



Information on economic trends

September 2022

Summary

Real economic activity continued to grow strongly on a quarterly level in the second quarter of 2022, albeit at a somewhat slower pace than at the beginning of the year. Nevertheless, the annual growth rate of real GDP accelerated, owing to the low level of economic activity in the same quarter of 2021. Favourable developments were mostly supported by extremely good results in tourism, as well as by a faster growth of personal consumption. The GDP nowcasting model, based mainly on data available for July, which is subject to risks, suggests that real economic activity in the third quarter might remain at the previous quarter's level, amid pronounced uncertainty as to whether this level could be maintained until the end of the quarter. Employment growth in July and August slowed down from the average level in the previous quarter and real wages continued to fall in July. At the same time, consumer price inflation continued to accelerate, though at a slower pace than in the first half of the year, reaching 12.3% in July, due, among others, to a fall in the prices of refined petroleum products. The adjustment of monetary policy instruments in the process of accession to the euro area increased the already ample kuna liquidity of banks, which lessened the impact of global financing conditions tightening on domestic interest rates growth. Corporate loans continued to grow strongly in July, particularly in activities related to the manufacture and distribution of energy. Placements to households, particularly housing loans, also grew, although at a slower pace. Public finances continued to improve in the first half of the year, mirroring fast revenue growth associated with favourable cyclical developments in the economy and an increase in the general level of prices.

According to the first results of the CBS, economic activity in the second quarter of 2022 rose sharply on a quarterly level, although at a somewhat slower pace than in the previous three months. Economic growth was mostly supported by a fast growth in exports, particularly exports of services, driven by the extremely good performance in tourism at the beginning of the tourist season. The growth in personal and government consumption accelerated. By contrast, gross fixed capital formation fell from the high growth rates in the first quarter of the year. The strengthening of domestic and foreign demand resulted in a further noticeable growth in goods and services imports, nevertheless, the annual contribution of net exports was positive. Observed on an annual level, real GDP rose by 7.7% during the April to June period from the same time the year before.

Amid the decline in industrial production and slower retail growth in July, the GDP nowcasting model points to a stagnation in economic activity at the beginning of the third quarter (Figure 1). Thus, in July, industrial production fell by 1.0% from the previous quarter's average, and by 1.9% from June. If observed according to the main industrial groupings, the decline in industrial production is mostly due to a fall in the production of intermediate goods followed by the fall in the production of non-durable consumer goods. By contrast, the production of energy rose sharply and the production of capital goods and durable consumer goods also accelerated (Figures 3 and 4). The growth in real retail trade turnover slowed down at the start of the third quarter, having risen 0.3% from the previous quarter average and after rising by 2.6% in the second quarter (Figure 7). If observed on a monthly level, it rose by 0.2% in July, after having fallen 1.0% in June. According to the CBS report, the retail trade turnover in non-food products (except trade in motor fuels and lubricants) rose by 3.9%, while the retail trade turnover in food products fell 2.9%. Construction activity rose in the second quarter by 1.2% from the previous three months, with the volume of construction works rising by 2.5% and the volume of civil engineering works falling 1.5% (Figure 5). If observed on a monthly level, the volume of construction works rose by 0.3% in June, following stagnation in May (Figure 6).

Consumer Confidence Survey data show that consumer expectations, despite a slow recovery in August, remained at a much lower level than in the second quarter, and were close to the levels recorded at the beginning of the pandemic. Detailed data broken down by index components show that the deterioration in consumer optimism mostly mirrors unfavourable

expectations regarding the financial situation in households and the overall economic situation in Croatia over the next year. By contrast, in July and August, business confidence in all activities continued to be above their long-term average. Confidence in trade and service activities improved on a quarterly level. Business expectations in construction did not change from the second quarter, while the expectations of business entities in industry deteriorated (Figure 8). On a monthly level, optimism worsened in all activities in August, except in construction where it held steady. A month earlier, in July, expectations in trade and service activities improved, while those in industry and construction worsened.

As regards the labour market, observed on a monthly level, the total seasonally adjusted number of employed persons in July held steady at the June level but rose slightly in August relative to July (0.2%). As a result, employment growth in July and August slowed down to 0.4% from the average level in the second quarter when it accelerated by 0.6%. On an annual level, employment in July and August was up 2.4% from the same period of the previous year (Figure 15). In July, the seasonally adjusted administrative unemployment rate remained at the previous quarter level and stood at 6.9%, while the job vacancy rate fell to 1.15% from 1.28% in the second quarter (Figure 16). The growth in nominal wages slowed down early in the third quarter with the gross wage in July being 1.3% higher than in the previous three months when it stood at 2.8%. Wages in the private and public sectors grew at almost the same rate (Figure 17). The quarterly fall in real gross wages, which started in the second half of 2021 due to rising prices, slowed down at the start of the third quarter and came to 1.2% (1.6% in the previous quarter).

Inflation accelerated further in July, although at a much slower pace than in the first half of the year. The annual rate of inflation (measured by the national index of consumer prices, CPI) thus rose from 12.1% in June to 12.3% in July 2022, mostly driven by food prices, particularly the prices of processed food products (Figure 19). There was a particularly big increase in the prices of milk, cheese and eggs and meat preparations, mirroring further pass-through of the earlier increase in energy prices, food products and mineral fertilisers on global markets on imported and domestic food prices. The contribution of the prices of cigarettes also rose in July. The contribution of services prices to overall inflation increased, mostly as a result of higher prices of services in tourism (such as catering services, package holidays and passenger air transport) and refuse collection

services. By contrast, inflation growth was mitigated by a fall in the contribution of industrial products, particularly clothing and footwear, the seasonal prices of which dropped more than in the previous year. The contribution of energy prices was also smaller, owing to a fall in the prices of refined petroleum products in July this year and the effect of the base period (the increase in energy prices in the same period of the year before). The average price of a barrel of crude oil (in US dollars) fell in July 2022 by 9% from June, as a result of the poorer outlook for the recovery of the global economy (Figure 20). Since energy prices are not included in the calculation of core inflation, its annual growth rate was faster than that of overall inflation, having risen from 11.3% in June to 12.0% in July (Table 1). Furthermore, inflation measured by the harmonised index of consumer prices (HICP) accelerated in July to 12.7% from 12.1% in June, exceeding that in the euro area (8.9% in July) by 3.8 percentage points. At the same time, inflation measured by the HICP, excluding the prices of energy, food, alcoholic beverages and tobacco accelerated in Croatia from 8.4% in June to 9.1% in July, 5.1 percentage point higher than that in the euro area (4.0%). After a small slowdown in June, the annual growth in producer prices on the domestic market picked up again in July to 31.2%. Energy excluded, the annual growth in producer prices rose from 9.9% in June to 10.5% in July.

On a quarterly level, the trend of fast growth in foreign trade in goods continued into April and May, largely driven by growing prices of energy and other raw materials on the global market. Thus, total goods exports in April and May rose 6.8% from the previous quarter's average (Figure 10) as a result of bigger exports of energy products (particularly natural and manufactured gas) and to a lesser extent, capital goods (particularly electrical machinery, apparatus and equipment), food products and metal industry products. At the same time, the growth in total goods imports was somewhat faster and amounted to 9.4% (Figure 11) due to bigger imports of energy products (particularly electricity), metal and textile industry products, food products and capital goods. If trade in energy products, which had a big impact on total developments, is excluded, goods exports growth was somewhat slower (4.6%), while imports dropped by a noticeable 7.5%. In line with the described developments, the total foreign trade deficit widened by a considerable 13.9% (Figure 13), while the deficit, with the effect of trade in energy products excluded, narrowed by a high 27.0%. First data for June 2022 suggest a faster growth in total goods exports and a somewhat slower imports growth. Thus, total goods exports in the second quarter rose by 7.7%, total goods imports by 8.6% and the deficit by 10.8% from the average in the first three months of the year.

Small appreciation pressures on the domestic currency continued into August, mostly driven by a good tourist season and higher supply of foreign exchange. Thus, the nominal exchange rate of the kuna against the euro stood at EUR/HRK 7.50 at the end of the month (Figure 22), having appreciated 0.1% from the previous month. Compared to the same period of last year, the exchange rate of the kuna against the euro was up 0.3%. Occasional increased corporate demand for foreign exchange, particularly in the energy sector due to higher prices of raw materials and energy products, helped ease the appreciation pressures during the summer. Also, participation in the ERM II and the expected introduction of the euro further anchored market expectations and eliminated the need for CNB interventions in the foreign exchange market. In addition to strengthening slightly against the euro, in August, the kuna also strengthened against most other currencies included in the basket for the calculation of effective exchange rates, which was partly offset by

kuna's weakening against the US dollar, mirroring the dollar's strengthening against the euro in the international foreign exchange market. As a result, the nominal effective exchange rate of the kuna was down 0.2% towards the end of August from the end of the previous month.¹

Towards the end of July and in mid-September, the ECB raised key interest rates by 50 and 75 basis points, respectively, the first increase in the past 11 years undertaken to bring inflation back to its medium-term target level of 2%. This had an immediate impact on short-term interest rates on the European money market, with the euro short-term interest rate €STR rising 50 basis points to -0.09% at the end of July, where it held steady until end-August, i.e. until it was raised in mid-September (Figure 26). The six-month EURIBOR continued to rise, reaching 1.20% at the end of August, its highest level since 2012. The yields on US and German government bonds rose in July and August (Figure 25) as a result of higher inflationary pressures and the associated monetary policy tightening of central banks and concerns regarding growing risks of a recession and an energy crisis. By contrast, the yields on long-term Croatian government bonds fell during that period (Figure 30). The risk premiums of peer Central and Eastern Europe countries were higher at the end of August than at the end of June, with the exception of Croatia, the risk premium of which narrowed slightly to 103 basis points (Figure 27). Risk premiums for Bulgaria, Romania, Poland and Hungary rose the most, at the end of August exceeding the risk premium for Croatia.

Free reserves of banks rose considerably in August 2022, after having fallen slightly in July. Thus the average daily surplus kuna liquidity of the domestic banking system was HRK 78.9bn in August (Figure 61), having risen from HRK 69.4bn in July. This is due to the gradual adjustment of monetary policy instruments of the CNB to ECB instruments of the same nature in the process of accession to the euro area. In June 2022, the CNB adopted the Decision amending the Decision on reserve requirements, cutting the reserve requirement rate from 9% to 5% in August and then to 1% in December. As a result, the part of reserve requirements allocated in kuna fell by HRK 14.7bn in August, which led to an increase in surplus kuna liquidity of the domestic banking system. In July, the CNB also adopted the Decision on amendments to the Decision on the minimum required amount of foreign currency claims, phasing in a revocation of the maintenance of foreign currency liabilities by foreign currency claims; as of August 2022 the minimum maintenance percentage has been reduced from 17% to 8.5% and as of December 2022 the obligation will be fully revoked. Amid conditions of ample kuna liquidity, the volume of trading on the overnight money market continued to be relatively modest. Nevertheless, overnight interest rates rose, particularly in banks' trading in currency swap agreements (Figure 29), which reflects the increase in the euro short-term interest rate towards the end of July as well as changes in the expectations of market participants regarding a gradual depreciation of the exchange rate of the kuna against the euro in the remaining part of the year. As regards the costs of government financing, the interest rate on one-year kuna T-bills of the Ministry of Finance held steady at 0.20% in August (Figure 30) while the costs of long-term government financing fell from June.

The tightening of financing conditions has not yet started to make any very considerable impact on bank interest rates. The interest rate on pure new corporate loans rose by 23 basis points

¹ The exchange rate of the Russian rouble was fixed until further notice at the level of the last available ECB reference rate on 1 March, thus excluding the effect of this currency's pronounced volatility in the international foreign exchange market on effective exchange rates of the kuna.

to 1.92% in July (Figure 34), mostly fuelled by the increase in interest rates on loans to large enterprises (Figure 37). The cost of corporate financing on an annual level fell by 19 basis points (Figure 35), mostly as a result of the negative annual contribution of interest rates on loans for working capital (–9 basis points). As regards households, the interest rate on pure new loans to that sector rose by 30 basis points to 3.86% in July (Figure 38), reflecting primarily the increase in the interest rate on housing loans, mostly due to a somewhat smaller volume of subsidised housing loans than in June. The costs of household financing on an annual level dropped by 20 basis points (Figure 39), mostly driven by a fall in interest rates on general-purpose cash loans (–13 basis points). As for deposits, the interest rate on household time deposits remained almost unchanged, in contrast with the interest rate on corporate deposits, which rose considerably, particularly that on short-term foreign currency deposits (Figures 41 and 42), but this can largely be attributed to a deposit made by a large enterprise at a higher-than-average interest rate on corporate deposits. The spread between interest rates on total new loans and deposits and on their balance in July fell only slightly, to 3.3 basis points and 3.4 basis points respectively.

Monetary developments in July were marked by thus far the highest absolute monthly increase in total liquid assets (HRK 13.4bn, transaction-based), primarily mirroring the increase in net foreign assets (NFA) of credit institutions and to a lesser extent, the increase in net domestic assets (NDA) of the monetary system (Figure 45). The increase in NDA mirrors a fast growth in placements to domestic sectors, most notably non-financial corporations. Net claims on the central government also rose, which can be attributed to the purchase by banks of the RC bond issued in July. Money (M1) also rose sharply in July (HRK 7.2bn or 3.6%, transaction-based), primarily reflecting the increase in demand deposits of non-financial corporations and a slightly slower growth in household demand deposits, while the demand for currency dropped. Quasi-money rose by HRK 6.3bn or 2.8% (transaction-based), mostly attributable to a fast growth in the foreign currency deposits of all domestic sectors (Figure 59). Observed on an annual level, total deposits rose by 12.4% (transaction-based), with both corporate and household deposits rising sharply (22.7% and 8.9%, respectively), resulting from the very good performance in tourism, increased liquidity needs of enterprises in the energy sector, which may be associated with a pronounced increase in energy prices, and a considerable recapitalisation of one enterprise in June this year. As regards the annual changes in monetary aggregates, the growth in M4 continued to accelerate (from 9.9% in June to 10.5% in July), while the growth in M1, due to a bigger monthly increase in July of the previous year (the effect of the base period), slowed down from 13.0% to 11.7% (Figures 55 and 56).

Total placements of monetary institutions to domestic sectors (except the central government) rose sharply in July from June (by HRK 4.1bn or 1.6%, transaction-based), with their annual growth rate accelerating from 7.9% in June to 8.9% in July (Figure 47). This growth can largely be attributed to loans, which rose by HRK 3.8bn or 1.5% on an annual level (transaction-based). Broken down by sectors, corporate placements rose the most (HRK 2.8bn), of which some HRK 2.0bn can be accounted for by loans to a smaller number of electricity and gaseous fuel distribution companies. As a result, the annual growth in corporate placements accelerated considerably from 13.0% in June to 16.4% in July (Figure 48). Household placements also continued to grow in July (HRK 1.2bn), mostly reflecting the growth in housing loans (HRK 1.0bn), spurred by government housing loan subsidies, while general-purpose cash loans rose

only slightly (HRK 0.2bn). Despite a relatively fast growth in housing loans in July, their annual growth slowed down from 9.5% in June to 9.3% in July, due to the effect of the base period. The growth rate of general-purpose cash loans stagnated for the second month in a row, standing at the May level of 3.6%, with the annual growth rate of total household placements decelerating slightly from 5.6% to 5.5% (Figure 49). As regards the currency structure, the share of kuna placements in total household placements continued to fall steadily from October last year, standing at 52.1% at the end of July (Figure 54).

Gross international reserves rose in August by EUR 0.4bn or 1.5% from July and came to 25.9bn (Figure 63) at the end of the month. The increase in the reserves on a monthly level mostly reflected the increase in government foreign currency deposits with the CNB and a higher level of agreed repo transactions. At the same time, in August, net usable reserves remained at almost the same level as in July (EUR 20.7bn). Gross international reserves rose by EUR 1.9bn or 7.8% and net reserves by EUR 1.2bn or 6.2%.

Following growth in the first quarter, net external debt fell by a noticeable EUR 1.6bn in the second quarter of 2022 (Figure 67). The net external position of banks improved the most owing to a considerable increase in their foreign assets, followed by the central bank, whose external position improved mostly as a result of an increase in the bank funds within the TARGET2 system, and to a lesser extent, due to a growth in international reserves. In addition, net government liabilities also fell slightly, while unfavourable developments were recorded only in other domestic sectors whose net external position deteriorated as a result of a rise in debt liabilities to affiliated creditors abroad. At the end of June 2022, gross external debt reached EUR 46.7bn (Figure 69), having risen EUR 1.1bn from the end of March 2022. This was mostly due to the increase in the amount of repo transactions, which only increase the gross external debt of the central bank while their impact on developments in net external debt is neutral because they simultaneously raise international reserves by the same amount.

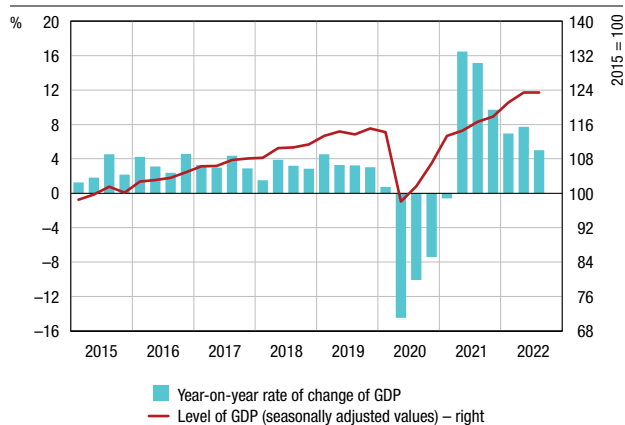
The consolidated general government deficit according to the ESA 2010 methodology stood at HRK 1.3bn in the first quarter of 2022, having improved by HRK 2.7bn on an annual level. The decline in the budget deficit reflects a growth in revenues (4.3%) and a fall in expenditures (1.5%). On the revenue side, revenues from indirect taxes rose noticeably, largely fuelled by growth in personal consumption and consumer prices. In addition, favourable developments in the labour market resulted in a growth of revenues from social contributions and income taxes, while the recovery in economic activity had a favourable impact on revenues from profit tax. Other current and capital revenues moved in the opposite direction, largely as a result of a fall in transfers from EU funds. The fall in total budget expenditures was mostly due to expenditures on subsidies, largely reflecting a more favourable epidemiological situation and the ensuing fall in government job preservation support. By contrast, expenditures for intermediate consumption, social and employment benefits rose slightly on an annual level.

According to the Ministry of Finance data², favourable fiscal developments continued into April to July. Thus, the central

2 The budget balance and total revenues and expenditures refer to monthly data for the central government, state government and social security sub-sectors, the publication of which by the Ministry of Finance before the end of the following calendar month is required under Council Directive 2011/85/EU. The published data refer to general government units according to the scope of the ESA 2010 statistical methodology, except for data for local government, which are published on a quarterly basis. Individual income and expenditure items are based on the data on the state budget recorded on an accrual basis.

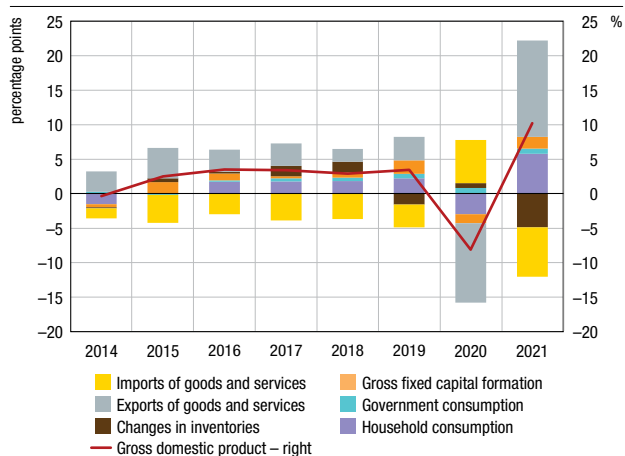
government generated a surplus of HRK 0.6bn, improving the budget deficit by HRK 7.4bn from the same period of the year before. This reflects a sharp rise in revenues and a small fall in expenditures, with growth in the main categories of tax revenues (contributions included) accelerating further, as shown by detailed data for the second quarter.

Figure 1 Quarterly gross domestic product
seasonally adjusted real values



Note: Data for the third quarter of 2022 refers to the CNB's monthly indicator of real economic activity, estimated on the basis of data published until 1 September 2022.
Sources: CBS data seasonally adjusted by the CNB and CNB calculations.

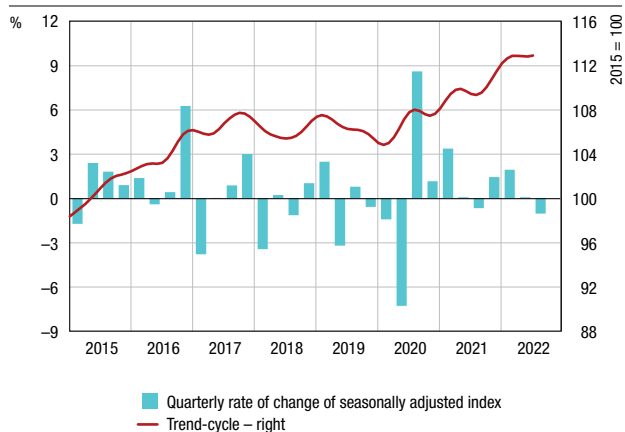
Figure 2 GDP rate of change
contributions by components



Source: CBS.

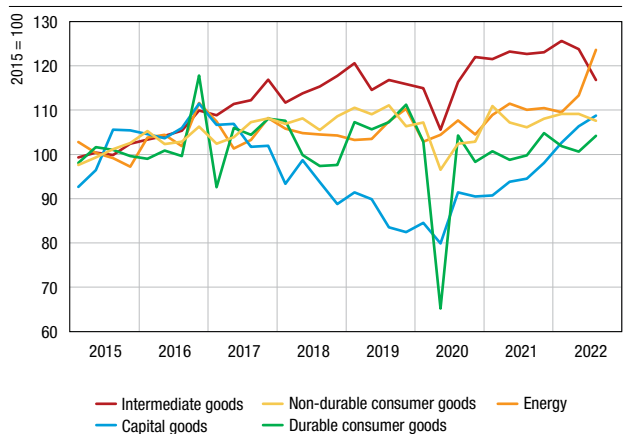
As regards trends in the general government debt, at the end of May, it stood at HRK 343.9bn, having risen by HRK 0.4bn from the end of 2021 (Table 5) while the relative public debt to GDP ratio decreased considerably to 74.2% from 79.8% at the end of 2021, reflecting a favourable impact of the growth in economic activity (Figure 70).

Figure 3 Industrial production



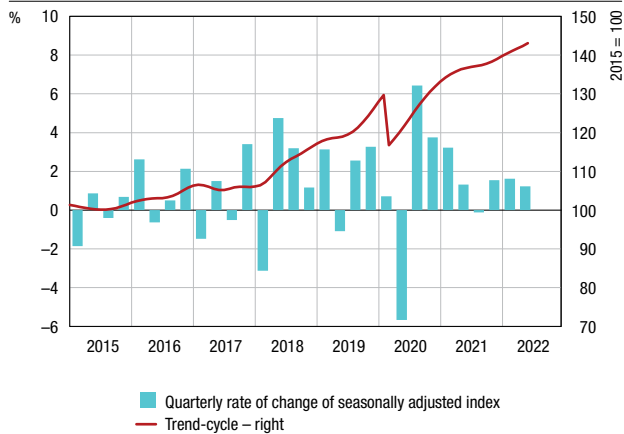
Note: Data for the third quarter of 2022 refers to July.
Source: CBS data seasonally adjusted by the CNB.

Figure 4 Industrial production by main industrial groupings
seasonally adjusted indices



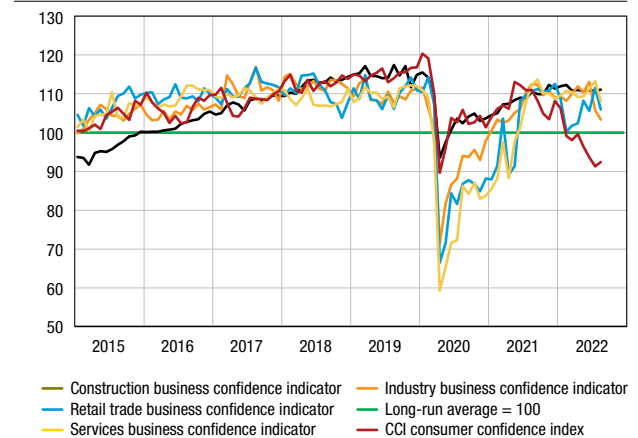
Source: CBS data seasonally adjusted by the CNB.

Figure 5 Total volume of construction works



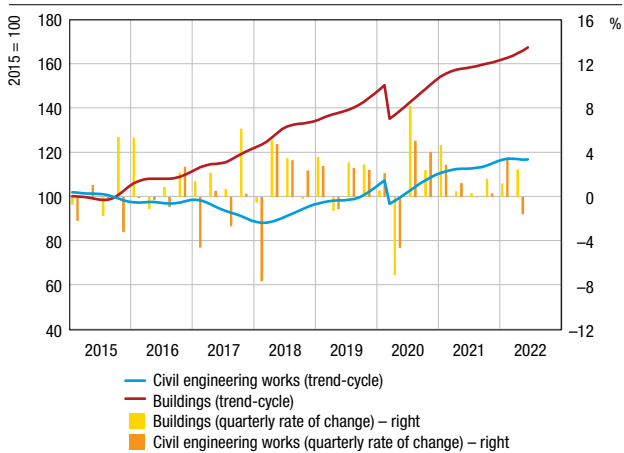
Source: CBS data seasonally adjusted by the CNB.

Figure 8 Consumer and business confidence indicators standardised and seasonally adjusted values



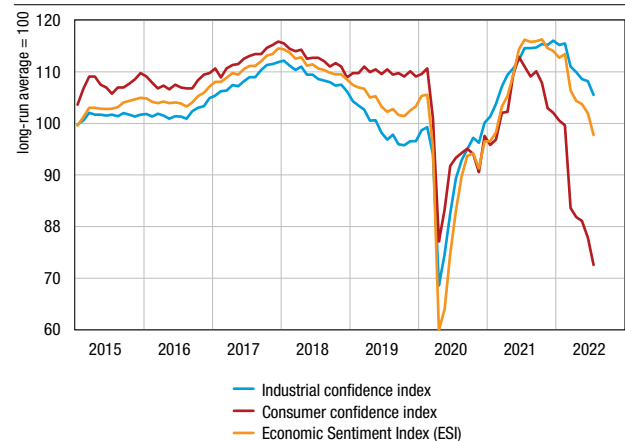
Sources: Ipsos and CNB data seasonally adjusted by the CNB.

Figure 6 Buildings and civil engineering works



Source: CBS data seasonally adjusted by the CNB.

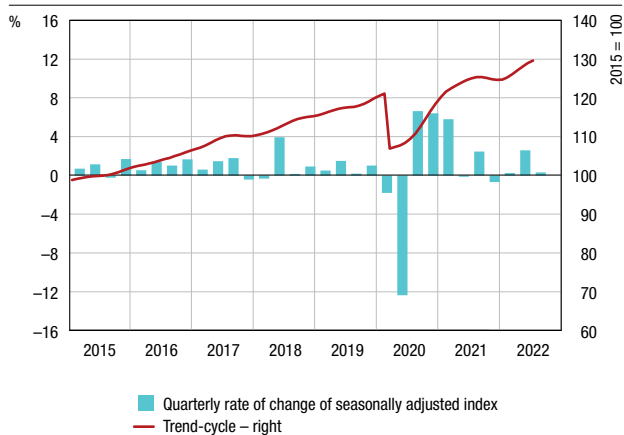
Figure 9 EU confidence indices seasonally adjusted series



Note: Data are up to July 2022.

Sources: Eurostat and CNB calculations.

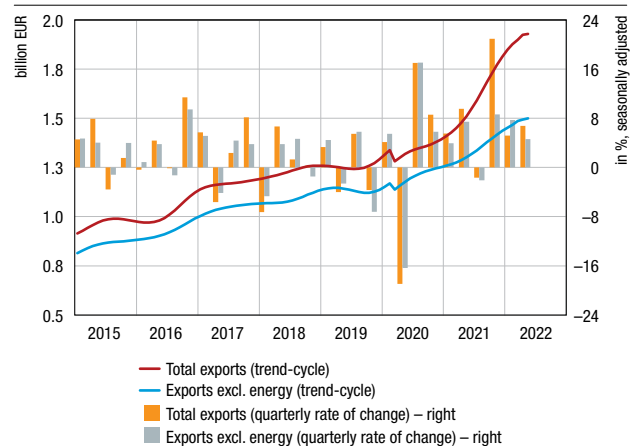
Figure 7 Real retail trade turnover



Note: Data for the third quarter of 2022 refers to July.

Source: CBS data seasonally adjusted by the CNB.

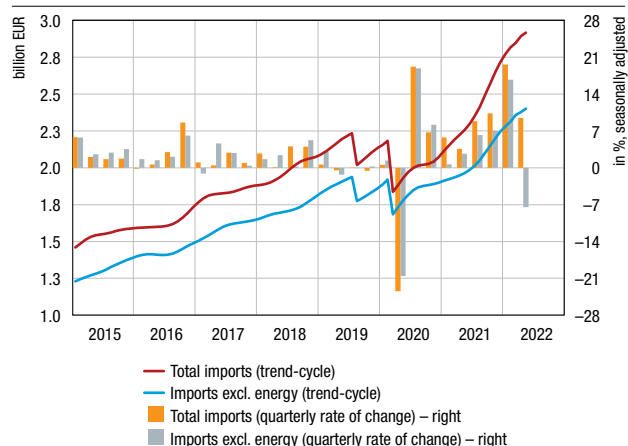
Figure 10 Goods exports (f.o.b.)



Note: Data for the second quarter of 2022 refer to April and May.

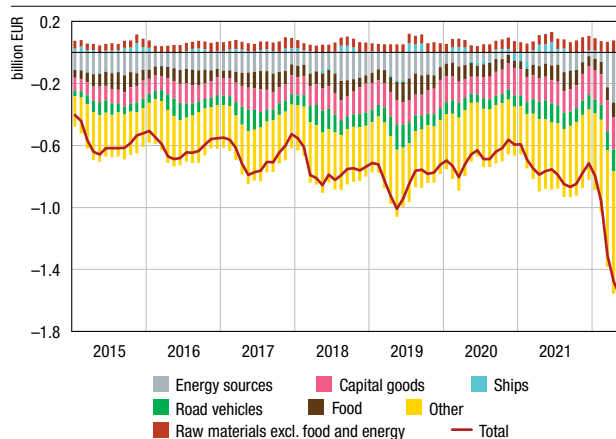
Source: CBS data seasonally adjusted by the CNB.

Figure 11 Goods imports (c.i.f.)



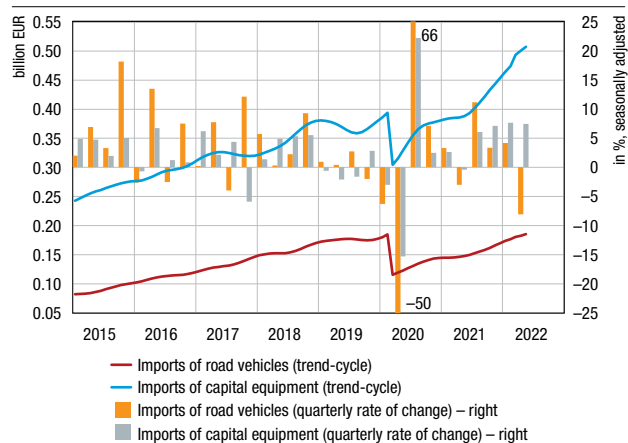
Note: Data for the second quarter of 2022 refer to April and May.
Source: CBS data seasonally adjusted by the CNB.

Figure 14 Trade in goods balance by product groups



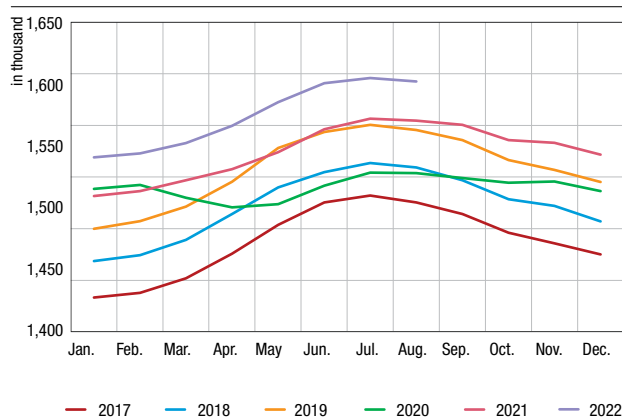
Notes: Data are up to May 2022. Series are shown as three-member moving averages of monthly data.
Source: CBS.

Figure 12 Imports of capital equipment and road vehicles (c.i.f.)



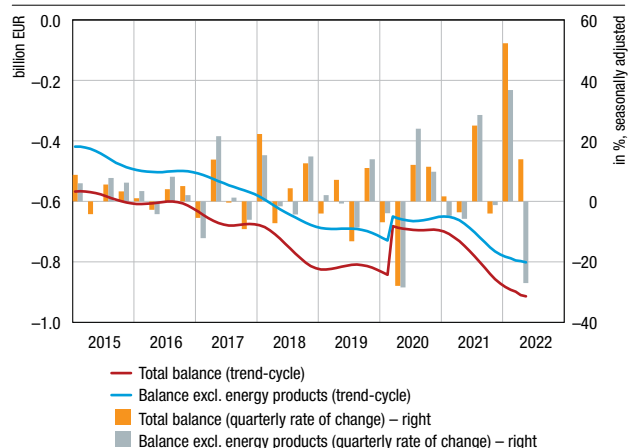
Notes: Imports of capital equipment (SITC divisions 71 – 77).
Data for the second quarter of 2022 refer to April and May.
Source: CBS data seasonally adjusted by the CNB.

Figure 15 Employment original data



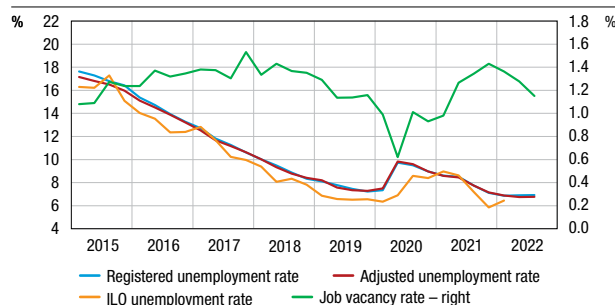
Source: CPII.

Figure 13 Trade of goods balance



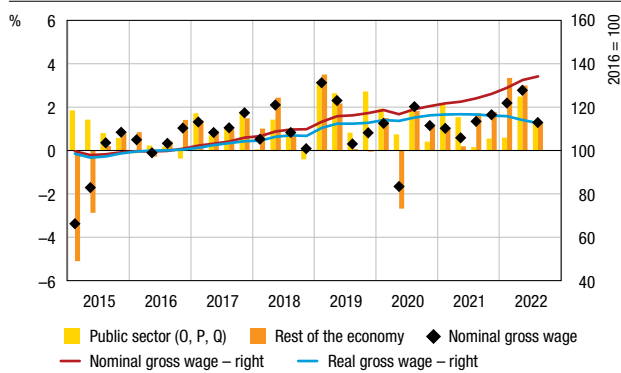
Note: Data for the second quarter of 2022 refer to April and May.
Source: CBS data seasonally adjusted by the CNB.

Figure 16 Unemployment and job vacancy rates seasonally adjusted data



Notes: Since January 2015, the calculation of the registered unemployment rate has used the data on employed persons from the JOPPD form. Data on the number of employed persons have been revised backwards for the period from January 2016 to December 2019. The adjusted unemployment rate is the CNB estimate and is calculated as the share of the number of registered unemployed persons in the working age population (unemployed persons and persons insured with the CPII). The job vacancy rate is calculated as the share of total posts that are vacant in the total demand for labour (the sum of the number of persons insured with the CPII and vacant posts). Data for the third quarter of 2022 refer to July.
Sources: CBS, CES and CNB calculations (seasonally adjusted by the CNB).

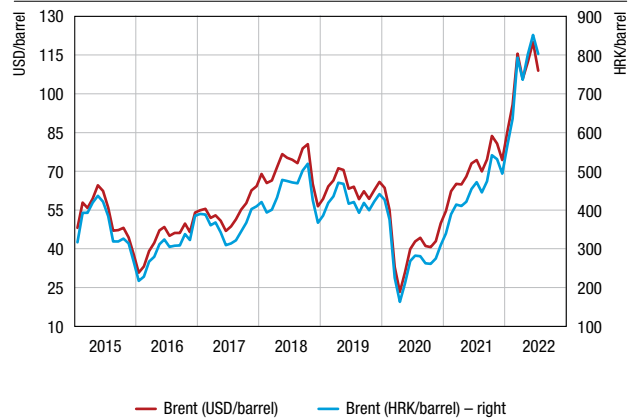
Figure 17 Average nominal and real gross wage by NCA activities
seasonally adjusted data



Notes: Data on the average nominal gross wage by activity refer to data from the RAD-1 form, and from January 2016 to data from the JOPPD form. Data on average wages paid in February 2020 were reported in full-time equivalent. Data on wages in 2019 reported in full-time equivalent were released for analytical purposes. Data for the third quarter of 2022 refer to July.

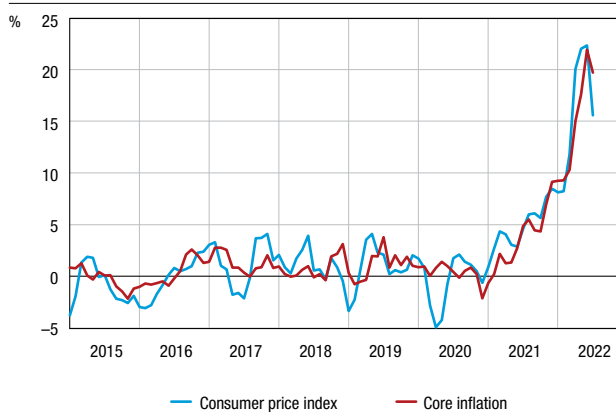
Sources: CBS and CNB calculations.

Figure 20 Crude oil prices (Brent)



Sources: Bloomberg and CNB calculations.

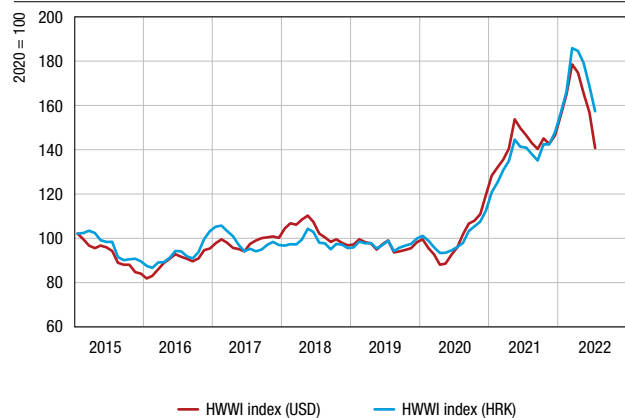
Figure 18 Consumer price index and core inflation
annualised month-on-month rate of change^a



^a The month-on-month rate of change is calculated based on the quarterly moving average of seasonally adjusted consumer price indices.

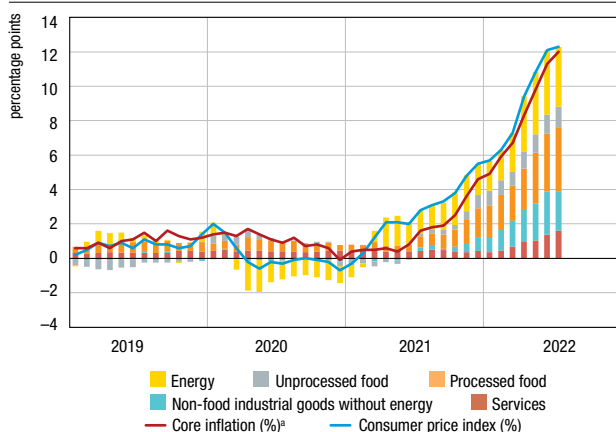
Sources: CBS and CNB calculations.

Figure 21 HWWI index (excl. energy)



Sources: HWWI and CNB calculations.

Figure 19 Year-on-year inflation rate and contributions of components to consumer price inflation



^a Core inflation does not include agricultural product prices, energy prices and administered prices.

Sources: CBS and CNB calculations.

Table 1 Price indicators

year-on-year and month-on-month rates of change

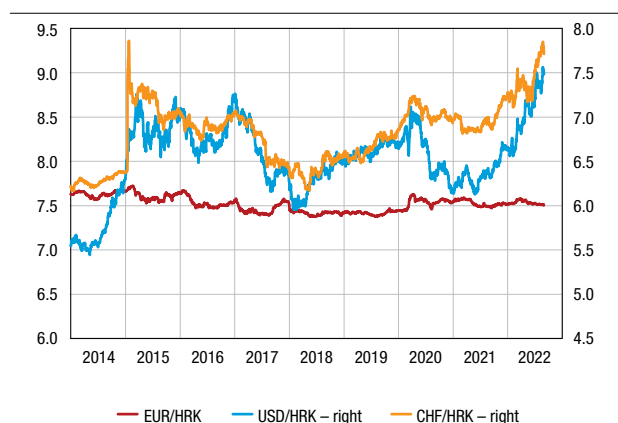
	Year-on-year rates		Month-on-month rates	
	6/22	7/22	7/21	7/22
Consumer price index and its components				
Total index	12.1	12.3	0.2	0.4
Energy	22.2	20.6	1.3	0.0
Unprocessed food	12.9	14.2	-0.4	0.8
Processed food	14.9	16.4	1.4	2.6
Non-food industrial goods without energy	9.6	8.9	-1.9	-2.5
Services	5.3	6.1	0.8	1.6
Other price indicators				
Core inflation	11.3	12.0	0.1	0.6
Index of industrial producer prices on the domestic market	30.8	31.2	1.5	1.8
Brent crude oil price (USD)	64.3	46.4	1.8	-9.3
HWWI index (excl. energy, USD)	4.6	-4.0	-2.1	-10.2

Note: Processed food includes alcoholic beverages and tobacco.

Sources: CBS, Bloomberg and HWWI.

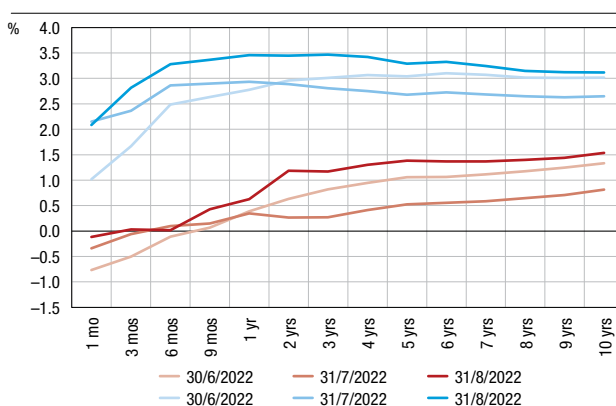
Figure 22 Daily nominal exchange rate – HRK vs. EUR, USD and CHF

CNB midpoint exchange rate



Source: CNB.

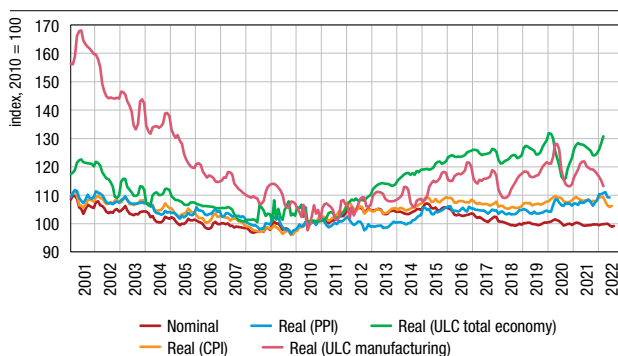
Figure 25 Yields to maturity on US government and German government bonds



Notes: Blue denotes yields on US bonds and red yields on German bonds. The first four labels on the individual dates refer to monthly yields and the remaining ones refer to annual yields. The yields on US government bonds with a remaining maturity of nine months are interpolated.

Source: Bloomberg.

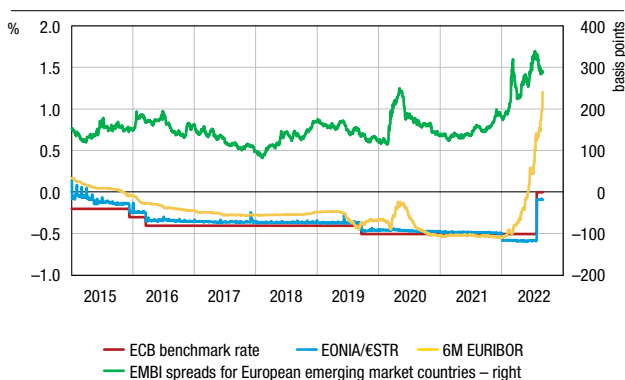
Figure 23 Nominal and real effective exchange rates of the kuna



Notes: The real effective exchange rate of the kuna deflated by producer prices includes the Croatian index of industrial producer prices on the total market. The unit labour cost is calculated as the ratio between compensation per employee and labour productivity (defined as GDP per person employed), while the real effective exchange rate of the kuna deflated by unit labour costs is the result of the interpolation of quarterly values. A fall in the index indicates an effective appreciation of the kuna.

Source: CNB.

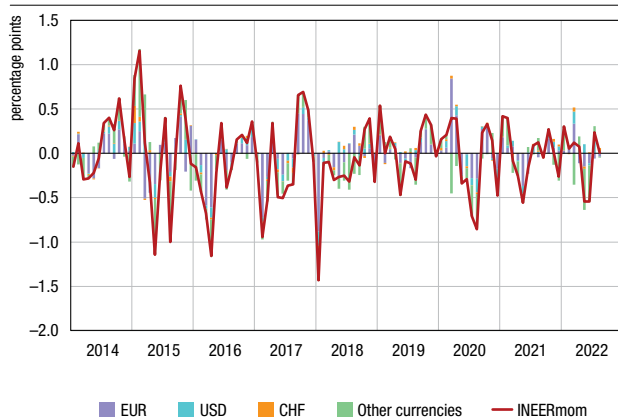
Figure 26 Interest rates on the euro and the average yield spread on bonds of European emerging market countries



Notes: EMBI, or the Emerging Market Bond Index, shows the spread between yields on government securities of emerging market economies, Croatia included, and risk-free securities issued by developed countries. Since the start of 2022, the EONIA has been replaced by €STR.

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

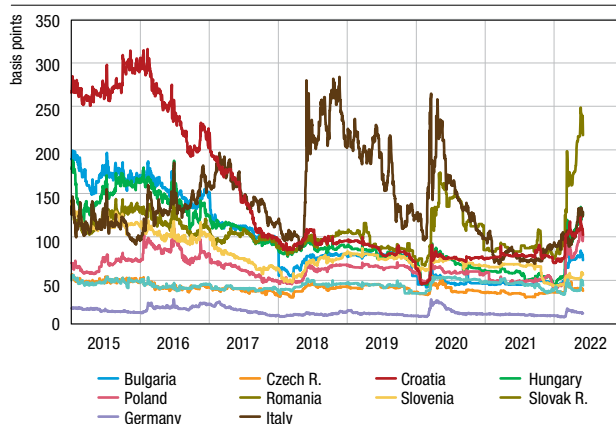
Figure 24 Contributions^a of individual currencies to the monthly rate of change of the average index of the nominal effective kuna exchange rate (INEER)



^a Negative values indicate contributions to the appreciation of the INEER.

Source: CNB.

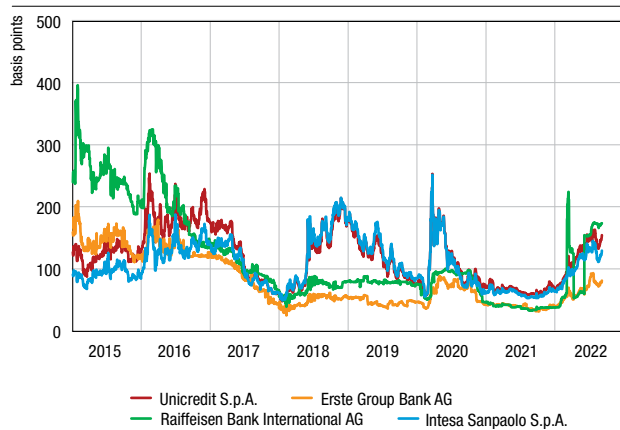
Figure 27 CDS spreads for 5-year government bonds of selected countries



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

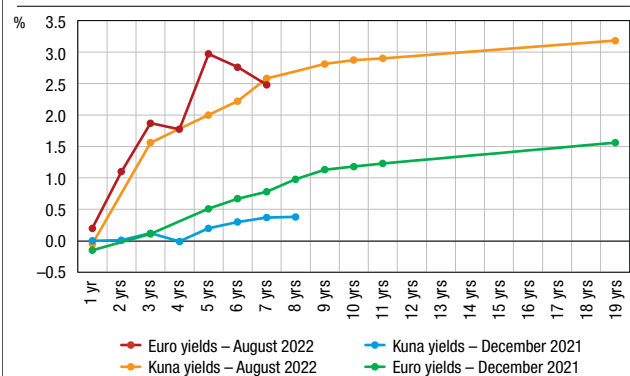
Source: S&P Capital IQ.

Figure 28 CDS spreads for selected parent banks of domestic banks



Source: S&P Capital IQ.

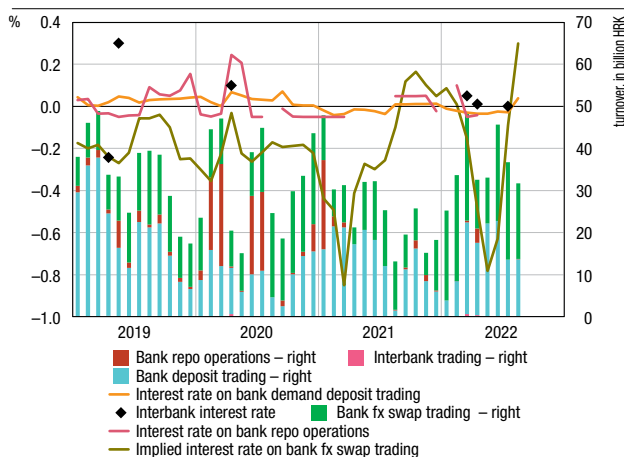
Figure 31 Yields to maturity on RC bonds



Notes: The dots show the achieved yields, while other values have been interpolated. Data for a one-year yield refer to the achieved interest rate on one-year T-bills without a currency clause and with a currency clause in the euro. The yield on one-year T-bills without a currency clause at end-2021 refers to November. The yield on one-year T-bills with a currency clause in euro refers to October 2021 and May 2022.

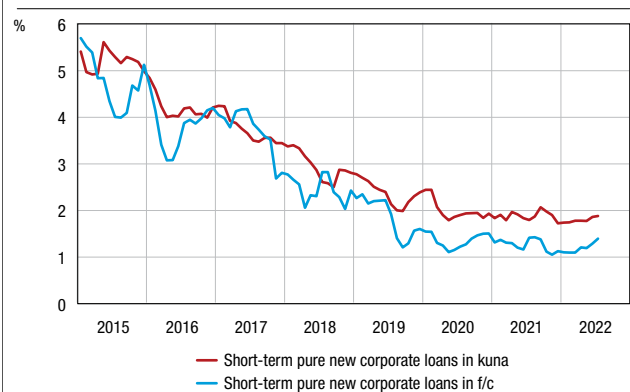
Source: CNB.

Figure 29 Overnight interest rates and turnovers



Source: CNB.

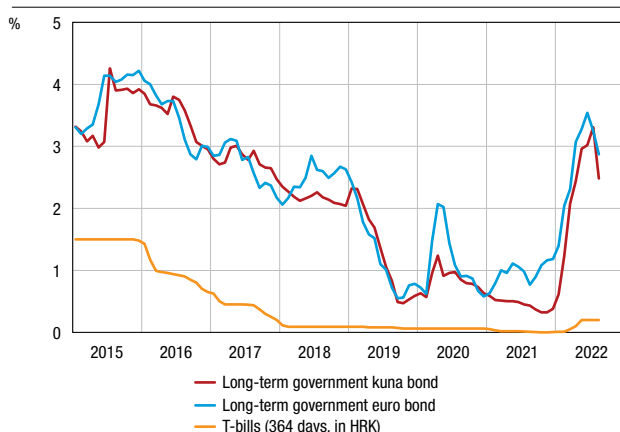
Figure 32 Short-term financing costs



Notes: Quarterly weighted moving averages. Foreign currency loans also include kuna loans with a currency clause. Interest rates on short-term pure new household loans are not shown because they account for a very small share of total pure new household loans.

Source: CNB.

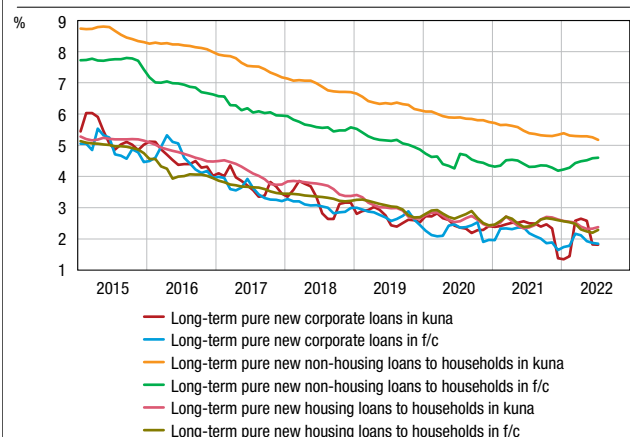
Figure 30 Yields on T-bills and bonds of the Republic of Croatia



Note: Yields on long-term bonds refer to bonds with a remaining maturity of ten years, i.e. to bonds of the most similar maturity.

Source: CNB.

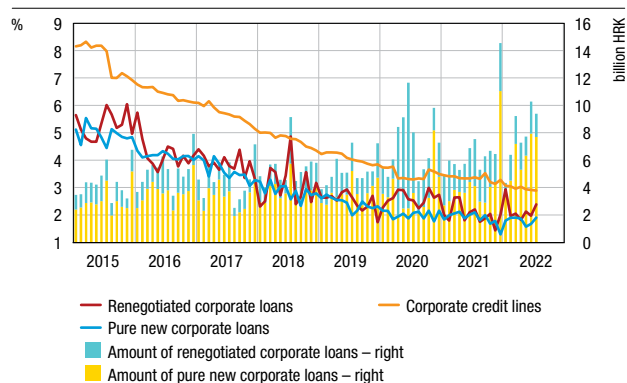
Figure 33 Long-term financing costs



Notes: Quarterly weighted moving averages. Foreign currency loans also include kuna loans with a currency clause.

Source: CNB.

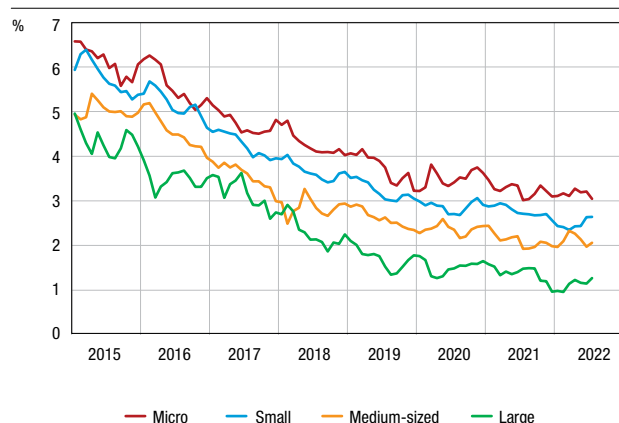
Figure 34 Interest rates and amount of corporate loans



Note: Data on pure new loans are not available for credit card loans, overdrafts, revolving loans and receivables on charge cards since their new business volume (for other instruments, this includes both pure new loans and renegotiated loans) is equal to balances and thus included in the credit line category.

Source: CNB.

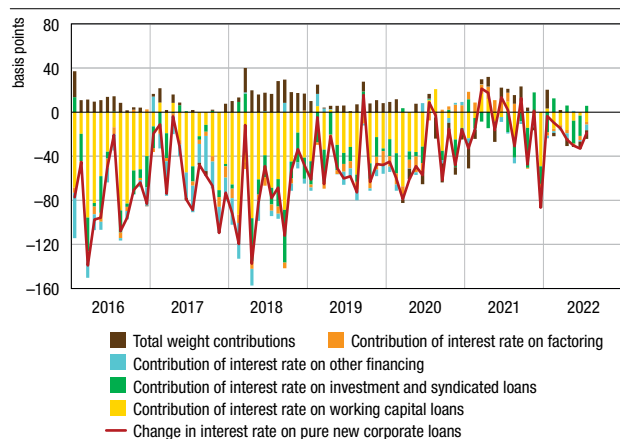
Figure 37 Interest rates on pure new loans by corporate size



Note: Quarterly weighted moving averages.

Source: CNB.

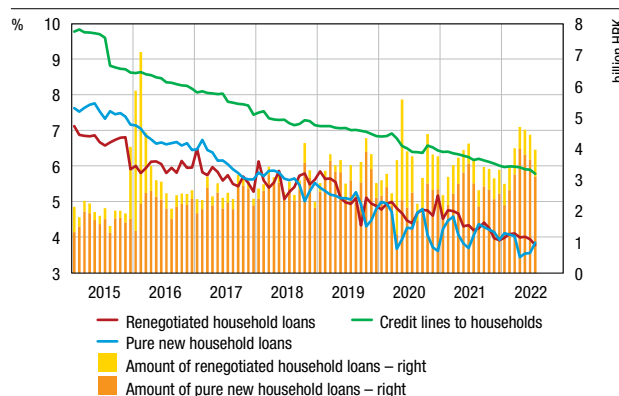
Figure 35 Contributions to the annual change in the interest rate on pure new corporate loans



Note: Calculated by applying the Bennet index, according to which total contribution is divided into interest rate effect and weight effect.

Source: CNB.

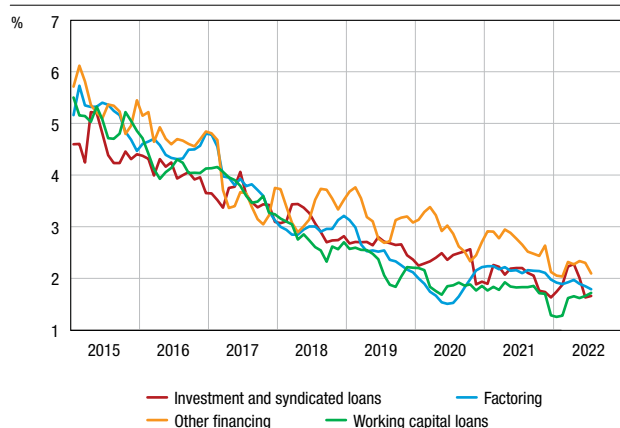
Figure 38 Interest rates and amount of household loans



Note: Data on pure new loans are not available for credit card loans, overdrafts, revolving loans and receivables on charge cards since their new business volume (for other instruments, this includes both pure new loans and renegotiated loans) is equal to balances and thus included in the credit line category.

Source: CNB.

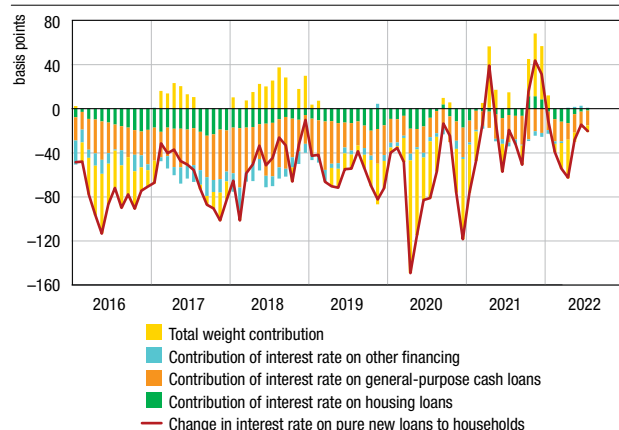
Figure 36 Interest rates on pure new corporate loans by purpose



Note: Quarterly weighted moving averages.

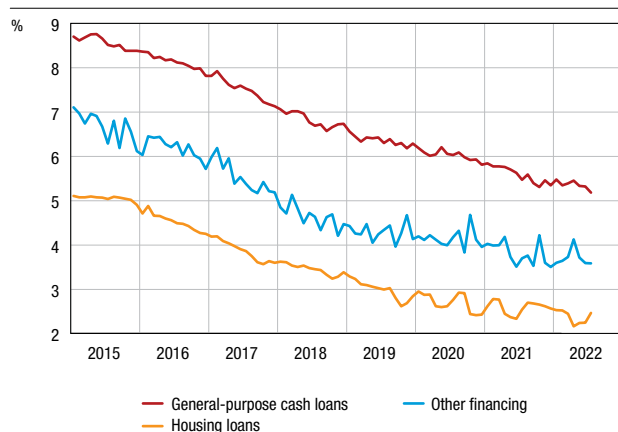
Source: CNB.

Figure 39 Contributions to the annual change in the interest rate on pure new household loans

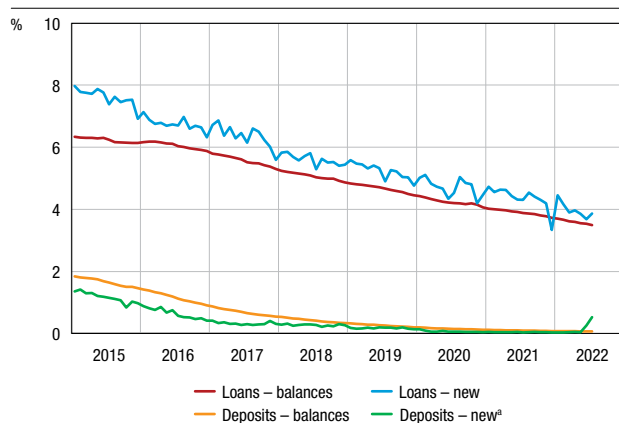


Note: Calculated by applying the Bennet index, according to which total contribution is divided into interest rate effect and weight effect.

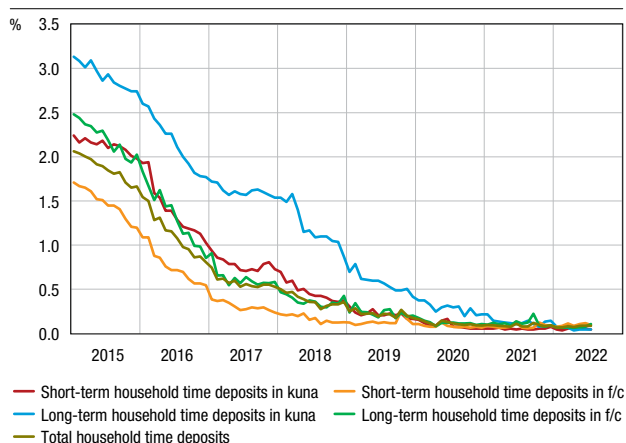
Source: CNB.

Figure 40 Interest rates on pure new household loans by purpose

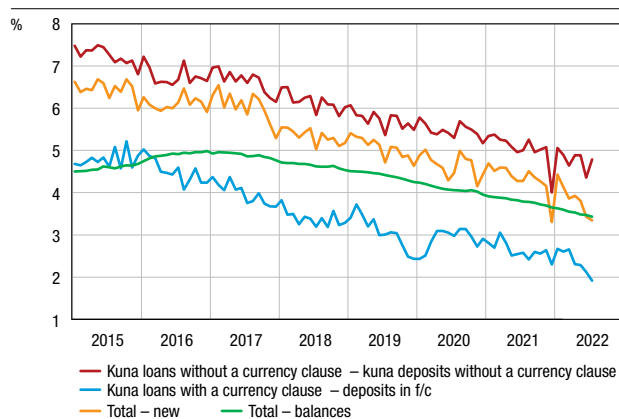
Source: CNB.

Figure 43 Average interest rates on loans (excl. revolving loans) and deposits^a For time deposits, interest rates on newly received deposits are weighted by their balances.

Source: CNB.

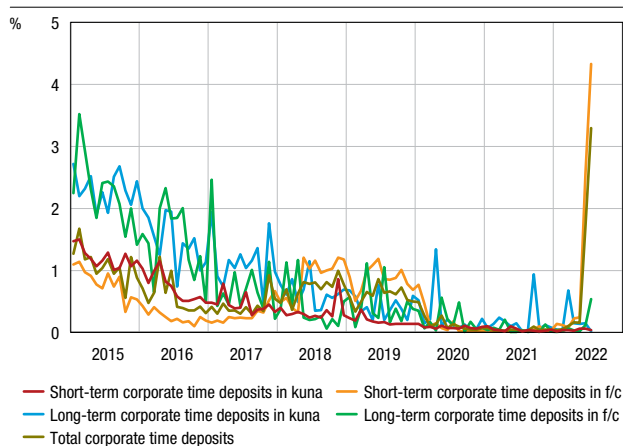
Figure 41 Interest rates on household time deposits

Source: CNB.

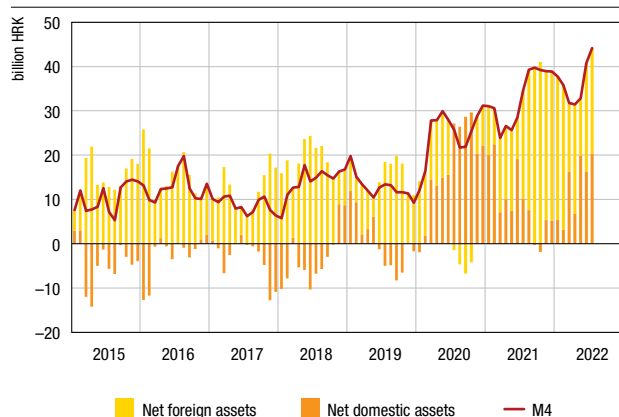
Figure 44 Spread between interest rates on loans (excl. revolving loans) and interest rates on deposits

Note: Spread between average interest rates on loans and average interest rates on deposits should be differentiated from net interest margin (the ratio of the difference between interest income and interest expenses to total assets of credit institutions).

Source: CNB.

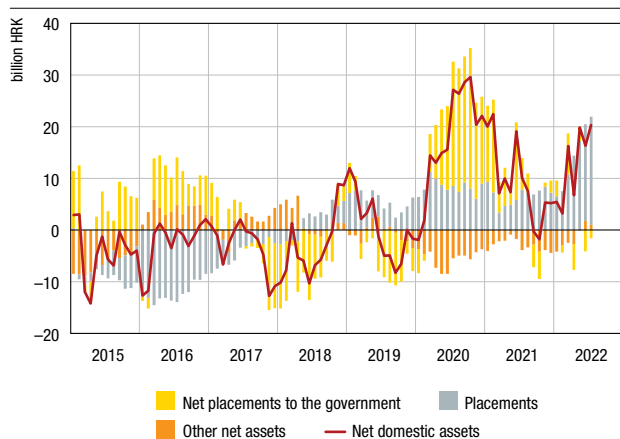
Figure 42 Interest rates on corporate time deposits

Source: CNB.

Figure 45 Net foreign assets, net domestic assets and total liquid assets (M4) absolute change in the last 12 months

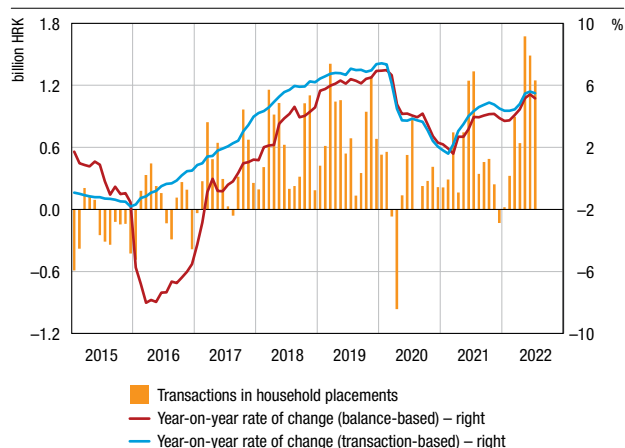
Source: CNB.

Figure 46 Net domestic assets, structure
absolute change in the last 12 months



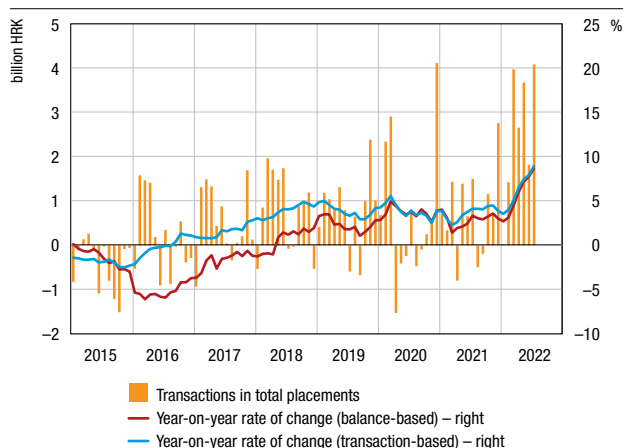
Source: CNB.

Figure 49 Placements to households



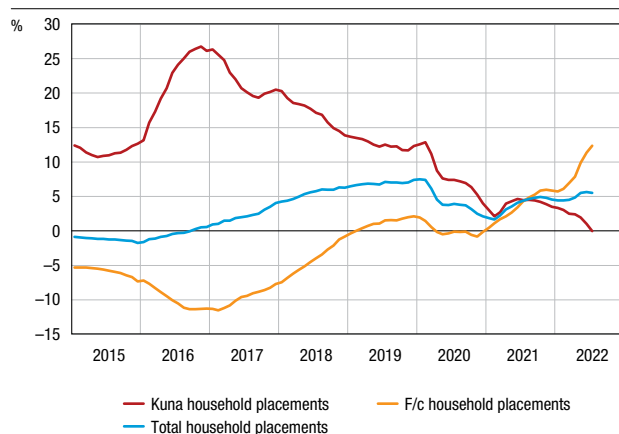
Source: CNB.

Figure 47 Placements



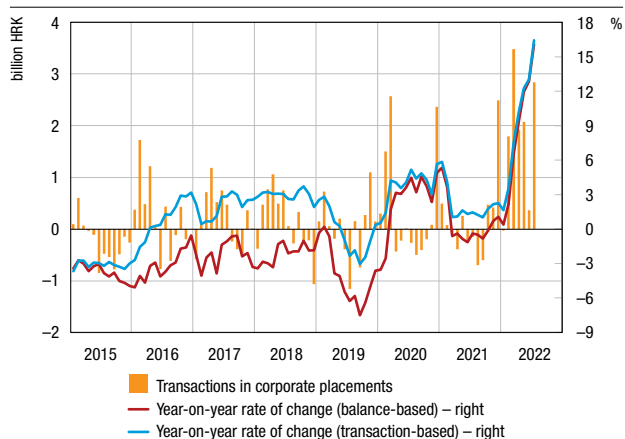
Source: CNB.

Figure 50 Annual rate of change in household placements
transaction-based



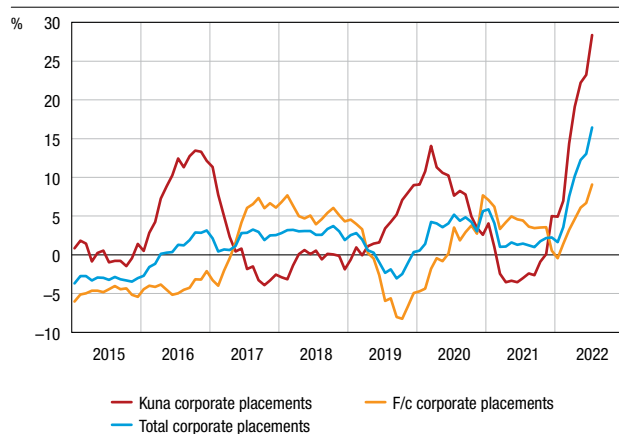
Source: CNB.

Figure 48 Placements to corporates

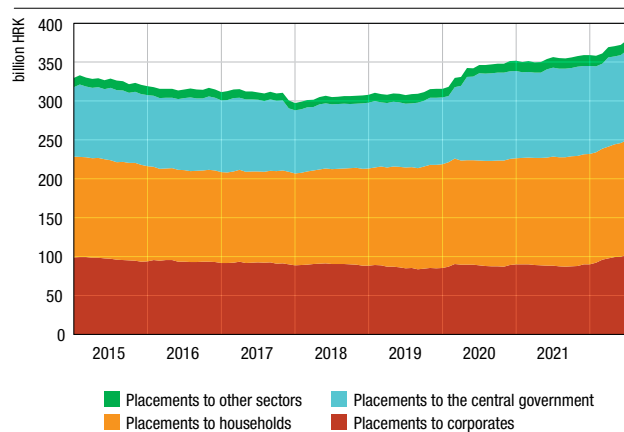


Source: CNB.

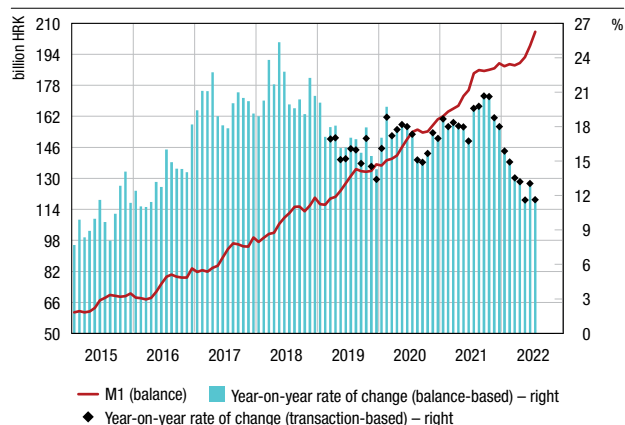
Figure 51 Annual rate of change in corporate placements
transaction-based



Source: CNB.

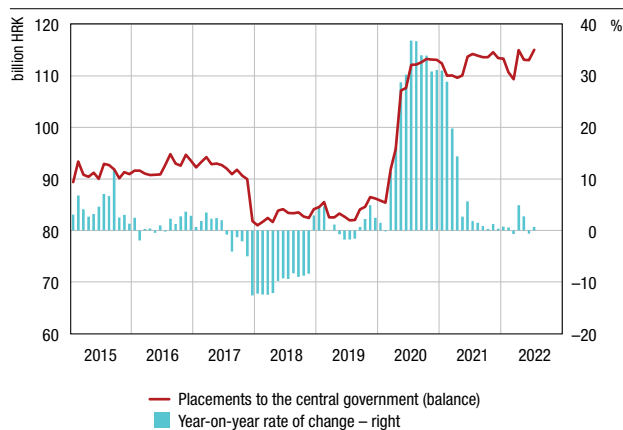
Figure 52 Structure of placements of monetary financial institutions

Source: CNB.

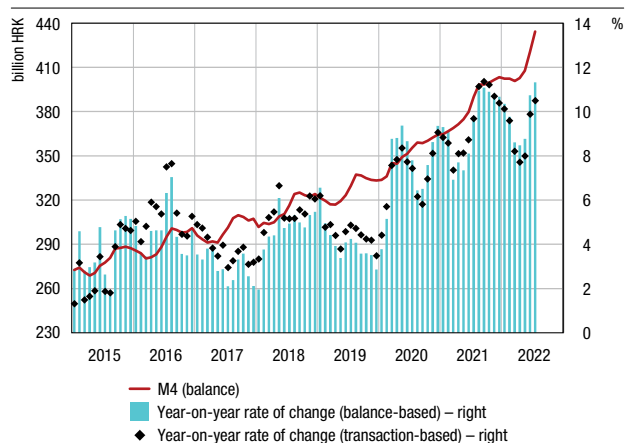
Figure 55 Money (M1)

Note: From March 2019, the growth rate (transaction-based) excludes the effect of the reclassification of money market funds.

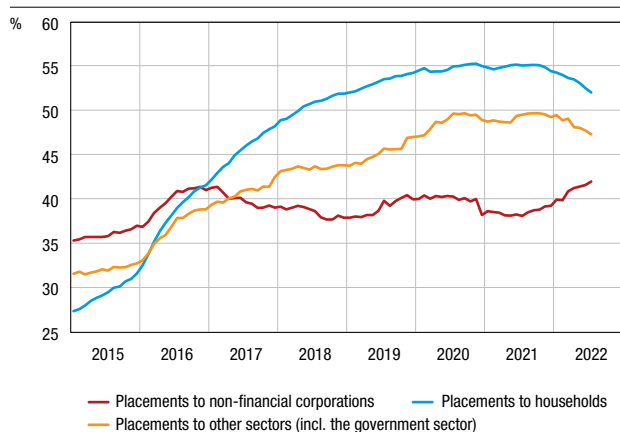
Source: CNB.

Figure 53 Placements of monetary financial institutions to the central government

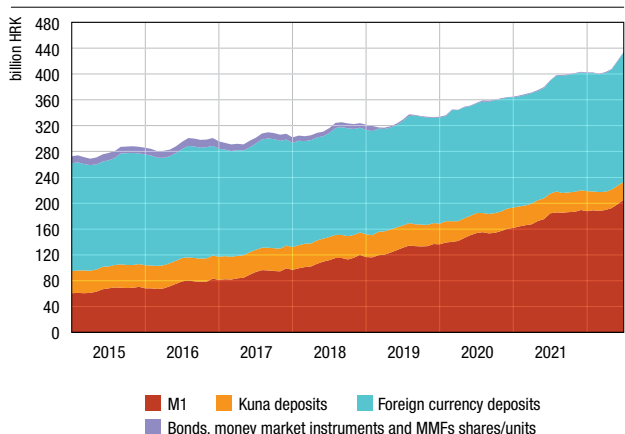
Source: CNB.

Figure 56 Total liquid assets (M4)

Source: CNB.

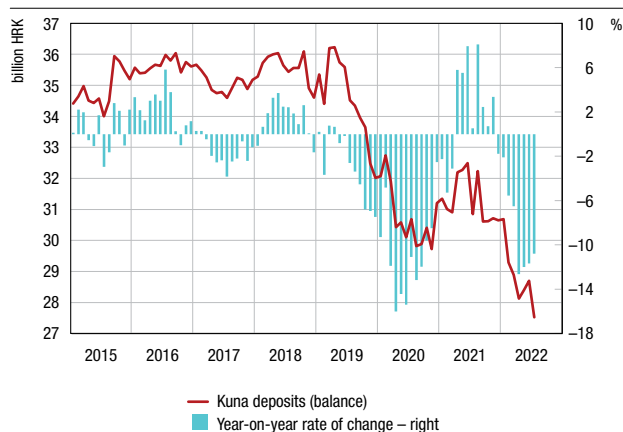
Figure 54 Share of kuna placements in total sector placements

Source: CNB.

Figure 57 Structure of M4 monetary aggregate

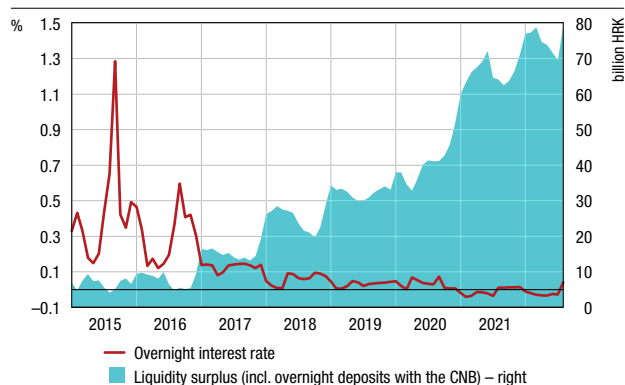
Source: CNB.

Figure 58 Kuna savings and time deposits



Source: CNB.

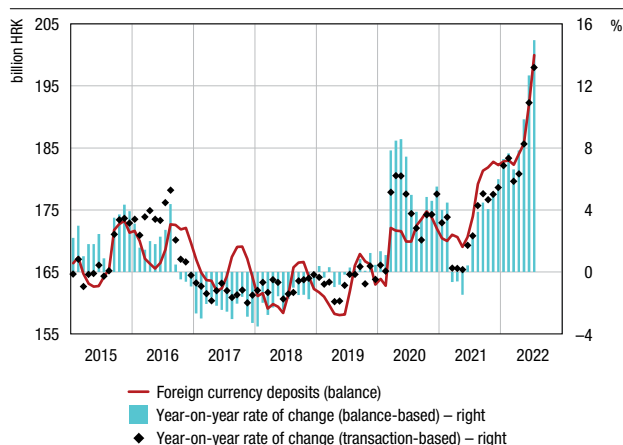
Figure 61 Bank liquidity and overnight interest rate on bank demand deposit trading



Notes: Liquidity surplus is the difference between the balance in bank settlement accounts with the CNB and the amount that banks are required to hold in their accounts after the calculation of reserve requirements. The overnight interest rate until the end of 2015 refers to the overnight interbank interest rate and as of the beginning of 2016 to the overnight interest rate on bank demand deposit trading.

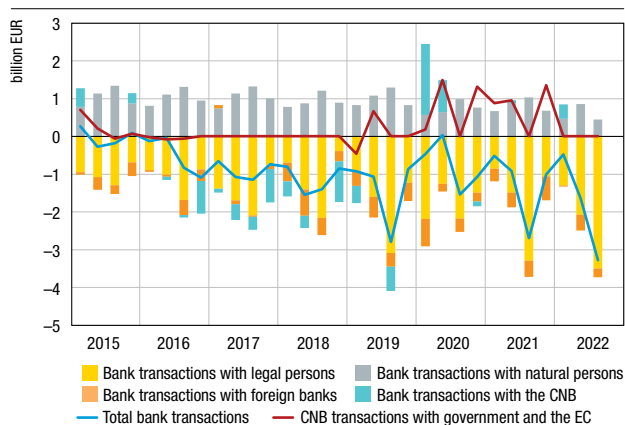
Source: CNB.

Figure 59 Foreign currency deposits



Source: CNB.

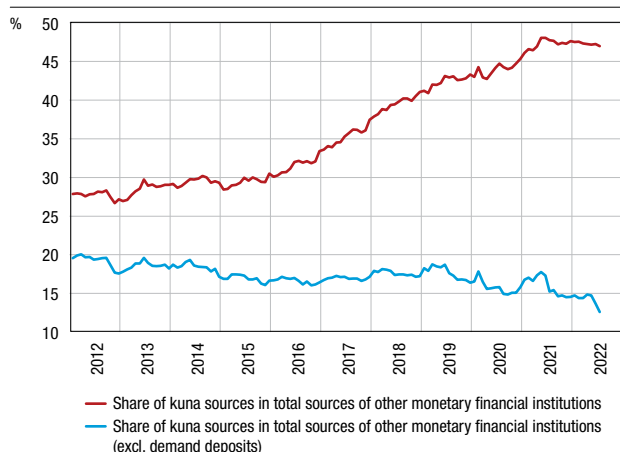
Figure 62 Spot transactions in the foreign exchange market (net turnover)



Notes: Positive values indicate net purchases and negative values indicate net sales. Legal persons include the government. Data for the third quarter refer to July and August.

Source: CNB.

Figure 60 Share of kuna sources



Source: CNB.

Figure 63 International reserves of the CNB at current rate of exchange



^a NUIR = international reserves – foreign liabilities – reserve requirements in f/c – foreign currency government deposits.

Source: CNB.

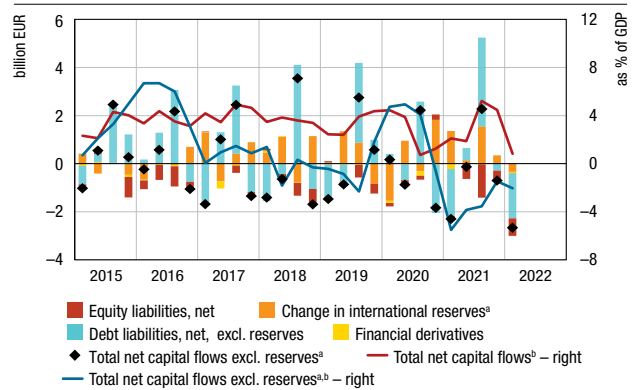
Table 2 Balance of payments

preliminary data, in million EUR

	2021	Q1/2022*	Indices	
			2021/ 2020	Q1/2022/ 2021
Current account	1,944.7	787.3	–	40.5
Capital account	1,367.4	1,379.1	127.3	100.9
Financial account (excl. reserves)	–3,481.3	–2,576.1	–	74.0
International reserves	6,030.7	3,061.0	999.7	50.8
Net errors and omissions	–762.7	–1,681.4	193.2	220.4

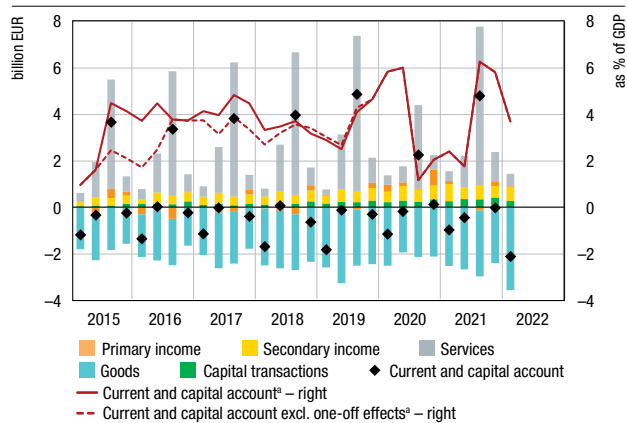
* Refers to the sum of the last four quarters.

Source: CNB.

Figure 66 Financial account flows by equity to debt ratio^a The change in gross international reserves is reported net of foreign liabilities of the CNB.^b Sum of the last four quarters.

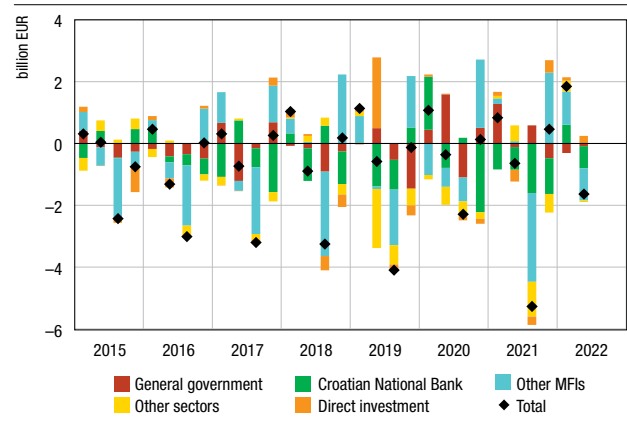
Notes: A positive value indicates net outflow of equity abroad. Net flows represent the difference between the change in assets and the change in liabilities.

Source: CNB.

Figure 64 Current and capital account flows^a Sum of the last four quarters.

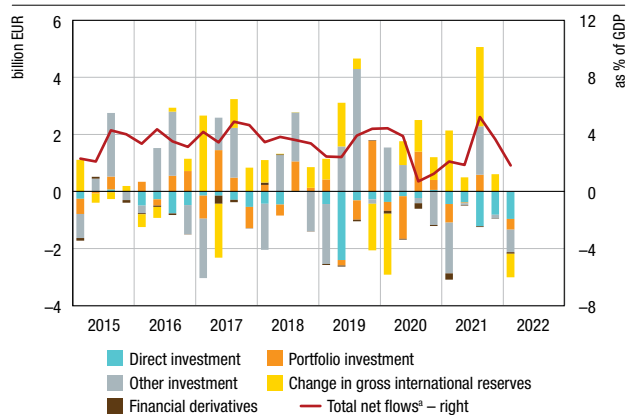
Note: One-off effects include conversion of CHF-linked loans in 2015 and bank provisions for loans to the Agrokor Group in 2017 and 2018.

Source: CNB.

Figure 67 Net external debt transactions

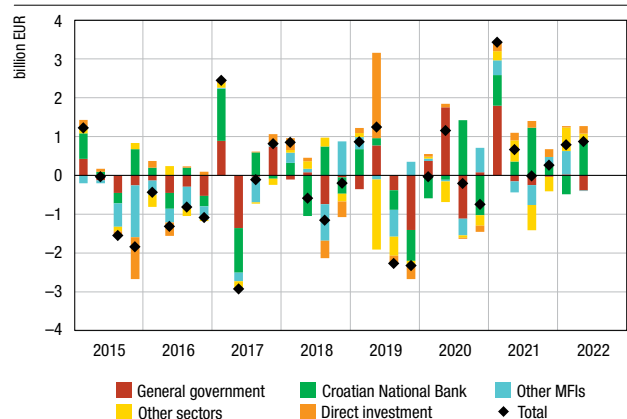
Notes: Transactions refer to the change in debt excl. cross-currency changes and other adjustments. Net external debt is calculated as the gross external debt stock net of foreign debt claims.

Source: CNB.

Figure 65 Financial account flows by type of investment^a Sum of the last four quarters.

Note: A positive value indicates net outflow of equity abroad (including on the basis of the growth in international reserves).

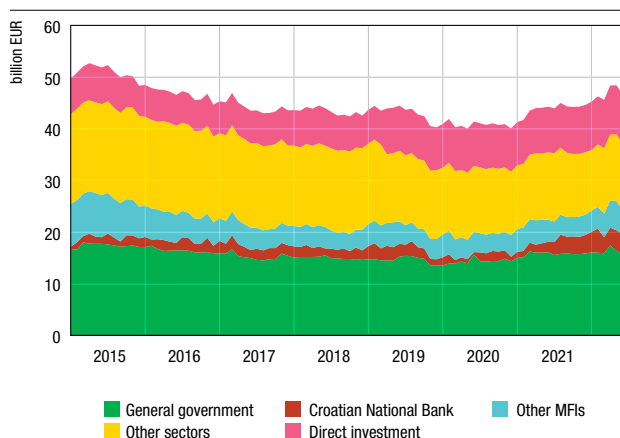
Source: CNB.

Figure 68 Gross external debt transactions

Note: Transactions refer to the change in debt excl. cross-currency changes and other adjustments.

Source: CNB.

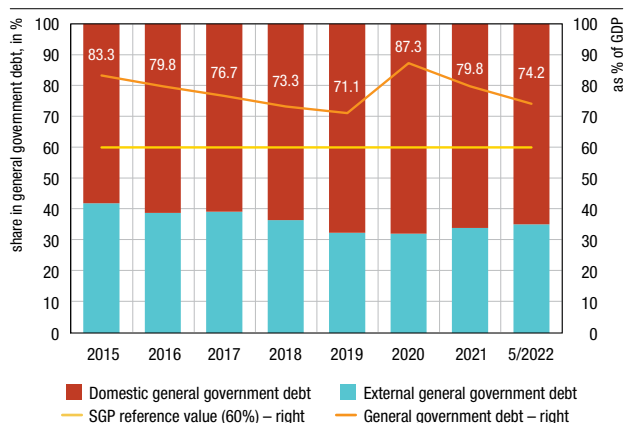
Figure 69 Gross external debt
end of period



Note: Data are up to June 2022.

Source: CNB.

Figure 70 General government debt



Note: Nominal GDP for the last four available quarters was used for the calculation of the relative indicator.

Source: CNB.

Table 3 Consolidated general government balance

ESA 2010, in million HRK

	Jan. – Mar. 2021	Jan. – Mar. 2022
Total revenue	45,627	47,597
Direct taxes	5,867	6,562
Indirect taxes	16,893	19,400
Social contributions	11,579	12,977
Other	11,288	8,657
Total expenditure	49,604	48,849
Social benefits	16,422	16,824
Subsidies	4,170	1,940
Interest	1,789	1,578
Compensation of employees	12,867	13,140
Intermediate consumption	7,186	7,801
Investment	3,877	3,475
Other	3,294	4,090
Net lending (+)/borrowing (-)	-3,977	-1,253

Sources: Eurostat and CBS.

Table 4 State budget

according to the national budgetary chart of accounts methodology, in million HRK

	Jan. – Jun. 2021	Jan. – Jun. 2022
1 Revenue	73,937	75,399
2 Disposal of non-financial assets	179	524
3 Expenditure	81,882	78,937
4 Acquisition of non-financial assets	2,079	3,121
5 Net lending (+) /borrowing (-) (1+2-3-4)	-9,846	-6,135

Sources: MoF and CNB calculations.

Table 5 General government debt

in million HRK

	May 2021	May 2022
Change in total debt stock	7,685	378
Change in domestic debt stock	-5,786	-3,816
– Currency and deposits	10	4
– Securities other than shares, short-term	-1,389	-677
– Securities other than shares, long-term	-1,583	-4,753
– Short-term loans	57	-445
– Long-term loans	-2,903	2,074
Change in external debt stock	13,471	4,194
– Currency and deposits	0	0
– Securities other than shares, short-term	1,338	-1,336
– Securities other than shares, long-term	7,964	5,560
– Short-term loans	-423	344
– Long-term loans	4,593	-374
Memo item:		
Change in total guarantees issued	961	190

Note: Change in the domestic debt of general government = (change in individual categories – consolidation elements).

Source: CNB.

Abbreviations and symbols

Abbreviations

BIS	– Bank for International Settlements
bn	– billion
b.p.	– basis points
BOP	– balance of payments
c.i.f.	– cost, insurance and freight
CBRD	– Croatian Bank for Reconstruction and Development
CBS	– Croatian Bureau of Statistics
CCI	– consumer confidence index
CDCC	– Central Depository and Clearing Company Inc.
CDS	– credit default swap
CEE	– Central and Eastern European
CEFTA	– Central European Free Trade Agreement
CEI	– consumer expectations index
CES	– Croatian Employment Service
CHIF	– Croatian Health Insurance Fund
CLVPS	– Croatian Large Value Payment System
CM	– Croatian Motorways
CNB	– Croatian National Bank
CPF	– Croatian Privatisation Fund
CPI	– consumer price index
CPII	– Croatian Pension Insurance Institute
CR	– Croatian Roads
CSI	– consumer sentiment index
DAB	– State Agency for Deposit Insurance and Bank Resolution
dep.	– deposit
DVP	– delivery versus payment
EC	– European Commission
ECB	– European Central Bank
EFTA	– European Free Trade Association
EMU	– Economic and Monetary Union
ESI	– economic sentiment index
EU	– European Union
excl.	– excluding
f/c	– foreign currency
FDI	– foreign direct investment
Fed	– Federal Reserve System
FINA	– Financial Agency
FISIM	– financial intermediation services indirectly measured
f.o.b.	– free on board
GDP	– gross domestic product
GVA	– gross value added
HANFA	– Croatian Financial Services Supervisory Agency
HICP	– harmonised index of consumer prices
ILO	– International Labour Organization
IMF	– International Monetary Fund
incl.	– including
IPO	– initial public offering
m	– million
MIGs	– main industrial groupings
MM	– monthly maturity
MoF	– Ministry of Finance
NCA	– National Classification of Activities
NCB	– national central bank
NCS	– National Clearing System
n.e.c.	– not elsewhere classified
OECD	– Organisation for Economic Co-Operation and Development
OG	– Official Gazette
R	– Republic

o/w	– of which
PPI	– producer price index
RTGS	– Real-Time Gross Settlement
Q	– quarterly
RR	– reserve requirement
SDR	– special drawing rights
SITC	– Standard International Trade Classification
SGP	– Stability and Growth Pact
VAT	– value added tax
WTO	– World Trade Organization
ZMM	– Zagreb Money Market
ZSE	– Zagreb Stock Exchange

Three-letter currency codes

ATS	– Austrian schilling
CHF	– Swiss franc
CNY	– Yuan Renminbi
DEM	– German mark
EUR	– euro
FRF	– French franc
GBP	– pound sterling
HRK	– Croatian kuna
ITL	– Italian lira
JPY	– Japanese yen
TRY	– Turkish lira
USD	– US dollar

Two-letter country codes

BG	– Bulgaria
CZ	– Czech R.
EE	– Estonia
HR	– Croatia
HU	– Hungary
LV	– Latvia
LT	– Lithuania
PL	– Poland
RO	– Romania
SK	– Slovak R.
SI	– Slovenia

Symbols

–	– no entry
....	– data not available
0	– value is less than 0.5 of the unit of measure being used
Ø	– average
a, b, c, ...	– indicates a note beneath the table and figure
*	– corrected data
()	– incomplete or insufficiently verified data