNB experts prepared relevant materials for the meetings of the Stabilisation and Association Committee and the Stabilisation and Association Council.

In autumn 2012, the European Commission submitted the Comprehensive Monitoring Report on Croatia to the EU Council and the European Parliament. The report assessed the progress made by Croatia in its preparations for accession in the period from October 2011 to September 2012. The report states that monetary policy succeeded in preserving exchange rate and financial stability in the period under review. It estimates that this monetary framework anchors inflation expectations and reduces exchange rate-related credit risks in the highly euroised economy. The report mentions persisting recessionary conditions and the further narrowing of the current account deficit. It is also states that despite a significant stock of international reserves, the high level of gross external debt remains a key vulnerability of the Croatian economy. The stable and well capitalised banking system is mentioned as a positive factor. The report also assesses the progress made within each acquis chapter, four of which are in the CNB's field of competence. The report states that Croatia is meeting the commitments and requirements arising from the accession negotiations in the field of the free movement of capital. The chapter on financial services assesses that Croatia has largely aligned its legislation with the acquis. Further alignment is required fully to implement the latest Capital Requirements Directive (CRD III), while preparations are pending for the implementation of CRD IV. With regard to the chapter on economic and monetary policy, legislative alignment has been completed in the field of monetary policy, while improvement of the institutional and technical capacity for developing medium-term macroeconomic and fiscal frameworks continued. One of the key elements is enhanced alignment of fiscal reporting in accordance with ESA95 standards. In the chapter on financial control, alignment in the field of the protection of the euro against counterfeiting is almost complete. It is mentioned that the CNB strengthened its cooperation with the Ministry of the Interior and other institutions involved. The CNB reported to the European Central Bank and the European Commission on its work on detecting and analysing suspicious banknotes and coins on a regular basis.

In 2012, 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. Noteworthy is the visit by members of the ECB Secretariat and the seventh annual dialogue with representatives of the Austrian central bank.

In 2012, EU institutions continued with the implementation of measures to address the financial crisis in the eurozone. The Treaty on Stability, Coordination and Governance in the Economic and Monetary Union was signed early in 2012. Among other measures, it prescribes that the national budgetary position must be balanced or in surplus (a structural deficit may not exceed 0.5% of GDP) and obliges the member states to incorporate fiscal rules into national laws. The Treaty entered into force on 1 January 2013. Also, further to the agreement to reform the surveillance mechanism for public finances and macroeconomic imbalances (the so-called six-pack), a framework agreement at the EU Council level was achieved in February 2012 on the second package of economic governance measures (the so-called two-pack). It comprises two regulations: the first one relates to enhanced surveillance and assessment of draft budgets of eurozone countries, particularly those under the excessive deficit procedure; the second regulation provides for enhanced surveillance of eurozone countries facing financial distress or countries that have requested financial assistance. Negotiations between the EC, EU Council and the European Parliament were completed in February 2013 and the adoption of the two regulations is expected in the first half of 2013.

To enhance confidence and ensure solidarity and financial stability in the eurozone, the Treaty Establishing the European Stability Mechanism (ESM) was concluded in early 2012, with a beginning lending capacity of EUR 500bn. After the completion of the ratification process, the ESM Treaty entered into force on 27 September 2012.

A report entitled *Towards a genuine economic and monetary union* was presented in mid-2012. The report is the result of collaboration of the presidents of the European Council, the European Commission, the Eurogroup and the European Central Bank. The process of achieving such an economic and monetary union is divided in three stages. In the first stage, which runs from the end of 2012 to the end of 2013, one of the main objectives is to build the foundation for a future banking union. In this context, the European Commission adopted in September proposals for two regulations to establish a single supervisory mechanism (SSM), as one of the key elements of the banking union. Under these regulations, the task of bank supervision is entrusted to the ECB and EBA operations are adjusted in line with new powers of the ECB. The strengthening of the banking system is also anticipated within the establishment of the banking union; first, by the adoption and implementation of the CRD IV legislative package, which will enforce stricter international standards of bank operations (the final agreement is expected in the first quarter of 2013), and second, by the alignment of national laws on bank resolution (the Bank Recovery and Resolution Directive, BRRD).

7.2 International Monetary Fund (IMF)

The quota of the Republic of Croatia in the IMF remained unchanged in 2012 (SDR 365.1m) as did its voting rights (0.174% of the total voting power). The reform of quotas and governance envisaged under the Resolution of the IMF Board of Governors of 2010, which was to double the total IMF quota by the time of the 2012 Annual Meeting and thus increase the quota of the Republic of Croatia to SDR 717.4m, has not yet entered into force.[1] Among other things, the Resolution provides that developed European countries relinquish two seats in the Executive Board to representatives of emerging market and developing economies. To that end, the constituency of which Croatia is a member, which was then headed by the Netherlands, was joined by Belgium and Luxembourg in 2012. This constituency now comprises 15 countries (Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Macedonia, Moldova, Montenegro, the Netherlands, Romania and Ukraine) and accounts for 6.57% of the total voting power. In line with an agreement made by its members, representatives from the Netherlands and Belgium will rotate as executive directors of the constituency. In the current mandate, from November 2012 to October 2014, the constituency is headed by Menno Snel, the Dutch representative. In this enlarged constituency, the Republic of Croatia will maintain the right to appoint its representative as advisor to the executive director every two years.

The regular annual Article IV consultations with the Republic of Croatia were concluded on 7 November 2012. Having discussed the report by the IMF mission that visited Croatia in late September and early October 2012, the IMF Executive Board Directors concluded that Croatia was experiencing

1 The only remaining condition for the increase in IMF quotas is the entry into force of the Amendment to the Articles of Agreement on the Reform of the IMF Executive Board. As at 13 February 2013, 133 members accounting for 70.8% of the total voting power (out of the needed 85%) adopted this amendment.

a prolonged recession reflecting subdued domestic demand, lacklustre competitiveness, and a difficult external environment. They expected that GDP would contract by 1.5% in 2012 and pick up modestly in 2013, by 0.75%. The Directors underscored the importance of advancing with policies and structural reforms to boost growth and reduce vulnerabilities. They welcomed the ongoing process of fiscal consolidation, which should be based on expenditure reduction, while protecting capital spending, as well as efforts to rebalance the tax structure away from labour in a revenue-neutral way. Although they recognised that fiscal consolidation is particularly challenging at the current juncture, they underscored its necessity for the restoration of debt sustainability, satisfaction of the requirements of the Fiscal Responsibility Law, and retention of market access. The Directors welcomed the recent adoption of the government's structural reform program as a good start on the road to the restoration of competitiveness and the stimulation of growth. The Directors encouraged the authorities to develop specific policies and prioritize measures focused on raising labour force participation, enhancing labour market flexibility, reducing barriers to market entry, and fostering competition, while strengthening EU funds absorption capacity to step up the implementation of structural reforms and support growth. The Directors welcomed the increased exchange rate flexibility of recent years, as it has improved the economy's resilience to shocks and aided macroeconomic adjustment. They generally agreed, however, that the broadly stable exchange rate framework has served Croatia well and that excessive exchange movements would be harmful given the high degree of euroisation and the sizeable external debt. In order to build up what is an important buffer against external shocks, the Directors recommended that the central bank continue to gradually accumulate international reserves. They noted that the financial sector appears well-capitalized and resilient to shocks, but faces risks related to potential further deterioration of asset quality and sizeable dependence on parent banks for funding. The Directors stressed the importance of maintaining high statutory capital buffers, ensuring adequate provisioning for non-performing loans, further strengthening financial supervision and regulation and cross-border supervisory cooperation.

IMF experts again visited Zagreb in February 2013 to update their projections. In their concluding statement they noted that economic conditions had deteriorated in the meantime, reflecting weak external demand, private sector debt reduction, and lack of business and consumer confidence. GDP contracted more than expected in 2012. The implementation of the structural reform program – critical to restart growth, fully benefit from EU accession, and improve medium-term prospects – must accelerate. In this context, IMF representatives reiterated most of the recommendations given in the course of Article IV consultations and again stressed the importance of continuing with the gradual but steady fiscal consolidation that began in 2012. With regard to the financial sector, they noted the importance of keeping an appropriate balance between enhancing financial stability and supporting recovery in credit growth and assessed that it would be desirable gradually to increase specific bank provisions against non-performing loans.

In 2012, the IMF adopted a new Integrated Surveillance Decision, which, inter alia, makes Article IV consultations a vehicle not only for bilateral surveillance but also for multilateral surveillance. This enables a comprehensive, integrated and consistent analysis of spillover effects among member countries. Although the new decision and its defined scope and modality of multilateral surveillance are mostly relevant for systemically important economies, all member countries should benefit from integrated surveillance. In 2012, the IMF prepared and published for the second time a report on systemic economies with spillover potential (the USA, Japan, China, the United Kingdom and the euro area), but this time broadened by an analysis of negative spillover effects between Western and Eastern Europe. In this light one may also view the efforts to enhance the cooperation between supervisory authorities of parent banks established in the euro area and their subsidiaries in European emerging economies within the so-called Vienna Initiative 2, in which the IMF acts as an Executive Board Member.

The cooperation and exchange of opinions with IMF experts continued in 2012, the main occasion being the visit of the CNB and MoF delegation to Washington during the spring meeting of the International Monetary and Financial Committee and the Annual Meeting of the IMF Board of Governors in Tokyo in October 2012. Executive Director Menno Snel visited the Republic of Croatia in mid-2012. Also noteworthy is the visit by Ms. Nemat Shafik, Deputy Managing Director of the IMF, and associates in early 2013. During the visit, which was a part of the regional tour, Ms. Shafik met with the Prime Minister, the highest representatives of the MoF and CNB as well as representatives of the largest banks, employers and unions.

To increase funding for concessional lending facilities for low-income countries, the IMF Executive Board adopted two decisions in 2012 (in February and September) on the conditional disbursement to members, in proportion to their quota shares, of SDR 2.45bn in the IMF general reserves. The funds were attributable to windfall profits from IMF gold sales in 2009 and 2010, which were the result of the average selling price of gold per ounce being USD 294 higher than originally planned. The February decision related to SDR 700m, while the September decision related to the remaining SDR 1.75bn. In both cases, the distribution was conditional on satisfactory assurances of member countries that amounts equivalent to at least 90% of the amount distributed would be transferred for the purpose of new subsidy resources for concessional lending to low-income countries. For the first decision (SDR 700m), this condition was met in October 2012, when the distribution took place. By its conclusion of 30 August 2012, the government of the Republic of Croatia supported this IMF initiative and agreed to surrender 50% of its corresponding share in unexpected profits, i.e. around SDR 0.54m in favour of the Poverty Reduction and Growth Trust (PRGT) through which concessional lending is made. The Republic of Croatia thus became one of 140 countries that supported the IMF initiative by 1 February 2013. The decision-making process is still in progress in the member countries on the IMF initiative of September 2012 on further distribution of the remaining part of windfall profits from gold sales in the amount of SDR 1.75bn.

In 2012, the Republic of Croatia continued to use the technical assistance of the International Monetary Fund. In this context, note should be taken of the technical assistance project to modernise property taxation and the continued assistance provided to the Republic of Croatia in the area of prevention of money laundering and the 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 24 June 2012, 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 this area. 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 these institutions and is authorised to perform all operations and transactions in the name of 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 International Bank for Reconstruction and Development to the Republic of Croatia.

In addition to carrying out these legally prescribed tasks, in 2012 CNB representatives exchanged views at meetings with representatives of international development banks on the banking sector and macroeconomic situation in the Republic of Croatia and the planned strategy of these development banks in the Republic of Croatia.

In the context of cooperation with international financial institutions, it should be noted that in efforts to spur the interest of international development banks in investing in Croatia, in April 2012 the Croatian National Bank adopted a decision to exclude from the reserve requirement calculation base the funds received from international development banks that were already active in the Republic of Croatia (International Bank for Reconstruction and Development, International Financial Corporation, European Bank for Reconstruction and Development, European Investment Bank and Council of Europe Development Bank). This decision, adopted simultaneously with the decision to lower the reserve requirement rate from 15% to 13.5% is part of broader CNB efforts to release liquidity under the Programme of lending to economic entities with development potential, as agreed with banks and the CBRD.

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[2] 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 for 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.

2 OG 96/2003, 140/2005, 132/2006, 150/2008, 92/2009, 133/2009 – Payment System Act, 153/2009 and 145/2010.

7.5.1 Free movement of capital

Under the Stabilisation and Association Agreement, which entered into force on 1 February 2005, the Republic of Croatia has undertaken to ensure full freedom in concluding and executing current transactions and gradually to abolish restrictions on capital transactions.

All provisions of the Foreign Exchange Act that restricted the conclusion and execution of capital transactions were abolished in the course of accession negotiations. The last restriction was repealed on 1 January 2011. As of that date, residents no longer need an approval issued by the CNB to open an account abroad and hold funds in an account abroad.

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 82 authorisations were issued in 2012, 55 were withdrawn, while 57 expired as a matter of law.

The number of valid authorisations towards the end of 2012 stood at 1367. As concerns their legal form, 63% of authorised exchange offices are limited liability companies, 26% are craftsmen, 8% are joint stock companies and 3% are other legal persons.

Authorised exchange offices have to use protected computer programmes certified by the CNB. The use of such programmes 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. Four new certificates were issued for computer programmes in 2012 so that there are now 36 certified computer programmes in the market.

According to the data on the turnover of authorised exchange offices, received and processed by the CNB, the turnover of authorised exchange offices in foreign cash purchase and sale transactions with natural persons totalled HRK 28.6bn in 2012. Of that amount, HRK 21.3bn went to the purchase of foreign cash and checks denominated in foreign currency and HRK 7.3bn went to the sale of foreign cash. The bulk of transactions (89%) were in the euro.

7.5.3 Activities related to anti-money laundering and terrorist financing

As an active participant in the system for the prevention of money laundering and terrorist financing, the CNB established the Committee for the Prevention of Money Laundering and Terrorist Financing in March 2007. The Committee, made up of representatives of relevant CNB areas, acts as an internal consultative body that coordinates 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 cooperates with other competent government bodies for the purpose of monitoring and implementing the acquis in this field.

One of the obligations of supervisory authorities is to prepare guidelines for entities under their supervision. In line with the needs of these entities, members of the Committee drafted in 2012 a new, third version of the Guidelines for the implementation of the Anti-Money Laundering and Terrorist Financing Law for credit institutions, credit unions and electronic money institutions, which the Governor adopted in June.

In 2012, the Committee prepared, in the field of competence of the CNB, answers to the MONEYVAL[3] questionnaire for a detailed evaluation of the system for the prevention of money laundering and terrorist financing in relation to the fourth round evaluation of the Republic of Croatia by MONEYVAL. A MONEYVAL team of evaluators visited Croatia from 19 to 23 November 2012. Committee members, as CNB representatives, cooperated with MONEYVAL evaluators along with representatives of other institutions.

In early 2012, the Office for Money Laundering Prevention joined the IMF's project for preparing a preliminary national risk assessment in the field of money laundering and terrorist financing, which is an obligation of each country under the new, revised FATF[4] recommendations. Committee members participated in drafting the assessment. In 2012, 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 Anti-Money Laundering and Terrorist Financing Law for credit institutions, credit unions and electronic money institutions, CNB Guidelines, and the drafting of reports on the regular measures taken under the Action Plan for the Prevention of Money Laundering and Terrorist Financing, which the government of the Republic of Croatia adopted in 2008.

In 2012, members of the Committee provided continued education to entities supervised by the CNB by organising seminars for credit institutions and credit unions, and by updating special educational content provided on the CNB website.

3 The Council of Europe Select Committee of Experts on the Evaluation of Anti-money Laundering Measures, MONEYVAL, which is responsible for monitoring the implementation of measures for the prevention of money laundering and terrorist financing, was established in 1997. MONEYVAL currently comprises 30 European countries, including the Republic of Croatia, and a large number of observers including representatives of FATF member states, the World Bank, the International Monetary Fund, the European Union, Interpol, the European Bank for Reconstruction and Development and others.

4 The FATF is an international body established in Paris in 1989 whose task is to monitor the implementation of measures for the prevention of money laundering and terrorist financing. The FATF mandate through to 2020 includes the introduction of standards for combating money laundering, terrorist financing, proliferation of mass destruction weapons, assessing compliance with the FATF standards, identifying threats to the integrity of the international financial system and responding to them through studying high risk jurisdictions and typologies.

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 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 (ECB), which were to become mandatory on the date the Republic of Croatia gained full membership of the European Union (EU) and, subsequently, of the Economic and Monetary Union (EMU). In 2012, CNB representatives participated as observers in the work of two Eurostat committees and three working groups and in the work of the ECB Statistics Committee and seven working groups on statistics. They 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, and pursuant to a tripartite Cooperation Agreement in the Field of National Accounts of the General Government and Associated Statistics, signed by the CNB, MoF and CBS, in 2012 CNB employees worked intensively on the development of the methodology of fiscal and related statistics falling within their competence under the Agreement. They also started to assess the required adjustments of fiscal statistics with the forthcoming changes in the methodological standards of the European System of Accounts (ESA 2010) and the Manual on Government Deficit and Debt, fifth edition (MGDD). At the national level, in line with an initiative launched by Eurostat, the tripartite Cooperation Agreement in the Field of National Accounts of the General Government and Associated Statistics started to be revised, with a view to reassigning responsibilities for the specific areas of statistics among the signatories and defining the quality management process. The monetary and financial statistics, balance of payments statistics, securities statistics and general economic statistics were also harmonised with the new international standards. In addition, 2012 saw the start of a demanding process of adjusting information technology features of all statistical reports to a new unified reporting standard – the Statistical Data and Metadata Exchange system (SDMX).

As envisaged by the Programme of Statistical Activities of the Republic of Croatia, 18 regular surveys were carried out in 2012. The conduct of these surveys fall within the responsibility of the CNB, as an institution designated as a producer of official statistics. The results of regular statistical surveys carried out by the CNB are published in CNB publications (CNB Bulletin and Annual Report) and in CBS publications (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

The field of monetary and financial statistics underwent numerous methodological improvements in 2012, primarily related to the reporting requirements of the ECB.

1. Pursuant to the Regulation No 25/2009 of the European Central Bank concerning the balance sheet of the monetary financial institutions sector, in early 2006 the CNB started the alignment of legal regulations and of its reporting system in the part relating to financial statements for statistical purposes. The reporting requirement is regulated by the Decision on statistical and prudential reporting, with the new reporting system providing for the compilation of macroeconomic aggregates and reports, the sectorisation and classification of financial instruments pursuant to ECB requirements, the compilation of financial flows statistics, a detailed maturity structure of financial instruments and the establishment of counterparties, reporting currency and scope. The year 2012 also saw activities continuing to focus on improving the quality of collected data in the new system and developing the output component within the data warehousing system.

2. In 2012, the development of interest rate statistics pursuant to reporting requirements imposed by the ECB in the field of interest rate statistics of monetary financial institutions (ECB Regulations No 63/2002 and 290/2009) focused on the extension of the warehouse containing interest rate data. Collected data were also tested for accuracy of results and report structure.

3. As regards the development of financial statistics, the development of the reporting system for investment fund statistics, started in 2011, continued in 2012 in cooperation with the Croatian Financial Services Supervisory Agency (HANFA) (pursuant to ECB Regulations No 958/2007 and 25/2009). The CNB's software for receiving, processing and controlling data from investment fund management companies was for the most part completed, and activities were intensified on developing the reporting module and connecting the IFON application with other applications that were being developed or already existed at the CNB.

4. The CNB compiles and publishes the annual financial accounts statistics pursuant to the European System of Accounts – ESA 95, which defines the basic provisions on the sectorisation and classification of financial instruments, recording of data on balances and transactions and valuation and adjustment rules. The annual financial accounts statistics are published on the CNB's and Eurostat's websites. Annual data for 2011 and

revised data for the previous years were submitted to Eurostat in 2012. The methodological improvements made in 2012 were related to achieving compliance with the reporting requirements of the ECB (ECB Regulations No 7/2002, 13/2005, 6/2006, 13/2007 and 2008/6) and the European Commission (Regulation No 501/2004 on quarterly financial accounts for general government).

8.2 Balance of payments and international investment position statistics

Development activities related to balance of payments and international investment position statistics were in 2012 again focused on methodological improvements aimed at achieving the fullest possible compliance with the reporting requirements imposed by Eurostat (the BOP Vademecum), the IMF (the BPM6) and the OECD (the BD4). The calculation methodology for the c.i.f./f.o.b. adjustment on imports was improved. The Decision on collecting data for the compilation of the balance of payments, external debt and international investment position (Official Gazette 103/2012), adopted in September 2012, introduced two new surveys and accompanying reports:

1. Report on contracts with characteristics of financial derivatives concluded with non-residents (Form FI); and
2. Report on wages, wage supplements and other compensation paid to non-residents (Form DOH-Q).

8.3 External debt statistics

As regards external debt statistics, the Decision on collecting data for the compilation of the balance of payments, external debt and international investment position (Official Gazette 103/2012), adopted in September 2012, regulates in more detail the scope and establishment of the reporting requirement, further improves the statistical monitoring of cross-border cash pooling and modifies the data collection method in the segment of short-term commercial loans (a modified Report KD-ZO).

8.4 Other statistics

Securities statistics

Pursuant to Article 15 of the ECB Guideline on monetary, financial institutions and markets statistics (ECB/2007/9), the Statistics Department worked intensively on the development of securities statistics, with a view to enabling 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. The software for securities statistics, specifically for the areas of processing received data and compiling user reports, was developed intensively in 2012. Activities anticipated in 2013 include connecting with the ECB's Central Securities Database (CSD) and implementing the second development phase for the securities statistics system by including resident financial institutions providing custody services and other residents investing in securities into the reporting system.

General economic statistics

Pursuant to the provisions of the Official Statistics Act and the role of CNB statistics in the official statistics system of the Republic of Croatia, statistical research activities within the CNB's competence carried out in 2012 were related to the compilation of the Annual Statistical Research Plan for 2013, the Annual Implementation Plan for 2013 and the Report on Statistical Activities in 2011. In compliance with the requirements of the membership in the BIS Data Bank, statistical time series bases were submitted twice a month, with regular updates of data and metadata. Activities related to the regular dissemination of statistics in accordance with the IMF Special Data Dissemination Standard (SDDS) were carried out according to the dissemination calendar.

Government finance statistics

In 2012, pursuant to the Cooperation Agreement in the Field of National Accounts of the General Government and Associated Statistics, CNB employees worked intensively on the development of the methodology of fiscal and related statistics falling within their competence (Financial Accounts and Quarterly Financial Accounts of the Government Sector). At the national level, in line with an initiative launched by Eurostat, the tripartite Cooperation Agreement in the Field of National Accounts of the General Government and Associated Statistics started to be revised, with a view to reassigning responsibilities for the specific areas of statistics among the signatories and defining the quality management process. CNB representatives took an active part in national working groups for the sectoral classification of institutional units and the compilation of the

Report on the excessive deficit procedure (EDP). The work of all working groups, the methodological development of official statistics producers and interinstitutional exchange of data was coordinated by the Committee for the implementation of the Cooperation Agreement, chaired by a CNB representative. The methodological development of the Government Finance Statistics (GFS) was intensified in accordance with the reporting requirements of the ECB (ECB Guideline No 2009/20), with the first preliminary results submitted to the ECB in late 2012. The national part of Eurostat's Handbook on quarterly national accounts was compiled. Data on the quarterly financial accounts of the government sector for the first two quarters 2012 were compiled for the first time (pursuant to the Regulation (EC) No 501/2004) and submitted to Eurostat in late 2012.

The methodological development of all government finance statistics falling within the CNB's competence was anticipated to continue in 2013, when it would be focused on a more active participation of the CNB in the compilation of the Report on the excessive deficit procedure and continued activities on the harmonisation of fiscal statistics with the incoming changes in the methodological standards of the European System of Accounts (ESA 2010) and the Manual on Government Debt and Deficit (MDD), fifth edition.

HNB

Financial statements of the Croatian National Bank

Deloitte.

Deloitte d.o.o.
ZagrebTower
Radnička cesta 80
10 000 Zagreb
Hrvatska
OIB: 11686457780

Tel: +385 (0) 1 2351 900
Fax: +385 (0) 1 2351 999
www.deloitte.com/hr

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 2012, 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 accompanying financial statements present fairly, in all material respects, financial position of the Bank as at 31 December 2012 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
28 February 2013

Deloitte

Deloitte Audit s. r. o.
Nile House
Karolinská 654/2
Prague, Czech Republic
28 February 2013

Income statement

(All amounts are expressed in thousands of kunas)

	Notes	2012	2011
Interest and similar income	4	880,351	777,723
Interest and similar expense	5	(17,388)	(69,361)
Net interest income/(expense)		**862,963**	708,362
Fee and commission income		5,058	5,150
Fee and commission expenses		(6,770)	(5,612)
Net fee and commission income/(expense)		**(1,712)**	(462)
Dividend income		6,789	5,887
Net investment result – equity method		387	396
Net securities trading result	6	(34,348)	184,294
Net effect on revaluation of precious metals	6	551	151
		(33,797)	184,445
Net exchange differences	7	(73,940)	2,000,638
Other income	8	6,942	6,504
Operating income		**767,632**	**2,905,770**
Operating expenses	9	(292,689)	(290,526)
Decrease/(increase) in provisions	10	902	(1,378)
Net profit		**475,845**	**2,613,866**
– Allocated to general reserves		(95,169)	(2,133,789)
– Allocated to the State Budget		(380,676)	(480,077)

Statement of comprehensive income

(All amounts are expressed in thousands of kunas)

	Notes	2012	2011 (Corrected)
1 Net profit		**475,845**	**2,613,866**
2 Other comprehensive income			
2.1. Gains or losses on remeasurement of financial assets available for sale (see Note 3)		–	–
Other comprehensive income, net		**–**	**–**
3 Total comprehensive income (1 + 2)		**475,845**	**2,613,866**

Statement of financial position

(All amounts are expressed in thousands of kunas)

	Notes	31/12/2012	31/12/2011 (Corrected)	1/1/ 2011 (Corrected)
Assets				
Cash and current accounts with other banks	11	10,648,647	1,888,745	1,484,132
Deposits with other banks	12	6,310,083	18,685,511	22,709,757
Trading securities	13	35,566,371	31,080,475	51,906,505
Loans	14	79	126,859	95
Held-to-maturity securities	15	29,605,797	30,191,208	–
Balances with the International Monetary Fund	16	5,851,874	5,981,465	5,765,326
Equity investments	17	60,258	61,133	60,737
Accrued interest and other assets	18	280,561	227,520	200,426
Tangible and intangible assets	19	613,916	623,496	618,061
TOTAL ASSETS		**88,937,586**	**88,866,412**	**82,745,039**
Liabilities				
Banknotes and coins in circulation	20	21,627,929	20,943,013	19,311,462
Due to banks and other financial institutions	21	44,797,338	46,982,193	41,735,214
Due to the State and State institutions	22	812,557	1,673,444	4,255,422
Due to the International Monetary Fund	23	5,836,524	5,974,821	5,759,299
Accrued interest and other liabilities	24	3,243,488	768,360	1,292,850
Total liabilities		**76,317,836**	**76,341,831**	**72,354,247**
Equity				
Initial capital	25	2,500,000	2,500,000	2,500,000
Reserves	25	10,119,750	10,024,581	7,890,792
Total equity		**12,619,750**	**12,524,581**	**10,390,792**
TOTAL EQUITY AND LIABILITIES		88,937,586	88,866,412	82,745,039

The financial statements set out on pages 124 to 152 were approved on 28 February 2013 by:

Director of the Accounting Department:

Ivan Branimir Jurković,

Jurković

Governor:

Prof. Boris Vujčić, D.Sc.

Boris V

Statement of changes in equity

(All amounts are expressed in thousands of kunas)

	Initial capital	General reserves	Fixed asset revaluation reserves	Financial asset revaluation reserves	Operating surplus/(deficit)	Total equity
Balance at 1 January 2011 (As reported)	2,500,000	7,507,762	384,066	167	–	10,391,995
Corrected balance at 1 January 2011	–	(1,036)	–	(167)	–	(1,203)
Balance at 1 January 2011 (Corrected)*	2,500,000	7,506,726	384,066	–	–	10,390,792
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 (as reported)	–	–	–	1,334	–	1,334
Exchange differences on financial assets available for sale (as corrected)	–	–	–	(1,334)	–	(1,334)
Exchange differences on financial assets available for sale (as corrected)	–	–	–	–	–	–
Depreciation of tangible fixed assets at revalued amounts	–	7,032	(7,032)	–	–	–
Balance at 31 December 2011/1 January 2012 (As reported)	2,500,000	9,648,583	377,034	1,501	–	12,527,118
Corrected balance at 31 December 2011/1 January 2012	–	(1,036)	–	(1,501)	–	(2,537)
Balance at 31 December 2011/1 January 2012 (Corrected)	2,500,000	9,647,547	377,034	–	–	12,524,581
Net profit	–	–	–	–	475,845	475,845
Profit transferred to general reserves	–	95,169	–	–	(95,169)	–
Profit transferred to the State Budget	–	–	–	–	(380,676)	(380,676)
Depreciation of tangible fixed assets at revalued amounts	–	6,141	(6,141)	–	–	–
Balance at 31 December 2012	2,500,000	9,748,857	370,893	–	–	12,619,750

[a] See Note 3

Statement of cash flows

(All amounts are expressed in thousands of kunas)

	2012	2011
Cash flows from operating activities		
Interest received	987,227	542,072
Interest paid	(21,464)	(97,589)
Fees and commissions received	5,039	5,329
Fees and commissions paid	(6,301)	(5,235)
Dividends received	6,789	5,887
Other receipts	48,039	29,308
Expenses paid	(257,939)	(262,161)
	761,390	**217,611**
Changes in operating assets and liabilities		
Decrease/(increase) in deposits with other banks	12,504,245	5,240,631
Decrease/(increase) in loans	126,780	(126,764)
Decrease/(increase) in trading securities	(4,563,406)	22,018,632
Decrease/(increase) in held-to-maturity securities	287,226	(29,508,902)
Decrease/(increase) in other assets	(73,289)	(19,325)
Increase/(decrease) in other liabilities	579	3,765
Increase/(decrease) in amounts due to the IMF	(36)	(37)
Increase/(decrease) of currency in circulation	684,916	1,631,551
Increase/(decrease) in amounts due to banks and other financial institutions	(2,255,453)	4,489,376
Increase/(decrease) in amounts due to the State	1,761,858	(3,518,944)
	8,473,420	**209,983**
Net cash from operating activities	**9,234,810**	**427,594**
Cash flows from investing activities		
Purchases of property and equipment	(18,310)	(27,694)
Net cash from investing activities	**(18,310)**	**(27,694)**
Cash flows from financing activities		
Payments to the State Budget	(480,077)	–
Net cash from financing activities	**(480,077)**	**–**
Effect of changes in exchange rates – positive/(negative) exchange differences	**(30,548)**	**86,509**
Net increase/(decrease) in cash	**8,705,875**	**486,409**
Cash at beginning of year	**4,605,025**	**4,118,616**
Cash at end of year (Note 27)	**13,310,900**	**4,605,025**

The notes on pages 128 to 152 form an integral part of these financial statements.

Notes to the financial statements for the year ended 31 December 2012

Note 1 – General information and accounting standards

1.1 General information

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

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

The Croatian National Bank reports to the Croatian Parliament on the financial condition, degree of price stability and fulfilment of monetary policy goals, and is represented by the Governor of the Croatian National Bank.

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

- Determining and implementing monetary and foreign exchange policies;
- Maintaining and managing international reserves of the Republic of Croatia;
- Issuing banknotes and coins;
- Issuing and withdrawing authorisations and approvals in accordance with laws regulating credit institutions, credit unions, payment institutions, payment transaction settlement systems, foreign exchange operations and operations of authorised foreign exchange offices;
- Performing supervision and oversight in accordance with laws regulating the operations 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:

- Prof. D. Sc. Boris Vujčić, Governor (Deputy Governor until 7 July 2012, Governor from 8 July 2012)
- D. Sc. Željko Rohatinski, Governor and Member of the Council of the Croatian National Bank until 7 July 2012

- Relja Martić, Deputy Governor (Vice Governor until 16 July 2012, Deputy Governor from 17 July 2012)
- Vedran Šošić, Vice Governor and Member of the Council of the Croatian National Bank from 17 July 2012
- Damir Odak, Vice Governor and Member of the Council of the Croatian National Bank from 17 July 2012
- Davor Holjevac, Vice Governor and Member of the Council of the Croatian National Bank until 16 July 2012
- M. Sc. Adolf Matejka, Vice Governor
- M. Sc. Tomislav Presečan, Vice Governor
- Prof. D. Sc. Boris Cota
- Prof. D. Sc. Vlado Leko
- D. Sc. Branimir Lokin
- D. Sc. Željko Lovrinčević
- Prof. D. Sc. Silvije Orsag
- Prof. D. Sc. Jure Šimović
- D. Sc. Sandra Švaljek
- Prof. D. Sc. Mladen Vedriš

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 pronouncements of the Croatian Financial Reporting Standards Board promulgated in 2012 comprise the following:

1. Decision on the Amendments to the Decision on the Promulgation of International Financial Reporting Standards (Official Gazette No. 15 of 2 February 2012), resulting in amendments to the following standards:
   - International Financial Reporting Standard 1 – First-time Adoption of International Financial Reporting Standards;
   - International Financial Reporting Standard 7 – Financial Instruments: Disclosures;

   The Decision is applicable to the annual financial statements for the periods starting from 1 January 2012 and thereafter and does not have a significant impact on the financial statements of the Croatian National Bank.

2. Decision on the Amendments to the Decision on the Promulgation of International Financial Reporting Standards (Official Gazette No. 118 of 26 October 2012), resulting in amendments to the following standards:
   - International Accounting Standard 1 – Presentation of Financial Statements;
   - International Accounting Standard 12 – Income Taxes;
   - International Accounting Standard 19 – Employee Benefits;
   - International Accounting Standard 20 – Accounting for Government Grants and Disclosure of Government Assistance;
   - International Accounting Standard 21 – The Effects of Changes in Foreign Exchange Rates;
   - International Accounting Standard 24 – Related Party Disclosures;
   - International Accounting Standard 32 – Financial Instruments: Presentation;
   - International Accounting Standard 33 – Earnings per Share;
   - International Accounting Standard 34 – Interim Financial Reporting
   - International Financial Reporting Standard 1 – First-time Adoption of International Financial Reporting Standards;
   - International Financial Reporting Standard 5 – Non-current Assets Held For Sale and Discontinued Operations;

- International Financial Reporting Standard 7 – Financial Instruments: Disclosures;
- International Financial Reporting Standard 8 – Operating Segments;
- IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction".

The Decision is applicable to the annual financial statements for the periods starting from 1 January 2013 and thereafter and does not have a significant impact on the financial statements of the Croatian National Bank.

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 certain 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 statement of income 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 statement of comprehensive income 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. 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 2012 were as follows:
- USD 1 = 5.726794 HRK (2011: 5.819940 HRK)
- EUR 1 = 7.545624 HRK (2011: 7.530420 HRK)
- XDR 1 = 8.736257 HRK (2011: 8.943310 HRK).

2.5 Provision charge and reversal

Impairment provisions for identified losses are recognised in the Income Statement as expenses 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.

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 each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, the asset's recoverable amount is estimated, and an impairment loss is recognised. Impairment is assessed primarily by reference to the past due status of the amount receivable.

2.8 Repurchase and reverse repurchase agreements

The Croatian National Bank enters into securities purchase/sale agreements under which it agrees to resell/repurchase the same instrument on a specific future date at a fixed price. Securities purchased with the obligation to resell them in the future are not recognised on the 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 the Statement of Financial Position 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.

The following annual depreciation rates are used:

Depreciable asset class	Depreciation rates applied in 2012 (in %)	Depreciation rates applied in 2011 (in %)
Business buildings	2.0	2.0
Apartments	5.0	5.0
Garages	2.0	2.0
Mobile phones	25.0	25.0
Fixed-line switchboard and phones	20.0	20.0
Office equipment	20.0	20.0
Restaurant equipment	20.0	20.0
Machinery and other equipment	15.0	15.0
Furniture	15.0	15.0
Safety vaults	5.0	5.0
Vehicles	25.0	25.0
Personal computers	20.0	20.0
Servers and other hardware	20.0	20.0
Software	10.0	10.0
Intangible assets	10.0	10.0

2.16 Appropriation

Operating surplus is allocated in accordance with Article 57 of the Act on the Croatian National Bank.

Note 3 – Correction of prior-period error

The Croatian National Bank holds the shares of the Bank for International Settlements ("the BIS"), Basel, and of the Society for Worldwide Interbank Financial Telecommunication ("the SWIFT") which are classified as equity securities available for sale. The shares in the BIS and SWIFT are not traded on active securities market and their fair value cannot be measured reliably after initial recognition. These are foreign-currency denominated non-monetary items that are carried at cost and recognised by applying exchange rates in effect at transaction dates.

It was established in 2012 that the shares in the BIS and SWIFT were previously recognised in foreign currencies and translated to the Croatian kuna at the exchange rates in effect as of the date of the Statement of Financial Position. The prior-period error was corrected by restating the affected asset and equity items, as presented in the table below:

(All amounts are expressed in thousands of kunas)

ITEM	31/12/2011 (As reported)	31/12/2011 (Corrected)	01/01/2011 (As reported)	01/01/2011 (Corrected)
Equity investments	63,670	61,133	61,940	60,737
TOTAL ASSETS	88,868,949	88,866,412	82,746,242	82,745,039
Reserves	10,027,118	10,024,581	7,891,995	7,890,792
Total equity	12,527,118	12,524,581	10,391,995	10,390,792
TOTAL EQUITY AND LIABILITIES	88,868,949	88,866,412	82,746,242	82,745,039

The effect of the error on the Statement of comprehensive income is summarised below:

(All amounts are expressed in thousands of kunas)

	2011 (As reported)	2011 (Corrected)
1 Net profit	2,613,866	2,613,866
2 Other comprehensive income		
2.1 Gains or losses on remeasurement of financial assets available for sale (IAS 39)	1,334	–
Other comprehensive income, net	1,334	–
3 Total comprehensive income (1 + 2)	2,615,200	2,613,866

Note 4 – Interest and similar income

(All amounts are expressed in thousands of kunas)

	2012	2011
Deposits	25,892	164,332
Trading securities	163,636	207,707
Held-to-maturity securities	683,185	403,459
International Monetary Fund	–	2
Loans to domestic banks	1,035	814
Utilisation of the reserve requirement funds	6,399	1,407
Other	204	2
	880,351	777,723

Pursuant to the Decision on amendments to the Decision on reserve requirements (OG 136/2011), the Croatian National Bank may approve to 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 5 – Interest and similar expenses

(All amounts are expressed in thousands of kunas)

	2012	2011
Kuna reserve requirements	–	13,652
Repurchase transactions	5,240	30,085
Overnight deposits with banks – kuna denominated	6,648	14,849
Other	5,500	10,775
	17,388	69,361

The Croatian National Bank does not pay any remuneration on the reserve requirement funds, in accordance with the Decision on amendments to the Decision on reserve requirements (OG 30/2011).

Note 6 – Net trading result and precious metal revaluation

(All amounts are expressed in thousands of kunas)

	2012	2011
Net securities trading result, including net changes in fair value of trading securities	(34,348)	184,294
Net effect on revaluation of precious metals	551	151
	(33,797)	184,445

Note 7 – Net exchange differences

(All amounts are expressed in thousands of kunas)

	2012	2011
Net exchange differences	(73,940)	2,000,638
	(73,940)	2,000,638

Note 8 – Other income

(All amounts are expressed in thousands of kunas)

	2012	2011
Gains on sale of numismatics	300	356
Other income	6,642	6,148
	6,942	6,504

Note 9 – Operating expenses

(All amounts are expressed in thousands of kunas)

	2012	2011
Staff costs (Note 9.1)	167,600	173,352
Materials, services and administrative expenses	78,462	77,357
Costs of production of banknotes and coins in Croatian kunas	19,671	13,864
Depreciation and amortisation	26,956	25,953
	292,689	290,526

Included in operating expenses are short-term employee benefits in the amount of HRK 167,600 thousand (2011: HRK 173,352 thousand), of which HRK 5,221 thousand relate to those intended for the key management personnel of the Croatian National Bank (2011: HRK 5,333 thousand). Materials, services and administrative expenses include compensations to the members of the Croatian National Bank Council which amount to HRK 3,339 thousand (2011: HRK 3,355 thousand).

The cost of producing banknotes and coins in Croatian kuna denominations are deferred over a period of ten and twelve years, respectively.

Name of the entity	Accounting periods – 2012	Accounting periods – 2011
Banknotes	10 years	10 years
Coins	12 years	12 years

Note 9.1 – Staff costs

(All amounts are expressed in thousands of kunas)

	2012	2011
Net salaries	70,897	72,451
Contributions from and on salaries	40,986	42,772
Taxes and surtaxes	20,326	19,364
Other staff costs	35,391	38,765
	167,600	173,352

The average number of staff during 2012 was 634 (2011: 635).

Note 10 – (Decrease)/Increase in provisions

(All amounts are expressed in thousands of kunas)

	2012	2011
a) Accrued interest and receivables		
Amounts collected	–	(8)
b) Provisions for risks and charges		
New provisions made	8,503	8,968
Reversed provisions	(9,405)	(7,582)
	(902)	1.378

Note 11 – Cash and current accounts with other banks

(All amounts are expressed in thousands of kunas)

	31/12/2012	31/12/2011
Cash on hand	1,225	1,519
Foreign currency cash in the CNB treasury vault	3,016,929	1,505,526
Current accounts with foreign banks	7,630,493	381,700
	10,648,647	1,888,745

Note 12 – Deposits with other banks

(All amounts are expressed in thousands of kunas)

	31/12/2012	31/12/2011
Deposits with foreign central banks	2,771,207	15,978,459
Deposits with foreign commercial banks	2,345,410	2,694,998
Deposits with other foreign banking institutions	1,182,016	–
Deposits with domestic commercial banks	11,450	12,054
	6,310,083	18,685,511

Geographical concentration of deposits with other banks:

(All amounts are expressed in thousands of kunas)

	31/12/2012	31/12/2011
Croatia	11,450	12,054
Europe	5,906,347	18,352,196
USA	392,286	321,261
	6,310,083	18,685,511

Note 13 – Trading securities

(All amounts are expressed in thousands of kunas)

	31/12/2012	31/12/2011
EUR-denominated securities	21,891,148	17,896,134
USD-denominated securities	13,675,223	13,184,341
	35,566,371	31,080,475

Note 14 – Loans

a) By type of loan

(All amounts are expressed in thousands of kunas)

	31/12/2012	31/12/2011
Loans to domestic banks		
– Liquidity loans	–	126,772
Other loans	79	768
Gross loans	**79**	**127,540**
Less: provision for loan impairment	–	(681)
	79	126,859

b) Movements in impairment allowance:

(All amounts are expressed in thousands of kunas)

	31/12/2012	31/12/2011
Movements in impairment allowance:		
Balance at 1 January	(681)	(681)
Amounts written off	681	–
	–	(681)

Note 15 – 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 through profit or loss, 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)

	31/12/2012	31/12/2011
Debt securities	29,096,258	29,550,396
Accrued interest	509,539	389,814
	29,605,797	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 treasury bills of the Ministry of Finance of the Republic of Croatia, which amounted to HRK 250,998 thousand as of 31 December 2011, matured and were collected in full during the reporting period.

Reclassified financial assets

According to a Governor Decision adopted under International Accounting Standard 39 – Financial Instruments: Recognition and Measurement, the Croatian National Bank reclassified as of 31 May 2011 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)

	31/05/2011		31/12/2012	
	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	2,188,989	2,256,845

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 2,823,213 thousand (equivalent to EUR 374,152,397.25 using the exchange rate in effect at 31 December 2012).

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 55,758 thousand would have been included in the financial result reported in the Income Statement for the period.

Following the reclassification, the effect of the reclassified assets recognised in the Income Statement for the period amounts to HRK 46,429 thousand.

Note 16 – Balances with the international monetary fund

(All amounts are expressed in thousands of kunas)

	31/12/2012	31/12/2011
Membership quota	3,189,621	3,265,185
Special Drawing Rights (SDR) and deposits	2,662,253	2,716,280
	5,851,874	5,981,465

Note 17 – Equity investments

(All amounts are expressed in thousands of kunas)

	31/12/2012	31/12/2011 (As reported)	31/12/2011 (Corrected)
Equity investments	60,258	63,670	61,133
	60,258	63,670	61,133

Equity investments consist of membership quotas in other international institutions as well as investment in domestic companies. 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) which amount to HRK 41,994 thousand at 31 December 2012. Investments in domestic companies represent a share of 42.6 percent the Croatian National Bank holds in the equity capital of the Croatian Monetary Institute and amount to HRK 18,264 thousand at 31 December 2012. In 2012, a prior-period error concerning the membership in other international institutions was corrected (see Note 3).

Note 18 – Accrued interest and other assets

(All amounts are expressed in thousands of kunas)

	31/12/2012	31/12/2011
Accrued interest	7,435	11,571
Prepaid expenses	226,041	175,703
Numismatics	9,775	9,864
Gold and other precious metals	9,000	8,447
Other assets	87,204	80,829
	339,455	**286,414**
Accumulated depreciation	(58,894)	(58,894)
	280,561	227,520

(All amounts are expressed in thousands of kunas)

	31/12/2012	31/12/2011
Movements in impairment allowance:		
Balance at 1 January	(58,894)	(58,902)
Amounts collected	–	8
Balance at 31 December	(58,894)	(58,894)

The major portion of prepaid expenses in the amount of HRK 220,103 thousand (2011: HRK 170,685 thousand) relates to the prepaid expenses of printing banknotes and minting coins.

Note 19 – 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 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 for the 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
Brought into use	8,423	4,868	841	–	–	(19,261)	5,129	–
Reclassified	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**

(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 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 for the year ended 31 December 2012	**514,160**	**15,452**	**6,907**	**222**	**4,468**	**63,171**	**19,116**	**623,496**
Opening net book amount	514,160	15,452	6,907	222	4,468	63,171	19,116	623,496
Additions	–	–	–	–	56	17,329	–	17,385
Brought into use	26,126	18,670	287	–	–	(48,876)	3,793	–
Net written off	–	(3)	(6)	–	–	–	–	(9)
Charge for the year	(9,455)	(10,282)	(2,605)	(222)	–	–	(4,392)	(26,956)
Closing net book amount	**530,831**	**23,837**	**4,583**	**–**	**4,524**	**31,624**	**18,517**	**613,916**
Balance at 31 December 2012								
Cost or revaluation	552,023	98,015	39,232	10,225	4,524	31,624	72,217	807,860
Accumulated depreciation/amortisation	(21,192)	(74,178)	(34,649)	(10,225)	–	–	(53,700)	(193,944)
Net book value	**530,831**	**23,837**	**4,583**	**–**	**4,524**	**31,624**	**18,517**	**613,916**

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 2012 would be HRK 159,938 thousand. The tangible fixed assets of the Croatian National Bank are subject neither to a mortgage nor to a fiduciary relationship.

Note 20 – Banknotes and coins in circulation

(All amounts are expressed in thousands of kunas)

	2012	2011
Banknotes and coins put into circulation as of January 1	20,943,013	19,311,462
Increase/(decrease) in circulation during the year	684,916	1,631,551
Banknotes and coins in circulation – total as of December 31	21,627,929	20,943,013

In HRK	Nominal value	31/12/2012		31/12/2011	
		Pieces	Value in thousands of kunas	Pieces	Value in thousands of kunas
Coins	0.01	125,640,264	1,256	125,706,925	1,257
Coins	0.02	83,968,978	1,679	83,943,443	1,679
Coins	0.05	276,338,042	13,817	261,909,941	13,095
Coins	0.10	429,014,874	42,901	409,893,125	40,989
Coins	0.20	316,965,637	63,393	301,996,450	60,399
Coins	0.50	182,930,343	91,465	174,821,240	87,411
Coins	1	201,176,000	201,176	192,326,914	192,327
Coins	2	107,270,043	214,540	100,157,465	200,315
Coins	5	71,050,387	355,252	67,643,928	338,220
Coins	25	1,130,284	28,257	1,121,018	28,025
Banknotes	5	4,155,189	20,776	4,168,993	20,845
Banknotes	10	33,876,891	338,769	32,653,160	326,532
Banknotes	20	23,161,587	463,232	22,180,309	443,606
Banknotes	50	12,563,210	628,161	12,115,470	605,774
Banknotes	100	30,390,249	3,039,025	28,887,316	2,888,732
Banknotes	200	47,255,143	9,451,029	44,878,624	8,975,725
Banknotes	500	5,542,746	2,771,373	5,688,985	2,844,492
Banknotes	1,000	3,901,828	3,901,828	3,873,590	3,873,590
TOTAL			21,627,929		20,943,013

Note 21 – Due to banks and other financial institutions

(All amounts are expressed in thousands of kunas)

	31/12/2012	31/12/2011
Kuna reserve requirements	24,555,671	25,754,960
Foreign currency reserve requirements	5,094,529	5,538,279
Other deposits from domestic banks	15,145,429	15,681,132
Deposits from foreign banks and other financial institutions	72	423
Court-mandated deposits	1,637	7,399
	44,797,338	46,982,193

Note 22 – Due to the state and state institutions

(All amounts are expressed in thousands of kunas)

	31/12/2012	31/12/2011
Domestic currency account balances	734,075	1,083,988
Foreign-currency denominated deposit account balances	78,482	589,456
	812,557	1,673,444

Note 23 – Due to the international monetary fund

(All amounts are expressed in thousands of kunas)

	31/12/2012	31/12/2011
Kuna-denominated bills of exchange	3,180,257	3,255,600
Net cumulative allocations	2,648,282	2,711,047
Other IMF's accounts	7,985	8,174
	5,836,524	5,974,821

The bills of exchange denominated in Croatian kuna relate to the membership of the Republic of Croatia in the International Monetary Fund.

Note 24 – Accrued interest and other liabilities

(All amounts are expressed in thousands of kunas)

	31/12/2012	31/12/2011
Accrued interest	1,037	1,267
Amounts due to employees	6,285	6,184
Payroll taxes and contributions	6,864	6,811
Due to the Ministry of Finance	386,656	486,160
Trade payables	11,635	10,057
Other liabilities	2,831,011	257,881
	3,243,488	768,360

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 2,718,961 thousand. Included in other liabilities are long-term provisions for risks and charges, out of which HRK 41,080 thousand (2011: HRK 41,580 thousand) are in respect of legal actions and HRK 20,095 thousand (2011: HRK 20,498 thousand) in respect of provisions for employee benefits.

Note 25 – 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 26 – Contingent liabilities and commitments and treasury inventory system

Legal actions: At 31 December 2012, there were several legal actions outstanding against the Croatian National Bank. In the opinion of the management and internal legal advisers of the Croatian

National Bank, the Bank may lose certain cases. As a result, provisions for potential losses on such cases were made by the Bank in the amount of HRK 41,080 thousand (see Note 24).

Capital commitments: At 31 December 2012 the capital commitments of the Croatian National Bank amounted to HRK 6,457 thousand (2011: HRK 3,544 thousand).

Treasury inventory system

(All amounts are expressed in thousands of kunas)

	31/12/2012	31/12/2011
Banknotes and coins not in circulation	80,896,797	79,562,868
Inventory of government stamps and bill-of-exchange forms	282,727	317,579
	81,179,524	79,880,447

Note 27 – Cash and cash equivalents

(All amounts are expressed in thousands of kunas)

	31/12/2012	31/12/2011
Cash on hand	1,225	1,519
Foreign currency cash in the CNB treasury vault	3,016,929	1,505,526
Current accounts with foreign banks	7,630,493	381,700
Special Drawing Rights (SDR) and deposits with the IMF	2,662,253	2,716,280
	13,310,900	4,605,025

Note 28 – Appropriations

(All amounts are expressed in thousands of kunas)

	31/12/2012	31/12/2011
Operating surplus	475,845	2,613,866
Transfer of surplus to general reserves	(95,169)	(2,133,789)
Surplus allocated to the State Budget	(380,676)	(480,077)
	–	–

Note 29 – 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, the book values of which correspond with their fair values as a result, 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)

	31/12/2012		31/12/2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Debt securities	29,605,797	30,971,243	29,940,210	30,933,121

Note 30 – 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 30.1 – 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 international reserve funds into high-quality instruments with minimum risk, such as government bonds, government guaranteed bonds, bank bonds with government guarantee and guaranteed bonds, into instruments of international financial institutions with high credit rating and into 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 government bonds and government guaranteed bonds of countries rated Aaa to Aa3 (Moody's), guaranteed 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, deposits with international financial institutions and 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.

At 31 December 2012, the largest credit risk exposure to a single counterparty was to a central bank rated "Aaa" and amounted to HRK 9,886,424 thousand (31 December 2011: HRK 14,831,423 thousand).

30.1.1 Credit risk concentration by type of asset

(All amounts are expressed in thousands of kunas)

	31/12/2012	31/12/2011
Foreign-currency denominated securities held for trading		
Government securities	26,833,459	30,848,563
Guaranteed bonds (public sector collateral)	326,666	–
Securities of international financial institutions	4,518,033	231,912
Bank bonds with government guarantee	3,888,213	–
Total foreign-currency denominated securities held for trading	**35,566,371**	**31,080,475**
Foreign-currency denominated securities held to maturity		
Government securities	23,719,632	24,495,834
Guaranteed bonds (public sector collateral)	1,557,552	1,557,870
Securities of international financial institutions	4,026,999	3,886,506
Bank bonds with government guarantee	301,614	–
Total foreign-currency denominated securities held to maturity	**29,605,797**	**29,940,210**
Total foreign-currency denominated securities	65,172,168	61,020,685
Foreign-currency denominated deposit account balances		
Reverse repo agreements	3,690,772	1,375,533
Deposits	10,009,424	16,956,746
Deposits with international financial institutions	2,891,365	3,442,081
Total foreign-currency denominated deposits	**16,591,561**	**21,774,360**
SUBTOTAL	81,763,729	82,795,045
Loans (to 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	81,763,729	83,173,372

30.1.2 Credit risk by counterparty credit rating

(All amounts are expressed in thousands of kunas)

	31/12/2012	31/12/2011
Rating (Moody's)		
	Government securities	Government securities
Aaa	34,787,093	48,978,795
Aa1	8,513,400	–
Aa2	–	–
Aa3	5,722,945	4,675,807
A1	–[a]	164,332
AA	1,529,653[b]	1,525,463
Total	**50,553,091**	**55,344,397**
	Guaranteed bonds	Guaranteed bonds
Aaa	1,884,218	1,557,870
Total	**1,884,218**	**1,557,870**
	Securities of international financial institutions	Securities of international financial institutions
Aaa	3,873,735	4,118,418
Aa1	4,671,297	–
Total	**8,545,032**	**4,118,418**

	Government-guaranteed bank bonds	Government-guaranteed bank bonds
Aaa	3,880,223	–
Aa1	309,604	–
Total	**4,189,827**	**–**
TOTAL FOREIGN-CURRENCY DENOMINATED SECURITIES	65,172,168	61,020,685
	Reverse repo agreements	Reverse repo agreements
Aaa	392,285	321,266
Aa2	–	1,054,267
Aa3	1,182,030	–
A1	581,559	–
A2	675,805	–
A3	859,093	–
Total	**3,690,772**	**1,375,533**
	Deposits	Deposits
Aaa	9,889,572	16,037,784
Aa1	115,590	–
Aa2	304	294
Aa3	1,373	917,931
A1	95	83
A2	2,173[c]	441
A3	272[c]	–
Baa1	3[c]	–
Not rated	42[d]	213
Total	**10,009,424**	**16,956,746**

(All amounts are expressed in thousands of kunas)

	31/12/2012	31/12/2011
Rating (Moody's)		
	Deposits with international financial institutions	Deposits with international financial institutions
Not rated	2,891,365[e]	3,442,081
Total	**2,891,365**	**3,442,081**
Total foreign-currency denominated deposits	16,591,561	21,774,360
Total	81,763,729	82,795,045
	Loans to banks in Croatia	Loans to 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
Ba1	–	250,998
Total kuna-denominated securities	**–**	**250,998**
Total	–	378,327
Total	81,763,729	83,173,372

[a] The ratings according to Standard&Poor's and Fitch.
[b] The ratings according to Standard&Poor's and Fitch.
[c] Demand deposits with banks at which foreign-exchange payment operation accounts are opened.
[d] Demand funds with Clearstream.
[e] Investments in the BIS and IMF which are not rated, but are considered institutions of high-credit score.

30.1.3 Geographical concentration of credit risk

(All amounts are expressed in thousands of kunas)

Instrument	Eurozone	Other	Total
Balance at 31 December 2012			
Government securities	41,183,735	9,369,356	50,553,091
Guaranteed bonds	1,884,218	–	1,884,218
Securities of international financial institutions	8,545,032	–	8,545,032
Bank bonds with government guarantee	4,189,827	–	4,189,827
Total foreign-currency denominated securities	**55,802,812**	**9,369,356**	**65,172,168**
Reverse repo agreements	1,257,364	2,433,408	3,690,772
Deposits	10,003,372	6,052	10,009,424
Deposits with international financial institutions	–	2,891,365	2,891,365
Total foreign-currency denominated deposits	**11,260,736**	**5,330,825**	**16,591,561**
TOTAL at 31 December 2012	67,063,548	14,700,181	81,763,729

(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 to 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 at 31 December 2011	69,398,645	13,774,727	83,173,372

Note 30.2 – 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, the 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.

30.2.1 Sensitivity analysis – impact of percentage fluctuations in exchange rates on the Income Statement

2012 Sensitivity analysis

(All amounts are expressed in thousands of kunas)

2012	USD	EUR
	±5%	±1%
Impact of fluctuations in exchange rates on the Income Statement	700,700/(700,700)	629,400/(629,400)

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% decrease in the EUR/HRK exchange rate as at 31 December 2012, the financial result of the CNB for the year would be lower by approximately HRK 629,400 thousand, while for a 5% decrease in the USD/HRK exchange rate, the result would be lower by approximately HRK 700,700 thousand.

Calculation methodology:

The amount of the net euro and net US dollar international reserves as at balance sheet date is multiplied by the difference between the EUR/HRK exchange rate or the USD/HRK exchange rate valid at that date and those rates increased/decreased by the relevant percentages.

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)

30.2.2 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 2012						
Assets						
Cash and current accounts with other banks	10,641,378	3,893	–	3,106	269	10,648,646
Deposits with other banks	3,826,823	2,471,810	–	–	11,450	6,310,083
Trading securities	21,891,149	13,675,222	–	–	–	35,566,371
Loans	–	–	–	–	79	79
Held-to-maturity securities	29,605,797	–	–	–	–	29,605,797
Balances with the IMF	–	–	5,851,874	–	–	5,851,874
Equity investments	–	–	–	–	60,258	60,258
Accrued interest and other assets	159	179	–	–	280,224	280,562
Tangible and intangible assets	–	–	–	–	613,916	613,916
Total assets	**65,965,306**	**16,151,104**	**5,851,874**	**3,106**	**966,196**	**88,937,586**
Liabilities						
Banknotes and coins in circulation	–	–	–	–	21,627,929	21,627,929
Due to banks and other financial institutions	2,975,157	2,119,372	–	–	39,702,809	44,797,338
Due to the State and State institutions	60,190	17,934	–	358	734,075	812,557
Due to the IMF	–	–	5,836,524	–	–	5,836,524
Accrued interest and other liabilities	715	384	9,300	9	3,233,080	3,243,488
Total liabilities	**3,036,062**	**2,137,690**	**5,845,824**	**367**	**65,297,893**	**76,317,836**
Net position	62,929,244	14,013,414	6,050	2,739	(64,331,697)	12,619,750
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	–	–	–	–	61,133	61,133
Accrued interest and other assets	2,816	119	–	–	224,585	227,520
Tangible and intangible assets	–	–	–	–	623,496	623,496
Total assets	**64,013,441**	**17,569,259**	**5,981,465**	**2,787**	**1,299,460**	**88,866,412**
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	60,932,511	14,522,553	6,644	2,079	(62,939,206)	12,524,581

Note 30.3 – 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 CNB has an open interest rate position only to the portions of its trading portfolio denominated in the euro and the US dollar, while there is almost no exposure on its held-to-maturity portfolio denominated in the euro. The CNB manages its remaining foreign-currency denominated assets based on the maturities of its obligations.

The Croatian National Bank limits its exposure to the interest rate risk on its trading portfolio by setting the strategic modified average remaining term to maturity (strategic duration) to less than one year.

30.3.1 Sensitivity analysis – exposure of the CNB's net international reserves to fluctuations in interest rates

2012 Sensitivity analysis

(All amounts are expressed in thousands of kunas)

2012	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	(35,000)/35,000	(88,400)/88,400

Should as at 31 December 2012 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 35,000 thousand, while in the case of the EUR yield curve increasing by 50 basis points, the result would be lower by approximately HRK 88,400 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 amounts of the dollar and euro reserves as at 31 December 2012 were 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.

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

30.3.2 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 2012						
Assets						
Cash and current accounts with other banks	–	–	–	–	10,648,646	10,648,646
Deposits with other banks	6,069,561	229,072	–	–	11,450	6,310,083
Trading securities	35,566,371	–	–	–	–	35,566,371
Loans	–	–	–	79	–	79
Held-to-maturity securities	–	1,358,343	2,828,055	24,909,861	509,538	29,605,797
Balances with the IMF	2,657,717	–	–	–	3,194,157	5,851,874
Equity investments	–	–	–	–	60,258	60,258
Accrued interest and other assets	–	–	–	–	280,562	280,562
Tangible and intangible assets	–	–	–	–	613,916	613,916
Total assets	**44,293,649**	**1,587,415**	**2,828,055**	**24,909,940**	**15,318,527**	**88,937,586**
Liabilities						
Banknotes and coins in circulation	–	–	–	–	21,627,929	21,627,929
Due to banks and other financial institutions	8,666,429	–	–	–	36,130,909	44,797,338
Due to the State and State institutions	4,308	–	–	–	808,249	812,557
Due to the IMF	2,648,282	–	–	–	3,188,242	5,836,524
Accrued interest and other liabilities	–	–	–	–	3,243,488	3,243,488
Total liabilities	**11,319,019**	**–**	**–**	**–**	**64,998,817**	**76,317,836**
Net position	32,974,630	1,587,415	2,828,055	24,909,940	(49,680,290)	12,619,750
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	–	–	–	–	61,133	61,133
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**	**6,590,035**	**88,866,412**
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	(57,749,341)	12,524,581

Note 30.4 – 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 the international reserve funds 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 reserve funds into deposits with maturities of up to 1 month and into securities with maturities less than 5 years, provided that those securities are readily convertible into cash at any time.

At 31 December 2012, around 47 percent of net international reserves were liquid, whereas the average level of net international reserves liquid at the end of 2011 was 42 percent.

In the following tables, the financial liabilities of the Croatian National Bank are analysed into relevant groupings by the remaining contractual maturity from the balance sheet date. The tables have been drawn up based on the undiscounted cash flows of financial liabilities on the earliest date on which payment could be required and include both interest and principal cash flows.

(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 2012						
Liabilities						
Banknotes and coins in circulation	21,627,929	–	–	–	–	21,627,929
Due to banks and other financial institutions	44,797,266	–	–	–	72	44,797,338
Due to the State and State institutions	812,557	–	–	–	–	812,557
Due to the IMF	–	–	–	–	5,836,524	5,836,524
Accrued interest and other liabilities	2,744,806	397,777	61,175	38,126	1,628	3,243,512
Total liabilities	**69,982,558**	**397,777**	**61,175**	**38,126**	**5,838,224**	**76,317,860**
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**

Management and internal organisation of the Croatian National Bank

Members of the Council of the Croatian National Bank

Chairman of the Council	Boris Vujčić
Members of the Council	Boris Cota
	Vlado Leko
	Branimir Lokin
	Željko Lovrinčević
	Relja Martić
	Adolf Matejka
	Damir Odak
	Silvije Orsag
	Tomislav Presečan
	Jure Šimović
	Vedran Šošić
	Sandra Švaljek
	Mladen Vedriš

Management of the Croatian National Bank

Governor	Boris Vujčić
Deputy Governor	Relja Martić
Vicegovernor	Vedran Šošić
Vicegovernor	Damir Odak
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

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

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

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 2012

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 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 36 84 48
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 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

KENTBANKA d.d.
Gundulićeva 1
10000 Zagreb
Phone: + 385 1 49 81 900
Fax: + 385 1 49 81 910
SWIFT: KENBHR22

KREDITNA BANKA ZAGREB d.d.
Ul. grada Vukovara 74
10000 Zagreb
Phone: + 385 1 61 67 301
Fax: + 385 1 61 16 466
SWIFT: KREZHR2X

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 3
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.
Radnička cesta 50
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 87 014
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.
Trg bana Josipa Jelačića 10
10000 Zagreb
Phone: + 385 1 61 04 000
Fax: + 385 1 61 10 533
SWIFT: ZABAHR2X

Authorised savings banks

TESLA ŠTEDNA BANKA d.d.
Trg J. F. Kennedya 6B
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
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	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
2012	January	59,722.8	49,172.9	49,776.7	237,677.9	208,015.2	260,565.8	–4.26	–6.96	–7.42	–1.40	0.21	–0.19
	February	59,111.2	48,422.8	49,055.9	236,231.3	209,027.2	261,701.7	–1.02	–1.53	–1.45	–0.61	0.49	0.44
	March	60,821.7	47,389.5	48,087.2	235,530.1	208,442.8	260,370.2	2.89	–2.13	–1.97	–0.30	–0.28	–0.51
	April	60,017.0	47,845.2	48,636.5	236,678.6	199,196.0	259,002.6	–1.32	0.96	1.14	0.49	–4.44	–0.53
	May	63,883.6	49,350.9	50,163.6	239,629.8	204,432.6	255,301.2	6.44	3.15	3.14	1.25	2.63	–1.43
	June	61,549.5	51,467.6	52,222.4	240,006.7	204,688.7	253,867.8	–3.65	4.29	4.10	0.16	0.13	–0.56
	July	58,518.4	53,148.6	53,916.1	244,531.4	202,633.6	254,253.1	–4.92	3.27	3.24	1.89	–1.00	0.15
	August	58,750.7	52,251.6	53,164.6	247,983.7	200,814.8	251,581.2	0.40	–1.69	–1.39	1.41	–0.90	–1.05
	September	60,194.7	52,348.3	53,230.9	246,603.1	200,396.2	249,825.7	2.46	0.19	0.12	–0.56	–0.21	–0.70
	October	59,462.7	51,316.0	52,069.0	247,651.9	199,306.6	250,533.9	–1.22	–1.97	–2.18	0.43	–0.54	0.28
	November	59,368.9	51,108.2	52,010.9	249,013.4	198,658.1	249,864.8	–0.16	–0.41	–0.11	0.55	–0.33	–0.27
	December[a]	61,265.2	53,443.8	54,399.4	248,942.9	199,168.4	244,513.9	3.19	4.57	4.59	–0.03	0.26	–2.14

[a] Within the placements, claims on other domestic sectors fell by HRK 5.6bn in December 2012. This fall was fully attributable to a transaction of one bank which, in an effort to reduce the amount of partly recoverable and fully irrecoverable placements, transferred a total of HRK 5.6bn in its claims on companies to a company indirectly owned by a parent bank.

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

	2011	2012											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.[a]
ASSETS													
1 Foreign assets (net)	33,475.2	29,662.7	27,204.1	27,087.3	37,482.6	35,197.2	35,318.0	41,897.7	47,168.9	46,207.0	48,345.3	50,355.3	49,774.5
2 Domestic credit	299,152.6	299,636.4	300,750.2	299,941.9	291,831.8	296,672.4	296,935.2	295,682.5	293,504.7	292,713.8	293,337.1	293,616.7	292,240.9
2.1 Claims on central government and funds (net)	38,103.8	39,070.6	39,048.5	39,571.7	32,829.2	41,371.1	43,067.4	41,429.3	41,923.5	42,888.1	42,803.2	43,751.9	47,727.0
2.2 Claims on other domestic sectors	257,620.2	257,207.6	258,496.2	257,167.5	255,767.6	252,156.9	250,734.8	250,455.9	248,237.7	246,333.8	247,445.4	246,644.9	240,990.6
2.3 Claims on other banking institutions	1,350.3	1,172.4	1,101.9	1,314.0	1,261.5	1,049.1	1,080.6	803.0	671.3	974.7	1,002.0	1,091.6	1,078.6
2.4 Claims on non-banking financial institutions	2,078.3	2,185.8	2,103.5	1,888.7	1,973.5	2,095.2	2,052.4	2,994.3	2,672.1	2,517.2	2,086.5	2,128.3	2,444.7
Total (1+2)	332,627.8	329,299.1	327,954.3	327,029.1	329,314.4	331,869.6	332,253.2	337,580.2	340,673.6	338,920.8	341,682.4	343,971.9	342,015.5
LIABILITIES													
1 Money	52,850.9	49,172.9	48,422.8	47,389.5	47,845.2	49,350.9	51,467.6	53,148.6	52,251.6	52,348.3	51,316.0	51,108.2	53,443.8
2 Savings and time deposits	40,926.9	40,904.6	40,991.9	42,312.9	42,235.9	42,297.8	41,726.0	41,926.3	43,109.4	42,200.5	43,031.7	39,965.6	39,811.0
3 Foreign currency deposits	145,166.1	145,676.7	144,958.7	144,007.4	144,540.0	145,897.8	144,791.5	147,583.9	150,440.6	149,855.7	151,134.2	155,612.5	153,090.9
4 Bonds and money market instruments	2,112.9	1,923.8	1,857.9	1,820.3	2,057.5	2,083.4	2,021.6	1,872.5	2,182.1	2,198.6	2,170.0	2,327.1	2,597.3
5 Restricted and blocked deposits	3,293.4	2,783.9	2,574.1	2,645.5	3,179.6	2,574.1	2,697.6	2,634.2	2,647.7	2,609.7	2,740.9	2,636.2	2,651.2
6 Other items (net)	88,277.4	88,837.2	89,148.9	88,853.6	89,456.2	89,665.7	89,549.0	90,414.6	90,042.1	89,707.9	91,289.6	92,322.3	90,421.3
Total (1+2+3+4+5+6)	332,627.8	329,299.1	327,954.3	327,029.1	329,314.4	331,869.6	332,253.2	337,580.2	340,673.6	338,920.8	341,682.4	343,971.9	342,015.5

[a] The claims on other domestic sectors fell by HRK 5.6bn in December 2012. This fall was fully attributable to a transaction of one bank which, in an effort to reduce the amount of partly recoverable and fully irrecoverable placements, transferred a total of HRK 5.6bn in its claims on companies to a company indirectly owned by a parent bank.

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
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	December	36	4	4	1	10	9	8	2	1	1	–
2012	January	35	4	4	1	9	9	8	2	1	1	–
	February	35	4	4	1	9	9	8	2	1	1	–
	March	35	4	4	1	9	9	8	2	1	1	–
	April	35	4	4	1	10	8	8	2	1	1	–
	May	35	4	4	1	9	9	8	2	1	1	–
	June	35	4	4	1	10	8	8	2	1	1	–
	July	35	4	4	1	10	8	8	2	1	1	–
	August	35	4	4	1	10	8	8	2	1	1	–
	September	35	4	4	1	9	9	8	2	1	1	–
	October	35	4	4	1	10	8	8	2	1	1	–
	November	35	4	4	1	9	9	8	2	1	1	–
	December	34	4	4	1	8	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

	2011	2012											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
ASSETS													
1 Foreign assets	**84,302.0**	**82,583.0**	**86,455.9**	**85,129.0**	**93,856.0**	**91,516.7**	**87,381.9**	**87,266.6**	**86,249.5**	**84,807.5**	**85,662.9**	**85,334.9**	**84,782.1**
1.1 Gold	–	–	–	–	–	–	–	–	–	–	–	–	–
1.2 Holdings of SDRs	2,716.3	2,715.9	2,662.3	2,658.5	2,682.1	2,785.1	2,788.6	2,805.3	2,753.9	2,708.0	2,730.6	2,719.3	2,662.3
1.3 Reserve position in the IMF	1.4	1.4	1.4	1.4	1.4	1.5	1.5	1.5	1.4	1.4	1.4	1.4	1.4
1.4 Currency and demand deposits with foreign banks	1,887.2	1,894.6	1,897.4	1,879.9	1,887.0	1,893.3	1,881.5	4,366.8	6,004.9	7,542.0	7,647.0	10,483.2	10,647.4
1.5 Time deposits with foreign banks	18,676.4	18,401.9	21,266.3	16,922.9	23,080.3	18,959.5	12,014.6	7,576.0	7,803.3	8,792.8	10,689.6	7,762.0	6,298.8
1.6 Securities in f/c	61,020.7	59,569.3	60,628.5	63,666.2	66,205.2	67,877.4	70,695.7	72,517.1	69,686.0	65,763.3	64,594.2	64,369.0	65,172.2
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	**251.8**	**252.0**	**52.6**	**52.8**	**53.1**	**53.3**	**–**	**–**	**0.1**	**–**	**–**	**–**	**–**
2.1 Claims in kuna	251.8	252.0	52.6	52.8	53.1	53.3	–	–	0.1	–	–	–	–
2.2 Claims in f/c	–	–	–	–	–	–	–	–	–	–	–	–	–
3 Claims on other domestic sectors	**3.5**	**3.5**	**3.5**	**3.5**	**3.5**	**3.4**	**3.4**	**2.7**	**2.7**	**2.7**	**2.6**	**2.6**	**2.5**
4 Claims on banks	**139.2**	**60.3**	**65.1**	**61.9**	**11.9**	**11.9**	**11.8**	**11.8**	**11.8**	**11.7**	**11.9**	**11.8**	**11.8**
4.1 Credits to banks	139.2	60.3	65.1	61.9	11.9	11.9	11.8	11.8	11.8	11.7	11.9	11.8	11.8
Lombard credits	–	–	–	–	–	–	–	–	–	–	–	–	–
Short-term liquidity credits	126.8	48.0	53.0	50.0	–	–	–	–	–	–	–	–	–
Other credits	12.4	12.3	12.1	11.9	11.9	11.9	11.8	11.8	11.8	11.7	11.9	11.8	11.8
Reverse repo transactions	–	–	–	–	–	–	–	–	–	–	–	–	–
4.2 Overdue claims	–	–	–	–	–	–	–	–	–	–	–	–	–
5 Claims on other banking institutions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total (1+2+3+4+5)	**84,696.5**	**82,898.8**	**86,577.2**	**85,247.1**	**93,924.4**	**91,585.4**	**87,397.2**	**87,281.2**	**86,264.1**	**84,821.9**	**85,677.4**	**85,349.3**	**84,796.4**
LIABILITIES													
1 Reserve money	**62,379.5**	**59,722.8**	**59,111.2**	**60,821.7**	**60,017.0**	**63,883.6**	**61,549.5**	**58,518.4**	**58,750.7**	**60,194.7**	**59,462.7**	**59,368.9**	**61,265.2**
1.1 Currency outside banks	16,689.1	16,072.1	16,038.8	16,171.8	16,379.6	16,813.4	17,798.2	18,706.3	18,669.7	17,948.2	17,077.5	16,728.1	16,947.0
1.2 Banks' cash in vaults	4,253.9	3,913.4	3,813.6	3,759.6	3,993.2	3,852.8	4,498.7	4,692.0	4,531.2	4,341.4	4,220.0	4,114.8	4,681.0
1.3 Banks' deposits	41,436.0	39,737.1	39,256.4	40,889.8	39,644.2	43,216.5	39,251.8	35,120.1	35,549.8	37,904.1	38,165.1	38,525.9	39,636.7
Settlement accounts	12,705.0	9,010.7	11,597.2	10,298.1	9,828.7	9,699.3	9,945.1	9,010.9	10,550.4	12,165.8	10,742.3	10,330.0	11,509.2
Statutory reserves	25,755.0	28,426.4	27,653.2	27,636.7	27,548.6	24,676.2	24,728.7	24,920.3	24,769.4	24,901.5	24,806.9	24,611.4	24,555.7
CNB bills on obligatory basis	–	–	–	–	–	–	–	–	–	–	–	–	–
Overnight deposits	2,976.0	2,300.0	6.0	2,955.0	2,267.0	8,841.0	4,578.0	1,189.0	230.0	836.8	2,616.0	3,584.5	3,571.9
1.4 Deposits of other banking institutions	–	–	–	–	–	–	–	–	–	–	–	–	–
1.5 Deposits of other domestic sectors	0.6	0.2	2.5	0.5	–	0.9	0.7	–	0.1	1.0	0.0	–	0.5
2 Restricted and blocked deposits	**5,600.2**	**6,057.2**	**5,927.3**	**5,983.2**	**6,077.1**	**5,572.7**	**5,396.2**	**5,479.3**	**5,259.4**	**5,320.5**	**5,322.0**	**5,221.6**	**5,235.3**
2.1 Statutory reserve in f/c	5,538.3	6,009.1	5,875.4	5,916.3	5,955.5	5,450.1	5,274.7	5,348.9	5,140.4	5,192.7	5,196.6	5,096.9	5,094.5
2.2 Restricted deposits	61.9	48.1	51.9	66.9	121.6	122.6	121.4	130.4	119.0	127.8	125.3	124.7	140.8
2.3 Escrow deposits	–	–	–	–	–	–	–	–	–	–	–	–	–
3 Foreign liabilities	**0.4**	**0.4**	**0.4**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**
3.1 Use of IMF credit	–	–	–	–	–	–	–	–	–	–	–	–	–
3.2 Liabilities to international organisations	0.4	0.4	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
3.3 Liabilities to foreign banks	0.0	–	–	–	–	–	–	–	–	0.0	–	–	0.0
4 Central government and funds' deposits	**1,773.1**	**1,979.3**	**6,646.0**	**4,593.2**	**13,511.5**	**6,476.8**	**5,440.6**	**7,734.7**	**7,455.3**	**5,250.9**	**5,945.1**	**5,649.0**	**3,457.1**
4.1 Demand deposits	1,183.6	1,546.4	4,022.5	2,803.7	3,524.6	1,430.5	4,377.5	6,370.2	6,171.5	5,170.0	5,936.4	5,264.9	3,378.6
Central government demand deposits	849.7	1,277.7	3,670.0	2,472.2	3,136.3	1,109.3	783.8	2,595.0	2,394.2	1,519.4	2,409.8	2,021.5	68.1
Central government funds' demand deposits	333.9	268.7	352.5	331.5	388.3	321.2	3,593.7	3,775.2	3,777.3	3,650.7	3,526.6	3,243.4	3,310.5
4.2 Central government f/c deposits	589.5	432.9	2,623.4	1,789.5	9,986.9	5,046.3	1,063.1	1,364.4	1,283.9	80.9	8.7	384.1	78.5
4.3 CNB bills	–	–	–	–	–	–	–	–	–	–	–	–	–
5 CNB bills	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

	2011	2012											
	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	15,787.9	15,987.2	15,746.3	14,715.2	15,182.7	16,515.3	15,881.1	16,419.9	15,667.4	14,923.0	15,816.9	15,995.1	15,716.8
7 Other items (net)	–844.6	–848.1	–854.0	–866.1	–864.0	–863.2	–870.3	–871.1	–868.7	–867.2	–869.3	–885.4	–878.1
Total (1+2+3+4+5+6+7)	84,696.5	82,898.8	86,577.2	85,247.1	93,924.4	91,585.4	87,397.2	87,281.2	86,264.1	84,821.9	85,677.4	85,349.3	84,796.4

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

	2011	2012											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.[a]
ASSETS													
1 Reserves with the CNB	51,238.7	49,659.3	48,946.0	50,567.0	49,592.8	52,521.4	49,024.9	45,153.1	45,222.4	47,440.4	47,578.0	48,138.5	49,411.9
1.1 In kuna	45,700.5	43,650.2	43,070.6	44,650.7	43,637.3	47,071.3	43,750.1	39,804.3	40,082.0	42,247.8	42,381.3	43,041.6	44,317.4
1.2 In f/c	5,538.2	6,009.1	5,875.4	5,916.3	5,955.5	5,450.1	5,274.7	5,348.9	5,140.4	5,192.7	5,196.6	5,096.9	5,094.5
2 Foreign assets	39,450.1	38,460.3	33,351.2	32,725.3	34,805.8	35,060.5	35,167.1	38,708.5	43,967.8	43,224.9	40,666.9	40,410.1	38,485.6
3 Claims on central government and funds	57,869.9	59,258.6	64,481.9	63,076.8	64,866.1	66,591.8	67,831.0	68,247.1	67,336.7	66,454.0	67,371.2	67,624.3	70,041.4
4 Claims on other domestic sectors	257,616.6	257,204.1	258,492.7	257,164.0	255,764.1	252,153.5	250,731.4	250,453.1	248,235.0	246,331.1	247,442.8	246,642.3	240,988.1
4.1 Claims on local government	2,712.3	2,538.0	2,690.8	2,682.8	2,662.3	2,645.8	2,611.2	2,549.4	2,516.1	2,468.6	2,543.5	2,532.0	2,700.6
4.2 Claims on enterprises	126,195.8	125,729.1	126,989.2	126,464.4	124,735.3	120,752.0	120,179.0	120,133.1	118,716.6	117,673.1	117,651.6	116,758.6	111,669.3
4.3 Claims on households	128,708.6	128,937.0	128,812.7	128,016.8	128,366.5	128,755.6	127,941.2	127,770.5	127,002.3	126,189.4	127,247.7	127,351.7	126,618.1
5 Claims on other banking institutions	1,350.3	1,172.4	1,101.9	1,314.0	1,261.5	1,049.1	1,080.6	803.0	671.3	974.7	1,002.0	1,091.6	1,078.6
6 Claims on non-banking financial instituions	2,078.3	2,185.8	2,103.5	1,888.7	1,973.5	2,095.2	2,052.4	2,994.3	2,672.1	2,517.2	2,086.5	2,128.3	2,444.7
Total (1+2+3+4+5+6)	409,604.0	407,940.5	408,477.2	406,735.8	408,263.8	409,471.5	405,887.3	406,359.1	408,105.3	406,942.4	406,147.3	406,035.2	402,450.3
LIABILITIES													
1 Demand deposits	36,161.3	33,100.5	32,381.5	31,217.3	31,465.6	32,536.6	33,668.6	34,442.4	33,581.9	34,399.1	34,238.5	34,380.1	36,496.3
2 Savings and time deposits	40,926.9	40,904.6	40,991.9	42,312.9	42,235.9	42,297.8	41,726.0	41,926.3	43,109.4	42,200.5	43,031.7	39,965.6	39,811.0
3 Foreign currency deposits	145,166.1	145,676.7	144,958.7	144,007.4	144,540.0	145,897.8	144,791.5	147,583.9	150,440.6	149,855.7	151,134.2	155,612.5	153,090.9
4 Bonds and money market instruments	2,112.9	1,923.8	1,857.9	1,820.3	2,057.5	2,083.4	2,021.6	1,872.5	2,182.1	2,198.6	2,170.0	2,327.1	2,597.3
5 Foreign liabilities	90,276.5	91,380.2	92,602.6	90,766.9	91,179.2	91,380.0	87,230.9	84,077.3	83,048.3	81,825.4	77,984.4	75,389.7	73,493.1
6 Central government and funds' deposits	18,244.9	18,460.7	18,840.0	18,964.8	18,578.5	18,797.1	19,323.1	19,083.1	17,958.0	18,315.0	18,622.9	18,223.5	18,857.3
7 Credit from central bank	139.1	60.3	65.1	61.8	11.9	11.9	11.8	11.8	11.8	11.7	11.8	11.8	11.8
8 Restricted and blocked deposits	3,231.5	2,735.8	2,522.2	2,578.6	3,058.0	2,451.4	2,576.1	2,503.8	2,528.8	2,481.9	2,615.6	2,511.5	2,510.4
9 Capital accounts	76,624.4	76,952.2	77,519.5	78,372.4	77,358.7	77,847.3	78,303.7	78,845.5	79,202.0	79,788.5	80,438.6	81,152.9	79,829.1
10 Other items (net)	–3,279.6	–3,254.3	–3,262.2	–3,366.5	–2,221.4	–3,831.7	–3,766.0	–3,987.5	–3,957.5	–4,134.0	–4,100.4	–3,539.4	–4,246.8
Total (1+2+3+4+5+6+7+8+9+10)	409,604.0	407,940.5	408,477.2	406,735.8	408,263.8	409,471.5	405,887.3	406,359.1	408,105.3	406,942.4	406,147.3	406,035.2	402,450.3

[a] The claims on other domestic sectors fell by HRK 5.6bn in December 2012. This fall was fully attributable to a transaction of one bank which, in an effort to reduce the amount of partly recoverable and fully irrecoverable placements, transferred a total of HRK 5.6bn in its claims on companies to a company indirectly owned by a parent bank.

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

	2011	2012											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Foreign assets in f/c	39,159.2	38,053.7	33,064.7	32,384.4	34,307.2	34,392.2	34,674.1	38,042.5	42,104.8	41,985.6	39,725.6	39,131.3	37,357.6
1.1 Claims on foreign financial institutions	29,698.4	30,096.3	25,238.1	24,319.4	25,877.5	26,019.9	26,529.6	29,940.2	33,599.1	33,357.5	31,472.2	30,666.9	28,794.7
Foreign currencies	1,944.8	1,747.1	1,665.0	1,621.0	1,856.6	1,996.9	2,290.7	2,439.4	2,496.1	1,824.8	1,777.3	1,504.2	1,764.9
Demand deposits	2,486.3	2,123.6	1,935.1	2,085.7	2,164.0	2,491.9	3,321.8	4,000.7	4,919.0	4,784.6	4,957.3	5,166.8	5,693.9
Time and notice deposits	22,302.7	22,769.7	17,837.6	17,534.0	16,966.3	16,870.4	16,499.5	18,892.1	21,170.6	21,417.6	19,168.2	18,425.0	15,687.0
Securities	2,840.4	3,231.7	3,207.5	2,817.4	4,622.0	4,530.7	4,269.0	4,482.3	4,889.2	5,203.2	5,440.7	5,374.8	5,353.5
Loans and advances	67.7	167.7	551.6	220.4	227.3	88.7	107.3	80.7	79.0	82.3	82.8	149.5	245.8
Shares and participations	56.4	56.4	41.3	41.0	41.3	41.4	41.3	45.0	45.1	45.0	45.9	46.6	49.8
1.2 Claims on foreign non-banks	9,460.8	7,957.4	7,826.6	8,065.0	8,429.7	8,372.3	8,144.4	8,102.4	8,505.6	8,628.1	8,253.5	8,464.4	8,562.8
Claims on foreign governments	7,544.3	6,014.3	5,890.0	6,110.7	6,345.4	6,313.3	6,107.9	5,979.5	6,225.5	6,431.6	6,188.5	6,901.1	6,944.0
Claims on other non-residents	1,857.5	1,886.8	1,872.5	1,891.1	2,015.6	2,036.9	2,013.8	2,099.0	2,256.8	2,173.0	2,039.7	1,536.4	1,592.0
Securities	62.8	61.2	60.5	65.6	73.6	71.2	68.1	69.0	58.8	58.3	54.8	59.1	7.2
Loans and advances	1,794.6	1,825.6	1,812.0	1,825.5	1,942.1	1,965.7	1,945.7	2,030.0	2,198.0	2,114.7	1,984.9	1,477.4	1,584.8
Shares and participations	59.0	56.3	64.1	63.2	68.6	22.1	22.7	23.9	23.3	23.5	25.3	26.9	26.8
2 Foreign assets in kuna	290.9	406.6	286.5	340.8	498.6	668.3	493.0	666.0	1,863.0	1,239.3	941.2	1,278.8	1,128.0
2.1 Claims on foreign financial institutions	122.9	231.0	111.9	168.8	323.7	491.3	318.4	494.4	1,693.8	1,062.8	760.2	1,096.8	945.2
2.2 Claims on foreign non-banks	168.0	175.6	174.6	172.0	174.9	177.0	174.5	171.6	169.1	176.5	181.1	182.0	182.9
o/w: Loans and advances	167.7	175.3	174.3	171.7	174.6	176.7	174.2	171.3	168.8	176.2	180.8	181.6	182.6
Total (1+2)	39,450.1	38,460.3	33,351.2	32,725.3	34,805.8	35,060.5	35,167.1	38,708.5	43,967.8	43,224.9	40,666.9	40,410.1	38,485.6

Table D2 Banks' foreign assets • This table shows banks' claims on foreign legal and natural persons.

Foreign assets of banks comprise foreign assets in kuna and foreign currency.

Claims on foreign banks and Claims on foreign non-banks (total and by financial instruments) are shown separately within both foreign assets in kuna and in foreign currency.

Table D3 Banks' claims on the central government and funds

end of period, in million HRK

	2011	2012											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 In kuna	30,089.7	30,366.2	29,382.3	28,410.5	29,490.4	30,608.5	34,357.6	34,849.8	33,860.3	33,333.2	33,667.7	33,892.1	34,793.4
1.1 Claims on central government	22,981.1	23,346.4	22,358.4	21,497.2	22,610.5	23,730.6	24,141.2	24,714.0	23,725.3	23,216.7	23,538.4	23,684.2	24,233.1
Securities	19,749.9	19,755.8	18,714.1	17,759.1	18,016.1	16,770.9	17,141.8	17,766.2	16,838.8	16,360.7	16,627.4	16,837.9	16,890.4
o/w: Bonds (c'part to f/c savings deposits)	5.8	0.8	0.6	1.0	0.9	0.8	0.6	0.8	0.7	0.6	0.4	0.3	0.2
Loans and advances	3,231.2	3,590.7	3,644.3	3,738.1	4,594.4	6,959.7	6,999.4	6,947.8	6,886.5	6,856.0	6,911.0	6,846.3	7,342.7
1.2 Claims on central government funds	7,108.6	7,019.8	7,023.9	6,913.2	6,879.8	6,877.8	10,216.5	10,135.7	10,134.9	10,116.4	10,129.3	10,207.9	10,560.3
Securities	–	–	–	–	–	–	–	–	–	–	–	–	–
Loans and advances	7,108.6	7,019.8	7,023.9	6,913.2	6,879.8	6,877.8	10,216.5	10,135.7	10,134.9	10,116.4	10,129.3	10,207.9	10,560.3
2 In f/c	27,780.1	28,892.4	35,099.6	34,666.3	35,375.8	35,983.3	33,473.4	33,397.3	33,476.5	33,120.8	33,703.5	33,732.2	35,172.6
2.1 Claims on central government	18,262.6	19,127.2	24,821.5	24,447.8	25,124.9	25,695.0	22,827.1	22,828.7	23,070.7	22,810.8	22,826.5	22,847.0	23,008.3
Securities	1,281.2	1,311.7	6,576.7	6,367.9	6,427.3	6,710.0	6,832.2	6,806.2	6,815.3	6,857.6	6,914.9	6,902.3	6,907.3
Loans and advances	16,981.4	17,815.4	18,244.8	18,079.8	18,697.7	18,985.0	15,994.9	16,022.5	16,255.4	15,953.1	15,911.5	15,944.6	16,101.1
2.2 Claims on central government funds	9,517.6	9,765.2	10,278.1	10,218.5	10,250.9	10,288.3	10,646.3	10,568.6	10,405.8	10,310.1	10,877.0	10,885.3	12,164.2
Securities	71.3	72.2	72.4	69.7	69.9	69.5	68.9	68.8	68.4	13.4	13.5	13.5	0.4
Loans and advances	9,446.3	9,693.0	10,205.7	10,148.8	10,180.9	10,218.8	10,577.4	10,499.8	10,337.4	10,296.7	10,863.5	10,871.7	12,163.9
Total (1+2)	57,869.9	59,258.6	64,481.9	63,076.8	64,866.1	66,591.8	67,831.0	68,247.1	67,336.7	66,454.0	67,371.2	67,624.3	69,965.9

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

	2011	2012											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.[a]
1 Claims in kuna	233,543.4	233,168.6	234,607.3	233,036.2	232,305.4	229,632.4	228,773.0	228,134.5	226,848.5	225,852.7	227,695.0	227,931.2	223,749.5
1.1 Money market instruments	2,258.8	2,216.6	2,272.2	2,251.6	2,282.2	2,285.9	2,678.1	2,592.4	2,341.6	2,760.6	2,783.9	2,586.4	3,594.9
1.2 Bonds	1,618.7	1,589.8	1,594.7	1,566.8	1,545.4	1,716.4	1,714.4	1,617.7	1,580.0	1,614.2	1,605.9	1,581.0	1,468.2
1.3 Loans and advances	226,136.0	225,832.5	227,218.7	225,697.5	224,962.0	222,112.8	220,854.9	220,404.5	219,410.1	217,965.0	219,794.0	220,258.6	215,351.1
1.4 Shares and participations	3,530.0	3,529.7	3,521.5	3,520.3	3,515.9	3,517.4	3,525.6	3,519.8	3,516.9	3,513.0	3,511.1	3,505.2	3,335.3
2 Claims in f/c	24,073.2	24,035.5	23,885.5	24,127.9	23,458.7	22,521.0	21,958.3	22,318.6	21,386.5	20,478.4	19,747.8	18,711.1	17,238.6
2.1 Securities	163.1	142.6	94.0	91.0	123.2	99.0	108.7	102.2	82.0	60.7	119.0	165.4	148.0
2.2 Loans and advances	23,910.1	23,892.9	23,791.5	24,036.9	23,335.5	22,422.0	21,849.6	22,216.4	21,304.5	20,417.7	19,628.7	18,545.7	17,090.6
Total (1+2)	257,616.6	257,204.1	258,492.7	257,164.0	255,764.1	252,153.5	250,731.4	250,453.1	248,235.0	246,331.1	247,442.8	246,642.3	240,988.1

[a] The claims on other domestic sectors fell by HRK 5.6bn in December 2012. This fall was fully attributable to a transaction of one bank which, in an effort to reduce the amount of partly recoverable and fully irrecoverable placements, transferred a total of HRK 5.6bn in its claims on companies to a company indirectly owned by a parent bank.

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

	2011	2012											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
LOANS IN KUNA													
1 Loans to central government and funds	10,339.8	10,610.5	10,668.2	10,651.4	11,474.2	13,837.5	17,215.8	17,083.6	17,021.5	16,972.5	17,040.3	17,054.2	17,903.0
1.1 Loans to central government	3,231.2	3,590.7	3,644.3	3,738.1	4,594.4	6,959.7	6,999.4	6,947.8	6,886.5	6,856.0	6,911.0	6,846.3	7,342.7
1.2 Loans to central government funds	7,108.6	7,019.8	7,023.9	6,913.2	6,879.8	6,877.8	10,216.5	10,135.7	10,134.9	10,116.4	10,129.3	10,207.9	10,560.3
2 Loans to local government	2,528.2	2,362.1	2,509.8	2,503.1	2,488.1	2,471.5	2,438.0	2,405.7	2,372.8	2,323.5	2,396.4	2,384.3	2,551.6
3 Loans to enterprises	95,224.8	94,859.9	96,219.5	95,508.3	94,437.2	91,216.7	90,806.4	90,559.7	90,351.7	89,759.5	90,448.1	90,820.4	86,440.8
4 Loans to households	128,382.9	128,610.5	128,489.5	127,686.1	128,036.6	128,424.5	127,610.6	127,439.1	126,685.7	125,882.0	126,949.5	127,053.9	126,358.7
o/w: Housing loans	59,610.9	59,926.4	59,940.5	59,343.9	59,658.6	59,916.8	59,520.6	59,612.2	59,257.6	58,777.5	59,289.7	59,397.2	59,205.7
5 Loans to other banking institutions	532.0	213.7	295.3	263.5	255.9	143.3	140.7	330.6	143.8	156.1	115.0	137.7	104.4
6 Loans to non-banking financial institutions	1,480.0	1,585.5	1,519.9	1,313.1	1,397.7	1,559.8	1,632.8	2,588.0	2,240.1	2,117.2	1,656.0	1,512.6	1,822.5
A Total (1+2+3+4+5+6)	**238,487.8**	**238,242.2**	**239,702.1**	**237,925.5**	**238,089.9**	**237,653.4**	**239,844.3**	**240,406.7**	**238,815.4**	**237,210.8**	**238,605.3**	**238,963.1**	**235,181.0**
LOANS IN F/C													
1 Loans to central government and funds	26,427.7	27,508.4	28,450.5	28,228.7	28,878.6	29,203.8	26,572.3	26,522.3	26,592.8	26,249.9	26,775.0	26,816.4	28,264.9
1.1 Loans to central government	16,981.4	17,815.4	18,244.8	18,079.8	18,697.7	18,985.0	15,994.9	16,022.5	16,255.4	15,953.1	15,911.5	15,944.6	16,101.1
1.2 Loans to central government funds	9,446.3	9,693.0	10,205.7	10,148.8	10,180.9	10,218.8	10,577.4	10,499.8	10,337.4	10,296.7	10,863.5	10,871.7	12,163.9
2 Loans to local government	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2
3 Loans to enterprises	23,584.1	23,566.1	23,467.8	23,705.9	23,005.2	22,090.6	21,518.7	21,884.8	20,987.6	20,110.0	19,330.3	18,247.7	16,906.4
4 Loans to households	325.7	326.5	323.3	330.7	329.9	331.1	330.6	331.4	316.7	307.5	298.2	297.8	259.4
5 Loans to other banking institutions	69.1	106.4	95.3	65.6	6.1	50.1	77.0	11.3	68.9	–	53.9	37.8	56.6
6 Loans to non-banking financial institutions	452.6	453.2	455.5	449.1	450.0	410.4	288.8	279.0	301.6	272.4	313.9	297.2	301.5
B Total (1+2+3+4+5+6)	**50,859.5**	**51,960.9**	**52,792.8**	**52,780.4**	**52,670.2**	**52,086.3**	**48,787.6**	**49,029.0**	**48,267.7**	**46,940.0**	**46,771.6**	**45,697.0**	**45,789.1**
TOTAL (A+B)	289,347.3	290,203.2	292,494.9	290,705.9	290,760.1	289,739.7	288,631.9	289,435.7	287,083.1	284,150.8	285,376.9	284,660.1	280,970.1

Table D5 Distribution of banks' loans by domestic institutional sectors • The table shows data on kuna and foreign currency loans granted by banks to domestic sectors, including acceptances, financial leases, payments made on the basis of guarantees and similar instruments, and purchased claims.

Table D6 Demand deposits with banks

end of period, in million HRK

	2011	2012											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Local government	1,616.9	1,202.7	1,019.6	989.3	1,067.8	1,177.9	1,154.4	1,107.7	1,179.5	1,264.0	1,376.7	1,298.8	1,593.8
2 Enterprises	17,127.7	15,286.4	12,857.2	13,203.4	13,754.7	14,239.5	15,054.3	15,386.5	14,921.5	15,549.7	15,525.0	15,661.6	16,851.2
3 Households	16,156.0	15,644.6	17,294.9	15,814.9	15,588.6	15,596.8	15,738.0	16,484.0	16,661.6	16,268.1	15,714.8	15,641.1	16,157.5
4 Other banking institutions	397.9	255.6	363.9	459.7	368.7	503.6	609.6	441.6	166.6	530.7	573.0	554.7	581.2
5 Non-banking financial institutions	862.9	711.3	845.9	750.1	685.9	1,018.9	1,112.3	1,022.6	652.7	786.6	1,049.1	1,223.9	1,312.6
6 Less: Checks of other banks and checks in collection	–0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total (1+2+3+4+5+6)	36,161.3	33,100.5	32,381.5	31,217.3	31,465.6	32,536.6	33,668.6	34,442.4	33,581.9	34,399.1	34,238.5	34,380.1	36,496.3

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

	2011	2012											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Savings deposits	2,506.4	2,387.4	2,312.4	2,334.6	2,282.2	2,316.1	2,338.0	2,464.0	2,471.2	2,315.6	2,374.1	2,330.3	2,397.6
1.1 Local government	21.2	2.7	2.5	2.6	2.9	2.8	1.9	1.5	1.4	1.5	0.4	0.1	18.9
1.2 Enterprises	440.5	369.7	303.3	359.5	355.9	390.0	388.0	473.9	471.2	400.9	490.9	438.6	450.5
1.3 Households	2,016.9	1,992.5	1,995.7	1,955.2	1,915.3	1,892.4	1,891.8	1,899.3	1,894.9	1,883.5	1,848.1	1,849.2	1,897.2
1.4 Other banking institutions	4.3	1.5	1.4	1.4	1.7	1.7	1.7	1.7	1.7	0.1	0.1	1.3	1.4
1.5 Non-banking financial institutions	23.4	20.9	9.4	16.0	6.4	29.2	54.6	87.5	102.1	29.7	34.7	41.0	29.6
2 Time and notice deposits	38,420.6	38,517.2	38,679.5	39,978.2	39,953.7	39,981.7	39,388.0	39,462.3	40,638.2	39,884.9	40,657.5	37,635.3	37,413.5
2.1 Local government	314.6	477.7	622.5	619.9	661.4	629.3	657.8	647.1	664.7	701.4	709.3	690.0	231.1
2.2 Enterprises	11,249.5	11,105.2	11,580.3	11,566.0	11,001.9	10,064.7	9,318.2	10,455.4	11,118.4	10,083.8	10,669.8	7,324.4	7,736.4
2.3 Households	19,129.1	19,566.9	19,707.0	20,039.6	20,105.8	20,166.1	19,909.9	20,024.0	20,203.4	20,362.4	20,646.6	20,778.6	20,867.2
2.4 Other banking institutions	4,041.8	3,749.2	3,372.1	4,438.1	4,796.6	5,456.6	5,901.7	5,175.0	5,336.4	5,497.5	5,580.2	5,502.2	5,316.6
2.5 Non-banking financial institutions	3,685.5	3,618.2	3,397.6	3,314.6	3,387.9	3,665.0	3,600.3	3,160.8	3,315.2	3,239.7	3,051.6	3,340.1	3,262.2
Total (1+2)	40,926.9	40,904.6	40,991.9	42,312.9	42,235.9	42,297.8	41,726.0	41,926.3	43,109.4	42,200.5	43,031.7	39,965.6	39,811.0

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

	2011	2012											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Savings deposits	22,833.9	22,528.7	21,765.9	21,318.9	21,238.5	21,418.3	21,368.6	22,798.6	24,656.0	23,803.6	23,679.2	22,982.7	23,551.4
1.1 Local government	8.9	8.1	20.7	16.1	14.3	13.0	13.5	13.4	17.3	17.0	16.0	15.4	17.3
1.2 Enterprises	5,552.0	5,272.1	4,587.6	4,517.2	4,553.2	4,500.9	4,534.0	5,090.0	6,113.4	5,754.3	5,617.6	5,514.9	5,992.9
1.3 Households	16,821.4	16,649.9	16,576.7	16,266.3	16,207.7	16,229.7	16,334.9	16,731.1	17,149.3	17,031.5	16,550.0	16,362.9	16,461.8
1.4 Other banking institutions	66.6	127.4	153.0	111.3	140.3	86.1	90.3	85.0	153.3	162.2	173.5	121.1	169.2
1.5 Non-banking financial institutions	385.0	471.2	427.8	408.0	323.0	588.6	395.9	879.3	1,222.8	838.6	1,322.0	968.4	910.3
2 Time deposits	122,332.2	123,148.1	123,192.8	122,688.5	123,301.5	124,479.5	123,423.0	124,785.3	125,784.6	126,052.2	127,455.1	132,629.8	129,539.5
2.1 Local government	11.2	11.6	6.2	6.2	3.8	4.9	4.9	4.6	4.5	4.4	5.7	5.7	5.7
2.2 Enterprises	10,372.5	10,218.3	9,602.7	9,580.8	9,477.3	9,692.3	9,222.2	9,344.6	9,996.2	9,973.3	9,836.2	14,446.6	11,262.6
2.3 Households	109,304.8	109,728.9	110,568.3	109,917.9	110,778.3	111,595.6	110,868.7	111,926.9	111,918.5	111,779.7	113,793.6	114,420.5	114,362.1
2.4 Other banking institutions	682.5	779.7	656.9	659.2	532.5	687.5	774.5	762.1	875.3	865.4	879.6	884.6	931.1
2.5 Non-banking financial institutions	1,961.2	2,409.6	2,358.7	2,524.4	2,509.7	2,499.1	2,552.8	2,747.2	2,990.1	3,429.3	2,939.9	2,872.4	2,978.0
Total (1+2)	145,166.1	145,676.7	144,958.7	144,007.4	144,540.0	145,897.8	144,791.5	147,583.9	150,440.6	149,855.7	151,134.2	155,612.5	153,090.9

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

	2011	2012											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Money market instruments (net)	–	–	–	–	–	–	–	–	–	–	–	–	–
2 Bonds (net)	1,769.1	1,720.0	1,722.4	1,726.8	1,739.4	1,737.9	1,689.1	1,490.4	1,485.8	1,479.8	1,490.2	1,656.9	1,649.0
3 Other domestic borrowing	343.8	203.8	135.5	93.5	318.1	345.4	332.6	382.1	696.3	718.8	679.8	670.2	948.2
3.1 Local government	–	–	–	–	–	–	–	–	–	–	–	–	–
3.2 Enterprises	1.6	1.8	2.3	2.4	237.3	237.3	237.5	237.4	482.8	561.8	561.7	566.7	788.6
3.3 Other banking institutions	205.1	167.2	89.8	72.1	61.9	70.5	57.5	101.8	174.5	119.2	80.0	65.4	123.4
3.4 Non-banking financial institutions	137.0	34.8	43.3	19.0	18.8	37.6	37.6	42.9	39.0	37.8	38.1	38.2	36.2
Total (1+2+3)	2,112.9	1,923.8	1,857.9	1,820.3	2,057.5	2,083.4	2,021.6	1,872.5	2,182.1	2,198.6	2,170.0	2,327.1	2,597.3

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

	2011	2012											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Foreign liabilities in f/c	67,938.6	69,334.5	69,968.3	68,460.5	69,385.0	68,546.6	66,048.3	63,518.8	62,610.3	60,887.6	60,536.6	57,925.3	57,795.4
1.1 Liabilities to foreign financial institutions	58,001.2	59,382.2	59,997.6	58,415.5	59,237.6	58,286.9	55,809.6	53,275.6	52,263.7	50,615.2	50,231.3	47,769.6	47,569.8
Demand deposits	184.4	147.6	144.3	133.5	157.0	208.5	155.5	167.2	233.7	224.7	249.9	189.5	184.6
Time and notice deposits	27,444.5	29,242.5	29,149.3	26,846.9	27,048.5	26,951.4	25,822.7	23,481.3	22,099.6	20,811.9	20,140.7	17,494.9	17,354.5
Loans and advances	30,372.2	29,992.1	30,704.0	31,435.1	32,032.0	31,127.0	29,831.4	29,627.2	29,930.4	29,578.6	29,840.8	30,085.3	30,030.7
o/w: Subordinated and hybrid instruments	2,268.1	2,229.3	2,232.8	2,212.4	2,220.9	2,229.3	2,214.6	2,217.3	2,205.7	2,193.8	2,218.9	2,225.5	2,222.6
Bonds	–	–	–	–	–	–	–	–	–	–	–	–	–
1.2 Liabilities to foreign non-banks	9,937.5	9,952.3	9,970.7	10,045.0	10,147.4	10,259.7	10,238.7	10,243.3	10,346.6	10,272.4	10,305.3	10,155.7	10,225.6
Savings and time deposits	9,921.2	9,936.0	9,954.4	10,029.4	10,131.7	10,246.0	10,225.1	10,229.6	10,333.1	10,259.5	10,292.2	10,142.6	10,212.5
Sight deposits	1,434.3	1,473.0	1,470.4	1,479.2	1,453.4	1,535.1	1,550.4	1,559.3	1,558.2	1,794.6	1,472.2	1,503.4	1,591.7
Time and notice deposits	8,486.9	8,463.0	8,483.9	8,550.1	8,678.3	8,710.9	8,674.7	8,670.3	8,774.9	8,464.9	8,820.0	8,639.1	8,620.8
Loans and advances	16.2	16.3	16.3	15.6	15.7	13.7	13.6	13.7	13.6	12.9	13.1	13.1	13.1
o/w: Subordinated and hybrid instruments	11.3	11.3	11.4	11.3	11.3	9.3	9.3	9.3	9.2	9.2	9.3	9.3	9.3
2 Foreign liabilities in kuna	22,337.9	22,045.7	22,634.3	22,306.4	21,794.2	22,833.4	21,182.6	20,558.5	20,438.0	20,937.8	17,447.7	17,464.3	15,697.6
2.1 Liabilities to foreign financial institutions	21,806.5	21,568.4	22,088.9	21,755.7	21,260.9	22,286.6	20,673.2	20,042.9	19,896.8	20,362.7	16,905.4	16,877.9	15,089.6
Demand deposits	655.0	652.5	703.2	607.8	604.8	1,388.0	1,059.7	701.4	708.1	645.7	828.3	863.7	723.0
Time and notice deposits	16,449.5	17,496.3	18,020.4	18,080.7	17,600.3	17,813.6	16,590.9	16,342.7	16,198.7	16,705.4	13,072.0	13,020.6	11,398.4
Loans and advances	4,702.1	3,419.5	3,365.3	3,067.1	3,055.8	3,084.9	3,022.6	2,998.8	2,990.0	3,011.6	3,005.1	2,993.6	2,968.2
o/w: Subordinated and hybrid instruments	964.6	970.1	971.1	963.2	956.9	972.9	954.1	955.7	949.7	975.5	987.5	955.4	970.8
2.2 Liabilities to foreign non-banks	531.4	477.3	545.3	550.7	533.3	546.8	509.5	515.6	541.2	575.1	542.4	586.4	608.0
Demand deposits	355.0	298.3	331.3	339.7	324.0	354.8	326.1	332.8	347.3	378.3	340.2	383.2	393.0
Time and notice deposits	162.7	165.3	200.4	197.4	183.6	178.3	169.7	169.1	180.3	181.6	186.9	187.6	200.2
Loans and advances	13.7	13.7	13.7	13.6	25.7	13.7	13.6	13.6	13.6	15.2	15.2	15.6	14.9
o/w: Subordinated and hybrid instruments	13.7	13.7	13.7	13.6	25.7	13.7	13.6	13.6	13.6	15.2	15.2	15.6	14.9
Total (1+2)	90,276.5	91,380.2	92,602.6	90,766.9	91,179.2	91,380.0	87,230.9	84,077.3	83,048.3	81,825.4	77,984.4	75,389.7	73,493.1

Table D10 Banks' foreign liabilities • The table shows banks' total foreign currency and kuna liabilities to foreign legal and natural persons, with the exception of restricted kuna and foreign currency deposits by foreign legal and natural persons.

Banks' foreign liabilities comprise foreign currency liabilities and foreign kuna liabilities.

Within foreign kuna and foreign currency liabilities, liabilities to foreign banks are reported separately from liabilities to foreign non-banks (total and by financial instruments). Loans and advances also include issued subordinated and hybrid instruments purchased by foreign investors.

Table D11 Central government and funds' deposits with banks

end of period, in million HRK

	2011	2012											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 In kuna	15,857.4	15,642.7	15,534.9	15,863.0	16,017.0	16,258.2	16,508.3	16,771.6	16,166.2	16,444.8	16,552.8	16,727.7	16,810.7
1.1 Central government deposits	664.2	662.7	571.8	648.4	699.4	755.8	750.4	1,522.4	851.9	901.1	806.0	831.1	783.4
Demand deposits	424.6	405.4	413.6	447.2	508.0	560.2	515.4	553.9	657.8	623.2	539.5	667.6	542.1
Savings deposits	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4
Time and notice deposits	230.9	256.8	157.7	200.8	191.0	195.1	234.5	968.0	193.7	277.4	266.1	163.1	240.8
Loans and advances	8.3	–	–	–	–	–	–	–	–	–	–	–	–
1.2 Central government funds' deposits	15,193.2	14,980.0	14,963.1	15,214.6	15,317.6	15,502.4	15,757.9	15,249.2	15,314.2	15,543.7	15,746.9	15,896.6	16,027.3
Demand deposits	493.0	198.7	222.0	251.0	283.4	253.4	240.1	213.5	255.3	260.4	213.6	235.1	414.0
Savings deposits	–	–	–	–	–	–	–	–	–	0.0	–	–	–
Time and notice deposits	87.6	447.0	425.9	565.7	566.4	506.3	637.3	503.2	612.9	575.4	467.7	594.9	407.1
Loans and advances	14,612.6	14,334.3	14,315.2	14,397.9	14,467.7	14,742.7	14,880.5	14,532.5	14,446.0	14,707.9	15,065.6	15,066.6	15,206.1
2 In f/c	2,387.5	2,818.0	3,305.1	3,101.8	2,561.4	2,539.0	2,814.8	2,311.4	1,791.8	1,870.2	2,070.1	1,495.8	2,046.6
2.1 Central government deposits	1,467.8	1,486.5	1,541.0	1,520.7	1,428.0	1,313.9	1,245.2	1,221.1	1,198.3	1,300.7	1,334.4	1,192.1	1,136.0
Savings deposits	620.3	861.5	998.6	431.6	473.1	677.8	749.0	639.3	611.1	555.9	784.9	923.2	985.7
Time and notice deposits	847.2	624.8	542.1	1,088.9	954.9	636.1	496.1	581.8	587.2	744.9	549.5	269.0	150.2
Refinanced loans and advances	0.2	0.2	0.2	0.2	–	–	–	–	–	–	–	–	–
2.2 Central government funds' deposits	919.7	1,331.4	1,764.1	1,581.1	1,133.4	1,225.1	1,569.6	1,090.3	593.5	569.5	735.7	303.6	910.6
Savings deposits	94.4	199.0	247.2	179.5	300.9	199.5	818.6	161.8	208.3	105.5	304.2	177.0	732.8
Time and notice deposits	381.8	302.6	685.7	765.7	455.9	307.4	112.7	439.8	385.2	346.5	312.7	–	30.2
Loans and advances	443.5	829.9	831.2	635.8	376.6	718.2	638.4	488.7	–	117.5	118.8	126.6	147.6
Total (1+2)	18,244.9	18,460.7	18,840.0	18,964.8	18,578.5	18,797.1	19,323.1	19,083.1	17,958.0	18,315.0	18,622.9	18,223.5	18,857.3

Table D11 Central government and funds' deposits with banks • The table reports total banks' kuna and foreign currency liabilities to the central government and funds, with the exception of restricted (kuna and foreign currency) deposits by the central government and funds with banks.

Kuna and foreign currency deposits by the Republic of Croatia and central government funds are shown separately. Kuna deposits comprise demand deposits, savings deposits, time and notice deposits, and loans received from the central government and funds. Foreign currency deposits comprise savings deposits, time and notice deposits, and refinanced loans and advances.

Table D12 Restricted and blocked deposits with banks

end of period, in million HRK

	2011	2012											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Restricted deposits	3,231.5	2,735.8	2,522.2	2,578.6	3,058.0	2,451.4	2,576.1	2,503.8	2,528.8	2,481.9	2,615.6	2,511.5	2,510.4
1.1 In kuna	1,751.7	1,646.1	1,544.4	1,593.9	1,640.0	1,606.4	1,567.4	1,546.6	1,545.4	1,533.3	1,573.6	1,620.1	1,563.8
1.2 In f/c	1,479.8	1,089.7	977.8	984.7	1,417.9	845.1	1,008.7	957.3	983.3	948.6	1,042.0	891.3	946.6
2 Blocked f/c deposits of housholds	–	–	–	–	–	–	–	–	–	–	–	–	–
Total (1+2)	3,231.5	2,735.8	2,522.2	2,578.6	3,058.0	2,451.4	2,576.1	2,503.8	2,528.8	2,481.9	2,615.6	2,511.5	2,510.4

Table D12 Restricted and blocked deposits with banks • The table shows households' restricted (kuna and foreign currency) deposits and blocked deposits.

Blocked foreign currency deposits include households' foreign currency deposits, regulated by the Act on Converting Households' Foreign Currency Deposits into the Public Debt of the Republic of Croatia.

E Housing savings banks

Table E1 Housing savings banks' accounts

end of period, in million HRK

	2011	2012											
	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	3,367.6	3,441.0	3,393.7	3,420.3	3,470.3	2,967.4	2,966.2	2,984.6	2,974.3	2,927.1	2,920.5	2,936.1	2,917.6
3 Claims on other domestic sectors	3,387.0	3,383.9	3,381.4	3,357.8	3,371.7	3,386.2	3,382.7	3,396.4	3,378.2	3,374.9	3,402.9	3,415.2	3,437.7
o/w: Claims on households	3,387.0	3,383.9	3,381.4	3,357.8	3,371.7	3,386.2	3,382.7	3,396.4	3,378.2	3,374.9	3,402.9	3,415.2	3,437.7
4 Claims on banks	760.6	363.0	361.2	462.3	397.0	764.0	752.1	521.5	543.0	628.0	669.6	652.9	792.4
5 Claims on other banking institutions	–	–	–	–	–	–	–	–	–	–	–	–	–
Total (1+2+3+4+5)	7,515.2	7,187.8	7,136.2	7,240.5	7,239.1	7,117.6	7,101.1	6,902.6	6,895.6	6,930.1	6,993.0	7,004.3	7,147.7
LIABILITIES													
1 Time deposits	6,115.0	6,056.8	6,008.6	6,078.4	6,074.5	6,086.5	6,065.9	6,072.7	6,049.1	6,048.1	6,107.9	6,099.2	6,344.5
2 Bonds and money market instruments	650.9	379.4	353.1	367.1	365.1	200.2	191.6	200.8	192.2	196.5	192.1	207.5	192.5
3 Capital accounts	544.0	549.5	555.4	568.3	579.2	587.0	590.8	597.4	604.4	623.6	634.9	639.5	645.8
4 Other items (net)	205.2	202.1	219.0	226.7	220.2	243.9	252.7	31.7	49.9	61.9	58.1	58.0	–35.1
Total (1+2+3+4)	7,515.2	7,187.8	7,136.2	7,240.5	7,239.1	7,117.6	7,101.1	6,902.6	6,895.6	6,930.1	6,993.0	7,004.3	7,147.7

Table E1 Housing savings banks' accounts • Housing savings banks' accounts include data on claims and liabilities of the Croatian housing savings banks. All housing savings banks' claims and liabilities refer exclusively to domestic sectors.

Housing savings banks' required reserves held at the central bank include funds in vaults.

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
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	December	7.00	–	6.25	–	–	7.25	15.00	12.00
2012	January	7.00	–	6.25	–	–	7.25	15.00	12.00
	February	7.00	–	6.25	–	–	7.25	15.00	12.00
	March	7.00	–	6.25	–	–	7.25	15.00	12.00
	April	7.00	–	6.25	–	–	7.25	15.00	12.00
	May	7.00	–	6.25	–	–	7.25	15.00	12.00
	June	7.00	–	6.25	–	–	7.25	14.50[d]	12.00
	July	7.00	–	6.25	–	–	7.25	14.50	12.00
	August	7.00	–	6.25	–	–	7.25	14.50	12.00
	September	7.00	–	6.25	–	–	7.25	14.50	12.00
	October	7.00	–	6.25	–	–	7.25	14.50	12.00
	November	7.00	–	6.25	–	–	7.25	14.50	12.00
	December	7.00	–	6.25	–	–	7.25	14.50	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 20 June 2012.

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
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	December	–	–	–	–	–	–	–	–	–	–	–	0.25
2012	January	–	–	–	–	–	–	–	–	–	–	–	0.25
	February	–	–	–	–	–	–	–	–	–	–	–	0.25
	March	–	–	–	–	–	–	–	–	–	–	–	0.25
	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

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 2001 on, column 5 includes also the f/c component of reserve requirements that is set aside/maintained in kuna.

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
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	December	14.00	44,443.2	36,936.6	7,506.7	–	25,654.6	5,437.9	–	–
2012	January	14.68	46,753.8	38,844.2	7,909.6	–	27,522.0	5,857.4	–	–
	February	15.00	47,881.9	39,758.3	8,123.6	–	27,814.7	5,968.2	–	–
	March	15.00	47,927.4	39,761.5	8,165.9	–	27,637.8	5,973.4	–	–
	April	15.00	47,755.8	39,611.9	8,143.9	–	27,584.6	5,957.1	–	–
	May	13.89	43,907.0	36,445.9	7,461.1	–	25,420.1	5,462.9	–	–
	June	13.50	42,651.5	35,413.9	7,237.6	–	24,737.7	5,307.3	–	–
	July	13.50	42,815.5	35,563.0	7,252.5	–	24,874.6	5,315.9	–	–
	August	13.50	42,602.1	35,437.9	7,164.2	–	24,803.4	5,216.8	–	–
	September	13.50	42,677.0	35,504.3	7,172.7	–	24,853.0	5,196.9	–	–
	October	13.50	42,648.7	35,477.6	7,171.0	–	24,834.3	5,171.0	–	–
	November	13.50	42,439.9	35,280.1	7,159.8	–	24,696.1	5,144.6	–	–
	December	13.50	42,272.1	35,107.8	7,164.3	–	24,575.4	5,120.7	–	–

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
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	December	333.0	15,693.8	0.32	97.3	–	–	8,157.7
2012	January	291.7	12,783.1	0.28	52.6	–	–	8,262.2
	February	102.7	9,103.8	0.10	58.3	–	–	7,888.2
	March	439.4	7,692.1	0.43	47.8	–	–	7,360.3
	April	287.6	7,809.4	0.28	22.7	–	–	7,834.5
	May	360.6	8,573.5	0.36	–	–	–	7,792.2
	June	414.2	7,736.4	0.41	–	–	–	8,207.9
	July	334.0	6,392.5	0.33	–	–	–	8,757.5
	August	363.6	7,834.5	0.35	–	–	–	8,534.1
	September	525.3	8,169.8	0.51	–	–	–	7,574.7
	October	576.6	6,816.0	0.56	–	–	–	7,423.8
	November	652.7	5,388.1	0.64	–	–	–	7,545.4
	December	612.4	5,113.4	0.61	–	–	–	8,010.0

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
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	December	0.61	1.73	9.36	9.49	7.48	11.18	11.58	4.21	8.15	6.76	9.21
2012	January	1.14	2.14	9.67	9.73	7.72	11.08	11.43	3.83	8.70	6.61	9.80
	February	2.94	3.03	9.88	10.00	8.18	11.22	11.58	4.12	8.46	6.76	9.78
	March	0.86	1.78	9.65	9.73	7.80	11.18	11.57	4.29	8.56	6.98	10.01
	April	0.57	1.06	9.40	9.49	7.13	11.19	11.55	4.04	8.14	5.87	10.19
	May	0.44	0.74	9.48	9.60	7.07	11.17	11.54	4.08	8.03	5.91	10.10
	June	0.47	1.58	9.32	9.44	7.17	11.17	11.53	4.12	7.63	5.01	9.95
	July	1.10	1.49	9.23	9.35	6.92	11.15	11.52	3.94	7.95	5.98	9.84
	August	1.76	2.32	9.57	9.80	7.10	11.18	11.53	3.96	7.71	6.08	9.81
	September	2.24	2.42	9.58	9.76	7.28	11.18	11.53	3.85	7.93	5.82	9.71
	October	0.61	0.87	9.18	9.32	6.65	11.16	11.53	3.88	7.91	5.72	9.45
	November	0.45	0.45	9.55	9.69	7.13	11.18	11.53	3.99	8.21	5.14	9.69
	December	0.46	0.50	9.26	9.45	7.15	11.20	11.56	4.68	7.70	5.43	9.75
Relative significance[a]		–	–	73.05	65.35	28.25	37.09	35.16	1.94	7.70	3.65	4.05

[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
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	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
2012	January	7.16	7.31	7.29	7.56	7.06	6.45	7.59	5.26	8.44	5.60	5.68	5.42
	February	7.14	7.17	7.15	7.69	7.13	6.54	7.64	5.37	8.55	5.85	6.37	5.10
	March	7.20	7.46	7.44	7.98	7.06	6.06	7.96	5.38	8.70	6.27	6.42	6.04
	April	6.98	7.12	7.06	7.89	6.92	6.05	7.49	5.08	8.69	4.78	4.55	5.88
	May	7.15	7.06	7.01	7.92	7.20	6.48	7.64	5.22	8.72	5.47	5.34	6.22
	June	7.04	7.32	7.26	8.35	6.92	6.12	7.60	5.25	8.65	5.53	5.05	6.38
	July	7.02	6.90	6.85	7.64	7.09	6.40	7.52	5.34	8.68	6.05	6.19	5.66
	August	7.14	7.08	7.05	7.77	7.17	6.41	7.60	5.33	8.74	5.81	5.75	6.06
	September	7.08	7.27	7.24	7.69	7.00	6.13	7.67	5.33	8.70	6.11	6.08	6.24
	October	6.76	6.44	6.38	7.27	6.95	5.90	7.69	5.43	8.67	5.14	4.92	6.18
	November	7.02	6.91	6.88	7.52	7.08	6.37	7.69	5.37	8.67	5.71	5.57	6.01
	December	6.54	6.52	6.47	7.42	6.55	5.76	7.61	5.37	8.64	5.08	4.69	5.83
Relative significance[a]		**20.57**	**7.54**	**7.11**	**0.43**	**13.03**	**7.46**	**5.56**	**1.75**	**3.82**	**6.38**	**4.18**	**2.20**

[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
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	December	1.88	0.36	2.46	2.33	3.55	1.88	2.98	4.58	2.78
2012	January	2.03	0.36	3.10	2.57	3.57	2.14	4.89	4.42	4.95
	February	2.07	0.33	3.23	3.15	3.48	3.07	3.62	4.63	3.48
	March	1.98	0.33	2.56	2.69	3.45	2.33	2.13	4.64	1.75
	April	1.86	0.33	2.09	2.30	3.38	1.84	1.39	4.53	0.98
	May	1.83	0.34	1.80	1.93	3.42	1.47	1.28	4.41	0.97
	June	1.80	0.34	1.85	1.97	3.43	1.45	1.35	4.58	0.98
	July	1.85	0.35	2.12	1.95	3.48	1.42	2.70	4.71	2.43
	August	1.92	0.33	2.31	2.10	3.51	1.79	3.25	4.75	3.05
	September	1.87	0.34	2.27	2.31	3.55	1.93	2.13	4.77	1.68
	October	1.83	0.35	1.74	1.83	3.52	1.22	1.48	4.55	1.10
	November	1.80	0.34	2.17	2.07	3.43	1.43	4.04	4.32	2.89
	December	1.76	0.34	2.09	1.95	3.37	1.37	4.36	4.33	4.46
Relative significance[a]		**53.47**	**39.29**	**11.27**	**10.62**	**3.10**	**7.51**	**0.65**	**0.47**	**0.18**

[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
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	December	2.86	2.75	3.62	2.90	0.19	0.21	0.14	0.13	0.08
2012	January	3.09	3.16	2.78	2.89	0.18	0.22	0.14	0.11	0.06
	February	2.77	3.21	2.71	2.96	0.19	0.22	0.12	0.12	0.07
	March	2.50	2.97	3.76	2.92	0.18	0.22	0.12	0.08	0.05
	April	2.65	3.16	2.76	2.95	0.18	0.22	0.12	0.09	0.04
	May	2.66	2.92	2.77	2.90	0.19	0.21	0.12	0.13	0.04
	June	2.31	3.02	3.17	2.88	0.19	0.21	0.11	0.14	0.04
	July	3.05	3.24	2.99	2.91	0.18	0.21	0.11	0.13	0.06
	August	2.97	3.01	2.92	2.91	0.17	0.21	0.11	0.06	0.04
	September	2.19	2.44	3.28	2.87	0.17	0.21	0.11	0.07	0.05
	October	2.26	2.67	2.52	2.92	0.17	0.22	0.11	0.06	0.06
	November	2.31	2.67	3.16	2.91	0.17	0.22	0.11	0.06	0.05
	December	2.38[a]	3.42	2.10	2.84	0.16	0.22	0.11	0.05	0.04
Relative significance[b]		**0.30**	**0.19**	**0.11**	**46.24**	**24.86**	**16.02**	**2.38**	**5.86**	**0.60**

[a] Of the total amount of deposits to which this interest rate refers, 49.21% 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 monthly interest rates on total foreign currency savings deposits

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
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	December	2.76	2.56	2.87	2.45	2.37	0.86	3.84	3.92	3.27	3.54	1.70
2012	January	2.58	2.37	2.84	2.42	2.11	0.69	3.77	3.82	3.45	3.50	1.11
	February	2.54	2.26	2.83	2.34	1.76	0.83	3.88	3.94	3.29	3.33	0.43
	March	2.45	2.22	2.82	2.32	1.79	0.77	3.91	3.93	3.11	4.58	3.50
	April	2.68	2.50	2.82	2.25	2.16	1.32	3.75	3.85	3.22	2.96	3.80
	May	2.71	2.51	2.81	2.28	2.31	0.82	3.79	3.77	2.31	5.16	2.87
	June	2.72	2.55	2.79	2.31	2.55	0.99	3.79	3.79	3.53	4.23	3.80
	July	2.80	2.62	2.90	2.35	2.43	1.33	3.79	3.81	3.43	3.92	3.78
	August	2.68	2.46	2.98	2.35	1.79	1.09	3.86	3.87	3.72	4.41	0.81
	September	2.51	2.29	2.89	2.31	1.40	0.67	3.82	3.86	3.25	4.18	3.20
	October	2.64	2.44	2.95	2.32	1.55	0.86	3.74	3.79	3.23	3.49	0.17
	November	3.19	2.27	2.80	2.26	1.43	0.63	5.28	3.76	3.36	6.93	2.38
	December	2.59	2.34	2.70	2.24	1.92	0.48	3.64	3.67	3.16	4.11	3.20
Relative significance[a]		**21.38**	**17.41**	**11.03**	**0.99**	**4.35**	**1.05**	**3.97**	**3.53**	**0.29**	**0.09**	**0.05**

[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).

(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

	2011	2012											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
A Purchase of foreign exchange													
1 Legal persons	1,787.4	1,464.5	1,326.4	1,421.0	1,837.8	1,732.0	1,411.9	1,867.6	1,713.4	2,109.0	1,960.4	1,180.8	1,812.6
2 Natural persons	506.2	329.7	329.3	355.8	386.7	467.4	418.5	579.1	622.7	407.2	452.0	365.3	347.1
2.1 Residents	496.9	324.3	323.8	347.5	369.7	441.2	370.9	478.0	496.0	362.8	436.1	356.4	340.6
2.2 Non-residents	9.2	5.4	5.5	8.3	17.0	26.2	47.6	101.1	126.7	44.4	15.9	9.0	6.5
3 Domestic banks	634.3	680.8	520.6	775.5	861.3	929.2	761.7	893.8	1,003.4	1,126.0	962.4	720.4	1,002.3
4 Foreign banks	365.5	493.4	550.3	556.1	494.2	444.4	381.5	475.3	498.4	482.6	522.7	365.9	758.5
5 Croatian National Bank	–	327.0	131.0	–	–	266.4	–	–	–	–	–	–	–
Total (1+2+3+4)	**3,293.3**	**3,295.3**	**2,857.6**	**3,108.4**	**3,580.1**	**3,839.3**	**2,973.6**	**3,815.8**	**3,837.9**	**4,124.8**	**3,897.4**	**2,632.4**	**3,920.5**
B Sale of foreign exchange													
1 Legal persons	1,801.2	1,598.3	1,240.6	1,575.8	1,691.9	1,897.4	1,612.5	1,772.9	1,976.3	2,209.4	1,638.9	1,318.7	1,823.0
2 Natural persons	256.2	157.4	157.4	105.7	88.7	101.5	94.3	144.0	159.8	120.9	111.7	101.2	118.8
2.1 Residents	255.7	157.1	157.2	105.4	88.3	101.1	93.2	141.8	156.8	119.3	111.2	100.8	118.5
2.2 Non-residents	0.5	0.3	0.1	0.2	0.4	0.4	1.1	2.2	3.0	1.6	0.5	0.4	0.3
3 Domestic banks	634.3	680.8	520.6	775.5	861.3	929.2	761.7	893.8	1,003.4	1,126.0	962.4	720.4	1,002.3
4 Foreign banks	380.1	611.1	518.9	547.7	570.2	562.6	421.6	583.7	602.5	523.3	848.8	476.7	892.2
5 Croatian National Bank	–	–	–	–	–	–	–	–	–	58.1	–	–	–
Total (1+2+3+4)	**3,071.8**	**3,047.5**	**2,437.5**	**3,004.6**	**3,212.3**	**3,490.6**	**2,890.1**	**3,394.5**	**3,742.0**	**4,037.8**	**3,561.7**	**2,617.1**	**3,836.3**
C Net purchase (A-B)													
1 Legal persons	–13.8	–133.8	85.8	–154.8	145.9	–165.4	–200.6	94.7	–262.9	–100.4	321.5	–137.9	–10.3
2 Natural persons	250.0	172.3	171.9	250.2	298.0	365.9	324.2	435.1	462.9	286.3	340.3	264.2	228.3
2.1 Residents	241.2	167.1	166.5	242.0	281.4	340.1	277.7	336.1	339.2	243.5	324.9	255.6	222.1
2.2 Non-residents	8.8	5.2	5.4	8.1	16.6	25.8	46.5	98.9	123.7	42.8	15.4	8.6	6.2
3 Foreign banks	–14.6	–117.7	31.4	8.4	–76.0	–118.2	–40.1	–108.4	–104.1	–40.7	–326.1	–110.9	–133.7
4 Croatian National Bank	–	327.0	131.0	–	–	266.4	–	–	–	–58.1	–	–	–
Total (1+2+3)	**221.6**	**247.8**	**420.1**	**103.7**	**367.8**	**348.7**	**83.4**	**421.4**	**95.9**	**87.1**	**335.7**	**15.3**	**84.2**
Memo items: Other Croatian National Bank transactions													
Purchase of foreign exchange	28.2	400.4	0.3	0.3	500.2	85.4	0.2	0.2	0.1	0.3	0.3	0.2	0.2
Sale of foreign exchange	–	–	–	–	–	–	140.0	–	–	–	106.1	0.0	0.0

Table G5 Banks' trade with foreign exchange • Data on trade with foreign exchange between banks comprise the spot purchase and sale of foreign exchange in domestic foreign exchange market. Spot transactions are contracted obligations to buy/sell foreign currency within maximally 48 hours.

The transactions are classified by category of participants (legal and natural persons, domestic and foreign banks and the CNB). Sources of data are banks' reports on trading with foreign exchange, 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

	2008	2009	2010	2011	2012[c]	2012			
						Q1	Q2	Q3	Q4[c]
A CURRENT ACCOUNT (1+6)	–4,254.6	–2,281.8	–468.3	–385.2	35.4	–1,585.2	–287.2	2,573.2	–665.4
1 Goods, services, and income (2+5)	–5,325.1	–3,286.2	–1,529.2	–1,519.9	–1,122.4	–1,851.5	–592.2	2,313.4	–992.1
1.1 Credit	21,237.2	17,114.4	18,611.7	19,764.3	20,162.4	3,333.0	4,957.9	7,852.6	4,018.9
1.2 Debit	–26,562.2	–20,400.6	–20,140.8	–21,284.1	–21,284.8	–5,184.5	–5,550.2	–5,539.2	–5,011.0
2 Goods and services (3+4)	–3,778.8	–1,516.7	30.0	37.6	371.5	–1,342.8	–160.0	2,724.8	–850.5
2.1 Credit	19,843.3	16,314.7	17,714.8	18,777.4	19,100.5	3,095.2	4,657.2	7,553.0	3,795.0
2.2 Debit	–23,622.0	–17,831.4	–17,684.8	–18,739.9	–18,729.0	–4,438.0	–4,817.2	–4,828.3	–4,645.5
3 Goods	–10,632.4	–7,207.0	–5,745.5	–6,149.2	–6,021.4	–1,508.6	–1,694.2	–1,535.6	–1,283.0
3.1 Credit	9,752.7	7,674.5	9,063.6	9,772.6	9,783.0	2,287.9	2,369.8	2,523.0	2,602.4
3.2 Debit	–20,385.1	–14,881.5	–14,809.1	–15,921.9	–15,804.4	–3,796.5	–4,063.9	–4,058.5	–3,885.4
4 Services	6,853.7	5,690.3	5,775.5	6,186.8	6,392.8	165.8	1,534.2	4,260.4	432.5
4.1 Credit	10,090.6	8,640.2	8,651.2	9,004.8	9,317.5	807.3	2,287.4	5,030.1	1,192.6
4.2 Debit	–3,236.9	–2,949.9	–2,875.7	–2,818.0	–2,924.6	–641.6	–753.3	–769.7	–760.1
5 Income	–1,546.3	–1,769.5	–1,559.2	–1,557.4	–1,493.9	–508.7	–432.2	–411.3	–141.6
5.1 Credit	1,393.9	799.7	896.9	986.9	1,061.9	237.7	300.7	299.6	224.0
5.2 Debit	–2,940.2	–2,569.2	–2,456.1	–2,544.3	–2,555.8	–746.5	–732.9	–710.9	–365.5
6 Current transfers	1,070.5	1,004.4	1,060.9	1,134.7	1,157.9	266.4	305.1	259.7	326.7
6.1 Credit	1,684.4	1,575.9	1,657.5	1,657.9	1,706.2	403.3	431.4	409.0	462.4
6.2 Debit	–613.9	–571.5	–596.6	–523.3	–548.3	–137.0	–126.3	–149.3	–135.7
B CAPITAL AND FINANCIAL ACCOUNT	5,729.7	3,509.5	1,340.8	1,484.5	397.5	1,358.9	241.8	–1,632.8	429.6
B1 Capital account	**21.9**	**62.0**	**57.7**	**29.1**	**–1.5**	**1.9**	**5.8**	**–7.4**	**–1.8**
B2 Financial account, excl. reserves	**5,377.4**	**4,344.0**	**1,366.9**	**1,856.0**	**444.9**	**1,579.6**	**344.8**	**–1,809.8**	**330.2**
1 Direct investment	3,275.7	1,516.3	436.6	1,058.5	1,050.7	306.2	269.1	140.7	334.6
1.1 Abroad	–970.2	–887.3	110.3	–21.7	77.3	216.7	–35.0	–43.2	–61.2
1.2 In Croatia	4,245.9	2,403.6	326.3	1,080.2	973.3	89.5	304.1	183.9	395.8
2 Portfolio investment	–840.6	420.9	477.1	646.2	1,912.0	399.7	836.4	–234.2	910.1
2.1 Assets	–380.8	–558.1	–368.3	508.9	–302.6	247.8	–219.0	–211.6	–119.7
2.2 Liabilities	–459.8	979.1	845.4	137.3	2,214.6	151.9	1,055.4	–22.6	1,029.9
3 Financial derivatives	0.0	0.0	–252.7	–59.7	85.9	–11.0	36.8	37.5	22.6
4 Other investment	2,942.3	2,406.7	705.9	211.0	–2,603.7	884.8	–797.6	–1,753.7	–937.2
4.1 Assets	–1,659.8	781.4	627.4	308.0	522.1	675.1	–194.6	–780.4	822.0
4.2 Liabilities	4,602.1	1,625.3	78.5	–97.0	–3,125.8	209.7	–603.0	–973.3	–1,759.2
B3 Reserve assets	**330.4**	**–896.4**	**–83.8**	**–400.6**	**–45.8**	**–222.6**	**–108.8**	**184.3**	**101.3**
C NET ERRORS AND OMISSIONS	–1,475.1	–1,227.7	–872.5	–1,099.3	–433.0	226.3	45.3	–940.3	235.8

[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] 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

	2008	2009	2010	2011	2012[a]	2012			
						Q1	Q2	Q3	Q4[a]
Goods	–10,632.4	–7,207.0	–5,745.5	–6,149.2	–6,021.4	–1,508.6	–1,694.2	–1,535.6	–1,283.0
1 Credit	9,752.7	7,674.5	9,063.6	9,772.6	9,783.0	2,287.9	2,369.8	2,523.0	2,602.4
1.1 Exports (f.o.b.) in trade statistics	9,585.1	7,529.4	8,905.2	9,582.2	9,609.2	2,253.7	2,325.1	2,471.6	2,558.9
1.2 Adjustments for coverage	167.5	145.1	158.3	190.5	173.8	34.2	44.7	51.4	43.5
2 Debit	–20,385.1	–14,881.5	–14,809.1	–15,921.9	–15,804.4	–3,796.5	–4,063.9	–4,058.5	–3,885.4
2.1 Imports (c.i.f.) in trade statistics	–20,817.1	–15,220.1	–15,137.0	–16,281.1	–16,163.7	–3,891.0	–4,152.6	–4,156.9	–3,963.2
2.2 Adjustments for coverage	–421.4	–331.1	–376.0	–358.7	–371.3	–81.3	–99.0	–89.6	–101.3
2.3 Adjustments for classification	853.5	669.7	703.9	718.0	730.6	175.9	187.7	187.9	179.1
Services	6,853.7	5,690.3	5,775.5	6,186.8	6,392.8	165.8	1,534.2	4,260.4	432.5
1 Transportation	404.3	287.6	299.3	276.7	255.3	40.2	63.9	105.1	46.1
1.1 Credit	1,209.4	938.2	973.0	965.5	941.9	196.4	240.8	290.1	214.6
1.2 Debit	–805.1	–650.7	–673.7	–688.8	–686.6	–156.3	–177.0	–184.9	–168.4
2 Travel	6,694.0	5,655.8	5,600.8	5,984.5	6,110.5	144.8	1,467.6	4,101.8	396.2
2.1 Credit	7,459.4	6,379.7	6,230.0	6,616.9	6,828.9	294.5	1,671.7	4,305.7	557.0
2.1.1 Business	386.4	255.7	236.3	210.1	232.1	28.7	85.3	65.8	52.4
2.1.2 Personal	7,073.1	6,124.0	5,993.6	6,406.9	6,596.8	265.8	1,586.4	4,239.9	504.6
2.2 Debit	–765.5	–724.0	–629.2	–632.4	–718.4	–149.6	–204.1	–203.9	–160.8
2.2.1 Business	–261.3	–240.8	–180.6	–184.3	–224.6	–42.6	–69.9	–55.6	–56.4
2.2.2 Personal	–504.2	–483.1	–448.6	–448.1	–493.8	–107.0	–134.1	–148.4	–104.3
2.3 Other services	–244.6	–253.0	–124.6	–74.4	27.1	–19.2	2.7	53.5	–9.8
2.3.1 Credit	1,421.8	1,322.2	1,448.3	1,422.4	1,546.7	316.5	374.9	434.3	421.0
2.3.2 Debit	–1,666.4	–1,575.2	–1,572.8	–1,496.8	–1,519.6	–335.7	–372.3	–380.8	–430.9

[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 calculation for the first quarter of 2007. For the sake of greater reliability, the c.i.f./f.o.b. coefficient as of 2011 started to be estimated based on the available CBS data on goods imports. The shares of transportation and insurance services have been calculated separately for each year, starting with 2008, based on the goods imported at f.o.b. parity and similar parities. The estimated coefficient amounted to 4.1% for 2008, 4.4% for 2009 and 4.7% for 2010. The figure is estimated again in the same manner for each following year. 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

Table H3 Balance of payments – income and current transfers
in million EUR

	2008	2009	2010	2011	2012[a]	2012			
						Q1	Q2	Q3	Q4[a]
Income	–1,546.3	–1,769.5	–1,559.2	–1,557.4	–1,493.9	–508.7	–432.2	–411.3	–141.6
1 Compensation of employees	564.1	586.5	620.8	669.5	765.0	182.7	193.9	196.3	192.2
1.1 Credit	599.7	624.2	657.1	708.0	793.6	190.4	200.6	202.5	200.0
1.2 Debit	–35.5	–37.6	–36.3	–38.5	–28.5	–7.8	–6.8	–6.2	–7.8
2 Direct investment income	–1,135.5	–1,143.5	–1,093.1	–1,014.4	–1,011.6	–370.1	–302.4	–311.0	–28.1
2.1 Credit	194.6	–62.2	89.0	63.0	42.7	–9.4	44.5	39.8	–32.2
o/w: Reinvested earnings	118.6	–114.6	9.9	–5.4	–9.7	–18.9	22.8	24.9	–38.5
2.2 Debit	–1,330.0	–1,081.2	–1,182.2	–1,077.4	–1,054.2	–360.7	–346.9	–350.7	4.1
o/w: Reinvested earnings	–508.5	–286.6	–490.2	–295.7	–248.8	–187.5	128.6	–259.7	69.8
3 Portfolio investment income	–158.0	–173.4	–304.1	–339.5	–445.4	–94.1	–110.6	–110.1	–130.6
3.1 Credit	82.3	73.5	41.0	48.7	35.9	7.7	9.7	10.2	8.3
3.2 Debit	–240.3	–246.9	–345.1	–388.2	–481.3	–101.8	–120.3	–120.3	–138.9
4 Other investment income	–817.0	–1,039.2	–782.7	–873.0	–802.0	–227.2	–213.1	–186.6	–175.0
4.1 Credit	517.4	164.3	109.7	167.1	189.8	49.0	45.9	47.0	47.9
4.2 Debit	–1,334.3	–1,203.5	–892.5	–1,040.1	–991.7	–276.2	–259.0	–233.7	–222.9
Current transfers	1,070.5	1,004.4	1,060.9	1,134.7	1,157.9	266.4	305.1	259.7	326.7
1 General government	–20.0	–61.9	–66.9	–81.1	–76.5	–23.9	–24.1	–34.9	6.5
1.1 Credit	342.6	277.1	277.5	224.8	230.7	48.3	47.2	47.4	87.8
1.2 Debit	–362.7	–339.0	–344.4	–305.9	–307.2	–72.2	–71.3	–82.4	–81.3
2 Other sectors	1,090.5	1,066.3	1,127.8	1,215.7	1,234.3	290.3	329.2	294.7	320.2
2.1 Credit	1,341.7	1,298.8	1,379.9	1,433.1	1,475.5	355.0	384.2	361.6	374.6
2.2 Debit	–251.2	–232.5	–252.2	–217.3	–241.1	–64.8	–55.0	–66.9	–54.4

[a] Preliminary data.

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. As of January 2011, due to the abolishment of the ITRS, this item has been complied on the basis of data from export customs declarations of the CBS and estimates of the Road Freight Transporters Association. 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. The balance of payments data on revenues from services rendered to foreign travellers and tourists for the first three quarters of 2012 were not computed using the standard methodological combination of volume indicators and estimated average consumption for the mentioned quarters of the current year from the Survey on Consumption of Foreign Travellers, but are based on a combination of the estimated level of tourism consumption in 2011 and an econometrically computed indicator – the first major component of a group of variables that are assumed to follow the dynamics of tourism revenue (foreign tourist arrivals and nights, the number of foreign travellers at border crossings, total tourist consumption according to the CNB survey, the number of the employed in accommodation and food service activities, the revenues of hotels and restaurants, the price index of hotel and restaurants services, the real retail trade turnover index, currency outside banks, the value of foreign credit card transactions, the banks' turnover in transactions with natural persons in the foreign exchange market and the industrial production EU-27).

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

Table H4 Balance of payments – direct and portfolio investments[a,b]

in million EUR

	2008	2009	2010	2011	2012[c]	2012			
						Q1	Q2	Q3	Q4[c]
Direct investment	3,275.7	1,516.3	436.6	1,058.5	1,050.7	306.2	269.1	140.7	334.6
1 Abroad	**–970.2**	**–887.3**	**110.3**	**–21.7**	**77.3**	**216.7**	**–35.0**	**–43.2**	**–61.2**
1.1 Equity capital and reinvested earnings	–1,075.9	–895.7	251.1	–187.9	–56.9	6.3	–77.0	–36.1	50.0
1.1.1 Claims	–1,075.9	–1,010.3	235.0	–210.5	–114.3	–12.6	–77.0	–36.1	11.5
1.1.2 Liabilities	0.0	114.6	16.2	22.6	57.4	18.9	0.0	0.0	38.5
1.2 Other capital	105.7	8.4	–140.9	166.2	134.2	210.4	42.1	–7.1	–111.1
1.2.1 Claims	106.8	–30.0	–371.5	351.8	152.7	200.2	44.0	–0.6	–90.9
1.2.2 Liabilities	–1.1	38.4	230.6	–185.6	–18.5	10.1	–1.9	–6.5	–20.2
2 In Croatia	**4,245.9**	**2,403.6**	**326.3**	**1,080.2**	**973.3**	**89.5**	**304.1**	**183.9**	**395.8**
2.1 Equity capital and reinvested earnings	2,737.1	947.9	884.5	2,266.3	652.9	296.1	54.5	283.8	18.5
2.1.1 Claims	–6.9	–100.0	–68.7	–35.1	–198.4	0.0	–128.6	0.0	–69.8
2.1.2 Liabilities	2,744.0	1,047.9	953.2	2,301.4	851.3	296.1	183.1	283.8	88.3
2.2 Other capital	1,508.8	1,455.7	–558.2	–1,186.1	320.4	–206.6	249.6	–99.9	377.2
2.2.1 Claims	–26.6	–29.1	–21.2	–0.8	–23.9	0.1	–7.2	0.1	–16.9
2.2.2 Liabilities	1,535.3	1,484.8	–537.0	–1,185.2	344.3	–206.7	256.9	–100.0	394.1
Portfolio investment	–840.6	420.9	477.1	646.2	1,912.0	399.7	836.4	–234.2	910.1
1 Assets	**–380.8**	**–558.1**	**–368.3**	**508.9**	**–302.6**	**247.8**	**–219.0**	**–211.6**	**–119.7**
1.1 Equity securities	148.9	–111.4	–474.3	–116.2	–118.0	64.8	–72.4	–51.6	–58.7
1.1.1 General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.1.2 Banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.1.3 Other sectors	148.9	–111.4	–474.3	–116.2	–118.0	64.8	–72.4	–51.6	–58.7
1.2 Debt securities	–529.7	–446.7	105.9	625.1	–184.6	183.0	–146.6	–160.0	–61.0
1.2.1 Bonds	–431.4	–86.2	263.9	351.0	–295.5	172.2	–211.7	–136.0	–120.0
1.2.1.1 General government	0.0	0.0	–1.5	0.0	–0.7	0.0	0.0	–0.7	0.0
1.2.1.2 Banks	–226.5	–52.5	167.3	348.8	–270.4	188.8	–222.6	–132.5	–104.0
1.2.1.3 Other sectors	–204.9	–33.7	98.1	2.1	–24.4	–16.6	11.0	–2.8	–16.0
1.2.2 Money market instruments	–98.3	–360.5	–157.9	274.1	110.9	10.8	65.0	–23.9	59.0
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	–100.9	–341.4	–124.3	310.7	28.3	11.7	27.8	–43.9	32.7
1.2.2.3 Other sectors	2.5	–19.0	–33.6	–36.6	82.6	–0.9	37.2	20.0	26.3
2 Liabilities	**–459.8**	**979.1**	**845.4**	**137.3**	**2,214.6**	**151.9**	**1,055.4**	**–22.6**	**1,029.9**
2.1 Equity securities	–85.1	16.4	168.1	17.9	86.5	7.5	–1.9	–5.3	86.1
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	–85.1	16.4	168.1	17.9	86.5	7.5	–1.9	–5.3	86.1
2.2 Debt securities	–374.7	962.7	677.3	119.5	2,128.1	144.4	1,057.3	–17.4	943.8
2.2.1 Bonds	–360.4	817.3	380.8	431.4	2,168.8	27.6	1,066.0	62.6	1,012.5
2.2.1.1 General government	–275.5	862.9	389.1	638.0	1,233.7	–3.8	818.1	313.3	106.2
2.2.1.2 Banks	–4.7	–447.2	–0.2	–7.0	7.0	–0.9	0.0	–0.3	8.2
2.2.1.3 Other sectors	–80.1	401.7	–8.1	–199.5	928.1	32.3	248.0	–250.4	898.1
2.2.2 Money market instruments	–14.3	145.3	296.5	–312.0	–40.7	116.8	–8.7	–80.0	–68.8
2.2.2.1 General government	–14.4	145.4	296.5	–312.1	–40.7	116.9	–8.8	–80.0	–68.9
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	0.1	0.0	–0.1	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.

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

Table H5 Balance of payments – other investment[a]

in million EUR

	2008	2009	2010	2011	2012[b]	2012			
						Q1	Q2	Q3	Q4[b]
Other investment (net)	2,942.3	2,406.7	705.9	211.0	–2,603.7	884.8	–797.6	–1,753.7	–937.2
1 Assets	**–1,659.8**	**781.4**	**627.4**	**308.0**	**522.1**	**675.1**	**–194.6**	**–780.4**	**822.0**
1.1 Trade credits	–125.0	145.0	213.8	–22.2	248.4	–6.4	–48.9	215.8	87.9
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	–125.0	145.0	213.8	–22.2	248.4	–6.4	–48.9	215.8	87.9
1.1.2.1 Long-term	26.7	58.0	22.2	2.9	0.2	1.2	0.8	0.1	–1.8
1.1.2.2 Short-term	–151.7	87.0	191.6	–25.2	248.2	–7.6	–49.6	215.7	89.7
1.2 Loans	–107.5	41.5	–85.1	–9.3	–47.4	–34.0	–5.4	–41.8	33.8
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	–66.7	20.5	–65.4	–0.9	–17.4	–24.3	–4.9	–41.5	53.3
1.2.2.1 Long-term	–26.8	–28.7	–46.9	–20.6	78.5	–4.8	10.3	–0.6	73.6
1.2.2.2 Short-term	–39.9	49.2	–18.5	19.7	–95.9	–19.6	–15.2	–40.9	–20.4
1.2.3 Other sectors	–40.8	21.0	–19.7	–8.4	–29.9	–9.7	–0.5	–0.3	–19.4
1.2.3.1 Long-term	–37.6	20.9	17.4	–34.6	–9.9	–1.6	–2.3	3.6	–9.6
1.2.3.2 Short-term	–3.2	0.1	–37.1	26.1	–20.1	–8.1	1.8	–3.9	–9.9
1.3 Currency and deposits	–1,427.2	594.9	498.6	339.5	321.0	715.4	–140.3	–954.4	700.3
1.3.1 General government	0.0	0.0	0.0	0.0	–2.1	0.0	–0.6	–0.9	–0.6
1.3.2 Banks	–136.4	423.7	417.0	523.9	415.4	694.2	–65.1	–911.2	697.4
1.3.3 Other sectors	–1,290.9	171.1	81.7	–184.4	–92.3	21.2	–74.6	–42.3	3.5
1.4 Other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2 Liabilities	**4,602.1**	**1,625.3**	**78.5**	**–97.0**	**–3,125.8**	**209.7**	**–603.0**	**–973.3**	**–1,759.2**
2.1 Trade credits	21.3	–142.1	60.2	–525.7	311.0	78.8	92.2	38.5	101.5
2.1.1 General government	–0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.1.1.1 Long-term	–0.5	0.0	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	21.8	–142.1	60.2	–525.7	311.0	78.8	92.2	38.5	101.5
2.1.2.1 Long-term	34.9	–58.0	–25.4	–147.6	–53.8	–13.6	–4.3	–12.7	–23.3
2.1.2.2 Short-term	–13.1	–84.1	85.6	–378.1	364.9	92.4	96.5	51.2	124.8
2.2 Loans	3,703.9	590.5	36.3	–501.6	–1,460.1	–36.1	–426.4	–369.0	–628.7
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	96.7	–7.4	134.4	90.7	–110.2	–4.3	–45.1	–18.9	–42.0
2.2.2.1 Long-term	65.0	24.3	134.4	90.7	–105.6	–4.3	–44.8	–14.4	–42.2
2.2.2.1.1 Drawings	330.1	306.0	368.9	347.2	123.8	28.5	31.4	28.2	35.6
2.2.2.1.2 Repayments	–265.2	–281.7	–234.5	–256.5	–229.4	–32.8	–76.2	–42.6	–77.8
2.2.2.2 Short-term	31.7	–31.7	0.0	0.0	–4.6	0.0	–0.2	–4.5	0.2
2.2.3 Banks	115.2	–166.5	–192.7	–44.9	–288.2	–62.3	–226.4	1.7	–1.2
2.2.3.1 Long-term	–276.1	158.1	–322.9	375.1	–348.3	–56.0	–143.9	–91.4	–57.0
2.2.3.1.1 Drawings	609.4	1,219.2	849.3	1,108.3	643.5	308.8	42.0	104.9	187.9
2.2.3.1.2 Repayments	–885.4	–1,061.1	–1,172.2	–733.2	–991.8	–364.8	–185.9	–196.3	–244.9
2.2.3.2 Short-term	391.3	–324.6	130.2	–420.1	60.1	–6.3	–82.5	93.0	55.8
2.2.4 Other sectors	3,492.0	764.4	94.5	–547.4	–1,061.7	30.5	–154.9	–351.7	–585.6
2.2.4.1 Long-term	3,175.7	488.1	–96.7	–922.3	–1,501.5	–125.2	–304.4	–359.5	–712.4
2.2.4.1.1 Drawings	6,700.9	4,403.7	4,336.5	2,935.3	3,371.9	800.6	903.3	835.7	832.4
2.2.4.1.2 Repayments	–3,525.2	–3,915.5	–4,433.2	–3,857.6	–4,873.4	–925.8	–1,207.7	–1,195.2	–1,544.7
2.2.4.2 Short-term	316.2	276.2	191.2	374.9	439.9	155.8	149.5	7.8	126.8
2.3 Currency and deposits	875.7	1,175.0	–19.0	929.7	–1,977.1	167.0	–269.0	–643.0	–1,232.2
2.3.1 General government	–0.1	–1.2	0.0	–1.0	0.0	0.0	0.0	0.0	0.0
2.3.2 Banks	867.1	1,197.2	–19.0	930.8	–1,977.1	167.1	–269.0	–643.0	–1,232.2
2.3.3 Other sectors	8.7	–21.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.4 Other liabilities	1.3	2.0	1.1	0.6	0.4	–0.1	0.2	0.0	0.2

[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

	2008	2009	2010	2011	2012[b]	2012			
						Q1	Q2	Q3	Q4[b]
A CURRENT ACCOUNT (1+6)	–30,873.9	–16,890.3	–3,648.4	–2,913.2	90.5	–12,004.0	–2,170.8	19,342.7	–5,077.5
1 Goods, services, and income (2+5)	–38,602.8	–24,262.6	–11,347.9	–11,349.5	–8,614.9	–14,016.3	–4,466.0	17,402.3	–7,534.9
1.1 Credit	153,279.5	125,529.9	135,391.1	146,805.5	151,136.8	25,104.6	37,244.5	58,726.8	30,061.0
1.2 Debit	–191,882.3	–149,792.5	–146,739.0	–158,155.0	–159,751.7	–39,120.8	–41,710.5	–41,324.5	–37,595.9
2 Goods and services (3+4)	–27,399.1	–11,254.7	11.4	286.4	2,707.1	–10,151.8	–1,195.9	20,501.9	–6,447.1
2.1 Credit	143,213.9	119,656.7	128,866.6	139,549.1	143,245.2	23,330.6	35,003.0	56,512.4	28,399.3
2.2 Debit	–170,612.9	–130,911.3	–128,855.3	–139,262.7	–140,538.1	–33,482.4	–36,198.9	–36,010.5	–34,846.4
3 Goods	–76,817.4	–52,927.0	–41,861.3	–45,717.6	–45,271.2	–11,403.8	–12,746.6	–11,475.1	–9,645.7
3.1 Credit	70,414.9	56,336.3	66,044.6	72,645.5	73,526.4	17,280.0	17,828.1	18,846.3	19,572.0
3.2 Debit	–147,232.3	–109,263.3	–107,905.9	–118,363.1	–118,797.5	–28,683.8	–30,574.7	–30,321.4	–29,217.7
4 Services	49,418.3	41,672.3	41,872.7	46,004.0	47,978.3	1,252.0	11,550.7	31,977.0	3,198.6
4.1 Credit	72,798.9	63,320.4	62,822.1	66,903.6	69,718.8	6,050.6	17,174.9	37,666.1	8,827.3
4.2 Debit	–23,380.6	–21,648.1	–20,949.4	–20,899.6	–21,740.6	–4,798.6	–5,624.2	–5,689.1	–5,628.7
5 Income	–11,203.7	–13,008.0	–11,359.2	–11,635.9	–11,322.0	–3,864.4	–3,270.1	–3,099.6	–1,087.9
5.1 Credit	10,065.6	5,873.2	6,524.5	7,256.4	7,891.6	1,774.0	2,241.5	2,214.4	1,661.7
5.2 Debit	–21,269.3	–18,881.2	–17,883.7	–18,892.3	–19,213.6	–5,638.4	–5,511.6	–5,314.0	–2,749.5
6 Current transfers	7,728.8	7,372.4	7,699.5	8,436.3	8,705.4	2,012.3	2,295.2	1,940.4	2,457.5
6.1 Credit	12,159.5	11,565.3	12,055.2	12,327.9	12,826.1	3,047.2	3,245.6	3,054.9	3,478.5
6.2 Debit	–4,430.6	–4,192.9	–4,355.7	–3,891.6	–4,120.7	–1,034.9	–950.4	–1,114.4	–1,021.0
B CAPITAL AND FINANCIAL ACCOUNT	41,269.5	25,729.1	9,710.0	10,985.7	3,065.5	10,259.5	1,804.8	–12,247.2	3,248.4
B1 Capital account	**108.2**	**314.1**	**252.6**	**217.7**	**–10.6**	**14.4**	**43.6**	**–55.2**	**–13.5**
B2 Financial account, excl. reserves	**38,853.1**	**31,926.2**	**9,919.4**	**13,690.6**	**3,409.6**	**11,944.2**	**2,534.1**	**–13,567.8**	**2,499.2**
1 Direct investment	23,252.8	11,187.4	3,152.6	7,865.1	7,898.0	2,311.3	2,018.1	1,048.2	2,520.5
1.1 Abroad	–6,981.4	–6,499.0	859.1	–149.4	596.7	1,640.5	–262.7	–321.9	–459.2
1.2 In Croatia	30,234.2	17,686.4	2,293.6	8,014.5	7,301.4	670.8	2,280.7	1,370.1	2,979.7
2 Portfolio investment	–5,711.7	2,991.6	3,356.5	4,803.5	14,351.6	3,017.4	6,249.1	–1,753.9	6,839.0
2.1 Assets	–2,678.2	–4,042.4	–2,700.3	3,807.9	–2,253.6	1,868.9	–1,639.0	–1,580.8	–902.7
2.2 Liabilities	–3,033.5	7,034.0	6,056.9	995.6	16,605.2	1,148.5	7,888.1	–173.2	7,741.7
3 Financial derivatives	0.0	0.0	–1,838.9	–438.9	643.8	–83.0	277.0	279.8	170.1
4 Other investment	21,312.0	17,747.2	5,249.1	1,461.0	–19,483.9	6,698.5	–6,010.1	–13,141.9	–7,030.4
4.1 Assets	–11,861.1	5,833.6	4,619.2	2,265.1	3,963.6	5,116.4	–1,462.3	–5,876.8	6,186.3
4.2 Liabilities	33,173.1	11,913.6	629.9	–804.1	–23,447.5	1,582.1	–4,547.8	–7,265.0	–13,216.7
B3 Reserve assets (CNB)	**2,308.3**	**–6,511.2**	**–462.0**	**–2,922.6**	**–333.5**	**–1,699.1**	**–773.0**	**1,375.8**	**762.7**
C NET ERRORS AND OMISSIONS	–10,395.6	–8,838.9	–6,061.6	–8,072.5	–3,155.9	1,744.5	366.0	–7,095.5	1,829.1

[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.

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.

investment and other investment are reported separately. Data on reinvested earnings are reported separately, under direct investment income, calculated on the basis of the CNB Research on direct and other equity investment. In contrast to data on dividends, these data are not available for the 1993-1996 period, since at that time they were not reported separately. From the first quarter of 2009 on, international standards are applied in the statistical monitoring of reinvested earnings, meaning that reinvested earnings are reported on a quarterly basis, i.e. in the period in which the profit is actually earned. Previously, reinvested earnings were reported in the month in which the decision on the distribution of the previous year's profit was adopted, meaning that they were based on the profit earned in the preceding year. On the basis of statistical data on external debt relations, starting from 1997, income from direct investment includes data on interest arising from credit relations between residents and non-residents directly related through ownership. Income from equity portfolio investment is compiled on the basis of the same 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 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

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	
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	December	11,194.9	360.7	0.2	–	10,834.0	2,730.7	8,103.2	3,463.7
2012	January	10,916.7	359.0	0.2	–	10,557.5	2,683.0	7,874.5	3,399.4
	February	11,410.8	351.4	0.2	–	11,059.2	3,057.2	8,002.0	2,711.2
	March	11,340.1	354.1	0.2	–	10,985.7	2,504.7	8,481.0	2,705.6
	April	12,461.9	356.1	0.2	–	12,105.6	3,315.1	8,790.5	2,672.6
	May	12,106.1	368.4	0.2	–	11,737.5	2,758.5	8,979.0	2,673.1
	June	11,635.3	371.3	0.2	–	11,263.7	1,850.3	9,413.4	2,767.9
	July	11,607.2	373.1	0.2	–	11,233.9	1,588.5	9,645.4	3,264.7
	August	11,532.4	368.2	0.2	–	11,164.0	1,846.3	9,317.7	3,704.8
	September	11,383.9	363.5	0.2	–	11,020.3	2,192.7	8,827.6	3,631.7
	October	11,371.5	362.5	0.2	–	11,008.8	2,434.1	8,574.7	3,303.8
	November	11,301.6	360.1	0.2	–	10,941.3	2,416.4	8,524.9	3,155.2
	December	11,235.9	352.8	0.2	–	10,882.9	2,245.8	8,637.1	2,895.3

[a] International reserves of the Republic of Croatia consist only of the Croatian National Bank's foreign currency reserves.

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 • 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

Table H8 International reserves and foreign currency liquidity

end of period, in million EUR

		2011	2012											
		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		**11,194.9**	**10,916.7**	**11,410.8**	**11,340.1**	**12,461.9**	**12,106.1**	**11,635.3**	**11,607.2**	**11,532.4**	**11,383.9**	**11,371.5**	**11,301.6**	**11,235.9**
(1) Foreign currency reserves (in convertible f/c)		10,694.0	9,889.5	9,478.2	9,491.7	10,886.4	10,388.3	9,957.4	10,899.7	11,140.1	10,977.7	9,888.6	10,617.9	10,445.8
(a) Securities		8,103.2	7,874.5	8,002.0	8,481.0	8,790.5	8,979.0	9,413.4	9,645.4	9,317.7	8,827.6	8,574.7	8,524.9	8,637.1
o/w: Issuer headquartered in reporting country but located abroad		–	–	–	–	–	–	–	–	–	–	–	–	–
(b) Total currency and deposits with:		2,590.7	2,015.0	1,476.2	1,010.7	2,095.9	1,409.2	544.0	1,254.3	1,822.4	2,150.2	1,314.0	2,092.9	1,808.7
(i) Other national central banks, BIS and IMF		2,468.7	1,910.5	1,388.0	924.0	1,864.8	1,296.9	453.5	1,253.8	1,821.9	2,149.5	1,313.2	2,092.4	1,808.1
(ii) Banks headquartered in the reporting country		–	–	–	–	–	–	–	–	–	–	–	–	–
o/w: Located abroad		–	–	–	–	–	–	–	–	–	–	–	–	–
(iii) Banks headquartered outside the reporting country		122.1	104.5	88.2	86.7	231.1	112.3	90.5	0.5	0.5	0.7	0.7	0.5	0.6
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		360.7	359.0	351.4	354.1	356.1	368.4	371.3	373.1	368.2	363.5	362.5	360.1	352.8
(4) Gold		–	–	–	–	–	–	–	–	–	–	–	–	–
(5) Other reserve assets		140.0	668.1	1,581.0	1,494.0	1,219.2	1,349.2	1,306.3	334.2	23.9	42.5	1,120.2	323.4	437.1
– Reverse repo		140.0	668.1	1,581.0	1,494.0	1,219.2	1,349.2	1,306.3	334.2	23.9	42.5	1,120.2	323.4	437.1
B Other foreign currency assets (specify)		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– Time deposits		–	–	–	–	–	–	–	–	–	–	–	–	–
C Total (A+B)		**11,194.9**	**10,916.7**	**11,410.8**	**11,340.1**	**12,461.9**	**12,106.1**	**11,635.3**	**11,607.2**	**11,532.4**	**11,383.9**	**11,371.5**	**11,301.6**	**11,235.9**
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)		**–679.5**	**–683.8**	**–671.6**	**–814.7**	**–961.6**	**–899.6**	**–824.8**	**–912.4**	**–875.5**	**–863.6**	**–870.8**	**–827.5**	**–801.8**
(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)		–679.5	–683.8	–671.6	–814.7	–961.6	–899.6	–824.8	–912.4	–875.5	–863.6	–870.8	–827.5	–801.8
Up to 1 month	Principal	–140.2	–127.8	–167.7	–114.2	–245.3	–218.8	–166.1	–156.0	–201.4	–156.9	–181.2	–164.6	–170.5
	Interest	–6.5	–0.7	–5.0	–1.5	–8.8	–0.9	–0.1	–0.8	–2.3	–6.0	–6.5	–0.6	–6.5
More than 1 and up to 3 months	Principal	–112.5	–81.9	–110.3	–259.9	–153.0	–92.8	–120.6	–95.8	–89.7	–108.7	–69.1	–36.2	–50.1
	Interest	–20.5	–20.4	–28.0	–18.6	–11.0	–1.3	–9.4	–29.6	–33.5	–14.3	–25.9	–17.4	–22.7
More than 3 months and up to 1 year	Principal	–208.7	–212.4	–160.6	–195.2	–230.8	–249.9	–239.7	–341.0	–307.0	–320.2	–318.7	–321.2	–311.6
	Interest	–191.2	–240.6	–200.0	–225.3	–312.8	–336.0	–288.9	–289.2	–241.6	–257.5	–269.5	–287.5	–240.3
2 Aggregate short and long positions in forwards and futures in f/c vis-a-vis the domestic currency (including the forward leg of currency swaps)		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
(a) Short positions (–)		–	–	–	–	–	–	–	–	–	–	–	–	–
Up to 1 month		–	–	–	–	–	–	–	–	–	–	–	–	–
More than 1 and up to 3 months		–	–	–	–	–	–	–	–	–	–	–	–	–
More than 3 months and up to 1 year		–	–	–	–	–	–	–	–	–	–	–	–	–
(b) Long positions (+)		–	–	–	–	–	–	–	–	–	–	–	–	–
Up to 1 month		–	–	–	–	–	–	–	–	–	–	–	–	–
More than 1 and up to 3 months		–	–	–	–	–	–	–	–	–	–	–	–	–
More than 3 months and up to 1 year		–	–	–	–	–	–	–	–	–	–	–	–	–
3 Other		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– Outflows related to repos (–)		–	–	–	–	–	–	–	–	–	–	–	–	–
Up to 1 month	Principal	–	–	–	–	–	–	–	–	–	–	–	–	–
	Interest	–	–	–	–	–	–	–	–	–	–	–	–	–
More than 1 and up to 3 months	Principal	–	–	–	–	–	–	–	–	–	–	–	–	–
	Interest	–	–	–	–	–	–	–	–	–	–	–	–	–
More than 3 months and up to 1 year	Principal	–	–	–	–	–	–	–	–	–	–	–	–	–
	Interest	–	–	–	–	–	–	–	–	–	–	–	–	–
4 Total predetermined short-term net drains on f/c assets (1+2+3)		**–679.5**	**–683.8**	**–671.6**	**–814.7**	**–961.6**	**–899.6**	**–824.8**	**–912.4**	**–875.5**	**–863.6**	**–870.8**	**–827.5**	**–801.8**

	2011	2012											
	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	**–1,741.7**	**–1,861.3**	**–1,840.9**	**–1,852.7**	**–1,684.9**	**–1,604.5**	**–1,608.5**	**–1,639.9**	**–1,613.6**	**–1,366.5**	**–1,358.5**	**–1,308.5**	**–1,311.6**
(a) Collateral guarantees on debt falling due within 1 year	–1,005.2	–1,066.9	–1,065.4	–1,062.8	–894.2	–883.5	–906.1	–928.4	–926.3	–667.5	–668.7	–633.4	–636.4
– Croatian National Bank	–	–	–	–	–	–	–	–	–	–	–	–	–
– Central government (excl. central government funds)	–1,005.2	–1,066.9	–1,065.4	–1,062.8	–894.2	–883.5	–906.1	–928.4	–926.3	–667.5	–668.7	–633.4	–636.4
Up to 1 month	–8.0	–12.2	–66.0	–28.6	–55.9	–68.3	–46.7	–6.5	–283.9	–31.5	–58.7	–86.3	–26.6
More than 1 and up to 3 months	–111.2	–145.5	–163.3	–215.3	–173.5	–114.7	–333.4	–359.7	–142.7	–198.4	–161.8	–69.8	–70.3
More than 3 months and up to 1 year	–885.9	–909.2	–836.1	–818.9	–664.8	–700.5	–526.1	–562.2	–499.6	–437.6	–448.2	–477.3	–539.5
(b) Other contingent liabilities	–736.5	–794.4	–775.5	–789.9	–790.8	–721.0	–702.4	–711.5	–687.4	–699.0	–689.9	–675.1	–675.2
– Croatian National Bank	–736.5	–794.4	–775.5	–789.9	–790.8	–721.0	–702.4	–711.5	–687.4	–699.0	–689.9	–675.1	–675.2
Up to 1 month	–	–	–	–	–	–	–	–	–	–	–	–	–
More than 1 and up to 3 months	–736.5	–794.4	–775.5	–789.9	–790.8	–721.0	–702.4	–711.5	–687.4	–699.0	–689.9	–675.1	–675.2
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)	**–1,741.7**	**–1,861.3**	**–1,840.9**	**–1,852.7**	**–1,684.9**	**–1,604.5**	**–1,608.5**	**–1,639.9**	**–1,613.6**	**–1,366.5**	**–1,358.5**	**–1,308.5**	**–1,311.6**
IV Memo items													
(a) Short-term domestic currency debt indexed to the exchange rate	–	–	–	–	–	–	–	–	–	–	–	–	–
o/w: Central government (excl. central government funds)	–	–	–	–	–	–	–	–	–	–	–	–	–
(b) Financial instruments denominated in foreign currency and settled by other means (e.g., in domestic currency)	–	–	–	–	–	–	–	–	–	–	–	–	–
(c) Pledged assets	–	–	–	–	–	–	–	–	–	–	–	–	–
(d) Securities lent and on repo	–	–	–	–	–	–	–	–	–	–	–	–	–
– Lent or repoed and included in Section I	–0.4	–5.9	–1.1	–	–1.5	–3.7	–2.5	–11.4	–	–	–	–	–
– 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	136.9	644.2	1,476.0	1,402.5	1,155.7	1,280.0	1,231.9	313.7	24.4	39.8	1,054.1	306.6	551.3
(e) Financial derivative assets (net, marked to market)	–	–	–	–	–	–	–	–	–	–	–	–	–
(f) Currency composition of official reserves assets													
– Currencies in SDR basket	11,194.7	10,916.6	11,410.6	11,339.9	12,461.8	12,106.0	11,635.1	11,607.1	11,532.3	11,383.8	11,371.3	11,301.5	11,235.7
– Currencies not in SDR basket	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2
– By individual currencies USD	2,333.0	2,282.4	2,216.1	2,219.5	2,234.2	2,287.8	2,249.6	2,299.2	2,207.7	2,155.2	2,170.6	2,139.4	2,140.4
EUR	8,500.6	8,274.8	8,842.8	8,765.9	9,871.0	9,449.4	9,013.8	8,934.4	8,956.0	8,864.8	8,837.9	8,801.6	8,742.1
Other	361.2	359.6	351.9	354.7	356.7	368.9	371.8	373.7	368.7	364.0	363.0	360.7	353.4

foreign currency net liabilities of the Croatian National Bank and the central government (excluding central government funds) that fall due in the next 12 months. Foreign currency loans, securities and deposits (II1) include future interest payments on banks' foreign currency reserve requirements with the CNB (only interest payments for the next month are included), payments of future maturities of foreign currency CNB bills, future principal and interest payments on loans from the IMF, and future principal and interest payments on the central government's foreign currency debts (excluding central government funds). Aggregate short and long positions in forwards and futures in foreign currencies (II2) include future collections (+) or payments (–) arising from currency swaps between the CNB and domestic banks (temporary sale or purchase of foreign currency). Item Other (II3) includes future payments arising from repo transactions with foreign negotiable debt securities.

The third part of the Template shows predetermined contingent foreign currency net liabilities of the Croatian National Bank and the central government (excluding central government funds), which fall due in the following 12 months. Contingent liabilities in foreign currency (III1) include future principal and interest payments on foreign loans guaranteed by the central government, and banks' foreign currency reserve requirements with the CNB. (The inclusion of reserve requirements in foreign currency is based on the assumption that there will be no changes in ratios or in the base of foreign currency reserve

Table H9 Midpoint exchange rates of the Croatian National Bank (period average)

Year	Month	EUR/HRK	CHF/HRK	GBP/HRK	USD/HRK
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
2012		7.517340	6.237942	9.269634	5.850861
2012	January	7.546707	6.231979	9.062576	5.846617
	February	7.579384	6.279834	9.056639	5.733239
	March	7.539590	6.251841	9.029432	5.709035
	April	7.494357	6.234184	9.102995	5.691287
	May	7.528940	6.268465	9.359736	5.870676
	June	7.546585	6.284864	9.365869	6.026710
	July	7.494496	6.241017	9.489191	6.089386
	August	7.486777	6.234162	9.489612	6.042111
	September	7.426569	6.145893	9.310771	5.787501
	October	7.500421	6.200713	9.306267	5.783514
	November	7.536449	6.254353	9.378519	5.876333
	December	7.529460	6.228983	9.276943	5.747093

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) • 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
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
2012		7.545624	6.245343	9.219971	5.726794
2012	January	7.564800	6.276280	9.037993	5.764975
	February	7.576699	6.287195	8.931627	5.633652
	March	7.506917	6.230841	9.005419	5.623580
	April	7.531440	6.268886	9.237630	5.695712
	May	7.559568	6.294919	9.456552	6.072430
	June	7.510100	6.251124	9.307349	5.972247
	July	7.518303	6.262643	9.614198	6.124391
	August	7.478883	6.229807	9.433505	5.958320
	September	7.449746	6.158851	9.339032	5.757145
	October	7.533132	6.234488	9.347477	5.816192
	November	7.550662	6.270793	9.316054	5.814016
	December	7.545624	6.245343	9.219971	5.726794

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 • 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 • 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,

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 the total economy
2003	December	103.17	104.36	101.97	105.56
2004	December	101.23	102.11	99.71	102.28
2005	December	100.26	99.62	100.98	99.77
2006	December	98.76	98.03	101.06	93.56
2007	December	97.20	94.18	98.61	88.64
2008	December	96.12	92.10	94.79	85.11
2009	December	96.36	91.83	92.01	85.44
2010	December	100.14	95.58	95.00	89.73
2011	December	101.50	97.54	95.00	91.14
2012	January	102.50	98.30	95.65	
	February	102.92	98.67	94.68	
	March	102.24	97.64	93.94	91.78
	April	101.71	96.77	93.06	
	May	102.54	95.92	92.13	
	June	103.04	96.83	92.55	93.19
	July	102.86	97.10	92.51	
	August	102.97	97.05	91.90	
	September	101.59	95.14	89.95	94.59
	October	102.38	95.62	90.48	
	November	102.85	96.10	91.76	
	December	102.34	96.05	91.14	95.62[b]

[a] The values shown are quaterly data. [b] Preliminary data.

Table H12 Gross external debt by domestic sectors

in million EUR

	2011	2012											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Government	6,996.0	6,965.6	7,050.3	7,131.8	8,576.9	8,544.6	8,228.5	8,215.3	8,171.1	8,404.1	8,388.7	8,339.0	8,341.7
Short-term	**157.9**	**167.1**	**153.6**	**274.8**	**341.8**	**327.3**	**272.0**	**242.6**	**214.8**	**187.3**	**175.8**	**134.1**	**118.9**
Money market instruments	157.9	167.1	153.6	274.8	336.6	322.1	266.0	241.1	213.3	185.8	174.2	132.6	117.2
Credits	0.0	0.0	0.0	0.0	5.2	5.2	5.2	0.8	0.8	0.8	0.8	0.7	0.9
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	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Principal arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Interest arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	**6,838.1**	**6,798.5**	**6,896.7**	**6,857.0**	**8,235.1**	**8,217.2**	**7,956.5**	**7,972.7**	**7,956.2**	**8,216.8**	**8,213.0**	**8,204.9**	**8,222.8**
Bonds	4,926.5	4,862.8	4,917.3	4,882.5	6,029.3	6,014.0	5,774.8	5,796.7	5,778.3	6,052.3	6,070.9	6,075.3	6,102.1
Credits	1,911.6	1,935.7	1,979.4	1,974.5	2,205.8	2,203.2	2,181.7	2,176.0	2,178.0	2,164.4	2,142.1	2,129.6	2,120.8
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	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	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term	**0.1**	**0.1**	**0.1**	**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	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

	2011	2012											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
3 Banks	11,627.9	11,714.1	11,872.7	11,749.7	11,752.6	11,753.3	11,278.5	10,824.1	10,761.1	10,634.6	9,990.7	9,632.6	9,380.0
Short-term	**3,572.0**	**3,627.4**	**3,817.8**	**3,435.3**	**3,504.8**	**3,464.1**	**3,036.3**	**2,904.0**	**2,952.3**	**2,645.3**	**2,458.9**	**2,455.2**	**1,923.9**
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	511.1	431.3	590.5	497.0	589.7	497.7	414.4	431.1	526.6	505.8	521.0	642.3	561.7
Currency and deposits	3,060.6	3,195.4	3,227.2	2,938.1	2,914.9	2,966.3	2,621.7	2,472.8	2,425.6	2,139.4	1,937.8	1,812.8	1,361.9
Other debt liabilities	0.2	0.7	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.2	0.1	0.1	0.3
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	0.2	0.7	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.2	0.1	0.1	0.3
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	**8,056.0**	**8,086.7**	**8,054.9**	**8,314.4**	**8,247.8**	**8,289.2**	**8,242.2**	**7,920.1**	**7,808.8**	**7,989.2**	**7,531.8**	**7,177.3**	**7,456.1**
Bonds	1.9	1.0	0.9	1.0	1.0	1.0	1.0	0.9	0.8	0.7	0.7	4.6	8.9
Credits	3,739.7	3,581.4	3,504.9	3,698.4	3,668.3	3,629.0	3,560.1	3,503.9	3,477.2	3,463.0	3,432.1	3,338.2	3,404.7
Currency and deposits	4,314.4	4,504.4	4,549.1	4,614.9	4,578.5	4,659.2	4,681.1	4,415.2	4,330.9	4,525.4	4,099.0	3,834.6	4,042.5
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
4 Other sectors	20,182.0	20,105.6	20,039.0	20,131.9	20,120.8	20,155.4	19,994.1	19,945.0	19,999.3	19,435.0	19,662.7	20,220.0	19,743.2
Short-term	**1,485.5**	**1,462.4**	**1,468.4**	**1,642.1**	**1,740.7**	**1,764.8**	**1,715.7**	**1,860.0**	**1,931.6**	**1,867.6**	**1,814.0**	**1,877.8**	**1,993.5**
Money market instruments	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Credits	415.7	345.5	328.1	456.8	532.0	562.1	567.2	640.6	665.2	519.4	469.9	527.9	498.5
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	34.2	34.6	36.1	48.3	50.7	49.5	49.6	52.6	50.9	181.3	178.9	146.2	178.1
Other debt liabilities	1,035.5	1,082.3	1,104.2	1,137.0	1,158.0	1,153.2	1,098.8	1,166.8	1,215.6	1,166.9	1,165.1	1,203.4	1,316.7
Principal arrears	861.8	910.4	929.7	954.7	972.6	969.7	920.5	987.1	1,031.2	983.7	983.0	1,018.1	1,119.4
Interest arrears	173.7	171.9	174.5	182.3	185.4	183.4	178.3	179.7	184.4	183.3	182.0	185.3	197.3
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	**18,696.5**	**18,643.2**	**18,570.6**	**18,489.8**	**18,380.1**	**18,390.6**	**18,278.3**	**18,085.1**	**18,067.7**	**17,567.4**	**17,848.7**	**18,342.3**	**17,749.7**
Bonds	1,386.2	1,399.1	1,413.1	1,422.1	1,729.8	1,743.6	1,667.9	1,626.8	1,639.9	1,416.8	1,958.3	2,360.6	2,330.2
Credits	17,178.8	17,103.0	17,017.6	16,942.8	16,513.0	16,503.0	16,460.9	16,310.7	16,279.4	16,009.5	15,770.4	15,862.7	15,306.6
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	131.4	141.1	139.9	124.9	137.3	144.0	149.6	147.5	148.4	141.1	120.0	119.0	113.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5 Direct investment	6,927.7	7,008.4	6,886.1	6,902.9	7,017.8	7,033.5	7,046.4	7,050.5	6,943.9	7,064.4	7,083.4	7,067.2	7,470.4
Short-term	**1,324.2**	**1,199.0**	**1,187.8**	**1,131.9**	**1,241.2**	**1,270.5**	**1,240.1**	**1,222.2**	**1,222.2**	**1,252.5**	**1,311.8**	**1,275.2**	**843.6**
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	1,068.3	959.7	975.1	919.5	1,026.9	1,051.5	1,021.1	1,005.6	1,000.8	1,022.4	1,091.0	998.4	568.9
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	255.9	239.2	212.7	212.4	214.3	219.0	219.0	216.6	221.4	230.1	220.8	276.8	274.7
Principal arrears	207.5	187.1	164.9	164.7	165.9	169.8	169.0	166.1	170.3	176.6	166.9	222.7	223.7
Interest arrears	48.4	52.2	47.8	47.7	48.3	49.2	50.0	50.5	51.0	53.5	53.9	54.1	51.0
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	**5,603.6**	**5,809.5**	**5,698.3**	**5,771.0**	**5,776.6**	**5,762.9**	**5,806.4**	**5,828.3**	**5,721.8**	**5,811.8**	**5,771.6**	**5,792.0**	**6,626.8**
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	5,600.0	5,805.9	5,694.7	5,767.5	5,773.1	5,759.5	5,803.5	5,825.5	5,719.0	5,809.1	5,768.9	5,788.0	6,624.1
Trade credits	3.6	3.6	3.5	3.5	3.5	3.5	2.8	2.8	2.8	2.7	2.7	4.0	2.7
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total (1+2+3+4+5)	45,733.7	45,793.8	45,848.2	45,916.2	47,468.1	47,486.7	46,547.5	46,035.1	45,875.5	45,538.0	45,125.6	45,258.8	44,935.4

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

in million EUR

	2011	2012											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Public sector	14,076.2	13,878.0	13,935.6	14,034.7	15,134.1	15,129.7	14,709.9	14,724.1	14,760.5	14,520.9	14,545.0	14,980.0	14,599.1
Short-term	**337.3**	**233.1**	**221.3**	**473.7**	**592.5**	**529.2**	**386.1**	**412.0**	**412.3**	**307.5**	**218.6**	**226.0**	**159.0**
Money market instruments	157.9	167.1	153.6	274.8	336.6	322.1	266.0	241.1	213.3	185.8	174.2	132.6	117.2
Credits	103.7	2.5	4.7	135.8	192.5	142.4	78.1	128.4	157.0	75.5	0.8	49.8	0.9
Currency and deposits	0.1	0.1	0.1	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	75.7	63.5	63.0	63.2	63.4	64.7	42.0	42.6	42.0	46.2	43.7	43.6	40.9
Principal arrears	71.6	61.0	60.5	60.7	60.8	62.1	39.4	40.0	39.5	42.3	41.1	41.0	38.3
Interest arrears	4.1	2.5	2.5	2.5	2.5	2.6	2.6	2.6	2.6	4.0	2.6	2.6	2.6
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	**13,522.1**	**13,618.7**	**13,661.6**	**13,557.9**	**14,538.9**	**14,597.8**	**14,321.0**	**14,309.4**	**14,345.4**	**14,210.7**	**14,323.7**	**14,751.3**	**14,437.4**
Bonds	5,882.0	5,823.0	5,882.1	5,845.8	6,997.4	6,986.8	6,724.7	6,698.4	6,685.3	6,703.5	6,726.8	7,122.7	7,137.2
Credits	7,525.3	7,671.2	7,657.7	7,607.3	7,426.4	7,489.2	7,465.5	7,482.1	7,530.4	7,384.5	7,492.9	7,525.9	7,202.8
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	114.8	124.5	121.8	104.8	115.1	121.8	130.8	128.8	129.7	122.7	104.0	102.7	97.4
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Direct investment	**216.7**	**26.1**	**52.7**	**3.0**	**2.7**	**2.7**	**2.7**	**2.7**	**2.7**	**2.7**	**2.7**	**2.7**	**2.7**
2 Publicly guaranteed private sector	2.7	2.6	4.0	4.8	4.8	4.8	4.8	4.7	4.7	3.4	3.4	3.4	3.3
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	**2.7**	**2.6**	**4.0**	**4.8**	**4.8**	**4.8**	**4.8**	**4.7**	**4.7**	**3.4**	**3.4**	**3.4**	**3.3**
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	2.7	2.6	2.6	1.5	1.5	1.5	1.5	1.4	1.4	0.3	0.3	0.4	0.4
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	0.0	1.4	3.3	3.3	3.3	3.3	3.2	3.2	3.0	3.0	3.0	2.9
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Direct investment	**0.0**	**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	31,654.8	31,913.2	31,908.6	31,876.8	32,329.3	32,352.2	31,832.8	31,306.3	31,110.3	31,013.8	30,577.2	30,275.4	30,333.0
Short-term	**4,878.1**	**5,023.8**	**5,218.6**	**4,878.4**	**4,994.8**	**5,027.0**	**4,637.9**	**4,594.6**	**4,686.4**	**4,392.8**	**4,230.0**	**4,241.1**	**3,877.3**
Money market instruments	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Credits	823.1	774.3	913.9	818.0	934.5	922.5	908.7	944.1	1,035.5	950.4	990.9	1,121.2	1,060.2
Currency and deposits	3,060.6	3,195.4	3,227.2	2,938.1	2,914.9	2,966.3	2,621.7	2,472.8	2,425.6	2,139.4	1,937.8	1,812.8	1,361.9
Trade credits	34.2	34.6	36.1	48.3	50.7	49.5	49.6	52.6	50.9	181.3	178.9	146.2	178.1
Other debt liabilities	960.0	1,019.4	1,041.3	1,074.0	1,094.7	1,088.6	1,057.9	1,125.1	1,174.5	1,121.7	1,122.3	1,160.7	1,277.0
Principal arrears	790.3	849.4	869.2	894.0	911.7	907.6	881.9	947.8	992.5	942.2	942.7	977.9	1,081.8
Interest arrears	169.8	170.0	172.1	179.9	183.0	181.0	176.0	177.3	182.0	179.5	179.6	182.8	195.1
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	**20,065.7**	**19,907.1**	**19,856.6**	**20,098.4**	**20,319.4**	**20,294.4**	**20,151.3**	**19,663.9**	**19,482.7**	**19,559.4**	**19,266.5**	**18,969.8**	**18,988.0**
Bonds	432.6	439.8	449.3	459.8	762.8	771.9	719.0	726.1	733.6	766.4	1,303.2	1,317.8	1,304.0
Credits	15,272.1	14,916.1	14,811.2	14,978.4	14,930.5	14,815.8	14,708.6	14,480.0	14,375.5	14,223.1	13,822.3	13,775.0	13,601.4
Currency and deposits	4,314.4	4,504.4	4,549.1	4,614.9	4,578.5	4,659.2	4,681.1	4,415.2	4,330.9	4,525.4	4,099.0	3,834.6	4,042.5
Trade credits	46.6	46.8	46.9	45.3	47.6	47.6	42.6	42.6	42.6	44.4	42.0	42.5	40.2
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Direct investment	**6,711.0**	**6,982.3**	**6,833.4**	**6,899.9**	**7,015.1**	**7,030.7**	**7,043.7**	**7,047.8**	**6,941.2**	**7,061.6**	**7,080.7**	**7,064.4**	**7,467.7**
Total (1+2+3)	45,733.7	45,793.8	45,848.2	45,916.2	47,468.1	47,486.7	46,547.5	46,035.1	45,875.5	45,538.0	45,125.6	45,258.8	44,935.4

Table H14 Gross external debt by domestic sectors and projected future payments

in million EUR

	Gross external debt 31/12/2012	Immediate	Projected future principal payments												
			Q1/2013		Q2/2013	Q3/2013	Q4/2013	2013	2014	2015	2016	2017	2018	2019	Other
			Total[a]	o/w: Accrued interest[a]											
1 Government	8,341.7	0.8	230.0	152.7	76.8	172.1	83.8	562.7	760.8	1,052.8	209.6	1,321.8	467.3	1,199.8	2,766.1
Short-term	**118.9**	**0.8**	**58.0**	**3.4**	**26.5**	**5.8**	**27.8**	**118.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Money market instruments	117.2	0.0	58.0	3.4	25.6	5.8	27.8	117.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.9	0.0	0.0	0.0	0.9	0.0	0.0	0.9	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	0.8	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	0.0
Principal arrears	0.7	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	**8,222.8**	**0.0**	**172.0**	**149.3**	**50.4**	**166.3**	**56.0**	**444.6**	**760.8**	**1,052.8**	**209.6**	**1,321.8**	**467.3**	**1,199.8**	**2,766.1**
Bonds	6,102.1	0.0	131.3	131.0	0.0	113.9	0.0	245.2	528.0	703.7	9.2	1,149.3	376.6	1,120.1	1,970.0
Credits	2,120.8	0.0	40.7	18.2	50.4	52.4	56.0	199.4	232.9	349.2	200.5	172.5	90.7	79.6	796.0
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
2 Croatian National Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**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	0.0	0.0	0.0	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	**0.0**	**0.0**	**0.0**	**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	9,380.0	0.3	1,820.5	52.4	599.5	506.1	708.5	3,634.7	2,249.1	700.2	754.6	1,019.7	109.3	552.4	359.7
Short-term	**1,923.9**	**0.3**	**1,450.0**	**11.3**	**158.7**	**158.0**	**156.9**	**1,923.6**	**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	561.7	0.0	560.1	0.8	1.0	0.3	0.3	561.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	1,361.9	0.0	890.0	10.5	157.7	157.7	156.6	1,361.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	**7,456.1**	**0.0**	**370.5**	**41.2**	**440.9**	**348.2**	**551.6**	**1,711.1**	**2,249.1**	**700.2**	**754.6**	**1,019.7**	**109.3**	**552.4**	**359.7**
Bonds	8.9	0.0	0.1	0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0	8.8	0.0	0.0	0.0
Credits	3,404.7	0.0	35.8	10.0	180.2	87.5	289.4	592.9	951.8	418.1	372.2	929.2	30.0	22.7	87.8
Currency and deposits	4,042.5	0.0	334.6	31.0	260.6	260.6	262.2	1,118.1	1,297.3	282.1	382.4	81.7	79.3	529.7	271.9
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4 Other sectors	19,743.2	1,316.7	1,226.6	377.8	1,573.8	814.0	1,354.8	4,969.2	2,194.3	1,579.0	1,688.7	2,055.0	899.3	958.5	4,082.4
Short-term	**1,993.5**	**1,316.7**	**191.1**	**6.8**	**170.9**	**199.5**	**115.3**	**676.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Money market instruments	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	498.5	0.0	191.1	6.8	170.9	21.3	115.2	498.5	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	178.1	0.0	0.0	0.0	0.0	178.1	0.0	178.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	1,316.7	1,316.7	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
Principal arrears	1,119.4	1,119.4	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

	Gross external debt 31/12/2012	Immediate	Projected future principal payments												
			Q1/2013		Q2/2013	Q3/2013	Q4/2013	2013	2014	2015	2016	2017	2018	2019	Other
			Total[s]	o/w: Accrued interest[a]											
Interest arrears	197.3	197.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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	**17,749.7**	**0.0**	**1,035.4**	**371.0**	**1,403.0**	**614.5**	**1,239.5**	**4,292.4**	**2,194.3**	**1,579.0**	**1,688.7**	**2,055.0**	**899.3**	**958.5**	**4,082.4**
Bonds	2,330.2	0.0	34.8	34.8	0.6	25.5	13.5	74.5	26.8	27.7	496.1	895.0	0.0	267.1	542.9
Credits	15,306.6	0.0	964.3	335.8	1,397.5	564.4	1,202.8	4,129.1	2,148.0	1,550.1	1,191.4	1,158.8	898.3	691.4	3,539.5
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	113.0	0.0	36.3	0.3	4.9	24.6	23.1	88.8	19.5	1.2	1.2	1.2	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	7,470.4	274.7	781.0	287.8	800.7	227.2	972.6	2,781.4	1,092.7	504.9	434.3	354.6	159.4	146.7	1,721.7
Short-term	**843.6**	**274.7**	**191.5**	**3.2**	**330.4**	**11.0**	**35.9**	**568.9**	**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	568.9	0.0	191.5	3.2	330.4	11.0	35.9	568.9	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	274.7	274.7	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
Principal arrears	223.7	223.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	51.0	51.0	0.0	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	**6,626.8**	**0.0**	**589.5**	**284.6**	**470.3**	**216.1**	**936.7**	**2,212.6**	**1,092.7**	**504.9**	**434.3**	**354.6**	**159.4**	**146.7**	**1,721.7**
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	0.0	0.0
Credits	6,624.1	0.0	589.3	284.6	470.2	216.0	935.8	2,211.3	1,092.3	504.8	434.2	354.5	159.3	146.6	1,721.2
Trade credits	2.7	0.0	0.1	0.0	0.1	0.1	0.9	1.2	0.4	0.1	0.1	0.1	0.1	0.1	0.5
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
Total (1+2+3+4+5)	44,935.4	1,592.6	4,058.0	870.7	3,050.9	1,719.4	3,119.7	11,948.0	6,296.9	3,836.9	3,087.2	4,751.1	1,635.3	2,857.4	8,929.9
Supplement: Projected interest payments			152.4		292.0	260.8	340.8	1,046.1	1,128.8	974.7	846.7	696.8	530.9	458.1	1,710.6

[a] 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 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 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

	2011	2012											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Other sectors	20,182.0	20,105.6	20,039.0	20,131.9	20,120.8	20,155.4	19,994.1	19,945.0	19,999.3	19,435.0	19,662.7	20,220.0	19,743.2
Short-term	1,485.5	1,462.4	1,468.4	1,642.1	1,740.7	1,764.8	1,715.7	1,860.0	1,931.6	1,867.6	1,814.0	1,877.8	1,993.5
Money market instruments	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Credits	415.7	345.5	328.1	456.8	532.0	562.1	567.2	640.6	665.2	519.4	469.9	527.9	498.5
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	34.2	34.6	36.1	48.3	50.7	49.5	49.6	52.6	50.9	181.3	178.9	146.2	178.1
Other debt liabilities	1,035.5	1,082.3	1,104.2	1,137.0	1,158.0	1,153.2	1,098.8	1,166.8	1,215.6	1,166.9	1,165.1	1,203.4	1,316.7
Principal arrears	861.8	910.4	929.7	954.7	972.6	969.7	920.5	987.1	1,031.2	983.7	983.0	1,018.1	1,119.4
Interest arrears	173.7	171.9	174.5	182.3	185.4	183.4	178.3	179.7	184.4	183.3	182.0	185.3	197.3
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	18,696.5	18,643.2	18,570.6	18,489.8	18,380.1	18,390.6	18,278.3	18,085.1	18,067.7	17,567.4	17,848.7	18,342.3	17,749.7
Bonds	1,386.2	1,399.1	1,413.1	1,422.1	1,729.8	1,743.6	1,667.9	1,626.8	1,639.9	1,416.8	1,958.3	2,360.6	2,330.2
Credits	17,178.8	17,103.0	17,017.6	16,942.8	16,513.0	16,503.0	16,460.9	16,310.7	16,279.4	16,009.5	15,770.4	15,862.7	15,306.6
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	131.4	141.1	139.9	124.9	137.3	144.0	149.6	147.5	148.4	141.1	120.0	119.0	113.0
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
1.1 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	**4,068.1**	**4,110.5**	**4,081.9**	**4,045.7**	**4,074.1**	**4,149.8**	**4,084.5**	**4,038.7**	**4,133.9**	**3,784.5**	**3,788.7**	**3,787.5**	**3,782.4**
Short-term	217.3	230.1	227.5	231.0	231.6	243.6	327.8	344.3	344.0	279.7	268.0	267.7	305.4
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	209.8	222.4	221.1	224.1	224.7	236.6	323.3	339.9	339.5	269.7	262.8	262.3	274.5
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	7.5	7.7	6.5	6.9	6.9	7.0	4.5	4.4	4.5	10.0	5.2	5.4	30.9
Principal arrears	3.4	3.8	2.6	2.9	2.9	3.0	1.2	1.2	1.2	5.0	1.3	1.4	26.6
Interest arrears	4.1	3.9	3.8	3.9	4.0	4.0	3.3	3.3	3.3	5.0	3.9	4.0	4.3
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	3,850.8	3,880.4	3,854.4	3,814.8	3,842.5	3,906.3	3,756.7	3,694.4	3,790.0	3,504.8	3,520.7	3,519.8	3,477.0
Bonds	636.8	640.2	643.3	640.5	643.8	647.4	623.6	589.7	592.6	333.9	336.2	337.9	323.3
Credits	3,213.9	3,240.2	3,211.0	3,174.3	3,198.7	3,258.9	3,133.2	3,104.8	3,197.4	3,171.0	3,184.6	3,181.9	3,153.8
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	0.0	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	**5,400.3**	**5,354.8**	**5,299.6**	**5,376.9**	**5,003.0**	**4,974.8**	**4,898.8**	**4,960.8**	**4,933.1**	**4,728.8**	**4,741.9**	**5,234.2**	**4,843.5**
Short-term	179.4	66.0	67.7	199.0	250.7	201.9	114.1	169.4	197.5	115.2	42.9	91.9	40.1
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	103.7	2.5	4.7	135.8	187.3	137.2	72.9	127.6	156.2	74.7	0.0	49.1	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	75.7	63.5	63.0	63.2	63.4	64.7	41.2	41.8	41.3	40.5	42.9	42.8	40.1
Principal arrears	71.6	61.0	60.5	60.7	60.8	62.1	38.7	39.3	38.7	38.0	40.3	40.3	37.6
Interest arrears	4.1	2.5	2.5	2.5	2.5	2.6	2.5	2.6	2.5	2.5	2.5	2.5	2.5
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	5,220.9	5,288.8	5,231.9	5,178.0	4,752.3	4,772.9	4,784.7	4,791.4	4,735.7	4,613.5	4,699.0	5,142.3	4,803.4
Bonds	318.7	320.0	321.4	322.9	324.3	325.4	326.3	312.0	314.5	317.3	319.7	709.5	711.8
Credits	4,787.4	4,844.4	4,788.7	4,750.2	4,313.0	4,325.7	4,327.6	4,350.5	4,291.4	4,173.5	4,275.3	4,330.1	3,994.1
Trade credits	114.8	124.5	121.8	104.8	115.1	121.8	130.8	128.8	129.7	122.7	104.0	102.7	97.4
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
1.4 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	**10,495.9**	**10,425.0**	**10,444.2**	**10,494.1**	**10,828.8**	**10,811.0**	**10,791.8**	**10,719.6**	**10,706.4**	**10,698.3**	**10,914.3**	**10,979.3**	**10,901.7**
Short-term	1,082.9	1,160.3	1,167.2	1,206.2	1,252.4	1,313.3	1,267.4	1,339.4	1,382.9	1,465.4	1,495.8	1,510.9	1,642.7
Money market instruments	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Credits	96.2	114.6	96.3	90.9	114.0	182.2	164.6	166.3	162.1	167.7	199.8	209.2	218.6
Trade credits	34.2	34.6	36.1	48.3	50.7	49.5	49.6	52.6	50.9	181.3	178.9	146.2	178.1
Other debt liabilities	952.3	1,011.1	1,034.7	1,067.0	1,087.7	1,081.5	1,053.2	1,120.5	1,169.8	1,116.4	1,117.0	1,155.3	1,245.8
Principal arrears	786.8	845.6	866.5	891.1	908.8	904.7	880.6	946.6	991.3	940.7	941.4	976.5	1,055.3

	2011	2012											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
Interest arrears	165.5	165.5	168.2	175.9	178.9	176.9	172.5	173.9	178.5	175.7	175.6	178.8	190.5
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	9,413.0	9,264.7	9,277.0	9,287.9	9,576.5	9,497.7	9,524.5	9,380.2	9,323.5	9,232.9	9,418.5	9,468.4	9,259.0
Bonds	430.7	438.8	448.4	458.8	761.7	770.9	718.0	725.1	732.8	765.7	1,302.5	1,313.2	1,295.1
Credits	8,965.7	8,809.2	8,810.5	8,809.1	8,792.5	8,704.7	8,787.7	8,636.4	8,572.0	8,448.8	8,100.1	8,138.9	7,948.4
Trade credits	16.6	16.6	18.1	20.0	22.2	22.2	18.8	18.7	18.7	18.4	16.0	16.3	15.5
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.6 Non-profit institutions	**4.8**	**4.8**	**4.9**	**7.2**	**7.3**	**7.8**	**8.0**	**8.4**	**8.5**	**8.6**	**8.4**	**9.1**	**9.4**
1.7 Craftsmen and sole traders	**5.2**	**5.1**	**5.0**	**4.9**	**4.8**	**4.8**	**4.6**	**11.1**	**11.2**	**10.9**	**10.8**	**10.9**	**10.6**
1.8 Households	**207.9**	**205.4**	**203.5**	**203.1**	**202.8**	**207.2**	**206.3**	**206.5**	**206.2**	**204.0**	**198.6**	**199.2**	**195.6**

Table H16 International investment position – summary[a,b]

in million EUR

	2008	2009	2010	2011	2012[c]	2012			
						Q1	Q2	Q3	Q4[c]
1 International investment position (net)	–34,983.1	–39,097.7	–41,861.6	–40,108.3	–38,714.7	–41,267.9	–40,608.0	–39,049.0	–38,714.7
2 Assets	22,508.4	24,444.5	23,539.4	23,342.1	23,384.3	22,323.8	23,127.6	24,254.7	23,384.3
2.1 Direct investment abroad	3,750.4	4,556.3	3,289.6	3,515.0	3,415.2	3,229.6	3,346.1	3,453.2	3,415.2
2.2 Portfolio investment	2,646.0	3,219.2	3,679.3	3,009.1	3,353.1	2,814.0	2,946.1	3,215.7	3,353.1
2.2.1 Equity securities	656.7	804.9	1,372.5	1,328.2	1,489.0	1,315.8	1,302.5	1,413.5	1,489.0
2.2.2 Debt securities	1,989.3	2,414.3	2,306.8	1,680.9	1,864.1	1,498.2	1,643.6	1,802.2	1,864.1
Bonds	1,606.9	1,685.6	1,420.2	1,068.4	1,362.5	896.6	1,107.0	1,241.6	1,362.5
Money market instruments	382.4	728.7	886.6	612.5	501.6	601.6	536.6	560.6	501.6
2.3 Financial derivatives	0.0	24.1	16.5	16.2	98.9	85.9	127.5	121.1	98.9
2.4 Other investment	6,991.2	6,269.1	5,893.7	5,607.0	5,281.2	4,854.4	5,072.7	6,080.8	5,281.2
2.4.1 Trade credits	224.7	123.6	80.5	85.7	142.0	84.5	83.9	153.8	142.0
2.4.2 Loans	435.9	384.5	480.0	490.0	516.8	502.9	517.0	554.9	516.8
2.4.3 Currency and deposits	6,330.5	5,760.9	5,333.1	5,031.3	4,622.5	4,267.0	4,471.7	5,372.1	4,622.5
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)	9,120.9	10,375.8	10,660.2	11,194.8	11,235.9	11,340.0	11,635.2	11,383.9	11,235.9
3 Liabilities	57,491.5	63,542.3	65,401.0	63,450.4	62,099.0	63,591.7	63,735.5	63,303.8	62,099.0
3.1 Direct investment in Croatia	22,198.7	25,409.5	26,179.8	23,855.1	23,957.2	23,805.2	23,510.7	24,099.8	23,957.2
3.2 Portfolio investment	5,443.7	6,479.1	7,118.5	7,068.3	9,020.2	7,172.2	8,284.1	8,230.2	9,020.2
3.2.1 Equity securities	613.8	657.6	738.0	595.7	461.7	591.8	574.3	574.5	461.7
3.2.2 Debt securities	4,829.9	5,821.5	6,380.5	6,472.7	8,558.5	6,580.4	7,709.8	7,655.7	8,558.5
Bonds	4,805.3	5,651.2	5,912.1	6,314.6	8,441.2	6,305.6	7,443.7	7,469.9	8,441.2
Money market instruments	24.6	170.3	468.3	158.1	117.3	274.8	266.1	185.8	117.3
3.3 Financial derivatives	–	–	197.5	193.6	215.2	181.4	149.5	155.8	215.2
3.4 Other investment	29,849.2	31,601.6	31,905.2	32,333.3	28,906.4	32,432.9	31,791.3	30,818.0	28,906.4
3.4.1 Trade credits	367.5	344.4	370.2	217.0	314.2	223.9	225.5	343.5	314.2
3.4.2 Loans	24,343.4	24,929.1	25,075.4	24,741.0	23,187.5	24,655.9	24,262.8	23,809.5	23,187.5
3.4.3 Currency and deposits	5,138.3	6,328.1	6,459.5	7,375.3	5,404.7	7,553.2	7,303.0	6,665.0	5,404.7
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

	2008	2009	2010	2011	2012[b]	2012 Q1	Q2	Q3	Q4[b]
Direct investment (net)	–18,448.3	–20,853.1	–22,890.2	–20,340.1	–20,542.0	–20,575.6	–20,164.6	–20,646.6	–20,542.0
1 Abroad	**3,750.4**	**4,556.3**	**3,289.6**	**3,515.0**	**3,415.2**	**3,229.6**	**3,346.1**	**3,453.2**	**3,415.2**
1.1 Equity capital and reinvested earnings	3,560.6	4,463.1	3,048.5	3,048.9	3,007.1	2,977.3	3,108.0	3,152.2	3,007.1
1.1.1 Claims	3,560.6	4,463.1	3,048.5	3,048.9	3,007.1	2,977.3	3,108.0	3,152.2	3,007.1
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	189.7	93.2	241.1	466.0	408.1	252.2	238.1	301.0	408.1
1.1.1 Claims	220.2	217.0	608.7	641.5	572.1	440.3	424.6	485.2	572.1
1.2.2 Liabilities	30.5	123.8	367.6	175.5	164.0	188.1	186.4	184.2	164.0
1.3 Financial derivatives (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2 In Croatia	**22,198.7**	**25,409.5**	**26,179.8**	**23,855.1**	**23,957.2**	**23,805.2**	**23,510.7**	**24,099.8**	**23,957.2**
2.1 Equity capital and reinvested earnings	16,417.5	17,765.0	18,417.9	17,153.5	16,705.8	17,127.5	16,690.5	17,257.9	16,705.8
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	16,417.5	17,765.0	18,417.9	17,153.5	16,705.8	17,127.5	16,690.5	17,257.9	16,705.8
2.2 Other capital	5,781.1	7,644.5	7,761.9	6,701.6	7,251.5	6,677.7	6,820.2	6,842.0	7,251.5
2.2.1 Claims	24.3	52.9	68.3	50.7	55.0	37.2	39.8	38.2	55.0
2.2.2 Liabilities	5,805.4	7,697.4	7,830.2	6,752.3	7,306.4	6,714.8	6,860.0	6,880.1	7,306.4
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

	2008	2009	2010	2011	2012[b]	2012 Q1	Q2	Q3	Q4[b]
Portfolio investment (net)	–2,797.7	–3,259.9	–3,439.2	–4,059.2	–5,667.1	–4,358.2	–5,338.0	–5,014.5	–5,667.1
1 Assets	**2,646.0**	**3,219.2**	**3,679.3**	**3,009.1**	**3,353.1**	**2,814.0**	**2,946.1**	**3,215.7**	**3,353.1**
1.1 Equity securities	656.7	804.9	1,372.5	1,328.2	1,489.0	1,315.8	1,302.5	1,413.5	1,489.0
1.1.1 Banks	11.6	13.7	9.2	13.7	10.7	15.0	9.5	10.2	10.7
1.1.2 Other sectors	645.1	791.2	1,363.3	1,314.4	1,478.3	1,300.8	1,293.0	1,403.3	1,478.3
1.2 Debt securities	1,989.3	2,414.3	2,306.8	1,680.9	1,864.1	1,498.2	1,643.6	1,802.2	1,864.1
2 Liabilities	**5,443.7**	**6,479.1**	**7,118.5**	**7,068.3**	**9,020.2**	**7,172.2**	**8,284.1**	**8,230.2**	**9,020.2**
2.1 Equity securities	613.8	657.6	738.0	595.7	461.7	591.8	574.3	574.5	461.7
2.1.1 Banks	66.5	62.4	56.8	44.6	34.3	46.5	39.3	34.7	34.3
2.1.2 Other sectors	547.3	595.2	681.2	551.0	427.4	545.3	535.1	539.8	427.4
2.2 Debt securities	4,829.9	5,821.5	6,380.5	6,472.7	8,558.5	6,580.4	7,709.8	7,655.7	8,558.5
2.2.1 Bonds	4,805.3	5,651.2	5,912.1	6,314.6	8,441.2	6,305.6	7,443.7	7,469.9	8,441.2
2.2.1.1 General government	3,162.1	3,976.4	4,313.1	4,926.5	6,102.1	4,882.5	5,774.8	6,052.3	6,102.1
2.2.1.2 Banks	456.8	9.0	8.9	1.9	8.9	1.0	1.0	0.7	8.9
2.2.1.3 Other sectors	1,186.4	1,665.8	1,590.1	1,386.2	2,330.2	1,422.1	1,667.9	1,416.8	2,330.2
2.2.2 Money market instruments	24.6	170.3	468.3	158.1	117.3	274.8	266.1	185.8	117.3
2.2.2.1 General government	24.6	170.3	468.3	157.9	117.2	274.8	266.0	185.8	117.2
2.2.2.2 Other sectors	0.0	0.0	0.0	0.1	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

	2008	2009	2010	2011	2012[b]	2012			
						Q1	Q2	Q3	Q4[b]
Other investment (net)	–22,858.0	–25,332.5	–26,011.5	–26,726.3	–23,624.4	–27,578.6	–26,718.6	–24,737.2	–23,624.4
1 Assets	**6,991.2**	**6,269.1**	**5,893.7**	**5,607.0**	**5,282.0**	**4,854.4**	**5,072.7**	**6,080.8**	**5,282.0**
1.1 Trade credits	224.7	123.6	80.5	85.7	142.0	84.5	83.9	153.8	142.0
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	224.7	123.6	80.5	85.7	142.0	84.5	83.9	153.8	142.0
Long-term	202.6	96.3	61.4	58.3	57.6	56.6	56.5	56.0	57.6
Short-term	22.1	27.3	19.2	27.4	84.3	27.9	27.4	97.8	84.3
1.2 Loans	435.9	384.5	480.0	490.0	516.8	502.9	517.0	554.9	516.8
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	285.3	270.1	340.4	344.7	340.7	349.2	358.2	398.2	340.7
Long-term	193.6	233.7	286.3	310.1	220.5	305.4	298.9	298.3	220.5
Short-term	91.7	36.5	54.2	34.6	120.2	43.7	59.3	100.0	120.2
1.2.4 Other sectors	150.0	113.8	139.0	144.6	175.5	153.1	158.2	156.1	175.5
Long-term	146.8	113.6	101.3	140.0	154.5	136.1	147.9	143.1	154.5
Short-term	3.3	0.2	37.7	4.6	21.0	17.0	10.3	12.9	21.0
1.3 Currency and deposits	6,330.5	5,760.9	5,333.1	5,031.3	4,623.3	4,267.0	4,471.7	5,372.1	4,623.3
1.3.1 General government	0.0	0.0	0.0	0.0	0.8	0.0	0.0	0.0	0.8
1.3.2 Banks	4,863.6	4,442.9	4,060.1	3,565.6	3,110.8	2,845.6	2,955.7	3,829.6	3,110.8
1.3.3 Other sectors	1,466.9	1,318.0	1,273.0	1,465.7	1,511.7	1,421.5	1,516.0	1,542.5	1,511.7
1.4 Other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2 Liabilities	**29,849.2**	**31,601.6**	**31,905.2**	**32,333.3**	**28,906.4**	**32,432.9**	**31,791.3**	**30,818.0**	**28,906.4**
2.1 Trade credits	367.5	344.4	370.2	217.0	314.2	223.9	225.5	343.5	314.2
2.1.1 General government	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.1.2 Other sectors	366.7	344.4	370.2	217.0	314.2	223.9	225.5	343.5	314.2
Long-term	327.2	316.2	339.3	182.8	136.1	175.6	175.9	162.2	136.1
Short-term	39.5	28.2	30.9	34.2	178.1	48.3	49.6	181.3	178.1
2.2 Loans	24,343.4	24,929.1	25,075.4	24,741.0	23,187.5	24,655.9	24,262.8	23,809.5	23,187.5
2.2.1 Croatian National Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w: IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.2 General government	1,574.6	1,592.7	1,820.8	1,911.6	2,122.5	1,974.5	2,187.7	2,166.0	2,122.5
Long-term	1,542.9	1,592.7	1,820.8	1,911.6	2,121.6	1,974.5	2,182.5	2,165.2	2,121.6
Short-term	31.7	0.0	0.0	0.0	0.9	0.0	5.2	0.8	0.9
2.2.3 Banks	4,496.7	4,352.8	4,285.8	4,250.8	3,966.4	4,195.5	3,974.5	3,968.8	3,966.4
Long-term	3,374.7	3,545.3	3,355.7	3,739.7	3,404.7	3,698.4	3,560.1	3,463.1	3,404.7
Short-term	1,122.0	807.5	930.1	511.1	561.7	497.0	414.4	505.8	561.7
2.2.4 Other sectors	18,272.0	18,983.6	18,968.9	18,578.6	17,098.7	18,485.9	18,100.6	17,674.7	17,098.7
Long-term	17,589.5	18,244.9	18,360.2	18,064.1	16,487.4	17,916.3	17,413.2	17,039.4	16,487.4
Short-term	682.5	738.7	608.6	514.5	611.3	569.5	687.5	635.2	611.3
2.3 Currency and deposits	5,138.3	6,328.1	6,459.5	7,375.3	5,404.7	7,553.2	7,303.0	6,665.0	5,404.7
2.3.1 Croatian National Bank	2.3	1.1	1.2	0.1	0.0	0.0	0.0	0.0	0.0
2.3.2 Banks	5,125.5	6,327.0	6,458.4	7,375.3	5,404.7	7,553.2	7,303.0	6,665.0	5,404.7
2.3.3 Other sectors	10.6	0.0	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

	2011	2012										
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.
1 REVENUE (A+B)	9,279.6	8,368.1	8,581.3	8,946.5	10,533.9	9,123.0	8,788.7	10,379.2	9,888.2	8,744.2	10,610.5	9,643.5
A) Budgetary central government	8,927.2	8,099.4	8,425.5	8,703.8	10,200.9	8,898.9	8,576.2	10,024.1	9,671.6	8,456.5	10,240.7	9,319.5
B) Extrabudgetary users	352.4	268.7	155.8	242.6	332.9	224.2	212.5	355.1	216.6	287.7	369.8	324.0
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
2 Croatian Institute for Health Insurance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3 Croatian Employment Service	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4 Croatian Waters	162.2	93.9	98.8	126.6	118.9	106.3	116.1	138.6	130.3	151.0	161.1	155.8
5 Fund for Environmental Protection and Energy Efficiency	145.6	53.3	45.3	106.1	80.2	98.4	72.6	89.2	64.9	111.6	85.9	137.6
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
7 Croatian Roads Ltd.	4.1	4.8	6.7	1.9	3.6	3.3	3.7	3.5	4.7	3.9	4.5	3.9
8 State Agency for Deposit Insurance and Bank Rehabilitation	32.7	111.6	0.0	3.5	126.5	11.7	15.9	120.0	10.6	18.4	114.2	21.5
9 Agency for Management of the Public Property[b]	7.8	5.2	4.9	4.6	3.8	4.4	4.2	3.8	6.2	2.8	4.1	5.3
2 EXPENSE (A+B)	12,065.0	9,529.4	8,839.9	11,253.4	10,237.4	9,986.8	9,567.1	11,536.1	9,665.0	9,895.8	9,843.6	9,304.2
A) Budgetary central government	10,939.0	9,349.6	8,595.4	11,039.8	9,917.9	9,700.0	9,210.4	11,182.5	9,377.5	9,495.6	9,402.2	8,983.2
B) Extrabudgetary users	1,126.0	179.7	244.5	213.5	319.5	286.8	356.6	353.5	287.4	400.2	441.4	321.0
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
2 Croatian Institute for Health Insurance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3 Croatian Employment Service	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4 Croatian Waters	302.2	24.1	20.1	28.3	134.0	134.6	164.8	145.9	132.7	158.7	139.6	160.7
5 Fund for Environmental Protection and Energy Efficiency	135.2	37.1	61.3	80.9	70.8	60.1	71.1	83.2	67.6	127.5	94.4	72.0
6 Croatian Motorways Ltd.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7 Croatian Roads Ltd.	271.5	83.2	118.8	88.7	105.1	82.6	111.2	116.0	74.4	105.2	198.4	75.9
8 State Agency for Deposit Insurance and Bank Rehabilitation	394.3	26.4	37.1	7.1	2.7	1.8	2.3	2.5	2.3	1.7	1.0	3.0
9 Agency for Management of the Public Property[b]	22.8	9.0	7.1	8.7	7.0	7.7	7.2	5.9	10.5	7.1	7.9	9.3
NET/GROSS OPERATING BALANCE (1–2)	–2,785.4	–1,161.3	–258.6	–2,306.9	296.5	–863.7	–778.4	–1,156.8	223.2	–1,151.6	766.9	339.2
3 CHANGE IN NET WORTH: TRANSACTIONS (3.1+3.2-3.3)	–2,785.4	–1,161.3	–258.6	–2,306.9	296.5	–863.7	–778.4	–1,156.8	223.2	–1,151.6	766.9	339.2
3.1 CHANGE IN NET ACQUISITION OF NON-FINANCIAL ASSETS	626.3	95.2	132.4	93.0	115.0	165.0	151.3	212.2	286.1	233.4	359.2	362.1
Acquisition	718.3	120.5	159.0	124.6	141.8	190.4	169.2	236.6	307.6	258.0	384.2	388.6
A) Budgetary central government	332.0	46.0	44.1	47.4	32.3	75.0	64.2	118.1	115.3	75.3	112.5	126.4
B) Extrabudgetary users	386.2	74.4	114.9	77.2	109.5	115.4	105.0	118.5	192.3	182.7	271.8	262.2
Disposals	91.9	25.3	26.6	31.6	26.8	25.3	18.0	24.5	21.5	24.6	25.0	26.4
A) Budgetary central government	80.2	20.2	23.3	29.2	24.0	21.6	17.4	24.2	20.3	24.2	23.2	19.9
B) Extrabudgetary users	11.7	5.1	3.3	2.5	2.8	3.7	0.6	0.3	1.2	0.3	1.8	6.5
NET LENDING/BORROWING (1-2–3.1)	–3,411.7	–1,256.4	–391.0	–2,399.9	181.4	–1,028.8	–929.6	–1,369.0	–62.9	–1,385.0	407.7	–22.9
TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES (FINANCING) (3.3–3.2)	3,411.7	1,256.4	391.0	2,399.9	–181.4	1,028.8	929.6	1,369.0	62.9	1,385.0	–407.7	22.9
3.2 CHANGE IN NET ACQUISITION OF FINANCIAL ASSETS	–4,578.4	558.3	4,592.8	–2,091.8	8,791.9	–6,090.5	–4,024.2	2,848.2	–1,083.0	–2,176.4	1,339.3	97.9
3.2.1 Domestic	–4,583.4	558.3	4,592.8	–2,092.7	8,791.9	–6,090.5	–4,024.2	2,848.2	–1,083.0	–2,176.4	1,339.3	97.5
A) Budgetary central government	–4,384.9	433.2	4,684.0	–2,215.1	8,780.9	–6,065.0	–4,056.4	2,908.5	–1,068.3	–2,085.9	1,035.2	125.8
B) Extrabudgetary users	–198.5	125.1	–91.2	122.4	11.0	–25.5	32.2	–60.3	–14.7	–90.5	304.2	–28.3
3.2.2 Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
A) Budgetary central government	5.0	0.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4
B) Extrabudgetary users	5.0	0.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4
3.2.3 Monetary gold and SDRs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.3 CHANGE IN NET INCURRENCE OF LIABILITIES	–1,166.7	1,814.7	4,983.7	308.1	8,610.5	–5,061.7	–3,094.6	4,217.2	–1,020.1	–791.4	931.7	120.7
3.3.1 Domestic	–1,094.6	1,889.9	4,923.5	315.3	124.3	–4,992.5	–2,911.3	4,254.4	–1,022.1	–736.3	689.6	199.6
A) Budgetary central government	–1,752.6	1,938.4	4,925.5	303.2	148.2	–4,990.6	–3,070.1	4,354.1	–1,044.4	–752.5	205.7	117.5
B) Extrabudgetary users	658.0	–48.6	–2.0	12.2	–23.9	–1.9	158.7	–99.7	22.3	16.2	483.9	82.1

	2011	2012										
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.
3.3.2 Foreign	–72.1	–75.2	60.2	–7.2	8,486.1	–69.1	–183.2	–37.2	2.0	–55.1	242.1	–78.9
A) Budgetary central government	–142.9	–69.9	–0.1	4.8	8,496.0	–68.9	–146.1	–31.4	2.3	–42.8	254.1	–78.3
B) Extrabudgetary users	70.7	–5.3	60.3	–12.1	–9.8	–0.3	–37.1	–5.7	–0.3	–12.3	–12.0	–0.5

[a] CM is reclassified from the subsector central government funds to the subsector public enterprises. The reclassification covers the statistical series from January 2008 onwards. [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

	2011	2012										
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.
1 REVENUE	8,928.5	8,099.4	8,425.5	8,703.8	10,200.9	8,898.9	8,576.2	10,024.1	9,671.6	8,456.5	10,240.7	9,319.5
1.1 Taxes	4,716.8	4,600.0	4,930.2	4,593.9	6,562.2	4,883.6	4,942.9	6,242.2	6,114.3	4,907.1	6,600.7	5,388.9
1.2 Social contributions	3,439.3	3,089.9	3,085.6	3,144.5	3,185.1	3,511.7	3,123.4	3,215.8	3,124.5	3,072.7	3,051.9	3,073.6
1.3 Grants	217.2	8.6	47.1	56.9	63.8	74.4	73.7	91.6	43.3	61.9	109.2	95.9
1.4 Other revenue	555.3	400.9	362.6	908.6	389.8	429.2	436.2	474.5	389.4	414.8	478.8	761.1
2 EXPENSE	11,113.8	9,509.0	8,646.2	11,188.4	10,031.3	9,836.1	9,341.2	11,340.3	9,576.9	9,670.5	9,565.4	9,118.3
2.1 Compensation of employees	2,898.4	2,644.0	2,627.9	2,602.6	2,601.4	2,621.7	2,608.8	2,893.8	2,563.9	2,587.2	2,557.5	2,511.4
2.2 Use of goods and services	1,090.2	435.7	488.0	710.9	588.1	522.4	579.8	704.9	561.2	437.4	732.1	553.5
2.3 Consumption of fixed capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.4 Interest	374.5	1,005.7	359.0	1,291.0	244.9	776.8	343.3	993.7	339.2	1,269.0	354.9	606.4
2.5 Subsidies	625.3	283.3	259.9	790.2	728.1	402.9	318.7	1,046.6	555.0	176.9	298.2	359.0
2.6 Grants	601.8	460.7	212.1	484.3	381.5	435.5	336.6	473.1	439.3	356.1	438.9	317.6
2.7 Social benefits	5,029.9	4,410.7	4,430.3	4,798.1	4,994.8	4,704.2	4,729.7	4,783.2	4,780.8	4,548.7	4,722.8	4,466.3
2.8 Other expense	493.7	269.0	268.9	511.2	492.6	372.5	424.2	445.0	337.5	295.1	461.0	304.0
3 CHANGE IN NET WORTH: TRANSACTIONS	–2,185.3	–1,409.6	–220.7	–2,484.5	169.6	–937.2	–765.0	–1,316.3	94.7	–1,214.0	675.3	201.2
3.1 Change in net acquisition of non-financial assets	251.8	25.8	20.8	18.2	8.3	53.4	46.8	93.9	95.0	51.0	89.2	106.5
3.1.1 Fixed assets	241.0	26.9	20.4	18.6	9.6	52.5	38.6	80.8	88.2	51.9	87.9	91.5
3.1.2 Inventories	0.0	0.0	0.0	0.0	0.2	–0.3	3.4	5.8	0.2	–3.8	0.0	13.8
3.1.3 Valuables	1.3	0.0	0.2	0.0	0.0	0.0	1.3	0.3	0.5	0.5	0.0	0.1
3.1.4 Non-produced assets	9.6	–1.1	0.2	–0.4	–1.5	1.2	3.5	7.0	6.1	2.4	1.3	1.0
3.2 Change in net acquisition of financial assets	–4,332.5	433.2	4,684.0	–2,194.8	8,805.5	–6,050.0	–4,028.0	2,912.5	–1,042.4	–2,060.4	1,045.9	133.9
3.2.1 Domestic	–4,337.5	433.2	4,684.0	–2,195.7	8,805.5	–6,050.0	–4,028.0	2,912.5	–1,042.4	–2,060.4	1,045.9	133.6
3.2.2 Foreign	5.0	0.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4
3.2.3 Monetary gold and SDRs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.3 Change in net incurrence of liabilities	–1,895.4	1,868.6	4,925.4	308.0	8,644.2	–5,059.5	–3,216.2	4,322.7	–1,042.1	–795.4	459.8	39.2
3.3.1 Domestic	–1,752.6	1,938.4	4,925.5	303.2	148.2	–4,990.6	–3,070.1	4,354.1	–1,044.4	–752.5	205.7	117.5
3.3.2 Foreign	–142.9	–69.9	–0.1	4.8	8,496.0	–68.9	–146.1	–31.4	2.3	–42.8	254.1	–78.3

[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

	2011	2012											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Domestic debt of central government	101,512.3	104,251.3	110,010.2	107,711.3	109,537.6	109,385.2	108,596.6	113,144.2	112,406.3	109,082.0	111,232.2	111,383.2	112,734.9
1.1 Domestic debt of the Republic of Croatia	**95,720.8**	**98,445.5**	**104,176.4**	**101,910.1**	**103,704.6**	**103,468.0**	**102,661.2**	**107,324.3**	**106,577.6**	**103,253.8**	**104,848.8**	**104,860.7**	**105,395.1**
Treasury bills	18,990.4	20,393.8	19,851.9	18,079.3	17,888.0	17,981.5	18,218.9	18,201.9	17,165.6	17,009.4	18,196.7	18,127.0	18,032.6
Money market instruments	20.6	20.6	20.6	20.6	12.1	7.4	7.4	7.4	7.4	7.4	7.4	7.4	0.0
Bonds	56,191.2	56,218.8	61,911.5	61,720.9	62,190.8	59,075.5	60,934.4	65,656.4	65,673.7	63,066.2	63,568.8	63,603.5	63,651.7
Credits from the CNB	0.8	–	–	–	–	–	–	–	0.1	–	–	–	–
Credits from banks	20,517.7	21,812.3	22,392.3	22,089.4	23,613.7	26,403.6	23,500.6	23,458.6	23,730.8	23,170.8	23,075.9	23,122.9	23,710.7
1.2 Domestic debt of central government funds	**5,791.5**	**5,805.8**	**5,833.9**	**5,801.2**	**5,833.0**	**5,917.2**	**5,935.4**	**5,820.0**	**5,828.7**	**5,828.3**	**6,383.3**	**6,522.5**	**7,339.9**
Money market instruments	–	–	–	–	–	–	–	–	–	–	–	–	–
Bonds	–	–	–	–	–	–	–	–	–	–	–	–	–
Credits from banks	5,791.5	5,805.8	5,833.9	5,801.2	5,833.0	5,917.2	5,935.4	5,820.0	5,828.7	5,828.3	6,383.3	6,522.5	7,339.9
2 External debt of central government	52,457.4	52,494.3	53,218.0	53,339.7	64,396.6	64,394.2	61,599.0	61,594.5	60,939.9	62,438.8	63,021.0	62,792.7	62,771.7
2.1 External debt of the Republic of Croatia	**50,365.2**	**50,120.1**	**50,772.3**	**50,928.6**	**61,990.3**	**61,983.9**	**59,235.8**	**59,245.1**	**58,604.1**	**60,124.1**	**60,695.0**	**60,467.0**	**60,477.6**
Money market instruments	1,189.2	1,264.1	1,163.6	2,062.7	2,535.0	2,435.1	1,997.9	1,812.5	1,595.2	1,383.9	1,312.4	1,001.3	884.3
Bonds	36,962.4	36,651.6	37,122.0	36,517.9	45,273.7	45,328.3	43,234.6	43,448.5	43,082.4	44,956.0	45,597.9	45,738.0	45,909.2
Credits	12,213.6	12,204.4	12,486.7	12,347.9	14,181.6	14,220.5	14,003.3	13,984.1	13,926.6	13,784.1	13,784.7	13,727.7	13,684.1
2.2 External debt of central government funds	**2,092.2**	**2,374.1**	**2,445.7**	**2,411.1**	**2,406.3**	**2,410.3**	**2,363.2**	**2,349.4**	**2,335.8**	**2,314.8**	**2,326.0**	**2,325.8**	**2,294.1**
Money market instruments	–	–	–	–	–	–	–	–	–	–	–	–	–
Bonds	–	–	–	–	–	–	–	–	–	–	–	–	–
Credits	2,092.2	2,374.1	2,445.7	2,411.1	2,406.3	2,410.3	2,363.2	2,349.4	2,335.8	2,314.8	2,326.0	2,325.8	2,294.1
3 Total (1+2)	153,969.6	156,745.5	163,228.2	161,051.1	173,934.2	173,779.4	170,195.6	174,738.7	173,346.2	171,520.9	174,253.2	174,175.9	175,506.6
Supplement: Central government guaranteed debt													
– guarantees for domestic debt	22,149.3	22,277.8	22,332.1	22,030.9	20,594.9	16,985.4	20,097.0	20,038.3	19,821.5	19,704.0	19,834.6	19,880.0	20,944.5
– guarantees for external debt	37,720.6	38,362.6	38,461.4	37,838.3	36,408.2	36,839.9	36,479.1	36,189.9	36,915.2	34,774.6	35,320.1	35,136.1	34,120.3

[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, 2010 = 100[a]				Chain indices				Monthly year-on-year indices			
		Consumer price indices			Industrial producer prices[b]	Consumer price indices			Industrial producer prices[b]	Consumer price indices			Industrial producer prices[b]
		Total	Goods	Services		Total	Goods	Services		Total	Goods	Services	
2003	December	81.9	82.3	79.9	78.9	100.3	100.2	100.5	100.0	101.7	101.6	102.2	101.0
2004	December	84.1	84.4	82.8	82.7	100.7	100.9	100.2	99.3	102.7	102.5	103.6	104.8
2005	December	87.2	87.3	86.2	84.5	100.5	100.5	100.5	99.7	103.6	103.5	104.1	102.7
2006	December	89.0	89.0	89.0	86.1	100.0	100.0	100.2	100.0	102.0	101.4	104.2	101.9
2007	December	94.1	94.9	91.5	91.2	101.2	101.2	101.3	100.4	105.8	106.6	103.4	105.9
2008	December	96.8	97.3	95.3	95.1	99.4	99.1	100.5	98.7	102.9	102.4	104.3	104.3
2009	December	98.7	98.6	99.0	96.6	99.4	99.3	100.2	100.0	101.9	101.3	103.9	101.6
2010	December	100.5	100.8	99.3	102.1	100.0	100.1	99.9	101.0	101.8	102.2	100.3	105.7
2011	December	102.6	103.8	98.3	108.0	99.6	99.6	99.6	99.8	102.1	103.0	98.9	105.8
2012	January	102.2	103.3	98.2	109.0	99.6	99.5	99.9	100.9	101.2	101.8	98.7	105.9
	February	102.8	104.0	98.3	111.2	100.6	100.7	100.1	102.0	101.3	102.0	98.6	106.3
	March	104.4	105.7	99.5	111.9	101.5	101.6	101.2	100.6	102.0	102.6	99.9	106.2
	April	105.2	106.7	99.7	112.5	100.8	101.0	100.2	100.6	102.6	103.3	99.9	106.2
	May	106.9	108.8	100.2	114.2	101.7	102.0	100.6	101.5	103.9	104.9	100.7	107.2
	June	106.3	107.8	100.8	113.7	99.4	99.1	100.6	99.6	103.8	104.7	100.5	107.0
	July	105.3	106.4	101.2	113.7	99.0	98.7	100.3	100.1	103.4	104.2	100.0	106.9
	August	105.9	107.1	101.3	115.4	100.5	100.6	100.1	101.5	104.0	104.9	100.5	107.8
	September	107.3	109.2	100.7	116.6	101.4	101.9	99.4	101.0	105.0	105.9	101.6	108.9
	October	107.8	109.7	101.0	116.7	100.4	100.5	100.3	100.1	104.8	105.6	102.2	108.4
	November	107.5	109.5	100.6	115.4	99.8	99.9	99.6	98.8	104.4	105.1	101.8	106.6
	December	107.4	109.4	100.2	115.4	99.9	99.9	99.7	100.0	104.7	105.5	102.0	106.9

[a] In January 2013, the Croatian Bureau of Statistics started publishing consumer price indices on a new base (2010, while the old base was 2005). Therefore, the basic indices for the period from January 1998 to December 2012 have been recalculated to a new base (2010 = 100) from January 2008. [b] On domestic market.
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, 2010 = 100			Chain indices			Year-on-year indices		
		Total	Goods	Services	Total	Goods	Services	Total	Goods	Services
2003	December	84.5	85.2	81.2	100.2	100.1	101.0	101.2	100.9	103.0
2004	December	86.5	87.0	83.6	100.1	100.1	100.4	102.3	102.2	102.9
2005	December	89.1	89.5	86.7	100.1	100.0	100.5	103.0	102.9	103.7
2006	December	91.1	91.5	88.9	99.8	99.7	100.3	102.3	102.2	102.5
2007	December	95.6	96.4	91.9	100.8	100.8	100.4	105.0	105.3	103.5
2008	December	99.6	100.2	96.5	99.4	99.3	100.2	104.2	104.0	105.0
2009	December	99.9	100.1	98.8	98.8	98.6	100.2	100.2	99.8	102.4
2010	December	99.9	100.2	98.6	99.1	99.0	99.7	100.1	100.1	99.8
2011	December	102.8	103.5	99.6	99.5	99.4	100.1	102.9	103.3	101.1
2012	January	101.9	102.3	99.7	99.1	98.8	100.1	102.0	102.2	100.9
	February	101.6	101.9	99.9	99.7	99.7	100.2	101.3	101.4	100.8
	March	102.8	103.2	100.6	101.1	101.2	100.7	101.6	101.6	101.6
	April	103.7	104.3	100.9	101.0	101.1	100.3	102.3	102.4	101.8
	May	104.3	104.8	101.8	100.6	100.5	100.9	102.1	102.1	102.0
	June	104.2	104.4	102.5	99.8	99.6	100.7	102.0	102.0	101.5
	July	103.3	103.2	103.2	99.2	98.8	100.7	101.5	101.6	100.4
	August	103.1	103.0	103.4	99.8	99.8	100.2	101.5	101.6	100.4
	September	104.2	104.5	102.6	101.0	101.5	99.2	101.9	101.8	102.2
	October	105.4	105.9	103.2	101.2	101.3	100.6	102.3	102.1	103.5
	November	105.6	106.2	102.4	100.1	100.3	99.2	102.2	102.0	102.9
	December	104.9	105.4	102.5	99.4	99.2	100.0	102.0	101.9	102.8

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 33.4% in the basket in 2012 (agricultural products 5.1 percentage points, and administrative products 28.3 percentage points) and are assigned a zero weight.

Table J3 Hedonic real estate price index

Year	Quarter	Basic indices, 2010 = 100			Year-on-year rate of change			Rate of change from the previous quarter		
		Croatia	Zagreb	Adriatic coast	Croatia	Zagreb	Adriatic coast	Croatia	Zagreb	Adriatic coast
2003		67.0	70.7	55.8	3.1	4.2	–0.8	....	....	....
2004		74.4	77.9	64.0	11.1	10.2	14.6	....	....	....
2005		82.8	85.4	74.8	11.2	9.6	16.9	....	....	....
2006		97.4	101.7	84.8	17.7	19.0	13.3	....	....	....
2007		109.1	112.6	98.9	12.0	10.7	16.7	....	....	....
2008		112.9	115.5	105.1	3.4	2.6	6.3	....	....	....
2009		108.5	109.5	105.7	–3.9	–5.3	0.5	....	....	....
2010		100.0	100.0	100.0	–7.8	–8.6	–5.4	....	....	....
2011		96.6	95.2	100.0	–3.4	–4.8	0.0	....	....	....
2012		98.2	96.8	101.0	1.6	1.7	1.0	....	....	....
2010	Q1	104.0	105.0	101.5	–4.1	–5.4	–0.1	–3.7	0.2	–13.2
	Q2	101.2	101.9	99.4	–7.6	–9.4	–2.0	–2.7	–3.0	–2.1
	Q3	96.1	95.5	97.6	–10.9	–12.9	–5.0	–5.0	–6.3	–1.8
	Q4	98.7	97.5	101.5	–8.6	–6.9	–13.2	2.7	2.1	4.0
2011	Q1	96.6	95.7	98.7	–7.1	–8.9	–2.8	–2.1	–1.9	–2.8
	Q2	96.4	93.2	103.8	–4.7	–8.5	4.5	–0.2	–2.6	5.2
	Q3	95.9	95.2	97.7	–0.2	–0.3	0.1	–0.5	2.1	–5.9
	Q4	97.6	96.6	99.8	–1.1	–1.0	–1.7	1.7	1.5	2.2
2012	Q1	101.3	100.2	103.8	4.9	4.7	5.2	3.9	3.7	4.0
	Q2	102.8	97.6	114.0	6.6	4.6	9.8	1.4	–2.6	9.8
	Q3	95.7	96.3	94.2	–0.3	1.2	–3.6	–6.9	–1.2	–17.3
	Q4	92.9	93.2	92.1	–4.8	–3.4	–7.7	–2.9	–3.2	–2.2

Table J3 Hedonic real estate price index • The Croatian National Bank started methodological work on developing a hedonic real estate price index (HREPI)[1] in 2008. By using data on realised transactions and estimates of realised transactions from the database of *Burza nekretnina* (Croatian association of real estate agencies) as input data, an econometric model was constructed to create a hedonic real estate price index (HREPI), which is methodologically consistent with the Eurosystem's Handbook on Residential Property Prices Indices[2]. From the first quarter of 1997, the HREPI is reported on a quarterly and annual basis at the level of the Republic of Croatia and two regions: the City of Zagreb and the Adriatic coast. The main idea behind the methodology used to calculate the index is that buyers determine the usefulness of a real estate based on its characteristics and therefore it is necessary to determine the prices of those characteristics (attributes), the so-called implicit prices. However, as there is no market for individual attributes of residential property, their prices are estimated by simple econometric models. After estimating prices of individual attributes, it is possible to determine a *pure price* of each real estate property, i.e. a price adjusted by the impact of individual attributes of a given real estate, such as its location, floor area, the number of rooms, etc. The movements of pure prices are directly used to calculate the HREPI. Under this methodology, such an index, in contrast with indices based on average prices or medians of a square meter of floor space, adjusts price movements for possible biases in the data caused by the fact that, for example, an unusually large number of real estate properties of above- or below-average quality have been sold in a certain period.

Table J4 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
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	December	5,493.0	95.9	100.8	101.8
2012	January	5,463.0	99.5	102.3	102.3
	February	5,363.0	98.2	102.3	102.3
	March	5,499.0	102.5	100.3	101.6
	April	5,403.0	98.3	100.1	101.3
	May	5,529.0	102.3	101.9	101.4
	June	5,492.0	99.3	99.9	101.1
	July	5,424.0	98.8	101.1	101.1
	August	5,541.0	102.2	100.5	101.0
	September	5,366.0	96.8	99.4	100.9
	October	5,487.0	102.3	101.5	100.9
	November	5,681.0	103.5	99.2	100.8
	December	5,487.0	96.6	99.9	100.7

Source: CBS.

1 The methodology used is described in detail in Kunovac, D. et al. (2008): *Use of the Hedonic Method to Calculate an Index of Real Estate Prices in Croatia*, Working Papers, W-19, CNB.

2 http://epp.eurostat.ec.europa.eu/portal/page/portal/hicp/methodology/hps/rppi_handbook

Table J5 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
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	December	–23.6	–8.9	–43.1	–31.6	–5.5	–56.5	–12.3	25.0	–41.2	–51.4
2012	January	–21.8	–5.9	–39.1	–26.8	–2.8	–54.7	–9.0	25.0	–35.7	–50.2
	February	–33.2	–15.3	–39.3	–30.4	–11.2	–56.5	–19.3	47.1	–31.1	–55.3
	March	–37.6	–23.5	–43.9	–33.6	–16.3	–58.1	–30.7	47.4	–39.9	–56.1
	April	–40.6	–26.5	–48.9	–38.2	–18.3	–63.4	–34.7	49.2	–45.2	–60.2
	May	–42.2	–29.8	–53.6	–42.2	–21.4	–65.9	–38.2	46.8	–52.8	–62.4
	June	–40.3	–26.3	–51.3	–39.2	–18.5	–64.9	–34.0	47.6	–49.7	–61.0
	July	–39.7	–25.5	–46.3	–35.7	–16.2	–62.0	–34.8	47.8	–41.2	–60.0
	August	–44.5	–31.5	–47.0	–40.1	–23.4	–63.3	–39.5	55.3	–37.7	–59.7
	September	–45.1	–32.1	–48.8	–41.4	–23.6	–64.1	–40.6	59.0	–40.8	–57.1
	October	–46.9	–31.0	–48.7	–41.8	–23.9	–60.8	–38.1	61.2	–43.6	–64.3
	November	–47.4	–35.3	–50.3	–39.9	–26.9	–67.6	–43.6	59.7	–43.3	–59.5
	December	–47.1	–33.5	–52.6	–42.1	–23.1	–71.4	–43.9	59.1	–44.2	–62.3

Sources: Ipsos Puls and CNB.

Table J5 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

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