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CROATIAN NATIONAL BANK



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CROATIAN NATIONAL BANK

# ANNUAL REPORT 2004

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# Summary

In 2004, Croatia experienced somewhat slower economic growth than in the preceding two years. At the same time, the country made progress in reducing external imbalances, and inflation remained low.

The central bank's policy measures in 2004 aimed above all at restricting foreign borrowing. By contrast, the central bank's measures aimed at restricting credit growth, enacted in January 2003, expired in January 2004. However, the central bank maintained its minimum foreign exchange liquidity requirement (on each day, liquid foreign currency claims had to amount to at least 35% of foreign currency liabilities). In July 2004, the CNB adopted a new decision whereby it stipulated a marginal reserve requirement to be allocated on increases in banks' foreign liabilities. In addition, the central bank actively supported the replacement of government external debt by domestic debt. In these ways, the central bank changed its focus in 2004 from restraining credit growth to restraining foreign borrowing.

Real GDP growth fell from 4.3% in 2003 to 3.8% in 2004. Personal consumption continued to play a strong role in growth, contributing some 2.4 percentage points. However, investment in fixed capital, which has been crucial to the recent expansion, fell off in the second half of the year after the completion of the main works on the Zagreb-Split highway. Overall, investment growth fell from 16.8% in 2003 to only 4.4% in 2004. By contrast, for the first time since 2000, net exports of goods and services made a positive contribution to GDP growth during the year as a whole (0.5 percentage points), and this partially compensated for the drop-off in investment.

Growth in value-added in industry slackened from 4.5% in 2003 to 3.9% in 2004. Growth in output of non-durable consumer goods slowed, while growth in intermediate goods accelerated noticeably. The largest fall in output, however, came in the field of construction, where value-added grew by only 5.6% in 2004 as compared to 20.2% in 2003. Value-added in trade also fell mildly, under the influence of slowing consumption growth, and value-added growth in the hotel and restaurant sector, the most visible indicator of tourism growth in output statistics, slowed as well.

Employment also grew slower in 2004 than in 2003. According to the CBS, total employment grew by 1.2% in 2004 compared to 2.5% growth in 2003. However, this figure includes strong contraction in the number of individual farmers (13.0%), which may not reflect actual employment trends accurately. Excluding individual farmers, employment growth fell from 3.1% in 2003 to 2.0% in 2004. Still, even this figure is not entirely accurate as it includes a large decrease in public administration employment (of 7.7%), which mostly resulted from updating of employment figures for the army and police.

Registered unemployment was 1.1 percentage points lower on average in 2004 than in 2003, and it ended the year down by only 0.2 percentage points compared to the end of 2003. This seems to be partly due to the effects of the 2002 reforms in the CES. These reforms tightened the definition of unemployment, leading to sustained decreases in registered unemployment during much of 2002 and 2003. But, although this “clean-up” of the unemployment rolls has finished, a sizable gap remains between registered unemployment and unemployment measured by semi-annual surveys using the ILO methodology.

Lower employment growth was accompanied by moderate wage growth. Real net wage growth fell to 3.8% in 2004 from 4.5% in 2003, while real gross wage growth rose to 4.2% from 3.1%. Some of the decrease in real net wage growth can be explained by the interaction between rising gross wages and the progressive tax system, which increased the tax burden on some workers. Public sector wage policy played an important role in containing wage growth, with real public sector wage growth falling from 4.8% in 2003 to only 1.8% in 2004.

Consumer prices rose by 2.1% on average in 2004, up from 1.8% in 2003. However, when we compare end-year data, inflation was up to 2.7% in December 2004 from 1.7% in December 2003. Increases in prices of refined petroleum products, along with natural gas and household water supply, made major contributions to inflation in 2004. In addition, price increases of tobacco products, caused by increases in excises enacted in July, contributed significantly to increased CPI inflation.

Core inflation also rose during 2004, reaching 2.3% year-on-year in December. Among others, this increase was caused by the increase in tobacco product prices, a sizable jump in meat prices (whose rate of inflation rose from -2.6% in December 2003 to 3.5% in December 2004) and the spillover of increased oil prices onto other areas, such as road and air transport. However, decreasing agricultural prices and a fall in automobile prices helped limit overall inflation.

The bulk of the inflationary pressures seen in 2004 and early 2005 have come from increasing energy prices in the world market. One-off domestic factors, such as the increased excise on tobacco products and the jump in meat prices, have been present, but their effects are likely to be temporary. As of yet, there are no signs of significant domestic inflationary pressures.

The CNB sees exchange rate stability as a key means to limit inflation and prevent the build-up of inflationary expectations. The average daily exchange rate of the kuna against the euro appreciated by 0.9% in 2004. The nominal effective exchange rate of the kuna against a basket of currencies appreciated by some 3.9%, largely due to nominal appreciation of 7.9% against the US dollar. The real effective exchange rate appreciated by a similar percentage (4.0% using consumer prices and 4.1% using producer prices), reflecting the fact that inflation in Croatia was essentially equal to inflation in its main trading partners. Nominal appreciation limited the impact of imported inflation during 2004.

During 2004, appreciation pressures were much more frequent than depreciation pressures, reflecting continued strong capital inflows. In its 2004 interventions in the foreign exchange market, the CNB made net purchases of EUR

510.2m from banks, creating HRK 3.8bn of reserve money. These interventions constituted the main channel of money creation, relieving appreciation pressures.

At the same time, the central bank sold a total of EUR 94.7m (net) to the MoF, removing HRK 741.7m from circulation. These transactions with the government were undertaken to facilitate the repayment of government external debt and its replacement with domestic borrowing. In particular, the central bank decreased the reserve requirement rate from 19% to 18% in November 2004, which freed banks' funds that the government then borrowed via a bond issue and used to buy foreign exchange for debt repayment. Similarly, in February 2005, the central bank lowered the minimum foreign exchange liquidity ratio from 35% to 32% to free up foreign exchange so that banks could purchase government foreign exchange bonds, allowing the government to repay its foreign exchange obligations.

In addition, the central bank sought to limit capital inflows by imposing a marginal reserve requirement on the increase in foreign liabilities of banks, starting in July 2004. The marginal reserve requirement rate was initially set at 24%, but was raised to 30% in February 2005. This measure makes it more expensive for banks to use foreign funding sources. However, it is not expected to eliminate new foreign borrowing, since banks turn to foreign sources for reasons other than price. That is, banks borrow from abroad because of the longer term of such sources compared to domestic ones, and because domestic deposit growth is not always adequate to finance banks' placement growth projected in their business plans.

In the beginning of 2004, the central bank also tightened monetary conditions by limiting the use of Lombard loans to only 5 days per month, by eliminating regular auctions of kuna CNB bills, and by ending the issuance of foreign currency CNB bills.

In April 2005, the central bank introduced reverse repurchase agreement auctions, a new instrument for creating and fine-tuning liquidity of the banking system. Repo auctions and other new instruments, such as the deposit facility at the central bank, are expected to help increase the effectiveness of monetary policy and to decrease undesired volatility.

While desiring to maintain tight monetary conditions to avoid excessive credit expansion and control the current account deficit, the central bank has also seen the need to create liquidity to prevent excessive appreciation pressures and to facilitate domestic financing of the budget deficit. The result has been moderate growth in monetary aggregates. M1 grew by only 2.0% in 2004, down from 9.8% in 2003, while M4 grew by 8.5%, down from 10.5% in 2003. To some extent, the slow growth of M1 may be due to better liquidity management by companies, whose non-monetary deposits grew rapidly as companies sought to maximise returns on their financial assets and decrease excess liquidity holdings. Continued solid M4 growth is above all the result of growth in foreign currency deposits, which grew by 7.5% in 2004, a slight increase from the year before. In addition, kuna non-monetary deposits registered strong growth, but these deposits have remained relatively small in the overall M4 aggregate.

Bank placements grew at an essentially unchanged rate of 14.0% in 2004. Loans to households again grew faster than loans to enterprises, by 18.7% vs.

8.0%. However, the gap between the two rates narrowed considerably from the previous year's 27.7% and 5.1% respectively. In part, this is the result of the removal of the central bank's 2003 lending measures, which provided incentives for banks to encourage corporate customers to use leasing or to borrow directly from their foreign parent banks, and thus avoid booking the loans on their balance sheets.

The fact that bank placements grew more rapidly than monetary aggregates explains the continued growth of banks' foreign borrowing. Banks increased their foreign liabilities by some HRK 11.2bn in 2004, while increasing their foreign assets by HRK 8.2bn.

Improved profitability motivated banks to maintain a brisk lending pace in the face of slower domestic funding growth. Although interest rate spreads fell in 2004, return on average assets (ROAA) rose from 1.59% to 1.70%, and return on average equity (ROAE) rose from 14.5% to 16.6%. Improved credit quality was one of the main reasons for improved profitability, as the ratio of total value adjustment and provisions to total placements and contingent liabilities fell from 4.1% in 2003 to 3.6% in 2004.

While bank foreign borrowing did contribute to an increase in Croatia's external debt, central bank measures to discourage such borrowing, the redirection of some government borrowing from the foreign to the domestic market, and a decrease in the overall fiscal deficit helped to slow the growth of the external debt. At the end of 2004, the overall external debt of the economy stood at EUR 22.7bn, an increase of 14.5% compared to 2003. This rate of growth was less than half of that recorded in 2003 (31.6%), and led to an increase in the debt/GDP ratio from 77.6% in 2003 to 82.1% in 2004. The ratio of external debt to total exports of goods and services rose to 157.3% at the end of 2004.

Looking at the growth of the debt by sectors, bank borrowing grew the fastest in 2004, by 25.0%. External debt of other domestic sectors grew by 18.9%, while government external debt grew by only 9.6%. While the decrease in the growth rate of the external debt in 2004 was encouraging, further efforts to stabilise the debt/GDP ratio will be needed, above all fiscal consolidation.

In addition, Croatia's current account deficit fell to 4.6% of GDP in 2004 from 6.9% in 2003. This substantial adjustment was in part the result of improved merchandise trade and a decline in net outflows based on factor income. It should be noted that this annual decline was strongly affected by substantial outflows recorded in 2003 on the basis of direct investment, which were mostly due to the transfer of patent rights by the pharmaceutical company Pliva to a foreign subsidiary. Excluding the effects of this transaction on results in the base year 2003, the annual drop in the current account deficit would be 1.2 percentage points in 2004.

Merchandise exports grew by 18.5% while imports grew by only 6.2%. The largest share of increased exports came from exports of ships and refined petroleum products. Ships are an important Croatian export, and the order books of Croatian shipbuilders suggest that ship exports will continue to be strong in the coming years. However, increased exports of refined petroleum products mainly

reflect increased prices rather than any increases in output. It is therefore noteworthy that exports excluding ships and refined petroleum products grew by 15.3%. The most important contributors to export growth outside shipbuilding and refined petroleum products were production of electrical machinery, equipment and apparatus, fur and leather products, machinery specialised for particular industries, non-ferrous metals and other metal products.

In 2004, tourism revenues, a key positive item in the current account, held steady at their 2003 level. Although physical indicators show that more tourists came to Croatia in 2004 and night-stays increased, the financial indicators grew very little, as larger numbers of tourists stayed in free accommodations. Tourism seems to have reached a plateau, and future growth in tourism revenues may require further investment in accommodation capacity and related services.



# Macroeconomic Developments

# 1



# 1.1 International Environment

The real growth rate of world GDP reached 5.1% in 2004, 1.1 percentage points up from 2003. In 2004, economic growth was pronounced in the USA and a number of developing countries (notably China), but it was moderate in the eurozone countries and Japan. The main generators of global economic growth were favourable financing conditions (low real interest rates) and a considerable rise in domestic consumption. However, the adverse effects of higher oil prices on global economic growth and rising inflation, as well as the potential negative impact of a further US dollar weakening have become increasingly pronounced.

## 1.1.1 European Union and the Eurozone

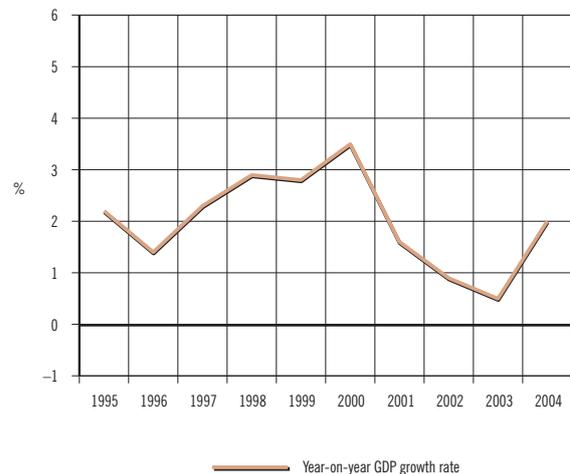
Positive economic developments in the eurozone, which started in the second half of 2003, continued into 2004, when the annual growth rate in the eurozone countries reached 2.0% compared with 0.5% in 2003. The main contribution to GDP growth was made by domestic demand, primarily personal consumption and change in inventories, while the contribution of foreign demand remained neutral, despite the strong growth of the world economy. During 2004, unemployment was not reduced in the labour market and it remained at 8.9%, the same as in 2003. The decline in employment in industry and construction was offset by favourable trends in the service sector. The growth of wages was moderate without having a greater impact on inflation.

As there were no clear signs of a build-up of inflationary pressure, the European Central Bank maintained its 2% Minimum Bid Refinance Rate, leaving it unchanged ever since June 2003 when it had been reduced by 0.5 percentage points. Over 2004, the average annual inflation rate, measured by the HICP, was 2.1%, the same as in 2003. The largest annual increase was recorded in the prices of energy products, food and services, while industrial product prices rose mildly at the annual level.

Fiscal indicators for the eurozone were unfavourable. The general government deficit in the eurozone countries averaged 2.8% of GDP, which was a sign of fiscal imbalances in many of these countries. Personal consumption, which was somewhat lower than expected,

### 1.1

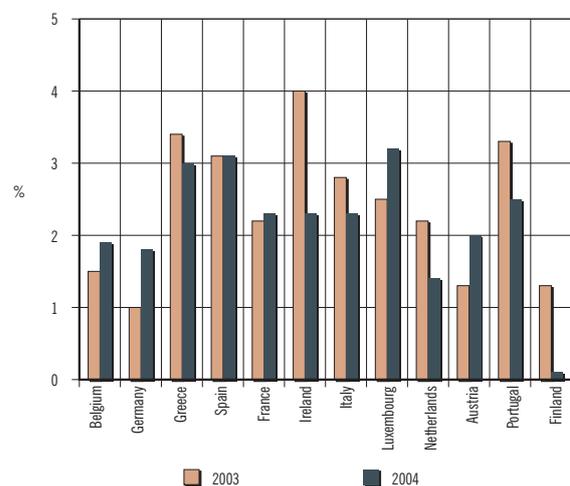
Real GDP Growth in Eurozone



Source: Eurostat.

### 1.2

HICP Rates of Change in Eurozone Countries



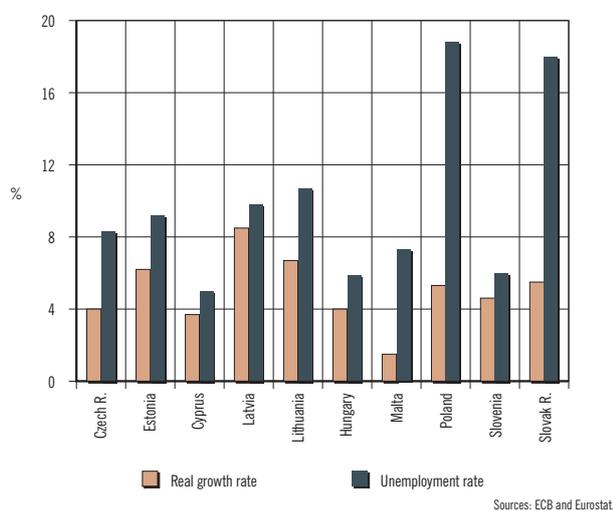
Source: Eurostat.

resulted in a shortfall in tax revenues, being the main cause of the failure to achieve the planned deficit reduction. In 2004, the rules of the Stability and Growth Pact were violated by Germany, France and, especially, Greece, whose deficit exceeded the 3% of GDP limit by 2.3 percentage points. As a number of other eurozone countries also approached the stated 3% of GDP limit, a possibility to relax the Pact rules has been considered, especially where they were breached owing to a country's economic recession or the costs of its pension system restructuring. At the same time, the average public debt in the eurozone slightly exceeded 70% of GDP, while public debt of Belgium, Greece and Italy stood at about 100% of GDP.

Among the old EU Member States outside the eurozone, the UK and Sweden recorded higher real growth rates than the eurozone in 2004, while the real annual growth rate in Denmark almost equalled that in the eurozone.

1.3

Real Growth and Unemployment Rates in 10 New EU Member States in 2004



The new EU Member States saw further acceleration of economic growth. The real annual growth rate in the ten new EU Member States averaged 4.9% in 2004, which was much above the average outturn for the eurozone and 1.1 percentage points higher than the rate in 2003. The highest real growth rates were recorded in the Baltic States. The real annual growth rate was 4% in Hungary and the Czech R. and 5.3% in Poland. The average annual inflation rate in all the three countries was higher than in the eurozone, which also applies to most other new Member States. The strongest inflationary pressures were faced by the Slovak R., Hungary and Latvia, whose average annual inflation rates exceeded 6%. Most new EU Member States recorded higher unemployment rates compared with the eurozone. This particularly applied to Poland and the Slovak R., in which the unemployment rate stood at about 18%.

### 1.1.2 United States of America

In 2004, the real GDP growth rate in the USA reached 4.4%, the highest rate recorded in the last few years. Positive movements were most pronounced in the first half of the year, while a slight economic slowdown was observed towards year-end. Favourable trends were perceived in the US labour market. The average unemployment rate fell from 6% in 2003 to 5.5% in 2004. A rise in the available personal income stimulated the growth in aggregate personal consumption. Apart from personal consumption, the US GDP growth was also fuelled by increased investment in equipment and computer software. Owing to faster growth in the US goods and services imports compared with the growth in exports, the contribution of international trade to the US economic growth was negative.

Price pressures resulted in a slight annual growth of inflation in the US, but the inflation rate was still low (2.7% in 2004 compared with 2.3% in 2003). The

growth of inflation was stimulated by higher crude oil prices, the weakening of the US dollar and an improved situation on the US labour market. As a result, over 2004, the US central bank gradually increased the US Federal Funds Target Rate from 1% at the beginning of 2004 to 2.25% at year-end.

The US was still burdened by huge government and trade deficits. In 2004, the current account deficit reached USD 666bn or 5.7% of GDP compared with USD 531bn or 4.8% of GDP in 2003. While the US still manages to finance its current account deficit, it remains the source of growing concern over future developments in the world economy, owing to its possible impact on the US dollar exchange rate, US interest rates and the value of financial assets. In addition to this, the US pension insurance and health insurance systems also raise concerns about the sustainability of the US fiscal position. The budget deficit for the fiscal year 2004 (ending 30 September) exceeded USD 400bn or 3.6% of GDP.

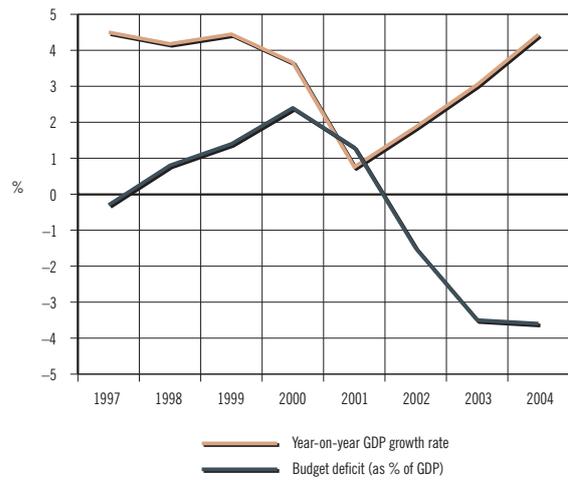
### 1.1.3 Japan

Japanese real GDP grew at a rate of 2.6% in 2004, which was double the rate recorded in 2003. The largest contributions to Japan's economic growth were made by private investment and government consumption, whereas the contribution of personal consumption was much smaller. The business sector remained relatively stable with a significant rise in profits recorded in 2004. A part of the profits was invested in production facilities and other capital equipment, which should result in higher overall economic growth rates in the following period.

Japan's current account balance improved significantly in 2004, which was the result of a boost in foreign trade balance surplus and increased net income from FDI. Concerning the developments in the general price level, moderate deflationary pressures continued, partly owing to the deregulation of utility services. The consumer price index has remained zero, after having been negative for five years. During the year, the central bank did not change its official discount rate which was 0.1% since September 2001.

#### 1.4

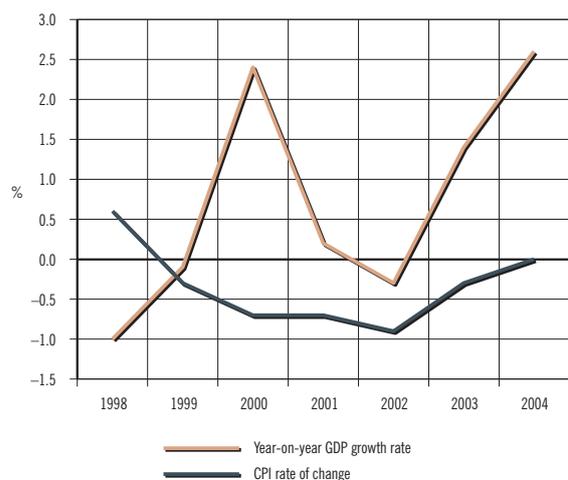
Real GDP Growth and Budget Deficit in the USA



Sources: Bureau of Economic Analysis, Congressional Budget Office.

#### 1.5

Real GDP Growth and Inflation Rate in Japan



Source: Statistics Bureau of Japan.

## 1.1.4 Developing Countries

In 2004, relatively strong economic growth continued in developing countries. Particularly high annual growth rates were recorded in China (9.5%) and other Asian economies. The main generator of the Chinese economic growth in 2004 was massive investment and a sharp rise in goods exports. These trends were confirmed by the China balance of payments outturns, particularly the current account surplus that reached 4.2% of GDP in 2004. Owing to more pronounced inflationary pressures, CPI rose from 1.2% in 2003 to 3.9% in 2004. Despite certain measures taken by the Chinese government, aimed at slowing down the economy which has been considered as overheated by many renowned analysts, in 2004, the Chinese central bank raised its base interest rate for the first time in the last nine years.

At the end of 2004, the world political and economic events were overshadowed by tragic consequences of the tsunami wave that devastated a large part of the coastline of South and Southeast Asia. Heavy material losses and a large number of casualties caused by this natural disaster will have adverse effects on the economic growth of the area as well as on the growth of the world economy and will become evident in the first half of 2005. Some tourist destinations, particularly in Thailand and Indonesia, may experience a decline in revenues from tourist services over a longer period of time.

Russia, too, recorded strong economic growth, its real annual growth rate reaching 7.1%. The largest contribution to the country's heightened economic activity was made by heavy personal consumption and investment, while an additional stimulus was provided by high oil prices. Russia's earnings from the sale of oil contributed to a significant increase in its foreign exchange reserves. However, the scandal over the oil company Yukos concerning unpaid tax liabilities heightened the concern about protection of property rights and the possibility of a greater government intervention.

Latin American developing countries also recorded strong economic activity, which doubled the annual growth rates in these countries in 2004. The most prominent among them was Argentina with a 9% annual growth rate achieved in 2004.

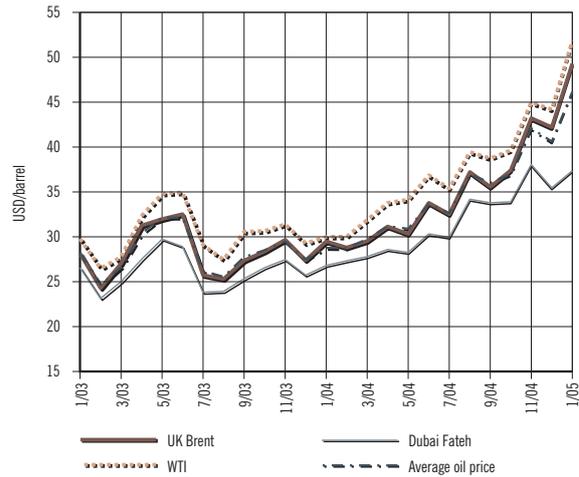
## 1.1.5 Oil Price Movements

Among the main challenges to the global economic growth in 2004 were high crude oil prices, and the prospects are that they will affect the global growth potentials in 2005, too. The average daily crude oil price per barrel rose by more than 30% in 2004, from USD 30 in December 2003 to USD 39 at end-2004, exceeding USD 50 per barrel during the year. Oil prices were stable at the beginning of 2004, standing at about USD 32.5 per barrel in the first four months of the year. The first major increase in crude oil prices was recorded in May as the result of heightened concern that oil production might not be enough to satisfy

growing demand spurred by the global economic growth. At that time, for the first time in the last nine years, crude oil price on the world market exceeded USD 37 per barrel. A mild decline in prices in June was followed by another increase in August. Owing to an oil industry strike in Norway, the world's third largest oil exporting country, several attacks on Iraqi pipelines, political disturbances in Venezuela and a fire at the US's third largest oil refinery, as well as financial difficulties of the Russian oil giant Yukos, the average crude oil price rose to USD 42 per barrel. Hurricane Ivan that struck the Mexican Gulf coast causing temporary refinery shutdowns in the area, oil industry strikes in Nigeria and concern about insufficient heating oil supplies resulted in a further increase in oil prices that reached a record USD 46.9 per barrel in October. In early November, interest rates in China rose unexpectedly, which caused uncertainty about the demand in the world's second largest energy consumer and a mild decline in oil prices (in November, the average crude oil price was USD 42 per barrel). Given the relatively high temperatures in December, the downward trend in oil prices continued toward the year-end, so that prices held at around USD 39 per barrel. In reaction to this, OPEC announced that it would cut output by around 1 million barrels a day. Although high oil prices in 2004 did not pose any major threat to the world economic growth or spur inflation, the risk of this to happen has still existed in 2005.

1.6

Crude Oil Price on the World Market



Source: Bloomberg.

## 1.2 Economic Activity

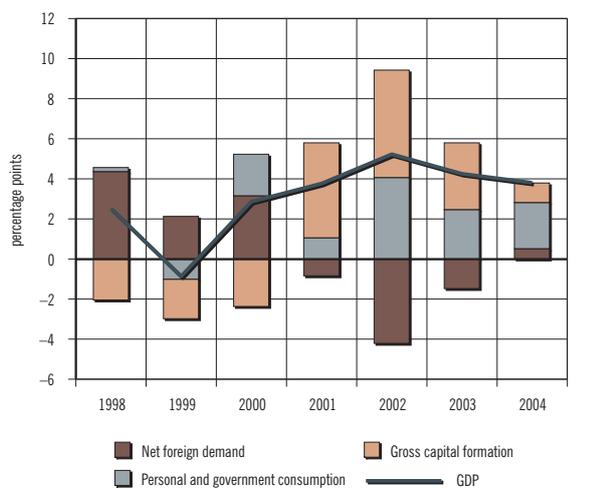
### 1.2.1 Demand

According to quarterly GDP estimates, economic growth slowed down to 3.8% in real terms in 2004, from 4.3% in 2003.<sup>1</sup> Influenced by investment's steady weakening during the year, the slowdown was particularly noticeable in mid-last year. The slowdown in total investments growth was particularly pronounced in the third quarter of 2004 following the completion of the investment cycle in road construction, and this stagnation continued into the last quarter of 2004. The contribution of the most significant component of aggregate demand, personal consumption, fell slightly in 2004 in comparison with 2003. Weakening of the contribution of individual components of domestic demand was accompanied by favourable developments in foreign trade and external imbalance alleviation. Such dynamics of the individual components of GDP has changed significantly

<sup>1</sup> CBS data on GDP for 2002, 2003 and 2004 are provisional data only and are based on quarterly GDP estimates (which are not harmonised with the annual GDP calculation).

## 1.7

## Contributions of Domestic and Foreign Demand to GDP Growth



Source: CBS.

the structure of the sources of its growth in the second half of 2004 compared with the first half of that year and the year before.

The rate of change of the general level of prices measured by implicit GDP deflator stood at 3.3% in 2004, an increase of 0.1 percentage points compared with its growth in 2003. The growth of personal consumption deflator accelerated to 2.2% in 2004, the growth rate almost equal to that of consumer prices in that year. A steady difference between the growth rate of personal consumption deflator and the rate of inflation was further driven by high growth rates of the deflator of total gross capital formation and government consumption. With the realised real economic growth and general price increase, nominal GDP was estimated at HRK 207.1bn in 2004, an increase of HRK 14.0bn or 7.3% in nominal terms compared with the previous year.

*Personal consumption* was again the strongest generator of GDP growth in 2004 despite its real growth's steady fall. A slight deceleration in the growth of personal consumption to 3.9% did not affect significantly its contribution to GDP formation which stood at 2.4 percentage points in 2004. The dynamics of personal consumption last year reflected developments in the main sources of its financing. The growth of average real net wages slightly decelerated to 3.6% from 3.8% in 2003. Employment growth also slowed down, affecting to a greater degree the wage bill dynamics. Conversely, indicators of government transfers to the households on the consolidated general government level,<sup>2</sup> with pension payments accounting for the largest share of such transfers, point to their accelerated nominal growth in 2004. Their growth exceeded the rate of inflation in that year, showing that government transfers also grew in real terms in 2004 compared with the previous year. The adjustment of pensions growth<sup>3</sup> for July 2004 with the growth of nominal gross wages in the first half of the year took place in September and involved a one-off adjustment that led to an increase of pensions of 4.0%. The increase partly alleviated the negative effects of the decelerating wage bill in that year and had a positive effect on personal consumption dynamics. Irregular sources of consumption financing also recorded a somewhat slower growth in 2004. Total bank placements to the households rose by approximately 20.0% in 2004 (adjusted for exchange rate changes) compared with the year before, which is a decline compared with the previous years. Housing loans (i.e. financing of investment into housing stock) grew twice faster than other loans for personal consumption financing.

*Government consumption* declined only slightly in real terms in 2004 compared with the previous year and its annual rate of real change stabilised at around -0.3%. Thus, the share of government consumption in total GDP continued its fall from the previous years to below 20.0% of GDP in 2004. Because of its slight decline, the contribution of government consumption to GDP formation was

2 MoF data on the outturn of revenues and expenditures of the consolidated general government according to a new international methodology for government finance statistics (GFS 2001).

3 As provided by the Act Amending the Pension Insurance Act (official gazette *Narodne novine*, No. 30/2004), pension growth adjustment has been conducted since 2004.

neutral in 2004. According to quarterly GDP calculation, the deflator of government consumption stood at 3.8% in 2004, which is a decline compared with 2003. Nevertheless, it continued to boost the total GDP deflator. Original MoF data suggest that the nominal growth of government consumption is attributable to increased wage bill in the public administration, while the dynamics of expenditures for goods and services lagged behind inflation in 2004. With falling employment in the public administration, including education and health sectors, as shown by CBS data, the ensuing lower real consumption in this sector of the government, and slower growth of salaries, the nominal growth of government consumption in 2004 was again boosted by severance payments, which affected the dynamics of the government consumption deflator.

The growth of *gross fixed capital formation*<sup>4</sup> recorded its largest slowdown since its negative growth rate in 2000. Gross fixed capital formation increased in real terms by 4.4% in 2004, which is a decrease of 12.4 percentage points compared with 2003. A slowdown in investment growth which started in the second half of 2003 was particularly pronounced in the second half of 2004. This was mainly the result of reduced capital expenditures of the government following the completion of the investment cycle in road construction which also led to a slowdown in the growth of value added in construction and contraction in production in some segments of industry (mining and quarrying). According to MoF data (GFS 2001), government capital investment, which accounts for approximately one fourth of total capital investment, rose nominally by 7.5%, down more than 25.0 percentage points compared with 2003. Despite their slightly faster nominal growth in 2004 compared with government investment, private investment also grew at a slower rate than in the previous year and could therefore not compensate for the slowdown in government investment. Such a slowdown in investment growth took place despite a somewhat more robust growth of foreign sources of financing (particularly bank placements) of private non-financial companies in 2004 compared with the previous year. Accelerated growth of companies' indebtedness may point to a relative decrease in financing of investment projects from own sources in 2004, compared with 2003. Deceleration in total private investment growth was partly due to a slowdown in household's real estate investment (the growth of housing loans fell from 37.3% in 2003 to 28.7% in 2004). Deceleration in bank placements to the households during 2004 caused convergence of the rates of growth of indebtedness of companies and households, similarly as in the previous year.

The investment slowdown also led to reduced imports of capital equipment and a slowdown in the growth of imports of intermediate products in 2004, whose growth in the previous period was generated by means of domestic investment activity. With the imports of the above-mentioned groups of industrial products accounting for almost 2/3 of merchandise imports, the slowdown in investment activity contributed significantly to total imports slowdown in 2004.

The growth of exports of goods and services also slowed down, though at a slower rate than imports, so overall, exports grew somewhat faster than imports in 2004. While imports' growth steadily decelerated during the year, exports, following a

4 Total gross capital formation consists of a gross fixed capital formation and a change in inventories. However, as the change in inventories also includes statistical discrepancy it is not possible to determine with precision the size and dynamics of this component of gross capital formation. The category of the change in inventories accounts for only 3% of GDP and about one tenth of total investment.

brief deceleration in the second quarter, started to grow faster in the second half of 2004. Such favourable developments in foreign trade helped improve external imbalance while net foreign demand, for the first time since 2000, made a positive contribution to total real growth (0.5 percentage points). Nominal CBS data seem to show that positive developments in foreign trade in 2004 were due to improved dynamics of goods exports and reduced goods trade imbalance, while net exports of services fell mildly compared with 2003. Coverage of imports by exports reached 50.0% in 2004, the ratio last achieved in 2001. By contrast, developments in the service account<sup>5</sup> were, in the same way as in the previous years, determined by the dynamics of receipts from tourism, which fell short of the expectations in 2004. Receipts from tourism held steady nominally throughout 2004, compared with the previous year.

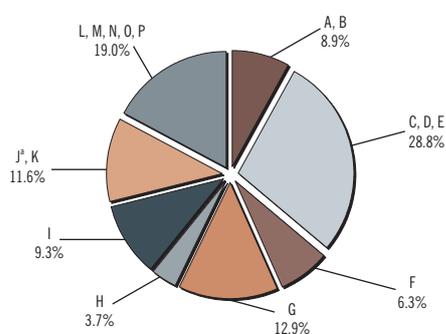
### 1.2.2 Output

Quarterly GDP estimate according to the production method shows that GVA rose by 4.2% in real terms in 2004 compared with the previous year. Rising value added in all economic activities surpassed GDP growth by 0.4 percentage points in 2004 due to significantly slower growth of taxes on goods reduced by government subsidies than GVA growth.<sup>6</sup> However, as the real growth of taxes on products reduced by government subsidies accelerated in 2004 compared with the

previous year, GDP growth lagged behind GVA growth less than in 2003. Construction recorded the largest slowdown in value added in 2004, however, in real terms its growth was still above average because of the high growth rates in the first half of the year. Nevertheless, due to their relatively small share in the structure of total GVA, fast growing activities such as construction, transport, storage and communications did not provide a big contribution to GVA growth. The largest contribution to GVA growth in 2004 was provided by industry, for the first time since 2000. The contributions of distributive trade, hotels and restaurants to total value added formation slowed down slightly during the observed period while the contributions of public and social activities and agriculture were slightly positive. Particularly dynamic growth in value added, unparalleled since 1998, was recorded in agriculture (4.2%).

1.8

Gross Value Added by the NCEA in 2004



A, B – Agriculture, hunting, forestry/Fishing  
 C, D, E – Mining and quarrying/ Manufacturing/ Electricity, gas and water supply  
 F – Construction  
 G – Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods  
 H – Hotels and restaurants

I – T transport, storage and communication  
 J<sup>a</sup>, K – Financial intermediation/ Real estate, renting and business activities  
 L, M, N, O, P – Public administration and defence; compulsory social security, Education/Health and social work, Other community, social and personal services/Private households with employed persons

<sup>a</sup> FISIM excluded.

Source: CBS.

- Differences between total imports and exports according to GDP calculations in the national accounts and according to balance of payments data are still present. These differences arise primarily from different calculations of tourist consumption. In 2003, services exports growth, according to GDP calculations, lagged behind services exports growth according to balance of payments data, while faster growth of services exports in 2004 according to national accounts than according to balance of payments data helped decrease the said differences.
- Income from the sale of goods and services, after exclusion of the income from taxes on goods and addition of the value of received subsidies, is shown in the so called basic prices. GDP calculation according to the production method is carried out by adding together the value added of all economic activities increased by taxes on products and reduced by government subsidies. The CBS does not include this category in its GDP calculation at constant prices so this value may be arrived at as a GDP and GVA residual (expressed at 1997 constant prices).

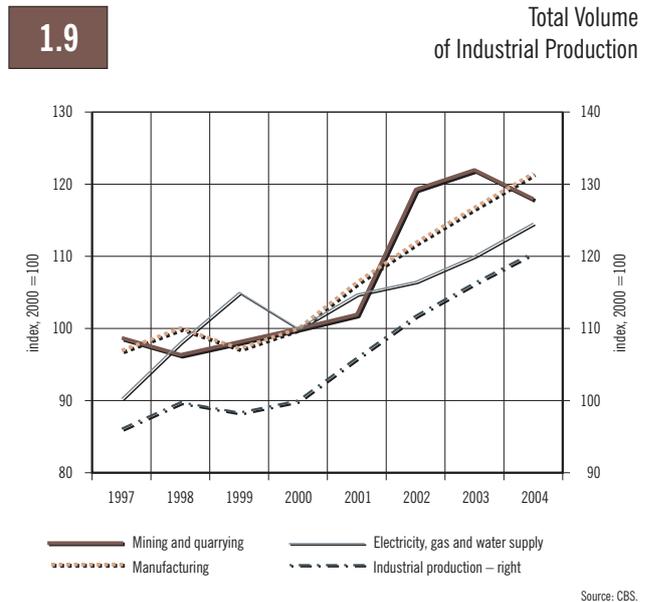
## Industry

The growth of GVA in industry, which comprises manufacturing, mining and quarrying and electricity, gas and water supply, was down in real terms from 4.5% in 2003 to 3.9% in 2004. After a brief slowdown in the annual growth of value added in industry in the second quarter of 2004, the growth of value added accelerated towards the end of the year. These developments were in line with the developments in the volume of industrial production in 2004. The volume of industrial production increased by 3.7% in 2004, a slight slowdown if compared with the previous year. Its fluctuations during the year were in line with the dynamics of value added.

Of the main industrial groupings, only the growth of non-durable consumer goods slowed down in 2004. Accounting for approximately one third of total industrial production, this slowdown led to a deceleration in the growth of industry while the growing domestic demand for this type of products was partly satisfied by imports growth. The most significant growth in 2004 was recorded in the production of intermediate goods (6.0%). The growth in the production of capital goods, largely intended for exports, was also substantial and stood at 5.8%, the fastest production growth recorded in this industrial grouping since 2000 (in 2002 and 2003 the production of this type of products was falling).

A slowdown in the production growth of non-durable consumer goods caused a slight deceleration in the growth of manufacturing which fell from 4.4% in 2003 to 4.1% in 2004. Such developments were mainly the result of a slowdown in the production growth in the second quarter of 2004. By contrast, the growth of electricity, gas and water supply accelerated in 2004. A fall in production was recorded only in mining and quarrying in 2004. The fall in production in mining and quarrying which amounted to 3.3% compared with 2003 started in the second quarter of the year and indicated a slowdown in construction activities in the second half of the year.

Foreign demand for domestic industry products was not strong enough to compensate for the slight weakening of the domestic demand during that period, as shown by nominal CBS data on merchandise trade. Because of this mismatch, the stock of finished industrial products grew by 4.2% in 2004, exceeding industrial production growth, which can primarily be attributed to developments in stocks in the second half of the year.



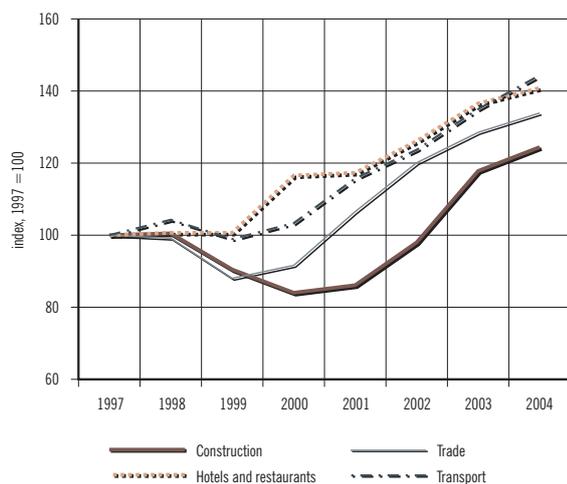
## Construction

GVA in construction rose by 5.6% in 2004 compared with the previous year, but this represented a deceleration in growth of 14.6 percentage points. As an activity

which recorded the largest slowdown in 2004, the contribution of construction to total GVA formation fell by an almost whole percentage point; from 1.3 percentage points in 2003 to 0.4 percentage points in 2004. Such developments were caused primarily by a slowdown in the capital expenditures of the government in the second half of 2004 following the completion of the investment cycle in road construction.

1.10

Gross Value Added in Selected Economic Activities



Source: CBS.

After an almost six-month real contraction in construction activities, as measured by working hours of construction workers at building sites, which started in June 2004,<sup>7</sup> the end of the year and early 2005 again saw positive developments in construction. The upward movements in net construction project orders and value of works according to construction permits issued in the second half of 2004 as well as positive developments in mining and quarrying towards the end of 2004 and in early 2005, might be a sign of new expansion in construction. CBS data on the value of done construction works with own workers show that the growth in the construction of buildings (10.5%) was much faster than that of other construction projects (2.5%), decreasing the share of works on other construction projects in overall construction works, compared with 2003.

### Trade

A slowdown in personal consumption in 2004 led to a somewhat faster slowdown in GVA in trade. GVA in overall trade rose by 4.2% in real terms, compared with the previous year, continuing its downward trend present since 2001, when it recorded its highest growth rates (16.3% in 2001 and 12.7% in 2002) due to the opening and expansion of a large number of chain stores in the country. Such a slowdown in the growth of value added in trade led to a smaller contribution of trade to real growth of GVA in 2004 (0.6 percentage points).

Nominal CBS data on distributive trade in 2004 point to acceleration in the growth of retail trade, which accounted for the largest contribution to GVA growth in trade, while wholesale, following its decelerated growth in the second half of 2003 and early 2004 also recorded a decline in its level in absolute terms in the second and the third quarters of that year. Negative developments in wholesale may be attributed to the stocks accumulated in distributive trade (both retail and wholesale) throughout 2002 and 2003, which grew at rates exceeding 10.0%. The response of wholesale to the falling demand was to reduce its supply and satisfy the demand from the accumulated stocks. That is why stocks fell in absolute terms throughout 2004, while stocks in retail trade grew much slower than in the previous years.

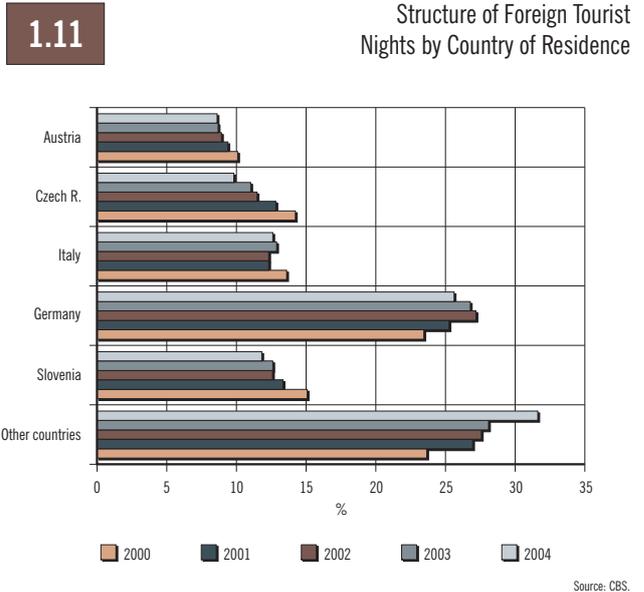
<sup>7</sup> No "summer season effect" was present in 2004, i.e. construction activities did not intensify towards mid-year due to favourable climatic conditions or forthcoming tourist season as they did in the previous years.

## Tourism

According to quarterly GVA estimate, the growth of GVA in hotels and restaurants slowed down towards mid-2004, and its contribution to overall GVA formation in that year amounted to 0.1 percentage points. The growth of value added in hotels and restaurants slowed down in 2004 despite its fast growth in the first and a slight acceleration in the last quarter of the year (outside the main tourist season). This is a smaller contribution than that made by the value added of this activity in 2002 and 2003 (0.3 percentage points) and it is its smallest contribution since 2001. Although hotels and restaurants account for only a smaller share of total value added in the economy (around 3.5%), indirect and direct effects of this segment of the economy on other real developments are by far more significant than this contribution may suggest.

The described developments are in line with the stagnation in total nominal income (i.e. net income reduction) recorded in 2004 by balance of payments on the item Travel and with the developments in volume indices available on a monthly level, involving the number of tourist nights and the number of arrivals. As tourist arrivals throughout 2004 grew faster than the number of tourist nights, the number of nights per arrival in all twelve months of that year (5.5 nights) was slightly below that in 2003 when the average was 5.6 nights per arrival. Tourist arrivals and tourist nights of individual tourists nevertheless continued to grow faster, despite slower growth during 2004, than the number of arrivals and night stays of tourists arriving in organised groups.

Although tourists from Germany (25.6%), Italy (12.6%), Slovenia (11.8%), the Czech R. (9.8%) and Austria (8.6%) accounted for the major share of tourist nights in 2004, their share, particularly the share of tourists from the Czech R., Germany and Slovenia, in the structure of total foreign tourist nights, fell slightly in comparison with the previous years due to a more rapid growth in arrivals and tourist nights of tourists from France, Hungary, the Netherlands, Russia and Great Britain.



## Transport and Communications

Following acceleration in 2003, the real growth of GVA in transport, storage and communications fell to 6.9%, a rate of growth still above average compared with other activities. The contribution of this activity to real overall GVA growth on an annual level in 2004 was 0.6 percentage points. The number of transported passengers held steady in 2004 compared with 2003 while the annual growth in the quantity of transported goods, measured in tons, slowed down in the first three quarters, and declined in absolute terms in the last quarter (at -6.7% annual rate of change), resulting in a moderate growth in goods transport in that year (1.0%).

A slowdown in volume indices and value added in transport, storage and communications in 2004 may be related to developments in the current account during the same period.

Road transport, as the most significant type of transport which accounts for over one half of total transport of goods and passengers declined by 8.7% in 2004, measured in passenger-kilometres, compared with 2003. Measured in ton-kilometres, it rose by 7.0% compared with 2003. The most marked growth of activity in the past several years was observed in telecommunications. The number of minutes spent in fixed and mobile network rose by 5.8% and 14.9%, respectively, in 2004, compared with 2003. This growth is based on strong competition, rising number of users and introduction of an ever-increasing number of new services in the mobile network. These developments were even more pronounced in 2003; the number of minutes spent in mobile and fixed network rose by 27.7% and 12.4%, respectively, compared with the previous year 2002.

## Economic Activity in Early 2005

According to available monthly indicators of economic activity, the beginning of this year was marked by a slowdown in the economic growth in the real sector of the economy. Such developments of monthly indicators indicate that the growth of gross domestic product will continue to slow down throughout the first quarter, though it is difficult to forecast the intensity of the slowdown.<sup>8</sup> The volume indices of growth in industry, trade, construction and tourism, as well as merchandise trade data early this year point to the weakening of the domestic and net foreign demand as the main causes of deceleration in total economic activity.

Dynamic growth in the volume indices of industrial production towards the end of 2004 and in early 2005 was followed by stagnation in February and March. According to seasonal and calendar adjusted data, its annual growth rate fell from 3.2% in the last quarter of 2004 to 2.6% in the first quarter of 2005. The slowdown in the growth of industrial production in early 2005 can largely be attributed to negative developments in the manufacture of intermediate products.<sup>9</sup> The slowdown in industrial production was also caused by weakened domestic demand for investment goods as shown by an annual slowdown in the growth of manufacture of capital goods in February and its more rapid slowdown in March 2005. Weakening of the domestic demand for investment goods during the first quarter of 2005 can also be seen in nominal CBS data on merchandise trade, which show that the annual growth of imports of intermediary products slowed down while the imports of capital products continued their steady downward trend from mid-2004. Given such developments, a recovery in total gross capital formation is not expected to be seen anytime soon. Slower growth of manufacture of consumer durables in the first quarter of 2005 pointed to a somewhat slower dynamics of personal consumption. Their import growth slowed down considerably, and was followed by their slower export dynamics. The first quarter of 2005

<sup>8</sup> According to CBS calendar of statistical data issue in 2005, quarterly GDP estimate for the first quarter 2005 will be available on 30 June 2005.

<sup>9</sup> These developments (relating to 1/3 of total industrial production) can at least partly be attributed to extremely low temperatures and increased gas consumption by households and small producers who have priority in supply, which led to reduced gas supply to large producers who are also large consumers of gas.

was thus characterised by a slowdown in total demand for all the most important groupings of domestic products which led to a rapid growth in stocks of finished industrial products.

After initial slight acceleration in the annual growth of real retail trade turnover in early 2005, retail trade held steady at the level reached early in the second half of 2004. However, as indicated by original and seasonally adjusted data it fell rapidly in February. As this can probably be attributed to a somewhat more pronounced irregular component in that month, retail trade is expected to recover to its previous level by mid-year. However, the fact that the sources for financing personal consumption recorded only a mild annual increase in the first quarter of 2004 might be an indication of a moderate growth of retail trade and personal consumption in the second quarter. The growth of real net wages slowed down considerably in the first quarter of 2005, and so did the growth in the number of persons insured with the CPII. The results of the CNB consumer confidence survey conducted in April 2005 point to a mild increase in consumer optimism and a possible recovery in personal consumption.

Monthly growth in the volume indices of construction projects recorded towards the end of 2004 and in early 2005 came to an abrupt halt in February with a rapid monthly fall in construction activities. Such dynamics in construction may be due to very bad climatic conditions in February 2005 and is not expected to affect construction activities in the following months.<sup>10</sup>

In the first two months of 2005, tourist nights fell by 7.0% cumulatively compared with the same period previous year (the number of tourist arrivals also fell during the same period) which can again be attributed to unfavourable weather conditions. However, as the first quarter accounts for only about 2.0% of total tourist nights, this fall is not really significant in terms of receipts from tourism on an annual level. Particularly noticeable was the fall in domestic tourists nights, whose arrivals accounted for the majority of arrivals, mostly of organised type.

### 1.2.3 Labour Market

While indicators of employment, unemployment and wages for the first half of 2004 pointed to continuing labour market expansion at a rate similar to that in the previous year, the second half of 2004 showed signs of a slowdown. The downward trend in registered unemployment was reversed in the second half of the year and the wage growth was retarded, which was in keeping with the economic activity dynamics in this period. However, given an only slight slowdown in employment growth towards the end of 2004, according to the final CBS data, mainly as the result of reduced employment in public administration, the impact of the slower economic growth in the second half of the year on labour market developments was not strong. According to the labour market indicators, the

<sup>10</sup> Data on planned capital expenditures of the consolidated general government (GFS 2001) in 2005 support such a view. Namely, government investment in infrastructure this year is planned at a level which exceeds the level of capital expenditures of the government in 2004 by 10.0%.

changes in registered unemployment towards the end of 2004 were strongly influenced by the disappearance of the effects of employment intermediation reform carried out in 2002. Consequently, the registered unemployment rate was still not a reliable indicator of the labour market dynamics. The Labour Force Survey data for the second half of 2004, obtained by using the uniform ILO methodology, which is why they were not influenced by institutional reforms in Croatia, will only be available at mid-2005. It will then be possible to provide a clear picture of the labour market dynamics over the reviewed period.

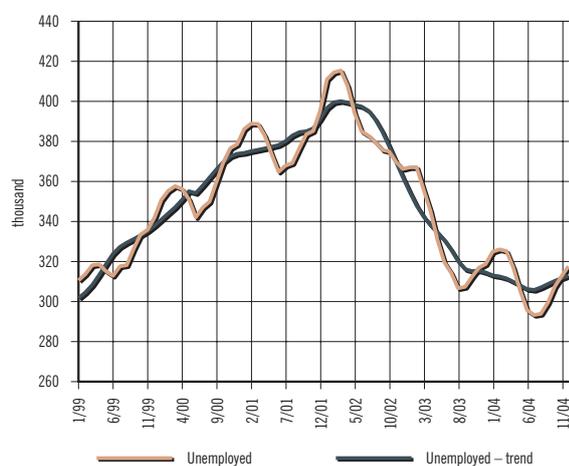
## Employment and Unemployment

Following a sharp decline in registered unemployment at the end of 2002 and over 2003, it stabilised in 2004, but its trend reversed and a slight acceleration of its growth was observed from the middle of the year. As a result, registered unemployment reached almost 318,000 at the end of 2004, approximating its level at the end of the previous year (the number of persons registered with the CES dropped by 1,000 (0.3%) at the end of 2004 compared with end-2003). In line with the developments in the number of persons registered with the CES, the registered unemployment rate stabilised at about 18%, with usual fluctuations resulting from stronger seasonal employment during the summer months and the inflow of the newly registered from schools into the register during the autumn months. In 2004, average unemployment dropped by 1.1 percentage points compared with 2003, and at the end of 2004, partly owing to seasonal factors, registered unemployment rate was 18.5%, 0.2 percentage points down from end-2003.

The beginning of an upward trend in unemployed persons registered with the CES coincided with a slowdown in investment in road infrastructure. This may create an impression that there is a correlation between such registered unemployment trend and the described negative economic developments. However, as the previous decline in registered unemployment (during 2002 and 2003) could not be fully accounted for by favourable economic developments and growing employment, so the reversal of its trend in 2004 cannot be linked with the stated slower growth in investment and in overall economic activity.

### 1.12

Unemployed Persons Registered with the Croatian Employment Service



Source: CES.

There are several reasons to assume that the economic downturn in the second half of 2004 had a limited impact on the labour market. First, the second half of 2004 saw a continuation of employment growth at a rate similar to that at the beginning of the year, with an only slight slowdown compared with 2003. This slowdown mainly resulted from reduced employment in public services, while construction, which bore the brunt of the economic downturn, recorded no major decline in employment during 2004. A rise in registered unemployment paralleled with continued growth of employment resulted in a strong upward trend in labour force towards the end of 2004, after several years of its decline. On the whole, the labour market

**Table 1.1** Inflows into and Outflows from the CES Register  
rate of change over the same period last year, in %

	1 – 6/2004	7 – 12/2004	2004	Share in total flow		
	1 – 6/2003	7 – 12/2003	2003	1 – 6/2004	7 – 12/2004	2004
<b>Newly registered</b>	<b>10.4</b>	<b>2.5</b>	<b>5.8</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Directly from employment	4.8	9.5	7.4	57.3	58.2	57.8
From private agriculture or similar works	-21.1	-40.9	-32.7	1.1	0.9	1.0
Directly from school	-4.6	2.2	0.8	4.5	14.8	10.3
From inactivity	24.3	-8.0	6.6	37.1	26.1	31.0
First-time job seekers	13.7	-6.9	0.3	23.6	28.5	26.3
Previously employed	9.4	6.8	8.0	76.4	71.5	73.7
<b>Outflow from the CES register</b>	<b>-9.2</b>	<b>-14.4</b>	<b>-11.7</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Outflow from the register to employment	-6.0	-2.7	-4.6	58.6	53.5	56.2
Cleared for other reasons	-13.4	-24.8	-19.5	41.4	46.5	43.8

Source: CES.

dynamics did not change significantly compared with the previous period, and the growth in inflows into and decline in outflows from the CES register followed similar trends towards the end of 2004. Such inflow and outflow trends have been observed ever since the beginning of the employment intermediation reform in early 2002, when outflows (i.e. clearings) from the CES records rose for a short period of time and inflows into the register declined. The level of inflows into the CES register approached the level of outflows from the register as far back as 2003, having slowed down registered unemployment. At mid-2004, these two levels were equalized, which resulted in an upturn in registered unemployment during the second half of the year.

Unlike the fall in registered unemployment during 2002 and 2003, which mainly resulted from the dynamics of the newly registered with the CES, i.e. a temporary decline in their number, the growth in registered unemployment towards the end of 2004 was largely the consequence of a steady downward trend in outflows from the register. A closer analysis into the structure of outflows from the register shows that the largest contribution to the growth in registered unemployment was made by a fall in the number of clearings from the records, i.e. the disappearance of the effects of measures to activate the unemployed. These measures included stricter criteria for the enrolment in and remaining on the CES register. Therefore, a decline in the number of clearings from the CES records in 2004 may be accounted for by a somewhat larger number of clearings in 2002 and 2003, through which a significant number of persons who did not satisfy the new criteria were already removed from the register. Moreover, due to halted growth in inflow of persons from inactivity, which could be linked with subsequent registration of persons who had failed to promptly register with the CES during the reform or had been cleared from the records, inflows into the register slowed down. However, the number of the newly registered stabilised at approximately one fifth below the level of inflows into the CES register reached prior to the employment intermediation reform.

The recovery of inflows may also be accounted for by the stabilisation of the number of persons enrolled in the CES Job Seekers Register, who are not considered as unemployed, at about 12,000 during 2004. As a result, the transfer of the unemployed to the auxiliary CES records stopped, which was a possible reason for a reduced inflow of unemployed persons into the register and, consequently, for

1.13

Total Employment According to Administrative Sources  
seasonally adjusted data



Source: CBS.

reduced registered unemployment. Job seekers are persons who use the employment mediation services without enjoying other unemployment benefits, and are not considered as unemployed. While it is difficult to speculate on the real status of such persons, given that job seekers are mainly younger persons who would not derive substantial benefits from registering with the CES, but would have to meet additional obligations imposed by the Law on Employment Intermediation and Rights During Unemployment and CES regulations, it is likely that they are actually jobless. Therefore, a significant number of these persons would have probably been registered as unemployed, had the Job Seekers Register not been established towards the end of 2002.

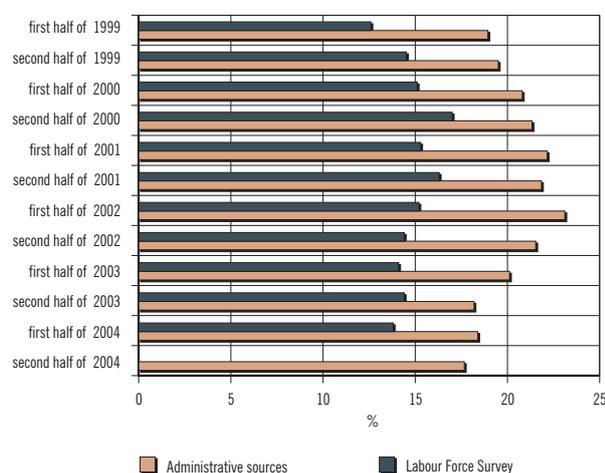
An upward trend in total employment during 2003 was followed by its slight slowdown in 2004. According to the final CES data, total employment rose by an average of 1.2% (17,000) during 2004, much below its annual growth rate of 2.5% recorded in the previous year. A slowdown in employment, although at somewhat higher annual rates, was also indicated by the number of the insured with the CPII, which rose by 1.7% in 2004, following its fast growth at a rate of 3.8% in the previous year, owing to the introduction of obligatory pension insurance contributions on other sources of income besides wages. While the largest contribution to a slowdown in employment growth during 2004 was made by legal entities (their annual growth rate dropped from 2.5% to 1.5%), a decline was also recorded in crafts and trades and free lances (from 5.8% to 4.2%). The number of private farmers showed an even sharper decrease in 2004 (13.0%) compared with 2003 (10.4%), which also contributed to a slowdown in overall employment. As the payment of pension insurance contributions, which is the criterion for the classification of private farmers among the employed, does not necessarily correspond with these persons' actual economic activities, the aggregate data may overestimate the real slowdown in employment. Excluding the impact of a reduced number of active farmers, the slowdown in employment was somewhat milder over 2004 (from 3.1% to 2.0%).

An annual decline in employment was only observed in a few activities in 2004, primarily public administration which saw a 7.7% (almost 9,000) fall in employment. This fall was mainly the result of including up-to-date information on employment in the military and police sectors in the CES employment records, instead of using estimations as before (which resulted in a monthly decrease in employment by almost 10,000 in February 2004). This can be considered as the main cause of the change in total employment dynamics in 2004 compared with 2003.

According to the latest available data for the first half of 2004, the Labour Force Survey unemployment rate continued its downward trend. Such Labour Force Survey unemployment dynamics were much closer to the registered unemployment dynamics than in the previous two years. As a result, the difference between

1.14

Administrative and Labour Force Survey Unemployment Rates



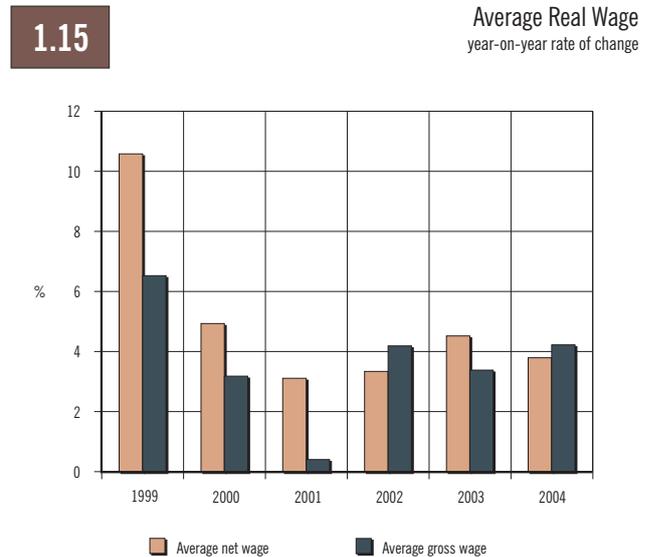
Source: CBS.

the Labour Force Survey and registered unemployment rates stabilised in that period. However, the registered unemployment rate was much higher than the Labour Force Survey rate, indicating that the CES records still included a significant number of persons who were either employed in the unofficial sector or were not actively seeking jobs, despite the CES measures to activate the unemployed, carried out during the last two years. As the Labour Force Survey indicators for the second half of 2004 were unavailable at the time of drawing up this report (their publication is expected at mid-2005) it is impossible to make a reliable assessment of employment and unemployment trends in 2004.

## Wages and Labour Costs

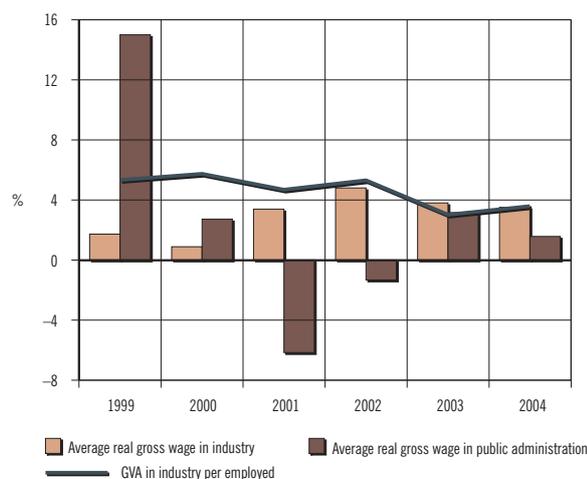
In 2004, the average real net wage grew at an annual rate of 3.8%, slower than in the previous year when it rose by 4.5%. However, its dynamics remained within the narrow range from the last four years. A slowdown in the growth of average real net wage resulted from its slower annual growth at end-2004, when it began to stagnate. Contrary to this, the growth of average real gross wage (i.e. labour cost) accelerated to 4.2% at the annual level in 2004, exceeding its growth in the previous year by almost 1.2 percentage points, as well as the growth of average net wage in 2004. The discrepancy between the average real gross wage and average real net wage dynamics was the consequence of the tax progression which, in interaction with wage growth, increased the average tax burden. In early 2003, the non-taxable portion of wage was increased, which slowed the growth in overall labour costs compared with the growth of net wages. In early 2005, the non-taxable wage base was further increased and additional allowances for supported family members were introduced. This is going to restrain the growth of labour costs in the current year and compensate for the increase in tax burden in 2004.

Besides the heavier tax burden, the slowdown in average real net wage during 2004 was caused by the reintroduction of a strict wage policy in the public sector as a result of fiscal restrictions that followed the wage policy relaxing in the second half of 2002 and over 2003. The nominal growth of average gross wage in public administration (including education, health protection and social welfare) slowed down from 5.0% in 2003 to 3.7% in 2004. Taking into account the described tax effects and the effects of consumer price growth, which accelerated in 2004, the slowdown in real net wages in public administration was much sharper (from 4.8% in 2003 to 1.8% in 2004). Apart from a direct effect of restricted wage bill in public administration on a slowdown in the average wage growth in overall economy, the stagnation of real wages in public administration reduced the pressures on wage growth in other sectors, thus contributing to the correspondence between the real growth of labour costs and real growth in economic activity in 2004.



1.16

Gross Wage and GVA in Industry per Employed  
year-on-year rate of change



Source: Calculation based on CBS data.

Stronger growth of labour costs during 2004 was only recorded in a small number of activities, i.e. agriculture, electricity, gas and water supply, trade and other social and personal services. Labour costs in health care and education also grew faster in real terms, which was offset by real average wage contraction in public administration (in the narrow sense). Therefore, fiscal restrictions did not equally affect all public services, as the government applied differentiated wage policy to individual public sector services. In other activities, labour costs either slowed down or followed the same trend as in 2003. As a result, the growth of average real gross wage in industry remained stable in 2004 compared with the previous year, but it outpaced the labour productivity growth in industry for the second consecutive year. However, as this change of relationship between the growth of labour costs and labour productivity did not result from faster growth of labour costs but from slower growth of productivity, owing to the expansion of employment in industry, it can be assumed that it will not increase inflationary pressures. At the end of 2004 and in early 2005, the growth of labour costs slowed down, providing for a continuation of employment growth.

### Labour Market in Early 2005

The upward trend in registered unemployment that started at mid-2004 slowed in early 2005. The slowdown in registered unemployment was mainly due to reduced inflows into the CES register. It is therefore possible that the described dynamics of registered unemployment in the reviewed period resulted from external factors, i.e. the discretion of unemployed and inactive persons to register with the CES, rather than from employment growth. Other labour market indicators point to somewhat stronger effects of economic activity slowdown in the first quarter of 2005 compared with end-2004, which resulted in slower growth of employment and stagnant labour costs. Owing to a break in the total employment data series, caused by the preliminary nature of the CES data since February 2004, it is difficult to establish the employment dynamics in early 2005. However, the CPII data on the insured clearly show that the slowdown in employment continued. Employment in crafts and trades and free lances grew slower (at an annual rate of 2.3% in the first quarter compared with the average growth rate of 5.2% for the whole 2004). The total number of the insured with the CPII also trended downwards (the annual rate of its growth was 0.9% in the first quarter of 2004 compared with the average growth rate of 1.3% for the whole year). The registered unemployment rate reached 19.2% in the first quarter of 2005 and was 1.2 percentage points higher than in 2004. Consequently, at the beginning of 2005, the registered unemployment rate exceeded the average rate for the whole 2004, even after excluding the seasonal factors, common for the winter period.

Owing to the disappearance of the base effects of strong labour costs growth from the beginning of 2004 and their stagnation in real terms since mid-2004, the annual rates of growth in labour costs dropped further at the beginning of 2005.

The annual growth rate of real gross wage was 1.4% in the first quarter, the lowest growth rate since the beginning of 2002. An additional contribution to the slowdown in labour costs was made by the tax reform. It provided for somewhat faster growth of net wages in the first quarter of 2005, which exceeded the growth of average labour costs by 0.5 percentage points.

## 1.2.4 Prices and Exchange Rate

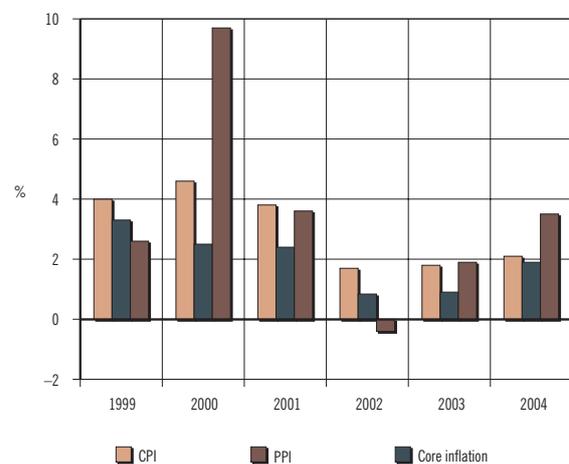
### Prices

Consumer price inflation accelerated slightly in 2004 compared with 2003. The year-on-year rate of change of the consumer price index grew by 1.0 percentage point at end-2004, from 1.7% in December 2003 to 2.7% December 2004, while the average year-on-year rate of change of the consumer price index grew by 0.3 percentage points, from 1.8% in 2003 to 2.1% in 2004. The year-on-year rate of inflation, recorded at end-2004, is considered low – it exceeded by only 0.3 percentage points the 2.4% inflation rate registered in the eurozone in December (measured by the HICP). The same as in the eurozone, the average year-on-year rate of inflation in Croatia stood at 2.1% in 2004.

Through its monetary policy actions, the central bank contributed to the maintenance of the relative stability of the exchange rate of the kuna against the euro.<sup>11</sup> As the main anchor for domestic inflationary expectations, it also helps to preserve the stability of prices of raw materials and final goods imported from the eurozone. Relatively subdued domestic inflationary pressures emerged, inter alia, from the slowdown in personal consumption, stagnation in government consumption and growth in stocks of finished industrial products. Furthermore, domestic economy is marked with a relatively high unemployment rate that restrains the demands for higher wages and reduces the negotiating power of trade unions. A mild nominal increase in wages of 5.8% was slower than the growth in labour productivity in 2004 compared with 2003. The strong competitiveness of import products and the fierce competition in retail trade continue to be the factors that substantially contribute to price stability. Despite imported inflationary pressures, the domestic rate of inflation did not accelerate significantly. In part, this can be attributed to the appreciation of the kuna against the US dollar<sup>12</sup> that mitigated the strong growth in crude oil prices and other raw materials prices in the world market (metal especially).

1.17

CPI, Core Inflation and PPI  
average year-on-year rate of change



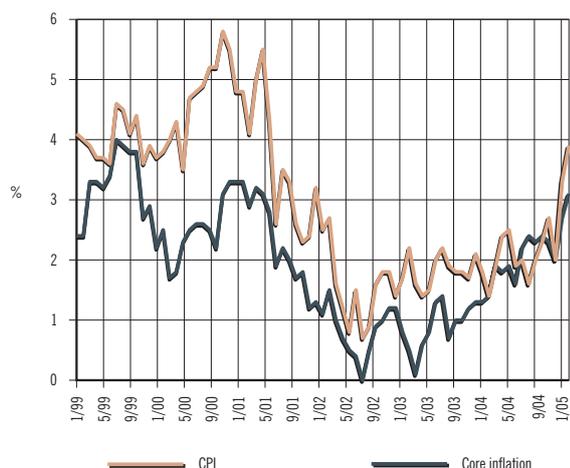
Source: CBS.

11 The kuna/euro exchange rate appreciated slightly in 2004 (the average daily exchange rate of the kuna against the euro strengthened by 0.9% in 2004 compared with 2003).

12 The average daily exchange rate of the kuna against the US dollar strengthened by 9.9% in 2004 compared with 2003.

1.18

CPI and Core Inflation<sup>a</sup>  
year-on-year rate of change



<sup>a</sup> Core inflation is calculated 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 consumer price index.

Source: CBS.

For the most part, the year-on-year rate of consumer price inflation grew in 2004 due to the increase in the year-on-year rate of change of administrative prices, from 0.7% in December 2003 to 5.5% in December 2004. Accounting for a significant share (22.6%) in the CPI basket, administrative prices significantly impact the developments in total consumer price inflation. The registered acceleration in administrative prices was essentially the result of the increase in crude oil prices and the increase in other administrative prices (especially gas and household water prices). Due to the increase in the year-on-year rate of change of prices of housing, water and electricity, the contribution of this group of products to inflation grew from 0.1 percentage point in December 2003 to 0.9 percentage points in December 2004. The increase in prices of gas and heating oil was the consequence of their growth in the world market, while the growth in the household water price was stimulated by the new

fee for the wastewater treatment.

In 2004, the total year-on-year rate of change of consumer prices grew also on account of the increase in prices of tobacco products.<sup>13</sup> As a significant portion of tobacco products prices is accounted for by excise taxes, they are strongly impacted by administrative decisions. Introduced in mid-July 2004 and aimed at increasing budget revenues, higher excise taxes on tobacco products contributed to the increase in the year-on-year rate of change of prices of alcoholic drinks and tobacco, from 1.4% in December 2003 to 10.2% in December 2004. As a result,

Tablica 1.2 Consumer Price Index  
year-on-year rate of change

	Weight 2004	12/2003	3/2004	6/2004	9/2004	12/2004	3/2005
<b>Total</b>	<b>100.0</b>	<b>1.7</b>	<b>1.4</b>	<b>2.5</b>	<b>1.6</b>	<b>2.7</b>	<b>3.9</b>
Food and non-alcoholic beverages	33.0	2.8	3.5	1.6	-1.7	2.4	5.5
Alcoholic drinks and tobacco	5.4	1.4	1.4	1.4	10.4	10.2	10.6
Clothing and footwear	8.3	-0.7	-1.8	1.5	-0.7	-1.7	-1.2
Housing, water, energy, gas and other fuels	14.3	0.7	0.5	4.5	5.4	6.0	6.0
Furniture, equipment and maintenance	4.8	-0.6	-0.4	-0.6	-0.5	0.2	1.6
Health	2.8	5.5	5.5	3.3	3.0	1.0	0.8
Transport	11.3	2.2	-1.9	5.4	3.1	2.6	3.3
Communication	4.5	-0.2	-0.2	-0.2	-0.1	-0.5	-0.4
Recreation and culture	5.6	1.6	3.2	3.9	3.2	2.5	1.8
Education	0.9	0.3	0.6	0.6	1.2	1.1	1.4
Catering services	3.2	3.9	4.1	3.9	4.0	2.8	2.1
Miscellaneous goods and services	5.9	1.6	2.0	2.1	2.0	1.9	1.8
<b>Goods</b>	<b>77.3</b>	<b>1.6</b>	<b>1.1</b>	<b>2.1</b>	<b>0.7</b>	<b>2.5</b>	<b>4.1</b>
<b>Services</b>	<b>22.7</b>	<b>2.2</b>	<b>2.6</b>	<b>3.7</b>	<b>4.3</b>	<b>3.6</b>	<b>3.2</b>

Source: CBS.

13 Tobacco products account for 3.7% of the CPI basket.

the contribution of this group of products to the total year-on-year inflation rate grew from 0.1 percentage point in December 2003 to 0.6 percentage points in December 2004. This contribution will however disappear in August 2005 and it is expected that it will have no lasting impact on inflation.

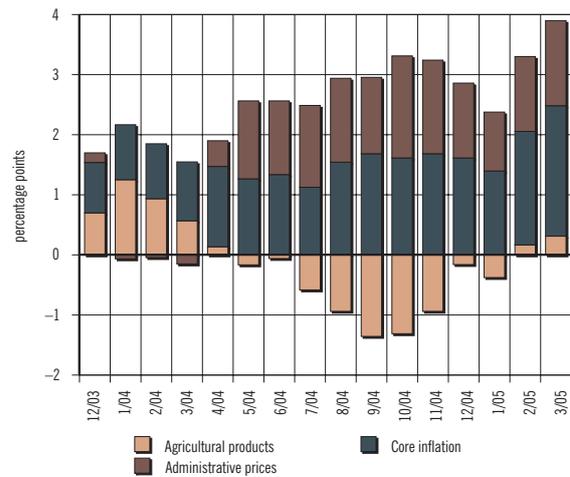
In the face of a considerable increase in the year-on-year rate of change of prices of fuels for personal transport equipment (from 1.0% in December 2003 to 9.7% in December 2004), the contribution of transport prices to the total year-on-year inflation rate of consumer price was moderate in 2004 (it grew from 0.2 percentage points in 2003 to 0.3 percentage points in 2004) due to the reverse impact of the fall in the year-on-year rate of change of price of personal automobiles (from 3.2% in December 2003 to -4.0% in December 2004) on the developments in transport prices. The price of personal automobiles fell in 2004 due to the introduction of the additional favourable conditions for the purchase of some medium-class automobiles, as well as due to the appreciation of the average exchange rate of the kuna against the euro and the US dollar – in which the prices of personal automobiles are most often expressed. Introduced in mid-July, higher excise taxes on automobiles had not impact on the annual growth in automobile prices.

Reflecting the 30.4% growth in crude oil prices in the world market (the average daily price of crude oil rose from USD 30.0 a barrel in December 2003 to USD 39.0 a barrel in December 2004), domestic prices of refined petroleum products grew by 12.3% in 2004 (fuel prices grew by 9.7% and heating oil prices by 35.7%). Crude oil prices expressed in kuna terms show that the growth was considerably lower and stood at 17.6% due to the appreciation of the kuna against the US dollar. The upward trend in refined petroleum products prices was registered in the eurozone countries as well as in some neighbouring countries. Although they were exposed to somewhat faster growth in oil prices (expressed in euro terms), their refined petroleum products prices grew at a substantially lower rate. Expressed in euros, a crude oil barrel grew by 19.7% year-on-year in December 2004, contributing to a 8.7% growth in fuel prices and a 24.1% growth in heating oil prices in the eurozone (much lower growth rates compared to those registered in Croatia). In Slovenia, for example, fuel prices grew by 9.0% and heating oil prices by 30.0%. In 2004, the price of a crude oil barrel grew on account of several factors. On the supply side, the most prominent were the unstable political situation in Iraq, Venezuela and Nigeria, the oil industry strike in Norway, and the suspension of oil deliveries by Yukos (one of the biggest Russian producers) due to the financial problems. Bad weather in the Gulf of Mexico and the delayed production brought about the rise in oil prices in September and October. The upward trend in oil prices, in addition to supply shocks, was also fuelled by the growth in global demand stimulated by the strong economic growth in China and the USA and the reduced crude oil stocks registered in 2004 in the USA.

In 2004, other raw materials prices also grew in the world market – by 10.6% (December 2004 to December 2003) measured by the aggregate HWWA index (in US dollar terms, energy prices excluded). However, this growth was weaker

1.19

Contribution<sup>a</sup> of CPI Components to Year-on-Year Inflation Rate

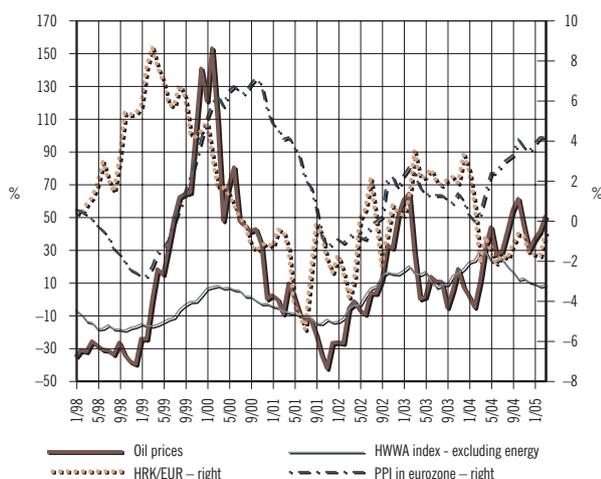


<sup>a</sup> The contribution is defined as the relative importance of a certain component of the consumer price index in total inflation. The sum of contributions of all components expressed in percentage points in a relevant month is the amount of the year-on-year consumer price inflation rate.

Sources: CBS and CNB calculations.

1.20

Imported Inflation: Oil Prices, HWWA Index<sup>a</sup>, Average Kuna/Euro Exchange Rate and PPI in Eurozone



<sup>a</sup> The Hamburg Institute of International Economics (HWWA) constructed the aggregate index of raw materials prices in the world market, the so-called HWWA index. The HWWA index is the indicator of movements in costs for imported raw materials (it includes a total of 29 raw materials or 27 excluding energy) and it is used in analysing the influence of changes in the prices of raw materials in the world market on the changes in prices in industrial countries. The index is calculated on the basis of raw materials prices expressed in US dollars.

Sources: Bloomberg, HWWA, Eurostat and CNB.

in 2004 than in 2003 (18.8%). 2004 also saw a pronounced growth in prices of iron ores (40.6%), sugar (30.7%) and non-ferrous metals (24.3%). Measured by the HWWA index (expressed in euro terms), raw materials prices in the world market grew by a modest 1.3%.

The year-on-year rate of change of producer prices in the eurozone grew considerably in 2004 (from 1.0% in December 2003 to 3.6% in December 2004). Above all, this was the result of direct and indirect effects of the increase in crude oil prices and other raw materials prices in the world market. Therefore, total imported pressures on the growth in domestic prices registered in 2004 may be estimated as significant.

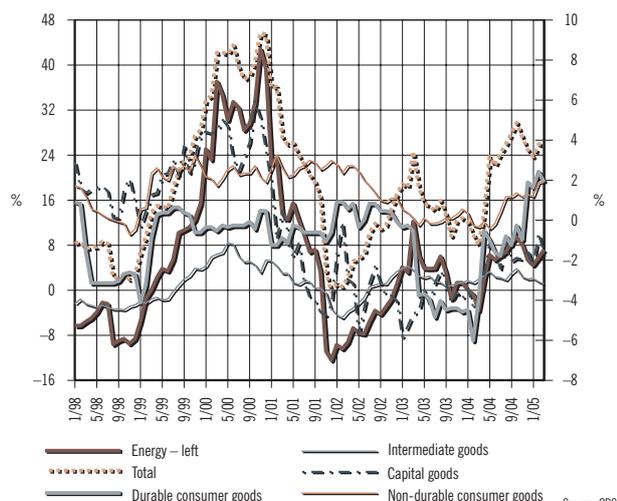
Since the calculation of the core consumer price inflation index<sup>14</sup> (compiled by the CBS) does not exclude the impact of excise taxes on the movements in core inflation, 2004 saw a noticeable growth in the core inflation rate (from 1.2% in December 2003 to 2.3% in December 2004) that, to a large extent, may be attributed to the growth in tobacco products prices (12.7% year-on-year). Their contribution to the core inflation rate stood at 0.7 percentage points in December 2004 relative to 0.0 percentage points in December 2003.

The second factor that largely contributed to the growth in the core inflation rate in 2004 was the increase in the year-on-year rate of change of the price of meat, from -2.6% in December 2003 to 3.5% in December 2004. Taking into account the significant share of this group of products in the core CPI basket (13.6%), its contribution to the core inflation rate grew from -0.4 percentage points in December 2003 to 0.5 percentage points in December 2004. In addition, there was a significant spillover of the increase in refined petroleum products prices into goods and services prices, especially those in whose production this input is largely used. For example, the price of services in road and air transportation grew on average by 5.6% and 3.7% respectively in December 2004 compared with December 2003. Overall, the movements in prices of other groups of products whose prices are freely determined by market forces were relatively stable in 2004.

The increased contribution of core inflation and administrative prices to the total year-on-year inflation rate in 2004 was partly offset by the fall in the contribution of agricultural products prices; their year-on-year rate of change fell from 9.7% in December 2003 to

1.21

PPI by Main Industrial Groupings year-on-year rate of change



Source: CBS.

14 In 2004, goods and services accounted for 70.3% of the core CPI basket.

–2.2% in December 2004 due to, among other things, more favourable weather conditions in 2004 than in the droughty 2003.

Overall, producer prices of industrial products grew strongly in 2004. The year-on-year rate change of producer prices grew from 1.0% in December 2003 to 4.8% in December 2004. In large part, this growth can be attributed to the growth in the year-on-year rate of change of energy prices, from 1.3% in December 2003 to 5.4% in December 2004. However, it should be noted that the year-on-year growth rate of prices of final products, which are directly included in the retail trade, has, despite an upward trend in production costs, remained in the zone of low inflation in 2004 and exerted no significant pressures on the growth of the index of consumer prices. The year-on-year rate of change of durable consumer goods prices grew from –4.2% in December 2003 to 3.0% in December 2004, while the year-on-year rate of change of non-durable consumer goods prices grew from 1.5% to 2.3% in the reference period.

## Developments in the First Quarter of 2005

In January 2005, the year-on-year consumer price inflation rate fell by 0.7 percentage points to 2.0%, following its slight acceleration in December 2004. Aided by the base-period effect, it slowed down in January 2005 on account of a 0.3% growth in the consumer price index, which was considerably lower rate of growth compared with that registered in January 2004 – 1.0%. The main contributor to the monthly growth in the consumer price index in January 2005 was the strong growth in the price of vegetables, 11.5% compared with the previous month. Only to some extent, it was offset by the fall in prices of clothing and footwear, 5.7% on average compared with the previous month. The core index of consumer prices, which excludes the most volatile components such as vegetables and energy, fell by 0.4% in January compared with the previous month, while the year-on-year core inflation rate fell from 2.3% in December 2004 to 2.0% in January 2005. The level of producer prices remained on average unchanged in January 2005. Aided by the base-period effect, the year-on-year rate of change of producer prices fell from 4.8% in December 2004 to 4.4% in January.

Inflation rose mildly towards the end of January. The index of consumer prices grew by a significant 1.1% in February over the previous month, with food prices contributing 0.9 percentage points to the total growth in inflation. The monthly growth of food prices in February was fuelled by the 14.2% increase in vegetable prices (caused by the drop in temperature). As a result, this group of products contributed 0.6 percentage points to the total monthly inflation. February also saw an upturn in prices of meat, 2.1% on average, compared with January. The contribution of this group of products to the total monthly inflation stood at 0.2 percentage points.

Consumer prices grew rather strongly in March – 0.7% over the previous month. As in February, this growth was mostly the consequence of the increase in food prices (0.3 percentage points), especially the prices of agricultural products and meat. The seasonal growth in prices of clothing and footwear and the increase in refined petroleum products also made a significant contribution to the monthly growth in prices in March (0.2 percentage points each).

Aided by the strong monthly growth in consumer prices and the base-period effect, the year-on-year consumer price inflation rate grew from 2.0% in January to 3.3% in February and to 3.9% in March. The core index of consumer prices grew by 0.5% in March, the same as in February. The year-on-year core inflation rate rose from 2.0% in January to 2.7% in February and to 3.1% in March.

Producer prices rose by 0.3% on average in February compared with the previous month, with the highest growth rates being observed in those industrial groupings that include energy (due to the growth in refined petroleum products prices) and capital goods. Underpinned by a further growth in energy prices and prices of durable consumer goods, producer prices grew by an additional 0.3% in March. The year-on-year rate of change of producer prices went up from 4.8% in January to 5.1% in February, the level it held also in March.

### Exchange Rate

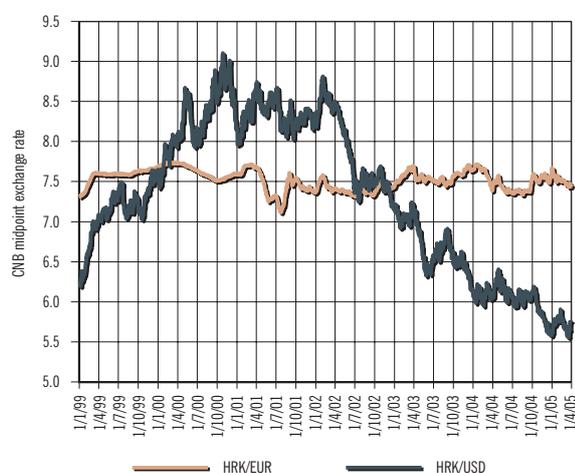
Despite slightly pronounced appreciation trends, mostly due to increased supply of foreign exchange (significant tourism inflows), foreign borrowings (primarily by banks), growing foreign exchange inflows (goods exports) and appreciation expectations of market participants, the kuna/euro exchange rate was relatively stable throughout 2004. The average daily kuna/euro exchange rate appreciated by 0.9% in nominal terms, from 7.56 in 2003 to 7.50 in 2004. The kuna/euro exchange rate dropped by 0.3% in nominal terms at end-2004 (7.67) compared with end-2003 (7.65). In order to ease the appreciation pressures on the exchange rate, present for the most part of the year, the central bank purchased EUR 510.2m (net) from banks via foreign exchange transactions in 2004 and created a total of 3.8bn in kuna liquidity. A total of eleven foreign exchange auctions were held in 2004: EUR 403.2m were sold at ten foreign exchange auctions and EUR 33.0m were purchased at one foreign exchange auction. An additional EUR 140.0m were purchased from banks via other foreign exchange transactions.

The central bank's foreign exchange transactions also involved the transactions with the government which purchased a significant portion of the foreign exchange, required for external debt service, directly from the CNB and consequently reduced the intensity of demand for foreign exchange in the foreign exchange market. In 2004, the CNB sold EUR 94.7m (net) to the MoF and withdrew from circulation a total of HRK 741.7m.

In the first quarter of 2004, the kuna strengthened against the euro by 3.3%. The euro fell from 7.65 kunas at end-2003 to 7.40 kunas at the end of the first quarter of 2004. Slight depreciation trends were observed only in the first half of January, which is common for the beginning of the year when there is an increase in demand for foreign exchange required for servicing the external debt and settling the short-term corporate foreign exchange liabilities. In January 2004, the central bank intervened by selling a total of

1.22

Daily Nominal Exchange Rate – HRK vs. EUR and USD



Source: CNB.

EUR 33.0m to banks at the foreign exchange auction held on 8 January. The government made no contribution to the strengthening of depreciation pressure on the domestic foreign exchange market. Its January liabilities of USD 128.5m, which mainly referred to the London and Paris Club, were settled from foreign exchange inflows generated in 2003.

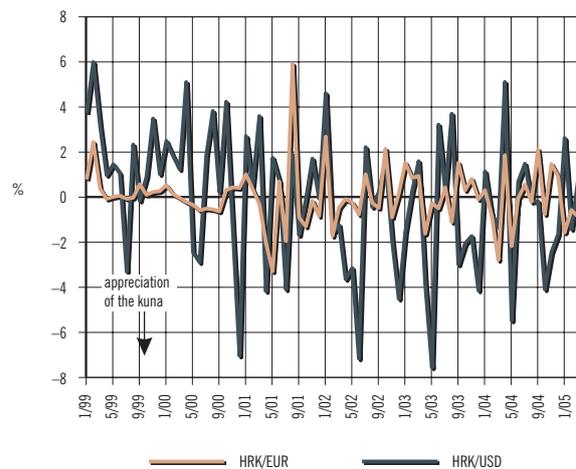
The appreciation trend of the kuna against the euro that started in the second half of January continued into February and March. Expressed in nominal terms, the kuna strengthened against the euro by a modest 0.8% in February 2004, prompting no CNB intervention in the domestic foreign exchange market. In February, the central bank sold USD 56.0m (net) to the MoF. The nominal kuna/euro exchange rate appreciated more strongly in March 2004, by 2.8%, while the euro fell from 7.61 kunas on 29 February to 7.40 kunas on 31 March. In an attempt to mitigate the intensity of the kuna appreciation against the euro, the central bank intervened four times in March, purchasing from banks a total of EUR 162.7m. In this manner, it created a significant amount of kuna liquidity, totalling HRK 1,215.1m. Increased demand for domestic currency, recorded during the first quarter of 2004, was chiefly triggered by the subscription of government bonds (equivalent to EUR 200.0m in February and EUR 150.0m in March).

After two-and-a-half-months of appreciation, the kuna/euro exchange rate started to depreciate in early April. The abundant kuna liquidity, generated through March auctions, was reinforced by the central bank's purchase of a portion of MoF's foreign exchange inflow from issued eurobonds (EUR 145.0m) on 16 April, creating an additional 1,081.7m in kuna liquidity. Movements on the domestic foreign exchange market during the entire April were marked by the kuna weakening against the euro of 1.9%, from HRK 7.40/EUR on 31 March to HRK 7.53/EUR on 30 April. In the run-up to the peak tourist season (May), the kuna started to appreciate against the euro. The May demand for kuna was in part the result of the subscription of Pliva bonds worth of EUR 75.0m in kuna equivalent. As the increased demand for kuna in June, contributing to the continuation of appreciation pressures, was counter-balanced by a matching demand for foreign exchange, the kuna/euro exchange rate remained relatively stable. Overall, the kuna strengthened against the euro by 0.4% in the second quarter of 2004. Since the exchange rate fluctuations registered in the second quarter of 2004 were not too strong, the CNB estimated that such conditions did not call for a foreign exchange intervention.

Stimulated by larger foreign exchange inflows from tourism services and by an additional demand for kuna due to the subscription of government bonds worth of EUR 400.0m in kuna equivalent, appreciation trends were strong at the beginning of the third quarter and resulted in two CNB interventions: EUR 27.1m were purchased on 1 July and EUR 18.9m on 6 July. The appreciation pressures were halted short after the second intervention. However, they mounted again at the beginning of August. In keeping with seasonal increase in demand for domestic currency, the kuna/euro exchange rate stood at HRK 7.34/EUR in mid-August,

1.23

Rates of Change of the Nominal Exchange Rate – HRK vs. EUR and USD month-on-month, CNB midpoint exchange rate



Source: CNB.

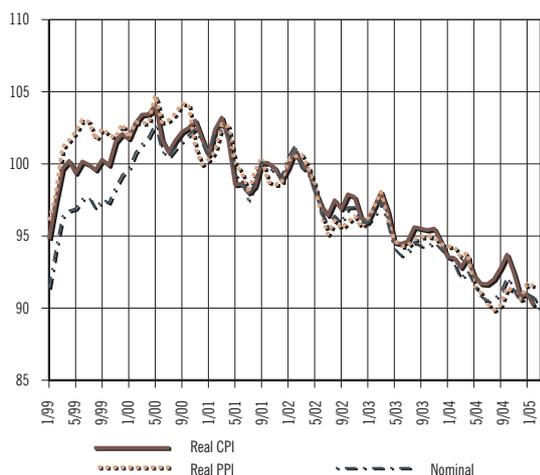
and hit its record low since the beginning of 2004. In order to halt the appreciation pressures, the CNB intervened twice and purchased a total of EUR 70.0m on 12 August and on 17 August. These interventions created an additional 0.9 billion in kuna liquidity in July and August, substantially increased the total kuna liquidity and prevented further strengthening of the appreciation pressures.

The kuna strengthened against the euro also in the first half of September. On 15 September, the central bank purchased from banks an additional EUR 25.0m. Overall, the CNB purchased a total of EUR 141.0m from banks during the third quarter. Mild appreciation pressures continued after the intervention (until 21 September) due to increased demand for kuna related to the subscription of MoF bonds, worth of EUR 300.0m in kuna equivalent, issued in the domestic market. However, after 21 September, a more substantial depreciation set in, as inflows of foreign exchange from tourism and transfers dried up and corporate demand for foreign exchange strengthened. The kuna depreciated by 2.3% in the third quarter, and the euro grew from 7.37 kunas on 30 June to 7.55 kunas on 30 September.

In the fourth quarter of 2004, the kuna depreciated against the euro by 1.6% in nominal terms, while the euro grew from 7.55 kunas on 30 September to 7.67 kunas on 31 December 2004. In an effort to smooth the appreciation of the kuna/euro exchange rate, uncommon for that part of the year, the central bank purchased a total of EUR 99.5m from banks at the auction held in early December. In addition, JPY 25.5bn<sup>15</sup> needed to pay off maturing Samurai bonds in December, were sold to the MoF on 30 November. In order to buy the yens from the central bank, the government floated the kuna denominated bonds on the domestic market.

1.24

Indices<sup>a</sup> of the Nominal and Real Effective Kuna Exchange Rate with Consumer and Producer Prices  
2001 = 100



<sup>a</sup>The fall of index denotes appreciation of the kuna.

Source: CNB.

The long-term appreciation trend of the nominal exchange rate of the kuna against the US dollar, which contributed to the strengthening of the kuna in 2002 and 2003 (by 14.4% and 14.5% respectively), continued in 2004 but at a somewhat reduced intensity. The kuna grew against the US dollar by 7.9% in 2004 (from HRK 6.12/USD on 31 December 2003 to HRK 5.64/USD on 31 December 2004). This was a consequence of the fall in the value of the US dollar against the euro in the world foreign exchange market, brought about by a significant imbalance in the US economy (huge current account and fiscal deficits).

Influenced by a modest nominal appreciation against the euro and strong appreciation against the US dollar, the index of the nominal effective kuna exchange rate strengthened by 3.9% over 2004 (December 2004 to December 2003). Owing to a deterioration in price competitiveness of exporters (i.e. a slightly higher

15 In order to buy JPY 25.5bn from the central bank, the government had to allocate a total of HRK 1.4bn.

increase in domestic prices than in foreign prices in 2004), the real kuna exchange rate appreciated slightly more than the nominal kuna exchange rate and stood at 4.0% (deflated by consumer prices) and 4.1% (deflated by producer prices).

## Developments in the First Quarter of 2005

In the face of ample banking system liquidity, the kuna/euro exchange rate appreciated nominally in the first quarter of 2005 – by 3.0% or from HRK 7.67/EUR on 31 December 2004 to HRK 7.44/EUR on 31 March 2005. This appreciation trend was somewhat more pronounced in the first half of January when the kuna strongly trended upward and regained the value it had lost in the second half of December. The CNB held one auction on 19 January and purchased a total of EUR 8.5m from banks. Increased pressures leading to the kuna exchange rate appreciation were again observed in March when the kuna strengthened by 0.9% or from HRK 7.51/EUR on 28 February to HRK 7.44/EUR on 31 March. To ease these pressures, the central bank intervened twice in the foreign exchange market in March. It purchased a total of EUR 108.5m from banks and created 809.4m in kuna liquidity. As planned, in the first quarter the CNB sold to the MoF a total of USD 121.9m it required to service the external debt. The increased demand for kuna and appreciation pressures in March were, inter alia, the result of the subscription of the new government bond worth of HRK 3.0bn. Other factors contributing to the kuna appreciation in the first quarter of 2005 were the continued growth of banks' foreign borrowing, corporate foreign borrowing and increased capital inflows from foreign investment into domestic securities.

In the first quarter of 2005, the kuna exchange rate appreciated by 3.0% against the euro and the Slovene tolar and by 3.6% and 0.2% against the Swiss franc and the pound sterling respectively. In the reference period, the nominal exchange rate of the kuna against the US dollar depreciated by 1.9%. As a result, the kuna exchange rate appreciated against the basket of currencies by 1.7% (31 March 2005 to 31 December 2004).

In the first quarter of 2005 (March 2005 to December 2004), the kuna exchange rate appreciated in real terms against the basket of currencies by 1.9% (deflated by the CPI) and by 0.4% (deflated by the PPI), according to data on the index of the real effective kuna exchange rate. In the same period, the average monthly index of the nominal effective kuna exchange rate appreciated by 0.8%. The difference between appreciation and depreciation rates, as measured by the index of the nominal and the index of the real effective exchange rate, reflects faster growth in domestic consumer prices than in foreign producer prices and somewhat slower growth in domestic producer prices compared with those registered abroad.

## 1.2.5 Monetary Developments and International Reserves

In the last decade, the current account deficit has been financed by repatriation of savings that Croatian citizens held abroad, foreign investments and privatisation. In recent years, the deficit has been increasingly financed by external borrowing. This resulted in external debt growth, so that Croatia today belongs to more heavily indebted countries. Both the debt size and the pace of its growth are the reason for concern – in the last two years, the debt grew from 62.2% of GDP at end-2002 to 82.1% of GDP at end-2004.

In 2004, overall economic policy and central bank policy in particular were oriented towards decelerating external debt growth. It should be said that this growth can to a large extent be contributed to the interests of foreign capital which, in conditions of record low yields on investments in the most developed countries, looks for investment opportunities that bring higher returns. The Croatian economy is an interesting investment target, especially in the light of faster integration into the EU over the last years. Foreign capital inflows can hardly be limited and resisted without considerable changes in overall economic policy and fiscal policy in particular. In conditions of strong growth in bank placements to the private sector, growth in domestic sources of funds is insufficient to cover a large budget deficit, which therefore has to be financed by foreign capital. At the same time, the CNB has only slight options at its disposal to limit capital inflows; it can somewhat limit capital inflows via the banking sector, but it can hardly and only temporarily limit direct capital inflows to enterprises.

Still, the CNB policy in 2004 was mostly oriented towards restraining external debt growth. On the one hand, it supported the intention of the central government (i.e. MoF) to increase its financing on the domestic market, in contrast to the previous years when foreign financing predominated. This support was provided by ensuring high domestic liquidity, which facilitated government financing on the domestic market, especially through issues of T-bills, as well as MoF bonds. The cut in the stipulated reserve requirement rate (RRR) from 19% to 18% in November 2004 and the cut in the rate of the minimum required amount of foreign currency claims from 35% to 32% in February 2005 released to banks a portion of funds, which was to ease government financing.

On the other hand, the CNB has tried to discourage domestic banks from borrowing abroad to finance their domestic credit activities. For this purpose, in mid-2004 the CNB introduced a marginal reserve requirement (MRR) on the increase in foreign liabilities. This has increased the price of foreign sources and diminished room for profiting from external borrowing in order to provide loans to domestic sectors, especially the household sector. As the initially chosen MRR rate of 24% proved insufficient, the CNB increased this rate to 30% in February 2005. Although this increase has diminished room for profiting from borrowing abroad and placing funds in the domestic market (based on the large interest rate spread), even this rate has not been sufficient to discourage all banks from pursuing such credit policy. Moreover, estimates show that the rate should be somewhat over 50% to nullify the effect of the difference in interest rates on the domestic and foreign markets. As a large portion of foreign capital enters Croatia

through commercial banks, a strong pressure on domestic banks could prompt economic subjects, especially enterprises, to look for financing sources other than commercial banks, e.g. directly abroad. Hence, this measure can have only a limited effect on the reduction of the external debt.

## Monetary Policy and Flows of Creating and Withdrawing Reserve Money

Early 2004 saw the expiry of the measure concerning the obligatory purchase of CNB bills, which penalised banks with too rapid placement growth. The success of this measure is reflected in the fact that even after its expiry, banks' placement growth kept at a robust, but not excessive 14% in 2004, the same as in 2003 when this measure was in effect. To advise commercial banks that monetary policy was not to be relaxed in 2004, in December 2003, the CNB tightened the Lombard loan facility by reducing its maturity to up to 5 days in a month and increasing the rate of f/c reserve requirements to be allocated in a special account with the CNB. Regular weekly auctions of kuna CNB bills on a voluntary basis were discontinued. This instrument, which had been largely used in the previous years, was kept in force, but is used only in case of an emergency need for sterilisation of surplus kuna liquidity. It was used twice for this purpose in 2004 (both times in April). The issuance of foreign currency CNB bills, which were very popular with banks, was completely discontinued because, in conditions of a more developed financial market and banking sector in majority foreign ownership, they stopped serving their original purpose.

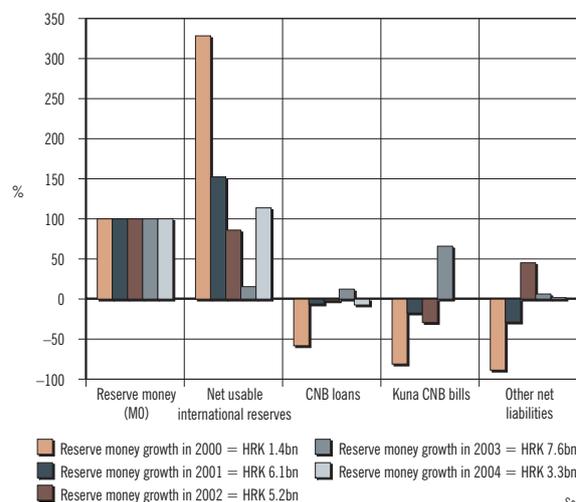
The year 2004 was characterised by large fluctuations in banks' liquidity and money market interest rates and the increased banks' demand for the kuna in general. This demand and steady inflows of foreign capital created occasional appreciation pressures to which the CNB responded by purchasing foreign exchange. Thus, foreign exchange transactions of the central bank were the main instrument of creating and withdrawing reserve money in 2004.

In its 2004 interventions in the foreign exchange market, the CNB purchased EUR 510.2m net from commercial banks, thus creating HRK 3.8bn net of reserve money.

The need to create reserve money, i.e. commercial banks' demand for currency, was reduced by the cut in the RRR from 19% to 18% in November 2004. The cut was to release bank funds, which were formerly tied to RR, and direct them to subscription of government bonds, which was to help the government to replace its external financing by domestic financing. Thus, the government issued new kuna bonds in the domestic market at end-November 2004, which were mostly purchased by commercial banks, and used these funds for the repayment of due Samurai bonds. The government purchased Japanese yens from the CNB, which

### 1.25

Shares of Monetary Policy Instruments in Reserve Money Creation and Withdrawal  
reserve money growth = 100%



partially offset the effect of the liquidity increase following the RRR cut.

Despite the rate cut, the reserve requirement instrument has remained the main instrument for automatic sterilisation of surplus (kuna) liquidity. A rise in liabilities of commercial banks increases both the kuna and foreign exchange base for calculating reserve requirements, which forces commercial banks to allocate larger amounts in their accounts with the CNB. Due to the increase in the base, calculated RR in kuna and foreign exchange grew by some HRK 1.8bn and HRK 700m respectively in 2004 compared with 2003. If the RRR had not been cut, the increase in the calculated kuna and foreign exchange reserve requirements would have been larger by some HRK 1.1bn and HRK 750m respectively.

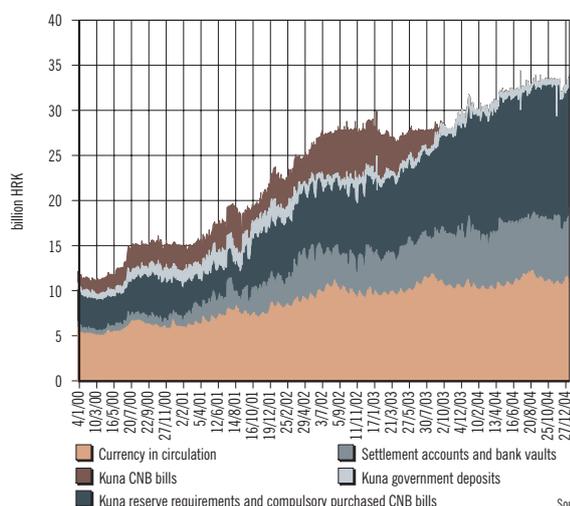
An especially important monetary policy instrument introduced in 2004 is the marginal reserve requirement (MRR). It is calculated on the increase in foreign liabilities of commercial banks with respect to the initial period – June 2004. It is allocated to the accounts of banks with the CNB (without remuneration) at the prescribed rate (the initial rate of 24% was increased to 30% in February 2005). This instrument increases the price of foreign sources of finance and diminishes room for profiting from borrowing abroad and extending loans to domestic sectors. Thus, this instrument is a form of a price-based restriction on capital inflows. Similar forms of this instrument have been used in other countries (this form of control over capital inflows has been especially developed in Chile).

Finally, it should be said that in conditions of abundant liquidity, commercial banks rarely used Lombard loans to ensure the kuna liquidity in 2004; they used these loans at the beginning of the year and in August, which are periods when the banking system's liquidity is somewhat lower. Therefore, after the repayment of HRK 900m of Lombard loans used at end-2003, this facility was relatively rarely used in 2004.

## Reserve Money and International Reserves

1.26

Structure and Daily Changes of Reserve Money and CNB Bills



Source: CNB.

After growing extremely fast in the previous three years, reserve money (M0) recorded much more moderate growth in 2004, of HRK 3.3bn or 10.9% on an annual level, compared with 2003. Its growth rates were 51.9% in 2001, 29.3% in 2002 and 32.8% in 2003. However, due to structural changes in instruments and measures of monetary policy these rates are not comparable. High growth in reserve money in the preceding years was the result of the increase in the kuna reserve requirements (the upturn in the kuna part of reserve requirement allocation on foreign exchange sources), which led to increased banks' demand for M0. The November 2004 cut in the RRR from 19% to 18% decreased this demand, which led to weaker growth in reserve money compared with the previous years. Long-term developments in reserve money are mostly effected by the demand for currency and the increase in the RR calculation base, while amendments

to the decisions concerning the RR rate and calculation base result only in one-off deviations from reserve money developments.

Looking at the components of reserve money, the largest contribution to its growth in 2004, as in the previous years, came from growth in bank deposits with the CNB (4/5 of the total increase in M0). Despite the RRR cut, the largest increase in the structure of these deposits was recorded in RR allocated in kuna (HRK 2.1bn). Balances in banks' settlement accounts rose by some HRK 800m and cash in bank vaults, also used to meet the reserve requirements, rose by HRK 188m in 2004. Within the structure of the narrowest monetary aggregate – M0, currency in circulation recorded poorest growth in 2004, of HRK 383m.

Cash in bank vaults grew by HRK 188m or 11.2% in 2004, compared with 2003. In contrast to 2003, when its strongest increase was recorded at the year-end due to changes in the supply of banks with cash, this component of reserve money recorded its strongest 2004 increase over the summer months when the seasonal demand for cash is highest. The average balance of cash in bank vaults was HRK 1.6bn in 2004, up HRK 181m or 12.3% over 2003.

The other component of reserve money – settlement accounts, recorded the strongest fluctuations in 2004 as well. The balance in settlement accounts averaged HRK 4.8bn in 2004, up 37.2% over 2003. At end-2004, balances in settlement accounts stood at HRK 6.4bn, which is an annual increase of 14.1%.

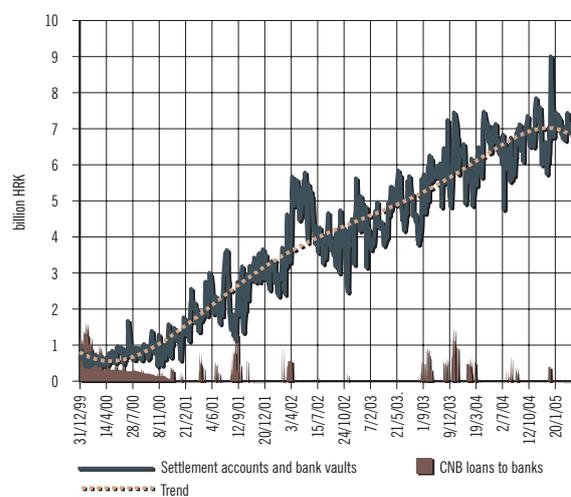
Growth in the calculated RR in kuna over 2004 is also reflected in growth in balances in the settlement accounts of banks. In 2004, the banks were required to set aside a minimum of 60% of their reserve requirements into a special account with the CNB, while the remaining reserve requirements maintained by banks led to an increase in balances in the settlement accounts and cash in vaults. The reserve requirements set aside in kuna stood at HRK 14.7bn at-end 2004, which is an annual increase of 16.4%.

Currency growth slackened in 2004 relative to the previous years. At end-2004, currency in circulation stood at HRK 10.9bn, which is an annual increase of 3.6% (9.2% in 2003).

The average balance of government deposits in kuna with the CNB was almost equal to that in 2003 (some HRK 500m). A major downturn in these deposits was recorded at the year-end due to larger payments of government liabilities on the last day of December, so that government kuna deposits stood at HRK 230m at end-2004, compared with HRK 600m in the same period of 2003. This increased bank liquidity at end-2004 and the funds were transferred from government accounts to the accounts of other economic subjects. Foreign currency government deposits with the CNB averaged HRK 380m in 2004. Substantial amounts of these deposits, which were recorded in individual months of the year, were the outcome of temporary depositing of f/c funds immediately before the settlement

1.27

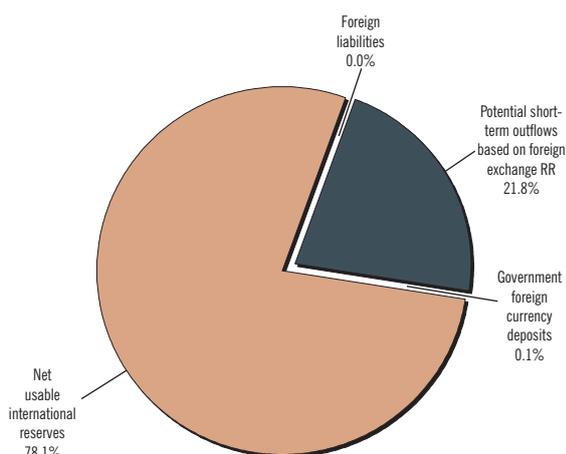
Banks' Settlement Accounts with the CNB and Liquidity Loans



Source: CNB.

1.28

Structure of Total International Reserves of the CNB on 31 December 2004



Source: CNB.

of government f/c liabilities. At end-2004, the government held no f/c deposits with the CNB.

International reserves of the CNB stood at EUR 6,436m at end-December 2004, which is a decline of EUR 118m or 1.8%, compared with end-2003. In kuna terms, international reserves also recorded a mild downturn in 2004, so that they totalled HRK 49.4bn at end-December 2004, compared with HRK 50.1bn at end-2003. The major portion of international reserves of the Republic of Croatia is held in euros (almost 3/4), whereas the remaining quarter is held in US dollars. Hence, a mild downturn in international reserves both in euro (reporting currency) and kuna terms was partly the result of the US dollar depreciation both against the euro (8.9%) and kuna in 2004. However, the major impact on the fall in international reserves was made by flows of creating reserves. The described spending of

government f/c deposits for the settlement of f/c obligations (amounting to EUR 113m) and the discontinuation of the issuance of f/c CNB bills, which stood at EUR 624m at end-2003, decreased gross international reserves by almost EUR 750m. At the same time, international reserves grew on the basis of f/c purchases, growth in the base of banks' reserve requirements set aside in foreign currency and income from international reserves investment. Net usable international reserves, whose developments are not affected by f/c reserve requirements of banks, government f/c deposits and f/c CNB bills, which were not issued in 2004, grew by EUR 480m (or 10.6%) in 2004, standing at EUR 5,025m at end-December.

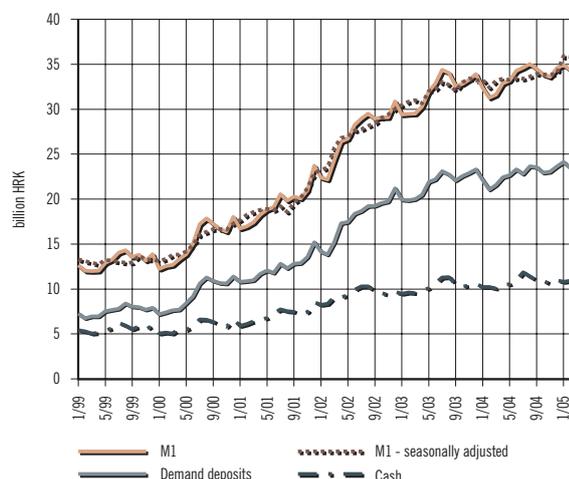
### Developments in Monetary and Credit Aggregates

Money (M1) increased by 2.0% in 2004 compared with 2003 when this monetary aggregate grew at the rate of 9.8%. M1 developments were mostly affected by poor growth in demand deposits, which was accompanied by slower growth of the other component of money – currency. In addition, slower growth in retail trade turnover in 2004, compared with 2003, also led to slackened growth in money. Over the year, growth in money recorded the usual seasonal fluctuations, and M1 amounted to HRK 34.6bn at end-2004.

The annual growth rate of demand deposits fell from 10.0% in 2003 to 1.2% in 2004. Demand deposits stood at HRK 23.6bn at end-2004, up HRK 291m over end-2003. A decline in funds in corporate giro and current accounts was the main reason for the slow increase in demand deposits in 2004. Corporate demand deposits fell by 7.3% in 2004 because of the growing tendency of enterprises to place their funds in

1.29

Money (M1)



Source: CNB.

kuna and f/c non-monetary deposits, which bring higher returns. In addition, in managing their short-term liquidity, enterprises increasingly use the option to invest in money market funds. Investments in money market funds recorded the highest increase of all investments in open-end investment funds; assets of these funds grew by HRK 1.6bn (114%) in 2004, mostly due to the corporate sector. Household demand deposits continued to grow in 2004 but at a slower pace than in 2003. Their annual growth rate fell from 24.8% in 2003 to 11.4% in 2004.

With the usual seasonal fluctuations in 2004, currency also recorded slower growth than in the preceding years. Currency growth was 3.6% in 2004, while it was 9.2% and 13.8% respectively in 2003 and 2002. This slower growth can be partly attributed to the base period effect, i.e. currency's strong growth over the previous years. In addition, increased use of cashless payment; i.e. the use of card and electronic payment methods, also led to slower currency growth. The currency-to-GDP ratio stabilised at the level of around 5.2% in the last three years.

### Kuna and Foreign Currency Non-Monetary Deposits

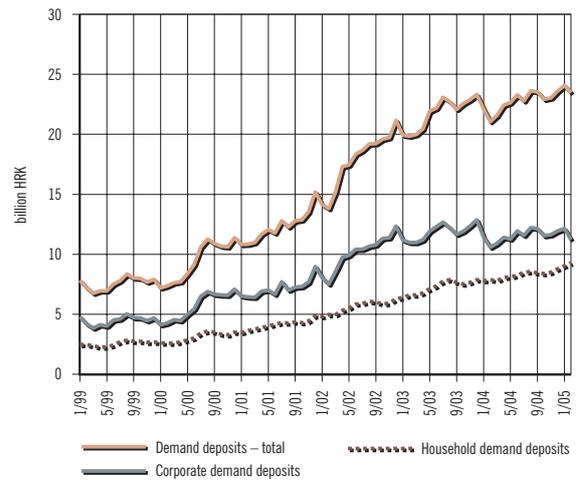
Kuna non-monetary deposits continued to grow steeply in 2004, by HRK 4.1bn in absolute terms or as much as 22.4%. Although their annual growth rate fell compared with 2003 when it was 34.3%, it should be said that a major fall in corporate kuna deposits was recorded at end-2004 due to a single transaction – the dividend payout of Croatian Telecom. Without this transaction, growth in kuna deposits in 2004 would have exceeded that in 2003.

Kuna savings continued to grow partly because the banks prefer domestic kuna sources over foreign exchange sources, which stimulates them to increasingly offer various products to attract kuna sources. Thus, kuna deposits of the household sector recorded a high growth rate of 35.7%. This growth was mostly boosted by kuna time deposits with a currency clause, which doubled in 2004. In the same period, kuna deposits of the corporate sector grew slower (by 14.7%) than those of the household sector.

The annual growth rate of foreign currency deposits was 7.5% in 2004, up two percentage points over that in 2003. Their solid growth was mostly the result of large f/c inflows in peak tourist season. As f/c deposits account for almost 80% of total liquid assets, achieved growth in f/c savings in absolute terms (of HRK 5.7bn) surpassed the rise in kuna non-monetary

### 1.30

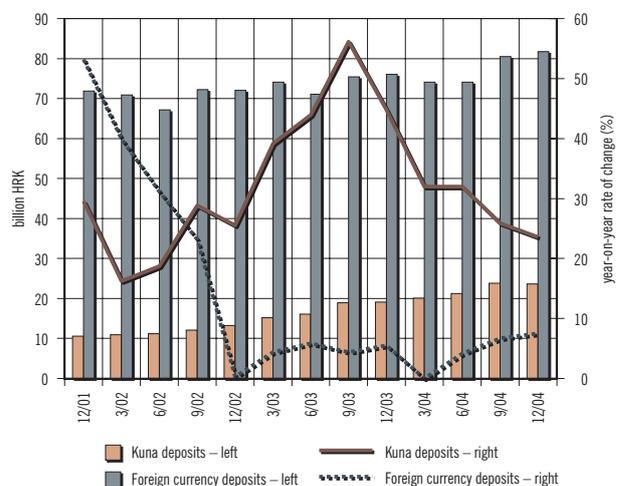
Demand Deposits



Source: CNB.

### 1.31

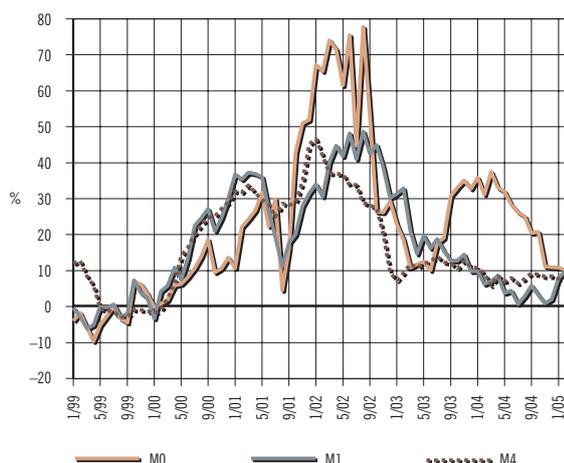
Kuna and Foreign Currency Deposits



Source: CNB.

1.32

Monetary Aggregates  
year-on-year rate of change



Source: CNB.

deposits and accounted for half of the absolute increase in total liquid assets in 2004.

Observed by sectors, the two most important sectors – households and enterprises, recorded a higher increase in f/c savings in 2004 than in 2003. The pace of developments in total deposits is still determined by household f/c savings due to their high share in total deposits (almost 85%). In 2004, the corporate sector recorded higher annual growth rate of f/c deposits (18.4%) than the household sector (6.0%).

Achieved growth in money (M1) and kuna and foreign currency non-monetary deposits led to somewhat slower growth in total liquid assets in 2004 than in 2003. M4 increased by 8.5% in 2004, which is 2 percentage points less than in 2003. Faster growth in f/c deposits could not fully offset a somewhat lesser increase in the kuna component of quasi-money and slower money growth relative to 2003. At end-December 2004, M4 stood at HRK 139.9bn.

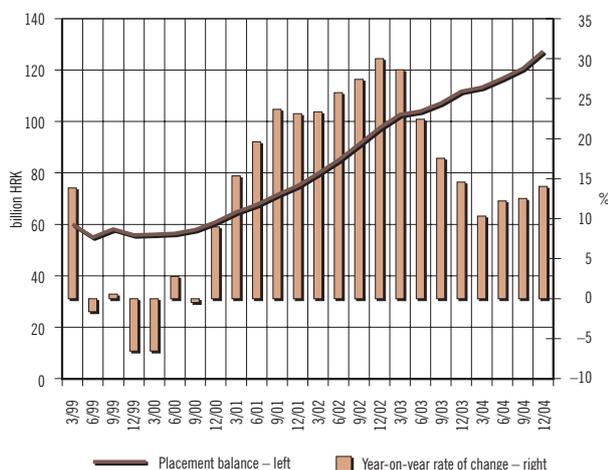
### Bank Placements

Bank placements to the non-banking sector grew by 14.0% in 2004. With this annual growth rate, which was almost equal to that in 2003 (14.6%), placements remained on a stable upward trend. This ensured sufficient growth in bank placements to the non-banking sector needed to finance economic activities and household demand for loans.

Bank loans to the non-banking sector determined developments in bank placements as they accounted for 95% of total placements. Bank loans went up by 13.1% in 2004, which is somewhat less than in 2003 (16.8%) and considerably less than in 2002 (33.6%). Within the structure of bank loans, household and corporate loans accounted for 50.7% and 41.4% respectively of total loans at end-2004, whereas the rest was accounted for by loans to the central and local government and other non-banking institutions. At end-2004, the share of household loans for the first time surpassed half of total bank loans.

1.33

Bank Placements



Source: CNB.

The annual growth rate of household loans was 18.7% in 2004, which was less than their 2003 growth rate (27.7%). Their nominal increase was HRK 10.3bn, which was less than the 2003 increase of HRK 11.9bn. However, households are still the most interesting sector regarding the approval of new placements due to higher yields and lower risk relative to the corporate sector. Notwithstanding the attained debt level of a

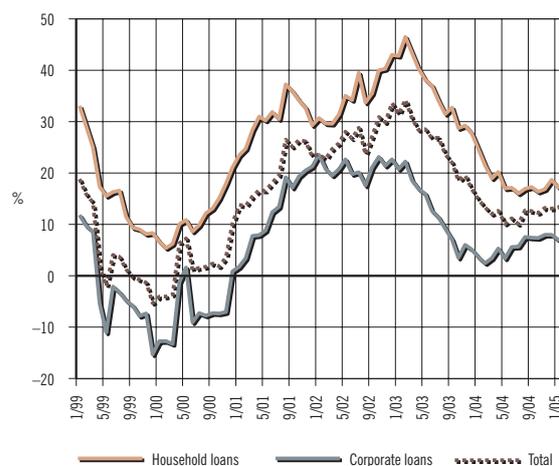
part of the household sector, household demand is still sufficient to absorb new placements.

Contrary to household loans, corporate loans rose more in nominal terms in 2004 (by HRK 3.1bn) than in 2003 (HRK 2.4bn), which increased their annual growth rate from 5.1% in 2003 to 8.0% in 2004. Accelerated growth in corporate loans is a positive step towards increased financing of the economy and indicates the rising corporate demand for bank loans.

One of the reasons for faster growth in bank loans to households than to the corporate sector is that households are almost completely oriented towards commercial banks in their financing, whereas enterprises can finance their activities from other sources, especially foreign sources. The data on total financing of the non-financial sector indicate decelerated growth in financing of the household sector and accelerated growth in financing of the corporate sector in 2004.

1.34

Bank Loans  
year-on-year rate of change



Source: CNB.

**Table 1.3** Financing of Private Non-Financial Sector – Loans and Other Placements  
end of period, in million HRK and %

	1999	2000	2001	2002	2003	2004
<b>Banks</b>						
– households	19,250	23,298	30,122	43,073	55,001	65,277
– non-financial enterprises	35,244	35,891	42,882	51,723	53,810	58,643
<b>Abroad</b>						
– households	172	233	338	473	552	626
– non-financial enterprises	25,467	27,583	25,927	26,643	31,555	37,124
<b>Financial leasing</b>						
– households	18	34	50	112	246	409
– non-financial enterprises	163	312	464	1,032	2,260	3,765
<b>Other (funds, insurance companies and S&amp;L)</b>						
– households	583	682	922	1,053	1,321	1,674
– non-financial enterprises	2,013	1,673	1,707	1,871	1,851	1,925
<b>Total</b>						
– households	20,023	24,247	31,433	44,711	57,120	67,986
year-on-year rate of change		21.1	29.6	42.2	27.8	19.0
– non-financial enterprises	62,888	65,458	70,979	81,270	89,476	101,457
year-on-year rate of change		4.1	8.4	14.5	10.1	13.4

Note: Data presented under item Financial leasing are the CNB estimates for 2004, while data under item Other (funds, insurance companies and S&L) are the CNB estimates for the entire period. Sources: FINA and CNB.

## Banks' Net Claims on the Central Government

The total level of bank placements to the central government held steady in 2004, whereas changes occurred in the maturity structure of placements. Thus, in 2004 the share of short-term government securities increased and they grew by HRK

711 m. This is above all the result of increased T-bill subscriptions by banks. In the same period, bank placements in bonds decreased, especially upon maturity of the last tranche (of 20 semi-annual tranches) of government bonds issued on the basis of the Act on Converting Households' Foreign Exchange Deposits into the Public Debt of the Republic of Croatia.

Central government deposits with banks and the CNB at end-2004 exceeded those at end-2003 by HRK 251 m. Still, they exhibited much larger fluctuations in 2004 compared with bank placements to the government. This especially refers to government deposits with the CNB, which fluctuated depending on inflows from foreign borrowing and outflows related to the government settlement of its due liabilities. The average daily balance of government deposits with the CNB was HRK 831 m less in 2004 than in 2003. Government deposits with commercial banks increased in 2004, by HRK 5.1 bn, whereas loans that banks received from the government fell by HRK 3.6 bn.

## Developments in Foreign Assets and Liabilities

In 2004, banks continued to obtain funds abroad in order to finance domestic placements. Banks' foreign borrowing is stimulated by the return they make due to the difference between low interest rates on foreign sources and much higher interest rates on domestic placements. Domestic banks mostly obtain medium-term loans at very favourable interest rates from their parent banks. The loans banks receive can usually be easily refinanced by their parent banks. Foreign liabilities of banks grew by HRK 11.2 bn in 2004, whereas their foreign assets increased by HRK 8.2 bn. Parallel growth in both foreign assets and liabilities resulted from the banks' maintenance of the minimum foreign currency liquidity at 35%. To decelerate banks' external borrowing, in July 2004 the CNB introduced the marginal reserve requirement on the increase in foreign liabilities of banks.

Banks' external debt doubled over 2003 and 2004, rising from EUR 3.8 bn to EUR 7.6 bn. Nevertheless, the annual growth rate of banks' external debt went down from 61.5% in 2003 to 25.0% in 2004. Banks' external debt accounted for 33.7% of the overall external debt of the economy at end-2004.

## Monetary Developments in the First Quarter of 2005

As usual for the season, domestic sources of funds held steady in the first quarter of 2005, so that banks continued to borrow abroad the funds needed to sustain their domestic credit activities. At the annual level, a year-on-year growth rate of M4 increased from 8.5% at end-2004 to 9.6% at end-March 2005.

Bank placements to the non-banking sector went up by HRK 0.8 bn or 0.6% in the first quarter of 2005, but their nominal value was strongly affected by the appreciation of the kuna against the euro. The exchange rate effects excluded, the growth rate of bank placements did not change considerably: placements grew by 2.8% in the first quarter of 2005, or 13.6% when compared with end-March 2004.

Strong growth in bank placements to the central government was caused by increased government financing on the domestic market in the first quarter of 2005. Banks' net claims on the central government rose by HRK 7.2bn (52.3% relative to end-December 2004), mostly as a result of a foreign exchange loan (of EUR 500m) extended to the government at end-March, as well as increased subscriptions of MoF T-bills.

At the end of the first quarter of 2005, in conditions of stagnant domestic sources of finance, banks increased their foreign liabilities to finance placements to the government and the rest of the non-banking sector. Banks' foreign assets decreased by HRK 8.6bn and their foreign liabilities increased by HRK 1.5bn in the first quarter of 2005. The decline in foreign assets was made possible by the CNB's decision to lower the stipulated minimum rate of foreign currency claims from 35% to 32%, which came into effect in February 2005.

## 1.2.6 Money Market

In 2004, the ZMM turnover rose and interest rates fluctuated strongly, continuing on the trend set in the second half of 2003. Interest rates on ZMM overnight loans reached 10% early in the year. Banking system liquidity improved following several central bank foreign exchange interventions. With interest rates on overnight loans standing at an approximate 2%, favourable liquidity continued until the tourist season, when money market rates rebounded to 10%. Liquidity recovered at end-September, and interest rates then held at relatively low levels until the year-end.

In contrast, interest rates on MoF T-bills remained relatively high in 2004. Due to these rates generating great investor interest, the end-2004 balance of subscribed T-bills increased by about 40% from the balance at end-2003. There were only two CNB bill auctions in 2004, as they are no longer held on a regular basis.

Having risen temporarily in early 2004, banks' lending interest rates resumed their downward trend, mostly ending the year below their end-2003 levels. Influenced by interest rates on short-term deposits of legal entities, interest rates on kuna deposits in 2004 were in line with money market interest rate trends.<sup>16</sup> In contrast, interest rates on foreign currency deposits held steady. In consequence, the spread between lending and deposits interest rates decreased at end-2004 compared with end-2003.

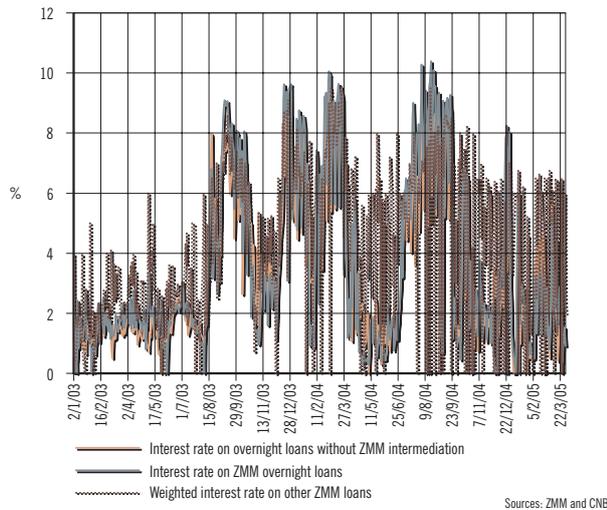
## Money Market Interest Rates

Both the new Decision on Reserve Requirements of 9 February 2004, providing for raising the allocation percentage of total reserve requirements, and the subscription for the first tranche of the new government bond, due 2014, triggered a

<sup>16</sup> For further details see the CNB Bulletin, No. 102, Box: 1.

1.35

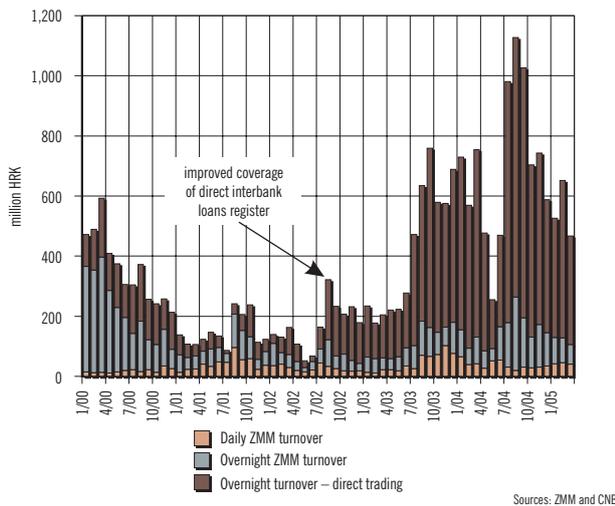
Money Market Interest Rates



strong rise in demand for kuna in early 2004. As a result, money market interest rates surged above 8% late in February and fell no sooner than in April, following the central bank release of HRK 1.2bn through four foreign exchange interventions. The ensuing high liquidity period lasted until the tourist season, with interest rates decreasing to 2% and money market turnover declining. Interest rates rebounded in July, due to the seasonally induced increase in demand for currency and the issue of the new government bond maturing in 2007. The prolonged tourist season, and the issue of the third tranche of the government bond due 2014, kept interest rates high until end-September, when banking system liquidity recovered. Money market interest rates then remained relatively low until the year-end. To meet the seasonally increased demand for currency late in the year, which also accounted for a temporary increase in interest rates, the CNB intervened in the foreign exchange market in December, giving an additional boost to banking system liquidity.

1.36

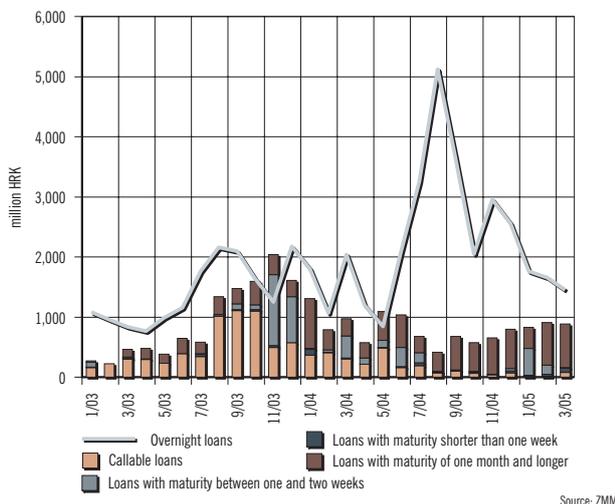
Money Market Turnover daily average



As shown by ZMM data, the weighted interest rate on overnight loans kept at relatively high levels (ranging from 6.20% in January to 7.74% in March), to gradually decline to its 2004 low of 1.76% in June. With demand for kuna rising in July, interest rates rebounded and remained high during summer months until end-September. The weighted interest rate on overnight loans thus reached 7.69% in August, gradually decreasing until the year-end and advancing to 3.55% in December, pushed by the seasonally induced rise in demand for currency.

1.37

ZMM Turnover loan maturity structure



Interest rates on other loans intermediated by the ZMM showed trends similar to overnight loans' interest rate trends, only standing at higher levels, especially in the periods of lower rates. Having reached its annual peak of 8.17% in March, the weighted interest rate on other loans drifted lower to 4.64% in June, recovered in July and stood above 6% until the year-end (it was 6.02% in December). This rate's standing at relatively high levels throughout 2004 was partly due to a relatively large share of loans with longer maturities granted at higher interest rates.

Total turnover on the ZMM was HRK 38.2bn in 2004, a rise of HRK 10bn from the previous year. Almost two thirds of the turnover was generated in the second half of 2004. Having stood at below HRK 100m in the first half of the year, the average daily turnover in total loans ranged between HRK 131.2m and HRK 263.9m in the second half. Overnight loans accounted for three

fourths of total ZMM turnover in 2004, while their share in 2003 was less than two thirds. This was in consequence of slightly lower bank liquidity in 2004 compared with 2003, especially in the second half of 2004, causing money market participants to turn to the shortest term lending as a precaution. In contrast, higher interest rates charged on loans with longer maturities encouraged liquid participants to long-term lending, which accounted for loans with one-month maturity prevailing among other loans. The average daily turnover in overnight loans ranged about HRK 70m in the first half of 2004 and more than doubled in the second half of the year. The average daily turnover in other loans ranged about HRK 47m in the first half of the year, falling to about HRK 29m in the second half, paralleled with the drop in bank liquidity.

The largest in 2003, the share of callable loans in other loans fell steadily over 2004, reaching 10% at the year-end.

Spurred mainly by high kuna demand in 2004, the overnight turnover in direct interbank demand deposit trading several times exceeded total ZMM turnover. Totalling HRK 140.3bn in 2004, turnover in direct interbank overnight trading almost doubled from the previous year. The average daily turnover in direct interbank overnight loans hovered around HRK 550m, reaching its peak of HRK 862.7m in August. Interest rates charged on these loans mostly outdid those charged on overnight loans intermediated by the ZMM. Relatively high early in the year (8.07% in March), the weighted interest rate on direct interbank overnight loans plunged to 1.88% in June and rebounded in the following three months, reaching 6.74% in September. This rate stood at 4.46% in December.

### Interest Rates on the Short-Term Securities Market

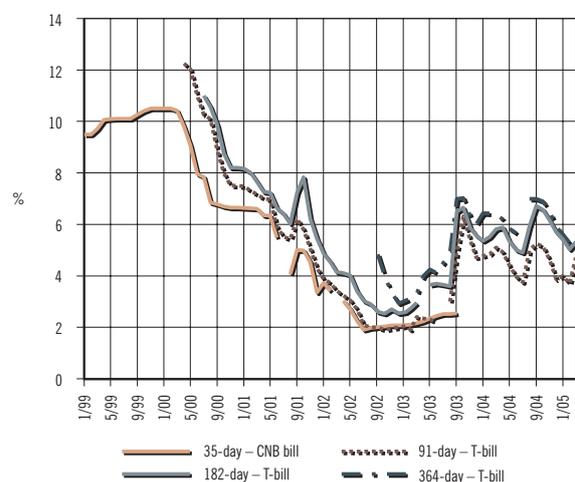
In line with monetary policy guidelines for 2004, as of 1 January 2004 the CNB no longer issues kuna CNB bills on a regular basis, but only when needed to sterilise surplus liquidity. CNB bills were thus auctioned only twice in 2004, both times in April. With the preset interest rate at the first auction, considerably lower than ZMM interest rates valid at the time (2.50% compared with the 4.90% rate charged on three-month T-bills or the 6.61% rate charged on one-month ZMM loans) and most bids turned down at the second auction, the balance of CNB bills subscribed at both auctions amounted to a low HRK 106m.

Compared with the previous two years, interest rates on T-bills remained relatively high throughout 2004. Mostly drifting lower in the first six months of 2004, T-bills' auction rates surged in August. As money market participants' kuna demand started to ebb in late September, interest rates on T-bills resumed their downward trend, continuing it to the year-end.

Weighted interest rates on 91, 182 and 364-day T-bills fell from 4.78%, 5.36% and 6.44% respectively in January to 3.97%, 5.01% and 5.65% in June,

1.38

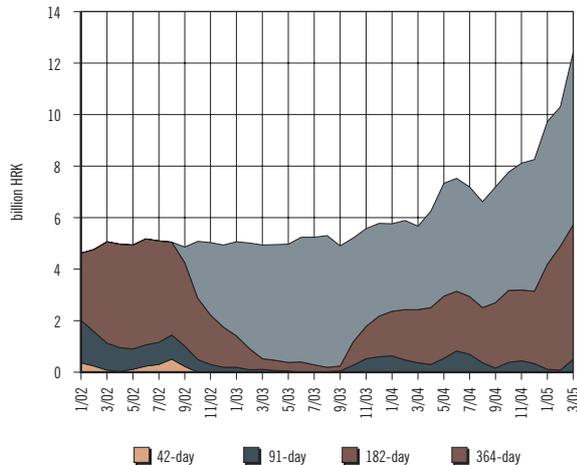
Interest Rates on Kuna CNB Bills and MoF T-Bills maturity structure



Sources: CNB and MoF.

1.39

T-Bill Stock maturity structure



Source: MoF

reaching their highs of 5.24%, 6.72% and 7.0% in September. At the year-end in December, these rates stood at 3.86%, 5.41% and 5.58% for 91, 182 and 364-day T-bills respectively.

The balance of subscribed T-bills increased by HRK 2.48bn in 2004 from end-2003, standing at its all time high of HRK 8.26bn at end-December. The balance rose at a steady pace throughout the year, except in the summer months when there was no investor interest owing to a strong demand for currency and a new government bond issue. The subscribed T-bills balance increased the most in the last three months of 2004, by HRK 1.06bn.

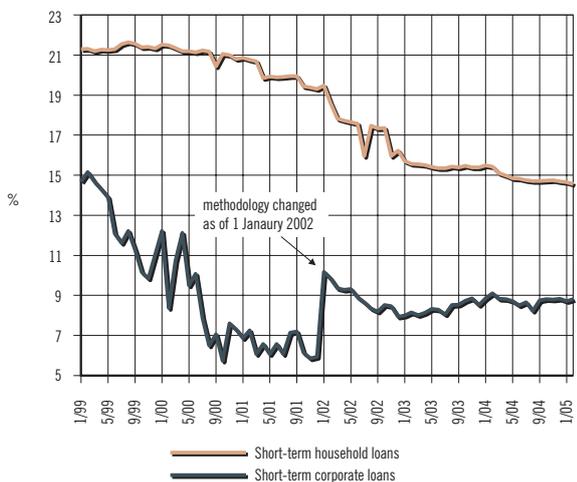
Prevailing in the structure of subscribed T-bills were one-year bills, whose share in the total ranged between 57% and 62%. The second largest share was accounted by 182-day bills, whereas the share of bills with the shortest maturity was mostly below 5%. Subscribed T-bills totalled HRK 8.26bn at end-2004. Of this amount, HRK 5.12bn (62%) went to one-year bills, HRK 2.81bn (34%) went to 182-day bills and HRK 327.5m (4%) to 91-day bills.

Banks' Interest Rates

Banks' lending interest rates, especially those charged on household loans, mainly declined further in 2004. The weighted interest rate on short-term household loans without a currency clause fell from 14.89% at end-2003 to 14.19% in December 2004. In contrast, the weighted interest rate on short-term corporate loans without a currency clause trended downwards only in the first half of the year, reaching 8.01% in June. On the upward trend in the second half of the year,

1.40

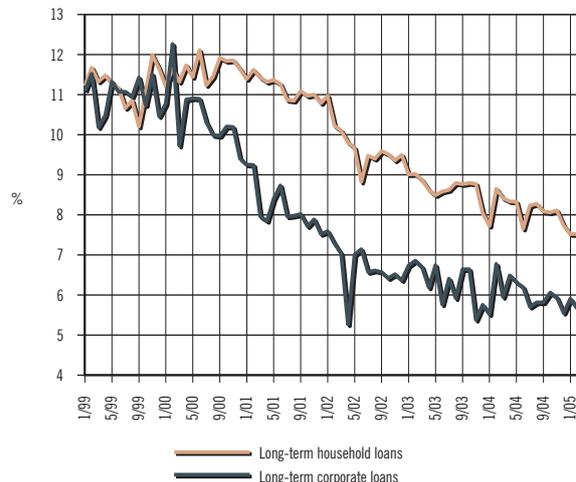
Banks' Average Interest Rates on Short-Term Loans without a Currency Clause



Source: CNB.

1.41

Banks' Average Interest Rates on Long-Term Loans with a Currency Clause



Source: CNB.

this rate came to 8.33% in December (compared with 8.02% in December last year).

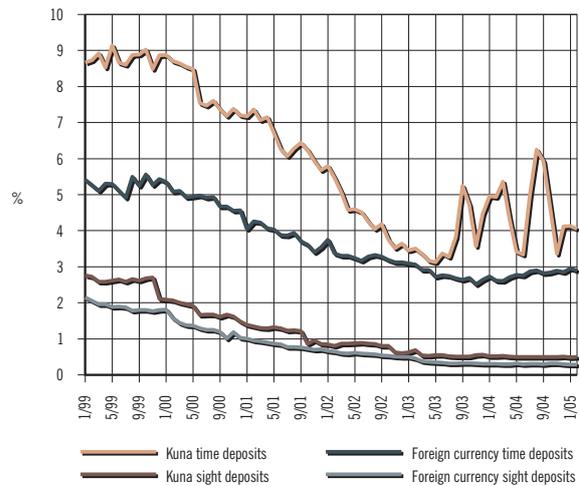
Interest rates on long-term household loans with a currency clause continued to decrease over 2004, strongly fluctuating at times. Starting in late 2003, these fluctuations were caused by interest rates on home loans, accounting for about 40% of newly granted household loans with a currency clause, which dropped temporarily in January and June. The average weighted interest rate on long-term household loans with a currency clause stood at 7.73% in December 2004, a decrease of 70 basis points compared with 2003.

Of all observed lending interest rates, interest rates on long-term corporate loans with a currency clause are the most prone to fluctuations. The weighted interest rate on these loans thus hit its 2004 high of 6.78% in February, only to fall to 5.66% in December. However, as it also stood at about 5.5% in the fourth quarter of 2003, one cannot say that these interest rates declined.

Interest rates on short-term corporate kuna deposits were mainly affected by a reduced primary liquidity of the banking system and rising money market interest rates. While both interest rates and amounts of new household kuna time deposits were relatively stable throughout 2004, interest rates on corporate deposits were in line with money market interest rate trends. As a result, the weighted interest rate on kuna time deposits fluctuated strongly in 2004, standing at its annual low of 3.34% in June and reaching its annual high of 6.25% in August, also its highest level since March

1.42

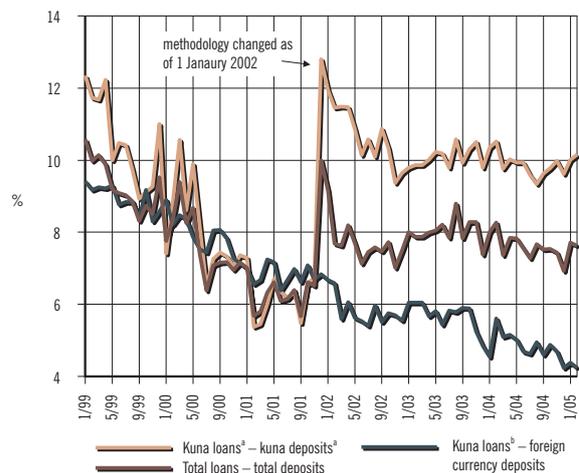
Banks' Average Deposit Interest Rates



Source: CNB.

1.43

Spread between Banks' Average Interest Rates on Loans and Deposits

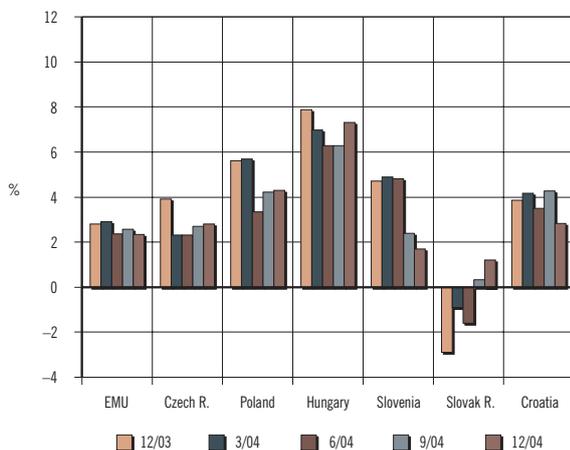


<sup>a</sup> Without a currency clause. <sup>b</sup> With a currency clause.

Source: CNB.

1.44

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

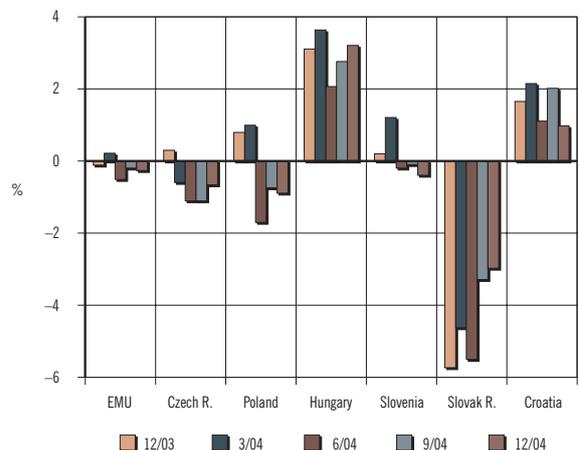


Note: Due to the difference between individual countries' statistical coverage interest rates cannot be directly compared, but their movements can be analysed.

Sources: Central banks' web sites and CNB.

1.45

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



Note: Due to the difference between individual countries' statistical coverage interest rates cannot be directly compared, but their movements can be analysed.

Sources: Central banks' web sites.

2002. At end-2004, this rate amounted to 4.12%. Ranging from 0.50% to 0.53% in 2004, the weighted interest rate on kuna sight deposits was 0.51% in December, a decrease of 5 basis points compared with end-2003.

Having decreased for several years in a row, interest rates on foreign currency time deposits started drifting upwards in early 2004. The weighted interest rate on foreign currency time deposits, standing at 2.64% in December 2003, was 2.85% at end-2004. On the other hand, interest rates on foreign currency sight deposits hovered around an average 0.31%, oscillating only slightly. The weighted interest rate on total foreign currency deposits thus stood at 0.31% and 0.30% in December 2003 and December 2004 respectively.

In consequence of these developments, the spread between interest rates on total loans and total deposits narrowed from 7.37 percentage points at end-2003 to 6.92 percentage points at end-2004. The spread between interest rates on kuna loans and kuna deposits reduced from 9.79 percentage points at end-2003 to 9.61 percentage points at end-2004. The spread between interest rates on kuna loans with a currency clause and foreign currency deposits also narrowed over 2004, standing at its record low of 4.24 percentage points in December.

The downward trend in banks' nominal lending rates was also observed in other Central and East European countries, as well as in EMU countries. In 2004, these rates declined in the EMU, Hungary, Poland, Slovenia and Croatia. Even with nominal lending rates rising in the Czech R. and Slovak R., real interest rates dropped on account of a sharp increase in the inflation rate. Real interest rates on long-term corporate loans decreased at end-2004 from end-2003 in most of the observed countries, as well as in EMU countries, rising only in the Slovak R., due to a slight upward trend in these loans' nominal interest rates and the inflation rate fall.

In contrast from interest rates on corporate loans, household deposits' rates were up in some of the observed countries (including the EMU, the Czech R., Poland and Croatia) compared with the end of the previous year. However, in consequence of the rise in the CPI inflation rate, real interest rates on household deposits were negative in late 2004 in all observed countries, except in Croatia and Hungary.

## Developments in the First Quarter of 2005

Banking system kuna liquidity remained good in the first quarter of 2005, fuelled by CNB's foreign exchange interventions in January and March. As a result, loan turnover and interest rates in the kuna money market held at relatively low levels, while the balance of subscribed MoF T-bills surged. The weighted interest rate on overnight loans intermediated by the ZMM stood at 2.32% in the first quarter of 2005, with the average daily turnover in these loans amounting to HRK 78.9m in the same period.

MoF T-bills' auction rates decreased further in the first two months of 2005, rose temporarily at end-February and dropped again in March. The weighted interest rate on 91, 182 and 364-day T-bills was 4.71%, 5.32% and 5.54% respectively in March. Due to a favourable kuna liquidity of the banking system, the balance of

subscribed T-bills rose by HRK 4.17bn in the first three months of 2005, reaching its peak of HRK 12.43bn in March.

Banks' lending interest rates mostly held steady in January and February 2005, and so did kuna deposit rates. Interest rates on foreign currency deposits inched up in the same period, continuing the slight upward trend from early 2004.

## 1.2.7 Capital Market

The Croatian capital market was buoyant in 2004. Share turnover at both the ZSE and VSE almost doubled from the previous year, the number of transactions rose by nearly 50% and stock exchange indices, after having either stagnated or declined for quite some time, rebounded strongly at mid-year, reaching their record highs at end-2004. There was a considerable rise in the number of new bond issues in the debt securities market: in addition to three government bonds, also issued were four corporate bonds and, for the first time, two municipal bonds, those of the City of Koprivnica and the City of Zadar. Especially important for the further development of the Croatian capital market was the government bond issued in late 2004 with a 15-year maturity, the longest maturity ever obtained by a Croatian government bond. Compared with 2003, bond turnover increased by almost 70%.

The spread between Croatian eurobonds and benchmark German bonds tightened considerably in 2004, mainly due to the announcements of the start of Croatia's EU accession process. Having stood at about 100 basis points in early 2004, the spread for eurobonds with the longest maturities narrowed to about 40 basis points by the year-end.

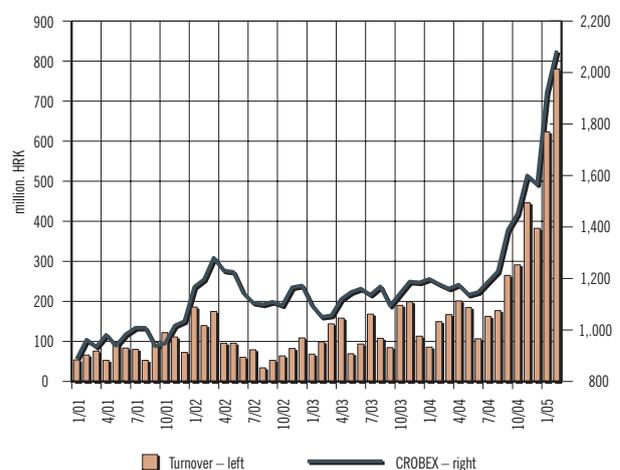
## Debt Securities Market

With share trading volume on the ZSE rising sharply in the second half of 2004, total share turnover came to HRK 2,619.4m, a 75.20% increase over 2003. At-end 2004, the ZSE had 183 shares listed, compared with 175 in 2003, while 153 shares were actively traded, in contrast with 143 in the year before. With a turnover of HRK 637.1m, the Adris grupa share accounted for 24.3% of total share turnover, outperforming the shares of Pliva (22.5% of the total), Podravka (10.1%), Medika (3.0%) and the common share of Končar Elektroindustrija (2.9%).

In 2004, shares were traded in three ZSE markets: the Official Market (the former Quotation I), the Public Companies Market and the Parallel Market. Previously listed on the Public Companies Market, common and preferred shares of Croatia osiguranje got listed

1.46

ZSE Monthly Share Turnover and End-Month CROBEX



Source: ZSE.

on the Official Market in January 2004, next to common shares of Pliva and Podravka. While previously accounting for more than half of total share turnover, the Official Market turnover declined further in 2004, accounting for about 30% of total share turnover.

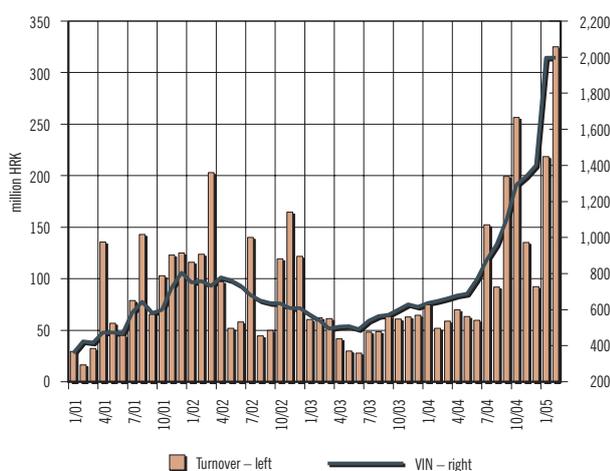
Market capitalisation of shares on the ZSE amounted to HRK 61.73bn (30.4% of the GDP estimate for 2004), rising by HRK 24.6bn from 2003, due to the growth in both share prices and share liquidity. Specifically, the ZSE share market capitalisation is calculated by multiplying each share's latest price by the number of shares issued. However, as share liquidity is also accounted for, the overall calculation includes half of market capitalisation of shares not traded in the previous month and only one fourth of market capitalisation of shares not traded in the previous three months. Of liquid shares, Pliva shares had the largest market capitalisation at end-2004 (HRK 6.8bn or 11.0% of total share market capitalisation), and were followed by Adris grupa shares (HRK 3.8bn) and Ericsson Nikola Tesla shares (HRK 3.2bn).

The ZSE index, CROBEX, decreased continuously in the first five months of 2004, reaching 1136.5 points at end-May. Having rebounded shortly after, the CROBEX hit its record high of 1600.7 points in late November and drifted lower until the year-end, standing at 1565.8 points on 31 December, a rise of 32.1% from 31 December 2003.

Following the regular ZSE index revision in September 2004, the CROBEX comprised the shares of Croatia osiguranje, Istraturist, Kraš, Končar Elektroindustrija, Plava laguna, Pliva, Podravka, Riviera holding, Belišće, Ericsson Nikola Tesla, Dom holding and Privredna banka Zagreb. The CROBEX value was primarily affected by the shares with the highest market capitalisation, those of Zagrebačka banka, Privredna banka Zagreb and Pliva. Reflecting Croatian enterprises' share prices, the CROBEX behaved similarly to transition countries' indices, on the rise from 2003.

1.47

VSE Monthly Share Turnover and End-Month VIN



Source: VSE.

Due to brisk trading, the VSE share turnover doubled in 2004 from the previous year, totalling HRK 1,305.4m (half the ZSE turnover).

Shares are traded in five market segments on the VSE: the First Quotation, the Second Quotation, the Public Companies Quotation, the PIF Quotation and the Free Market Quotation. The sixth segment, the Quotation of Rights, involves trading in the rights<sup>17</sup> of the Ministry of Finance and the former Ministry of Public Works, Reconstruction and Construction.

In 2004, the largest share in the total VSE turnover (46%) was accounted for by the Public Companies Quotation, in contrast with last year, when most trading was done in the Free Market. In addition to Croatian government bonds and the municipal bonds of

17 Rights are securities entitling their holders to the specified shares from the CPF portfolio. They can be exchanged for shares on public auctions intermediated by the VSE or traded on the VSE.

Table 1.4 Comparison of Capital Market Indicators

December 2004	Bratislava	Budapest	Ljubljana	Prague	Warsaw	Zagreb
Average daily turnover, shares (million EUR)	0.4	40.8	5.7	69.4	149.0	2.3
Average daily turnover, bonds (million EUR)	59.7	10.0	2.8	72.2	6.4	21.0
Turnover <sup>a</sup> /GDP <sup>c</sup> , annual level (%)	0.3	14.6	6.2	23.1	22.0	2.4
Turnover <sup>b</sup> /GDP <sup>c</sup> , annual level (%)	42.2	3.6	3.0	24.1	0.9	22.0
Turnover velocity <sup>d</sup>	2.1	48.8	21.1	54.6	78.3	7.4
Market capitalisation <sup>a</sup> (million EUR), end month	3,615	22,070	7,115	32,029	52,541	8,048
Market capitalisation <sup>b</sup> (million EUR), end month	9,339	33,820	4,616	18,941	...	3,202
Market capitalisation <sup>a</sup> /GDP <sup>c</sup> , end month (%)	12.5	29.9	29.3	42.3	28.1	31.9
Market capitalisation <sup>b</sup> /GDP <sup>c</sup> , end month (%)	32.4	45.8	19.0	25.0	...	12.7
Index movement from the beginning of the year (%)	83.9	57.2	24.7	56.6	27.9	32.1
Index movement from the beginning of the month (%)	8.2	3.9	1.4	2.1	4.8	-2.2

<sup>a</sup>Shares. <sup>b</sup>Bonds. <sup>c</sup>2003. <sup>d</sup>Annualised monthly share turnover x 100/ market capitalisation of shares.  
Source: Reports from BSSE, BSE, PSE, LJSE, WSE, ZSE and FIBV Statistics Reports (www.fibv.org).

the City of Koprivnica, only the Varteks share is traded in the First Quotation, and there is also only one share listed in the Second Quotation.

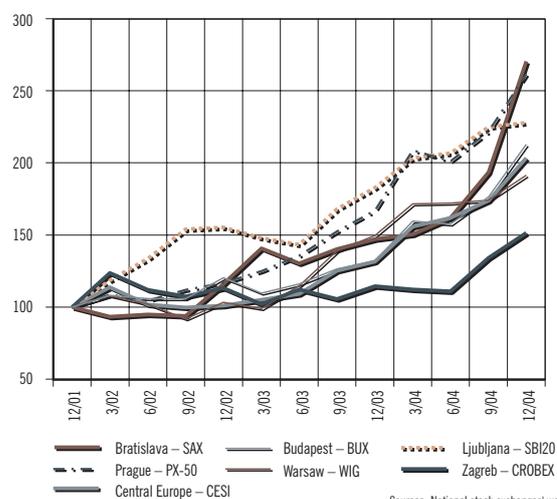
Market capitalisation of active shares on the VSE stood at HRK 41,74bn at end-2004, an increase of almost 80% from end-2003. Rising steadily over 2004, the VSE index, VIN, reached its record high of 1400.0 points at end-December, rising by 127.3% from end-2003.

The VIN was revised twice in 2004. Following its last regular revision, carried out in November, the VIN comprised 12 joint stock companies' shares, with the shares of Ericsson Nikola Tesla, Dom holding, SN holding and Anita Vrsar carrying the largest weight.

These developments were similar to the trends recorded in selected transition countries' equities markets. In all these countries, except in the Slovak R., the average daily share turnover rose from the previous year. Increasing only in Croatia and Hungary, bond turnover dropped in all other observed countries. Market capitalisation of both shares and bonds was up on all observed stock exchanges compared with end-2003.

Continuing the trend started in early 2003, stock exchange indices in the observed Central European countries leapt further in 2004. The ZSE index, CROBEX, also rebounded at mid-2004, having stagnated for quite some time. With an increase of 162.1% compared with that at end-2003, the Bratislava Stock Exchange index, SAX, outperformed other indices, rising between 32% and 78% in the same period. The Warsaw Stock Exchange index, WIG, grew at the lowest rate of 32.6% from end-2003. The composite Central European Stock Exchange Index, CESI, increased by about 60% in 2004, standing at 2200.0 points at the year-end.

1.48

Selected Stock Exchange Indices  
end of period, December 2001 = 100

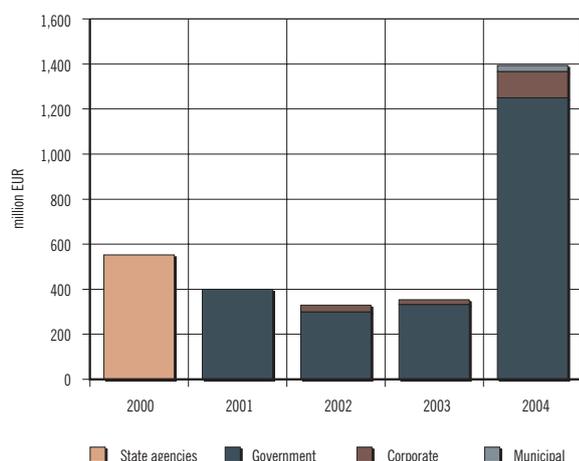
Sources: National stock exchanges' web sites.

## Debt Securities Market

Three government bonds, four corporate bonds and two municipal bonds were issued in the Croatian debt securities market in 2004.

**1.49**

Bond Issues in the Domestic Market



Source: ZSE.

In line with monetary policy guidelines for 2004, Croatia's external debt was partly settled by borrowing in the domestic market. A government bond due 2014 was issued in February, at a coupon rate of 5.5%. With three tranches issued, in February, March and September, the bond is valued at a total of EUR 650m in nominal terms. In July 2004, the Republic of Croatia issued a three-year bond worth EUR 400m, with a coupon rate of 3.875%. The bond issue revenue was partly used to repay the CIHI bond amounting to EUR 222m which fell due also in July. EUR 200m worth of bonds was issued in November, at a coupon rate of 5.375%. It was the last bond issued in 2004, maturing in 2019, which is the longest maturity ever obtained by a Croatian government bond issued in the domestic market. The bond issue revenues were mainly used for the repayment of the Samurai bond issued in 1999.

In 2004, the domestic market witnessed the first issues of municipal bonds. HRK 60m worth of bond was issued by the City of Koprivnica, at a coupon rate of 6.5%.

**Table 1.5** Bond Issues in the Domestic Market

Series	Issuer	Issue date	Maturity	Currency	Issue nominal value	Nominal interest rate	Last price <sup>a</sup>	Current yield 28/2/2005
DAB-0-05CA	DAB	19/12/2000	19/12/2005	EUR	225,000,000	8.375%	104.80	7.991%
RHMF-0-08CA	Republic of Croatia	14/12/2001	14/12/2008	EUR	200,000,000	6.875%	111.35	6.174%
RHMF-0-125A	Republic of Croatia	23/5/2002	23/5/2012	EUR	500,000,000	6.875%	115.80	5.937%
RHMF-0-085A	Republic of Croatia	28/5/2003	28/5/2008	HRK	1,000,000,000	6.125%	100.90	6.070%
RHMF-0-142A	Republic of Croatia	10/2/2004	10/2/2014	EUR	650,000,000	5.500%	108.00	5.093%
RHMF-0-077A	Republic of Croatia	7/7/2004	7/7/2007	EUR	400,000,000	3.875%	101.55	3.816%
RHMF-0-19BA	Republic of Croatia	29/11/2004	29/11/2019	EUR	200,000,000	5.375%	105.45	5.097%
GDKC-0-116A	City of Koprivnica	29/6/2004	29/6/2011	HRK	60,000,000	6.500%	–	–
GDZD-0-119A	City of Zadar	1/9/2004	1/9/2011	EUR	18,500,000	5.500%	–	–
HBOR-0-112A	CBRD	11/2/2004	11/2/2011	EUR	300,000,000	4.875%	–	–
BLSC-0-091A	Belišće d.d.	14/1/2005	14/1/2009	EUR	8,000,000	5.500%	–	–
HYBA-0-086A	Hypo-Alpe-Adria Bank	6/6/2003	6/6/2008	HRK	150,000,000	6.500%	100.90	6.442%
BNAI-0-22CA	Bina Istra d.d.	15/12/2002	15/12/2022	EUR	210,000,000	8.000%	–	–
PODR-0-072A	Podravka d.d.	20/2/2004	20/2/2007	EUR	27,000,000	5.000%	–	–
AGRK-0-074A	Agrokor d.d.	3/4/2002	3/4/2007	EUR	230,000,000	11.000%	108.10	10.176%
PLVA-0-115A	Pliva d.d.	12/5/2004	12/5/2011	EUR	75,000,000	5.750%	99.65	5.770%
ATGR-0-077A	Atlantic Grupa d.o.o.	15/7/2004	15/7/2007	EUR	15,000,000	5.750%	–	–

<sup>a</sup> Regularly traded.

Source: ZSE, monthly report, February 2005.

and EUR 18.5m worth of bonds by the City of Zadar, at a coupon rate of 5.5%. Both issues mature in 2011.

Also issued in 2004 were three new EUR-denominated corporate bonds, the issue of EUR 27m worth of bonds due 2007, launched by Podravka at a coupon rate of 5.0%, the issue of EUR 75m worth of bonds due 2011, launched by Pliva at a coupon rate of 5.75%, and a bond issued by Atlantic grupa at a coupon rate of 5.75%, valued at EUR 15m and due 2007. In addition, Agrokor bonds, issued at the Luxemburg Stock Exchange in 2002 and supplemented by a new tranche in 2004, were listed on the ZSE as an integral issue worth EUR 230m, due 2007, with a coupon rate of 11%. EUR 300m worth of CBRD bonds, issued at the Luxemburg Stock Exchange in February 2004, due in 2011, was also listed on the ZSE due to considerable interest of domestic investors.

There was a total of 17 bond issues listed on the domestic debt securities market at end-2004 (6 government bonds, a DAB bond, a CBRD bond, 2 municipal and 7 corporate bonds), in contrast with 10 issues listed at end-2004.

Reaching HRK 21.2bn in 2004, bond turnover almost doubled from the previous year. Corporate bonds, not being very liquid due to their issues' low values, had a turnover of only HRK 513.8m, which accounted for 2.58% of the total ZSE bond turnover. The most liquid bond, accounting for 29% of total turnover (HRK 5.73bn), was the Republic of Croatia bond due 2014. Government bonds maturing in 2012 and 2007 also generated a considerable turnover, HRK 3.87bn and HRK 2.79bn respectively, as well as the kuna government bond due 2008, whose turnover was HRK 1.86bn.

Market capitalisation of bonds on the domestic market was HRK 26.1bn (EUR 3.4bn), at end-2004, or 12.6% of the GDP estimate for 2004. Of this amount, market capitalisation of seven corporate bonds amounted to HRK 4.6bn (EUR 604m), or 2.3% of the GDP estimate for 2004.

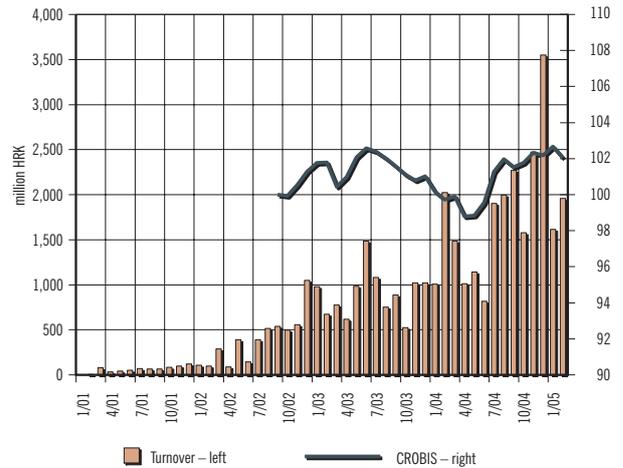
Strong demand boosted bond prices in the domestic market. ZSE bond price trends were reflected in the value of the ZSE bond index, CROBIS.<sup>18</sup> At end-2004, the CROBIS was composed of five government bonds (maturing in 2007, 2008, 2012 and 2014), a DAB bond maturing in 2005 and a CBRD bond due 2011.

In 2004, the CROBIS hit its record low of 99.6 points in June. The index then trended upwards until the year-end, standing at 102.17 points at end-December 2004, up 1.14 percentage points from end-2003.

18 Compiled from end-September 2002, the CROBIS comprises all government and government agencies' bonds that got listed on the ZSE, providing that their issues' nominal value exceeds or equals EUR 75m, that their maturities exceed 18 months and that they were issued at a fixed rate.

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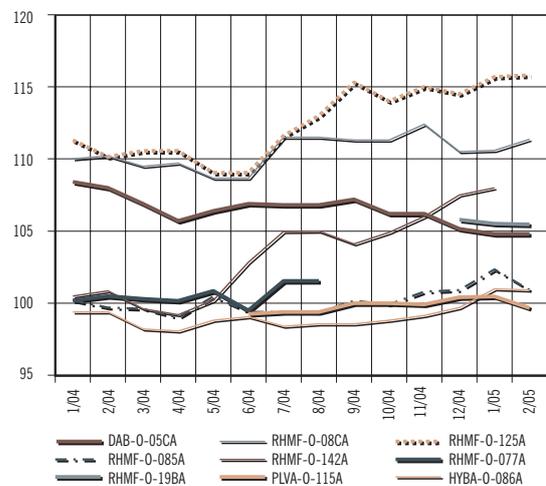
ZSE Monthly Bond Turnover and End-Month CROBIS



Source: ZSE.

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Croatian Bonds' Prices in the Domestic Market



Source: ZSE.

**Table 1.6** Republic of Croatia International Bond Issues

Bond	Issue date	Currency	Amount	Nominal interest rate	Yield on issue day	Spread on issue day	Spread <sup>a</sup> 31/3/2004	Spread <sup>a</sup> 30/6/2004	Spread <sup>a</sup> 30/9/2004	Spread <sup>a</sup> 31/12/2004
London Club Series A, 2006	31/7/1996	USD	604,426,000	6-month LIBOR + 81.25 b.p.			109	104	93	87
London Club Series B, 2010	31/7/1996	USD	857,796,000	6-month LIBOR + 81.25 b.p.			130	123	117	116
Eurobonds, 2006	10/3/1999	EUR	300,000,000	7.375%	7.45%	375	67	35	38	21
Eurobonds, 2005	28/3/2000	EUR	500,000,000	7.00%	7.06%	210	59	21	5	-70
Eurobonds, 2011	14/3/2001	EUR	750,000,000	6.75%	6.90%	215	117	80	71	44
Eurobonds, 2009	11/2/2002	EUR	500,000,000	6.25%	6.45%	158	111	62	60	43
Eurobonds, 2010	14/2/2003	EUR	500,000,000	4.625%	4.65%	102	110	64	62	45
Eurobonds, 2014	15/4/2004	EUR	500,000,000	5.000%	5.11%	101	—	80	75	44
Samurai bonds, 2007	11/7/2000	JPY	40,000,000,000	3.00%	3.00%	135	75	74	62	39
Samurai bonds, 2006	23/2/2001	JPY	25,000,000,000	2.50%	2.50%	152	64	52	41	34
Samurai bonds, 2008	26/6/2002	JPY	25,000,000,000	2.15%	2.15%	144	87	76	67	67
Samurai bonds, 2009	26/6/2003	JPY	25,000,000,000	1.23%	1.23%	99	....	....	....	....

<sup>a</sup> In relation to benchmark bond.  
Source: Bloomberg.

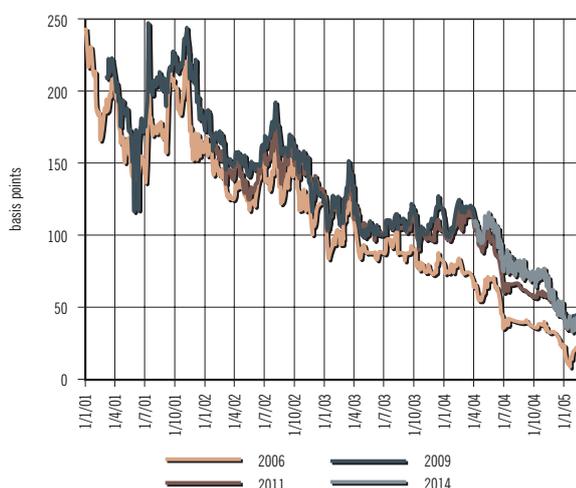
There were 12 Croatian government bonds listed on international markets in late 2004, one less than in 2003. Euro-DEM bonds worth EUR 153m, issued in 1997, matured in July, while Samurai bonds issued in 1999, valued at JPY 25bn (about HRK 190m) fell due in December. In April 2004, the Republic of Croatia issued new eurobonds worth EUR 500m, due 2014, at a coupon rate of 5%.

The nominal value of the 12 bond issues totalled HRK 37.88bn (EUR 4.94bn), at end-December 2004, an increase of HRK 35.76bn (EUR 4.68bn) compared with end-2003.

As Croatian eurobond yields did not follow the downward trend in European and other international bond yields in early 2004, the Croatian eurobond spread with benchmark German bonds widened. Later in the year, due to the announcements

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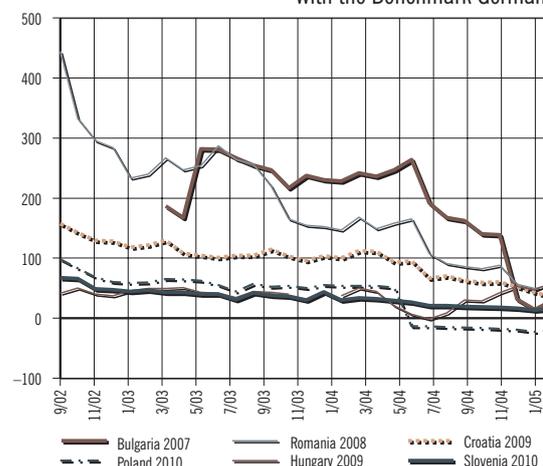
Croatian Eurobond Spread 2006, 2009, 2011 and 2014, Compared with Benchmark German Bonds



Source: Bloomberg.

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



Source: Bloomberg.

of the start of Croatia's EU accession process, Croatian eurobond yields trended downwards and their spread with benchmark German bonds narrowed considerably, standing at about 40 basis points for the longest maturities. Yields narrowed further at the year-end, when the starting date for pre-accession negotiations was set for Croatia, and the country's credit rating also improved (BBB by S&P).

In comparison with the new members that joined the EU on 1 May 2004, Croatian eurobond spread was relatively high, and that of Bulgarian and Romanian eurobonds even much higher. As the EU accession process advanced, however, these countries' eurobond yields came closer to benchmark German bonds' yields at a much faster rate than Croatian eurobond yields. At end-2004, these countries' eurobond spreads with the benchmark German bond, despite unfavourable indicators, equalled the spread of Croatian eurobonds or even came below that level.

## Developments in the First Quarter of 2005

Favourable capital market developments continued in the first two months of 2005. Share turnover hit its record high and both share prices and stock exchange indices rose. Share turnover on the ZSE reached HRK 1.4bn in the first two months of 2005, accounting for almost two thirds of the total share turnover in 2004. The end-February CROBEX stood at 2085.5 points, a rise of 33% from end-2004. Market capitalisation of shares on the ZSE was HRK 78.17bn at end-February, up HRK 16.4bn from end-2004. Share trading on the VSE generated a turnover of HRK 543.5m in January and February, while the VIN stood at 1996.2 points at end-February, increasing by 42% compared with end-2004.

The debt securities market saw a new kuna denominated government bond issue in early March. Worth HRK 3bn, the issue was, as the previous one, for a five-year period, and had a coupon rate of 6.75%. With the Belišće bond issued in 2002 falling due in January, the company issued a new four-year bond in the same month, valued at EUR 8bn, at a coupon rate of 5.5%. Belišće thus became the first Croatian company to launch two corporate bond issues in the domestic market.

### 1.2.8 Balance of Payments

According to the preliminary BOP data, the current account deficit stood at EUR 1.3bn or 4.6% of GDP in 2004. Compared with 2003, it fell by 2.3 percentage points, mostly on account of reduced imbalance in foreign trade and a fall in net expenditures in the income account. It should be noted that this was largely due to the performance results registered in 2003 (a comparable base year) when the income account recorded an exceptionally high expenditures – the transfer of Pliva d.d. patent rights to the related company abroad.<sup>19</sup> Excluding the impact of this

<sup>19</sup> For further details see the CNB Bulletin, No. 86, Box: 2.

transaction on the performance results in the base 2003 year, the current account deficit fell by 1.2 percentage points in 2004.

At end-2004, Croatia's external debt stood at EUR 22.7bn or 82.1% of GDP. Although the external debt level is high it is encouraging that its 2004 annual growth rate was twice lower than that registered in 2003 and that Croatia's international liquidity, measured by the IEMP, has remained good.

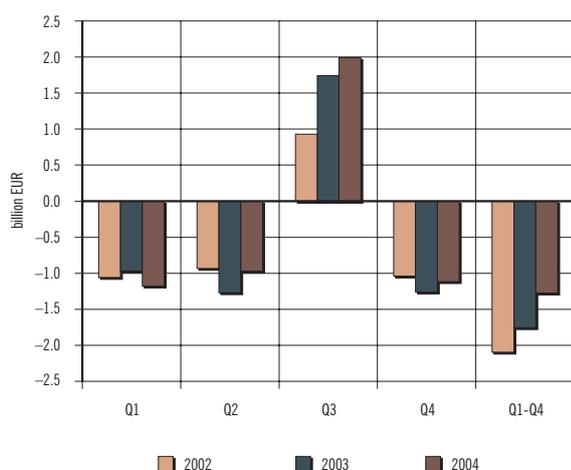
## Current Account

The foreign trade deficit contracted substantially in 2004, primarily on account of favourable movements in the second half of the year. Hence, the foreign trade deficit reached EUR 3.4bn (12.3% of GDP) in the first two quarters of 2004 or it grew by 5% year-on-year. In the third quarter, it stood at EUR 1.6bn or 5.9% of GDP and fell by a high 13.6% year-on-year. The fourth quarter deficit came in at EUR 1.7bn or 6.2% of GDP and decreased by 8.2% year-on-year. In line with these developments, the negative balance in the goods account shrunk by 3.6% year-on-year in 2004.

Relatively favourable trends in goods trade in 2004 were brought about by significantly lower annual growth rates of goods imports (6.2%), mostly because of the ending of works on capital infrastructure projects (road construction) and the flattening out of automobile imports. In contrast, goods exports continued to grow at positive rates (18.5%), mostly on account of higher annual growth rates of exports of ships and oil and refined petroleum products. Other SITC divisions also registered increased rates of exports (for further details see *Merchandise Trade*).

1.54

Current Account Balance



Source: CNB.

The services account is still largely influenced by net inflows from services rendered in tourism, with financial indicators being derived from volume indices in tourism and indices on average consumption by foreign visitors. When it comes to volume indicators on tourism, it should be pointed out that, according to CBS data, foreign tourist arrivals grew by 6.8% year-on-year in 2004, almost the same as in 2003. However, total nights stayed by foreign tourists in commercial residential facilities grew at a somewhat slower rate. As a result, the annual growth rate of nights stayed by foreign tourists stood at 2.9% in 2004, down 1.2 percentage points compared with 2003. As regards the share in total number of recorded foreign tourist nights, the Germans, the Italians, the Slovenians, the Czechs and the Austrians predominated during 2004. Compared with 2003, the fall in the number of nights stayed was registered by tourists from the Czech R., Slovenia, Germany, the Slovak R.

and Bosnia and Herzegovina, while there was an increase in the number of nights stayed by tourists from France, Great Britain, the Netherlands, Hungary and Sweden.

**Table 1.7** Current Account of the Republic of Croatia  
in million USD and %

	2002	2003	2004 <sup>a</sup>	Rate of change 2004/2003
<b>A. CURRENT ACCOUNT</b>	<b>-2,097</b>	<b>-1,757</b>	<b>-1,277</b>	<b>-27.3</b>
<b>1. Goods</b>	<b>-5,960</b>	<b>-6,974</b>	<b>-6,725</b>	<b>-3.6</b>
1.1. Credit (f.o.b.)	5,293	5,572	6,602	18.5
1.2. Debit (f.o.b.)	-11,253	-12,546	-13,327	6.2
<b>2. Services</b>	<b>3,285</b>	<b>5,047</b>	<b>4,906</b>	<b>-2.8</b>
2.1. Credit	5,832	7,680	7,816	1.8
2.2. Debit	-2,548	-2,633	-2,910	10.5
<b>3. Income</b>	<b>-574</b>	<b>-1,074</b>	<b>-618</b>	<b>-42.4</b>
3.1. Credit	458	445	642	44.2
3.2. Debit	-1,032	-1,519	-1,260	-17.0
<b>4. Current transfers</b>	<b>1,152</b>	<b>1,245</b>	<b>1,160</b>	<b>-6.8</b>
4.1. Credit	1,453	1,539	1,529	-0.6
4.2. Debit	-301	-294	-369	25.3

<sup>a</sup> Preliminary data.  
Source: CNB.

The annual growth in volume indices in tourism in 2004 was not reflected in the annual growth of financial indices. The reasons behind this were not the significant changes in the average consumption by traveller but the changes in the structure of foreign guests visiting Croatia. However, the results of the Survey on Consumption of Foreign Travellers in Croatia, carried out jointly by the CNB and an external agency, show the fall in the number of travellers in paid accommodation.

The annual growth of expenditures was faster than that of revenues and generated a slight fall in net income from transport services in 2004 (2.7%). Expenditures for sea transport services grew the most. The negative balance in other services has been present for several years now; in 2004 it grew by EUR 55m or 18.5% year-on-year. As far as the trade in other services is concerned, 2004 also saw the annual fall in net exports of telecommunication and construction services and the reduction in net imports of financial services.

A significant contraction in net outflows was recorded in the account of income.<sup>20</sup> The deficit on this account almost halved in 2004 compared with 2003. Much of this reduction can be traced to the increase in income from equity investment abroad and the fall in expenditures based on equity investment abroad. Specifically, a significant portion of outflow from the income account in 2003 related to the retained earnings of Pliva d.d. (the transfer of the patents' market value to Pliva's related company that was not accompanied by a financial counterflow) that, in accordance with the ownership structure of the company, was transferred to the foreign owners. In contrast, income based on retained earnings (i.e. equity investment abroad) grew substantially in 2004.

Traditionally positive, the balance in current transfers narrowed by 6.8% year-on-year in 2004, mostly due to the fall in net transfers to the government.

<sup>20</sup> It comprises compensation of employees and income from direct, portfolio and other investment.

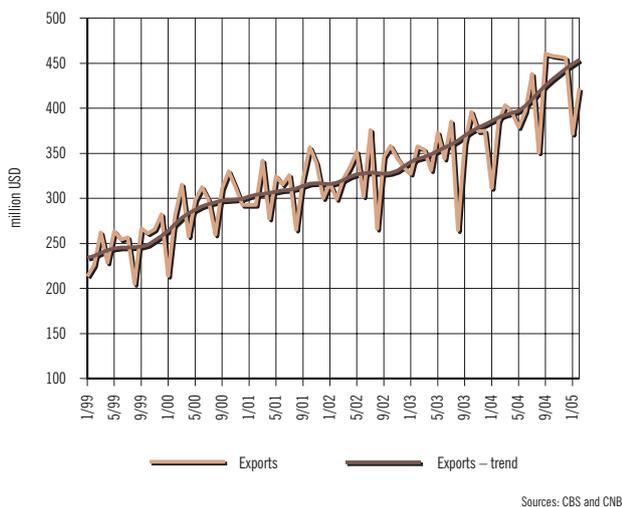
Net current transfers to other sectors also fell slightly, with the fall in remittances from overseas workers being the most significant.

## Merchandise Trade

According to the CBS preliminary data for 2004, total goods exports stood at USD 8bn (EUR 6.5bn) and total goods imports at USD 16.6bn (EUR 13.3bn). Expressed in US dollars,<sup>21</sup> the foreign trade deficit grew at a considerably lower annual rate in 2004 compared with 2003 and 2002. Expressed in kuna and euro terms, it recorded an absolute annual decrease. The reduction in the foreign trade deficit resulted from intensified goods exports and reduced goods imports, which is also indicated by the imports/exports coverage rate of 48.4% in 2004 or 4.8 percentage points more than in 2003.

1.55

**Merchandise Exports (f.o.b.) and Trend**  
other transport equipment, oil and refined petroleum products excluded,  
at constant 2002 exchange rate



Total goods exports, measured in US dollars at the constant 2002 exchange rate,<sup>22</sup> grew by 21.7% year-on-year in 2004, almost twice as much as in 2003 (11.1%). The main contributors to the growth of goods exports were other transport equipment (i.e. ships) and oil and refined petroleum products. According to the CBS data, exports of other transport equipment rose by USD 1.1bn in 2004 or 40.8% year-on-year, while exports of oil and refined petroleum products grew by USD 0.7bn or 56.5% year-on-year.

Ship exports will remain a positive contributor to exports in 2005 as well. This is confirmed by the data from the world book of orders, according to which Croatia takes a very high 4th place, with respect to total ordered ships measured in deadweight tonne. Japan, South Korea and China take 1st, 2nd and 3rd place, accounting for almost 90% of the world's ship orders.

Although Croatia is viewed as a shipbuilding superpower, the majority of its shipyards, despite substantial government subsidies, continue to operate with loss. In large part, these losses may be explained by the pronounced exchange rate fluctuations, i.e. the fact that ship orders are mostly contracted in US dollars – the currency that depreciated considerably against the euro in 2003 and 2004. In addition, a large portion of products used in the construction of ships is imported from the EU and paid in euros. Nevertheless, some of the losses may also be ascribed to the uncompleted restructuring of shipyards and the need for more efficient management and higher productivity of persons employed in this area of industry.

21 The analysis of movements in the foreign merchandise trade of the Republic of Croatia is predominantly based on values expressed in US dollars as the CBS publishes the disaggregated data on merchandise trade both in US dollars and in kuna.

22 Changes that are the result of pronounced volatility of the US dollar/euro exchange rate are excluded from the time series when data are reported at the constant exchange rate.

**Table 1.8** Extract from the World Order Book of Ship  
on 3 March 2005

Country	Number of ships	Deadweight tonne
Japan	1063	80,707,413
South Korea	1038	75,505,799
China	706	34,996,822
Croatia	69	3,482,869
Taiwan	45	2,735,495
Poland	78	2,704,811
Germany	101	2,637,842
USA	16	829,500
Other	652	11,445,412
<b>Total</b>	<b>3768</b>	<b>215,045,963</b>

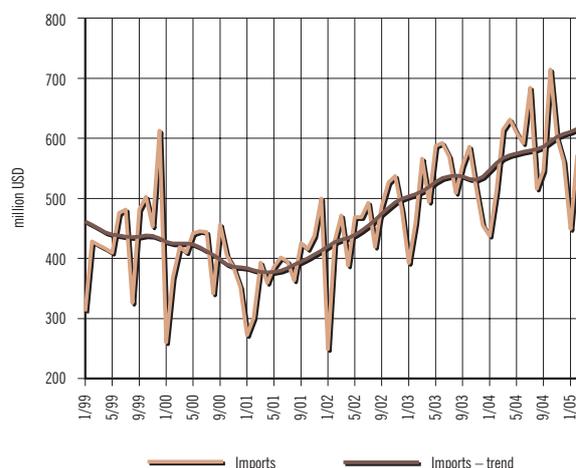
Source: Fairplay Newbuildings, March 2005, No. 102.

Looking at other SITC divisions, goods exports (ships and oil and refined petroleum products excluded) grew by 15.3% year-on-year in 2004 (expressed at the constant exchange rate). Hence, positive trends were observed in exports of electrical machinery, apparatus and equipment (43.1% year-on-year growth, measured at the current exchange rate), leather, leather products and fur (210.7%), machinery specialised for particular industries (66.9%), non-ferrous metals (102.1%) and other fabricated metal products (34.8%). In the same period, there was a fall in exports of sugar, sugar product and honey (61.6%), cereals and cereal products (35.8%) and fish and fish products (9.8%).

Expressed at the constant exchange rate, total goods imports grew by 8.7% year on-year in 2004, down 6.7 percentage points compared with 2003. This slowdown can be attributed to the lower year-on-year growth in imports of capital goods and weakened demand for personal automobiles. More specifically, the year-on-year growth rate of imports of machinery and transport equipment (other transport equipment and road vehicles excluded for the purpose of more simple comparison of movements in capital goods) stood at 4.6% in 2004, compared with 18.7% in 2003 and 23.1% in 2002. High growth rates of imports of capital goods in 2002 and 2003 were related to the beginning of works on capital infrastructure projects in Croatia (primarily road construction). However, the dynamics and the volume of works in 2004 required no additional purchases of machinery. Imports of road vehicles, identified as one of the most important factors contributing to the total growth in goods imports in previous years, went down by 3.5% year-on-year in 2004.

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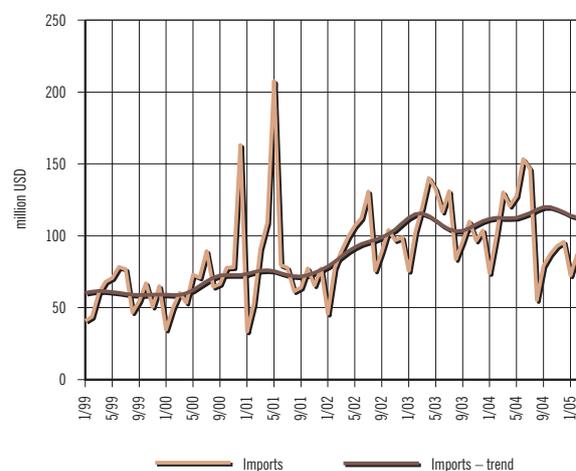
**Merchandise Imports (c.i.f.) and Trend**  
machinery and other transport equipment excluded,  
at constant 2002 exchange rate



Sources: CBS and CNB.

1.57

**Imports of Road Vehicles (c.i.f.)**  
at constant 2002 exchange rate



Sources: CBS and CNB.

The following SITC divisions contributed the most to the absolute growth in total goods imports in 2004: oil and refined petroleum products (31.2% year-on-year growth rate, measured by the current exchange rate), iron and steel (42.1%), electrical machinery, apparatus and equipment (21.7%), medical and pharmaceutical products (23.9%) and other fabricated metal products (18.4%).

Exports/imports of goods by the economic classification of countries show that Croatia's exports to EU-25 accounted for somewhat less than two-thirds of its total exports in 2004. Concurrently, the shares of exports into EU-25 registered a modest fall. Even so, the value of Croatia's exports to its most important trade partners (Italy, Germany, Austria and Slovenia) grew in the reference period. The growth in the share of exports to developing countries was primarily accounted for by increased exports to Bosnia and Herzegovina, Serbia and Montenegro and Liberia (ship exports).

Croatia's share of imports from EU-25 reached 69.5% in 2004. Despite the fall in the share of imports from the EU in Croatia's total imports, imports grew by 12.7% in absolute terms and were mostly accounted for by increased shares of imports from Germany, Italy, Austria and Slovenia. Among developing countries, Russia (increased imports of oil), China and Bosnia and Herzegovina contributed the most to the increase of imports into Croatia.

Data for the first two months of 2005 signal a continuance of positive developments in merchandise trade. Measured at the constant rate of exchange, total goods exports amounted to USD 1.3bn in the observed period and grew by 10.2% year-on-year or 6.8 percentage points more than in the same period of 2004. The largest contributors to this growth, among SITC divisions, were plastics in primary forms, medical and pharmaceutical products, power machinery and equipment, oil and refined petroleum products and natural and industrial gas.

**Table 1.9** Imports and Exports by Economic Classification of Countries  
in %

Exports			Economic classification of countries	Imports		
2002	2003	2004 <sup>a</sup>		2002	2003	2004 <sup>a</sup>
70.9	74.6	71.7	Developed countries	80.1	80.8	77.4
65.5	67.6	64.5	EU-25	71.3	72.0	69.5
8.7	8.3	7.5	Slovenia	7.7	7.4	7.1
1.7	1.3	1.3	Hungary	3.0	3.0	3.1
52.7	54.7	51.4	EU-15	55.8	56.6	54.2
7.5	7.7	9.4	Austria	6.6	6.6	6.8
22.7	26.7	22.8	Italy	17.3	18.2	17.1
12.5	11.9	11.2	Germany	16.2	15.6	15.5
0.8	0.8	1.0	EFTA	2.0	1.8	1.6
29.1	25.4	28.3	Developing countries	19.9	19.2	22.6
0.4	0.7	1.2	CEFTA	0.6	1.2	1.5
14.4	14.4	14.4	Bosnia and Herzegovina	1.6	1.6	2.1
3.5	3.1	3.7	Serbia and Montenegro	0.5	0.5	0.8
1.7	1.2	1.4	Russia	6.7	4.8	7.3

<sup>a</sup> Preliminary data.  
Source: CBS.

The value of total goods imports stood at USD 2.4bn in the January-February period of 2005, which was, measured at the constant exchange rate, an increase of 5.9% year-on-year or 1.2 percentage points less than in the same period of 2004. For the most part, total goods imports continued to slow down due to reduced imports of capital goods and road vehicles. In contrast, they grew in absolute terms due to increased imports of oil and refined petroleum products, iron and steel, natural and industrial gas, organic chemical products and electricity.

Faster growth in Croatia's goods exports and reduced goods imports continued to contribute positively to the slowdown in foreign trade deficit. It grew by a modest 1.1% year-on-year in the first two months of 2005 (as compared with 11.5% in the same period of 2004). Continued positive developments in merchandise trade further improved the imports/exports coverage rate. Standing at 52.9% on average in the first two months of 2005, this rate grew by 1.5 percentage points over the same period last year or 4.6 percentage points over the rate registered in 2004.

## Capital and Financial Account

Preliminary BOP data indicate that net FDI in the Republic of Croatia reached EUR 667m in 2004. Unexceptionally high, Croatia's direct investment abroad stood at EUR 254m in 2004 and were for the most part the result of earnings retained in the third quarter of 2004. In the same period, EUR 921m (3.3% of GDP) were invested in Croatia, down EUR 0.9bn or 48.5% compared with 2003. The 2004 reduction of FDI in Croatia can be attributed to the base-year effect or the fact that no large privatisation projects were registered in 2004. In contrast, 25% plus one of INA shares were sold to the Hungarian MOL for EUR 412m

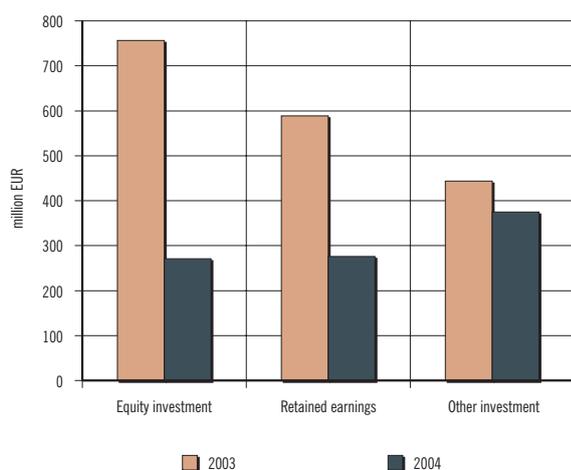
**Table 1.10** Capital and Financial Account of the Republic of Croatia  
in million EUR and %

	2002	2003	2004 <sup>a</sup>	Rate of change 2004/2003
<b>B. CAPITAL AND FINANCIAL ACCOUNT</b>	<b>2,732</b>	<b>2,996</b>	<b>2,255</b>	<b>-24.7</b>
<b>B1. Capital account</b>	<b>501</b>	<b>72</b>	<b>23</b>	<b>-68.1</b>
<b>B2. Financial account (excl. reserves)</b>	<b>2,973</b>	<b>4,159</b>	<b>2,275</b>	<b>-45.3</b>
<b>1. Direct investment</b>	<b>597</b>	<b>1,695</b>	<b>667</b>	<b>-60.7</b>
1.1. Abroad	-598	-93	-254	173.7
1.2. In Croatia	1,195	1,788	921	-48.5
<b>2. Portfolio investment</b>	<b>-440</b>	<b>869</b>	<b>234</b>	<b>-73.0</b>
2.1. Assets	-651	121	-753	-720.4
2.2. Liabilities	210	747	987	32.1
<b>3. Other investment</b>	<b>2,815</b>	<b>1,595</b>	<b>1,374</b>	<b>-13.9</b>
3.1. Assets	452	-2,152	-412	-80.8
3.2. Liabilities	2,364	3,747	1,786	-52.3
<b>B3. Reserve assets (CNB)</b>	<b>-742</b>	<b>-1,235</b>	<b>-43</b>	<b>-96.5</b>
<b>C. NET ERRORS AND OMISSIONS</b>	<b>-635</b>	<b>-1,239</b>	<b>-978</b>	<b>-21.1</b>

<sup>a</sup> Preliminary data.  
Source: CNB.

1.58

Foreign Direct Investment



Source: CNB.

(USD 505m) and a package of shares of domestic brewery was sold to a foreign partner in 2003. The pronounced annual fall in inflows from FDI can be easily observed in Figure 1.58. The same figure also shows the annual fall in FDI based on retained earnings and other investment.

Less than one-third of total FDI in 2004 was accounted for by investment in different types of trade (other retail sale in non-specialised stores, non-specialised wholesale of food, retail sale in non-specialised stores with food, wholesale of pharmaceutical goods and wholesale of household electrical appliances), while one fifth of total FDI was accounted for by investment in other monetary intermediation (recapitalisation of two banks in foreign ownership). In addition to trade and banks, FDI were also made in the extraction of crude petroleum and gas, hotels and motels

with restaurants, radio and television activities, real estate development and sale. In 2003, the production of refined petroleum products (INA privatisation), retail trade (6.3%), beer production (6%) and other monetary intermediation (4.6%) attracted the most of FDI.

Data on the flows in the account of portfolio investment<sup>23</sup> show an increase of EUR 753m in funds based on portfolio investment made by Croatian residents in 2004. It was almost fully accounted for by an increase in banks' funds based on investment in bonds. A smaller portion of this increase was accounted for by banks' investment in money market instruments and other sectors' equity investment. In the same period, Croatian residents' obligations arising from portfolio investment grew by EUR 987m, mostly due to the new bonds issues in the foreign market in the total value of EUR 1.35bn (CBRD issued a bond worth of EUR 300m in February, Government of the Republic of Croatia and one domestic company issued bonds worth of EUR 500m and EUR 100m respectively in April, and Zagrebačka banka issued a bond worth of EUR 450m in the Luxembourg stock exchange in July) and the settlement of EUR 0.5bn in due principal (two foreign bonds issues and two half-year payments to the London Club fell due in 2004).

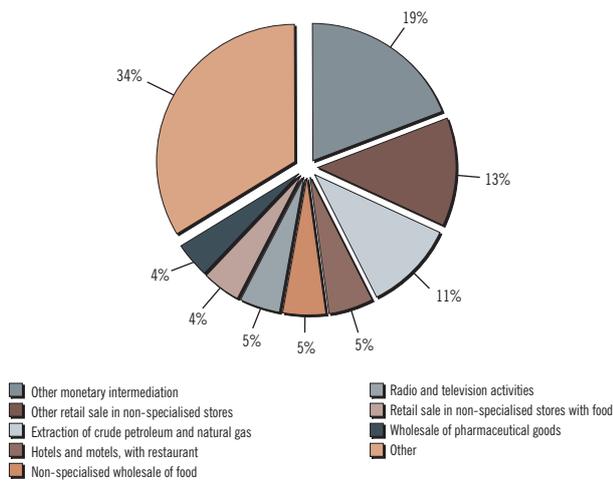
The funds of Croatian residents, that are shown in the account of other investment,<sup>24</sup> grew by EUR 412m in 2004 on account of a EUR 369m increase in banks' currency and deposits, a EUR 73m fall in the government's currency and deposits and a EUR 182m growth in other sectors' funds based on trade credits. Obligations arising from other investment grew by EUR 1.8bn, of which EUR 1.6bn were accounted for by the growth in obligations arising from loans. In the observed period, the government took long-term foreign loans worth EUR 701m but repaid EUR 294m. Banks' obligations arising from loans grew by EUR 625m (net) in 2004, of which EUR 569m were accounted for by net long-term loans. Other sectors' obligations arising from loans rose by EUR 961m (net), with

23 Investment in debt instruments (bonds and money market instruments) and smaller investment in equity instruments (shares).

24 Transaction based on trade credits, loans, currency and deposits are registered in the account of other investment.

1.59

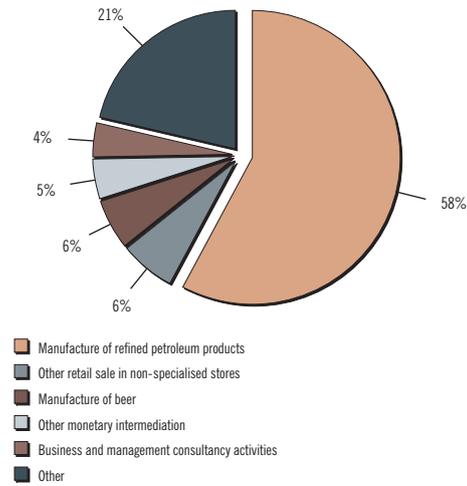
Structure of Direct Equity Investment in the Republic of Croatia in 2004



Source: CNB.

1.60

Structure of Direct Equity Investment in the Republic of Croatia in 2003



Source: CNB.

long-term loans accounting for 92.7% of the total. In the observed period, obligations arising from trade credits fell by EUR 76m, while obligations arising from currency and deposits grew by EUR 243m.

According to the flow data, international reserves grew by EUR 43m year-on-year in absolute terms in 2004. This was the result of a significant fall in international reserves in the first quarter of 2004 (EUR 422m) and the growth recorded in the last three quarters of 2004 (EUR 465m). The fall in international reserves, registered in the first quarter of 2004, was also the result of the fact that the CNB ceased issuing its bills denominated in foreign currency at the turn of 2003 and 2004, whereas previously subscribed bills were maturing until the end of March of 2004.

The flow data do not comprise the cross-currency changes, i.e. the impact of the exchange rate fluctuations on the currency structure of international reserves. That impact is taken into account in the disclosure of the daily averages (i.e. stocks) of international reserves. At end-2004, international reserves amounted to EUR 6,436m, down 1.8% compared with end-2003.<sup>25</sup>

**Table 1.11** Currency Structure of International Reserve of the CNB  
end of period, in million EUR and %

	2001	2002	2003	2004
<b>Balance</b>	<b>5,334</b>	<b>5,651</b>	<b>6,554</b>	<b>6,436</b>
<b>Share</b>				
USD	32.6	28.3	29.6	25.0
EUR	65.1	71.6	70.4	75.0
Other currencies	2.3	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0

Source: CNB.

25 The absolute annual growth in the international reserves of the Republic of Croatia, recorded in the balance of payments, and, conversely, the annual fall in the international reserves of the Republic of Croatia, recorded at end-2004, mirror the difference in recording the flows and stocks, i.e. the omission or inclusion of the cross-currency changes.

The international reserve stock at end-2004 shows that the euro accounted for three-quarters and the US dollar one-quarter of the reserves. As the exchange rate of the US dollar against the euro weakened by 8.9% year-on-year at end-2004 (the US dollar stood at 5.64 kunas at end-2004 and 6.12 kunas at end-2003, while the euro grew from 7.65 kunas at end-2003 to 7.67 kunas at end-2004), the value of international reserves, invested in the financial instruments denominated in the US dollar, is lower when shown in the reporting euro.

The international reserve structure at end-2004 shows that the largest shares were accounted for by debt securities (50.7%) and currency and deposits with banks headquartered outside Croatia (42.6%), while the remaining shares were accounted for by currency and deposits with other central banks, BIS and IMF (3.6%) and reverse repo (3.1%).

**Table 1.12** Structure of International Reserve of the CNB  
end of period, in million EUR and %

	2001	2002	2003	2004
<b>Balance</b>	5,334	5,651	6,554	6,436
<b>Share</b>				
<b>1. Foreign currency reserves</b>	72.7	75.1	87.6	96.9
1.1. Securities	32.6	32.9	48.9	50.7
1.2. Total currency and deposits with:	40.1	42.2	38.6	46.2
– other national central banks, BIS and IMF	8.6	5.8	4.1	3.6
– banks headquartered outside Croatia	31.4	36.5	34.5	42.6
<b>2. IMF reserve position</b>	0.0	0.0	0.0	0.0
<b>3. SDRs</b>	2.3	0.0	0.0	0.0
<b>4. Gold</b>	0.0	0.0	0.0	0.0
<b>5. Reverse repo</b>	25.0	24.8	12.4	3.1

Note: Expressed at the approximate market value.  
Source: CNB.

## External Debt

In accordance with the guidelines laid down in the External Debt Statistics – Guide for Compilers and Users,<sup>26</sup> the CNB adopted the new methodology for external debt calculation in early 2005 and revised the historical data series for external debt. The new methodology applies the gross principle to external debt calculation which increases the amount of interest arrears and accrual interest and changes the external debt structure. In addition to implementing the new methodology for calculating the external debt, the CNB decided to further expand the coverage of external debt by adding the data on balances in hybrid and subordinated instruments, bank and CNB repo transactions, deposits of international financial institutions with the CNB and one-sided effects of the secondary bond market.<sup>27</sup>

<sup>26</sup> External Debt Statistics – Guide for Compilers and Users, IMF, 2003.

<sup>27</sup> This had a twofold effect: hybrid and subordinated instruments, bank and CNB repo transactions and deposits of international financial institutions with the CNB increase the previously reported balance of the external debt of the Republic of Croatia, while the one-sided effects of the secondary bond market decrease the balance of external debt.

Defined in this manner, external debt stood at EUR 22.7bn at end-2004, up EUR 2.9bn or 14.5% compared with end-2003. The external debt structure by debtor shows that the largest amount of external debt was accounted for by other domestic sectors (FDI in companies included,<sup>28</sup> it stood at EUR 7.8bn or 34.3%). Banks followed with EUR 7.7bn and accounted for somewhat more than one-third of total external debt (33.7%). For the first time, the government share in total external debt was the lowest and thus the third largest. At end-2004, external debt of the government sector stood at EUR 7.2bn and accounted for 31.9% of total external debt of the Republic of Croatia.

**Table 1.13** Gross External Debt by Debtor  
end of period, in million EUR and %

	2002	2003	2004	Structure			Indices	
				2002	2003	2004	2003/2002	2004/2003
1. Government	5,900	6,601	7,236	39.2	33.3	31.9	111.9	109.6
2. Central bank (CNB)	23	366	2	0.2	1.8	0.0	1,576.2	0.6
3. Banks	3,790	6,121	7,652	25.2	30.9	33.7	161.5	125.0
4. Other sectors	3,935	4,878	5,798	26.1	24.6	25.6	124.0	118.9
5. Direct investment	1,407	1,845	1,986	9.3	9.3	8.8	131.1	107.7
Total (1+2+3+4+5)	15,055	19,811	22,675	100.0	100.0	100.0	131.6	114.5

Source: CNB.

The external debt structure by debtor and debt instrument shows that the largest portion of the government debt was generated through bond issues in the foreign market. Two new bonds were issued in 2004: CBRD bond worth of EUR 300m in February and the Republic of Croatia bond worth of EUR 500m in April. The CBRD's seven-year bond was issued on the basis of Euro Medium Term Note or EMTN programme that was agreed with the Government of the Republic of Croatia as late as in 2000.<sup>29</sup> Funds raised by this bond issue are used for exports financing and exports insurance, as well as for providing incentives to small and medium size enterprises. In addition to issuing bonds, the government also took more loans (net) in 2004 than in 2003.

**Table 1.14** External Debt by Debtor and Instrument  
end-2004, in million EUR

	Bonds	Short-term credits	Long-term credits	Trade credits	Currency and deposits	Other debt liabilities	Total
1. Government	4,635	0	2,595	2	0	3	7,236
2. Central bank (CNB)	0	0	0	0	2	0	2
3. Banks	444	661	3,316	0	3,219	13	7,652
4. Other sectors	384	125	4,637	137	0	514	5,798
5. Direct investment	0	62	1,715	24	0	186	1,986
Total (1+2+3+4+5)	5,464	848	12,263	163	3,221	716	22,675

Source: CNB.

28 FID, reported within the external debt statistics, include the balance in debt arising from credits extended by an entity in which the debtor has an ownership stake larger than 10% (creditor has more than 10% of the debtor's ownership capital and vice versa).

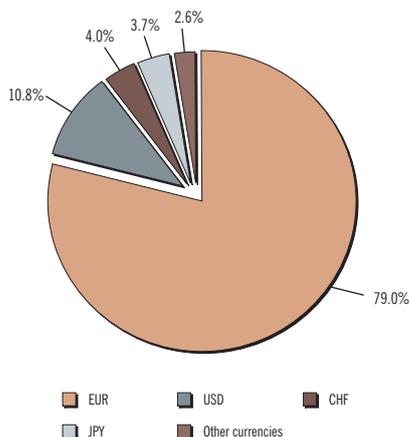
29 The EMTN is a set of documents on the basis of which CBRD is permitted to enter the eurobond market, following a very short preparation, which allows a decision on the new issue to be adopted and implemented promptly at a favourable moment.

During the previous medium-term period, most of their borrowing needs banks met through long-term loans and received currency and deposits, primarily from their owners – parent banks. Loans taken by banks in 2004 grew by EUR 604m (net), while their obligations based on currency and deposits rose by EUR 483m (net). 2004 also saw the first issue of the banking sector bond in the foreign market, comprising EUR 450m worth of Zagrebačka banka bond issued on the Luxembourg stock exchange in July. As residents repurchased one portion of the said issue in the meantime, banks' obligations arising from bonds issued in the foreign market reached EUR 444m at end-2004 (the secondary market effect).

In recent years, other domestic sectors' borrowing in the foreign market (FDI included) mostly included loans. Only in 2004, trade credits and loans grew by EUR 833m (net). In addition, the external debt balance at end-2004 shows that long-term loans accounted for the major part of this sector's total external debt (EUR 6.4bn or over 80%).

1.61

Currency Structure of External Debt of the Republic of Croatia on 31 December 2004



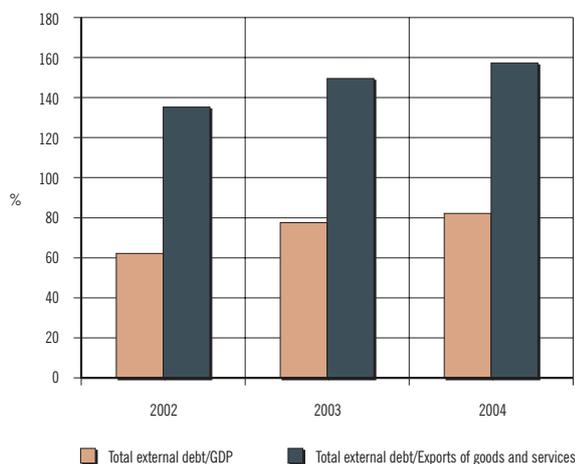
Note: External debt balance does not include deposits of non-residents.

Source: CNB.

Data on the currency structure of external debt show that 79% of total external debt was denominated in euros at end-December 2004. The dollar accounted for 10.8% of the total, while the Swiss franc and the Japanese yen accounted for almost 4% each. Larger than the average, the increased euro share of external debt was registered with banks. This is understandable taking into account that euro is the national currency of countries whose leading banks have acquired majority stakes in Croatian banks and that Croatian banks mostly borrow from these banks. The euro share of other sectors, FDI in companies included, also exceeded the average for the total external debt. The euro share of the government in total external debt was somewhat lower (68%), which was chiefly the result of the London Club bond issue (Series A: USD 858m due in 2006 and Series B: USD 604m due in 2010) and four Samurai bond issues (total nominal value of JPY 115bn).

1.62

External Debt Indicators of the Republic of Croatia



Source: CNB.

According to relative indicators on the external debt balance, the ratio of external debt to GDP stood at 82.1% at end-2004 (calculated as the ratio of gross external debt denominated in euros to GDP for 2004 in euro terms). At end-2003, this ratio amounted to 77.6%. Croatia's ratio of external debt to exports of goods and services stood at 157.3% at end-2004, up 7.8 percentage points compared with end-2003.

Although the external debt fell in relative terms in 2004, Croatia exceeded, in terms of its external debt to gross national income, for the first time the critical value which separates the medium from severely indebted countries. The World Bank's Global Development Finance, which contains the data on debt stock and debt flows, divides the countries into severely, medium and less indebted countries taking into account

the share of the current value of total external debt in gross national income and the share of the current value of total external debt in exports of goods and services. If the first and second share exceed 48% and 132% respectively, the country is classified into the group of medium indebted countries. The critical values for the first and second indicator are 80% and 220%. If only one of the shares exceeds the set critical value the country is considered severely indebted.<sup>30</sup> At end-2004, the share of external debt, shown on a gross basis, in gross national income<sup>31</sup> stood at 84%, while, due to high income from tourism and relatively high remittances from overseas workers, the share of external debt in exports of goods and services increased by remittances from overseas workers was 150.1%.

At end-February, gross external debt stood at EUR 22,537m, which was EUR 139m less than at end-2004. The absolute fall in the gross external debt was chiefly the result of the EUR 312m fall in banks' debt, deposits especially. In the same period, external debt of the government sector fell by EUR 38m. For the most part, this was the result of the decrease in foreign obligations arising from bonds (in January, the government made its first half-year payment to the London Club), while the debt balance on long-term loans grew slightly. However, external debt of other domestic sectors continued to grow and, together with obligations arising from direct investment, rose by EUR 211m in the first two months of 2005. The growth in obligations arising from long-term loans was especially pronounced.

## International Liquidity

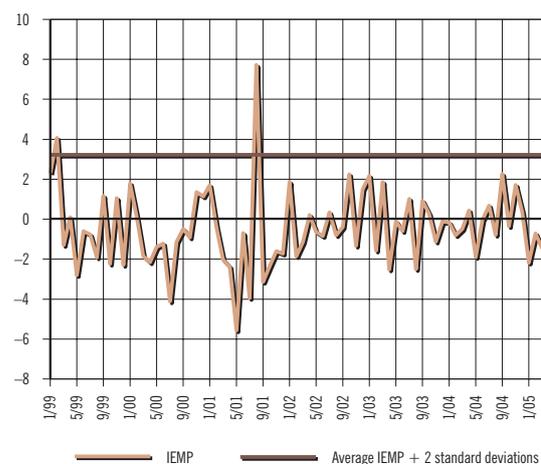
The IEMP, which is calculated as a weighted average of the monthly appreciation rate of the kuna exchange rate against the euro (end of period) and a monthly growth rate of gross international reserves (in euros), using standard deviations as weights, pointed to no potential imbalance in international liquidity in 2004.

In the first eight months of 2004, the IEMP ranged between 0.8 and -0.7 standard deviations around the average. This was considerably below the level that points to potential problems in international liquidity.<sup>32</sup> In May, the IEMP stood at a rather low level due to the 2.2% appreciation of the kuna against the euro (stimulated by the appreciation expectations in the run up of the main tourist season and the increased demand for kuna in the market just before the subscription of Pliva bonds worth of EUR 75m) and a negligible decline in international reserves of 0.9%.

In contrast, due to the depreciation of the kuna against the euro of 2.1% (which, inter alia, was the conse-

1.63

Index of Exchange Market Pressure



Source: CNB.

30 Global Development Finance 2003, World Bank, pp. 253.

31 Gross national income is the sum of gross domestic product and net factor income.

32 The critical level is set as the average value of the IEMP increased by two standard deviations. The value of the index above the critical level indicates potential difficulties in the settlement of international payments.

quence of the fall in kuna demand prompted by the end of the tourist season and the CNB foreign exchange auction at which EUR 25m were purchased from banks) and a 0.5% fall in international reserves, the September IEMP registered its record high in 2004.

The last quarter of 2004 was marked by the favourable movements in the IEMP and its returning to the usual values of +1 and -1 standard deviation around the average.

In the first quarter of 2005, the IEMP indicated to no problems in international liquidity. In line with a modest monthly appreciation of the kuna against the euro and the continued growth in international reserves in the first three months of 2005, it remained at low levels.

## 1.2.9 Government Finance

### Budget Highlights in 2004

The consolidated general government deficit was overrun in 2004 due to lower than planned consolidated general government revenues, while expenditures were realised as planned.

Financed on a temporary basis in the first quarter of the fiscal 2004, the budget of the Republic of Croatia was passed in March, as were the financial plans of central government funds and government agencies. The 14-month stand-by arrangement that Croatian authorities had entered into with the IMF as a precautionary measure in 2003, a pre-election year, expired without being completed in April. One of the reasons was that Croatia's fiscal policy had failed to meet the end-December 2003 performance criteria. The negotiations on a new stand-by arrangement started immediately afterwards.

The Amendments to the Government Budget, passed in early summer, provided for a HRK 2.8bn increase in the 2004 revenue plan and a HRK 1.9bn increase in the expenditure plan. The revised budget also increased revenues from public corporations' dividend payments, VAT, social security contributions and concession charges, while reducing profit tax revenues and excise revenues from refined petroleum products. On the expenditure side, among other things, increased were expenditures on interest payments and household transfers, while most of the increase, over HRK 1.2bn, was earmarked for subsidies to public corporations. The revenue increase provided for by the revised budget exceeded the increase in expenditures and the targeted budget deficit narrowed as a result.

In early July 2004, the Croatian Government adopted the Fiscal Policy Principles for 2005-2007. Some of the fiscal policy goals set out in the Principles are the following: to make a fiscal adjustment aimed at lowering the general government deficit to below 3% of GDP by 2007 and to stabilise public and external debt at below 60% and 80% of GDP respectively by 2007. Also in July, Croatian authorities requested a new stand-by arrangement with the IMF. In August 2004, the

IMF Executive Board supported the program set forth in the Memorandum on Economic and Financial Policies and granted Croatia a new 20-month stand-by arrangement. The program primarily aims at stabilising the external debt to GDP ratio at approximately its present level, that is, reducing external vulnerability caused by high current account deficits and external debt burden, and preparing Croatia for EU accession. These goals are to be achieved by narrowing the budget deficit and by implementing structural reforms to reduce the government's role in the economy. As a start of mid-term consolidation efforts, the general government deficit is planned at 4.5% of GDP in 2004, while the 2005 figure is not to exceed 3.7% of GDP.

Certain expenditures and outlays' items were redistributed within the revised budget in December 2004. According to MoF data, the redistribution implied a change in these items' planned amounts, while the total amount of expenditures and outlays remained unaltered.

As of June 2004, the MoF has presented data on revenues and expenditures of the government budget and of the central and general government, according to the new government finance statistics methodology – GFS 2001. Trends in revenues and expenditures will therefore be analysed by means of preliminary data, presented in the GFS 2001 format, on a cash basis.

## Budget Outturn

### Budget Revenues

As shown by MoF data, consolidated general government revenues were HRK 96.4bn, HRK 1.43bn (1.5%) lower than planned. Standing at 7.7% in 2004, their annual growth rate almost equalled that in 2003 and only slightly exceeded the nominal GDP growth rate of 7.3%. In consequence, the share of consolidated general government revenues in nominal GDP almost stagnated in 2004 compared with 2003, standing at 46.5% and 46.4% respectively.

The largest share in consolidated general government revenues, 90.3%, was accounted for by the consolidated central government, with local government accounting for 9.7%. The following comments relate to consolidated central government revenues, generated by the government budget and the operations of extrabudgetary funds and government agencies.<sup>33</sup>

According to MoF data, consolidated central government revenues stood at HRK 87.0bn, rising by 7.5% from the previous year. Under economic classification, almost 60% of total revenues came from taxes, approximately one third from social contributions while the rest was accounted for by other revenues.

Tax revenues fell short of the plan by HRK 1.37bn (2.7%) in 2004, having grown at a rate of 3.9%, much lower than the 2003 rate of 6.2% and more than twice

33 Croatian Pension Insurance Institute (CPII), Croatian Institute for Health Insurance (CIHI), Croatian Employment Service (CES), Croatian Waters (CW), Environment and Energy Efficiency Fund (EEEF), Croatian Highways, Ltd (CH), Croatian Roads, Ltd (CR), State Agency for Deposit Insurance and Bank Rehabilitation (DAB) and Croatian Privatization Fund (CPF).

lower than the nominal GDP growth rate. This slowdown was partly due to difficulties in the collection of some taxes caused by a widespread tax evasion in some goods markets. In addition, the slowdown in tax revenues was also influenced by the change in the contribution of GDP growth sources. Specifically, the contribution of domestic demand to GDP growth declined considerably from the previous year, while foreign demand, which usually has a much weaker impact on tax revenues, made a positive contribution, in contrast with 2003, when its contribution was negative.

Although rising only by 0.4% from 2003, income tax revenues were 2% higher than planned in 2004. Such growth was due to income tax related changes, that is, a considerable increase in tax exemptions. With changes introduced in early 2005, income tax was further reduced.

VAT revenues grew by 6.2% for the year (2.2 percentage points less than in 2003), falling short of the revised budget plan by almost HRK 590m (2.0%). Growth was the strongest in the second quarter, almost 10% compared with the same period last year. In the second half of 2004, despite favourable trade and tourism indicators in the summer months, VAT revenues drifted slowly downwards, up 5.4% in the third quarter and only 4.2% in the fourth quarter, half the 9.0% rate recorded in the fourth quarter the year before.

Excise revenues rose by 1.2% in 2004, a considerable slowdown compared with 6.9% in 2003. Due to the low growth, excise revenues accounted for 93.6% of the plan, i.e. fell behind by more than HRK 720m. Almost all excise revenues were lower than planned, with the exception of revenues from excises on coffee and luxury goods (accounting for an approximate 1.5% of total excises). Beer excises had the largest shortfall (15%) and the sharpest annual fall (3.7%), partly in consequence of the new Traffic Safety Act, which was also one of the reasons for alcohol excise revenues falling short of the plan by 6.3% and decreasing annually by 1.4%. Although the largest in amount, excises levied on refined petroleum products also came in below the plan, registering a 0.6% drop on the annual level. This was despite the 6% increase in tourist arrivals on the annual level in 2004, with road transport arrivals accounting for a sizeable share. Apart from difficulties in the collection of excises on refined petroleum products, the weak results were also caused by the strong oil price increase in 2004. Excises levied on cars and tobacco products also fell short of the target (by 9.6% and 5.5% respectively), having grown at a slower pace than in 2003. Revenues from both types of excises were up in July 2004 due to newly introduced legal amendments<sup>34</sup> and their amount planned was increased in the revised budget in the same month. The weak outturn of excise revenues from tobacco products could also be attributed to a thriving grey market in these products, while the overall (annual) effect of the said amendments will be evident in the outturn for 2005.

Among tax revenues, real property tax revenues, coming from real property transaction tax, rose at the highest rate of 22.7% in 2004. Profit tax revenues grew at a considerably slower rate (1.9%) in 2004 than in 2003 (15.6%), while revenues generated by taxes on international trade trended downwards by 12.2%, due to foreign trade liberalisation.

34 The Act on the Amendments to the Act on Excises on Cars, Other Vehicles, Boats and Planes and the Act on the Amendments to the Act on Excises on Tobacco Products.

Coming up to 99.5% of the planned amount, social security contributions were up by 7.5% in 2004. This rise resulted from the wage bill increase, due mainly to the nominal wage growth and only to some extent to the rise in the number of insured persons. The growth of social security contributions in 2004 was 1.3 percentage points lower than the year before, when it was largely influenced by the rise in the number of insured persons. Excluding persons employed with insolvent enterprises whose employers failed to pay social security contributions, the number of insured persons rose at 3.8% in 2003, double the 1.7% rate in 2004. Similarly as VAT revenues, social security contributions failed to meet the 2004 plan despite their rise, but registered a lower shortfall. Although neither VAT revenues nor social security contributions were collected as planned, they made the largest contribution to the growth of consolidated central government revenues, as they account for more than two thirds of total revenues.

Other revenues, including property income, sales of goods and services, fines, penalties and forfeits, as well as miscellaneous and unidentified revenues, came close to HRK 7.7bn, a rise of 38% from the year before. This outturn was mainly due to dividend payments of public corporations (HT – Hrvatske telekomunikacije d.d.) and revenues from the sale of UMTS concessions.<sup>35</sup> Although rising substantially, other revenues fell short of the annual plan because dividend revenue paid in by HT was lower than planned and revenue from the concession for the third GSM network were received as late as in February 2005.

As shown by MoF data, local government revenues amounted to HRK 10.8bn in 2004.<sup>36</sup> Although growing at a lower rate (7.5%) than in the previous year (10.7%), revenues met the annual plan, even exceeding it by 2.6%.

## Budget Expenditures

According to MoF data, consolidated general government expenditures stood at HRK 94.2bn, accounting for 99.4% of the planned amount. Slightly higher in 2004 (7.8%) than in 2003 (7.5%), the growth rate of expenditures outpaced the 7.3% nominal GDP growth rate. In consequence, the expenditures to GDP ratio was 45.5% in 2004, compared with 45.3% in 2003.

The structure of consolidated general government expenditures, broken down by government levels, was similar to that of revenues. The consolidated central government accounted for 92.2% of the total amount and the local government for the remaining 7.8%. The following comments relate to consolidated central government expenditures, comprising the expenditures of the government budget and those generated by the operations of extrabudgetary funds and government agencies.<sup>37</sup>

According to MoF data, consolidated central government expenditures stood at HRK 86.9bn in 2004, an increase of almost HRK 6.1bn (7.5%) from the year before. Under economic classification, almost three fourths of total expenditures was jointly accounted for by social benefits and employee compensation, 46% and

<sup>35</sup> The sale of UMTS (Universal Mobile Telecommunications System) concessions to VIP and HT.

<sup>36</sup> On an unconsolidated basis.

<sup>37</sup> CPII, CIHI, CES, CW, EEEF, CH, CR, DAB and CPF.

26.8% respectively, and the remaining amount by expenditures for the use of goods and services, interest expenditures, subsidies, grants and other expenditures.

Growing at a much stronger rate in 2004 than in 2003 (8.3% compared with 4.7%), expenditures for social benefits made the largest contribution to the annual growth of consolidated central government expenditures. However, these expenditures were as planned, somewhat less than HRK 40.7bn. The largest share of social benefits went to social security benefits (72%), with social assistance benefits and employer social benefits accounting for 27% and 1% respectively. Social security benefits include retirement pensions, some survivor and disability pensions, unemployment benefits, maternity allowances and sickness benefits, while social assistance benefits include disability and survivor pensions, child allowances and pension supplements (the so called “100 kuna + 6%”).

The growth rate of expenditures for employee compensation<sup>38</sup> came down to 2.9% in 2004, decreasing considerably from 11.5% in 2003. To a lesser degree, this slowdown can be attributed to employment and wage trends. Specifically, aggregate employment in public administration<sup>39</sup> declined by 2.0% in 2004, having risen by 0.3% in 2003, while wage growth in public administration decelerated to 3.9% in 2004, from 6.6% in 2003. However, while most of this slowdown remains unexplained, it may be attributed to the preliminary character of the compared data reported in the GFS 2001 format.<sup>40</sup>

Having come to HRK 4.35bn in 2004, interest expenditures exceeded the plan by HRK 158m, as the only aggregate expenditure item that was above the planned amount. Expenditures for external debt interest payments rose at a somewhat faster rate in 2004 compared with 2003 (5.9% and 5.1% respectively), while expenditures for domestic debt interest payments rose at a much faster pace, up from 10.5% in 2003 to 15.0% in 2004, partly in consequence of the government's effort to meet its financing needs by a greater reliance on domestic financing sources. The effects of this policy on the structure of interest expenditures were seen in 2004, when domestic interest payments, amounting to HRK 2.19bn, for the first time since 2001 accounted for more than half of total interest payments (50.4%).

Standing at HRK 6.3bn in 2004, consolidated central government expenditures for the use of goods and services decreased by 1.8% relative to 2003 and were 5.0% below the plan.

Growing at 15.7% in 2004, a slowdown from 20.5% in 2003, expenditures for subsidies reached almost HRK 5.0bn. More than a half of total subsidies were

38 In addition to salaries and wages, these expenditures include expenditures for social contributions paid on behalf of government employees.

39 Inclusive of public administration and defence, education, health care and social work; i.e. the NCEA sections L, M and N respectively.

40 Severance payment expenditures are not reported within salaries and wages in the GFS 2001, as in the GFS 1986, but within employer social benefits which, according to available preliminary data for 2003, amounted to HRK 0. However, as the growth of expenditures for salaries and wages in 2003 (according to the GFS 1986) was mostly due to severance payments (undertaken to reduce employment in government administration, that is, in public administration and defence), the slowdown in employee compensation might have partly resulted from an oversight in booking expenditures for severance payments (they were probably included in expenditures for salaries and wages) occurring while translating the 2003 data from the GFS 1986 to the GFS 2001 format.

granted to public corporations (56%), with the Croatian Railroads accounting for most of that amount, as the financing of its capital and current expenditures was included in the government budget that year to increase transparency. The remaining 44% of subsidies went to private enterprises, mostly aimed at agriculture promotion.

According to MoF data, local government expenditures were HRK 8.8bn in 2004.<sup>41</sup> These expenditures were HRK 0.1bn higher than planned, although rising at a somewhat lower rate in 2004 (7.8%) than in the year before (13.9%).

### Operating Balance and Transactions in Non-Financial Assets, Financial Assets and Liabilities

According to MoF data, the difference between revenues and expenditures in 2004 was a positive operating balance amounting to HRK 2.15bn. The HRK 8.34bn net borrowing amount, achieved by deducting the HRK 10.5bn increase in non-financial assets in 2004 from the operating balance, was completely financed by an increase in liabilities of HRK 8.45bn. Consolidated general government financial assets rose by HRK 0.11bn in the same period (see Table 1.15).

**Table 1.15** Operating Balance, Transactions in Non-Financial Assets and Transactions in Financial Assets and Liabilities  
GFS 2001, in million HRK

	Consolidated central government			Consolidated general government		
	2003 <sup>a</sup>	2004 <sup>a</sup>	2004/2003	2003 <sup>a</sup>	2004 <sup>a</sup>	2004/2003
<b>Transactions affecting net worth</b>						
<b>1. Change in net worth (net operating balance)</b>	<b>142</b>	<b>83</b>		<b>2,089</b>	<b>2,150</b>	
1.1. Revenue	80,972	87,005	107.5	89,500	96,391	107.7
1.2. Expense	80,830	86,922	107.5	87,411	94,240	107.8
<b>Transactions in non-financial assets</b>						
<b>2. Change in net non-financial assets</b>	<b>8,929</b>	<b>8,371</b>		<b>10,597</b>	<b>10,493</b>	
2.1. Acquisition of non-financial assets	9,204	8,646	93.9	11,330	11,357	100.2
2.2. Disposal of non-financial assets	275	274	99.7	733	864	117.8
<b>3. Net lending (+) / borrowing (-) (1-2)</b>	<b>-8,787</b>	<b>-8,289</b>		<b>-8,508</b>	<b>-8,343</b>	
<b>4. Financing (5-4) Transactions in financial assets and liabilities</b>	<b>8,787</b>	<b>8,289</b>		<b>8,508</b>	<b>8,343</b>	
(as % of GDP)	(4.55)	(4.00)		(4.41)	(4.03)	
<b>Transactions in financial assets</b>						
<b>5. Change in financial assets</b>	<b>-1,876</b>	<b>29</b>		<b>-1,679</b>	<b>113</b>	
5.1. Domestic	-1,886	19		-1,682	105	
5.2. Foreign	10	10		3	8	
<b>Transactions in liabilities</b>						
<b>6. Change in liabilities</b>	<b>6,911</b>	<b>8,318</b>		<b>6,829</b>	<b>8,456</b>	
6.1. Domestic	893	4,106		901	4,341	
6.2. Foreign	6,018	4,211		5,928	4,114	

<sup>a</sup> Preliminary data.

Note: Since data on consumption of fixed capital are not available (i.e. since they equal zero), net changes equal to gross changes.

Source: MoF.

41 On an unconsolidated basis.

Consolidated general government non-financial assets increased by a total of HRK 10.5bn in 2004, reported as the surplus of non-financial assets' acquisitions (HRK 11.3bn) over their disposals (HRK 0.86bn) in 2004. The acquisitions of non-financial assets stagnated in 2004 compared with the previous year, undergoing only a minor structural change, caused by the reduced share of the consolidated central government and the increased share of the local government. Acquisitions of non-financial assets were almost completely accounted for by fixed assets (96.2%),<sup>42</sup> mostly related to government construction investments (90.5%).<sup>43</sup> Two thirds of these investments were made by extrabudgetary users (mainly the CH and CR, which deal in road construction), while the rest went to the acquisitions of buildings and structures by the local government and the government budget (budgetary central government). Increasing by 18% in 2004 from the previous year, disposals of non-financial assets were almost wholly accounted for by buildings and structures (government and military flats) and non-produced assets (land).

According to MoF data, consolidated general government financial assets increased by HRK 113m in 2004. Of this amount, the increase in foreign financial assets accounted for a smaller share (HRK 8m), while its major part was accounted for by the increase in domestic financial assets (HRK 105m) generated by transactions in currency and deposits, loans and shares and other equity. Currency and deposits of the consolidated general government reduced by HRK 875m in 2004, due completely to their decrease at the government budget level (partly resulting from the use of the USD 155m foreign currency deposit for financing purposes in the first quarter of 2004),<sup>44</sup> whereas currency and deposits of central government funds and local government increased. Furthermore, with loan acquisitions (HRK 1.485bn) exceeding loan disposals (HRK 674m), financial assets of the consolidated general government arising from loans granted were up HRK 811m. Most of the acquisitions were long-term loans to public corporations, while disposals arose from repayments of loans granted to domestic companies, craftsmen and small and medium-sized entrepreneurs. Finally, financial assets of the consolidated general government consisting of shares and other equity increased by HRK 158m in 2004, due to acquisitions of shares and other equity advancing to HRK 517m and disposals amounting to HRK 359m in 2004. More than half of the acquisitions was made up by the CBRD initial capital, while disposals were generated by the privatisation of government enterprises.

Financial assets showed considerable changes over the past two years, regarding both their amounts and trends. Consolidated general government financial assets increased in 2004, in contrast with 2003, when they decreased by almost HRK 1.7bn. This decrease was mainly due to the drop in financial assets comprised of shares and other equity and the rise in currency and deposits. The decrease in financial assets comprised of shares and other equity was considerably influenced by the sale of 25% of INA stock, while the increase in currency and deposits was primarily caused by the mentioned USD 155m foreign currency deposit.

42 Under the GFS 2001, the acquisitions of nonproduced assets and valuables accounted for a small share (3.8%) of nonfinancial assets' acquisitions.

43 Buildings and structures (the GFS 2001 – 3111.1).

44 The USD 155m foreign currency deposit (USD 55m of extraordinary revenues generated by succession proceedings and USD 100m withdrawn under the second tranche of the SAL) was transferred from 2003 and "earmarked" for financing purposes in the first quarter of 2004.

According to MoF data, liabilities of the consolidated general government rose by HRK 8.45bn in 2004, up HRK 1.62bn (23.8%) from the increase in 2003. This somewhat higher increase in liabilities in 2004 was due to some financial asset items showing different trends than in 2003. Specifically, borrowing needs were in 2003 met partly by disposals and partly by incurrences, in contrast with 2004, when borrowing needs were fully met by incurrences. Domestic and foreign incurrences' shares in the increase were almost equal in 2004, 51.3% and 48.6% respectively, in contrast with 2003 when foreign incurrences accounted for a major share of 87%. This change in the financing structure resulted from the government's intention to meet financing needs by an increased reliance on domestic sources with a view to slowing down the external debt increase, mitigate the government exposure to exchange rate risk and encourage the development of the domestic capital market.

Domestic liabilities of the consolidated general government increased by HRK 4.3bn in 2004, in consequence of the rise in liabilities arising from the "issued securities other than shares" category and the reduction in the incurrence of loans. Standing at HRK 11.8bn, the incurrence of securities (bonds and T-bills) exceeded principal repayments amounting to HRK 5.3bn by HRK 6.5bn in 2004, while loan principal repayments of HRK 5.4bn exceeded the incurrence of loans, standing at HRK 3.2bn, by HRK 2.2bn. The government issued a total of HRK 2.5bn (net) worth of T-bills in the domestic market, while bonds issued were EUR denominated, totalling EUR 1.25bn in kuna equivalent. Of this amount, EUR 400m was issued in July, EUR 200m in November, while EUR 650m was comprised by an integral issue divided into three tranches. The last tranche, issued in December in 2003, worth EUR 200m, was earmarked for the repayment of the debt principal and for interest payments on the Samurai bond, totalling JPY 25.5bn, which fell due in December. Consequently, external debt was substituted for domestic debt.

According to MoF data, foreign liabilities of the consolidated general government were up HRK 4.1bn in 2004, mainly due to the increased incurrence of loans and to a lesser extent to the increase in the incurrence of securities. Standing at HRK 3.7bn, the incurrence of securities, completely accounted for by the April euro-bond issue worth EUR 500m, exceeded the repayments of the debt principal based on securities (HRK 2.5bn) by HRK 1.2bn in 2004, while the incurrence of loans, at HRK 5.2bn, exceeded principal repayments (HRK 2.3bn) by HRK 2.9bn. Broken down by government levels, principal repayments of the external debt based on loans were almost completely accounted for by the repayments from the government budget, in contrast with incurrences, whose major share (76%) went to extrabudgetary users, that is, the CH and CR.

With a greater reliance on domestic financing sources the government slowed down external debt growth and speeded up the development of the domestic financial market. However, with borrowing conditions in the domestic market still less favourable than in the foreign market, the substitution of external debt with domestic debt pushes up debt servicing costs (i.e. interest expenditures). In addition, as the major portion of the last year's increase in domestic liabilities was EUR denominated (EUR 1.25bn worth of bonds in kuna equivalent indexed to foreign currency), the government foreign exchange exposure was not reduced.

## Balance of the Consolidated General Government on a Modified Accrual Basis

The consolidated general government deficit, exclusive of capital revenues, was HRK 10.5bn on an accrual basis, or 5.1% of GDP in 2004. Broken down by government levels, the largest portion of the deficit was accounted for by the consolidated central government (HRK 9.8bn or 4.75% of GDP) and the remaining portion by local and regional self-government units (HRK 0.7bn or 0.35% of GDP).

The consolidated general government deficit on a modified accrual basis amounted to HRK 10.25bn, or 4.95% of GDP, in 2004, an increase of 0.45% of GDP over the planned 4.5% of GDP, and a decrease of HRK 2.09bn (1.44% of GDP) compared with the deficit in 2003. The MoF calculated the deficit by means of the consolidated general government deficit on a cash basis (excluding capital revenues and including CH and CR data on an accrual basis), increasing it by the change in arrears over 2004 (HRK –384m) and reducing it by the concession charge paid for the third GSM operator (HRK 197m).<sup>45</sup> The revenue generated by the concession charge was paid in February 2005, while in the MoF calculation it was added to the revenues for 2004, the year in which conditions were created for its realisation.

**Table 1.16** Consolidated General Government Balance, on a modified accrual basis  
in million HRK

	2003	as % of GDP	2004 <sup>a</sup>	as % of GDP
1. Net lending (+) / borrowing (–) GFS 2001	–8,508	–4.41	–8,343	–4.03
2. Disposal of non-financial assets	733	0.38	864	0.42
3. Lending minus repayments <sup>b</sup>	663	0.34	1,348	0.65
4. Balance without capital revenues, on cash basis (1–2–3)	–9,904	–5.13	–10,554	–5.10
5. Balance without capital revenues, on cash basis <sup>c</sup> (CH and CR reported on accrual basis)	–10,577	–5.48	–10,062	–4.86
6. Concession fee on the provision of telecommunication services – paid in February 2005			197	0.10
7. Change in non-paid and non-recorded liabilities (negative change denotes increase)	–1,766	–0.91	–384	–0.19
8. Balance without capital revenues, on modified accrual basis (5+6+7)	–12,343	–6.39	–10,249	–4.95
Note: Gross domestic product	193,067		207,082	

<sup>a</sup> Preliminary data. <sup>b</sup> GFS 1986 category; calculated based on GFS 2001 data. <sup>c</sup> 2004 balance calculation was based on GFS 2001 data.  
Source: MoF.

## Government Debt<sup>46</sup>

General government debt, which includes the CBRD debt, rose further over 2004.

As shown by CNB data, this debt was HRK 98.6bn in December 2004 or about 48% of the nominal GDP for 2004. With HRK 13.2bn of potential debt arising

45 In February 2005, Tele2 paid the HRK 172m concession charge for the first year of the provision of telecommunication services and the HRK 26m fee for the use of radio frequencies.

46 Data on the general and central government debt were revised in accordance with the changes in the external debt statistics methodology.

from issued government guarantees, the end-2004 debt reaches HRK 111.8bn, approximating 54.1% of the nominal GDP for 2004.

General government debt, inclusive of the CBRD debt, increased by HRK 12.5bn in 2004, exceeding by 29% the HRK 9.7bn increase in 2003. The structure of the increase in 2004 was considerably different than that in 2003. The external debt component accounted for two thirds of the increase in 2003 and the domestic component for one third, whereas the ratio was reversed in 2004. Almost 60% of the total debt increase was generated by borrowing in the domestic market in 2004, in line with the government's decision to meet its financing needs by a greater reliance on domestic sources. Accordingly, the debt structure was changed, with the domestic debt share in general government debt (with the CBRD debt) rising by 2.3 percentage points, from 41.4% at end-2003 to 43.7% at end-2004, and the share of external debt declining proportionally.

Of the total debt increase in 2004 (HRK12.5bn), HRK 11.7bn was the general government debt increase, while the remaining HRK 0.8bn was generated by the CBRD borrowing. The rise in the CBRD debt was almost completely due to foreign borrowing effected early in the year, while the share of domestic and foreign borrowing in the general government debt increase was 64% and 36% respectively.

General government domestic debt rose by HRK 7.5bn over 2004. This rise was almost completely accounted for by the borrowing of the Republic of Croatia (HRK 9.2bn) and to a small degree by local government borrowing (HRK 0.6bn), while the debt of central government funds dropped by HRK 2.3bn in the same period. Most of the domestic debt increase was generated by the issuance of bonds and T-bills and a small part by bank loans. The latter were prevailing in local government borrowing (HRK 0.4bn), which was also effected through an increasing issuance of municipal bonds (HRK 0.2bn).

The increase in general government external debt nearing HRK 4.3bn in 2004 was HRK 1.0bn (19%) lower than the increase recorded in the previous year. With local government external debt reducing by HRK 77m, the last year's debt increase was almost completely generated by the borrowing of central government funds (HRK 3.4bn) and only to a small extent by the Republic of Croatia (HRK 0.9bn).

General government debt increased the most in the second quarter of 2004, by HRK 6.5bn, and the least in the first quarter, by HRK 0.3bn. The increase in the second quarter resulted from the EUR 500m worth eurobond issue and from borrowing through T-bills issues. MoF T-bills' subscription increased due to high money market liquidity in late April and in May, with the net balance of subscribed T-bills surpassing HRK 1.9bn in the second quarter.

## Central Government Domestic Debt

According to CNB data, central government domestic debt stood at HRK 41.6bn at end-December 2004, a rise of HRK 6.9bn or 19.8% from end-2003. With domestic debt of central government funds declining by almost HRK 2.3bn, the said

**Table 1.17** Domestic Debt of Central Government  
end of period, in million HRK

	Balance			Change	
	12/2002 <sup>a</sup>	12/2003	12/2004	2003 1 – 12	2004 1 – 12
<b>1. Domestic debt of central government</b>	<b>31,421</b>	<b>34,736</b>	<b>41,616</b>	<b>3,315</b>	<b>6,880</b>
1.1. Domestic debt of the Republic of Croatia	23,320	28,161	37,330	4,841	9,169
Treasury bills	5,633	6,548	9,022	915	2,474
Money market instruments	0	0	–	0	–
Bonds	15,888	17,422	23,186	1,534	5,764
Credits from banks	1,799	4,190	5,121	2,391	931
1.2. Domestic debt of central government funds	8,101	6,576	4,286	–1,526	–2,289
Money market instruments	–	–	–	–	–
Bonds	4,461	3,616	2,033	–844	–1,583
Credits from banks	3,641	2,959	2,253	–682	–706
Note: Issued guarantees	7,528	6,895	5,408	–633	–1,488

<sup>a</sup> In December 2002, the debt of CR, CH and DAB was reclassified from the sub-sector the Republic of Croatia to the sub-sector central government funds.  
Source: CNB Bulletin, Table I3.

increase was fully due to the Republic of Croatia borrowing, coming close to HRK 9.2bn. Government borrowing was predominantly effected through bond issues (HRK 5.8bn), and to some extent through T-bills' issues (HRK 2.5bn) and bank loans (HRK 0.9bn).

## Central Government External Debt

According to CNB data, central government external debt totalled HRK 55.2bn at end-December 2004, rising by HRK 5.1bn or 10.2% from end-2003. The largest share of the increase was made up by the borrowing of central government funds, while external debt of the Republic of Croatia grew by HRK 0.9bn in 2004. Out of the HRK 4.2bn increase in central government funds' external debt, HRK 0.9bn was incurred by the CBRD and the remaining share by government agencies, with the CH leading the way.

**Table 1.18** External Debt of Central Government  
end of period, in million HRK

	Balance			Change	
	12/2002 <sup>a</sup>	12/2003	12/2004	2003 1 – 12	2004 1 – 12
<b>1. External debt of central government</b>	<b>43,517</b>	<b>50,138</b>	<b>55,248</b>	<b>6,620</b>	<b>5,110</b>
1.1. External debt of the Republic of Croatia	37,388	41,049	41,952	3,661	903
Bonds	28,694	32,145	32,793	3,451	648
Credits	8,694	8,904	9,159	210	255
1.2. External debt of central government funds	6,129	9,089	13,296	2,960	4,207
Bonds	685	821	2,765	136	1,944
Credits	5,445	8,269	10,532	2,824	2,263
Note: Issued guarantees	8,262	8,619	7,810	357	–809

<sup>a</sup> In December 2002, the debt of CR, CH and DAB was reclassified from the sub-sector the Republic of Croatia to the sub-sector central government funds.  
Source: CNB Bulletin, Table I3.

## Government Debt in the First Quarter of 2005

### General Government Debt

According to CNB data, general government debt, including the CBRD debt, grew further during the first quarter of 2005, reaching HRK 102.7bn, an increase of HRK 4.05bn (4.1%) compared with the debt stock late in the previous year. Together with HRK 12.7bn of potential debt in the form of issued government guarantees, total government debt advanced to HRK 115.4bn at the first quarter-end.

With the CBRD debt declining by HRK 160m in the first quarter, the debt increase of HRK 4.05bn was fully incurred by the HRK 4.2bn increase in general government debt. This increase was completely generated by borrowing in the domestic market, which led to a rise in domestic debt, while general government external debt dropped in the same period.

General government domestic debt grew by HRK 9.9bn in the first quarter of 2005, with most of the increase incurred by the borrowing of the Republic of Croatia (HRK 9.2bn), effected mainly through bank loans (HRK 3.66bn) and T-bills' issues (HRK 4.0bn), and to some extent through bond issues (HRK 1.54bn). Domestic debt of central government funds also rose, by HRK 734m, while local government debt declined by HRK 20m.

General government external debt dropped by HRK 5.7bn in the first quarter. This was mostly due to the HRK 5.8bn decrease in the borrowing at the Republic of Croatia level and to some extent to the HRK 37m decrease in local government debt, while the debt of central government funds grew by HRK 136m in the same period.

**Table 1.19** Domestic Debt of Central Government  
end of period, in million HRK

	Balance				Change	
	12/2002 <sup>a</sup>	12/2003	12/2004	3/2005	2004 1 – 3	2005 1 – 3
<b>1. Domestic debt of central government</b>	<b>31,421</b>	<b>34,736</b>	<b>41,616</b>	<b>51,675</b>	<b>1,157</b>	<b>10,059</b>
1.1. Domestic debt of the Republic of Croatia	23,320	28,161	37,330	46,533	514	9,203
Treasury bills	5,633	6,548	9,022	13,021	-199	3,999
Money market instruments	0	0	–	–	0	–
Bonds	15,888	17,422	23,186	24,728	949	1,542
Credits from banks	1,799	4,190	5,121	8,784	-236	3,663
1.2. Domestic debt of central government funds	8,101	6,576	4,286	5,142	643	855
Money market instruments	–	–	–	–	–	–
Bonds	4,461	3,616	2,033	2,028	-34	-5
Credits from banks	3,641	2,959	2,253	3,114	677	861
Note: Issued guarantees	7,528	6,895	5,408	5,465	-228	58

<sup>a</sup> In December 2002, the debt of CR, CH and DAB was reclassified from the sub-sector the Republic of Croatia to the sub-sector central government funds.  
Source: CNB Bulletin, Table 13.

These debt movements were in consequence of the last year's financing policy which provided for meeting most of the government's financing needs in the domestic financial market. This stance was supported by the CNB by its monetary policy measures. In December 2004, the CNB reduced the RR rate from 19% to 18%. The funds released were used by banks for the purchase of government bonds and the subsequent repayment of the external debt principal (Samurai bonds). Also, in February 2005, the CNB made amendments to the Decision on the Minimum Required Amount of Foreign Currency Claims, providing for reducing the minimum coverage of foreign currency liabilities by foreign currency claims (from 35% to 32%), and thus released an approximate HRK 4.0bn. In late March banks placed part of these funds with the government for the purpose of external debt servicing. Specifically, with EUR 500m of the syndicated foreign exchange loan, the government repaid the external debt principal arising from the 2000 eurobond issue falling due on March 28.

**Table 1.20** External Debt of Central Government  
end of period, in million HRK

	Balance				Change	
	12/2002 <sup>a</sup>	12/2003	12/2004	3/2005	2004 1 – 3	2005 1 – 3
<b>1. External debt of central government</b>	<b>43,517</b>	<b>50,138</b>	<b>55,248</b>	<b>49,301</b>	<b>399</b>	<b>-5,947</b>
1.1. External debt of the Republic of Croatia	37,388	41,049	41,952	36,151	-1,553	-5,801
Bonds	28,694	32,145	32,793	27,102	-1,437	-5,692
Credits	8,694	8,904	9,159	9,049	-116	-110
1.2. External debt of central government funds	6,129	9,089	13,296	13,151	1,953	-146
Bonds	685	821	2,765	2,652	1,875	-113
Credits	5,445	8,269	10,532	10,499	78	-33
Note: Issued guarantees	8,262	8,619	7,810	7,442	-410	-367

<sup>a</sup> In December 2002, the debt of CR, CH and DAB was reclassified from the sub-sector the Republic of Croatia to the sub-sector central government funds.  
Source: CNB Bulletin, Table I3.

**Monetary Policy  
Instruments and  
International  
Reserves  
Management**

**2**



## 2.1 Monetary Policy Instruments

Monetary policy tightening in 2004 was the result of several measures defined by the CNB decisions adopted in December 2003, some of which were amendments to the former decisions and some were completely new. The most significant changes were made with respect to the reserve requirement instrument in order to limit bank foreign borrowings and discourage domestic placement growth based on external sources. Within these measures, the percentage for allocating the foreign exchange component of reserve requirements calculated on the basis of foreign exchange funds of non-residents and foreign exchange funds received from legal persons in a special relationship with a bank was increased to 100%, while the minimum percentage of calculated reserve requirements that is allocated in accounts with the CNB was increased from 40% to 60%. From a maximum of 15 working days in a month, the number of days in which the Lombard loan could be used has been reduced to a maximum of 5 days in a month. The remuneration rate paid on the allocated foreign exchange component of reserve requirements has been changed as well. For the funds allocated in US dollars it equals 75% of the US Federal Funds Target Rate and for the funds allocated in euros it equals 75% of the ECB Minimum Bid Refinance Rate. In addition, the central bank adopted the decision on the discontinuance of foreign currency CNB bills and on the occasional issuance of kuna CNB bills.

In 2004, the key monetary policy instrument of the CNB was the newly-introduced marginal reserve requirement. The quantitative loan restriction in the form of a compulsory purchase of CNB bills was a temporary measure. To discourage further growth in foreign borrowing, the CNB has introduced the marginal reserve requirement as a permanent measure. This means that banks had to allocate 24% of their increase in foreign liabilities to a special account with the CNB. In October 2004, the RRR was cut from 19% to 18%, which released the funds the government needed to refinance its maturing external debt on the domestic market.

The banking system was mostly characterised by surplus liquidity in 2004. Due to adjustments to the new reserve requirement regulations, which came into effect in February 2004, there were occasional liquidity shortages at the beginning of the February and March maintenance periods, as evidenced by the negative balances of free reserves in these periods. Also, the beginnings of the July and August maintenance periods also saw brief shortages mostly due to the increased demand for the kuna over the summer months. For these reasons, banks occasionally used secondary liquidity sources of the central bank.

### 2.1.1 Relations with Banks

The total amount of funds from the primary issue that was extended to banks reached HRK 8.7bn in 2004, down 4.8% on 2003.

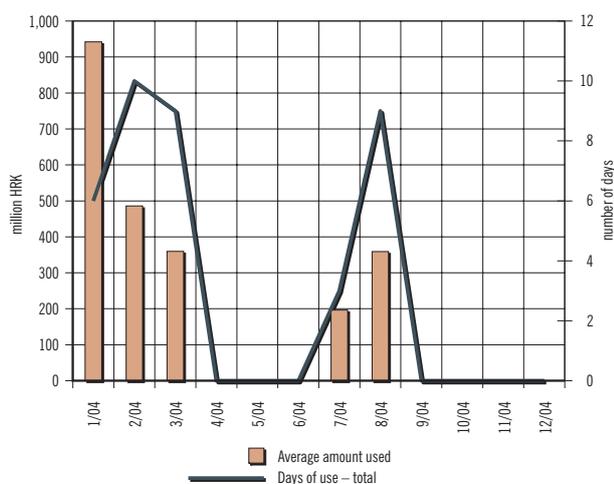
**Table 2.1** Lombard Loans – Average Amount Used and Days of Use in 2004

Month	Lombard loan	
	Days of use	Average amount used in kuna
January	6	942,345,271
February	10	486,191,816
March	9	359,599,781
April	0	0
May	0	0
June	0	0
July	3	196,116,667
August	9	358,866,667
September	0	0
October	0	0
November	0	0
December	0	0

Source: CNB.

## 2.1

### Lombard Loans – Average Amount Used and Days of Use



Source: CNB.

## Lombard Loans

Banks and savings banks could use Lombard loans in the amount of up to 50% of the nominal value of purchased kuna CNB bills and T-bills, for a maximum of 5 working days in a month. The interest rate charged on this loan was 9.5%.

Lombard loans used by banks totalled HRK 7.9bn in 2004, which was 92.2% of the amount used in 2003. They were used for 36 days, i.e. 8 days less than in 2003. The average amount used was HRK 461.9m in 2004 and the relative average amount used amounted to 78.6% of that used in 2003. On several occasions, these loans were used to address temporary liquidity shortages of the system. This particularly refers to the first quarter of 2004 when banks had to adjust themselves to the new reserve requirement regulations and to mid-summer, the period of the seasonal increase in demand for the kuna.

## Short-Term Liquidity Loans

In 2004, banks did not turn to the central bank as the lender of last resort, i.e. they did not use short-term liquidity loans. The interest rate on these loans remained the same, i.e. it equalled the interest on Lombard loans plus 0.5 percentage points for a loan utilisation period of up to 3 months and 1 percentage point for longer utilisation periods.

## Repo Auctions

Contrary to the previous years when there was no need for repo loans, two such loans totalling HRK 787.7m were extended at end-2004.

## Reserve Requirements

In 2004, the reserve requirement calculation rate was 19% and it was calculated on the base consisting of the kuna and foreign exchange components. The RRR was cut to 18% in October 2004. 42% of the calculated foreign exchange component was allocated in kuna and added to the calculated kuna RR. Minimum 60% of the calculated RR had to be deposited in the accounts with the CNB, whereas maximum 40% could be maintained by the average daily balances in the accounts of liquid claims. Introduced also was a 100% allocation of the foreign exchange

component of RR calculated on the basis of foreign exchange funds of non-residents and foreign exchange funds received from legal persons in a special relationship with a bank.

The kuna component of RR steadily grew throughout most of 2004, primarily owing to the increase in the calculation base, i.e. growth in kuna and f/c deposits with banks. The kuna component of the base ranged from HRK 47.5bn registered in the December 2003 calculation period to HRK 56.8bn registered in the November 2004 calculation period, growing by 19.6%. In the same period, the foreign exchange component of the base ranged from HRK 119.8bn to HRK 130.3bn, growing by 8.8%. The total kuna RR grew throughout most of 2004, except for rare oscillations that occurred mostly in November due to the RRR cut. The total RR in kuna went up from HRK 18.6bn in January to HRK 20.1bn in December, which was an increase of 8.1%. The share of the calculated foreign exchange component that was allocated in kuna grew by 14.0% from the January 2004 maintenance period to the December 2004 maintenance period. This was completely in line with the increase in the foreign exchange base, bearing in mind the fact that the percentage of that foreign exchange component remained unchanged over the year. Observing the kuna component alone, the ratio between the portion allocated in a special account with the CNB and the portion maintained in the settlement accounts grew throughout most of 2004 in favour of the allocated portion. The average percentage of allocation ranged between 69.18% and 73.45% in 2004 and was somewhat higher than that in 2003.

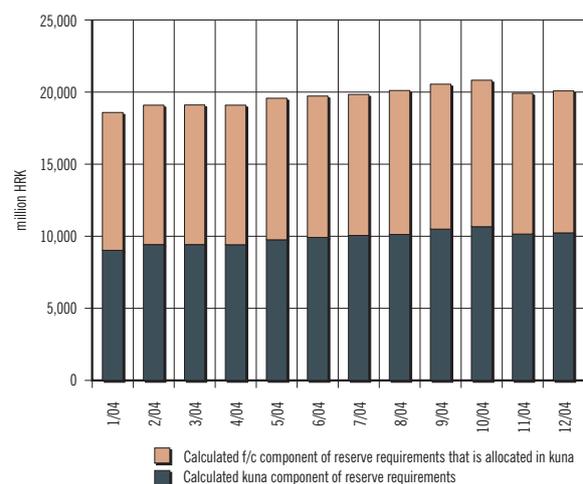
The foreign exchange component of RR was on an upward trend till November 2004, growing from HRK 13.2bn to HRK 14.0bn or by 6.1%. However, due to the RRR cut, the foreign exchange component of RR fell to HRK 13.6bn in December 2004, but recorded an increase of 3.0% compared with the beginning of the year.

In 2004, the CNB paid remuneration on the allocated kuna component of reserve requirements, including the calculated RR deposited in a special account with the CNB and the calculated RR deposited in the settlement accounts and bank vaults for the purpose of maintaining the average balance of RR. The remuneration rate paid on the kuna component remained unchanged during the observed period.

However, the remuneration rate on the allocated foreign exchange component of RR was changed; it was 75% of the US Federal Funds Target Rate for the funds allocated in US dollars and 75% of the ECB Minimum Bid Refinance Rate for the funds allocated in euros.

## 2.2

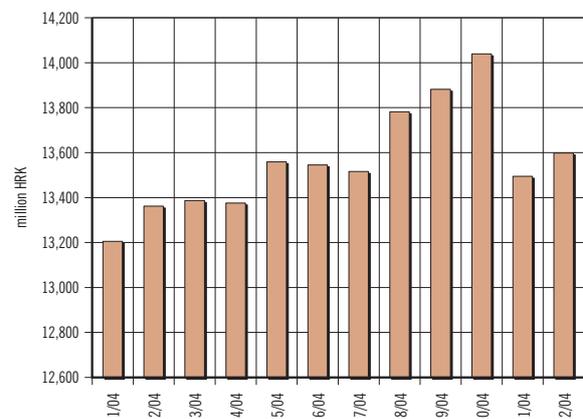
Total Kuna Component of Reserve Requirements  
balance in maintenance periods



Source: CNB.

## 2.3

Total Foreign Exchange Component of  
Reserve Requirements  
balance in maintenance periods



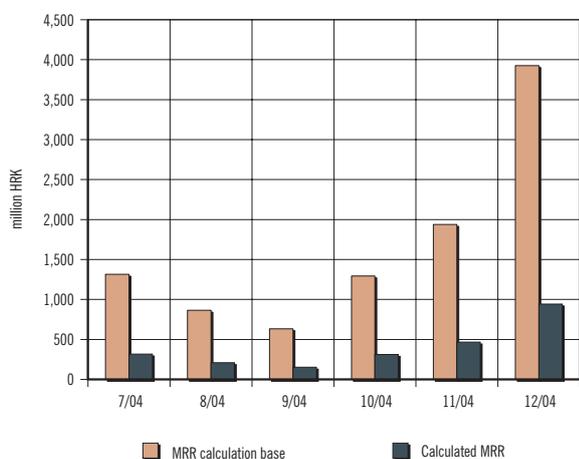
Source: CNB.

## Marginal Reserve Requirement

The decision on the introduction of the marginal reserve requirement instrument was adopted in July 2004. This new measure of a permanent nature has been introduced to discourage further growth in external borrowing. The MRR calculation base was a positive difference between the average daily balance of sources of funds from non-residents and legal persons in a special relationship with a bank in a particular calculation period and the initial calculation period. The initial calculation period was from 1 to 30 June 2004. The banks applied the MRR rate of 24% on the increase in their foreign liabilities and allocated the entire calculated MRR amount in foreign exchange to a special account with the CNB.

2.4

Marginal Reserve Requirement  
balance on calculation days



Source: CNB.

Due to strong growth in funds from non-residents, the MRR calculation base went up from HRK 1.32bn in July to HRK 3.93bn in December, which was three times higher than its initial amount. The calculated MRR amount increased accordingly, from HRK 315.81m in July to HRK 942.18m in December 2004.

To decelerate external debt growth by increasing the price of banks' foreign borrowing, the CNB raised the MRR rate from 24% to 30% in February 2005.

## Croatian National Bank Bills in Kuna

The last 2003 subscriptions of CNB bills were recorded at the auction held on 10 September. Hence, the stock of purchased CNB bills fell to zero by end-2003 and only two auctions were held in 2004.

In April 2004, the CNB held two auctions of kuna CNB bills maturing in 35 days. These were the only auctions throughout 2004 and the amount of issued CNB bills totalled HRK 106.0m. The relative average stock of subscribed kuna CNB bills stood at HRK 98.2m in the observed period.

Weighted interest rates on kuna CNB bills attained at these two auctions were 2.50% and 2.51% respectively.

## Compulsory Purchase of CNB Bills

The quantitative measure designed to curb loan expansion, which the CNB adopted on 15 January 2003 to limit growth in bank placements, was of a temporary nature and referred only to 2003. Banks that were required to subscribe CNB bills were those that showed loan growth above 16% (or 4% in a given quarter) in 2003, relative to the balance of loans registered on 31 December 2002. The last subscription of compulsory purchased CNB bills was made on 15 January 2004, in the amount of HRK 85.9m, and the last redemption of these bills was recorded on 15 April 2004.

## Minimum Required Foreign Currency Claims

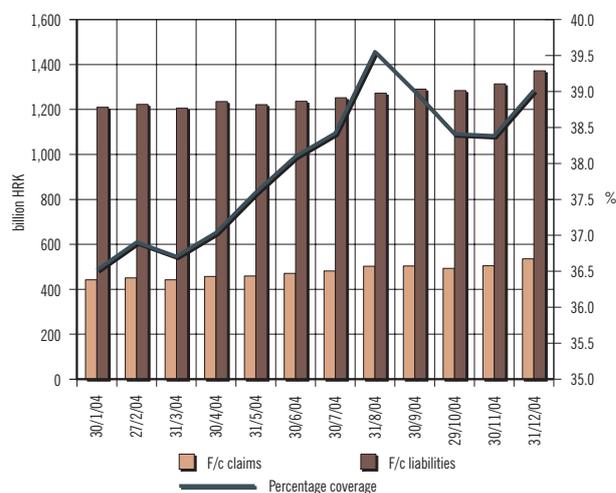
The Decision on the Minimum Required Amount of Foreign Currency Claims obligates banks to maintain a minimum of 35% of their foreign currency liabilities by foreign currency claims. Banks whose percentage of f/c liabilities as maintained by f/c claims fell short of that percentage as of the date of application of the Decision, were allowed to gradually adjust such percentages to reach the prescribed percentage, with the final adjustment date being 31 March 2004. This included banks whose percentage coverage was below 19% on 1 February 2003. However, the minimum required f/c liquidity was 35% for all banks as of 1 April 2004.

In 2004, the percentage coverage between f/c liabilities and f/c claims ranged from 36.52% on 31 January to 39.55% on 31 August 2004.

In February 2005, the rate of minimum required f/c claims was cut from 35% to 32% in order to release a portion of banks' f/c funds for further credit activities and thereby enable the government to obtain funds from domestic commercial banks and reduce its external debt.

**2.5**

Foreign Currency Claims Maintained Relative to Foreign Currency Liabilities



Source: CNB.

## Croatian National Bank Interest Rates and Remuneration

Temporary changes in the system's liquidity over the year and volatile movements in the money market interest rates were not reflected in the central bank's interest rates on loans and deposits. The average interest rates on 35-day CNB bills in kuna, which were recorded at the two auctions held in 2004, were 2.50% and 2.51% respectively. The remuneration rate on the kuna component of reserve requirements of 1.25% remained unchanged over the year. The CNB did not change its lending rates in 2004.

## 2.2 International Reserves Management<sup>1</sup>

The total international reserves of the CNB grew by USD 567.68m in 2004, up 6.9%. They stood at USD 8,191.06m<sup>2</sup> on the last day of 2003, whereas they were USD 8,758.74m on the last day of 2004.

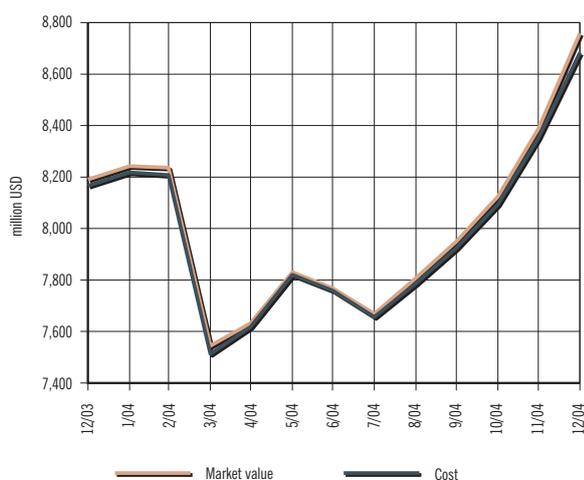
**Table 2.2** International Reserves  
end of period, in million USD

Year	Month	Total reserves	
		Market value	Cost
2003	December	8,191.06	8,165.80
2004	January	8,242.58	8,217.78
	February	8,236.82	8,208.15
	March	7,544.95	7,512.68
	April	7,632.27	7,617.73
	May	7,830.65	7,820.41
	June	7,768.69	7,759.60
	July	7,668.97	7,655.97
	August	7,807.62	7,787.00
	September	7,949.05	7,923.91
	October	8,124.78	8,094.38
	November	8,387.36	8,350.95
	December	8,758.74	8,722.84
Change Dec. 2004 – Dec. 2003		567.68	557.04

Source: CNB.

### 2.6

#### CNB International Reserves end of period



Source: CNB.

The main factors contributing to the net increase in total international reserves in 2004, observed at cost, were:

- on the inflow side:
  - 1) f/c inflows to the MoF account with the CNB totalling USD 803m, which to a large extent derived from the April 2004 issuance of 10-year MoF bonds in the amount of EUR 500m (USD 673.68m).
  - 2) net increase in allocated foreign exchange reserve requirements amounting to USD 765m. This increase was the outcome of autonomous growth in the RR calculation base and the effect of the new decision on reserve requirements that increased the percentage of foreign exchange

1 International reserves management is analysed on the basis of amounts expressed in US dollars, whereas in the section on macroeconomic developments international reserves are analysed on the basis of amounts expressed in euros. This resulted in differences in the reported amounts and changes.  
2 At market value.

reserves allocated to the accounts with the CNB, as well as the decision on the marginal reserve requirement.

- 3) purchases of f/c from banks at auctions amounting to USD 739m (or USD 696.95m at the exchange rate applicable on the intervention date).
- 4) net foreign exchange gains amounting to USD 502m, resulting from an 8.9% increase in the value of the euro against the US dollar. As international reserves are expressed in US dollars, any increase in the value of the euro against the US dollar results in the increase of the dollar value of international reserves. These gains were recorded due to the said 8.9% increase in the value of the euro against the US dollar in 2004 and a large share of the euro in international reserves. The value of one euro equalled USD 1.2498 on 31 December 2003 or USD 1.3609 on 31 December 2004.
- 5) income earned from (net) investment of CNB international reserves amounting to USD 145m. On the basis of net international reserves investment, i.e. interest income on invested deposits, reverse repo agreements and bonds, as well as other income, the total international reserves grew by USD 145.42m (at cost) in 2004. However, this amount refers only to instruments that came due or were sold in 2004 and does not include the price movements of instruments that were not sold or due.

□ on the outflow side:

- 1) f/c outflows from the MoF portfolio amounting to USD 1,065.04m for the settlement of its external obligations.
- 2) net repurchases of f/c CNB bills amounting to USD 849m. The last auction of f/c CNB bills was held on 30 December 2003, with the value date on 2 January 2004. F/c CNB bills subscribed by end-2003 came due by the beginning of March 2004.
- 3) net outflows upon maturity of repo agreements amounting to USD 483.27m;
- 4) sale of USD 44.91m (or USD 41.76m at the exchange rate applicable on the intervention date) to banks at regular auctions.

**Table 2.3** Total CNB Turnover on the Foreign Exchange Market, 1 January – 31 December 2004  
at the exchange rate applicable on the intervention date, in million

	Purchase (1)		Sale (2)		Net (1 – 2)	
	USD	HRK	USD	HRK	USD	HRK
Banks	696.95	4,069.34	41.76	254.10	655.19	3,815.24
Ministry of Finance	172.64	1,082.22	314.51	1,823.96	-141.87	-741.74
<b>Total</b>	<b>869.59</b>	<b>5,151.56</b>	<b>356.27</b>	<b>2,078.06</b>	<b>513.32</b>	<b>3,073.50</b>

Source: CNB.

In 2004, the CNB intervened in the market by buying from and selling foreign exchange to:

1. domestic banks and
2. MoF of the Republic of Croatia.

Foreign exchange purchases from banks intensified whereas foreign exchange sales substantially declined in 2004 in comparison with 2003. In its foreign exchange interventions in 2004, the CNB purchased USD 696.95m, which was USD 590m more than in 2003. The CNB intervened in the foreign exchange market by purchasing foreign exchange mostly due to the appreciation of the

kuna exchange rate. With regard to foreign exchange sales to commercial banks, the CNB was less active in 2004 than in 2003, both in terms of the number of interventions and in terms of the volume of foreign exchange sold. USD 41.76m was sold at a single selling auction in January 2004. Foreign exchange amounting to USD 379.58m net was sold to banks in 2003, whereas USD 655.19m net was purchased from banks in 2004.

In the reporting period, a total of USD 172.64m was purchased from the MoF, while USD 314.51m was sold, with the net trading result of USD 141.87m. The most important transactions with the MoF in 2004 were: (1) the purchase of EUR 145m arising from the April issuance of 10-year bonds, (2) the February sale of EUR 40.43m needed for interest payments on eurobonds, and (3) the November sale of JPY 25.5bn (USD 250m) for the repayment of Samurai bonds together with corresponding interest.

Investments of international reserves are analysed by the type of instrument, credit risk and currency structure. Changes in the investment structure in 2004 were mostly affected by the increase in allocated foreign exchange reserve requirements, net decrease in repo agreements and exchange rate differences arising from the euro strengthening against the US dollar.

The CNB invests international reserves in the following instruments:

- 1) debt securities with fixed and variable interest rates,
- 2) central bank instruments and instruments of international financial institutions,
- 3) repurchase agreements (repo and reverse repo agreements),
- 4) deposits of commercial banks with a long history of investment grading at least A+,
- 5) certificates of deposit from banks with a long history of investment grading at least A+, and
- 6) foreign cash.

According to the degree of credit risk, international reserves are divided into funds invested in government bonds, commercial banks, international financial institutions and central banks. Comparison of the end-2003 data and end-2004 data shows a downward trend in the share of international reserves invested in government bonds and international financial institutions and an upward trend in the share of reserves invested in commercial and central banks. On 31 December 2004, the largest share (52.93%) of international reserves was still accounted for by investments in government bonds, although they declined from USD 4,908.19m recorded on 31 December 2003 to USD 4,616.81m on 31 December 2004. These investments are exposed to the least credit risk as they comprise investments in government bonds of the US and EU member states. The share of total international reserves invested in non-collateralised placements with commercial banks, which includes f/c time deposits and certificates of deposit, went up from 35.10% on 31 December 2003 to 43.32% on 31 December 2004. In the same period, the share of investments in international financial institutions went down from 4.04% to 2.60%.

Exposure to credit risk is monitored with respect to the credit rating of countries in which international reserves are invested; the rating may range between AAA and AA-. The largest share (37.84%) was invested in banks rated AA- (according

to the Fitch credit rating agency), whereas 19.14% and 21.13% respectively was invested in banks with the highest rating of AAA and banks rated AA+. Banks with an AA rating accounted for 15.23% of the stated investments, whereas banks with an A+ rating, which is the lowest rating for banks in which the CNB international reserves may be invested, accounted for 6.66%. Relatively larger investments in lower rated banks resulted from a worldwide decline in ratings of commercial banks, which has been recorded in recent years. 57 out of 76 banks in which the CNB may invest its reserves are rated AA, AA- or A+.

The currency structure of international reserves actively managed by the CNB is adjusted to the currency structure of the external debt of the Republic of Croatia for the year ahead and to the currency structure of imports of goods and services in the previous year. The currency structure of the net international reserves is very stable, the euro accounts for over 75% of total reserves and USD accounts for most of the remaining share. Exchange rate fluctuations between individual foreign currencies and vis-à-vis the kuna result in the fluctuation of international reserves, both in US dollar and kuna terms. Due to a substantial weakening of the US dollar against both the euro and the kuna in 2003 and 2004, the kuna value of international reserves denominated in US dollars fell in 2004 and brought an operating deficit which, in accordance with the new international standards, was recognised in the Income Statement. The share of US dollars in total international reserves was 4.5 percentage points lower at end-2004 than at end-2003. The increase in the share of euros in the currency structure of total international reserves was affected by the change in the currency structure of international reserves actively managed by the CNB and the increase in allocations of foreign exchange reserve requirements in euros, which was due to the rise in the Fed benchmark rate above the ECB rate in December 2004.

**Table 2.4** Currency Structure of Total International Reserves on 31 December 2004  
at cost, in million USD and %

Currency	International reserves		Share	
	Total	O/w: RR, MoF and REPO	31 Dec. 2004	31 Dec. 2003
EUR	6,530.02	1,116.79	74.86	70.34
USD	2,191.91	797.47	25.13	29.65
XDR	0.86	–	0.01	0.01
Other currencies	0.05	0.01	0.00	0.00
<b>Total</b>	<b>8,722.84</b>	<b>1,914.27</b>	<b>100.00</b>	<b>100.00</b>

Source: CNB.

Realised income and yields on the euro and US dollar portfolios, actively managed by the CNB, in 2004 are shown in Table 2.5. The analysis excludes foreign cash, funds invested on the basis of subscribed f/c CNB bills, funds invested on the basis of allocated foreign exchange reserve requirements and MoF funds.<sup>3</sup>

<sup>3</sup> Interest earned on funds from subscribed f/c CNB bills and from allocated foreign exchange reserve requirements is transferred to banks and is therefore excluded from this analysis. Interest earned on MoF funds is transferred to the said ministry and is also excluded from this analysis.

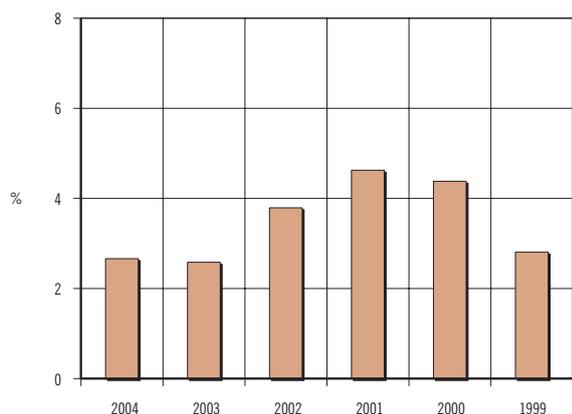
**Table 2.5** Realised Income and Average Yields on the CNB Foreign Exchange Portfolios Actively Managed in 2004  
at market value, in million EUR and USD and %

Portfolio	Realised income	Average amount invested	Annual yield rate					
			2004	2003	2002	2001	2000	1999
EUR	100.30	3,66.14	2.66	2.58	3.79	4.63	4.38	2.81
USD	16.54	1,303.59	1.27	1.40	2.38	4.72	6.56	5.02

Source: CNB.

2.7

Yields on the CNB Portfolios in EUR



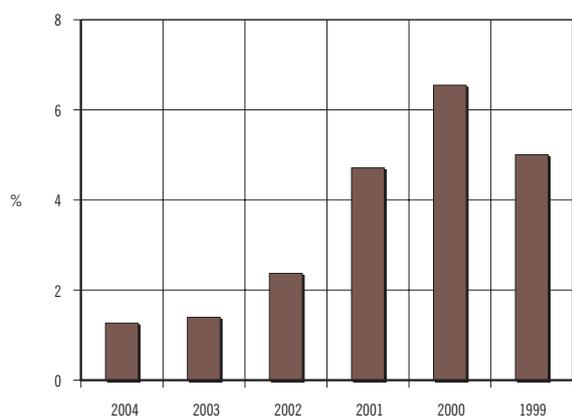
Source: CNB.

The average yields on the euro and US dollar portfolios actively managed in 2004 were 2.66% and 1.27% respectively. Such yields on the CNB foreign exchange portfolios reflect increasingly lower interest rates on US dollar and euro markets in recent years.

In 2004, the Fed raised its benchmark overnight rate on five occasions, increasing it by a total of 1.25% percentage points, i.e. from 1.00% to 2.25%. May 2000 was the last time when the Fed raised its interest rates before 2004. The ECB retained its benchmark repo rate at the level of 2.00% throughout 2004.

2.8

Yields on the CNB Portfolios in USD



Source: CNB.

# Banking Sector

# 3



## 3.1 Characteristics of the Banking Sector

At the end of 2004, the banking sector comprised 37 banking institutions and 4 housing savings banks, which is 4 less than at the end of 2003. The assets of commercial banks made up the dominant 97.8% of total banking sector assets, while the assets of housing savings banks accounted for the remaining 2.2%.

Table 3.1 shows the changes in the number of banking institutions in 2004 and the previous two years. During the course of the year three banks merged with other banks,<sup>1</sup> while one lost its operating licence and became subject to compulsory winding-up proceedings.<sup>2</sup> These developments resulted in the number of banks reducing from 41 at end-2003 to 37 at end-2004, while the number of housing savings banks remained unchanged.

**Table 3.1** Changes in the Number of Banking Institutions  
end of period

Banks	2002	2003	2004
Number of banks at the beginning of the year	43	46	41
Banks that merged with other banks	-3	-4	-3
Banks undergoing winding-up proceedings	-	-1	-
Banks whose license was revoked	-	-	-1
Savings banks that were granted bank license	7	-	-
Foreign bank branch removed from the register	-1	-	-
Number of banks at the end of the year	46	41	37
Housing savings banks	2002	2003	2004
Number of housing savings banks at the beginning of the year	4	3	4
Housing savings banks that were granted license	-	1	-
Housing savings banks that merged with other housing savings banks	-1	-	-
Number of housing savings banks (and savings banks) at the end of the year	3	4	4

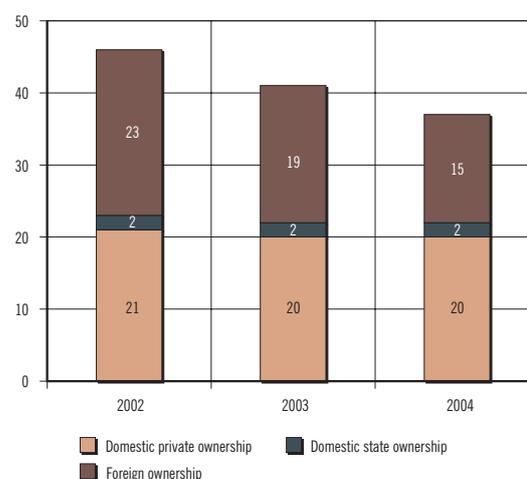
Source: CNB.

The analysis of the structure of banks by ownership residence and form of ownership (Figure 3.1) shows that the total number of banks in 2004 reduced as a consequence of the decrease in the number of banks in majority foreign ownership. The reason for this is to be found in the continuation of the consolidation process in the banking sector and merger of banks with their parent banks. The number of banks in total or majority private ownership of domestic shareholders did not change in 2004.

In the reporting three-year period, the share of banks in majority foreign ownership in total bank assets rose from 90.2% in 2002 to 91.3% in 2004, while the share

3.1

Number of Banks by Ownership  
Residence and Form of Ownership  
end of period



Source: CNB.

1 Riadria banka d.d., Rijeka merged with Privredna banka Zagreb, d.d. Zagreb, Varaždinska banka d.d., Varaždin merged with Zagrebačka banka d.d., Zagreb, Dubrovačka banka d.d., Dubrovnik merged with Nova banka d.d., Zagreb.

2 Primus banka d.d., Zagreb.

of banks in majority ownership of domestic shareholders (both private and state) reduced to 8.7%, from 9.8% (Table 3.2).

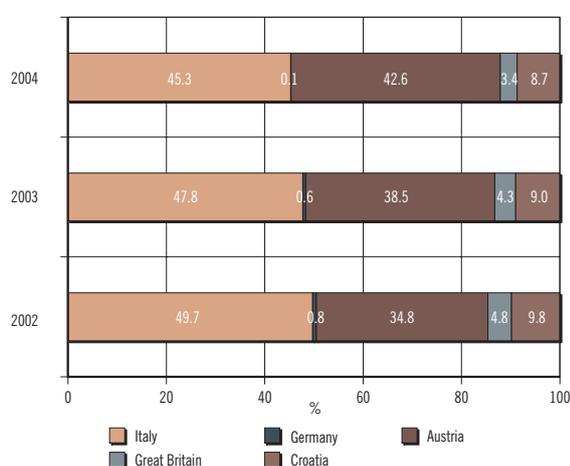
**Table 3.2** Bank Assets by Ownership Residence and Form of Ownership  
in %

Banks by ownership residence and form of ownership	Share of assets in total bank assets		
	2002	2003	2004
Banks in total or majority private ownership of domestic shareholders	5.8	5.6	5.6
Banks in total or majority state ownership	4.0	3.4	3.1
Banks in total or majority foreign ownership	90.2	91.0	91.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: CNB.

3.2

**Bank Assets by Shareholder's Domicile<sup>a</sup>**  
end of period



<sup>a</sup> For the purpose of this overview the shareholder's domicile means the head office of a company or residence of the owner (a natural person).

Source: CNB.

In 2004, the largest number of banks was owned by Italian shareholders (7 banks), with the assets of these banks making up 45.3% of total bank assets in 2004. Six banks were owned by Austrian shareholders, while one was owned by German shareholders and one by shareholders from Great Britain (Figure 3.2).

Table 3.3 shows the number of banks classified in peer groups by asset size and the share of each group in total bank assets. The data presented in the Table show that the largest banks, belonging to Group I (banks with assets exceeding HRK 5bn), have been increasing their share in total bank assets year after year. This group also saw a 22.5% assets rise in 2004 as compared to 2003, while its share in total bank assets increased from 82.9% in 2003 to 90.0% in 2004. By the size of their assets, the two largest banks from Group I dominate the banking sector, accounting for 43.2% of total bank assets.

The number of banks in Group I increased from 8 to 9 in 2004. The total assets of this group of banks went up as compared to 2003 in consequence of the increase in the number of banks in this group, as well as of the growth in assets of individual banks and the merger of three Group II banks with Group I banks.

The number of banks with assets ranging from HRK 1bn to HRK 5bn (Group II) declined from 11 to 7 in 2004, with their share in total bank assets falling from 12.5 % to 5.7%. The total assets of Group II banks went down as compared to 2003 in consequence of the abovementioned mergers as well as one bank switching to Group I due to asset growth. Groups III and IV, totalling 21 banks and comprising banks with assets below HRK 1bn and 0.5bn respectively, accounted for only 4.3% of total bank assets at the end of 2004.

In 2004, there were four banking groups operating in the banking sector of the Republic of Croatia and reporting to the CNB on their operations in accordance with the provisions of the Decision on Consolidated Financial Reports of a

**Table 3.3 Bank Groups by Asset Size**  
end of period, in million HRK and %

Assets		Number of banks			Share of assets of peer groups of banks in total bank assets		
		2002	2003	2004	2002	2003	2004
Group I	Assets exceeding 5,000	9	8	9	79.6	82.9	90.0
Group II	Assets from 1,000 to 5,000	12	11	7	15.2	12.5	5.7
Group III	Assets from 500 to 1,000	7	8	10	2.7	2.7	3.2
Group IV	Assets below 500	18	14	11	2.5	1.9	1.1
<b>Total</b>		<b>46</b>	<b>41</b>	<b>37</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Banking Group.<sup>3</sup> The superordinate banks of these groups are as follows: Zagrebačka banka d.d., Zagreb, Privredna banka Zagreb d.d., Zagreb, Raiffeisenbank d.d., Zagreb and Nova banka d.d., Zagreb.

The competition among banks has been intensifying, which is reflected in further interest rate reductions, liberalisation of loan approval terms and increase in available banking products especially tailored to appeal to different market segments. One of the novelties introduced in 2004 are housing savings loans indexed to the Swiss franc, which enabled the approval of housing savings loans at nominally lower rates. However, the structure of total net loans approved in or indexed to a foreign currency was dominated by loans approved in or indexed to the euro, which accounted for a 91.6% share, while loans approved in or indexed to the Swiss franc made up only 3.8% of total net loans approved in or indexed to foreign currency in 2004.

The speedy growth of bank assets has been regulated by a new Decision on the Classification of Placements and Contingent Liabilities of Banks<sup>4</sup> in effect as of the beginning of 2004. A part of this Decision substituted a previous monetary measure that obligated banks to subscription of low-yield CNB bills. In accordance with the new Decision, banks are obligated to form and maintain additional reserves for general bank risks if the growth of specific items of their assets and specific items of their off-balance contingent liabilities exceeds 20%. Exceptionally, banks are not required to form reserves for general bank risks if they have the required capital adequacy ratio.

In 2004, the CNB continued efforts directed at establishing co-operation with supervisory authorities of foreign banks owning Croatian banks as well as banks owned by Croatian banks. In addition to the Memorandum of Understanding and Co-operation in Banking Supervision being signed with the agency responsible for bank supervision in Bosnia and Herzegovina in 2003, positions on future co-operation with authorities responsible for bank supervision in Austria and Italy were harmonised in 2004.

<sup>3</sup> Official gazette *Narodne novine*, No. 17/2003.

<sup>4</sup> Official gazette *Narodne novine*, No. 17/2003.

## New Subordinate Legislation

New subordinate legislation (decisions and accompanying instructions) passed by the CNB pursuant to the Banking Act<sup>5</sup> in 2003, has been in force as of 1 January 2004. The said decisions and instructions regulate the exposure of banks to particular types of risks, reporting requirements as well as the conditions for providing banking and other financial services. The starting point in their creation was harmonisation with EU guidelines, compliance with recommendations of the Basel Committee for Bank Supervision, International Accounting Standards (IAS 32 and IAS 39) as well as other regulations in force in the Republic of Croatia.

## 3.2 Balance Sheet Structure of Banks

### 3.2.1 Bank Asset Structure

Bank assets totalled HRK 230.2bn<sup>6</sup> at the end of 2004, up 12.8% on the end of 2003 when total bank assets stood at HRK 204.1bn (Table 3.4). Of the total number of banks, 33 saw their assets grow, while of the remaining four whose assets reduced one is in the process of being merged with another bank and one is undergoing winding up proceedings.

Net loans to other clients (non-financial sector) realised the largest absolute growth in the structure of bank assets, totalling HRK 121.9bn at the end of 2004, up HRK 14.9bn or 14.3% compared to the end of 2003. Their share in the structure of bank assets increased from 52.3% at end-2003 to 53% at end-2004.

Total net loans grew at a rate exceeding 20% at 14 banks. The six largest banks,<sup>7</sup> whose share in total bank assets stood at 81.8% at end-2004, accounted for 88.1% of the increase in total loans in nominal terms, reflecting their dominant market position. A decline in approved loans, in nominal terms, was registered at eight banks, of which five belong to Group IV banks by their asset size.

Figure 3.3, which shows net loans by type of user, indicates that in 2004, the same as over the previous years, banks directed their lending activities at households. Household loans predominated in the structure of net loans in Group I (49.9%), Group II (56.1%) and Group IV (52.2%) as evident from Figure 3.4, while corporate loans, with a share of 54.5% predominated in the structure of net loans in Group III. Net household loans grew at a faster rate (19.1%) than total net loans

<sup>5</sup> Official gazette *Narodne novine*, No. 84/2002.

<sup>6</sup> All financial data are based on preliminary unaudited bank reports for 2004.

<sup>7</sup> Zagrebačka banka d.d., Zagreb, Privredna banka Zagreb d.d., Zagreb, Erste & Steiermärkische Bank d.d., Rijeka, Raiffeisenbank Austria d.d., Zagreb, HVB Splitska banka d.d., Split and HYPO Alpe-Adria-Bank d.d., Zagreb.

**Table 3.4 Structure of Bank Assets**  
end of period, in million HRK and %

	2002			2003			2004		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
<b>1. Money assets and deposits with the CNB</b>	<b>21,387.9</b>	<b>12.3</b>	<b>-3.6</b>	<b>28,002.6</b>	<b>13.7</b>	<b>30.9</b>	<b>34,891.3</b>	<b>15.2</b>	<b>24.6</b>
1.1. Money assets	2,236.9	1.3	-71.4	2,955.6	1.4	32.1	3,062.1	1.3	3.6
1.2. Deposits with the CNB	19,151.0	11.0	33.2	25,047.0	12.3	30.8	31,829.2	13.8	27.1
<b>2. Deposits with banking institutions</b>	<b>20,146.2</b>	<b>11.6</b>	<b>-16.0</b>	<b>31,186.6</b>	<b>15.3</b>	<b>54.8</b>	<b>33,351.1</b>	<b>14.5</b>	<b>6.9</b>
<b>3. MoF treasury bills and CNB bills</b>	<b>10,116.7</b>	<b>5.8</b>	<b>4.4</b>	<b>7,820.7</b>	<b>3.8</b>	<b>-22.7</b>	<b>3,580.6</b>	<b>1.6</b>	<b>-54.2</b>
<b>4. Securities and other financial instruments held for trading and available for sale</b>	<b>9,023.2</b>	<b>5.2</b>	<b>59.2</b>	<b>7,784.9</b>	<b>3.8</b>	<b>-13.7</b>	<b>16,449.9</b>	<b>7.1</b>	<b>111.3</b>
4.1. Securities and other financial instruments held for trading	0.0	0.0	0.0	0.0	0.0	0.0	6,545.9	2.8	0.0
4.2. Securities and other financial instruments available for sale	0.0	0.0	0.0	0.0	0.0	0.0	9,903.9	4.3	0.0
<b>5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer</b>	<b>12,531.7</b>	<b>7.2</b>	<b>3.9</b>	<b>10,773.3</b>	<b>5.3</b>	<b>-14.0</b>	<b>7,569.4</b>	<b>3.3</b>	<b>-29.7</b>
5.1. Securities and other financial instruments held to maturity	0.0	0.0	0.0	0.0	0.0	0.0	6,566.4	2.9	0.0
5.2. Securities and other financial instruments bought on issue directly from the issuer	0.0	0.0	0.0	0.0	0.0	0.0	1,003.0	0.4	0.0
<b>6. Derivative financial assets</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>152.0</b>	<b>0.1</b>	<b>0.0</b>
<b>7. Loans to financial institutions</b>	<b>2,157.8</b>	<b>1.2</b>	<b>45.8</b>	<b>3,057.0</b>	<b>1.5</b>	<b>41.7</b>	<b>3,289.5</b>	<b>1.4</b>	<b>7.6</b>
<b>8. Loans to other clients</b>	<b>89,673.9</b>	<b>51.5</b>	<b>39.9</b>	<b>106,730.6</b>	<b>52.3</b>	<b>19.0</b>	<b>121,975.9</b>	<b>53.0</b>	<b>14.3</b>
<b>9. Investments in subsidiaries and associates</b>	<b>2,448.2</b>	<b>1.4</b>	<b>11.3</b>	<b>2,456.0</b>	<b>1.2</b>	<b>0.3</b>	<b>1,711.0</b>	<b>0.7</b>	<b>-30.3</b>
<b>10. Foreclosed and repossessed assets</b>	<b>375.4</b>	<b>0.2</b>	<b>-16.0</b>	<b>355.4</b>	<b>0.2</b>	<b>-5.3</b>	<b>343.4</b>	<b>0.1</b>	<b>-3.4</b>
<b>11. Tangible assets (net of depreciation)</b>	<b>3,755.4</b>	<b>2.2</b>	<b>7.3</b>	<b>4,094.6</b>	<b>2.0</b>	<b>9.0</b>	<b>3,755.5</b>	<b>1.6</b>	<b>-8.3</b>
<b>12. Interest, fees and other assets</b>	<b>4,042.3</b>	<b>2.3</b>	<b>-5.4</b>	<b>3,603.6</b>	<b>1.8</b>	<b>-10.9</b>	<b>5,220.3</b>	<b>2.3</b>	<b>44.9</b>
<b>13. Net of: Specific reserves for unidentified losses</b>	<b>1,519.4</b>	<b>0.9</b>	<b>27.1</b>	<b>1,750.2</b>	<b>0.9</b>	<b>15.2</b>	<b>1,997.5</b>	<b>0.9</b>	<b>14.1</b>
<b>Total assets</b>	<b>174,139.2</b>	<b>100.0</b>	<b>17.3</b>	<b>204,115.0</b>	<b>100.0</b>	<b>17.2</b>	<b>230,292.4</b>	<b>100.0</b>	<b>12.8</b>

Source: CNB.

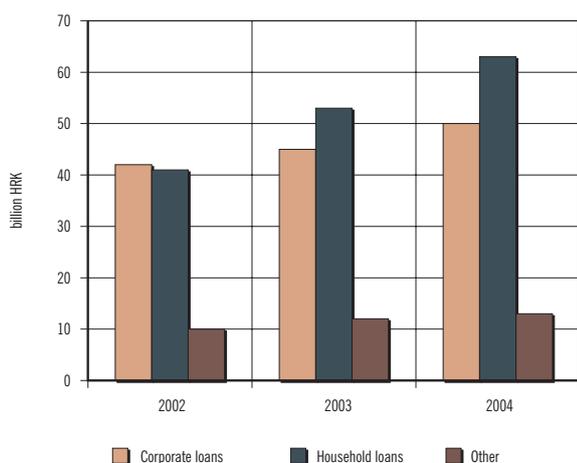
(13.8%), reaching HRK 62.3bn in 2004, up by over HRK 10.1bn as compared to 2003.

Five of nine banks from Group I extended predominantly household loans, while the remaining four, including the one in majority state ownership granted predominantly corporate loans. Movements in the loan structure of this group largely contributed to the share of household loans in total bank loans increasing from 47.7% at end-2003 to 50% at end-2004. Regardless of the growth of corporate loans in nominal terms, their share in total bank loans reduced from 41.1% in 2003 to 39.6% in 2004.

The share of other loans, including loans to financial institutions, government units, non-profit institutions and non-residents, accounted for 10.4% of total loans in 2004, having realised the most prominent share (11.9%) in total loans of Group I banks. The share of other loans in total loans of other groups ranged from 1.6% in Group IV to 6% in Group II.

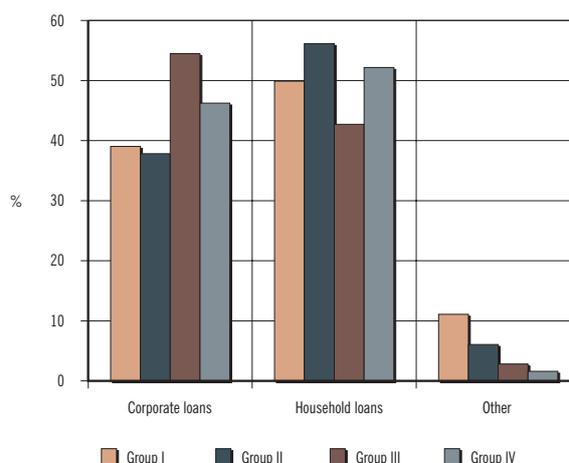
Bank asset structure reflects a continuance of the strong growth of deposits with the CNB, which grew by 27.1% in 2004 as compared to 2003 and 66.1% as compared to 2002. The lion's share of these deposits (78.4%) was made up of reserve requirements allocated with the CNB, which rose by 29.4% on the previous year.

3.3

Net Loans by Type of User  
end of period

Source: CNB.

3.4

Structure of Net Loans by Peer Groups of Banks  
end-2004

Source: CNB.

In addition to the increase in reserve requirement calculation base a strong contribution to this rise came from the introduction of a new monetary measure – the marginal reserve requirement. The decision on the introduction of the marginal reserve requirement instrument was adopted in July 2004. In August, banks allocated for the first time the calculated marginal reserve requirement to a special account with the CNB. As over the previous periods, banks substantially reduced their investments in T-bills in 2004, which saw no CNB bills issues. Banks increased their investments in securities and other financial instruments held for trading and available for sale in 2004, which thus grew by 111.3% on the year before. Investments in subsidiaries and associates reduced as a result of three banks merging with other banks in 2004.

Derivative financial assets accounted for only 0.1% of the bank asset structure at-end 2004. However, the contracted value of derivative financial instruments shown in banks' off-balance sheet records totalled HRK 23.8bn and made up 10.3% of bank assets. The major portion of contracted derivative financial instruments (74.9%) is intended for trading, while embedded derivatives and derivative instruments used as hedging instruments account for the remaining shares with 25% and 0.1% respectively. Derivatives with the exchange rate as the related variable dominate the total contracted value of derivative financial instruments with a share of 69.1%.

### 3.2.2 Bank Liability Structure

Deposits predominated in the bank liability structure at the end of 2004, accounting for 67.4% of total liabilities. Capital made up 8.6% and other sources 24.0%. The liability structure depended on the bank size (Figure 3.5). The share of capital in the liability structure of Group I and Group II banks was relatively small (8.1% and 8.5% respectively), with other sources of funds accounting for more substantial shares, in contrast to Group II and Group IV banks.

Deposits grew by 11.6bn or 8.1% in nominal terms (Table 3.5). However, as a result of total deposits growing slower than received loans their share reduced to 67.4%, from 70.4% at the end of 2003. The shares of all types of deposits in total liabilities also reduced, with all groups of banks registering similar shares ranging from 64.3% to 70.6% (Figure 3.5). As over the previous years, the majority of deposits were denominated in foreign currency (67.2%).

At 15 banks deposits grew at rates exceeding 20%, while 6 banks registered their decline as compared to 2003. The six leading banks accounted for 68.5% of the growth in nominal terms. Household deposits continued dominating the deposit base of commercial banks with a share of 56%. The lion's share of household deposits, totalling HRK 59.3bn or 78.2%, was made up of time deposits, followed by savings deposits with a share of HRK 19.7bn. The largest contribution to total growth of time deposits reaching HRK 10.9bn or 11.6% came from the HRK 6.8bn increase in household time deposits. They accounted for 58.7% of the total nominal growth, with their share in total deposits going up from 55.3% to 56%.

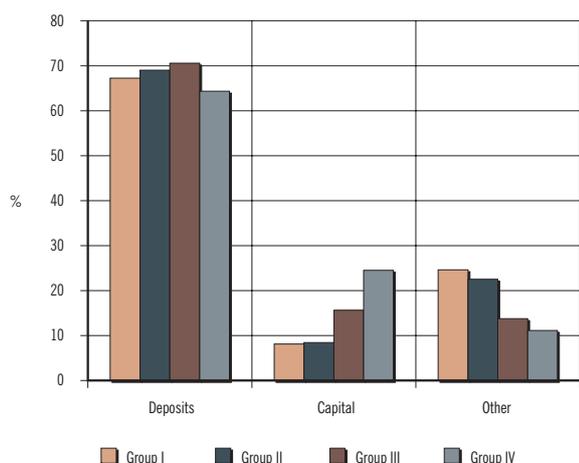
Total received loans (loans from financial institutions and other loans) grew at a rate of 23.7%, accounting for 17.3% of total liabilities in 2004. The lion's share of total loans was received from foreign financial institutions (76.9%) and the CBRD (11.4%). Other received loans went up 25.1% on the end-2003, while loans from financial institutions grew by 19% (Table 3.5). Maturities of 77.8% of total received loans were longer than 1 year.

**Table 3.5** Structure of Bank Liabilities  
end of period, in million HRK and %

	2002			2003			2004		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
<b>1. Loans from financial institutions</b>	<b>4,084.6</b>	<b>2.3</b>	<b>12.6</b>	<b>7,112.9</b>	<b>3.5</b>	<b>74.1</b>	<b>8,462.0</b>	<b>3.7</b>	<b>19.0</b>
1.1. Short-term loans	1,184.4	0.7	98.8	3,689.1	1.8	211.5	3,592.1	1.6	-2.6
1.2. Long-term loans	2,900.2	1.7	-4.4	3,423.8	1.7	18.1	4,869.9	2.1	42.2
<b>2. Deposits</b>	<b>124,471.8</b>	<b>71.5</b>	<b>18.9</b>	<b>143,692.8</b>	<b>70.4</b>	<b>15.4</b>	<b>155,277.5</b>	<b>67.4</b>	<b>8.1</b>
2.1. Giro account and current account deposits	23,272.3	13.4	40.6	25,285.1	12.4	8.6	25,560.0	11.1	1.1
2.2. Savings deposits	23,980.0	13.8	-9.1	24,770.7	12.1	3.3	25,223.3	11.0	1.8
2.3. Time deposits	77,219.6	44.3	25.0	93,637.0	45.9	21.3	104,494.2	45.4	11.6
<b>3. Other loans</b>	<b>19,492.6</b>	<b>11.2</b>	<b>22.2</b>	<b>25,080.3</b>	<b>12.3</b>	<b>28.7</b>	<b>31,368.3</b>	<b>13.6</b>	<b>25.1</b>
3.1. Short-term loans	4,451.2	2.6	649.4	3,429.0	1.7	-23.0	5,265.3	2.3	53.6
3.2. Long-term loans	15,041.4	8.6	-2.0	21,651.3	10.6	43.9	26,103.0	11.3	20.6
<b>4. Derivative financial liabilities and other financial liabilities held for trading</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>260.1</b>	<b>0.1</b>	<b>0.0</b>
<b>5. Debt securities issued</b>	<b>24.7</b>	<b>0.0</b>	<b>27.6</b>	<b>97.0</b>	<b>0.0</b>	<b>0.0</b>	<b>3,535.0</b>	<b>1.5</b>	<b>3,543.8</b>
5.1. Short-term debt securities issued	5.2	0.0	0.0	0.0	0.0	-100.0	0.0	0.0	0.0
5.2. Long-term debt securities issued	19.6	0.0	1.0	97.0	0.0	395.3	3,535.1	1.5	3,543.9
<b>6. Subordinated instruments issued</b>	<b>641.3</b>	<b>0.4</b>	<b>89.0</b>	<b>813.6</b>	<b>0.4</b>	<b>26.9</b>	<b>818.3</b>	<b>0.4</b>	<b>0.6</b>
<b>7. Hybrid instruments issued</b>	<b>2,268.9</b>	<b>1.3</b>	<b>-2.1</b>	<b>2,261.6</b>	<b>1.1</b>	<b>-0.3</b>	<b>1,642.8</b>	<b>0.7</b>	<b>-27.4</b>
<b>8. Interest, fees and other liabilities</b>	<b>6,646.4</b>	<b>3.8</b>	<b>-14.6</b>	<b>6,899.4</b>	<b>3.4</b>	<b>3.8</b>	<b>9,174.4</b>	<b>4.0</b>	<b>33.0</b>
<b>Total liabilities</b>	<b>157,630.4</b>	<b>90.5</b>	<b>17.0</b>	<b>185,957.6</b>	<b>91.1</b>	<b>18.0</b>	<b>210,538.4</b>	<b>91.4</b>	<b>13.2</b>
<b>Total capital</b>	<b>16,508.8</b>	<b>9.5</b>	<b>20.5</b>	<b>18,157.3</b>	<b>8.9</b>	<b>10.0</b>	<b>19,753.9</b>	<b>8.6</b>	<b>8.8</b>
<b>Total liabilities and capital</b>	<b>174,139.2</b>	<b>100.0</b>	<b>17.3</b>	<b>204,115.0</b>	<b>100.0</b>	<b>17.2</b>	<b>230,292.4</b>	<b>100.0</b>	<b>12.8</b>

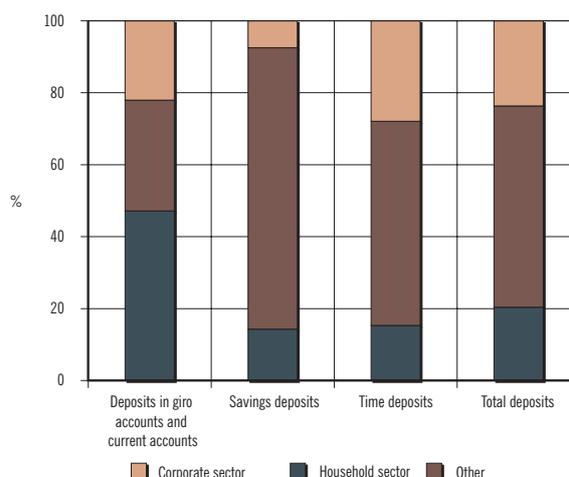
Source: CNB.

## 3.5

Liability Structure by Peer Groups of Banks  
end-2004

Source: CNB.

## 3.6

Structure of Deposits by Type and Sector  
end-2004

Source: CNB.

While debt securities issued by banks registered a substantial growth in nominal terms as compared to 2003, hybrid instruments reduced as a result of their transfer into share capital.

## 3.3 Bank Capital

At the end of 2004, bank capital totalled HRK 19.8bn, rising 8.8% as compared to end-2003 (Table 3.6). This was mostly due to higher current year profit and retained earnings. Share capital went up by 1.7% (HRK 167.5bn in nominal terms). Over the previous years, share capital has been reducing in total banking capital which continued in 2004, when share capital accounted for 51.2% of total capital.

At end-2004, banks' regulatory capital totalled HRK 19.5bn, up 1.3% as compared to end-2003 when it stood at HRK 19.3bn (Figure 3.7). The method for calculating regulatory capital was amended by the Decision on the Capital Adequacy of Banks,<sup>8</sup> applied as of the beginning of 2004. In accordance with the provisions of this new decision regulatory capital is the sum of core capital, supplementary capital I and supplementary capital II. Although core capital (reduced by deduction items) grew by 0.1% on 2003, due to a more sizable growth of supplementary capital I, which is included in regulatory capital, the share of core capital in gross regulatory capital continued declining. At end-2004, core capital (reduced by deduction items) made up 80.2% of gross regulatory capital. Supplementary capital I accounted for 19.8% of gross regulatory capital, while the share of supplementary capital II was at a negligible 0.01%.

<sup>8</sup> Official gazette *Narodne novine*, Nos. 17/2003, 120/2003, 195/2003 and 39/2004.

**Table 3.6** Structure of Bank Capital  
end of period, in million HRK and %

	2002			2003			2004		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Share capital	9,772.1	59.2	9.0	9,945.6	54.8	1.8	10,113.1	51.2	1.7
2. Current year profit/loss	1,925.5	11.7	237.8	2,351.6	13.0	22.1	3,141.8	15.9	33.6
3. Retained earnings/loss	860.3	5.2	1,006.0	1,415.0	7.8	64.5	1,899.0	9.6	34.2
4. Legal reserves	583.5	3.5	-31.6	711.2	3.9	21.9	718.1	3.6	1.0
5. Total reserves provided for by the articles of association and other capital reserves	3,367.4	20.4	13.5	3,824.0	21.1	13.6	3,882.7	19.7	1.6
5.1. Reserves provided for by the articles of association and other capital reserves	3,367.4	20.4	13.5	3,824.0	21.1	13.6	3,885.4	19.7	1.6
5.2. Unrealised gains/losses on value adjustment of financial assets available for sale	0.0	0.0	0.0	0.0	0.0	0.0	-2.8	0.0	0.0
5.3. Reserves arising from hedging transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6. Previous year profit/loss	0.0	0.0	0.0	-90.1	-0.5	0.0	-0.7	0.0	-99.2
<b>Total capital</b>	<b>16,508.8</b>	<b>100.0</b>	<b>20.5</b>	<b>18,157.3</b>	<b>100.0</b>	<b>10.0</b>	<b>19,753.9</b>	<b>100.0</b>	<b>8.8</b>

Source: CNB.

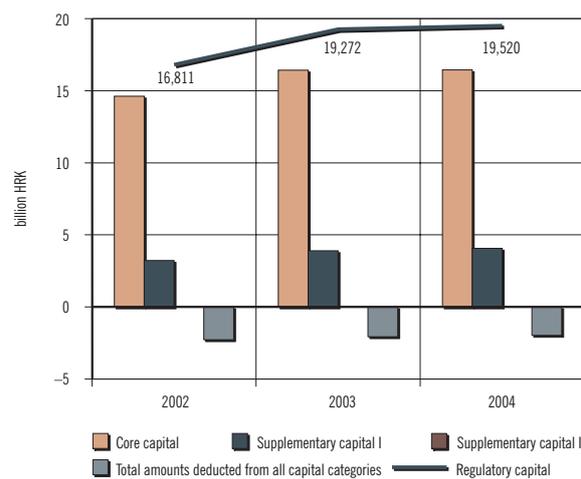
Although their regulatory capital went up, banks' capital adequacy ratio reduced from 16.24% at end-2003 to 14.10% at end-2004. The reason for the continuation of the decline in the capital adequacy ratio which started over previous years is to be found in faster growth of risk-weighted assets over regulatory capital. In addition, the decline in capital adequacy ratio was also influenced by the application of the Decision on the Capital Adequacy of Banks pursuant to which, for the purpose of calculating the capital adequacy ratio, risk-weighted assets are increased by the overall foreign exchange position exposure to currency risk, by the capital requirement for position risks, by the capital requirement for settlement/counterparty risk and by the capital requirement for exceeding the permissible exposure limit. Of the total number of banks, eight banks calculated the capital adequacy ratio by applying the comprehensive approach.

At end-2004, all banks posted capital adequacy ratios at levels exceeding the minimum statutory limit of 10%. Capital adequacy ratio of Group I banks was the lowest at 13.56%, having declined from the previous year. With a share of 90% in total bank assets this group of banks had the strongest influence on the capital adequacy at banking sector level, while other groups of banks registered capital adequacy ratios exceeding the one at sector level (Figure 3.9). The highest capital adequacy ratio was registered by Group IV banks.

Risk-weighted assets went up 14.4% as compared to 2003. In the risk-weighted asset structure assets

### 3.7

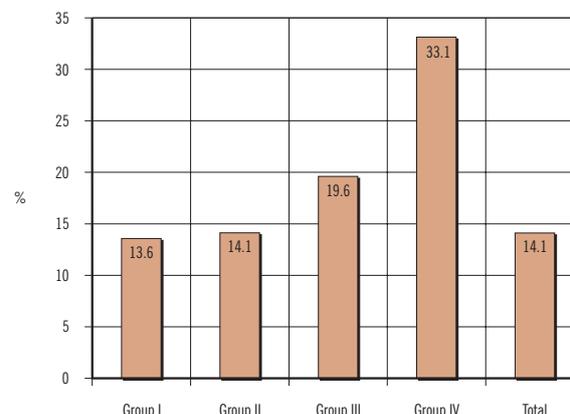
Structure of Bank Regulatory Capital  
end of period



Source: CNB.

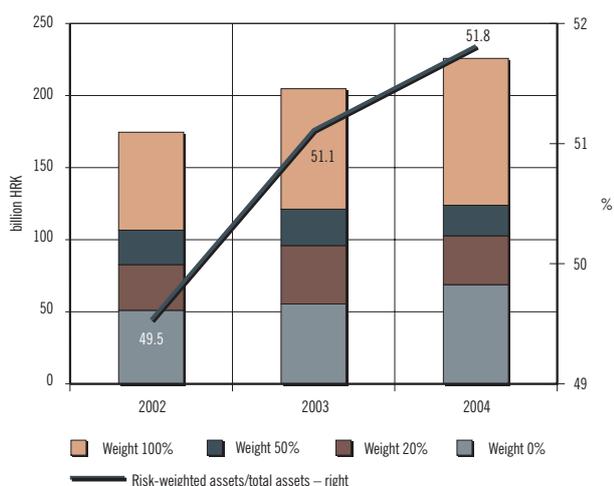
### 3.8

Capital Adequacy Ratio  
by Peer Groups of Banks  
end-2004



Source: CNB.

3.9

Bank Assets Included in Risk-Weighted Assets  
end of period

Source: CNB.

bearing the highest risk (risk-weight of 100%) visibly increased. At end-2004, they accounted for 44.3% of total bank assets (Figure 3.9). The share of assets with the risk-weight of 0% also increased, making up 29.9% of total assets. As a result of the rise in shares of items bearing higher credit risk in total assets, it also came to the increase in the ratio of total risk-weighted assets to total assets, which stood at 51.8% at end-2004.

## 3.4 Bank Asset Quality

As of 1 January 2004, the quality of bank assets and off-balance contingent liabilities is assessed in accordance with the new Decision on the Classification of Placements and Contingent Liabilities of Banks. The decision proscribes the criteria for the classification of placements and off-balance sheet contingent liabilities on the basis of which banks are exposed to credit risk, into corresponding risk groups, as well as the method of forming loan loss provisions related to credit risk and determining credit exposure of banks. Banks regulate the determination and monitoring of creditworthiness of persons to which a bank is exposed, as well as the quality of instruments of collateral, keeping of credit records and records of assumed contingent liabilities, classification of placements and contingent liabilities into risk groups, provisioning for identified and unidentified losses by their by-laws.

Depending on a debtor's creditworthiness, timeliness in meeting their obligations and collateral quality, bank placements and off-balance sheet contingent liabilities are classified into three basic risk groups. Risk group A comprises fully recoverable placements, which are assessed with certainty as fully recoverable. Risk category B with sub-categories B1, B2, and B3 encompasses partly recoverable placements for which it is assessed that they will not be fully recovered. Risk category C comprises fully irrecoverable placements, which are assessed as fully irrecoverable or recoverable only to an insignificant amount. Group B and C placements are subject to value impairment. Total placements and contingent liabilities of group A are used as the basis for calculation of provisions for unidentified losses at a rate which in accordance with the policy of each bank may range from 0.85% to 1.20%.

Increase in lending combined with quality new debtors and adequate instruments of collateral contributed to the increase of fully recoverable placements (group A) which increased by 15.7% as compared to 2003 and accounted for 95.5% of total

**Table 3.7** Classification of Bank Placements and Contingent Liabilities by Risk Groups  
end of period, in million HRK and %

Placements	2002		2003		2004	
	Amount	Share	Amount	Share	Amount	Share
Fully recoverable placements	172,251.3	94.1	200,166.3	94.9	231,593.0	95.5
Partly recoverable placements	6,473.3	3.5	7,475.8	3.5	6,582.8	2.7
Irrecoverable placements	4,245.4	2.3	3,371.5	1.6	4,359.2	1.8
<b>Total</b>	<b>182,970.0</b>	<b>100.0</b>	<b>211,013.6</b>	<b>100.0</b>	<b>242,535.0</b>	<b>100.0</b>

Source: CNB.

**Table 3.8** Value Adjustment and Bank Provisions  
end of period, in million HRK and %

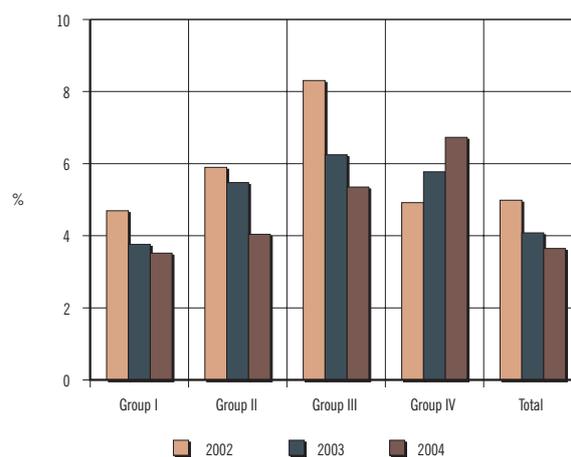
	2002	2003	2004
<b>Total value adjustment against placements and provisions for contingent liabilities</b>	<b>9,121.2</b>	<b>8,611.5</b>	<b>8,837.5</b>
– value adjustment against placements	7,303.4	6,573.8	6,598.3
– provisions for unidentified losses	1,817.9	2,037.7	2,239.2
<b>Total placements and contingent liabilities</b>	<b>182,970.0</b>	<b>211,013.6</b>	<b>242,535.0</b>
Relative ratio of total value adjustment and provisions to total placements and contingent liabilities	5.0	4.1	3.6

Source: CNB.

placements (Table 3.7). Partly recoverable placements (group B) decreased in nominal terms on the year before with their share reducing to 2.7% of total placements. At the same time, irrecoverable placements (group C) increased in nominal terms thus increasing their share in total placements. As a result, the share of total bad placements (groups B and C) in total gross placements reduced to 4.5%, the lowest ratio in the past three years. Total value impairments and provisions for contingent liabilities, which include provisions for unidentified losses, went up by 2.6% (Table 3.8) on 2003, thus reversing the previously observed downward trend in nominal terms. However, resulting from the increased rate of growth of placements and contingent liabilities (14.9%) and better quality of positions exposed to credit risk their share in total placements continued falling: from 5% in 2002 to 4.1% in 2003 and 3.6% in 2004. Of all groups of banks only Group IV banks increased the coverage of placements and contingent liabilities by value impairment and provisions, which totalled 6.7% at the end of 2004 (Figure 3.10).

3.10

Placements and Contingent Liabilities to Value Adjustment and Provisions Ratio  
by peer groups of banks, end of period



Source: CNB.

## 3.5 Bank Earnings Quality

In 2004, banks reported a pre-tax profit of HRK 3,692.8m. Of the total number of banks, 35 earned pre-tax profit of HRK 3,728.7m, while two banks, one having merged with another bank and one having wound-up its operations posted losses in the total amount of HRK 35.9m.

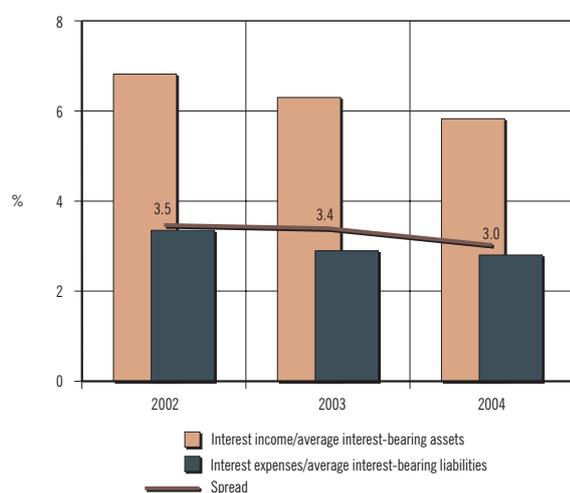
**Table 3.9** Bank Income Statement  
in million HRK and %

	2002		2003		2004	
	Amount	Change	Amount	Change	Amount	Change
Total interest income	9,919.4	9.6	11,093.7	11.8	11,825.0	6.6
Total interest expenses	4,655.0	6.3	4,784.2	2.8	5,368.3	12.2
Net interest income	5,264.4	12.7	6,309.5	19.9	6,456.8	2.3
Total income from commissions and fees	2,611.2	50.3	3,010.5	15.3	3,082.5	2.4
Total expenses on commissions and fees	1,238.8	192.9	1,528.4	23.4	1,440.6	-5.7
Net income from commissions and fees	1,372.5	4.4	1,482.1	8.0	1,641.9	10.8
Other non-interest income	1,580.1	29.6	1,493.8	-5.5	1,818.6	21.7
Other non-interest expenses	693.1	-55.6	788.2	13.7	617.5	-21.7
Net other non-interest income	887.0	-359.2	705.6	-20.4	1,201.1	70.2
Net non-interest income	2,259.5	132.5	2,187.8	-3.2	2,843.1	30.0
General administrative expenses and depreciation	4,427.2	12.4	4,831.8	9.1	5,055.3	4.6
Net operating income before loss provisions	3,096.6	81.5	3,665.5	18.4	4,244.5	15.8
Expenses on value adjustment and provisions for identified losses	156.0	-232.3	435.6	179.2	333.6	-23.4
Expenses on provisions for unidentified losses	395.9	-33.9	219.3	-44.6	218.1	-0.5
Total expenses on loss provisions	551.9	14.7	654.8	18.7	551.7	-15.7
<b>Income/loss before taxes</b>	<b>2,544.8</b>	<b>107.8</b>	<b>3,010.7</b>	<b>18.3</b>	<b>3,692.8</b>	<b>22.7</b>
Income tax	470.0	38.5	504.0	7.2	551.0	9.3
<b>Current year profit/loss</b>	<b>2,074.8</b>	<b>134.4</b>	<b>2,506.7</b>	<b>20.8</b>	<b>3,141.8</b>	<b>25.3</b>

Source: CNB.

### 3.11

#### Income from Interest-Bearing Assets and Expenses on Interest-Bearing Liabilities end of period

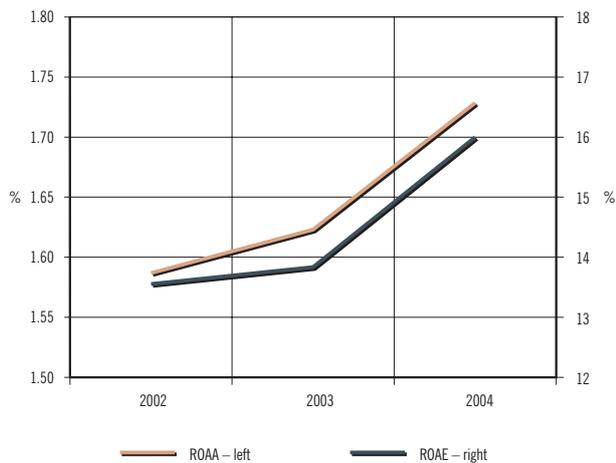


Source: CNB.

As compared to previous years, when it saw much higher growth rates (Table 3.9), at the end of 2004 net interest income grew only 2.33% on a year ago. However, average interest income (interest income measured in relation to average interest-bearing assets) declined from 6.3% in 2003 to 5.8% in 2004 (Figure 3.11). At the same time, average interest expenses (interest expenses measured in relation to average interest-bearing liabilities) registered a smaller decline than average interest income (from 2.9% to 2.8%) thus reducing the spread.

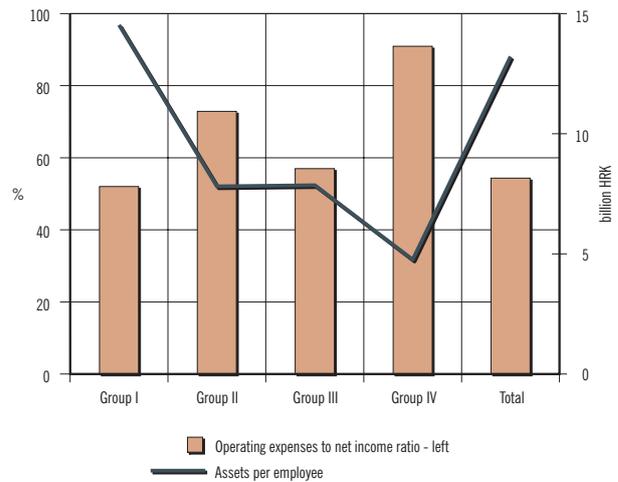
A sizeable reduction in non-interest expenses (11.2%) and a rise in non-interest income (15.7%) led to a faster growth of net non-interest income, which increased by 29.9%. The largest contribution to the rise of non-interest income came from the earnings from

## 3.12

Return on Average Assets and Return on Average Equity  
end of period

Source: CNB.

## 3.13

Operating Efficiency by Peer Groups of Banks  
end-2004

Source: CNB.

securities trading and equity investment. Net operating income before loss provisions went up 15.8% as compared to the previous year.

Expenses for loan loss provisions reduced by 15.8%, due among other things to the predominant share of less risky household loans in total newly approved loans. Income after tax increased by 25.3% as compared to 2003 thus pushing up the profitability indicators. Return on average assets went up from 1.59% at the end of 2003 to 1.70 at the end of 2004, while the return on average equity rose from 14.46% to 16.57% (Figure 3.12). The largest impact on the efficiency of the entire banking sector came from large banks belonging to Group I banks, which managed their resources more successfully than banks in other three groups, thus generating 94.1% of income before tax (Figure 3.13).

## 3.6 Bank Liquidity

The banking sector was liquid in 2004, with banks having no problems in servicing their obligations. Received deposits totalled HRK 15.5bn at the end of 2004, up 8.1% from 2003, while, at the same time, extended loans increased by 13.8%. The ratio of total deposits to total loans increased from 76.6% to 80.7%.

Total received loans in 2004 increased by 23.7% as compared to 2003. Since their growth outstripped the growth of assets, the ratio of received loans to total assets increased from 15.8% at end-2003 to 17.3% at end-2004 (Table 3.10). Foreign financial institutions accounted for the largest share of received loans (75.5%), while loans from foreign majority owners made up 27.5% of bank financing. The increase in loans received from financial institutions contributed to a rise in net interbank position,<sup>9</sup> which went up from 13.2% to 15.3% in 2004.

<sup>9</sup> The difference between assets placed with financial institutions and assets received from financial institutions relative to total assets.

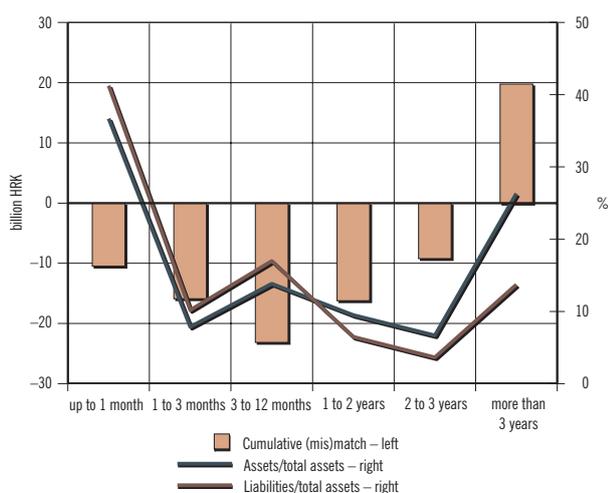
**Table 3.10** Bank Liquidity Ratios  
end of period, in %

	2002	2003	2004
Received deposits/extended loans	74.1	76.6	80.7
Received loans/total assets	13.5	15.8	17.3
Net interbank position	10.7	13.2	15.3

Source: CNB.

### 3.14

Bank Assets/Liabilities Match by Maturity  
end-2004



Source: CNB.

Banks maintain and adjust assets and liabilities by maturity structure for liquidity management purposes. Maturity structure (mis)match represents the difference between net assets and liabilities (not including capital) with the same period until maturity. At end-2004, short-term liabilities with maturity in up to one year exceeded short-term assets, with 85.3% of banks' short-term liabilities being covered by short-term assets. Liabilities with the shortest time until maturity (up to one month) exceeded assets by HRK 10.4bn, which made up 4.6% of total assets. The cumulative mismatch, totalling HRK 23.1bn, was largest at the end of short-term period (Figure 3.14). In the long-term (remaining period until maturity exceeding one year) banks assets started exceeding their liabilities, thus reducing the cumulative mismatch.

## 3.7 Performance of Housing Savings Banks

At the end of 2004, total assets of housing savings banks amounted to HRK 5.2bn, up 48.4% on 2003. The number of housing saving banks operating in the Republic of Croatia remained unchanged with 4 housing savings banks being present in the market, same as in 2003. Although housing savings banks account for only 2.2% of total bank assets, individual housing saving banks surpassed many commercial banks by the size of their assets. If they were banks, the assets size of two housing saving banks, which in each case exceeds HRK 2bn, would place them in the second group of peer banks, while the remaining savings banks would belong to Group III or Group IV.

### 3.7.1 Balance Sheet Structure of Housing Savings Banks

At the end of 2004, securities and other financial instruments available for sale accounted for the largest share (41.1%) in total assets of housing savings banks,

followed by T-bills (14.9%) and securities and financial instruments held until maturity (10.5%) and loans to financial institutions (9.0%). Securities, that is, bonds and other long-term debt instruments issued by the Republic of Croatia and central government funds dominated the securities portfolios. Investments in securities available for sale included investments in bonds and other long-term instruments issued by the Republic of Croatia (94.3%) as well as bonds and other long-term debt instruments issued by central government funds (3.9%), with investments in bonds and other long-term instruments of the CBRD and banks accounting for the remaining share.

**Table 3.11** Structure of Housing Savings Bank Assets

end of period, in million HRK and %

	2002			2003			2004		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
<b>1. Money assets and deposits with the CNB</b>	19.1	0.9	23.7	0.0	0.0	-100.0	0.0	0.0	0.0
1.1. Money assets	0.0	0.0	-33.3	0.0	0.0	-56.3	0.0	0.0	0.0
1.2. Deposits with the CNB	19.1	0.9	23.8	0.0	0.0	-100.0	0.0	0.0	0.0
<b>2. Deposits with banking institutions</b>	27.2	1.2	192.9	25.9	0.7	-4.9	332.4	6.4	1,185.5
<b>3. MoF treasury bills and CNB bills</b>	561.5	25.7	38.7	748.9	21.3	33.4	780.8	14.9	4.3
<b>4. Securities and other financial instruments held for trading and available for sale</b>	1,149.6	52.6	145.3	766.8	21.8	-33.3	2,398.1	45.9	212.7
4.1. Securities and other financial instruments held for trading	-	-	-	-	-	-	250.2	4.8	-
4.2. Securities and other financial instruments available for sale	-	-	-	-	-	-	2,148.0	41.1	-
<b>5. Securities and other financial instruments held to maturity and bought on issue directly from the issuer</b>	277.8	12.7	-17.2	1,527.9	43.4	450.1	623.1	11.9	-59.2
5.1. Securities and other financial instruments held to maturity	-	-	-	-	-	-	548.2	10.5	-
5.2. Securities and other financial instruments bought on issue directly from the issuer	-	-	-	-	-	-	75.0	1.4	-
<b>6. Derivative financial assets</b>	-	-	-	-	-	-	0.0	0.0	-
<b>7. Loans to financial institutions</b>	10.1	0.5	13.8	211.4	6.0	2,002.7	469.0	9.0	121.8
<b>8. Loans to other clients</b>	91.3	4.2	688.0	187.8	5.3	105.6	372.9	7.1	98.6
<b>9. Investments in subsidiaries and associates</b>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-
<b>10. Foreclosed and repossessed assets</b>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-
<b>11. Tangible assets (net of depreciation)</b>	20.5	0.9	2.8	19.0	0.5	-7.4	8.7	0.2	-54.0
<b>12. Interest, fees and other assets</b>	30.8	1.4	23.1	39.1	1.1	27.1	261.6	5.0	569.0
<b>13. Net of: Specific reserves for unidentified losses</b>	1.6	0.1	396.8	6.3	0.2	297.8	23.1	0.4	269.1
<b>Total assets</b>	<b>2,186.3</b>	<b>100.0</b>	<b>68.3</b>	<b>3,520.4</b>	<b>100.0</b>	<b>61.0</b>	<b>5,223.5</b>	<b>100.0</b>	<b>48.4</b>

Source: CNB.

Time deposits were dominant in the liability structure of housing savings banks at the end of 2004 with a share of 90.5%, followed by interests, fees and other liabilities (6.2%) and capital (3.0%). Although time deposits registered the biggest increase of HRK 1.5bn in nominal terms, their share in total liabilities of housing savings banks reduced by 2.2 percentage points, to 90.5% at the end of 2004.

**Table 3.12** Structure of Housing Savings Bank Liabilities  
end of period, in million HRK and %

	2002			2003			2004		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
<b>1. Loans from financial institutions</b>	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	-100.0
1.1. Short-term loans	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	-100.0
1.2. Long-term loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>2. Deposits</b>	2,012.9	92.1	76.9	3,265.1	92.7	62.2	4,728.2	90.5	44.8
2.1. Giro account and current account deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2. Savings deposits	0.0	0.0	0.0	0.1	0.0	13,000.0	0.1	0.0	-32.8
2.3. Time deposits	2,012.9	92.1	76.9	3,265.0	92.7	62.2	4,728.2	90.5	44.8
<b>3. Other loans</b>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.1. Short-term loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.2. Long-term loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>4. Derivative financial liabilities and other financial liabilities held for trading</b>	-	-	-	-	-	-	4.9	0.1	-
<b>5. Debt securities issued</b>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5.1. Short-term loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5.2. Long-term loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>6. Subordinated instruments issued</b>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>7. Hybrid instruments issued</b>	0.0	0.0	-100.0	10.7	0.3	0.0	10.7	0.2	0.3
<b>8. Interest, fees and other liabilities</b>	36.3	1.7	-2.4	89.4	2.5	146.2	324.1	6.2	262.5
<b>Total liabilities</b>	2,049.2	93.7	73.0	3,365.6	95.6	64.2	5,067.9	97.0	50.6
<b>Total capital</b>	137.1	6.3	20.0	154.8	4.4	12.9	155.6	3.0	0.5
<b>Total liabilities and capital</b>	2,186.3	100.0	68.3	3,520.4	100.0	61.0	5,223.5	100.0	48.4

Source: CNB.

## 3.7.2 Housing Savings Bank Capital

Total housing savings bank capital amounted to HRK 155.6m at the end of 2004, which is up by a mild 0.5% on a year earlier. The structure of housing savings

**Table 3.13** Structure of Housing Savings Bank Capital  
end of period, in million HRK and %

	2002			2003			2004		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
<b>1. Share capital</b>	163.4	119.1	-5.6	193.4	124.9	18.4	203.4	130.7	5.2
<b>2. Current year profit/loss</b>	33.8	24.7	-325.5	-9.3	-6.0	-127.6	12.2	7.8	-
<b>3. Retained earnings/loss</b>	-73.2	-53.4	32.1	-51.5	-33.2	-29.7	-63.4	-40.8	23.3
<b>4. Legal reserves</b>	0.3	0.2	631.7	1.5	1.0	400.0	3.5	2.2	132.1
<b>5. Total reserves provided for by the articles of association and other capital reserves</b>	12.9	9.4	11.0	20.7	13.4	61.1	0.0	0.0	-100.0
5.1. Reserves provided for by the articles of association and other capital reserves	-	-	-	-	-	-	0.0	0.0	-
5.2. Unrealised gains/losses on value adjustment of financial assets available for sale	-	-	-	-	-	-	0.0	0.0	-
5.3. Reserves arising from hedging transactions	-	-	-	-	-	-	0.0	0.0	-
<b>6. Previous year profit/loss</b>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total capital</b>	137.1	100.0	20.0	154.8	100.0	12.9	155.6	100.0	0.5

Source: CNB.

bank capital reflects a rise in share capital and current year profit, but also in the share of retained loss. No housing savings bank reported reserves provided for by the articles of association and other capital reserves.

At the end of 2004, the capital adequacy ratio of housing savings banks stood at 27.6%, slightly down from 31.0% in 2003. Their regulatory capital totalled HRK 152.5m.

### 3.7.3 Asset Quality of Housing Savings Banks

**Table 3.14** Classification of Housing Savings Bank Placements and Contingent Liabilities by Risk Groups  
end of period, in million HRK and %

Placements	2002		2003		2004	
	Amount	Share	Amount	Share	Amount	Share
Fully recoverable placements	889.4	100.0	2,717.3	100.0	2,648.8	99.9
Partly recoverable placements	0.0	0.0	0.2	0.0	0.7	0.1
Irrecoverable placements	0.0	0.0	0.0	0.0	0.1	0.0
<b>Total</b>	<b>889.4</b>	<b>100.0</b>	<b>2,717.5</b>	<b>100.0</b>	<b>2,649.6</b>	<b>100.0</b>

Source: CNB.

At the end of 2004, fully recoverable placements and contingent liabilities made up 99.9% of total placements and contingent liabilities of housing savings banks, while partially recoverable placements and contingent liabilities accounted for the remaining 0.1%.

**Table 3.15** Value Adjustment and Housing Savings Bank Provisions  
end of period, in million HRK and %

	2002	2003	2004
<b>Total value adjustment against placements and provisions for contingent liabilities</b>	<b>0.0</b>	<b>6.5</b>	<b>23.5</b>
– value adjustment against placements	0.0	0.1	0.2
– provisions for unidentified losses	0.0	6.4	23.3
<b>Total placements and contingent liabilities</b>	<b>889.4</b>	<b>2,717.5</b>	<b>2,649.6</b>
Relative ratio of total value adjustment and provisions to total placements and contingent liabilities	0.0	0.2	0.9

Source: CNB.

Due to changes in regulations and a new system of recording business events in application as of the beginning of 2004, total placements and contingent liabilities of housing savings banks reported at the end of 2004 reduced by 2.5%. This resulted from the fact that housing savings banks entered investments in securities, which in accordance with previous regulations were regarded as placements, into books as portfolio of securities available for sale, which in accordance to new regulation are not reported as placements. However, despite the reduction in placements and contingent liabilities, loans to other clients, grew by 98.6%, thus increasing their share in the balance sheet structure from 5.3% to 7.1%.

The ratio of total value adjustment and provisions for contingent liabilities to total placements and contingent liabilities of housing savings banks stood at 0.9% at the end of 2004, which is a rise of 0.7 percentage points as compared to 2003. The relative ratio of total value adjustment and provisions to total placements and contingent liabilities of housing savings banks grew by 261.2% on 2003 as a result of the reduction in total placements paired with the rise in total value adjustments.

At the end of 2004, the share of provisions for unidentified losses in total value adjustment and provisions of housing savings banks made up 99.1%. Their amount increased by 265.2% over the period in question, reaching HRK 23.3m at the year end.

### 3.7.4 Housing Savings Banks Earnings Quality

In 2004, housing savings banks reported pre-tax profit of HRK 13.8m. Of four housing savings banks, three reported a profit in the total amount of HRK 19.1m, while one reported a loss of HRK 5.4m.

Net interest income of housing savings banks reduced by 0.8% at the end of 2004 as a consequence of larger relative growth of interest expenses, which rose by

**Table 3.16** Housing Savings Bank Income Statement  
in million HRK and %

	2002		2003		2004	
	Amount	Change	Amount	Change	Amount	Change
Total interest income	94.9	73.7	152.0	60.1	205.3	35.0
Total interest expenses	51.7	110.2	90.2	74.4	143.9	59.6
Net interest income	43.2	43.8	61.8	43.0	61.3	-0.8
Total income from commissions and fees	60.9	0.4	84.7	39.0	90.2	6.5
Total expenses on commissions and fees	20.7	16.1	21.5	3.8	7.6	-64.5
Net income from commissions and fees	40.2	-6.1	63.2	57.1	82.6	30.6
Other non-interest income	54.0	419.3	-3.1	-105.8	45.6	-
Other non-interest expenses	24.9	-39.8	29.4	17.8	40.7	38.6
Net other non-interest income	29.0	-	-32.5	-212.1	4.9	-
Net non-interest income	69.3	484.4	30.7	-55.7	87.5	184.9
General administrative expenses and depreciation	77.4	36.6	96.7	24.9	118.1	22.2
Net operating income before loss provisions	35.1	-	-4.2	-111.8	30.7	-
Expenses on value adjustment and provisions for identified losses	0.0	-185.7	0.1	-872.2	0.1	-35.3
Expenses on provisions for unidentified losses	1.3	499.1	4.8	269.3	16.9	255.0
Total expenses on loss provisions	1.3	438.1	4.9	285.5	17.0	246.8
Income/loss before taxes	33.8	-	-9.1	-126.8	13.8	-
Income tax	0.0	0.0	0.3	0.0	1.5	453.2
Current year profit/loss	33.8	-	-9.3	-127.6	12.2	-

Source: CNB.

59.6%, over interest income, which rose by 35.1%. However, net income from fees and commissions and net other non-interest income grew at substantial rates in 2004. Net income from fees and commissions rose as a result of the 6.5% rise in total income from fees and commissions paired with the 64.5% reduction of total expenses on fees and commissions.

Housing savings banks have been operating for seven consecutive years. Therefore, it is expected that they will register substantial income from interest on loans over the years to come since they will start granting a larger number of housing loans based on housing savings agreements with large contracted amounts, which require a minimum of 5 years of saving.



# Payment Operations

# 4



## 4.1 Interbank Payment Systems

The settlement of payment transactions through the CLVPS and the NCS was conducted in accordance with the rules on settlement in interbank payment system without any larger deviations as regards the time of settlement prescribed by payment execution schedule. In 2004, there were no occurrences that could in any way compromise the stability and safety of interbank systems as the basic payment transaction infrastructure in the country.

### 4.1.1 Payment System Transactions

In accordance with the data on interbank payment operations in 2004, the number and value of payment transactions executed through both interbank systems grew on the year before.

In 2004, an average of 9,500 transactions was settled monthly through the CLVPS, with the average value of a payment transaction totalling HRK 11,946,034. As compared to 2003, the number of transactions settled through the CLVPS increased by some 6%, while the increase observed as regards to the value of transactions totalled as much as 32%.

Analysed by type of payment message the largest share of payment transactions effected through the CLVPS in 2004 (64% of the total number of payment messages) was made up by interbank payment transactions: MT202.

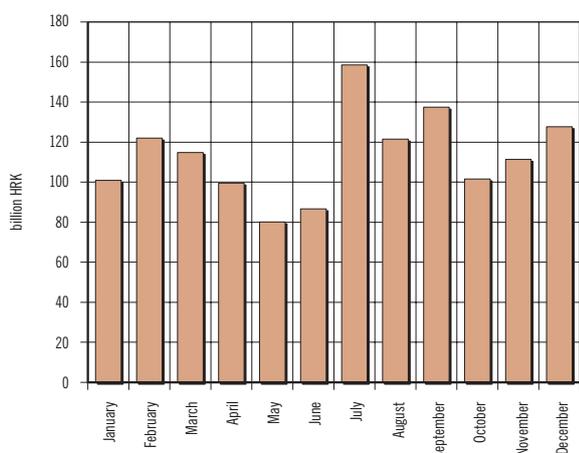
**Table 4.1** CLVPS – Payment Transactions Executed in 2004  
in HRK

Month	CLVPS		Average value per payment transaction c = (a/b)
	Transaction value	Transaction number	
	a	b	
January	100,971,435,138	8,725	11,572,657
February	121,949,524,016	8,558	14,249,769
March	114,852,787,912	10,721	10,712,880
April	99,538,944,871	9,170	10,854,847
May	80,193,519,035	7,790	10,294,418
June	86,637,048,301	7,609	11,386,128
July	158,497,923,282	10,890	14,554,447
August	121,406,109,797	10,320	11,764,158
September	137,527,419,184	10,399	13,225,062
October	101,581,690,184	9,321	10,898,154
November	111,281,245,179	9,432	11,798,266
December	127,661,045,695	11,086	11,515,519
<b>Total</b>	<b>1,362,098,692,595</b>	<b>114,021</b>	–
<b>Average</b>	<b>113,508,224,383</b>	<b>9,502</b>	<b>11,946,034</b>

Source: CNB.

4.1

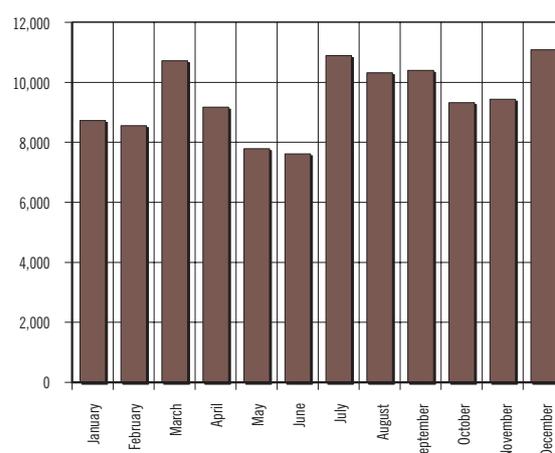
CLVPS – Value of Payment Transactions Executed in 2004



Source: CNB.

4.2

CLVPS – Number of Payment Transactions Executed in 2004



Source: CNB.

The average number of transactions settled through NCS totalled some 9.3 million transactions a month, with the average value of a payment transaction amounting to HRK 5,859. Payments effected through NCS in 2004 increased mildly on the previous year, while the increase in value of transactions over the same period totalled 11%.

The largest number of payment transactions effected through the NCS (75%) was settled during the second and the third clearing cycle, while the largest value of transactions (more than 48%) was settled during the third clearing cycle.

**Table 4.2** CLVPS – Overview of Payment Transactions Executed in 2004 in HRK

	2003	2004
Transaction value	1,033,497,615,081	1,362,098,692,595
Transaction number	107,165	114,021
Transaction average value	9,643,985	11,946,034

Source: CNB.

**Table 4.3** CLVPS – Change in the Number of Payment Messages in 2004, by type

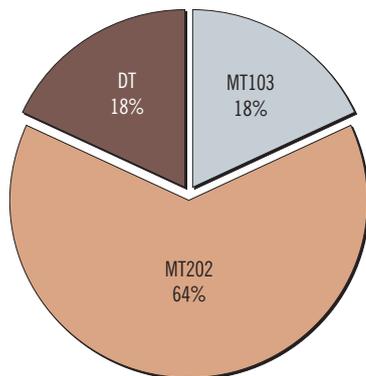
Month	MT103	MT202	Direct transfer	Total
	1	2	3	4 = (1 + 2 + 3)
January	1,436	5,613	1,676	8,725
February	1,448	5,456	1,654	8,558
March	1,744	7,075	1,902	10,721
April	1,475	5,975	1,720	9,170
May	1,349	4,724	1,717	7,790
June	1,412	4,632	1,565	7,609
July	2,008	7,111	1,771	10,890
August	1,605	7,023	1,692	10,320
September	1,902	6,733	1,764	10,399
October	1,678	6,087	1,556	9,321
November	2,017	5,769	1,646	9,432
December	2,512	6,752	1,822	11,086
<b>Total</b>	<b>20,586</b>	<b>72,950</b>	<b>20,485</b>	<b>114,021</b>
<b>Average</b>	<b>1,716</b>	<b>6,079</b>	<b>1,707</b>	<b>9,502</b>
<b>Structure (%)</b>	<b>18</b>	<b>64</b>	<b>18</b>	<b>100</b>

Source: CNB. • Note:

MT103 – Single Customer Credit Transfer  
 MT202 – General Financial Institution Transfer  
 Direct transfer – transfer of funds by the CNB directly debiting the account

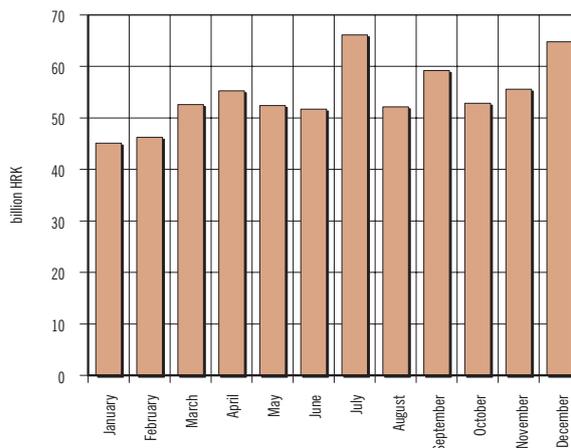
4.3

CLVPS – Structure of Payment Transactions in 2004 by message type



4.4

NCS – Value of Payment Transactions Executed in 2004



Source: CNB.

Source: FINA.

Table 4.4 NCS – Payment Transactions Executed in 2004 in HRK

Month	NCS		Average value per payment transaction c = (a/b)
	Transaction value	Transaction number	
	a	b	
January	45,122,683,871	8,085,812	5,580
February	46,233,484,964	8,076,344	5,725
March	52,572,430,210	9,521,741	5,521
April	55,274,061,021	9,410,719	5,874
May	52,375,529,501	9,401,038	5,571
June	51,687,645,807	9,274,613	5,573
July	66,119,161,561	9,904,171	6,676
August	52,153,055,468	9,298,411	5,609
September	59,216,655,404	9,547,709	6,202
October	52,847,949,189	9,202,860	5,743
November	55,552,683,879	9,543,933	5,821
December	64,796,480,757	10,352,587	6,259
<b>Total</b>	<b>653,951,821,633</b>	<b>111,619,938</b>	–
<b>Average</b>	<b>54,495,985,136</b>	<b>9,301,662</b>	<b>5,859</b>

Source: FINA.

Table 4.5 NCS – Overview of Payment Transactions Executed in 2004 in HRK

	2003	2004
Transaction value	591,427,550,489	653,951,821,633
Transaction number	110,023,890	111,619,938
Transaction average value	5,375	5,859

Source: FINA.

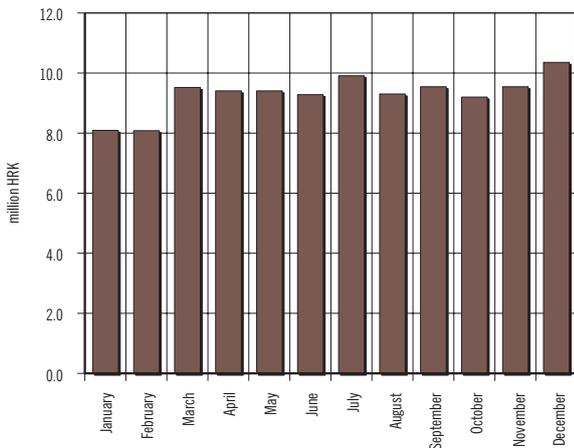
Table 4.6 NCS – Total Value and Number of Payment Transactions by Clearing Cycles in 2004 in HRK and %

	I clearing cycle	II clearing cycle	III clearing cycle	Total
Transaction value	127,962,084,041	208,258,355,730	317,731,381,862	653,951,821,633
Structure	20	32	48	100
Transaction number	28,169,447	45,963,223	37,487,268	111,619,938
Structure	25	41	34	100

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

4.5

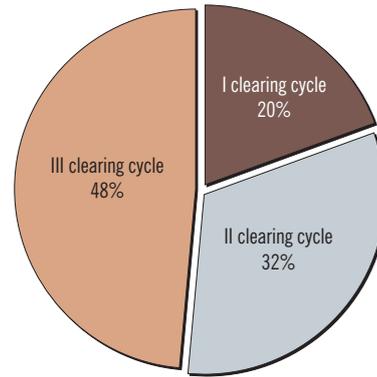
NCS – Number of Payment Transactions Executed in 2004



Source: FINA.

4.6

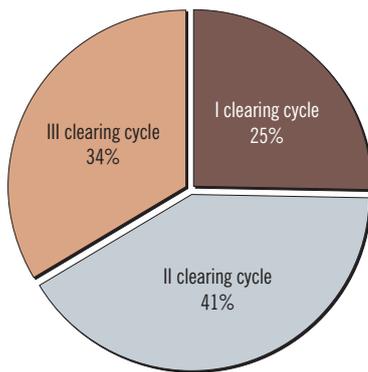
NCS – Value of Payment Transactions by Clearing Cycles in 2004



Source: FINA.

4.7

NCS – Number of Payment Transactions by Clearing Cycles in 2004



Source: FINA.

## 4.1.2 New Technological Solutions

In 2004, the messaging system within the CLVPS migrated to SWIFTNet technology that relies on a new communication protocol for access to SWIFT network. The migration encompasses all CLVPS participants: banks and the CNB.

SWIFTNet technology enables interactive file and message exchange, as well as information search (browse) in a completely secure environment. The new SWIFT generation includes SWIFTNet FIN messaging infrastructure based on an IP protocol which supplements the traditional FIN, which was based on X.25 protocol.

## 4.1.3 CLVPS Services Fee

As of the beginning of May 2004, the CNB has been charging a service fee to banks participating in settlement through the CLVPS. The monies obtained in this way are used to cover the costs connected with maintenance and development of the system. The CNB thus joined the practice observed by other central banks and defined by EU guidelines regulating the method for forming the prices of the abovementioned services.

## 4.2 Interbank/Interinstitutional Co-operation in the Area of Payment Operations

### 4.2.1 National Payment System Committee

The National Payment System Committee, consisting of the representatives of the Ministry of Finance, Croatian National Bank, the Croatian Banking Association, and the Banking and Finance Department of the Croatian Chamber of the Economy held four sessions in 2004, discussing various pressing issues as regards the domestic payment system. In accordance with its authorities as regards different issues, the Committee reached conclusions and issued recommendations on procedures to be followed in payment operations.

In addition, the Committee adopted the recommendation on collection of statistical data as regards payment operations, which are to be collected from banks and credit card issuing companies, aimed at meeting international standards and enabling the monitoring of payment operations developments within defined periods. The first reports on payment operations will be delivered to the CNB in July 2005.

The amended Decision on the Execution of Payment Orders from the Funds in Payer's Accounts Held with Different Banks stipulates a unique way of dealing with bills of exchange in payment operations.

As a result of the needs of all domestic payment system participants a conclusion was reached to expand the existing URBEA to include payment accounts of the Republic of Croatia maintained by the CNB (account type "17") prescribed by the Order on the Manner of Budget Revenue Collection, Collection of Contributions and Revenues for Financing Other Public Needs.

The members of the Committee issued an opinion in connection with the proposed amendments of the Foreclosure Act, especially the part regulating payment operations, which was communicated to the Ministry of Finance, that is, to the sponsors of the Act on Amendments to the Foreclosure Act.

As part of its activities, the Committee adopted conclusions on the dynamics and manner of introduction of the IBAN into the country's banking system, so the CNB prescribed a unique structure of the Croatian IBAN.

### 4.2.2 Council of Participants in the National Clearing System

The Council of participants in the NCS, which was established in 2004, and consists of representatives of banks and representatives of the CNB and FINA held

three special sessions dedicated to discussing the possibilities of technical and technological development of the NCS as well as improvement of its functionality and regulations governing the NCS operations.

At the said sessions the Council also discussed the activities of the NCS planned for 2005, reached conclusions as regards the new manner of determining tariffs for NCS services, issued a proposal of a revised Technical and Technological Instruction for Settlement through NCS, discussed topics connected to the utilisation of statistical data on payments executed through the NCS. As part of the said sessions, presentations were held on the development of payment systems in Europe.

## 4.3 National Payment System Survey

Significant changes in the national payment system in the past few years and the introduction of completely new technical and technological solutions for managing accounts of business entities by banks, created a need for a comprehensive analysis to evaluate the activities carried out so far in the context of payment system and to assess the current functioning of the payment system as a whole.

For the purpose of conducting a survey which would cover the entire territory of the Republic of Croatia, with the functioning of the payment system as its primary aim, the CNB engaged an independent agency specialising in market and public opinion research which uses European standards in its work to conduct the survey.

The survey conducted during May and June 2004 covered the entire country and included two target groups: banks as institutions responsible for executing payment transactions in the country and business entities (comprising companies and craftsmen) as end users in the payment system. The survey included all banks licensed in the Republic of Croatia and 505 companies and 111 craftsmen as a representative selection of business entities operating in the Republic of Croatia, chosen in accordance with territorial criteria, size (in terms of staff), and type of activity.

Banks found the new payment system to be more functional and to have a better infrastructure than the old payment system. As many as 95% of bank representatives responded that they were mainly or fully satisfied with the results of the payment system reform. For the most part, banks' representatives evaluated favourably both systems for interbank payments in the country (CLVPS and NCS) and particularly expressed their satisfaction with the CLVPS. In terms of its functionality, the technology it uses and the prescribed methodology of work, the CLVPS was rated high by most banks, while as many as 30% of banks rated it excellent.

The results of the survey point to a significant growth and development of services provided by banks to their clients. In particular this refers to the high percentage of banks (75%) which offer Internet payments to their customers. Internet pay-

ments contribute to lower payment transaction costs as fees for electronic payment orders are much lower than those for classical payment orders in paper form.

Most banks (some 60%) have their ATMs where clients can withdraw cash thus reducing the need for the provision of this type of service through bank counters. Most banks' clients may also use ATMs of other banks and around 50% of banks have their own POS devices installed.

As regards banks' preparedness for payment system reform, most of the respondents stated that they were satisfied with the way banks managed their regular operating accounts. Customer satisfaction was particularly large when it comes to business organisation and the level of technical and technological equipment. The majority of respondents (over 80%) agreed that the number of payment transaction services increased in comparison with the old system. The results of the survey showed that the majority of large companies were well informed about the laws and regulations governing the national payment system, while 30% of respondents from smaller companies and craftsmen said that they were not familiar with the relevant legislation.

As regards respondents' familiarity with and the use of Internet banking services, the survey showed this type of service to be extremely well-accepted and its use to be steadily increasing. Over 90% of respondents stated that their banks offered Internet banking services (or some other form of e-banking), and 70% of large and medium-size companies reported using such services. The survey showed that all users of Internet banking found this type of service to be mostly or fully contributing in terms of facilitating their business operations, while half of the respondents claimed that they helped them reduce their costs. In this segment too, craftsmen scored poorly. Only one third of them said that they used Internet banking. Over 60% of companies, both small, medium-size and large, reported using payment cards as a means of payment, with credit cards prevailing in comparison with debit cards. Only one third of surveyed companies reported using ATMs. Most of them use them only for disbursements and a smaller number reported using them for both disbursements and payments. Over 40% of craftsmen use ATMs. The use of ATMs is wider in Zagreb and the surrounding area than in the other parts of the country, which is logical in view of larger concentration of banks in this region.

Overall, respondents (business entities) were generally very happy with payment system services offered by their banks. Over 90% of all surveyed companies and 85% of all surveyed craftsmen said they were mostly or completely happy with the payment system services.

The results of the survey showed a high level of success of the payment system reform in the country. The analysis of the results of the survey showed that the majority of respondents found the new payment system to be better than the previous system. The new payment system was found to promote competition in the banking system and improve clients' business relations with banks which led to the development of new payment system services and reduced costs. It is evident from the survey that new technology enabling different electronic payments is developing rapidly, thus reducing the costs of the payment system as a whole.

The importance of the results of the survey also lies in the fact that they helped point to the relevant services in the CNB and in the banks to certain areas of the payment system where there is need for improvement.

## 4.4 Unified Register of Business Entities' Accounts (URBEA)

As shown by URBEA data as at 31 December 2004, the total number of registered business entities in the Republic of Croatia was 257,316, of which 130,108 were legal persons (50.56%), 116,334 (45.21%) were natural persons carrying out a registered activity (craftsmen), and 10,874 (4.23%) were free-lancers.

Business entities had a total of 313,986 regular operating accounts in banks, or 1.22 accounts on average per each business entity.

Of the total of 257,316 business entities at end-2003, 204,432 (79.45%) were liquid, while 52,884 (20.55%) of them had registered arrears (blocked accounts).

Of the total number of regular operating accounts, 252,642 (80.46%) were liquid, while 61,344 (19.54%) were blocked (registered arrears).

**Table 4.7** Business Entities

in %

	2003		2004	
	Number	Share	Number	Share
1. Legal persons	124,923	50.89	130,108	50.56
2. Natural persons (craftsmen)	110,253	44.91	116,334	45.21
3. Free-lancers	10,308	4.20	10,874	4.23
<b>Total</b>	<b>245,484</b>	<b>100.00</b>	<b>257,316</b>	<b>100.00</b>

Source: FINA.

**Table 4.8** Business Entities by Liquidity

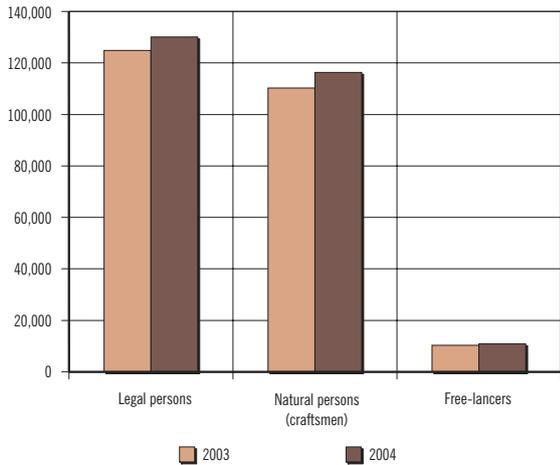
in %

	2003		2004	
	Number	Share	Number	Share
1. Liquid business entities	197,597	80.49	204,432	79.45
2. Illiquid (blocked) business entities	47,887	19.51	52,884	20.55
<b>Total</b>	<b>245,484</b>	<b>100.00</b>	<b>257,316</b>	<b>100.00</b>

Source: FINA.

4.8

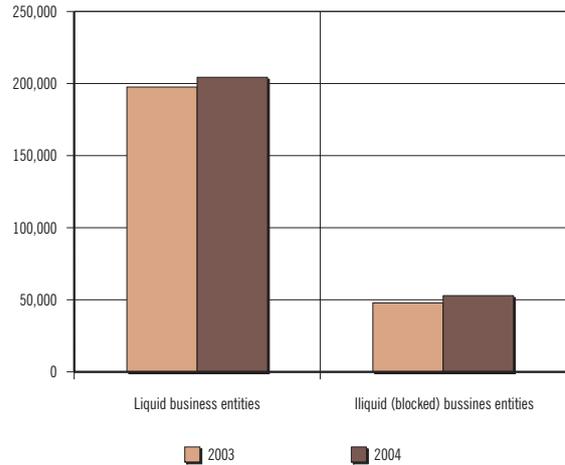
Business Entities



Source: FINA.

4.9

Bussines Entities by Liquidity



Source: FINA.

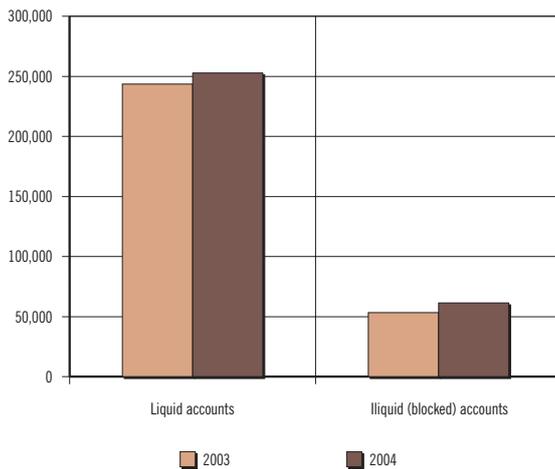
Table 4.9 Regular Operating Accounts  
in %

	2003		2004	
	Number	Share	Number	Share
1. Liquid accounts	243,574	82.06	252,642	80.46
2. Ilquid (blocked) accounts	53,255	17.94	61,344	19.54
<b>Total</b>	<b>296,829</b>	<b>100.00</b>	<b>313,986</b>	<b>100.00</b>

Source: FINA.

4.10

Regular Operating Accounts



Source: FINA.

Table 4.10 Average Number of Regular Operating Accounts per Business Entity

	2003	2004
Average number of accounts per business entity	1.21	1.22

Source: FINA.



**Currency  
Department  
Operations**

**5**



# 5.1 Currency Department Operations

## 5.1.1 The Balance and Movements of Cash in Circulation

On 31 December 2004, the balance of cash in circulation totalled HRK 10.95bn, which was a rise of 3.6% in comparison to the end of 2003. The growth of cash in circulation by 3.6% in 2004 was 5.6 percentage points lower than the growth rate of 9.2% observed in 2003.

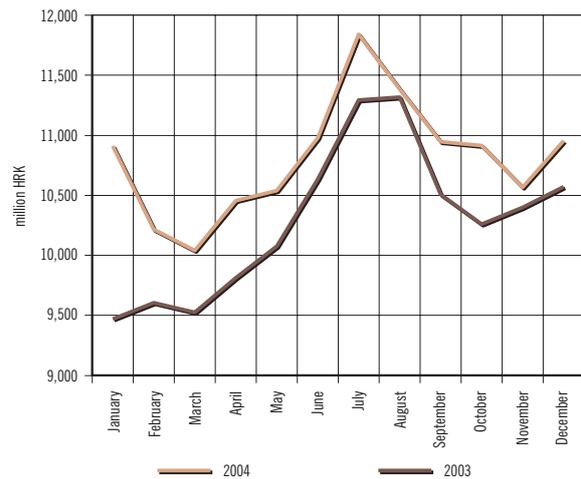
On 31 December 2004, there were 100.4 million banknotes, valued at HRK 10.4bn, outside the vaults of the CNB and cash supply centres.

Compared with late 2003, the quantity of banknotes outside the vaults rose by 6% in 2004, while the total value of banknotes outside the vaults went up by 3.3%.

The total number of banknotes in circulation increased in 2004 by 5.7 million as compared to 2003, of which banknotes in denomination of 10 kuna accounted for 1.8 million or 31.6%. The real growth of the number of banknotes in denominations of 200, 100, 50 and 20 kuna in circulation (the difference between the total rise of the number of banknotes of these denominations in circulation, the 2001 and the 2002 issues and the number of the withdrawn worn out banknotes, the 1993 issue) totalled 3.7 million banknotes or 64.9%. As for banknotes in denominations of 1000 and 500 kuna, their number went up by 0.2 million or 3.5%.

### 5.1

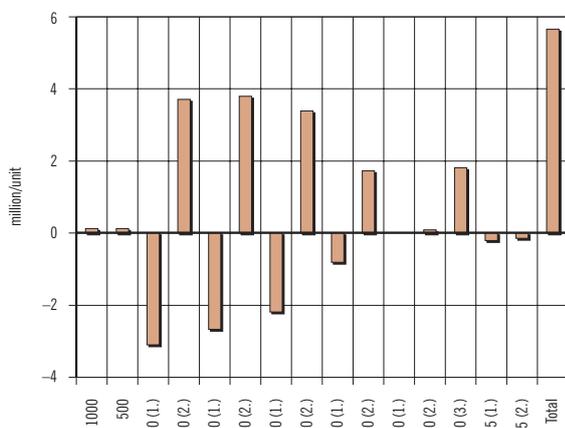
Cash in Circulation  
end of period



Source: CNB.

### 5.2

Change in the Number of Banknotes in Circulation in 2004 as Compared to 2003

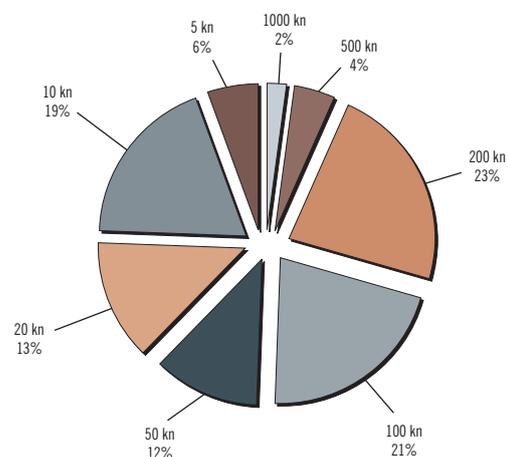


Note: Figures 1, 2, and 3 stated in brackets mark the series of issuance.

Source: CNB.

### 5.3

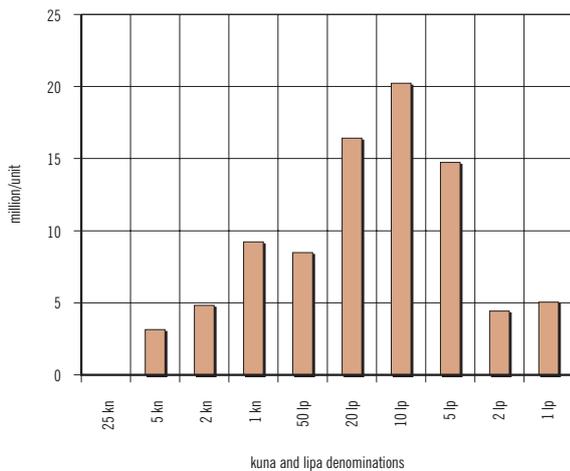
Structure of Total Volume of Banknotes in Circulation by Denomination  
end-2004



Source: CNB.

5.4

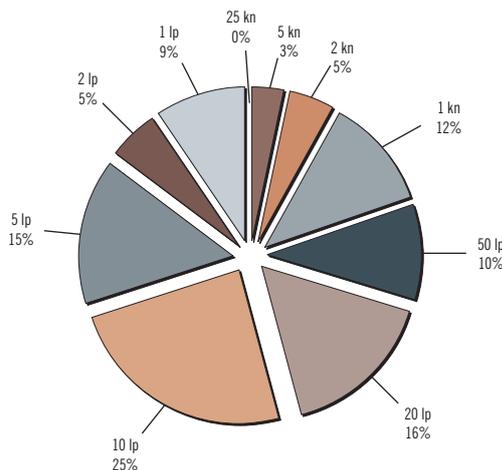
Change in the Number of Coins in Circulation in 2004 as Compared to 2003



Source: CNB.

5.5

Structure of Total Volume of Coins in Circulation by Denomination end-2004



Source: CNB.

The total number of banknotes in circulation in denomination of 5 kuna reduced by 0.3 million because the need for banknotes of this particular denomination is primarily met by coins of the same denomination.

Of banknotes in circulation, banknotes in denominations of 200 kuna, with a 23% share, and of 100 kuna, with a share of 21%, were the most numerous and accounted for HRK 6.6bn or 64% of the total value of banknotes in circulation in 2004. The said two denominations are predominantly used by banks to effect ATM payments, which accounted for such a large number of banknotes of these denominations in the structure of banknotes in circulation.

On 31 December 2004, there were 1.047 billion coins outside the vaults, worth HRK 0.539bn.

In comparison with late 2003, the quantity of coins outside the vaults increased by 9.1%, while their value increased by 8.9%.

The quantity of coins in circulation increased by 87 million coins in 2004, with the coin in denomination of 10 lipa accounting for the largest share of the increase (23.2%), up 20.2 million coins from the number of coins registered in 2003.

Of coins in circulation in 2004, the most numerous were coins in denomination of 10 lipa, with 262 million coins or 25% of total number of coins in circulation, while from the point of view of total value coins in denomination of 5 kuna accounted for the largest share, HRK 170.6m or 31.6% of the total value of coins in circulation.

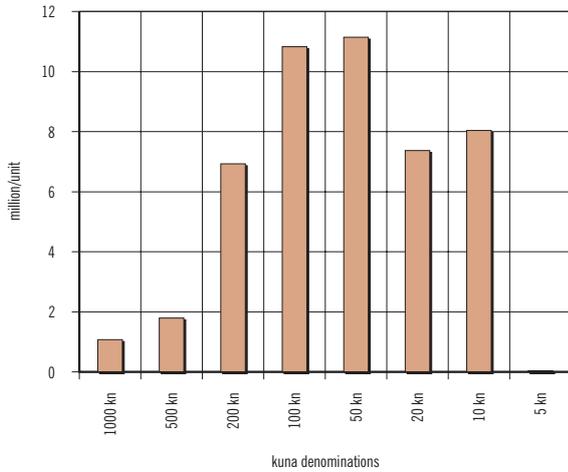
## 5.2 Supply with Cash

For the purpose of settling bank cash requirements in 2004 47.2 million banknotes (worth HRK 5.2bn) and 79.1 million coins (worth HRK 0.029bn) were issued from the vault of the CNB to cash supply centres. The total value of issued banknotes increased by 19.8% compared to 2003, while the total value of issued coins went down by 45.2%, that is, 7% by the number of coins.

A substantial share of coin requirements of cash supply centres was covered by transfer of excess coin quantities from one cash supply centre to another. As a result, the 2004 saw 22.8 million coins, worth HRK 0.047bn, being transferred among cash supply centres.

5.6

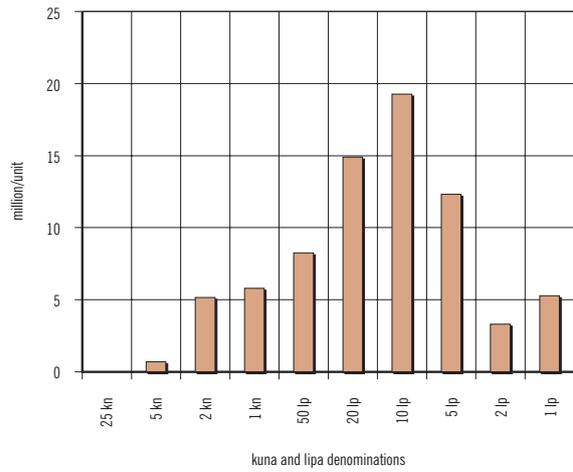
Banknotes Issued to Cash Supply Centres in 2004



Source: CNB.

5.7

Coins Issued to Cash Supply Centres in 2004



Source: CNB.

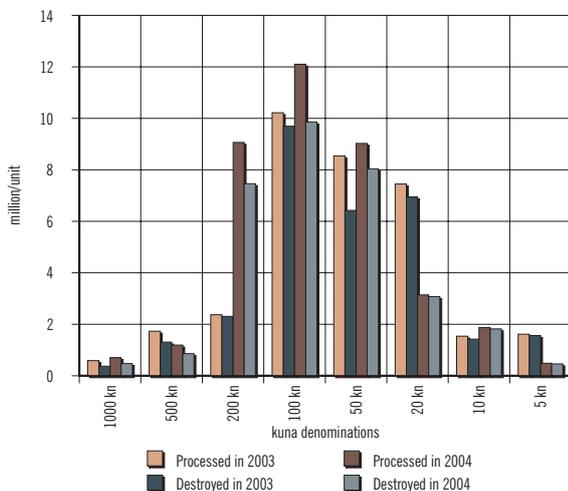
## 5.3 Withdrawing and Processing Worn Out Banknotes

The Currency Department of the CNB withdrew 48.7 million banknotes from cash supply centres over 2004, valued at HRK 5.6bn. The banknote sorting system processed 37.5 million banknotes, of which 85.3% or 32.0 million units valued at HRK 3.8bn, were immediately destroyed as they failed to meet the quality standards set for banknotes in circulation.

According to the latest data, the renewal index in 2004 was 32 (destroyed banknotes/circulation x 100), since the number of banknotes in circulation as per 31 December 2004 totalled 100.4 million, and the number of destroyed banknotes 32 million.

5.8

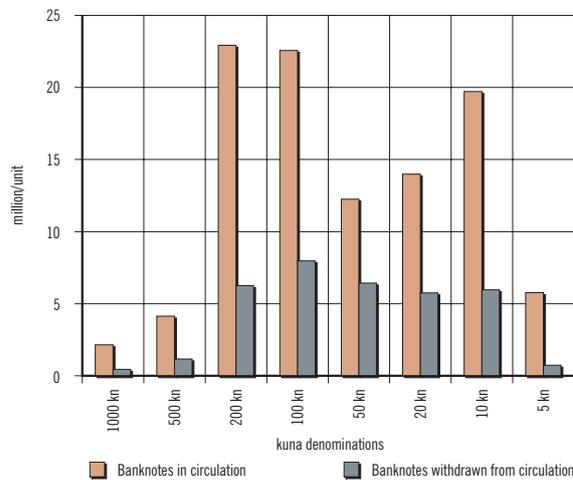
Processed and Destroyed Banknotes



Source: CNB.

5.9

Ratio of Withdrawn Banknotes and Banknotes in Circulation



Source: CNB.

## 5.4 Expert Evaluation of Banknotes

In 2004, the expert evaluation of banknotes identified 2,301 counterfeit banknotes valued at HRK 749,450. Compared with 2003, the number of identified counterfeits fell by 30.6%. The largest number of counterfeits, 650 or 28.2% of the total went to 200 kuna banknotes. In 2004, efforts were continued to make the general public and banknote users (especially networks of retail outlets) acquainted with the security features of kuna banknotes, aimed at preventing the distribution of counterfeit banknotes. As shown by the above indicators, 23 counterfeits were discovered per 1 million banknotes in circulation in 2004. The analysis of received counterfeits showed that they were mostly produced using computer technology and printed on colour printers with the exception of 1000 kuna banknotes, where printing technology was employed.

**Table 5.1** Identified Counterfeit Banknotes in 2004

Denominations	1000	500	200	100	50	20	10	5	
Units	271	591	650	305	434	26	22	2	<b>2,301</b>
Share	11.8	25.7	28.2	13.3	18.9	1.1	1.0	0.1	<b>100.0</b>

Source: CNB.

## 5.5 Issuing Commemorative Coins

In 2004, the CNB issued 2,000 numismatic sets of kuna and lipa circulation coins, with "2004" marking the year of issue.

## 5.6 Cash Supply Centres

In the period from January to June 2004 the CNB and FINA in co-operation with seven banks with the largest volume of cash operations, completed the study on the organisation of cash supply centres in the Republic of Croatia. The project consisted of two phases: the first was to establish the existing situation and the second was to define the concept of cash supply centre network, the concept of products and services, work-flow concept, machinery, storage and internal transport concept as well as IT and staffing concept, the number, costs and organisation as well as the business model of cash supply centres.

The results of the project were accepted by all who participated in its creation. The analyses and co-operation on the application of the results and creation of the cash supply centre network supported by the CNB, FINA and banks started in the second half of 2004 and are to be continued throughout 2005.

# Public Relations

# 6



## 6.1 Public Relations

The Croatian National Bank considers the transparency of its activities a key prerequisite for maintaining its credibility and accountability to the public. To this aim, again in 2004, significant efforts were invested in informing the domestic and international public on its activities and reasons for introducing different monetary policy measures.

The Croatian National Bank publishes several regular and occasional publications, both in Croatian and English, from monthly bulletins, bank bulletins and annual reports, quarterly bulletins on economic and monetary developments to research papers and analyses by its experts as well as regular statistical reports adjusted to international standards.

In addition, it issues press releases on the decisions of the CNB Council, the bank's governing body, immediately upon their adoption, to be published or broadcast in the media and posted on the CNB's official home page, both in Croatian and English. The public is also promptly informed about the central bank's interventions in the foreign exchange market.

When required and in connection with particularly important decisions or introduction of new monetary policy measures, the Croatian National Bank organises press conferences or briefings for journalists covering the finance and banking sector to enable them to convey both the reasons and the circumstances at the source of the measures passed by the central monetary authority to the interested members of the public.

In addition, in 2004, the CNB organised a number of individual meetings of the CNB's officials and experts with the representatives of the media, not only for reporting purposes or as preparation for interviews but also with an aim to improve the level of financial literacy and understanding of global developments in the field both in the country and abroad. Among other things, participation and appearance of the CNB officials at numerous domestic and international conferences as well as lectures organised for groups of secondary school and university students occasionally visiting the CNB are aimed at contributing towards achieving this objective.

The Croatian National Bank receives numerous inquiries in writing, by fax, phone or e-mail on daily basis, not only from domestic or foreign journalists but also from members of the public, companies, banks and various state and public institutions as regards its operations (or what the authors think to be within the scope of its competence). The answer to each inquiry is sent as soon as possible either by sending the requested data or explanation, or redirecting the inquiry to the person or institution who might be able to provide an adequate answer, when the issue at hand is outside the scope of the CNB's competence.



# International Relations

# 7



## 7.1 International Co-operation

### 7.1.1 Activities of the CNB in Connection with the Relations between the Republic of Croatia and the European Union

2004 was the year of the biggest EU enlargement since its creation. On 1 May 2004, eight Eastern and Central European countries and two island countries, Cyprus and Malta, entered the EU, which ended the long-lasting period of political and economic divisions. The EU thus gained 74 million new inhabitants and additional dynamic economic strength of EUR 475bn in GDP terms. In political terms, this enlargement implies a stronger and democratically more stable continent, and in economic terms, it implies a single market with over 450 million citizens and total GDP of EUR 10,210bn. According to these quantitative indicators, the EU today holds the top global position in terms of economic strength.

For the process of Croatia's accession to the EU, the year 2004 was also very important. The Republic of Croatia submitted its application for EU membership in February 2003 and its replies to the European Commission Questionnaire in October 2003, receiving a positive European Commission opinion on its application for EU membership on 20 April 2004. At its Brussels summit on 18 June, the Council of the European Union accepted the Commission's opinion and granted candidate status to Croatia. In line with the standard procedure, the EU Council established the European Partnership on 13 September, which identifies short- and medium-term priorities in the process of joining the EU. The pre-accession strategy, which was adopted on 6 October, among others, sets the amount of financial resources that Croatia may be provided in 2005 and 2006 through pre-accession funds Phare (a total of EUR 160m), ISPA (a total of EUR 60m) and SAPARD (EUR 25m). Finally, on 17 December, the EU Council decided to begin accession negotiations with Croatia on 17 March 2005, but made it subject to the confirmation of Croatian co-operation with the International Criminal Tribunal for the Former Yugoslavia.

Within its field of competence and in order to ease and expedite the inclusion in EMU, the CNB continued in 2004 to implement monetary policy whose main objective is low inflation. The CPI inflation was 2.7% in 2004. The CNB also continued with its policy of maintaining a stable exchange rate. This monetary policy orientation is in line with the convergence criteria (the Maastricht criteria). Also, the CNB continued to harmonise legislation within its sphere of competence with the *acquis communautaire*. It should be said that most laws and regulations in this field have already been largely harmonised with EU regulations.

In institutional terms, within organisational changes in the CNB, early 2004 saw the establishment of the European Relations Department within the newly-estab-

lished International Relations Area. The main task of the Department is to co-operate with EU institutions and monitor their activities. This primarily refers to the ECB and appropriate organisational units of the European Commission. The Department also co-operates with Croatian institutions in charge of the EU accession process. Furthermore, it monitors the achievement of the convergence criteria, EU policy towards the new EU members and candidate countries, coordinates activities related to harmonisation of laws within the CNB's sphere of competence with the *acquis communautaire*, and performs other activities related to Croatia's accession to the EU.

2004 saw the end of the several-year ratification process of the SAA, which was signed in Luxembourg in October 2001. After it was broadened to include also the ten new EU members, the SAA came into effect on 1 February 2005. To sum up in one place all activities related to the fulfilment of commitments under the SAA, the Government of the Republic of Croatia has for several years adopted the National Programme for Accession to the EU. At its session of 9 December 2004, the Government adopted the National Programme for 2005. The CNB co-operates in the preparation of this document, in the part that refers to economic criteria, free movement of services and capital, and EMU.

By getting EU candidate status, Croatia assumed the obligation to prepare the Pre-accession Economic Programme 2005-2007. This programme is aimed at preparing candidate countries for participation in procedures of multilateral supervision and co-ordination of economic policy currently applied in the EU as part of EMU. The real objective of the Programme is to create an appropriate medium-term monetary policy framework, which is complementary to the achievement of targeted macroeconomic goals, including public finance targets and priorities in the area of structural reforms. CNB experts also participated in the preparation of this document, in the part related to current economic developments, macroeconomic programme and the financial sector. The Pre-accession Economic Programme was adopted at the Government session of 30 November 2004.

Finally, concerning the forthcoming negotiations on Croatia's membership in the EU, it should be said that it has been conceived that CNB experts would participate in the work of negotiating teams. The areas of their field of competence would be free movement of capital, financial services and EMU.

## 7.1.2 International Monetary Fund (IMF)

The quota of the Republic of Croatia in the IMF remained unchanged in 2004 (SDR 365.1m), the same as its voting rights (0.18% of total voting rights). The Republic of Croatia can realise its interests within the IMF through the Dutch Constituency, which includes, in addition to the Republic of Croatia, another 11 countries (Armenia, Bosnia and Herzegovina, Bulgaria, Cyprus, Georgia, Israel, Macedonia, Moldova, the Netherlands, Romania and Ukraine). The Constituency is headed by the Dutch representative, Jeroen Kremers, who acts as Executive Director of the Constituency. A voting power of the Constituency is 4.85% of

the total votes in the IMF, which makes it the seventh strongest constituency (of the total of 24 constituencies).

Numerous contacts were made in 2004 with experts of the IMF, both through this institution's representative office and through repeated visits of IMF missions to Croatia and the CNB delegation visits to the IMF. Regular consultations related to Article IV of the Articles of Agreement of the IMF, which were conducted in mid-year, ran parallel to negotiations on a new stand-by arrangement. The Executive Board of the IMF approved the new stand-by arrangement of SDR 97m (USD 142.52m) in August 2004. The arrangement was to last for 20 months and was concluded as "precautionary" (the funds approved are not to be purchased) given the favourable financial position of the Republic of Croatia.

The Croatian authorities view the arrangement as a useful framework for the implementation of their macroeconomic policy in the period up to 2006. In this sense, the arrangement should help in solving major macroeconomic problems; primarily contribute to stabilisation of the external debt, whose rapid growth over recent years has been seen as the factor that influences the external vulnerability of the Croatian economy. By focusing on external debt stabilisation as the major part of the arrangement, the IMF assigned to fiscal policy a major role in the achievement of this objective. Fiscal consolidation and the establishment of fiscal discipline in general are in the core of the arrangement and performance criteria under the arrangement have been set accordingly.

With regard to other forms of co-operation with the IMF it should be mentioned that in 2004 Croatian representatives continued their regular participation in the work of IMF management bodies (Constituency, International Monetary and Financial Committee and Board of Governors). In particular, CNB representatives took part in the work of the Spring and Annual Meetings of the IMF Board of Governors in Washington, where they met with representatives of international financial institutions, commercial banks and investment companies. In addition, in the context of the newly-concluded arrangement, the IMF again conducted a safeguard assessment of the CNB in autumn 2004. A safeguard assessment of central banks is a standard mechanism that the IMF has been carrying out since 2000 in central banks of the countries that have arrangements with the IMF. Its purpose is to identify potential weaknesses in central bank systems that are connected with control, accounting, reporting, internal and external audit and legal aspects. The related report, which was completed in early 2005, contained very favourable findings for the CNB, and was adopted by the IMF management. Finally, regarding technical assistance, the IMF mission related to preparations for the introduction of open market operations – a new monetary policy instrument, visited the CNB in early 2004.

Finally, it should be said that, as the fiscal agent of the Republic of Croatia and a depository of the International Monetary Fund (as provided by the Act on Accepting Membership of the Republic of Croatia in the International Monetary Fund and Other International Financial Organisations on the Basis of Succession, official gazette *Narodne novine*, No. 89/1992), the CNB is responsible for keeping deposit accounts of the IMF and for regular servicing of the obligations arising from the arrangements concluded between the Republic of Croatia and the IMF. The obligations due in 2004 related to the charges on the 2002 stand-by arrangement (SDR 0.04m), and the charges on the new stand-by arrangement concluded in 2004 (SDR 0.24m). Also, as a member of the Special Drawing

Rights Department (of the IMF), Croatia regularly repaid its succession-related obligations arising from the allocation of special drawing rights in the amount of SDR 0.77m.

## 7.2 Bank for International Settlements (BIS)

The BIS, of which the CNB has been a shareholder since 1997, held its regular Annual General Meeting on 28 June 2004, at which it adopted its Annual Report and decided that dividends to be paid were to amount to SDR 225 per share.

In addition to the Annual General Meeting, central bank governors from the BIS member countries also meet regularly to discuss topical issues in the area of international banking and finance.

Within the activities of the BIS aimed at promoting co-operation among central banks, an important part is played by a number of committees and expert bodies in whose work CNB representatives actively participate. One of the initiatives for the exchange of information is the Central Bank Governance Network, which the BIS launched as early as 1999. It is used to exchange information among central banks through a protected electronic network. A CNB representative attended the first meeting of participants in this network, which was held in Hong Kong in late 2004.

CNB representatives also participate in the work of the Committee on Payment and Settlement Systems, as well regional groups of the Basle Committee on Banking Supervision. In the organisation of the Prudential Regulation and Bank Supervision Area, the CNB hosted the 17th Conference of the Group of Banking Supervisors from the Central and Eastern Europe, which was held in Dubrovnik at end-May 2004. The Conference was organised in co-operation with the Financial Stability Institute of the BIS.

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

## 7.3 Co-operation between the CNB and Other International Financial Institutions

The major part of CNB co-operation with other international financial institutions refers to its co-operation with development banks of which the Republic of Croatia is a member: the World Bank Group, the EBRD and the Inter-American

Development Bank (IDB). The Republic of Croatia's membership in these banks is regulated by special acts pursuant to which the Croatian MoF is the competent authority for co-operation with these banks and is authorised to perform all operations and transactions in the name of the Republic of Croatia 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 the name and on behalf of these financial institutions, and performs financial transactions with these organisations as the payment agent of the Republic of Croatia. Withdrawals and repayments of funds based on structural loans, which the IBRD granted to the Republic of Croatia, are also executed through the CNB.

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

In 2004, the CNB also co-operated with other international financial institutions. Specially mentioned should be more intense contacts with the EIB. As in the preceding years, the CNB and other competent Croatian institutions were visited by IIF representatives in April and December and JCIF representatives in December 2004. The aim of these visits was to acquire information on Croatia's economic and political situation.

## 7.4 International Payment Operations

As the fiscal agent of the state, the CNB regularly executed international payment and collection transactions on behalf of the Croatian MoF, including financial obligations arising from Croatia's membership in international financial institutions: IMF, IBRD, IFC, IDB, EBRD and MIGA, as well as obligations arising from loans that these institutions granted to the Republic of Croatia (EFSAL, SAL). The CNB also executed international payment operations in its own name and for its account. These international transactions related to collections arising from the sale of coins and commemorative coin editions and regular payments based on obligations arising from services and goods used for CNB purposes.

The execution of international payment operations required continuous monitoring of the application of domestic and international standards in the area of finance and banking, international payments and trade (ISO standards, regulations and guidelines of the BIS, ICC, etc.), as well as EU regulations related to this area.

## 7.5 Correspondent Relations with Foreign Banks and Other Financial Institutions

The CNB has developed and maintained a correspondent network with over a hundred banks and financial institutions around the world. This network is the basis for all international financial activities of the CNB. Due attention is paid to collection of relevant information on the legal status of all correspondents, the analysis of their credit and investment ratings and their banking systems.

Additionally monitored are economic and political developments in certain countries and regions of special interest for the CNB itself and for the Croatian banking system and the economy as a whole. We especially point to the participation in the work of the Interministerial Committee for Export Insurance at the CBRD.

Over 50 meetings with representatives of foreign central and commercial banks, investment funds and credit and investment rating agencies, and other institutions were organised in 2004.

## 7.6 Foreign Exchange System and Foreign Exchange Policy Measures of the Republic of Croatia

The legal basis of the foreign exchange system of the Republic of Croatia is the Foreign Exchange Act (official gazette *Narodne novine*, No. 96/2003). Relevant subordinate legislation defines the instruments and measures for the implementation of foreign exchange policy.

Foreign exchange policy measures determine the degree of restrictions on capital movements between residents and non-residents. Regulations also determine the procedure for the issuance of authorisations based on applications to transfer capital from the Republic of Croatia, as well as the terms and methods of using foreign means of payment and kuna in relations between residents and between residents and non-residents.

In the process of harmonising Croatian legislation with the *acquis communautaire*, the Croatian foreign exchange system has been gradually changed, in line with the SAA provisions, EU guidelines and other documents regulating the terms and methods of conducting current and capital transactions.

The SAA, which was signed in 2001, came into full effect on 1 February 2005. The SAA provisions oblige the Republic of Croatia to abolish restrictions on pay-

ments and transfers based on current foreign exchange operations as well as restrictions on payments and transfers of one part of the remaining capital transactions. Restrictions on payments and transfers of the other part of the remaining capital transactions are still allowed and the SAA determines the dynamics of their abolishment. All remaining restrictions on payments and transfers based on capital transactions will be abolished with Croatia's accession to the EU.

In line with the SAA provisions and on the basis of macroeconomic assumptions, the guidelines for the process of liberalisation of the BOP capital account of the Republic of Croatia in the forthcoming period were adopted in 2004.

Within the implementation of the foreign exchange policy and performance of its tasks, the CNB in 2004 issued 26 certificates for computer software that must be used by authorised exchange offices. The project of certified computer software for authorised exchange offices has been designed to strengthen their fiscal and financial discipline and is directly related to the implementation of the anti-money laundering policy.



**Financial  
Statements of the  
Croatian National  
Bank**

**8**





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## Report of the independent Auditors

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

We have audited the accompanying balance sheet at the Croatian National Bank, Zagreb ("Bank") as of 31 December 2004 and the related statements of income, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2004, and of the result of its operations, changes in shareholders equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Deloitte & Touche*  
Deloitte & Touche  
Prague, March 15, 2005

*Deloitte & Touche*  
Deloitte & Touche  
Zagreb, March 15, 2005

Audit. Tax. Consulting. Financial Advisory.

Member of  
Deloitte Touche Tohmatsu

# Income Statement

Income Statement of the Croatian National Bank  
for the year ended 31 December 2004, in thousand HRK

	Notes	For the year ended 31 December 2004	For the year ended 31 December 2003
Interest and similar income	4	931,944	1,104,593
Interest expense and similar charges	5	(397,608)	(462,649)
<b>Net interest income</b>		<b>534,336</b>	<b>641,944</b>
Fee and commission income		4,796	3,196
Fee and commission expense		(3,124)	(2,850)
<b>Net fee and commission income</b>		<b>1,672</b>	<b>346</b>
Dividend income		4,549	4,420
Net trading result	6	141,604	(66,189)
Net result of revaluation of precious metals	6	(104)	87
		<b>141,500</b>	<b>(66,102)</b>
Net foreign exchange losses	7	(385,705)	(609,737)
Other income	8	7,814	13,891
<b>Operating income/(expenditure)</b>		<b>304,166</b>	<b>(15,238)</b>
Operating expenses	9	(246,634)	(250,641)
(Increase) in provisions	10	(1,043)	(76,624)
<b>Operating surplus/(deficit)</b>		<b>56,489</b>	<b>(342,503)</b>
Operating surplus allocated to general reserves		(56,489)	–
Operating deficit covered from general reserves		–	342,503

# Balance Sheet

Balance Sheet of the Croatian National Bank  
as at 31 December 2004, in thousand HRK

	Notes	As at 31 December 2004	As at 31 December 2003
<b>Assets</b>			
Cash and current accounts with other banks	11	7,063	6,944
Due from other banks	12	24,319,677	25,566,504
Trading securities	13	25,023,661	24,525,534
Loans	14	394,134	954,594
Placements with the International Monetary Fund	15	3,200,964	3,324,568
Equity investments	16	33,085	34,047
Accrued interest and other assets	17	134,953	131,079
Tangible and intangible assets	18	361,388	320,020
<b>Total assets</b>		<b>53,474,925</b>	<b>54,863,290</b>
<b>Liabilities</b>			
Banknotes and coins in circulation		12,826,645	12,256,309
Croatian National Bank bills	19	–	4,920,178
Due to banks and other financial institutions	20	31,862,457	27,859,248
Due to the State and State institutions	21	284,120	1,506,921
Due to the International Monetary Fund	22	3,194,754	3,318,027
Accrued interest and other liabilities	23	343,421	95,568
<b>Total liabilities</b>		<b>48,511,397</b>	<b>49,956,251</b>
<b>Equity</b>			
Capital	24	2,500,000	2,500,000
Reserves	24	2,463,528	2,407,039
<b>Total equity</b>		<b>4,963,528</b>	<b>4,907,039</b>
<b>Total equity and liabilities</b>		<b>53,474,925</b>	<b>54,863,290</b>

The financial statements set out on pages 160 to 186 were approved on 15 March 2005 by:

Director of Accounting Department:

Ivan Branimir Jurković



Governor:

Dr Željko Rohatinski



# Statement of Changes in Equity

Statement of Changes in Equity of the Croatian National Bank  
for the year ended 31 December 2004, in thousand HRK

	Capital	General reserves	Revaluation reserves	Operating surplus/ (deficit)	Total equity
<b>Balance at 1 January 2003</b>	<b>2,500,000</b>	<b>2,486,817</b>	<b>259,859</b>	–	<b>5,246,676</b>
Real estate revaluation	–	–	29,630	–	29,630
Disposal of real estate	–	–	(26,764)	–	(26,764)
Transfer to general reserves	–	5,060	(5,060)	–	–
Operating deficit	–	–	–	(342,503)	(342,503)
Coverage of deficit from general reserves	–	(342,503)	–	342,503	–
<b>Balance at 31 December 2003</b>	<b>2,500,000</b>	<b>2,149,374</b>	<b>257,665</b>	–	<b>4,907,039</b>
Transfer to general reserves	–	5,588	(5,588)	–	–
Operating surplus	–	–	–	56,489	56,489
Allocation of operating surplus to general reserves	–	56,489	–	(56,489)	–
<b>Balance at 31 December 2004</b>	<b>2,500,000</b>	<b>2,211,451</b>	<b>252,077</b>	–	<b>4,963,528</b>

# Cash Flow Statement

## Cash Flow Statement

for the year ended 31 December 2004, in thousand HRK

	2004	2003
<b>Cash flows from operating activities</b>		
Interest received	896,181	996,635
Interest paid	(403,857)	(446,958)
Commissions received	4,062	3,060
Commissions paid	(2,970)	(2,487)
Dividends received	4,549	4,420
Other income received	11,335	5,323
Expenses paid	(192,833)	(196,478)
	316,467	363,515
<b>Increase/decrease in operating assets/liabilities</b>		
Decrease/(increase) in deposits with other banks	630,885	2,566,553
(Increase)/decrease in loans	571,142	(937,467)
Purchase of trading securities	(594,692)	(10,683,281)
Net increase/(decrease) in other assets/liabilities	214,154	(18,928)
Decrease in amounts due to the IMF	(2,525)	–
Increase in currency in circulation	570,248	1,360,518
Increase in amounts due to banks and other financial institutions	4,620,383	8,391,557
Increase/(decrease) in amounts due to the State	(1,150,445)	924,767
	4,859,150	1,603,719
<b>Net cash from operating activities</b>	<b>5,175,617</b>	<b>1,967,234</b>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(64,525)	(56,004)
Acquisitions of equity investments	–	(74)
<b>Net cash from investing activities</b>	<b>(64,525)</b>	<b>(56,078)</b>
<b>Cash flows from financing activities</b>		
Net issue of CNB bills	(5,036,313)	(1,312,146)
<b>Net cash from financing activities</b>	<b>(5,036,313)</b>	<b>(1,312,146)</b>
<b>Realized exchange rate gains and losses effect, net</b>	<b>(74,841)</b>	<b>(610,523)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(62)</b>	<b>(11,513)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>11,962</b>	<b>23,475</b>
<b>Cash and cash equivalents at end of year (Note 26)</b>	<b>11,900</b>	<b>11,962</b>

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

# Accounting Policies and Notes to the Financial Statements

## Note 1 – General Information and Accounting Standards

### (1.1) General information

The Croatian National Bank is the central bank of the Republic of Croatia, whose status has been defined by law. The owner of the Croatian National Bank is the Republic of Croatia, which guarantees for its obligations. The Croatian National Bank is headquartered in Zagreb. The primary objective of the Croatian National Bank, within the powers granted, is to achieve and maintain price stability. The Croatian National Bank enjoys operational autonomy and is responsible to the Croatian Parliament, which has approved its Statute. The Croatian National Bank is represented by the Governor of the Croatian National Bank.

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

- establishing and implementing the monetary and foreign exchange policies;
- holding and managing the international reserves of the Republic of Croatia;
- issuing banknotes and coins;
- issuing and revoking licenses for banks and supervising the operations of banks;
- maintaining the accounts of banks, executing payment transactions across these accounts, granting loans to banks and receiving deposits from banks;
- regulating, improving and supervising the payment system;
- performing operations on behalf of the Republic of Croatia, as provided by law;
- enacting subordinate legislation on operations within its field of competence; and
- performing other operations, as provided by law.

In accordance with the provision referred to in Article 56 of the Croatian National Bank Act, the Croatian National Bank prepares its financial statements for each financial year in accordance with the accounting regulations and International Accounting Standards (that have been incorporated into International Financial Reporting Standards). Thus, the financial statements of the Croatian National Bank for the year ended 31 December 2004 comprise the following:

- Income Statement
- Balance Sheet
- Statement of Changes in Equity
- Cash Flow Statement
- Accounting Policies and Notes to the Financial Statements.

## (1.2) Accounting standards and conventions

These financial statements are prepared using the accrual method and under historical cost convention as modified for revaluation of buildings and certain financial assets and liabilities to fair value in accordance with International Financial Reporting Standards.

The amounts in the financial statements are presented in thousands of Croatian kuna (HRK).

The preparation of financial reports in accordance with generally accepted accounting standards requires the use of estimates and judgments that influence the amounts of assets and liabilities at the reporting date and the amounts of income and expenditures for the reporting period. Although the estimates are based on the management's best estimate of current events and operations, they may differ from the actual results.

## Note 2 – Summary of Significant Accounting Policies

### (2.1) Interest income and expense

Interest income and expense are recognized in the income statement on an accrual basis.

Interest income and expense are calculated in accordance with applicable laws and subordinate legislation. Penalty interest is charged for all overdue placements and receivables, at rates specified in applicable laws and subordinate legislation.

Interest income includes interest earned on coupons for fixed-yield securities that are held for trading, as well as accrued discount on purchased securities. A value adjustment is made for all banks with delayed settlement of interest payable. Such interest income is suspended (excluded) and subsequently recognized in the income statement in the period in which it is collected.

Accrued discount on issued CNB bills is treated as interest expense.

Any premium on purchased securities is also treated as interest expense.

Accrued interest on foreign currency receivables and liabilities is translated on a daily basis to Croatian kuna at the midpoint exchange rate of the Croatian National Bank and is included in interest income or interest expense.

### (2.2) Fee and commission income and expense

Fee and commission income earned on financial services provided by the Croatian National Bank is recognized when the corresponding service is provided. A value adjustment is made for all outstanding fees and commissions due.

Fee and commission expense is included in the income statement for the period in which it occurs.

### (2.3) Dividend income

Dividend income on equity investments is recognized 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 HRK at the rate of exchange ruling at the date of the transaction. All monetary assets, liabilities and off-balance sheet items denominated in, or linked to a foreign currency, are translated at the end of each month (day) to reflect any fluctuations in the underlying exchange rate. They are translated at the midpoint exchange rate of the Croatian National Bank, except for Special Drawing Rights (XDRs), which are translated to Croatian kuna at the exchange rate provided by the International Monetary Fund.

Foreign exchange gains and losses arising from fluctuations in exchange rates are recorded in the income statement as unrealized gains or losses in the period in which they occur.

Gains and losses arising from trading in foreign currencies are included in realized income or expenditure for the period in which they occur.

The exchange rates of major foreign currencies at 31 December 2004 were as follows:

USD 1 = HRK 5.636883 (2003: HRK 6.118506)  
 EUR 1 = HRK 7.671234 (2003: HRK 7.646909)  
 XDR 1 = HRK 8.754136 (2003: HRK 9.091916).

### (2.5) Gains and losses on trading securities

Gains and losses realized on securities trading are reported in the income statement for the period in which they occur.

At the end of each accounting period, securities classified in the trading portfolio are remeasured to their fair value. The effects of the remeasurement are reported in the income statement as unrealized gains and losses for the reporting period in which they occur.

### (2.6) Provisions

Expense arising from provisions for identified losses is recognized in the income statement at the end of the accounting period to which it relates. Subsequent collections are recorded as a decrease in provisions and credited to income for the

reporting period in which they are collected. No provisions are recorded for financial assets carried at fair value.

Provisions are also recognized as contingent liabilities. The Croatian National Bank recognizes a provision when it has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate of the obligation can be made. If all these conditions are not met, no provision is recognized.

## (2.7) Financial instruments

### 2.7.1 Classification

Financial assets of the Croatian National Bank are classified into the following categories:

- a) Financial assets held for trading  
This category comprises marketable debt securities in which the Croatian National Bank invests international reserve funds for the purpose of short-term profit taking on the basis of interest income or changes in the fair value of the underlying instrument.
- b) Loans and receivables originated by the Croatian National Bank  
This category comprises loans approved by the Croatian National Bank without the intention of short-term profit taking.
- c) Available-for-sale financial assets  
This category comprises the Croatian National Bank's investments in equity securities.

### 2.7.2 Recognition

The Croatian National Bank recognizes financial instruments on settlement date. Any gains and losses arising from changes in the fair value of financial instruments are recognized from that date.

### 2.7.3 Measurement

Financial instruments are measured initially at cost, which includes 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. Financial instruments that do not have a quoted market price and have a fixed maturity are stated at amortized cost, by applying the effective interest rate method. Those that do not have a fixed maturity and a quoted market price, and whose fair value cannot be reliably measured, are measured at cost, less any impairment loss.

#### 2.7.4 Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of trading instruments are recognized in the income statement for the reporting period in which they occur.

#### (2.8) Equity investments

Equity instruments whose fair value cannot be reliably measured because they are not used in financial transactions in active securities markets are measured at cost, less any impairment in value.

#### (2.9) Derivative financial instruments

Derivative financial instruments (if any), which are initially recognized in the balance sheet at cost, are subsequently measured at fair value. Derivative financial instruments are always held for trading, except for those derivatives for which hedging instruments are formed (hedge accounting).

#### (2.10) Repurchase and reverse repurchase agreements

The Croatian National Bank enters into a securities purchase/sale agreement by contracting to resell/repurchase the same instrument on a specific future date at a fixed price. Securities purchased under reverse repurchase agreements are not recognized in the balance sheet. Outflows arising from these agreements are recognized as due from banks or other financial institutions. It is also recorded that purchased receivables are collateralized by appropriate securities pledged under the repurchase agreement. Securities sold under repurchase agreements are still recognized in the balance sheet and reported in accordance with the accounting policy for such financial assets. Inflows from sales of securities are recognized as due to banks or other financial institutions. The difference between sale and repurchase price is treated as interest income or expense and accrued over the life of the agreement.

#### (2.11) Due from other banks

Amounts due from domestic and foreign banks include funds in accounts that do not have the feature of transaction money.

#### (2.12) Croatian National Bank bills

Croatian National Bank bills include kuna CNB bills and CNB bills denominated in EUR and USD and are recognized at redemption value.

### (2.13) Placements with the International Monetary Fund

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

### (2.14) 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 allowance is made to reduce the asset to its recoverable amount.

### (2.15) Gold and other precious metals

Gold and other precious metals are held at the market value. Gains and losses arising from a change in the fair value are recognized in the income statement for the reporting period in which they occur.

### (2.16) Banknotes and coins in circulation

The legal tender in the Republic of Croatia is the kuna. Banknotes and coins in circulation are carried at face value.

### (2.17) Cash and cash equivalents

By means of the direct method, the cash flow statement provides data on cash inflows and outflows in the reporting period, classified into operating, investing and financing activities.

### (2.18) Taxation

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

### (2.19) Tangible and intangible assets

Tangible and intangible assets are stated in the balance sheet at cost or revalued amount less accumulated depreciation or amortization. Depreciation and amortization are provided on a straight line basis. Useful lives of individual types of assets are estimated by competent expert staff.

Assets are revalued by reference to their market values. Any gains on revaluation are included in revaluation reserves as a separate component of equity. Losses on revaluation are recorded against revaluation reserves to the extent of previously recognized gains. Losses in excess of previously recorded gains are recognized as an impairment charge in the income statement for the reporting period.

The following annual rates are used:

in %

Item	2004	2003
Buildings	2.5	2.5
Furniture	20.0	20.0
Computers	25.0	25.0
Software	25.0	25.0
Motor vehicles	25.0	25.0
Equipment and other assets	5.0 to 33.33	5.0 to 25.0

### (2.20) Appropriations

In accordance with Article 53 of the Croatian National Bank Act, the surplus of income over expenditures is transferred to general reserves, in the amount determined by the Council of the Croatian National Bank. This amount should neither exceed 20% of the surplus of income over expenditures nor fall below net profit from value adjustment of balance sheet items to changes in the exchange rate and market prices. The remaining surplus of income over expenditures, after the transfer to general reserves, is extraordinary revenue to the State Budget.

The Croatian National Bank covers any shortfall between income and expenditures from general reserves. Should these reserves prove insufficient, the shortfall is covered from the State budget.

## Note 3 – Changes in Presentation

For the purpose of true and fair presentation of the assets, liabilities and operating results, Notes 9, 18 and 19 have been modified. Costs of printing kuna banknotes and minting kuna and lipa coins are deferred over a period exceeding one year (two years for banknotes, and five years for coins). Until 2003, they were included in non-current assets and amortization charges, and since 2004 they are included in the balance sheet as prepaid expenses and in the income statement as costs of banknotes and coins among operating expenses. This change in classification had no effect on the equity and operating surplus as at and for the year ended 31 December 2004.

## Note 4 – Interest and Similar Income

in thousand HRK

Item	2004	2003
Deposits	428,133	447,477
Trading securities	492,103	568,016
International Monetary Fund	21	61
Loans to banks	5,903	11,109
Other interest income	1,890	5,051
Net foreign exchange gains/(losses) on foreign currency interest income	3,894	72,879
<b>Total</b>	<b>931,944</b>	<b>1,104,593</b>

The most important part of income of the Croatian National Bank is interest income on placing international reserves as deposits with foreign central and first-class banks, and in debt securities.

Interest income in domestic currency is mostly related to Lombard loans, and to a lesser extent to repo loans and penalties for a failure to maintain and allocate reserve requirements.

## Note 5 – Interest Expense and Similar Charges

in thousand HRK

Item	2004	2003
Kuna reserve requirements	234,897	192,969
Foreign currency reserve requirements	118,938	124,361
Kuna CNB bills	254	52,015
Mandatory kuna CNB bills	128	258
Foreign currency CNB bills	9,488	42,475
International Monetary Fund arrangements	2,533	2,395
Repurchase arrangements	32,229	28,683
Other interest expense	1,797	23,277
Net foreign exchange (gains)/losses on foreign currency interest expense	(2,656)	(3,784)
<b>Total</b>	<b>397,608</b>	<b>462,649</b>

Interest expense relates mostly to interest expense and similar charges based on deposit accounts with the Croatian National Bank (reserve requirement funds from banks, funds under repo arrangements and CNB bills). The changes in the monetary regulations have resulted in an increase of interest expense and similar charges related to reserve requirements in kuna due to an increase in the calculation base and a higher share of foreign currency reserve requirements allocated in kuna. On the other hand, interest expense and similar charges on foreign currency reserve requirements have decreased. In 2004, a decrease in the expense on issued CNB bills was recorded, primarily in respect of foreign currency CNB bills whose issuance discontinued at the beginning of the year.

## Note 6 – Net Result of Trading and Revaluation of Precious Metals

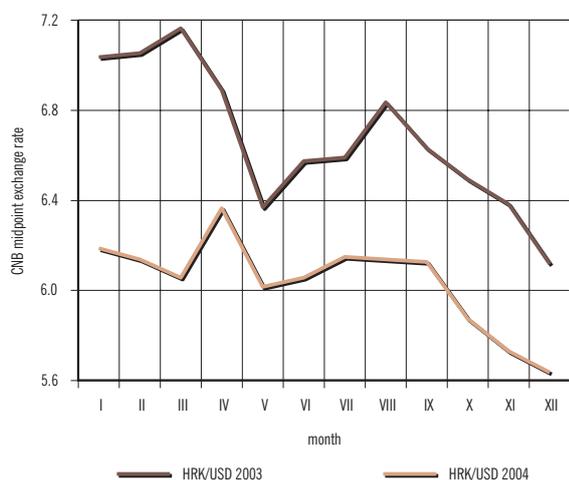
in thousand HRK

Item	2004	2003
Net result on sale and changes in fair value of trading securities	141,604	(66,189)
Net result of revaluation of precious metals	(104)	87
<b>Total</b>	<b>141,500</b>	<b>(66,102)</b>

## Note 7 – Net Foreign Exchange Losses

### 8.1

Exchange Rate Movements – HRK vs. USD

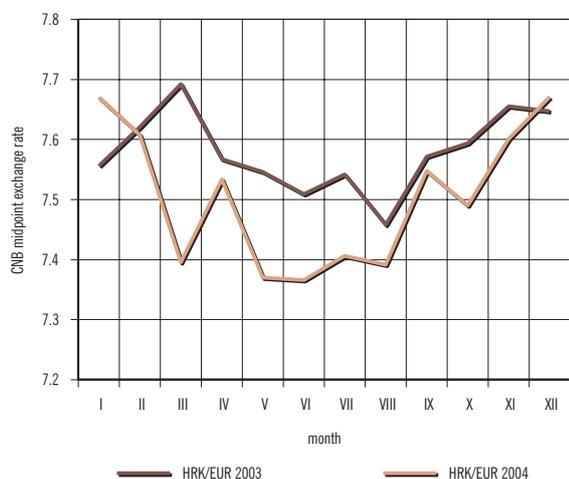


Since the international reserves of the Republic of Croatia account for over 90% of the balance sheet of the Croatian National Bank, any changes in foreign exchange rates have significant effect both on the balance sheet and the income statement. Under the Croatian National Bank Act and International Financial Reporting Standards, exchange rate differences are reported in the income statement of the Croatian National Bank in the period in which they occur. Loss arising from adjustment of balance sheet items to reflect the changes in exchange rates affected the financial result of the Croatian National Bank.

The three figures show movements in the exchange rate of major currencies in the currency structure of international reserves (USD, EUR, XDR) against the kuna in 2004 and 2003.

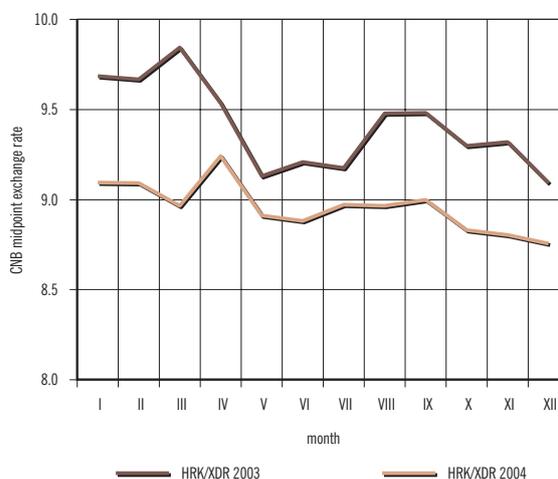
### 8.2

Exchange Rate Movements – HRK vs. EUR

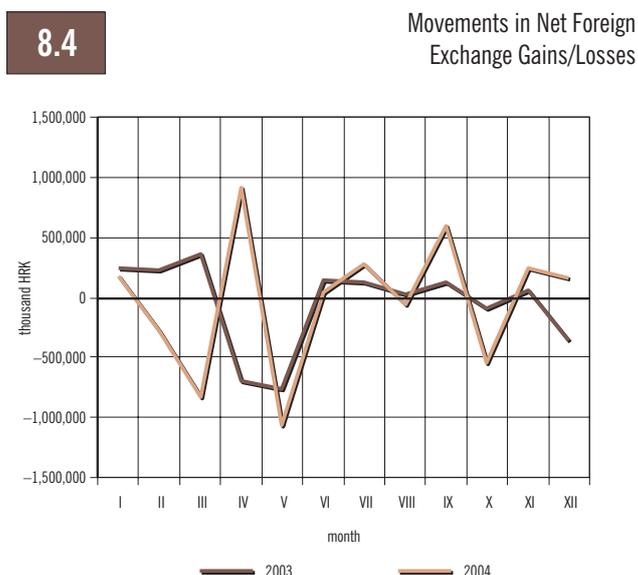


### 8.3

Exchange Rate Movements – HRK vs. XDR



The figure below illustrates movements in net foreign exchange gains/losses during 2004 and 2003.



Movements in net gains/(losses) arising from value adjustment of balance sheet items to changes in the exchange rate in the past five years are presented below:

Year	Gains	Losses
2000	288,416	—
2001	—	261,309
2002	—	1,240,948
2003	—	609,737
2004	—	385,705

## Note 8 – Other Income

in thousand HRK

Item	2004	2003
Gains on sales of numismatics	1,337	1,253
Other income	6,477	12,638
<b>Total</b>	<b>7,814</b>	<b>13,891</b>

## Note 9 – Operating Expenses

in thousand HRK

Item	2004	2003
Staff costs (Note 9.1)	127,409	145,727
Materials, services and administrative expenses	66,625	52,249
Costs of printing banknotes and minting coins	34,795	36,112
Depreciation and amortization	17,805	16,553
<b>Total</b>	<b>246,634</b>	<b>250,641</b>

The largest item within materials, services and administrative expenses were costs of fixed assets repair and maintenance in the amount of HRK 18,300 thousand, of which HRK 11,886 thousand are in respect of maintenance of office buildings. The second most significant item in the total materials, services and administrative expenses are external services in the amount of HRK 17,047 thousand.

The costs of printing banknotes and minting coins in the domestic currency for the year 2004 were HRK 34,795 thousand, which is a decrease of HRK 1,317 thousand in relation to 2003.

Depreciation and amortization charge for 2004 amounted to HRK 17,805, which is an increase of HRK 1,252 thousand in relation to 2003.

### Note 9.1 – Staff Costs

in thousand HRK

Item	2004	2003
Net salaries	53,714	52,705
Contributions from and on salaries	32,224	31,338
Taxes and local taxes	16,515	15,334
Other staff costs	24,956	46,350
<b>Total</b>	<b>127,409</b>	<b>145,727</b>

The average number of employees during the year was 541 (2003: 571).

### Note 10 – Increase/Decrease in Provisions

in thousand HRK

Item	2004	2003
<b>Loans</b>		
New allowances made	4	27,322
Amounts collected	(10,688)	(9,777)
<b>Accrued interest</b>		
Amounts collected	(385)	(2,028)
<b>Total loans and interest</b>	<b>(11,069)</b>	<b>15,517</b>
Allowances for receivables – FINA	–	51,402
<b>Allowances for impairment</b>	<b>(11,069)</b>	<b>66,919</b>
<b>Provisions for risks and charges</b>		
New allowances made	16,123	9,705
Provisions released	(4,011)	–
<b>Total</b>	<b>1,043</b>	<b>76,624</b>

The 2004 income from doubtful loans collected from banks and savings banks in bankruptcy amounts to HRK 11,073 thousand and consists of collected principal and interest payments on loans, and penalties for a failure to maintain and allocate kuna reserve funds as prescribed by regulations.

## Note 11 – Cash and Current Accounts With Other Banks

in thousand HRK

Item	31/12/2004	31/12/2003
Cash on hand	5,529	5,443
Current accounts with foreign banks	1,534	1,501
<b>Total</b>	<b>7,063</b>	<b>6,944</b>

## Note 12 – Due From Other Banks

in thousand HRK

Item	31/12/2004	31/12/2003
Foreign central banks	564,816	368,946
Foreign commercial banks	23,740,579	25,183,667
Domestic commercial banks	14,282	13,891
<b>Total</b>	<b>24,319,677</b>	<b>25,566,504</b>

The Croatian National Bank manages international reserve funds by investing them into type of assets specified in the Croatian National Bank Act by applying the principles of liquidity and safety. As a result, investments in deposits with foreign central and first-class commercial banks represent a significant share of assets with foreign banks.

## Note 13 – Trading Securities

in thousand HRK

Item	31/12/2004	31/12/2003
Bonds denominated in EUR	19,754,380	16,995,979
Bonds denominated in USD	4,961,664	7,262,573
Certificates of deposit	307,617	266,982
<b>Total</b>	<b>25,023,661</b>	<b>24,525,534</b>

Most of international reserve funds are invested in debt securities payable in a convertible currency of the debtor, and primarily in government bonds, since they carry the lowest credit risk. The securities are denominated in USD and EUR.

## Note 14 – Loans

### a) Type of loan

in thousand HRK

Item	31/12/2004	31/12/2003
Loans to domestic banks		
– Lombard	–	954,431
– Repo	393,985	–
– Intervention	63,228	65,417
– Liquidity	18,823	27,322
Other loans	830	840
<b>Gross loans and advances</b>	<b>476,866</b>	<b>1,048,010</b>
Less: allowances for loan impairment	(82,732)	(93,416)
<b>Total</b>	<b>394,134</b>	<b>954,594</b>

### b) Movements in allowances for impairment of loans

in thousand HRK

Item	2004	2003
Balance at 1 January	93,416	75,871
New allowances made	4	27,322
Amounts collected	(10,688)	(9,777)
<b>Balance at 31 December</b>	<b>82,732</b>	<b>93,416</b>

Total Lombard loans placed in 2004 amount to HRK 6,981,835 thousand. In late 2004, two repo loans were extended in the total amount of HRK 787,730 thousand.

The loan impairment allowance refers to previous loans approved to banks and savings banks in bankruptcy or liquidation.

At 31 December 2004, the aggregate amount of loans in arrears against which provisions were made was HRK 82,732 thousand (2003: HRK 93,416 thousand).

## Note 15 – Placements with the International Monetary Fund

in thousand HRK

Item	31/12/2004	31/12/2003
Membership quota	3,196,128	3,319,550
Special Drawing Rights (XDR) and deposits	4,836	5,018
<b>Total</b>	<b>3,200,964</b>	<b>3,324,568</b>

Placements with the International Monetary Fund (IMF) include the membership quota of the Republic of Croatia with the IMF and Special Drawing Rights (XDR) which relate to the amounts with the IMF that are available for day-to-day operations of the Croatian National Bank. The International Monetary Fund pays

an interest rate on XDR funds, which stood at 2.22% on 31 December 2004 (2003: 1.57%).

## Note 16 – Equity Investments

in thousand HRK

Item	31/12/2004	31/12/2003
Membership in other international institutions	25,031	25,993
Domestic enterprises	8,054	8,054
<b>Total</b>	<b>33,085</b>	<b>34,047</b>

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 Telecommunication).

The Croatian National Bank is the co-founder of the Croatian Monetary Institute (CMI) (a contract of 26 April 1993) and holds 42.6% of its equity. The Bank's equity investment in the CMI amounts to HRK 8,054 thousand.

## Note 17 – Accrued Interest and Other Assets

in thousand HRK

Item	31/12/2004	31/12/2003
Accrued interest	59,732	59,260
Prepaid expenses	62,893	63,219
Numismatics	10,666	11,273
Gold and other precious metals	1,948	1,753
Other assets	77,329	73,574
<b>Total</b>	<b>212,568</b>	<b>209,079</b>
Less: – allowances for interest	(26,213)	(26,598)
– allowances for receivables – FINA	(51,402)	(51,402)
<b>Total</b>	<b>134,953</b>	<b>131,079</b>

Item	2004	2003
<b>Movements in allowances</b>		
Balance at 1 January	26,598	28,699
New allowances made	–	–
Amounts collected	(385)	(2,028)
Write-offs	–	(73)
<b>Balance at 31 December</b>	<b>26,213</b>	<b>26,598</b>

Most significant items among accrued interest comprise interest on foreign exchange deposits with foreign banks and outstanding interest due from banks and savings banks in bankruptcy or liquidation.

Prepaid expenses relate to costs of printing kuna banknotes and minting kuna and lipa coins.

Major items among other assets comprise receivables of the Croatian National Bank in respect of payment transactions until 31 March 2002 and plates on stock for minting kuna and lipa coins.

The activities related to entering the receivables for sold flats in the Croatian National Bank's accounts are in progress. Those amounts will be recorded following the reconciliation of data between commercial banks and PBZ - leasing d.o.o., Zagreb, the company entrusted by the Croatian National Bank with the sale and purchase of flats.

## Note 18 – Tangible and Intangible Assets

in thousand HRK

	Land and buildings	Computers	Furniture and equipment	Motor vehicles	Other assets	Investments in course of construction	Software and licenses	Total
<b>Balance at 31 December 2003</b>								
Cost or revaluation	303,388	41,799	24,906	6,196	2,840	14,714	4,728	398,571
Accumulated depreciation	(18,300)	(31,920)	(20,386)	(5,237)	–	–	(2,708)	(78,551)
<b>Net book amount</b>	<b>285,088</b>	<b>9,879</b>	<b>4,520</b>	<b>959</b>	<b>2,840</b>	<b>14,714</b>	<b>2,020</b>	<b>320,020</b>
<b>Year ended 31 December 2004</b>								
Opening net book amount	285,088	9,879	4,520	959	2,840	14,714	2,020	320,020
Additions	–	–	–	–	204	59,975	–	60,179
Assets brought into use	3,417	16,355	7,476	1,528	327	(30,390)	1,288	–
Revaluation	–	–	–	–	–	–	–	–
Net write-offs	(706)	(30)	(24)	–	(247)	–	–	(1,007)
Depreciation charge	(5,880)	(7,962)	(2,387)	(597)	–	–	(979)	(17,804)
<b>Closing net book amount</b>	<b>281,919</b>	<b>18,242</b>	<b>9,585</b>	<b>1,890</b>	<b>3,124</b>	<b>44,299</b>	<b>2,329</b>	<b>361,388</b>
<b>Balance at 31 December 2004</b>								
Cost or revaluation	306,052	53,845	30,525	6,922	3,124	44,299	6,015	450,782
Accumulated depreciation	(24,133)	(35,603)	(20,940)	(5,032)	–	–	(3,686)	(89,394)
<b>Net book amount</b>	<b>281,919</b>	<b>18,242</b>	<b>9,585</b>	<b>1,890</b>	<b>3,124</b>	<b>44,299</b>	<b>2,329</b>	<b>361,388</b>

The tangible fixed assets of the Bank are neither subject to a mortgage nor to a fiduciary relationship.

## Note 19 – Croatian National Bank Bills

in thousand HRK

Item	31/12/2004	31/12/2003
Foreign currency CNB bills	–	4,920,178
Kuna CNB bills	–	–
<b>Total</b>	<b>–</b>	<b>4,920,178</b>

By issuing CNB bills, the Croatian National Bank affects the liquidity of the banking system. In April 2004, the Bank held two auctions of kuna CNB bills with a maturity of 35 days and a nominal value of HRK 106,000 thousand. The new monetary measures that entered into force during 2004 discontinued the issuance of foreign currency CNB bills.

## Note 20 – Due to Banks and Other Financial Institutions

in thousand HRK

Item	31/12/2004	31/12/2003
Kuna reserve requirements	14,674,409	12,600,722
Foreign currency reserve requirements	10,755,318	6,680,221
Other deposits of domestic banks	6,409,404	5,667,711
Foreign banks and other financial institutions	18,071	2,796,266
Court-mandated deposits	5,255	4,906
Mandatory kuna CNB bills	–	109,422
<b>Total</b>	<b>31,862,457</b>	<b>27,859,248</b>

Reserve requirements of banks allocated in the accounts with the Croatian National Bank are accounted for as the Bank's liabilities to banks. Foreign currency reserve requirements rose significantly, partly due to a decision of the Croatian National Bank to increase the minimum percentage of the foreign currency component of reserve requirements that is allocated in special accounts with the Bank, and partly because of the marginal reserve requirement, a new monetary policy instrument introduced in August 2004.

There was a decrease in amounts due to foreign banks since all deposits received under repurchase arrangements matured in late 2004.

Allocated kuna reserve requirements rose compared to 2003 because of the increased minimum percentage to be allocated in the accounts with the Croatian National Bank and the increase in the portion of foreign currency reserves that is allocated in kuna. Other deposits of domestic banks refer to settlement accounts, cash and limit accounts in the National Clearing System.

## Note 21 – Due to the State and State Institutions

in thousand HRK

Item	31/12/2004	31/12/2003
Due to the State and State institutions	248,923	556,650
Foreign currency account balances of the Republic of Croatia	35,197	950,271
<b>Total</b>	<b>284,120</b>	<b>1,506,921</b>

The deposit accounts of the Republic of Croatia held with the Bank relate to the account of the State budget of the Republic of Croatia, accounts of joint revenues,

special purpose accounts that form a part of the State budget and court-mandated deposits.

The foreign currency account of the Ministry of Finance of the Republic of Croatia was opened in 2003 as a foreign currency transaction account used by the Croatian National Bank for foreign currency payment transactions on behalf of the Ministry of Finance.

## Note 22 – Due to the International Monetary Fund

in thousand HRK

Item	31/12/2004	31/12/2003
Bills of exchange denominated in HRK	3,186,744	3,309,708
Other IMF's accounts	8,010	8,319
<b>Total</b>	<b>3,194,754</b>	<b>3,318,027</b>

The bills of exchange denominated in HRK relate to the membership of the Republic of Croatia in the International Monetary Fund.

## Note 23 – Accrued Interest and Other Liabilities

in thousand HRK

Item	31/12/2004	31/12/2003
Accrued interest	29,166	25,937
Due to employees	4,886	4,475
Taxes and contributions	4,343	4,048
Due to the Ministry of Finance	6,356	6,624
Amounts due to suppliers	10,440	3,447
Other liabilities	288,230	51,037
<b>Amounts on clearing accounts:</b>		
Liabilities to the FINA	20,156,435	20,156,435
Banknotes and coins issued through the FINA	(9,086,206)	(9,086,206)
Assets with the FINA	(11,070,229)	(11,070,229)
<b>Total</b>	<b>343,421</b>	<b>95,568</b>

Out of the total interest payable in kuna, the most significant item of HRK 19,580 thousand relates to remuneration on allocated kuna reserve requirements, which was calculated in December 2004 and was due in January 2005.

The most significant item among other liabilities in the amount of HRK 225,243 thousand, relates to foreign currency deposits under repo arrangements that were due at the end of 2004 and were recorded at the Federal Reserve Bank as at 3 January 2005.

Other liabilities include long-term provisions for risks and charges, out of which HRK 12,747 thousand refers to litigation provisions (2003: HRK 2,447 thousand) and HRK 11,317 thousand refers to provisions for employee benefits (2003: HRK 9,505 thousand).

## Note 24 – Capital and Reserves

The equity of the Croatian National Bank consists of the capital and reserves. The capital in the amount of HRK 2,500,000 thousand is held by the Republic of Croatia. The capital is non-transferable and cannot be encumbered by any guarantees.

The HRK 56,489 thousand increase in the Bank's reserves resulted from the allocation of operating surplus from the income statement to general reserves. Namely, net gains arising from the adjustment of balance sheet items to changes in market prices dictate the allocation of the entire surplus to general reserves (as provided in Article 53 of the Croatian National Bank Act). At 31 December 2003, the Bank's reserves amounted to HRK 2,407,039 thousand. After the allocation of operating surplus for 2004, they increased to HRK 2,463,528 thousand at 31 December 2004.

Revaluation reserves relate to revaluation gains on buildings.

## Note 25 – Contingencies and Commitments, and Treasury Inventory System

Legal claims: As at 31 December 2004, there were several pending litigations. In the opinion of the management and internal legal advisors of the Croatian National Bank, there is a possibility that the Bank will lose certain cases, and, consequently, provisions for potential losses on such cases were made by the Bank (see Note 23).

Commitments for capital investments and investment maintenance: As at 31 December 2004, the Croatian National Bank had commitments for capital investments and investment maintenance in the amount of HRK 13,219 thousand (2003: nil).

Treasury inventory system:

in thousand HRK

Item	31/12/2004	31/12/2003
Non-issued banknotes and coins	86,339,863	84,540,444
Stamp duties and bills of exchange	297,619	166,518
<b>Total</b>	<b>86,637,482</b>	<b>84,706,962</b>

## Note 26 – Cash and Cash Equivalents

The cash flow statement provides data on cash inflows and outflows in the reporting period, classified into operating, investing and financing activities. The cash flow statement is prepared using the direct method.

in thousand HRK

Item	31/12/2004	31/12/2003
Cash on hand	5,529	5,443
Current accounts with foreign banks	1,534	1,501
Special Drawing Rights (XDR) and deposits with the IMF	4,837	5,018
<b>Total</b>	<b>11,900</b>	<b>11,962</b>

## Note 27 – Appropriations

in thousand HRK

Item	31/12/2004	31/12/2003
Surplus of income over expenditures	56,489	–
Shortfall between income and expenditures	–	(342,503)
Transfer of surplus to general reserves	(56,489)	–
Coverage of shortfall from general reserves	–	342,503
Transfer of surplus to the State Budget	–	–

## Note 28 – Related Party Transactions

Under International Financial Reporting Standards, entities under majority state control are not required to disclose their related party transactions. As related party transactions are based on the state control of the Bank and entities under majority state control, these financial statements do not include information on transactions between the Bank and such entities.

## Note 29 – Risk Management Disclosure

The Croatian National Bank maintains active trading positions in financial instruments that are appropriate for central banks. Attention is paid to the monitoring of credit, foreign exchange and interest rate risks, as well as other types of risks. The Bank's investment gain corresponds to assumed risks and reflects its basic investment principles – safety and liquidity.

## Note 30 – Credit Risk

The Bank is subject to credit risk that may arise as a result of counterparties' default on their obligations to the Bank. Therefore, the risk that counterparties might default on their obligations is monitored on an ongoing basis.

The Croatian National Bank deals only with counterparties of the highest credit standing. Deals with an individual counterparty or country are subject to limits, and a portion of deals is subject to collateral (reverse repo).

## Geographical concentration of assets and liabilities:

in thousand HRK

	Total assets	Total liabilities
<b>Balance at 31 December 2004</b>		
Croatia	886,007	45,310,397
OECD countries	46,535,907	6,183
USA	6,052,979	3,194,817
Other countries	32	–
<b>Total</b>	<b>53,474,925</b>	<b>48,511,397</b>

in thousand HRK

	Total assets	Total liabilities
<b>Balance at 31 December 2003</b>		
Croatia	4,750,529	43,859,644
OECD countries	47,342,899	2,778,518
USA	2,769,819	3,318,089
Other countries	43	–
<b>Total</b>	<b>54,863,290</b>	<b>49,956,251</b>

## Note 31 – Foreign Exchange Risk

The majority of the Bank's assets is held in foreign currencies (international reserves). Therefore, the Bank's exposure to foreign exchange risk is large. As a result, there are high fluctuations in the income statement, primarily because of the effects of exchange rate differences on the financial result of the Bank for the year.

The analysis of significant items of assets and liabilities denominated in foreign currencies is provided below:

in thousand HRK

	EUR	USD	XDR	Other foreign currencies	HRK	Total
<b>Balance at 31 December 2004</b>						
<b>Assets</b>						
Cash and current accounts with other banks	4,275	2,029	–	741	18	7,063
Due from other banks	16,934,257	7,371,138	–	–	14,282	24,319,677
Trading securities	20,061,997	4,961,664	–	–	–	25,023,661
Loans	–	–	–	–	394,134	394,134
Placements with the IMF	–	–	3,200,964	–	–	3,200,964
Equity investments	81	–	24,950	–	8,054	33,085
Accrued interest and other assets	23,465	8,868	1	–	102,619	134,953
Tangible and intangible assets	–	–	–	–	361,388	361,388
<b>Total assets</b>	<b>37,024,075</b>	<b>12,343,699</b>	<b>3,225,915</b>	<b>741</b>	<b>880,495</b>	<b>53,474,925</b>
<b>Liabilities</b>						
Banknotes and coins in circulation	–	–	–	–	12,826,645	12,826,645
CNB bills	–	–	–	–	–	–
Due to banks and other financial institutions	6,260,118	4,495,200	–	–	21,107,139	31,862,457
Due to the State and State institutions	35,093	30	–	74	248,923	284,120

Due to the IMF	–	–	3,194,754	–	–	3,194,754
Accrued interest and other liabilities	10,720	4,174	–	772	327,755	343,421
<b>Total liabilities</b>	<b>6,305,931</b>	<b>4,499,404</b>	<b>3,194,754</b>	<b>846</b>	<b>34,510,462</b>	<b>48,511,397</b>
<b>Net balance sheet position</b>	<b>30,718,144</b>	<b>7,844,295</b>	<b>31,161</b>	<b>(105)</b>	<b>(33,629,967)</b>	<b>4,963,528</b>
<b>Balance at 31 December 2003</b>						
Total assets	35,295,496	14,817,256	3,350,480	485	1,399,572	54,863,290
Total liabilities	8,641,010	6,704,378	3,318,027	53	31,292,783	49,956,251
Net balance sheet position	26,654,486	8,112,878	32,453	432	(29,893,211)	4,907,039

## Note 32 – Interest Rate Risk

The Bank is exposed to the effects of market interest rates fluctuations on its financial position and cash flows. As a result of the application of clearly set guidelines, the Bank's exposure to interest rate risk is low and in compliance with its basic principle of international reserves investment – safety and liquidity.

in thousand HRK

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Non-interest bearing	Total
<b>Balance at 31 December 2004</b>						
<b>Assets</b>						
Cash and current accounts with other banks	–	–	–	–	7,063	7,063
Due from other banks	19,474,140	4,831,255	–	–	14,282	24,319,677
Trading securities	25,023,661	–	–	–	–	25,023,661
Loans	394,134	–	–	–	–	394,134
Placements with the IMF	292	–	–	–	3,200,672	3,200,964
Equity investments	–	–	–	–	33,085	33,085
Accrued interest and other assets	–	–	–	–	134,953	134,953
Tangible and intangible assets	–	–	–	–	361,388	361,388
<b>Total assets</b>	<b>44,892,227</b>	<b>4,831,255</b>	<b>–</b>	<b>–</b>	<b>3,751,443</b>	<b>53,474,925</b>
<b>Liabilities</b>						
Banknotes and coins in circulation	–	–	–	–	12,826,645	12,826,645
CNB bills	–	–	–	–	–	–
Due to banks and other financial institutions	25,429,727	–	–	–	6,432,730	31,862,457
Due to the State and State institutions	1,127	–	–	–	282,993	284,120
Due to the IMF	–	–	–	–	3,194,754	3,194,754
Accrued interest and other liabilities	–	–	–	–	343,421	343,421
<b>Total liabilities</b>	<b>25,430,854</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>23,080,543</b>	<b>48,511,397</b>
<b>Net balance sheet position</b>	<b>19,461,373</b>	<b>4,831,255</b>	<b>–</b>	<b>–</b>	<b>(19,329,100)</b>	<b>4,963,528</b>
<b>Balance at 31 December 2003</b>						
Total assets	44,943,236	6,089,803	–	–	3,830,251	54,863,290
Total liabilities	25,110,834	2,200,591	–	–	22,644,826	49,956,251
Net balance sheet position	19,832,402	3,889,212	–	–	(18,814,575)	4,907,039

The table below summarizes the effective interest rate by major currencies for monetary financial instruments at 31 December 2004:

In %

Balance at 31 December 2004	EUR	USD	XDR	HRK
<b>Assets</b>				
Current accounts with other banks	1.00	1.79		
Special Drawing Rights (XDR)			2.22	
Due from other banks	2.02	2.33		
Trading securities	2.28	2.8		
Loans				9.50
<b>Liabilities</b>				
CNB bills				2.51
Due to domestic banks	1.5	1.69		1.25
Due to the IMF				
Due to foreign banks				

In %

Balance at 31 December 2003	EUR	USD	XDR	HRK
<b>Assets</b>				
Current accounts with other banks	1.00	0.94		
Special Drawing Rights (XDR)			1.57	
Due from other banks	2.053	0.998		
Trading securities	2.294	1.358		
Loans				9.5
<b>Liabilities</b>				
CNB bills	1.980	1.001		2.55
Due to domestic banks	1.975	0.995		1.25
Due to the IMF				
Due to foreign banks	1.98	0.80		

## Note 33 – Liquidity Risk

Liquidity risk arises in the general funding of the activities of the Croatian National Bank and its management of positions. It includes both the risk of being unable to fund the assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame. The Croatian National Bank holds a portfolio of liquid assets as a part of its liquidity risk management strategy. The following table provides an analysis of the financial assets and liabilities of the Croatian National Bank into relevant maturity groupings based on the remaining period to repayment.

in thousand HRK

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
<b>Balance at 31 December 2004</b>						
<b>Assets</b>						
Cash and current accounts with other banks	7,063	–	–	–	–	7,063
Due from other banks	19,474,140	4,831,255	–	–	14,282	24,319,677
Trading securities	25,023,661	–	–	–	–	25,023,661
Loans	393,985	–	–	–	149	394,134
Placements with the IMF	292	–	–	–	3,200,672	3,200,964
Equity investments	–	–	–	–	33,085	33,085
Accrued interest and other assets	27,745	6,610	10,815	87,813	1,970	134,953
Tangible and intangible assets	–	–	–	–	361,388	361,388
<b>Total assets</b>	<b>44,926,886</b>	<b>4,837,865</b>	<b>10,815</b>	<b>87,813</b>	<b>3,611,546</b>	<b>53,474,925</b>
<b>Liabilities</b>						
Banknotes and coins in circulation	–	–	–	–	12,826,645	12,826,645
CNB bills	–	–	–	–	–	–
Due to banks and other financial institutions	31,844,386	–	–	–	18,071	31,862,457
Due to the State and State institutions	284,120	–	–	–	–	284,120
Due to the IMF	–	–	–	–	3,194,754	3,194,754
Accrued interest and other liabilities	274,078	–	7,152	62,191	–	343,421
<b>Total liabilities</b>	<b>32,402,584</b>	<b>–</b>	<b>7,152</b>	<b>62,191</b>	<b>16,039,470</b>	<b>48,511,397</b>
<b>Net liquidity gap</b>	<b>12,524,302</b>	<b>4,837,865</b>	<b>3,663</b>	<b>25,622</b>	<b>(12,427,924)</b>	<b>4,963,528</b>
<b>Balance at 31 December 2003</b>						
Total assets	44,976,930	6,095,556	–	–	3,790,804	54,863,290
Total liabilities	32,111,670	2,203,038	41,321	–	15,600,222	49,956,251
Net liquidity gap	12,865,260	3,892,518	(41,321)	–	(11,809,418)	4,907,039

**Management  
and Internal  
Organisation of the  
Croatian National  
Bank**



# Members of the Council and Management of the Croatian National Bank

## MEMBERS OF THE COUNCIL OF THE CROATIAN NATIONAL BANK

Chairman of the Council

**Željko Rohatinski**

**Mate Babić**

**Alen Belullo**

**Božidar Jelčić**

**Branimir Lokin**

**Čedo Maletić**

**Relja Martić**

**Adolf Matejka**

**Damir Novotny**

**Silvije Orsag**

**Tomislav Presečan**

**Sandra Švaljek**

**Boris Vujčić**

**Branko Vukmir**

## MANAGEMENT OF THE CROATIAN NATIONAL BANK

**Željko Rohatinski**, Governor

**Boris Vujčić**, Deputy Governor

**Čedo Maletić**, Vicegovernor

**Relja Martić**, Vicegovernor

**Adolf Matejka**, Vicegovernor

**Tomislav Presečan**, Vicegovernor

## EXECUTIVE DIRECTORS

Research and Statistics Area – **Ljubinko Jankov**

Central Banking Operations Area – **Irena Kovačec**

Foreign Exchange Operations Area – **Jadranka Granić**

Prudential Regulation and Bank Supervision Area – **Marija Mijatović-Jakšić**

Planing, Analysis and Accounting Area – **Dijana Jakelić**

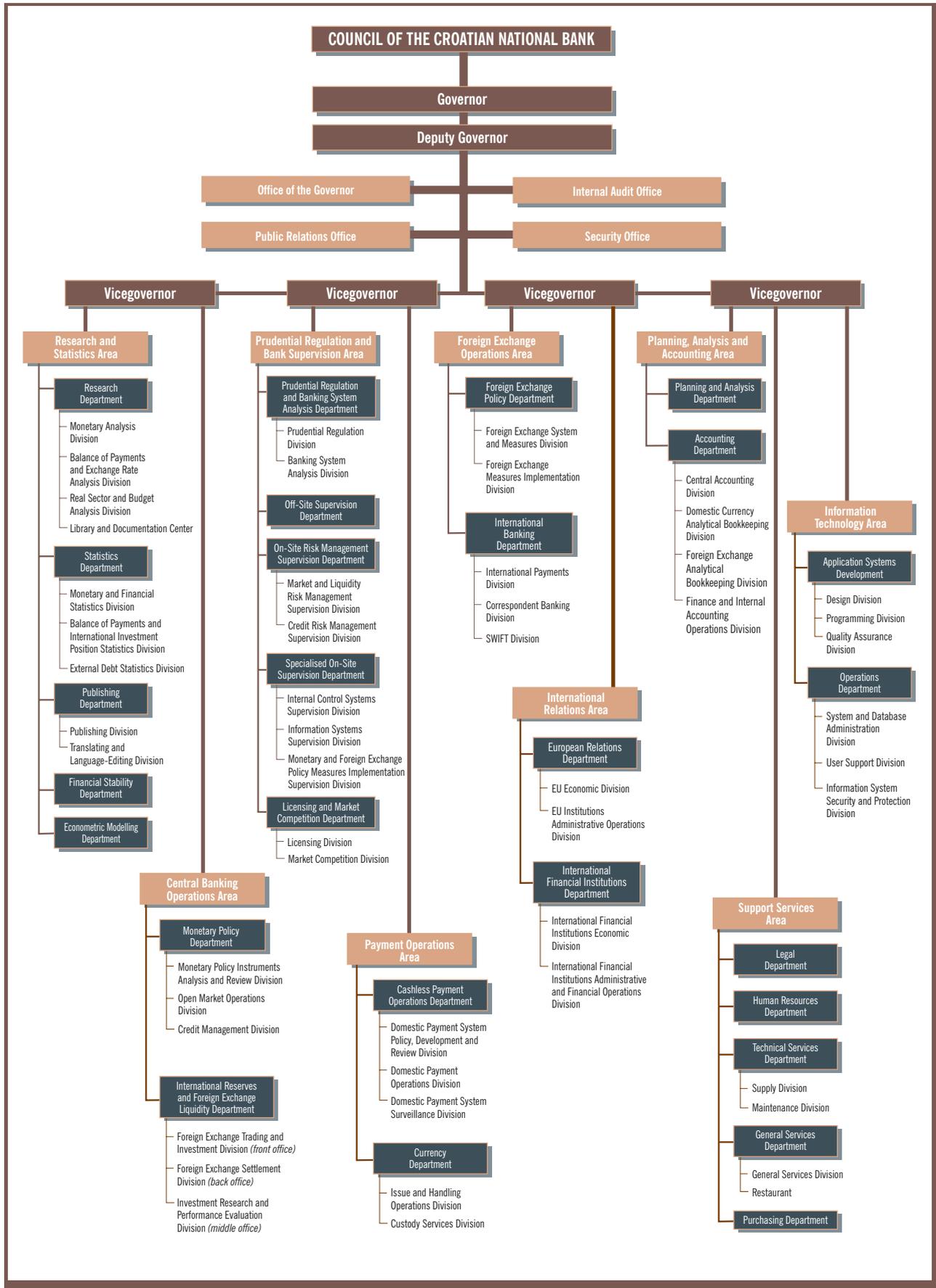
Payment Operations Area – **Neven Barbaroša**

Information Technology Area – **Mario Žgela**

Support Services Area – **Boris Ninić**

International Relations Area – **Michael Faulend**

# Internal Organisation of the Croatian National Bank



# **List of Banking Institutions**

**31 December 2004**



# LICENSED BANKS

## **BANKA BROD d.d.<sup>1</sup>**

I. pl. Zajca 21  
35000 Slavonski Brod

Phone: + 385 35/ 445-711, 445-766  
Fax: + 385 35/ 445-755  
SWIFT: BBRD HR 22

## **BANKA KOVANICA d.d.<sup>1</sup>**

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42000 Varaždin

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Fax: + 385 42/212-148  
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## **BANKA SONIC d.d.**

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10000 Zagreb

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## **BANKA SPLITSKO-DALMATINSKA d.d.<sup>1</sup>**

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## **CENTAR BANKA d.d.**

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10000 Zagreb

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## **CREDO BANKA d.d.**

Zrinsko-Frankopanska 58  
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Fax: + 385 21/380-682  
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## **CROATIA BANKA d.d.**

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## **DRESDNER BANK CROATIA d.d.**

Gajeva 1  
10000 Zagreb

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SWIFT: DRES HR 2X

## **ERSTE & STEIERMÄRKISCHE BANK d.d.**

Jadranski trg 3a  
51000 Rijeka

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SWIFT: ESBC HR 22

## **GOSPODARSKO KREDITNA BANKA d.d.**

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## **HRVATSKA POŠTANSKA BANKA d.d.**

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10000 Zagreb

Phone: + 385 1/4804-574  
Fax: + 385 1/4810-791  
SWIFT: HPBZ HR 2X

## **HVB SPLITSKA BANKA d.d.**

R. Boškovića 16  
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Fax: + 385 21/304-040  
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**HYPO ALPE-ADRIA-BANK d.d.**

Koturaška 47  
10000 Zagreb

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SWIFT: KLHB HR 22

**IMEX BANKA d.d.**

Tolstojeva 6  
21000 Split

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**JADRANSKA BANKA d.d.**

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**KARLOVAČKA BANKA d.d.**

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Fax: + 385 47/614-206  
SWIFT: KALC HR 2X

**KREDITNA BANKA ZAGREB d.d.**

Ul. grada Vukovara 74  
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Fax: + 385 1/6116-466  
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**KRIŽEVAČKA BANKA d.d.<sup>1</sup>**

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**KVARNER BANKA d.d.**

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**MEĐIMURSKA BANKA d.d.**

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**NAVA BANKA d.d.**

Tratinska 27  
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**NOVA BANKA d.d.**

Domovinskog rata 3  
23000 Zadar

Phone: + 385 23/201-500  
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**PARTNER BANKA d.d.**

Vončinina 2  
10000 Zagreb

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Fax: + 385 1/4602-200  
SWIFT: PAZG HR 2X

**PODRAVSKA BANKA d.d.**

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**POŽEŠKA BANKA d.d.**

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**PRIMORSKA BANKA d.d.**

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**PRIVREDNA BANKA – LAGUNA BANKA d.d.**

Prvomajska 4a  
52440 Poreč

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**PRIVREDNA BANKA ZAGREB d.d.**

Račkoga 6  
10000 Zagreb

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Fax: + 385 1/4723-131  
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**RAIFFEISENBANK AUSTRIA d.d.**

Petrinjska 59  
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Phone: + 385 1/4566-466  
Fax: + 385 1/4811-624  
SWIFT: RZBH HR 2X

**SAMOBORSKA BANKA d.d.**

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**SLATINSKA BANKA d.d.**

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SWIFT: SBSL HR 2X

**SLAVONSKA BANKA d.d.**

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Fax: + 385 31/201-039  
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**ŠTEDBANKA d.d.**

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Fax: 385 1/6187-016  
SWIFT: STED HR 22

**VABA d.d. BANKA**

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Fax: + 385 42/215-315

**VOLKSBANK d.d.**

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10000 Zagreb

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Fax: + 385 1/4801-365  
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**ZAGREBAČKA BANKA d.d.**

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Fax: + 385 1/6110-555  
SWIFT: ZABA HR 2X

1 In accordance with Article 190 of the Banking Act and the pace prescribed therein, the bank is required to adjust its share capital to the provisions of this Act by 31 December 2006.

## REPRESENTATIVE OFFICES OF FOREIGN BANKS

**BANK FÜR KÄRNTEN UND STEIERMARK AG**, Zagreb

**COMMERZBANK AKTIENGESELLSCHAFT**, Zagreb

**DEUTSCHE BANK AG**, Zagreb

**KOMERCIJALNA BANKA a.d.**, Zagreb

**LHB INTERNATIONALE HANDELSBANK AG**, Zagreb

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# Statistical Appendix



## Classification and Presentation of Data on Claims and Liabilities

Data on financial institutions' claims and liabilities are classified according to institutional sectors and financial instruments. Institutional sectors are: financial institutions, central government and funds, other domestic sectors and foreign sector.

The financial institutions sector includes the following sub-sectors: 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 (for example insurance companies, pension funds).

The central government and funds consists of two sub-sectors, the Republic of Croatia and central government funds. Until December 2003, the sub-sector the Republic of Croatia included government authorities, including the Croatian Roads and the Croatian Highways, the State Agency for Deposit Insurance and Bank Rehabilitation and the sub-sector central government funds included the Croatian Institute for Health Insurance, the Croatian Pension Insurance Institute, 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 Highways, and the State Agency for Deposit Insurance and Bank Rehabilitation have been reclassified, from the sub-sector the Republic of Croatia to the sub-sector 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 sub-sector other enterprises also comprises banks undergoing bankruptcy proceedings. In some tables other domestic sectors are divided into the following sub-sectors: 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 exchange items are reported in their kuna equivalent at the CNB's midpoint exchange rate at the end of the reporting period.

**Table A1: Monetary and Credit Aggregates**

end of period, million kuna and %

Year	Month	Reserve money	Money M1	Money M1a	Broadest money M4	Net domestic assets	Domestic credit	Monthly rates of growth					
								Reserve money	Money M1	Money M1a	Broadest money M4	Net domestic assets	Domestic credit
1996	December	8,770.4	11,368.9	11,494.9	36,701.1	24,960.4	33,831.2	11.35	7.83	7.67	4.88	-5.41	-11.61
1997	December	10,346.1	13,731.4	13,848.8	50,742.0	33,829.0	48,863.4	7.86	3.93	3.85	2.16	4.98	4.96
1998	December	9,954.2	13,531.4	13,615.2	57,340.3	44,626.8	59,792.0	7.24	6.92	6.59	2.51	3.73	0.25
1999	December <sup>a</sup>	10,310.0	13,858.9	13,965.7	56,659.3	40,003.8	55,875.8	4.53	5.46	5.48	2.28	0.35	-4.58
2000	December	11,717.3	18,030.3	18,256.4	73,061.1	44,043.9	60,883.8	7.32	10.04	9.89	3.66	10.46	2.66
2001	December	17,803.2	23,703.5	23,936.5	106,071.4	57,410.0	74,964.5	8.01	13.00	11.96	11.65	3.40	1.16
2002	December	23,027.9	30,869.8	31,876.7	116,141.8	83,324.4	97,463.7	10.72	6.11	6.79	1.65	7.92	2.15
2003	December	30,586.2	33,888.7	34,630.9	128,893.1	96,121.7	111,661.4	8.90	1.78	1.93	0.14	3.11	0.66
2004	January	29,439.9	32,323.1	32,853.4	128,917.7	98,213.8	113,102.5	-3.75	-4.62	-5.13	0.02	2.18	1.29
	February	29,482.8	31,283.9	31,827.9	127,876.5	97,913.3	113,516.7	0.15	-3.21	-3.12	-0.81	-0.31	0.37
	March	30,076.1	31,622.9	32,187.8	125,766.6	98,115.4	113,282.0	2.01	1.08	1.13	-1.65	0.21	-0.21
	April	30,895.7	32,890.5	33,537.9	127,867.8	97,727.3	115,926.7	2.73	4.01	4.19	1.67	-0.40	2.33
	May	31,175.6	33,193.9	33,931.5	127,461.4	98,300.7	115,314.9	0.91	0.92	1.17	-0.32	0.59	-0.53
	June	31,157.1	34,265.4	34,846.7	129,559.4	99,728.3	116,769.2	-0.06	3.23	2.70	1.65	1.45	1.26
	July	31,652.1	34,621.5	35,204.2	133,013.2	101,861.7	117,874.0	1.59	1.04	1.03	2.67	2.14	0.95
August	32,327.9	35,024.3	35,818.7	136,825.8	101,771.0	118,889.6	2.14	1.16	1.75	2.87	-0.09	0.86	
September	32,851.8	34,492.3	35,234.5	138,742.8	103,362.9	120,614.7	1.62	-1.52	-1.63	1.40	1.56	1.45	
October	32,654.4	33,852.4	34,478.5	138,356.9	104,170.9	121,318.6	-0.60	-1.86	-2.15	-0.28	0.78	0.58	
November	31,211.5	33,600.7	34,268.9	139,632.6	105,932.6	124,824.3	-4.42	-0.74	-0.61	0.92	1.69	2.89	
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	

<sup>a</sup> Domestic credit decreased by a one-off 2,759.4 million kuna.

**Table A1: Monetary and Credit Aggregates**

The table shows data on some basic monetary and credit aggregates, including their monthly growth rates.

Reserve money is taken over in its entirety from the Monetary Authorities Accounts (Table C1).

Money (M1) is defined in the same way as the corresponding item in the Monetary Survey (Table B1). It comprises currency outside banks, deposits with the CNB by other banking institutions and other domestic sectors as well as banks' demand deposits. Money (M1a) comprises currency outside banks and banks' demand deposits, increased by the demand deposits of the central government and funds with banks.

Broadest money (M4) comprises Money (M1), savings and time deposits, foreign currency deposits as well as bonds

and money market instruments (all components are taken over from the Monetary Survey, Table B1).

Net domestic assets are defined as a difference between total liquid assets and foreign assets (net).

Domestic credit comprises banks' claims on other domestic sectors, other banking institutions and non-banking financial institutions.

In May 1999, bankruptcy proceedings have been initiated against several banks so their assets and liabilities are excluded from monetary statistics. In April 1999, those banks' share in monetary aggregate M1 amounted to 259.3 million kuna and in monetary aggregate M4 amounted to 4,035.8 million kuna. Data for June 1999 are comparable with data for July 1999 if Domestic credit is increased by 3,513.5 million kuna.

**Table B1: Monetary Survey**

end of period, million kuna

	2003	2004											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
<b>ASSETS</b>													
1. Foreign assets (net)	32,771.4	30,703.9	29,963.2	27,651.2	30,140.5	29,160.6	29,831.1	31,151.5	35,054.8	35,379.9	34,186.1	33,700.0	31,742.6
2. Domestic credit	126,371.6	128,719.6	128,423.7	128,272.1	128,821.3	128,635.8	130,542.8	132,431.7	133,118.7	135,342.1	135,998.1	138,765.2	141,278.1
2.1. Claims on central government and funds (net)	14,710.1	15,617.1	14,907.0	14,990.1	12,894.6	13,320.9	13,773.6	14,557.7	14,229.0	14,727.5	14,679.5	13,940.9	13,969.6
2.2. Claims on other domestic sectors	110,467.8	111,506.3	111,896.4	112,030.0	114,710.9	114,052.6	115,525.3	116,625.0	117,696.7	119,340.0	120,005.1	123,314.6	125,790.7
2.3. Claims on other banking institutions	431.8	293.2	286.0	600.0	517.0	542.8	517.0	485.1	445.9	530.6	515.4	563.3	624.0
2.4. Claims on non-banking financial institutions	761.8	1,302.9	1,334.2	651.9	698.7	719.5	727.0	763.9	747.0	744.0	798.1	946.4	893.9
Total (1+2)	159,143.0	159,423.5	158,386.9	155,923.3	158,961.7	157,796.4	160,373.9	163,583.2	168,173.5	170,722.0	170,184.2	172,465.2	173,020.7
<b>LIABILITIES</b>													
1. Money	33,888.7	32,323.1	31,283.9	31,622.9	32,890.5	33,193.9	34,265.4	34,621.5	35,024.3	34,492.3	33,852.4	33,600.7	34,562.1
2. Savings and time deposits	18,370.7	19,155.0	19,863.4	19,678.0	19,856.1	20,711.6	20,857.0	22,064.4	22,680.7	23,116.4	23,681.1	24,118.2	22,479.2
3. Foreign currency deposits	76,035.3	76,536.4	76,030.6	74,070.1	74,765.5	73,216.8	74,056.7	75,849.5	78,423.0	80,453.6	80,043.8	81,073.4	81,742.9
4. Bonds and money market instruments	598.4	903.2	698.7	395.6	355.7	339.1	380.4	477.9	697.9	680.5	779.7	840.3	1,163.5
5. Restricted and blocked deposits	1,721.6	1,921.3	1,920.3	2,049.3	2,150.2	2,272.3	2,295.0	2,177.4	2,161.9	2,177.6	2,055.5	2,228.0	2,067.0
o/w: Households' blocked f/c deposits	167.8	118.6	115.5	110.7	110.4	106.2	101.8	48.0	46.9	47.2	46.3	46.4	40.0
6. Other items (net)	28,528.2	28,584.6	28,590.0	28,107.4	28,943.8	28,062.8	28,519.5	28,392.6	29,185.7	29,801.7	29,771.8	30,604.7	31,006.1
Total (1+2+3+4+5+6)	159,143.0	159,423.5	158,386.9	155,923.3	158,961.7	157,796.4	160,373.9	163,583.2	168,173.5	170,722.0	170,184.2	172,465.2	173,020.7

**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
1996	December	57	10	26	6	9	4	2	22	10	11	1
1997	December	60	4	28	9	8	9	2	33	12	18	3
1998	December	60	3	26	8	11	10	2	33	4	25	4
1999	December	53	4	23	7	7	10	2	30	5	21	4
2000	December	45	3	15	9	6	10	2	29	5	19	5
2001	December	44	3	13	7	7	10	4	21	4	12	5
2002	December	46	4	13	7	9	8	5	10	3	5	2
2003	December	42	2	13	8	5	8	6	7	3	2	2
2004	January	41	2	12	9	6	6	6	7	3	3	1
	February	41	2	12	9	6	6	6	7	3	3	1
	March	41	2	12	9	6	6	6	6	3	3	–
	April	41	2	12	9	5	7	6	6	3	3	–
	May	41	2	12	9	5	7	6	6	3	3	–
	June	41	2	12	9	5	7	6	6	3	3	–
	July	40	2	11	10	5	6	6	6	3	3	–
	August	40	2	11	10	5	6	6	6	3	3	–
	September	40	2	12	9	5	6	6	6	3	3	–
	October	40	2	12	9	5	6	6	6	3	3	–
	November	39	2	12	8	6	5	6	6	3	3	–
	December	39	1	12	9	6	5	6	6	3	3	–

**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 liquidation as well as those whose operating licences

have been revoked, but which have not initiated liquidation proceedings.

Savings banks that were granted a bank operating license are required to adjust their operations to the provisions of the Banking Act by 31 December 2006.

The table also shows the classification of reporting banks and savings banks according to their total assets.

Table C1: Monetary Authorities Accounts

end of period, million kuna

	2003	2004											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
<b>ASSETS</b>													
1. Foreign assets	50,118.6	51,008.1	50,562.3	45,692.9	48,584.8	47,115.7	47,063.6	47,150.8	47,914.7	48,697.4	47,733.4	48,071.8	49,373.4
1.1. Gold	–	–	–	–	–	–	–	–	–	–	–	–	–
1.2. Holdings of SDRs	5.0	7.0	5.0	5.0	9.1	7.2	7.2	9.0	5.1	5.1	6.8	4.9	4.8
1.3. Reserve position in the IMF	1.5	1.5	1.5	1.5	1.6	1.5	1.5	1.5	1.5	1.5	1.4	1.4	1.4
1.4. Currency and demand deposits with foreign banks	5.8	5.7	5.6	5.5	5.7	5.4	5.5	5.9	5.5	5.7	5.8	1,427.3	5.7
1.5. Time deposits with foreign banks	25,580.7	26,936.6	25,594.6	20,160.2	22,245.2	20,630.5	20,334.7	19,790.8	21,168.8	21,365.4	23,595.4	22,357.4	24,337.7
1.6. Securities in f/c	24,525.5	24,057.2	24,955.5	25,520.6	26,323.3	26,471.1	26,714.8	27,343.5	26,733.7	27,319.6	24,124.0	24,280.8	25,023.7
1.7. Non-convertible foreign exchange	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Claims on central government and funds	1.4	–	1.2	1.9	1.2	3.0	3.0	3.5	0.6	1.0	1.6	2.2	3.3
3. Claims on other domestic sectors	93.6	93.5	91.3	89.9	87.7	86.1	85.8	85.4	85.2	85.1	84.5	82.9	82.9
4. Claims on banks	972.0	17.7	474.2	23.8	18.4	15.1	15.1	121.7	296.7	14.6	14.4	14.6	408.9
4.1. Credits to banks	954.4	–	450.0	–	–	–	–	107.5	282.6	–	–	–	394.0
Lombard credits	954.4	–	450.0	–	–	–	–	107.5	282.6	–	–	–	–
Short-term liquidity credits	–	–	–	–	–	–	–	–	–	–	–	–	–
Securities under repurchase agreement	–	–	–	–	–	–	–	–	–	–	–	–	394.0
4.2. CNB deposits with banks	14.5	14.5	14.3	14.1	14.2	14.0	14.1	14.2	14.2	14.6	14.4	14.6	15.0
4.3. Overdue claims	3.1	3.2	9.9	9.7	4.2	1.1	1.1	–	0.0	–	–	–	–
5. Claims on other banking institutions	–	–	–	–	–	–	–	–	–	–	–	–	–
Total (1+2+3+4+5)	51,185.6	51,119.4	51,128.9	45,808.5	48,692.1	47,219.9	47,167.5	47,361.4	48,297.2	48,798.1	47,833.9	48,171.5	49,868.5
<b>LIABILITIES</b>													
1. Reserve money	30,586.2	29,439.9	29,482.8	30,076.1	30,895.7	31,175.6	31,157.1	31,652.1	32,327.9	32,851.8	32,654.4	31,211.5	33,924.4
1.1. Currency outside banks	10,573.1	10,219.2	10,217.4	10,039.6	10,455.1	10,540.8	10,977.3	11,842.5	11,384.8	10,947.0	10,915.4	10,568.0	10,955.6
1.2. Banks' cash in vaults	1,683.2	1,424.4	1,382.9	1,399.1	1,539.4	1,643.9	1,726.0	1,772.5	1,921.6	1,769.4	1,660.1	1,730.2	1,871.0
1.3. Banks' deposits	18,329.3	17,777.1	17,873.9	18,613.5	18,898.4	18,981.6	18,447.2	18,024.2	19,015.2	20,124.1	20,050.3	18,897.1	21,082.6
Settlement accounts	5,616.0	4,822.3	4,129.8	4,827.7	5,197.2	4,933.2	4,289.0	3,768.0	4,662.5	5,354.6	4,903.9	4,268.4	6,408.2
Statutory reserves	12,603.9	12,868.9	13,658.2	13,699.9	13,701.3	14,048.4	14,158.2	14,256.2	14,352.7	14,769.5	15,146.5	14,628.7	14,674.4
CNB bills on obligatory basis	109.4	85.9	85.9	85.9	–	–	–	–	–	–	–	–	–
1.4. Deposits of other domestic sectors <sup>a</sup>	0.6	19.1	8.6	23.9	2.8	9.4	6.6	12.9	6.2	11.3	28.6	16.1	15.1
2. Restricted and blocked deposits	6,699.2	6,945.5	10,219.6	9,993.7	10,425.0	10,224.1	10,528.2	10,692.6	10,879.6	10,811.2	10,305.0	10,320.1	10,777.1
2.1. Statutory reserve in f/c	6,686.6	6,932.9	10,207.0	9,981.2	10,412.5	10,213.5	10,517.6	10,679.6	10,866.6	10,797.8	10,291.9	10,307.8	10,764.7
2.2. Restricted deposits	12.6	12.6	12.6	12.6	12.6	10.6	10.6	13.0	13.0	13.4	13.1	12.3	12.4
2.3. Escrow deposits	–	–	–	–	–	–	–	–	–	–	–	–	–
3. Foreign liabilities	2,798.0	5,880.1	4,449.2	965.4	17.2	20.7	17.7	17.9	17.8	17.8	14.4	18.2	18.1
3.1. Use of IMF credit	0.0	–	–	–	–	–	–	–	–	–	–	–	–
3.2. Liabilities to international organisations	19.6	19.9	16.8	16.7	17.2	20.7	17.7	17.9	17.8	17.8	14.4	18.2	18.1
3.3. Liabilities to foreign banks	2,778.5	5,860.2	4,432.4	948.7	0.0	–	–	–	–	–	–	–	–
4. Central government and funds' deposits	1,551.1	733.5	1,443.8	889.6	2,525.4	2,159.6	1,781.6	981.6	1,027.3	439.4	668.8	2,141.3	263.2
4.1. Demand deposits	600.2	567.5	682.8	883.7	1,064.0	934.1	994.2	981.5	1,027.2	439.2	668.6	719.4	228.0
Central government demand deposits	548.5	414.3	461.8	701.1	726.2	777.0	979.5	970.8	922.8	341.7	570.1	451.1	123.0
Central government funds' demand deposits	51.7	153.3	220.9	182.6	337.8	157.1	14.7	10.7	104.4	97.5	98.5	268.4	105.0
4.2. Central government f/c deposits	950.9	166.0	761.0	5.9	1,461.4	1,225.5	787.4	0.1	0.1	0.1	0.1	1,421.9	35.2
5. CNB bills	4,920.2	3,255.2	862.9	–	105.7	–	–	–	–	–	–	–	–
5.1. CNB bills in kuna	–	–	–	–	105.7	–	–	–	–	–	–	–	–
5.2. CNB bills in f/c	4,920.2	3,255.2	862.9	–	–	–	–	–	–	–	–	–	–
6. Capital accounts	5,039.0	5,276.5	5,089.2	4,297.3	5,143.7	4,065.6	4,109.4	4,447.1	4,475.2	5,103.1	4,617.6	4,904.5	5,096.5
7. Other items (net)	–408.1	–411.3	–418.6	–413.6	–420.7	–425.7	–426.5	–429.8	–430.7	–425.2	–426.4	–424.0	–210.8
Total (1+2+3+4+5+6+7)	51,185.6	51,119.4	51,128.9	45,808.5	48,692.1	47,219.9	47,167.5	47,361.4	48,297.2	48,798.1	47,833.9	48,171.5	49,868.5

<sup>a</sup> In December 2002, CDA accounts with the CNB for the gross and net settlement of purchased securities have been reclassified from the sector central government to the sector other financial organisations.

**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 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. In accordance with the new Croatian National Bank Act that entered into force in April 2001, the Croatian National Bank may not extend credit to the Republic of Croatia.

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, deposits by the CNB with banks and overdue claims on banks. Credits to banks are split according to the type of financial instruments and include Lombard credits, short-term liquidity loans and repurchase of securities. Overdue claims on banks comprise banks' failure to correctly and promptly allocate and maintain statutory reserve requirements.

Reserve money consists of currency outside banks, cash

in banks' vaults, banks' deposits with the CNB and other domestic sectors' deposits with the CNB. Banks' deposits are: settlement account balances, statutory reserves deposited on a special account with the CNB as well as CNB bills on an obligatory basis. Deposits by other domestic sectors are other domestic sectors' giro account balances which, on the basis of legal acts are deposited with the Croatian National Bank.

Restricted and blocked deposits include required foreign exchange reserves and accrued interest, restricted deposits and blocked foreign exchange deposits. Banks are required to set aside the reserve requirements against certain foreign exchange sources of funds and the marginal reserve requirements (from August 2004 on) in special accounts at the CNB. Restricted deposits are kuna funds set aside on the basis of a court order or legal regulation.

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.

CNB bills are kuna and f/c CNB bills on a voluntary basis.

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.

Table D1: Banks' Accounts

end of period, million kuna

	2003	2004											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
<b>ASSETS</b>													
1. Reserves with the CNB	26,783.7	26,196.5	29,505.8	30,014.3	30,882.5	30,909.1	30,737.4	30,536.5	31,828.1	32,719.8	32,057.1	30,940.7	33,718.2
1.1. In kuna	20,103.4	19,267.8	19,304.7	20,039.6	20,475.6	20,701.5	20,225.7	19,863.6	20,968.4	21,929.8	21,772.6	20,640.9	22,962.9
1.2. In f/c	6,680.2	6,928.7	10,201.1	9,974.6	10,406.9	10,207.7	10,511.7	10,672.9	10,859.7	10,790.0	10,284.5	10,299.7	10,755.3
2. Foreign assets	35,382.9	34,999.7	34,714.1	35,176.0	36,067.8	36,458.1	37,497.5	38,518.4	40,134.7	40,200.1	39,824.2	40,768.2	43,551.0
3. Claims on central government and funds	21,543.6	21,329.7	21,354.8	21,096.4	20,807.2	20,986.1	21,185.0	21,701.1	21,723.1	21,610.8	21,863.3	22,549.7	21,051.3
3.1. Bonds arising from blocked f/c deposits	1,531.9	1,493.0	1,023.9	994.3	1,013.2	989.7	987.7	574.4	506.3	517.5	513.7	521.6	532.0
3.2. Other claims	20,011.7	19,836.7	20,330.9	20,102.1	19,794.0	19,996.4	20,197.2	21,126.7	21,216.8	21,093.3	21,349.6	22,028.0	20,519.3
4. Claims on other domestic sectors	110,374.3	111,412.8	111,805.2	111,940.1	114,623.3	113,966.5	115,439.5	116,539.6	117,611.5	119,254.9	119,920.7	123,231.7	125,707.9
4.1. Claims on local government	1,563.1	1,546.1	1,631.6	1,579.6	1,600.7	1,587.5	1,602.8	1,533.9	1,597.7	1,667.5	1,663.4	1,698.4	1,787.9
4.2. Claims on enterprises	53,809.8	54,325.0	54,434.2	54,823.5	56,010.5	55,504.6	56,083.0	56,189.4	56,668.5	56,310.7	56,377.3	58,047.9	58,643.3
4.3. Claims on households	55,001.4	55,541.8	55,739.4	55,537.0	57,012.1	56,874.4	57,753.6	58,816.3	59,345.4	61,276.7	61,880.0	63,485.4	65,276.7
5. Claims on other banking institutions	431.8	293.2	286.0	600.0	517.0	542.8	517.0	485.1	445.9	530.6	515.4	563.3	624.0
6. Claims on non-banking financial institutions	761.8	1,302.9	1,334.2	651.9	698.7	719.5	727.0	763.9	747.0	744.0	798.1	946.4	893.9
<b>Total (1+2+3+4+5+6)</b>	<b>195,278.0</b>	<b>195,534.9</b>	<b>199,000.1</b>	<b>199,478.7</b>	<b>203,596.5</b>	<b>203,582.2</b>	<b>206,103.3</b>	<b>208,544.6</b>	<b>212,490.3</b>	<b>215,060.3</b>	<b>214,978.7</b>	<b>219,000.0</b>	<b>225,546.2</b>
<b>LIABILITIES</b>													
1. Demand deposits	23,315.0	22,084.7	21,058.0	21,559.4	22,432.6	22,643.7	23,281.4	22,766.1	23,633.2	23,533.9	22,908.4	23,016.5	23,591.3
2. Savings and time deposits	18,370.7	19,155.0	19,863.4	19,678.0	19,856.1	20,711.6	20,857.0	22,064.4	22,680.7	23,116.4	23,681.1	24,118.2	22,479.2
3. Foreign currency deposits	76,035.3	76,536.4	76,030.6	74,070.1	74,765.5	73,216.8	74,056.7	75,849.5	78,423.0	80,453.6	80,043.8	81,073.4	81,742.9
4. Bonds and money market instruments	598.4	903.2	698.7	395.6	355.7	339.1	380.4	477.9	697.9	680.5	779.7	840.3	1,163.5
5. Foreign liabilities	49,932.0	49,423.8	50,864.0	52,252.2	54,495.0	54,392.5	54,712.3	54,499.7	52,976.8	53,499.8	53,357.1	55,121.9	61,163.7
6. Central government and funds' deposits	5,283.3	4,979.1	5,005.2	5,218.6	5,388.4	5,508.6	5,632.8	6,165.4	6,467.3	6,445.0	6,516.6	6,469.7	6,821.8
7. Credit from central bank	968.9	14.5	464.3	14.1	14.2	14.0	14.1	121.7	296.7	14.6	14.4	14.6	408.9
8. Restricted and blocked deposits	1,709.0	1,908.7	1,907.7	2,036.8	2,137.6	2,261.7	2,284.4	2,164.4	2,148.9	2,164.2	2,042.4	2,215.7	2,054.6
o/w: Households' blocked f/c deposits	167.8	118.6	115.5	110.7	110.4	106.2	101.8	48.0	46.9	47.2	46.3	46.4	40.0
9. Capital accounts	27,389.5	27,386.8	27,641.6	27,492.9	27,115.1	27,312.2	27,252.0	27,219.8	27,564.7	28,016.9	28,282.4	28,756.1	28,666.4
10. Other items (net)	-8,324.2	-6,857.3	-4,533.2	-3,238.9	-2,963.7	-2,818.0	-2,367.7	-2,784.4	-2,398.8	-2,864.6	-2,647.2	-2,626.3	-2,546.3
<b>Total (1+2+3+4+5+6+7+8+9+10)</b>	<b>195,278.0</b>	<b>195,534.9</b>	<b>199,000.1</b>	<b>199,478.7</b>	<b>203,596.5</b>	<b>203,582.2</b>	<b>206,103.3</b>	<b>208,544.6</b>	<b>212,490.3</b>	<b>215,060.3</b>	<b>214,978.7</b>	<b>219,000.0</b>	<b>225,546.2</b>

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 exchange reserves. Kuna reserves include vault cash and kuna funds held in accounts at the central bank. Foreign exchange reserves include foreign exchange held in accounts at the central bank.

Foreign assets are the following forms of kuna and foreign currency claims on foreign legal and natural persons: foreign cash in vaults, deposits with foreign banks (including loro letters of credit and other 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. Bonds issued in accordance with the Act on Converting Households' Foreign Exchange Deposits into the Public Debt of the Republic of Croatia are shown separately.

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 obtained. 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 subordinated 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 obtained 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 Exchange 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 specific reserves for unidentified losses.

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) represents an elaborate presentation of appropriate items of claims and liabilities of Banks' Accounts (Table D1).

**Table D2: Banks' Foreign Assets**

end of period, million kuna

	2004												
	2003 Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
<b>1. Foreign assets in t/c</b>	35,261.9	34,892.4	34,656.5	35,000.4	36,002.8	36,381.5	37,284.8	38,303.5	39,985.4	40,028.7	39,687.9	40,642.5	43,428.1
1.1. Claims on foreign banks	31,877.6	30,734.8	29,552.2	29,255.0	30,095.0	30,717.9	30,911.3	32,225.2	33,984.8	33,858.4	33,412.6	33,814.1	35,911.0
Foreign currencies	1,268.6	847.4	932.1	832.2	1,036.8	1,129.6	1,291.9	1,581.8	1,382.7	1,092.5	1,062.4	1,050.6	1,190.0
Demand deposits	1,057.0	1,019.5	895.5	813.1	857.3	1,007.5	968.4	879.4	799.6	1,441.9	785.4	781.2	906.2
Time and notice deposits	27,969.4	27,076.0	25,647.4	25,742.3	26,242.5	26,371.0	26,257.3	27,418.2	29,241.8	28,697.2	28,913.0	29,173.1	30,943.7
Securities	1,364.2	1,536.8	1,824.7	1,658.7	1,744.2	1,983.3	2,185.9	2,144.8	2,361.3	2,424.1	2,451.9	2,608.1	2,674.1
Loans and advances	203.1	240.5	238.5	195.1	200.2	212.9	194.1	193.2	191.6	194.6	192.0	193.0	189.0
Shares and participations	15.4	14.6	14.1	13.7	13.9	13.6	13.6	7.8	7.8	7.9	7.9	8.0	8.1
1.2. Claims on foreign non-banks	3,384.4	4,157.6	5,104.3	5,745.4	5,907.8	5,663.6	6,373.5	6,078.4	6,000.6	6,170.4	6,275.2	6,828.4	7,517.1
Claims on foreign governments	2,905.0	3,672.6	4,611.6	5,237.3	5,413.1	5,250.6	5,888.8	5,662.7	5,600.6	5,688.0	5,777.8	6,374.2	7,066.6
Claims on other non-residents	478.9	484.7	492.4	507.7	494.3	412.6	484.4	415.3	399.7	482.0	497.1	453.8	450.2
Securities	32.1	32.3	31.9	109.7	79.0	77.0	151.6	75.2	75.0	76.5	75.8	76.8	77.4
Loans and advances	446.8	452.3	460.4	398.0	415.3	335.6	332.9	340.0	324.6	405.5	421.3	377.0	372.8
Shares and participations	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.3
<b>2. Foreign assets in kuna</b>	120.9	107.3	57.5	175.6	65.0	76.7	212.7	214.8	149.3	171.4	136.3	125.7	122.9
2.1. Claims on foreign banks	99.1	86.0	36.3	154.7	53.0	64.8	201.7	203.7	138.3	160.2	125.4	113.6	77.8
2.2. Claims on foreign non-banks	21.9	21.3	21.2	20.9	12.0	11.9	11.0	11.1	11.0	11.1	10.9	12.1	45.1
o/w: Loans and advances	21.0	20.5	20.4	20.1	11.1	11.1	10.2	10.3	10.2	10.3	10.1	11.3	44.3
<b>Total (1+2)</b>	<b>35,382.9</b>	<b>34,999.7</b>	<b>34,714.1</b>	<b>35,176.0</b>	<b>36,067.8</b>	<b>36,458.1</b>	<b>37,497.5</b>	<b>38,518.4</b>	<b>40,134.7</b>	<b>40,200.1</b>	<b>39,824.2</b>	<b>40,768.2</b>	<b>43,551.0</b>

**Table D2: Banks' Foreign Assets**

This table shows banks' claims on foreign legal and natural persons.

Foreign assets of banks' comprise foreign assets in kuna

and foreign currency. Claims on foreign banks and Claims on foreign non-banks (total and by financial instruments) are shown separately within both foreign assets in kuna and in foreign currency.

**Table D3: Banks' Claims on the Central Government and Funds**

end of period, million kuna

	2003	2004											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Bonds (c'part to blocked f/c savings deposits)	1,531.9	1,493.0	1,023.9	994.3	1,013.2	989.7	987.7	574.4	506.3	517.5	513.7	521.6	532.0
2. Other claims	20,011.7	19,836.7	20,330.9	20,102.1	19,794.0	19,996.4	20,197.2	21,126.7	21,216.8	21,093.3	21,349.6	22,028.0	20,519.3
2.1. In kuna	16,475.2	16,431.3	16,554.2	16,301.1	16,289.8	16,669.1	16,645.3	16,709.5	16,823.4	16,134.8	16,520.5	17,309.0	15,738.1
2.1.1. Claims on central government	14,500.7	12,491.9	12,765.7	12,396.5	12,900.2	13,369.5	13,357.3	14,471.4	14,568.1	14,502.9	14,657.4	15,387.9	13,933.5
Securities	10,238.1	9,452.2	9,627.9	9,594.9	10,080.1	10,565.1	9,885.3	10,560.3	10,191.5	10,751.8	10,689.6	11,368.1	11,247.1
Loans and advances	4,262.6	3,039.8	3,137.8	2,801.6	2,820.2	2,804.5	3,472.0	3,911.1	4,376.5	3,751.0	3,967.8	4,019.8	2,686.5
2.1.2. Claims on central government funds	1,974.5	3,939.4	3,788.5	3,904.6	3,389.6	3,299.6	3,288.0	2,238.2	2,255.3	1,631.9	1,863.1	1,921.2	1,804.6
Securities	723.6	1,422.1	1,371.6	1,325.2	1,340.0	1,281.8	1,283.4	636.5	625.3	621.0	625.1	667.9	621.1
Loans and advances	1,250.9	2,517.3	2,417.0	2,579.4	2,049.6	2,017.8	2,004.6	1,601.7	1,630.0	1,010.9	1,238.0	1,253.3	1,183.5
2.2. In f/c	3,536.4	3,405.3	3,776.7	3,801.1	3,504.2	3,327.3	3,551.9	4,417.1	4,393.4	4,958.5	4,829.1	4,719.0	4,781.1
2.2.1. Claims on central government	3,196.9	2,747.3	2,475.0	2,554.5	2,233.3	2,081.1	2,140.0	3,199.3	3,210.8	3,746.8	3,634.7	3,521.5	3,548.4
Securities	1,805.4	1,652.3	1,677.5	1,403.8	1,420.4	1,340.6	1,396.2	1,205.9	1,231.0	1,274.0	1,196.7	1,100.7	1,117.0
Loans and advances	1,391.5	1,095.0	797.4	1,150.7	812.9	740.5	743.8	1,993.4	1,979.7	2,472.8	2,437.9	2,420.8	2,431.3
2.2.2. Claims on central government funds	339.5	658.0	1,301.7	1,246.5	1,270.9	1,246.2	1,411.9	1,217.8	1,182.6	1,211.7	1,194.5	1,197.5	1,232.8
Securities	96.4	125.0	193.4	190.1	198.7	186.0	180.5	170.8	137.5	118.8	130.8	148.2	163.1
Loans and advances	243.1	533.0	1,108.3	1,056.5	1,072.2	1,060.2	1,231.4	1,047.0	1,045.0	1,092.8	1,063.7	1,049.3	1,069.7
Total (1+2)	21,543.6	21,329.7	21,354.8	21,096.4	20,807.2	20,986.1	21,185.0	21,701.1	21,723.1	21,610.8	21,863.3	22,549.7	21,051.3

**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.

Bonds arising from blocked foreign currency savings de-

posits are issued in accordance with the Act on Converting Households' Foreign Exchange Deposits into the Public Debt of the Republic of Croatia.

Other claims are all other banks' kuna and foreign currency claims on the central government and funds: securities, loans and equities.

**Table D4: Banks' Claims on Other Domestic Sectors**

end of period, million kuna

	2003	2004											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Claims in kuna	100,365.0	101,180.8	101,452.8	101,139.2	103,264.7	103,294.5	104,687.6	105,767.8	106,620.9	108,139.7	108,977.8	111,719.4	114,635.7
1.1. Money market instruments	1,314.1	1,467.8	1,621.1	1,778.5	1,772.5	1,738.3	2,605.7	2,657.6	2,356.9	2,165.3	2,296.5	2,430.4	2,510.0
1.2. Bonds	56.2	88.3	197.1	193.7	191.9	550.8	560.0	612.4	580.3	573.8	553.2	502.9	559.8
1.3. Loans and advances	96,081.7	96,784.7	96,942.3	96,475.3	98,508.8	98,224.7	98,743.7	100,161.4	101,364.0	103,067.8	104,072.2	106,777.5	109,523.9
1.4. Shares and participations	2,912.9	2,840.0	2,692.3	2,691.7	2,791.5	2,780.7	2,778.2	2,336.3	2,319.7	2,332.8	2,056.0	2,008.7	2,042.0
2. Claims in f/c	10,009.3	10,232.0	10,352.3	10,800.9	11,358.6	10,671.9	10,751.9	10,771.8	10,990.7	11,115.2	10,942.8	11,512.3	11,072.2
2.1. Securities	130.6	185.4	196.3	231.5	239.8	242.9	262.2	286.6	268.7	297.3	293.1	299.6	213.5
2.2. Loans and advances	9,878.7	10,046.6	10,156.0	10,569.4	11,118.8	10,429.0	10,489.7	10,485.2	10,722.0	10,817.9	10,649.7	11,212.7	10,858.6
Total (1+2)	110,374.3	111,412.8	111,805.2	111,940.1	114,623.3	113,966.5	115,439.5	116,539.6	117,611.5	119,254.9	119,920.7	123,231.7	125,707.9

**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 forfaiting since January 2004), loans and advances (including acceptances and purchased claims), and equities.

**Table D5:** Distribution of Banks' Loans by Domestic Institutional Sectors

end of period, million kuna

	2003	2004											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
<b>Loans in kuna</b>													
1. Loans to central government and funds	5,513.5	5,557.1	5,554.8	5,381.0	4,869.8	4,822.3	5,476.6	5,512.8	6,006.6	4,762.0	5,205.8	5,273.1	3,870.0
1.1. Loans to central government	4,262.6	3,039.8	3,137.8	2,801.6	2,820.2	2,804.5	3,472.0	3,911.1	4,376.5	3,751.0	3,967.8	4,019.8	2,686.5
1.2. Loans to central government funds	1,250.9	2,517.3	2,417.0	2,579.4	2,049.6	2,017.8	2,004.6	1,601.7	1,630.0	1,010.9	1,238.0	1,253.3	1,183.5
2. Loans to local governments	1,485.1	1,477.2	1,566.0	1,522.2	1,548.8	1,535.2	1,541.5	1,481.3	1,526.0	1,566.1	1,569.9	1,606.6	1,701.9
3. Loans to enterprises	39,777.4	39,920.9	39,807.0	39,587.1	40,126.6	39,999.8	39,682.9	40,060.4	40,687.4	40,472.2	40,866.5	41,937.1	42,844.7
4. Loans to households	54,819.3	55,386.6	55,569.2	55,366.0	56,833.4	56,689.8	57,519.2	58,619.7	59,150.6	61,029.5	61,635.7	63,233.7	64,977.2
o/w: Housing loans	16,896.2	17,309.4	17,626.9	17,575.9	18,113.3	18,097.2	18,425.7	18,912.2	19,167.3	19,909.1	20,126.6	20,752.8	21,397.9
5. Loans to other banking institutions	82.3	18.0	18.2	126.0	52.1	46.1	55.2	52.6	54.1	53.8	84.1	136.8	154.5
6. Loans to non-banking financial institutions	427.9	850.6	855.4	379.5	394.6	464.7	464.2	600.7	475.7	392.7	537.2	746.6	558.0
<b>A. Total (1+2+3+4+5+6)</b>	<b>102,105.4</b>	<b>103,210.4</b>	<b>103,370.6</b>	<b>102,361.8</b>	<b>103,825.3</b>	<b>103,557.8</b>	<b>104,739.7</b>	<b>106,327.5</b>	<b>107,900.4</b>	<b>108,276.3</b>	<b>109,899.2</b>	<b>112,933.9</b>	<b>114,106.4</b>
<b>Loans in f/c</b>													
1. Loans to central government and funds	1,634.7	1,628.0	1,905.7	2,207.2	1,885.1	1,800.7	1,975.2	3,040.4	3,024.8	3,565.7	3,501.6	3,470.1	3,501.0
1.1. Loans to central government	1,391.5	1,095.0	797.4	1,150.7	812.9	740.5	743.8	1,993.4	1,979.7	2,472.8	2,437.9	2,420.8	2,431.3
1.2. Loans to central government funds	243.1	533.0	1,108.3	1,056.5	1,072.2	1,060.2	1,231.4	1,047.0	1,045.0	1,092.8	1,063.7	1,049.3	1,069.7
2. Loans to local governments	47.1	41.6	41.3	38.2	38.9	38.1	38.0	30.8	30.7	31.4	31.1	31.6	31.9
3. Loans to enterprises	9,649.4	9,849.8	9,944.5	10,360.2	10,901.2	10,206.4	10,217.2	10,257.9	10,496.5	10,539.3	10,374.3	10,929.5	10,527.3
4. Loans to households	182.1	155.1	170.2	171.0	178.7	184.6	234.4	196.6	194.8	247.2	244.3	251.7	299.5
5. Loans to other banking institutions	174.3	115.7	122.5	77.7	59.4	96.8	52.7	29.8	–	56.9	19.4	–	52.9
6. Loans to non-banking financial institutions	58.8	175.9	202.2	250.8	267.0	208.6	215.8	116.1	223.4	301.0	211.7	120.4	255.3
<b>B. Total (1+2+3+4+5+6)</b>	<b>11,746.4</b>	<b>11,966.2</b>	<b>12,386.4</b>	<b>13,105.1</b>	<b>13,330.3</b>	<b>12,535.1</b>	<b>12,733.3</b>	<b>13,671.6</b>	<b>13,970.1</b>	<b>14,741.4</b>	<b>14,382.4</b>	<b>14,803.2</b>	<b>14,667.8</b>
<b>Total (A+B)</b>	<b>113,851.8</b>	<b>115,176.7</b>	<b>115,757.0</b>	<b>115,466.9</b>	<b>117,155.5</b>	<b>116,093.0</b>	<b>117,473.0</b>	<b>119,999.1</b>	<b>121,870.5</b>	<b>123,017.7</b>	<b>124,281.6</b>	<b>127,737.1</b>	<b>128,774.2</b>

**Table D5:** Distribution of Banks' Loans by Domestic Institutional Sectors

The table shows data on kuna and foreign currency loans granted by banks to domestic sectors, including acceptances,

financial leases, payments made on the basis of guarantees and similar instruments, purchased claims, and until December 2003 factoring and forfaiting.

**Table D6:** Demand Deposits with Banks

end of period, million kuna

	2003	2004											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Local government	2,006.2	1,954.1	2,030.5	2,169.9	2,217.4	2,289.3	2,230.1	2,092.8	2,134.7	2,234.0	2,286.0	2,238.1	2,020.7
2. Enterprises	12,872.9	11,542.6	10,747.1	11,063.5	11,507.6	11,384.8	12,039.3	11,672.0	12,292.7	12,223.9	11,649.8	11,743.0	12,036.9
3. Households	7,873.1	7,791.6	7,860.0	7,799.0	8,081.6	8,110.0	8,243.7	8,485.4	8,546.1	8,435.7	8,374.4	8,491.1	8,773.0
4. Other banking institutions	98.9	67.8	48.5	101.4	120.4	165.3	86.2	97.4	177.7	107.5	125.0	138.5	245.4
5. Non-banking financial institutions	468.1	732.0	375.4	428.9	509.0	697.9	686.4	421.1	484.8	535.4	475.4	408.0	517.5
6. Less: Checks of other banks and checks in collection	-4.2	-3.3	-3.5	-3.2	-3.3	-3.6	-4.2	-2.7	-2.8	-2.6	-2.3	-2.1	-2.2
<b>Total (1+2+3+4+5+6)</b>	<b>23,315.0</b>	<b>22,084.7</b>	<b>21,058.0</b>	<b>21,559.4</b>	<b>22,432.6</b>	<b>22,643.7</b>	<b>23,281.4</b>	<b>22,766.1</b>	<b>23,633.2</b>	<b>23,533.9</b>	<b>22,908.4</b>	<b>23,016.5</b>	<b>23,591.3</b>

**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 insti-

tutions' giro and current accounts balances, minus currency in the payment system (i.e. amount of checks in banks' vaults and checks in collection). Banks' obligations arising from kuna payment instruments issued are included in the household sector.

**Table D7: Time and Savings Deposits with Banks**

end of period, million kuna

	2003	2004											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Savings deposits	2,527.9	2,242.0	2,275.4	2,228.8	2,223.2	2,158.4	2,207.7	2,146.7	2,175.1	2,174.3	2,137.5	2,165.4	2,233.9
1.1. Local government	14.4	8.2	8.1	9.0	9.3	9.6	4.9	6.4	4.6	6.9	7.2	5.4	4.6
1.2. Enterprises	190.5	24.7	24.6	31.2	34.3	14.3	22.6	43.2	57.5	68.8	63.0	46.2	38.8
1.3. Households	2,288.8	2,209.2	2,242.7	2,188.6	2,173.7	2,129.3	2,176.3	2,097.1	2,113.1	2,093.5	2,067.3	2,113.7	2,190.5
1.4. Other banking institutions	-	-	-	-	-	-	-	-	-	-	-	-	-
1.5. Non-banking financial institutions	34.2	0.0	0.0	0.0	5.9	5.2	3.8	0.0	0.0	5.0	0.0	0.0	0.0
2. Time and notice deposits	15,842.9	16,913.0	17,587.9	17,449.3	17,632.8	18,553.2	18,649.3	19,917.7	20,505.6	20,942.1	21,543.6	21,952.8	20,245.4
2.1. Local government	551.6	594.9	624.7	674.4	704.8	677.7	713.3	753.0	815.7	860.7	892.8	861.9	550.8
2.2. Enterprises	7,165.3	7,391.0	7,564.4	7,670.7	7,651.9	8,731.9	8,594.7	9,682.5	9,969.0	10,072.6	10,320.9	10,447.3	8,698.5
2.3. Households	6,194.5	6,647.2	6,864.2	7,039.9	7,286.6	7,322.5	7,411.9	7,629.6	7,798.8	8,151.4	8,386.6	8,796.8	9,321.4
2.4. Other banking institutions	129.3	113.1	247.4	352.0	348.2	206.6	270.6	241.2	220.0	102.6	275.0	255.0	215.9
2.5. Non-banking financial institutions	1,802.2	2,166.8	2,287.2	1,712.2	1,641.4	1,614.5	1,658.7	1,611.5	1,702.1	1,754.8	1,668.2	1,591.9	1,458.8
Total (1+2)	18,370.7	19,155.0	19,863.4	19,678.0	19,856.1	20,711.6	20,857.0	22,064.4	22,680.7	23,116.4	23,681.1	24,118.2	22,479.2

**Table D7: Time and Savings Deposits with Banks**

The table shows kuna savings and time deposits by other domestic sectors, other banking institutions and non-banking financial institutions with banks.

**Table D8: Foreign Currency Deposits with Banks**

end of period, million kuna

	2003	2004											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Savings deposits	21,547.0	21,740.4	21,403.2	20,922.2	21,334.0	20,703.9	21,223.3	21,704.3	23,016.8	23,079.7	22,435.0	22,434.7	22,144.6
1.1. Local government	14.7	14.5	14.0	13.8	11.8	13.2	16.2	15.7	15.7	17.4	15.2	15.3	15.6
1.2. Enterprises	3,620.2	3,791.0	3,762.5	3,776.7	3,803.5	3,779.2	4,091.7	3,937.9	4,799.3	4,733.9	4,369.0	4,432.9	4,273.2
1.3. Households	17,690.2	17,747.9	17,475.0	16,941.5	17,392.2	16,777.3	16,839.5	17,487.0	17,941.1	18,161.4	17,855.9	17,755.2	17,708.9
1.4. Other banking institutions	9.0	9.2	7.7	18.9	4.1	18.4	5.3	27.6	12.8	24.8	15.5	15.2	15.4
1.5. Non-banking financial institutions	212.9	177.8	144.0	171.3	122.4	115.8	270.6	236.2	247.8	142.2	179.4	216.1	131.6
2. Time deposits	54,488.4	54,796.0	54,627.4	53,147.9	53,431.5	52,512.9	52,833.3	54,145.1	55,406.2	57,373.9	57,608.7	58,638.7	59,598.3
2.1. Local government	3.8	4.1	4.1	0.3	0.3	0.3	0.3	0.3	1.0	1.1	1.1	0.3	0.3
2.2. Enterprises	7,154.0	6,983.4	7,105.7	6,832.5	6,254.8	6,238.2	6,260.6	6,567.9	7,046.8	7,566.0	7,852.9	8,108.4	8,518.6
2.3. Households	46,805.1	47,378.8	47,133.8	45,898.2	46,833.4	45,940.0	46,231.0	47,086.3	47,786.8	49,292.9	49,136.3	49,929.9	50,636.0
2.4. Other banking institutions	21.7	14.1	11.8	61.6	2.3	2.2	2.2	59.7	72.7	42.4	85.4	119.9	20.7
2.5. Non-banking financial institutions	503.7	415.5	372.1	355.2	340.8	332.1	339.2	431.0	498.8	471.5	533.0	480.2	422.7
Total (1+2)	76,035.3	76,536.4	76,030.6	74,070.1	74,765.5	73,216.8	74,056.7	75,849.5	78,423.0	80,453.6	80,043.8	81,073.4	81,742.9

**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, million kuna

	2003	2004											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Money market instruments (net)	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Bonds (net)	151.9	142.6	143.4	139.5	140.7	139.3	144.8	159.6	159.1	160.0	157.2	161.5	170.5
3. Other domestic borrowing	446.5	760.6	555.3	256.1	215.0	199.7	235.6	318.2	538.8	520.6	622.5	678.9	993.0
3.1. Local government	0.9	2.1	2.1	2.1	2.1	2.1	1.2	-	2.1	-	-	1.5	-
3.2. Enterprises	92.7	40.9	40.7	40.2	40.2	40.4	40.4	40.2	40.5	40.1	41.1	41.4	40.3
3.3. Other banking institutions	222.1	326.5	211.7	62.3	84.8	19.2	52.0	212.4	419.1	369.1	466.6	524.4	842.8
3.4. Non-banking financial institutions	130.9	391.1	300.9	151.6	88.0	138.1	142.0	65.6	77.1	111.4	114.8	111.6	109.9
Total (1+2+3)	598.4	903.2	698.7	395.6	355.7	339.1	380.4	477.9	697.9	680.5	779.7	840.3	1,163.5

**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, reported total and classified by institutional sectors.

**Table D10: Banks' Foreign Liabilities**

end of period, million kuna

	2003	2004											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Foreign liabilities in f/c	44,574.3	43,785.4	45,248.5	45,518.5	47,739.2	47,913.9	48,582.5	48,183.8	47,270.9	47,463.8	47,345.7	48,924.6	54,536.7
1.1. Liabilities to foreign banks	38,623.1	38,226.1	39,808.5	39,910.9	41,796.3	41,978.2	43,289.6	42,740.0	41,837.9	41,892.8	41,831.1	43,386.5	48,894.3
Demand deposits	266.6	119.7	100.8	97.9	130.6	144.9	145.7	141.8	110.0	98.3	126.0	121.3	127.6
Time and notice deposits	12,885.2	10,827.0	11,389.0	11,817.4	12,453.0	11,785.0	12,280.0	11,680.2	11,347.2	11,255.1	11,384.7	12,171.6	16,056.8
Loans and advances	25,471.4	27,279.4	28,318.8	27,995.7	29,212.7	30,048.3	30,864.0	27,644.1	27,098.9	27,192.0	26,986.9	27,708.0	29,296.3
o/w: Subordinated and hybrid instruments	2,949.2	2,924.2	2,899.4	2,819.5	2,872.8	2,811.0	2,809.7	2,747.2	2,741.7	2,648.1	2,520.9	2,382.2	2,326.3
Bonds	-	-	-	-	-	-	-	3,273.9	3,281.8	3,347.4	3,333.4	3,385.5	3,413.6
1.2. Liabilities to foreign non-banks	5,951.2	5,559.3	5,440.0	5,607.5	5,942.9	5,935.7	5,292.9	5,443.8	5,433.0	5,571.1	5,514.6	5,538.2	5,642.4
Savings and time deposits	4,753.2	4,795.6	4,742.7	4,926.2	5,244.8	5,253.9	4,612.2	4,792.7	4,784.5	4,948.8	4,899.8	4,916.3	5,002.2
Sight deposits	898.6	979.2	929.2	1,021.4	989.9	972.1	989.7	1,076.2	1,021.8	1,052.5	1,044.5	1,010.6	1,052.5
Time and notice deposits	3,854.6	3,816.4	3,813.5	3,904.8	4,254.9	4,281.8	3,622.5	3,716.5	3,762.8	3,896.3	3,855.2	3,905.7	3,949.6
Loans and advances	1,198.0	763.7	697.3	681.3	698.1	681.8	680.7	651.1	648.4	622.3	614.8	621.8	640.2
o/w: Subordinated and hybrid instruments	39.1	73.4	72.8	70.7	72.1	70.5	70.5	70.8	70.7	72.2	71.6	72.7	73.4
2. Foreign liabilities in kuna	5,357.7	5,638.5	5,615.4	6,733.7	6,755.8	6,478.6	6,129.7	6,315.9	5,705.9	6,035.9	6,011.4	6,197.2	6,627.0
2.1. Liabilities to foreign banks	5,087.8	5,317.8	5,283.9	6,393.8	6,358.7	6,072.4	5,723.6	5,870.9	5,237.9	5,557.2	5,528.1	5,657.2	6,103.9
Demand deposits	86.4	160.1	62.9	103.5	217.8	125.5	189.4	157.8	112.9	170.6	217.9	126.5	145.1
Time and notice deposits	2,664.1	2,813.2	2,895.8	3,290.3	3,064.9	2,937.3	2,526.2	2,686.7	2,126.5	2,324.7	2,271.7	2,447.3	2,846.9
Loans and advances	2,337.3	2,344.4	2,325.2	3,000.0	3,076.0	3,009.6	3,008.0	3,026.4	2,998.5	3,061.8	3,038.5	3,083.3	3,111.9
2.2. Liabilities to foreign non-banks	269.9	320.7	331.5	339.9	397.1	406.2	406.1	445.0	468.0	478.8	483.3	540.1	523.1
Demand deposits	76.8	86.8	92.1	94.6	91.1	93.9	90.4	94.9	104.3	89.6	93.4	139.1	95.9
Time and notice deposits	191.4	225.9	231.5	237.6	293.1	299.6	303.0	337.3	354.7	380.1	382.1	393.1	419.2
Loans and advances	1.7	8.0	7.9	7.7	12.9	12.7	12.7	12.8	9.0	9.1	7.8	7.9	8.0
o/w: Subordinated and hybrid instruments	1.7	8.0	7.9	7.7	12.9	12.7	12.7	12.8	9.0	9.1	7.8	7.9	8.0
Total (1+2)	49,932.0	49,423.8	50,864.0	52,252.2	54,495.0	54,392.5	54,712.3	54,499.7	52,976.8	53,499.8	53,357.1	55,121.9	61,163.7

**Table D10: Banks' Foreign Liabilities**

The table shows banks' total foreign currency and kuna liabilities to foreign legal and natural persons, with the exception of restricted kuna and foreign currency deposits by foreign legal and natural persons.

Banks' foreign liabilities comprise foreign currency liabilities

and foreign kuna liabilities.

Within foreign kuna and foreign currency liabilities, liabilities to foreign banks are reported separately from liabilities to foreign non-banks (total and by financial instruments). Loans and advances also include issued subordinated and hybrid instruments purchased by foreign investors.

**Table D11: Central Government and Funds' Deposits with Banks**

end of period, million kuna

	2003	2004											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
<b>1. In kuna</b>	4,104.4	3,901.8	3,919.9	4,088.5	4,140.0	4,327.9	4,407.4	4,792.8	4,978.0	5,306.6	5,310.7	5,388.2	5,627.2
1.1. Central government deposits	506.4	378.1	367.8	440.5	471.3	500.9	417.1	433.6	526.9	530.6	547.1	554.3	445.1
Demand deposits	448.0	313.4	302.6	395.8	426.0	460.7	371.2	388.9	482.6	486.7	504.3	511.1	373.3
Savings deposits	3.0	–	–	–	–	–	5.6	4.6	4.8	4.9	4.1	4.1	4.2
Time and notice deposits	54.2	63.6	64.1	43.6	44.1	39.2	39.2	39.1	38.5	37.9	37.6	38.0	66.5
Loans and advances	1.1	1.1	1.1	1.0	1.1	1.0	1.0	1.0	1.0	1.1	1.1	1.1	1.1
1.2. Central government funds' deposits	3,598.0	3,523.6	3,552.1	3,648.0	3,668.8	3,826.9	3,990.3	4,359.2	4,451.1	4,776.1	4,763.7	4,833.9	5,182.2
Demand deposits	294.8	236.0	249.9	192.9	224.2	286.4	216.7	206.7	318.1	266.8	150.4	173.2	266.3
Savings deposits	0.3	0.1	2.1	5.9	3.9	8.9	2.4	2.4	2.5	4.1	10.1	11.1	3.5
Time and notice deposits	156.2	173.9	160.2	155.6	139.8	141.0	232.5	312.9	304.3	357.7	438.1	384.0	262.3
Loans and advances	3,146.7	3,113.6	3,139.8	3,293.5	3,300.9	3,390.7	3,538.7	3,837.1	3,826.2	4,147.4	4,165.0	4,265.6	4,650.0
<b>2. In f/c</b>	1,178.9	1,077.3	1,085.3	1,130.1	1,248.4	1,180.7	1,225.4	1,372.6	1,489.2	1,138.4	1,205.9	1,081.5	1,194.6
2.1. Central government deposits	1,158.2	1,060.0	1,026.3	1,064.6	1,112.7	1,043.1	1,065.3	976.3	1,115.5	980.5	936.9	893.1	891.0
Savings deposits	198.5	203.5	176.7	222.9	213.5	192.7	209.1	217.0	357.6	223.3	208.7	187.0	189.7
Time and notice deposits	–	–	–	–	14.8	14.5	14.5	15.3	15.3	15.9	15.7	11.0	23.2
Refinanced loans and advances	959.6	856.6	849.7	841.7	884.4	835.9	841.7	744.0	742.6	741.3	712.5	695.1	678.1
2.2. Central government funds' deposits	20.8	17.3	58.9	65.5	135.7	137.6	160.1	396.3	373.7	157.9	269.0	188.4	303.6
Savings deposits	20.8	17.3	51.0	58.4	53.2	56.8	50.0	187.5	269.5	115.8	182.3	156.6	156.5
Time and notice deposits	–	–	8.0	7.1	82.5	80.7	110.2	208.9	104.3	42.1	86.7	31.8	147.1
<b>Total (1+2)</b>	5,283.3	4,979.1	5,005.2	5,218.6	5,388.4	5,508.6	5,632.8	6,165.4	6,467.3	6,445.0	6,516.6	6,469.7	6,821.8

**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 obtained from the central government and funds. Foreign currency deposits comprise savings deposits, time and notice deposits, and refinanced loans.

**Table D12: Restricted and Blocked Deposits with Banks**

end of period, million kuna

	2003	2004											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
<b>1. Restricted deposits</b>	1,541.2	1,790.1	1,792.3	1,926.1	2,027.2	2,155.5	2,182.6	2,116.4	2,102.0	2,117.0	1,996.1	2,169.3	2,014.6
1.1. In kuna	730.1	1,003.5	1,092.5	1,090.3	1,172.0	1,164.5	1,245.7	1,250.0	1,235.2	1,266.8	1,284.5	1,292.8	1,267.4
1.2. In f/c	811.1	786.6	699.8	835.8	855.2	991.0	936.9	866.5	866.8	850.2	711.7	876.4	747.2
<b>2. Blocked f/c deposits of households</b>	167.8	118.6	115.5	110.7	110.4	106.2	101.8	48.0	46.9	47.2	46.3	46.4	40.0
<b>Total (1+2)</b>	1,709.0	1,908.7	1,907.7	2,036.8	2,137.6	2,261.7	2,284.4	2,164.4	2,148.9	2,164.2	2,042.4	2,215.7	2,054.6

**Table D12: Restricted and Blocked Deposits with Banks**

The table shows restricted and blocked deposits by the central government and funds, other domestic sectors, other banking institutions, non-banking financial institutions and foreign legal and natural persons with banks.

Restricted and blocked deposits include two categories of deposits: restricted (kuna and foreign currency) deposits and blocked foreign currency deposits.

Blocked foreign currency deposits include households' foreign currency deposits regulated by the Act on Converting Households' Foreign Exchange Deposits into the Public Debt of the Republic of Croatia.

**Table E1: Housing Savings Banks' Accounts**

end of period, million kuna

	2003	2004											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
<b>ASSETS</b>													
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	3,033.5	3,054.1	3,193.3	3,196.9	3,236.9	3,256.6	3,330.1	3,413.4	3,332.1	3,530.4	3,514.6	3,635.3	3,779.1
3. Claims on other domestic sectors	187.9	195.1	204.1	216.3	239.1	253.2	271.3	289.2	301.6	322.6	335.0	352.4	373.2
o/w: Claims on households	187.9	195.1	204.1	216.3	239.1	253.2	271.3	289.2	301.6	322.6	335.0	352.4	373.2
4. Claims on banks	247.2	222.0	142.8	51.8	67.5	39.3	37.7	253.9	411.9	373.5	482.0	518.0	824.2
5. Claims on other banking institutions	-	-	-	-	-	-	-	-	-	-	-	-	-
Total (1+2+3+4+5)	3,468.6	3,471.2	3,540.2	3,465.0	3,543.5	3,549.1	3,639.2	3,956.6	4,045.7	4,226.6	4,331.6	4,505.8	4,976.6
<b>LIABILITIES</b>													
1. Time deposits	3,265.2	3,333.3	3,355.1	3,324.0	3,435.1	3,413.3	3,477.7	3,759.6	3,821.6	3,992.9	4,085.1	4,257.8	4,728.2
2. Bonds and money market instruments	11.1	10.7	10.7	11.0	17.0	25.8	11.3	14.9	10.3	10.6	10.5	10.6	10.7
3. Capital accounts	159.7	152.4	145.3	159.6	130.3	128.9	146.2	182.6	200.2	212.6	194.4	211.3	206.7
4. Other items (net)	32.6	-25.2	29.1	-29.6	-39.0	-18.9	4.0	-0.5	13.6	10.5	41.6	26.1	30.8
Total (1+2+3+4)	3,468.6	3,471.2	3,540.2	3,465.0	3,543.5	3,549.1	3,639.2	3,956.6	4,045.7	4,226.6	4,331.6	4,505.8	4,976.6

**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 included, until September 2003, kuna funds held in accounts at the central bank.

Claims on central government and funds are claims in kuna on the Republic of Croatia and central government funds.

Claims on other domestic sectors include kuna loans to local government and households.

Claims on banks include loans extended to banks, as well as deposits with banks, including, since October 2003, ac-

counts 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 obtained.

Capital accounts are share capital, profit or loss for the previous and current year, retained earnings (loss), legal reserves, reserves provided for by the articles of association and other capital reserves, hedging reserves, unrealised gains (losses) from financial assets classified as available-for-sale assets, value adjustments and specific reserves for unidentified losses. Other items (net) are unclassified liabilities decreased by unclassified assets.

**Table F1: Credit Rates of the Croatian National Bank**

in percentage, on annual basis

Year	Month	CNB discount rate	Credit rates						
			On Lombard credits <sup>a</sup>	On intervention credits	On intra-day refinance facility <sup>a</sup>	On short-term liquidity credits	On advances on the account of statutory reserves <sup>a</sup>	On inaccurately calculated statutory reserves <sup>a</sup>	On arrears
1	2	3	4	5	6	7	8	9	10
1996	December	6.50	11.00	19.00	17.00	–	–	19.00	18.00
1997	December	5.90	9.50	19.00	17.00	–	–	19.00	18.00
1998	December	5.90	12.00	19.00	7.00	14.00	–	19.00	18.00
1999	December	7.90	13.00	19.00	–	14.00	–	19.00	18.00
2000	December	5.90	12.00	18.00	–	13.00	–	18.00	18.00
2001	December	5.90	10.00	–	–	11.00	–	15.00	18.00
2002	December	4.50	9.50	–	–	10.50	–	15.00	15.00
2003	December	4.50	9.50	–	–	10.50	–	15.00	15.00
2004	January	4.50	9.50	–	–	10.50	–	15.00	15.00
	February	4.50	9.50	–	–	10.50	–	15.00	15.00
	March	4.50	9.50	–	–	10.50	–	15.00	15.00
	April	4.50	9.50	–	–	10.50	–	15.00	15.00
	May	4.50	9.50	–	–	10.50	–	15.00	15.00
	June	4.50	9.50	–	–	10.50	–	15.00	15.00
	July	4.50	9.50	–	–	10.50	–	15.00	15.00
	August	4.50	9.50	–	–	10.50	–	15.00	15.00
	September	4.50	9.50	–	–	10.50	–	15.00	15.00
	October	4.50	9.50	–	–	10.50	–	15.00	15.00
	November	4.50	9.50	–	–	10.50	–	15.00	15.00
	December	4.50	9.50	–	–	10.50	–	15.00	15.00

<sup>a</sup> Breaks in the series of data are explained in notes on methodology.**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 being set by special decisions of the Council of the Croatian National Bank, on annual basis. Exceptionally, from June 1995 to 11 September 1996 interest rate charged by the CNB on Lombard credits was 1.5 percentage point higher than the weighted average interest rate on CNB bills on a voluntary basis (which serve as collateral for Lombard credits) in cases when the weighted average interest rate was higher than 16.5%. Congruently, from June 1995 to August 1996 the table reports weighted average interest rate on Lombard credits. Interest rate in September 1996 is calculated as the weighted average of interest rate applied in the first 10 days of September 1996 (according to the regime mentioned above) and fixed interest rate applied since 11 September 1996.

Time series presented in the table contain certain breaks, due to changes in CNB's monetary policy instruments. Consequently, until November 1994, column 4 shows interest rates on regular credits for maintenance of day-to-day liquidity, which were granted based on securities portfolio, and from December 1994 onwards, interest rates on Lombard credits.

Furthermore, data shown in column 6 refer, until September 1994, to interest rates on special credits for savings deposits' payments and for payments from households' current accounts, and from October 1994 until September 1997 to interest rates on daily credits for savings deposits and households' current accounts in kuna. Daily credits, as opposed to special credits, are paid back on the same day. In

October 1997, this instrument was replaced by daily credits for overcoming short-term liquidity problems that are collateralized by CNB bills. Since December 1998 until April 1999, this credit is incorporated in Lombard credit, applying different interest rate for its usage within one day.

Data shown in column 7 refer, until December 1994, to interest rate on initial credits, and since 18 March 1998, to credits for overcoming liquidity problems of banks under evaluation for entry into rehabilitation and restructuring procedures and since February 1999, to interest rates on short-term liquidity credits. Since December 1999, data show interest rates on short-term liquidity credit with a maturity over 3 months which is 1 percentage point higher than interest rate on Lombard credits. Interest rate on short-term liquidity credit up to 3 months is 0.5 percentage point higher than interest rate on Lombard credits.

Interest rates reported in column 8 refer to the use of statutory reserves, which was being used by banks (in prescribed percentage) to maintain day-to-day liquidity until September 1994. Interest rates paid until September 1994 on the use of statutory reserve funds in amount above prescribed and/or for longer period than allowed are shown in column 9. Since October 1994, interest rates paid on the use of statutory reserve funds are the same as those used for any other failure to fulfil financial obligations, in accordance with the late interest regulations (shown in column 10).

Until June 1994, the same interest rate was applied to funds used above amounts available on giro accounts and to inaccurately calculated or under-appropriated statutory reserves (reported in column 9). From July to September 1994, interest rate applied to the use of those funds from the primary issue was 21%, and since October 1994, the same interest rates have been applied as for other failures to fulfil financial obligations, shown in column 10.

**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 <sup>a</sup>	Interest rates on CNB bills on an obligatory basis	Interest rates on CNB bills on a voluntary basis <sup>a</sup>				Interest rates on f/c CNB bills on a voluntary basis				
				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
1996	December	5.50	–	–	8.00	9.50	–	–	–	–	–	–
1997	December	4.50	–	–	8.00	9.00	10.00	–	–	–	–	–
1998	December	5.90	–	–	9.50	10.50	11.00	–	4.60	3.12	3.08	–
1999	December	5.90	–	–	10.50	11.55	12.50	–	4.83	3.56	–	–
2000	December	4.50	–	–	6.65	7.00	7.70	–	5.51	4.83	–	–
2001	December	2.00	–	–	3.36	4.26	4.85	–	2.62	3.06	–	–
2002	December	1.75	–	–	2.08	–	–	2.30	2.68	–	–	–
2003	December	1.25	0.50	–	–	–	–	1.75	1.48	–	–	–
2004	January	1.25	0.50	–	–	–	–	–	–	–	–	–
	February	1.25	0.50	–	–	–	–	–	–	–	–	–
	March	1.25	0.50	–	–	–	–	–	–	–	–	–
	April	1.25	0.50	–	2.50	–	–	–	–	–	–	–
	May	1.25	–	–	–	–	–	–	–	–	–	–
	June	1.25	–	–	–	–	–	–	–	–	–	–
	July	1.25	–	–	–	–	–	–	–	–	–	–
	August	1.25	–	–	–	–	–	–	–	–	–	–
	September	1.25	–	–	–	–	–	–	–	–	–	–
	October	1.25	–	–	–	–	–	–	–	–	–	–
	November	1.25	–	–	–	–	–	–	–	–	–	–
	December	1.25	–	–	–	–	–	–	–	–	–	–

<sup>a</sup> Breaks in the series of data are explained in notes on methodology.

**Table F2: Deposit Rates of the Croatian National Bank**

The table shows interest rates paid by the CNB on funds deposited with the CNB as well as on securities issued.

Interest rates paid by the CNB for appropriated statutory reserve funds are being set by the Council of the CNB. Until 7 October 1993, the CNB was setting different exchange rates for statutory reserve funds based on savings and time deposits. Therefore, for that period the table reports the weighted average interest rate on appropriated statutory reserve funds (column 3). From 8 October 1993 until the end of February 1994, the CNB paid no interest on appropriated statutory reserve funds, and since March 1994, uniform rate has been applied to these funds.

Interest rates on CNB bills on an obligatory basis are set by a decision of the Council of the CNB.

Until October 1993, interest rates on CNB bills on a voluntary basis were also set by the Council of the CNB, while since November 1993, they have been set at CNB bills' auction sales. Congruently, since November 1993, columns 5, 6 and 7 report weighted average interest rates attained at auctions of CNB bills.

Until October 1994, interest rates on CNB bills on a voluntary basis due in 30 and 90 days are reported in columns 6 and 7 respectively. From November 1994 through January 2001, columns 7 and 9 report interest rates on CNB bills on a voluntary basis due in 91 and 182 days respectively.

Since April 1998 columns 9 through 13 report weighted average interest rates on CNB bills on a voluntary basis in EUR and USD (until December 1998 in DEM and USD) attained at CNB bills' auctions as a weighted average of subscribed amounts in those two currencies.

**Table F3: Banks' Reserve Requirements**

daily averages and percentages, million kuna and %

Year	Month	Weighted average res. requirement in % on res. base	Reserve requirement (RR)			Other obligatory deposits with the CNB	Statutory reserves deposited with the CNB		Weighted avg. remuneration rate on immobilized 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
1996	December	35.91	3,652.9	3,652.9	–	–	3,312.0	–	4.99	–
1997	December	32.02	4,348.8	4,348.8	–	–	3,914.2	–	4.05	–
1998	December	29.57	13,112.7	3,967.2	9,145.4	57.4	3,469.8	1,467.6	5.28	....
1999	December	30.50	13,579.0	4,210.1	9,368.9	37.3	3,695.1	4,606.5	5.62	....
2000	December	23.22	16,245.8	4,646.8	11,599.0	5.0	4,191.6	5,544.6	4.05	....
2001	December	19.67	21,187.1	8,691.5	12,495.5	–	6,287.8	5,950.0	1.97	2.73
2002	December	19.00	25,985.1	11,447.1	14,538.0	–	8,156.7	7,139.9	1.72	2.16
2003	December	19.00	31,009.4	18,023.8	12,985.6	109.4	12,459.8	6,850.2	1.17	1.47
2004	January	19.00	31,639.9	18,498.6	13,141.3	95.3	12,805.8	6,844.6	1.18	1.33
	February	19.00	32,269.7	18,950.8	13,318.9	85.9	13,432.4	9,263.0	1.17	1.12
	March	19.00	32,487.9	19,106.8	13,381.1	85.9	13,678.3	10,214.0	1.17	1.02
	April	19.00	32,477.6	19,099.7	13,377.9	36.8	13,694.8	10,249.8	1.20	1.16
	May	19.00	32,937.9	19,432.6	13,505.3	–	13,945.7	10,372.8	1.21	1.03
	June	19.00	33,233.4	19,685.3	13,548.1	–	14,131.5	10,436.6	1.20	1.00
	July	19.00	33,336.0	19,813.6	13,522.3	–	14,233.8	10,421.5	1.18	1.10
	August	19.00	33,748.9	20,036.4	13,712.5	253.9	14,327.8	10,477.5	1.17	1.10
	September	19.00	34,298.8	20,440.5	13,858.3	232.0	14,672.2	10,469.5	1.20	1.16
	October	19.00	34,720.2	20,731.8	13,988.4	163.8	15,024.9	10,503.0	1.20	1.40
	November	18.23	33,750.6	20,128.7	13,621.9	279.3	14,749.5	10,196.5	1.22	1.31
	December	18.00	33,615.7	20,040.9	13,574.8	430.1	14,664.1	10,171.3	1.22	1.36

**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 requirement 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 exchange claims (which include foreign currency cash and checks in foreign exchange, liquid foreign exchange 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. Starting from September 2001, column 5 includes also the f/c component of reserve requirements that is set aside/maintained in kuna.

Column 6 shows the amount of foreign currency reserve requirements, i.e. the prescribed amount of funds banks are

required to deposit in a special statutory reserve account with the CNB, or to maintain (in average) in accounts of liquid claims. Until November 2000, the calculation base consisted of average daily balances of household foreign exchange savings deposits with a remaining maturity of up to 3 months, while starting from December 2000 the base consists of foreign exchange sources of funds, including: ordinary foreign exchange accounts, special foreign exchange accounts, sight foreign exchange accounts and savings deposits, received foreign exchange deposits and received foreign exchange loans, as well as obligations arising from securities issued in foreign exchange (excluding the bank's equity securities). Starting from November 2001, 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), statutory reserves on f/c deposits, f/c credits from foreign banks and guarantees for such credits, and marginal reserve requirements (from August 2004 on).

Column 8 shows the portion of the kuna reserve requirement which banks deposit in a special 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). This percentage stood at 60% in December 2004.

Column 9 shows the portion of the foreign currency reserve requirement which banks deposit in a special statutory reserve account with the CNB. The percentage for allocating the foreign currency component of reserve requirements cal-

**Table F4: Banks' Liquidity Indicators**

daily averages and percentages, million kuna and %

Year	Month	Free reserves		Primary liquidity ratio (in %)	Secondary liquidity sources	Kuna CNB bills	F/c CNB bills	Kuna treasury bills
		In kuna	In f/c					
1	2	3	4	5	6	7	8	9
1996	December	267.9	....	2.63	98.5	780.9	–	183.8
1997	December	396.3	....	2.92	32.7	728.9	–	260.7
1998	December	221.9	....	1.65	445.5	850.4	1,377.4	141.3
1999	December	179.6	....	1.30	1,183.6	1,311.1	1,507.6	373.9
2000	December	638.8	10,721.4	3.32	80.1	2,485.3	1,692.7	2,006.5
2001	December	794.4	17,247.4	3.23	2.6	2,656.2	2,630.8	3,360.9
2002	December	1,225.0	10,398.0	3.53	0.6	4,965.5	1,273.9	4,279.5
2003	December	451.6	20,561.4	0.98	501.6	0.0	4,316.0	3,073.2
2004	January	562.2	20,203.3	1.19	238.8	0.0	4,509.2	2,879.9
	February	285.0	20,170.4	0.58	251.3	0.0	2,502.1	3,056.5
	March	399.3	19,645.4	0.81	150.5	0.0	149.9	2,966.2
	April	1,235.8	19,696.8	2.49	6.4	38.1	0.0	3,005.0
	May	1,313.3	19,615.9	2.59	3.6	87.8	0.0	3,643.3
	June	947.1	19,984.7	1.82	1.2	0.0	0.0	3,999.1
	July	618.1	24,020.1	1.17	27.0	0.0	0.0	4,289.5
	August	672.0	26,737.0	1.26	153.8	0.0	0.0	3,950.8
	September	978.6	26,988.7	1.79	0.0	0.0	0.0	3,633.8
	October	1,119.7	27,157.8	2.01	0.0	0.0	0.0	4,029.1
	November	1,580.1	26,854.9	2.81	0.0	0.0	0.0	4,417.6
	December	1,495.5	26,126.1	2.64	0.0	0.0	0.0	4,581.7

culated on the basis of foreign exchange funds of non-residents and foreign exchange funds received from legal persons in a special relationship with a bank amounted to 100% in December 2004, while the minimum percentage for allocating the remaining portion of the foreign currency component of reserve requirements amounted to 60%.

Column 10 shows the weighted average remuneration rate on all forms of immobilized funds which include reserve requirements and other obligatory deposits with the CNB.

Column 11 shows the weighted average remuneration rate on allocated funds in foreign currency which include the marginal reserve requirement funds (from August 2004 on). The Croatian National Bank pays remuneration equalling 75% of the US Federal Funds Target Rate for the funds allocated in US dollars and 75% of the ECB Minimum Bid Refinance Rate for the funds allocated in euros. In both cases the rate in effect on the day of allocation is applied.

**Table F4: Banks' Liquidity Indicators**

The table reports monthly averages of day-to-day balances of some indicators of banks' liquidity. Savings banks are included beginning in July 1999.

Column 3 shows free reserves in kuna, defined as bank's total reserves (in settlement accounts and in vaults) decreased by the minimal average settlement account and vault balance, as prescribed by instruments of the CNB.

Column 4 shows free reserves in foreign currency, defined as funds for the maintenance of foreign currency reserve requirements (foreign currency cash and checks in foreign exchange, liquid foreign exchange claims maintained in the accounts with the high-grade foreign banks and for-

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: use of statutory reserves (until October 1994), regular loans for maintenance of day-to-day liquidity (until November 1994), use of funds exceeding those available in the bank's giro account (until October 1994), special credits for overcoming liquidity problems (initial credits, credits for overcoming liquidity problems of banks under evaluation for entry into rehabilitation and restructuring procedures), Lombard credits (since December 1994), intervention credits for overcoming liquidity problems (since October 1994), short-term liquidity credits (since February 1999), as well as 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 (EUR and USD).

Column 9 reports the monthly average of day-to-day balances of kuna treasury bills. Until September 2002, it shows the discounted value of treasury bills, while starting from October 2002, it shows their nominal value.

**Table G1: Banks' Interest Rates on Kuna Credits Not Indexed to Foreign Currency**

weighted averages of monthly interest rates, in % on annual basis

Year	Month	Money market interest rates			Interest rates on kuna credits not indexed to foreign currency								
		On overnight credits	On other credits	Total average	On short-term credits						On long-term credits		
					Total average	Enterprises	Households			Total average	Enterprises	Households	
							Total average	Credit lines	Other				
1	2	3	4	5	6	7	8	9	10	11	12	13	
1996	December	9.66	10.72	18.46	19.35	19.18	20.18	19.90	23.12	11.51	11.29	14.28	
1997	December	8.46	9.49	14.06	14.12	13.17	19.26	19.34	18.11	13.24	12.98	13.75	
1998	December	10.00	15.91	16.06	16.22	14.89	20.77	20.80	19.92	11.73	11.48	13.16	
1999	December	9.92	12.78	13.54	13.52	10.55	20.83	20.84	20.39	15.14	15.31	14.16	
2000	December	2.39	4.45	10.45	10.45	6.81	20.30	20.33	19.05	9.90	9.64	12.97	
2001	December	2.49	2.18	9.51	9.49	5.43	18.81	18.85	14.88	11.42	10.06	13.14	
2002	December	1.58	1.89	10.91	11.24	7.44	15.16	15.28	9.84	7.32	6.48	7.88	
2003	December	5.47	7.02	11.45	11.80	8.02	14.89	15.01	12.38	8.51	6.14	10.69	
2004	January	6.20	7.48	12.11	12.22	8.33	14.99	15.07	12.91	10.99	8.57	11.51	
	February	5.70	6.01	12.41	12.58	8.58	14.94	15.06	12.08	10.49	8.44	10.98	
	March	7.74	8.17	11.74	12.03	8.32	14.60	14.72	12.08	9.48	6.00	11.11	
	April	3.24	5.46	11.74	11.98	8.30	14.48	14.60	11.91	9.64	5.89	11.18	
	May	1.59	3.93	11.62	12.02	8.20	14.35	14.42	12.58	8.39	5.39	10.31	
	June	1.76	4.64	11.58	11.79	7.99	14.33	14.40	12.31	9.43	6.39	11.00	
	July	5.60	6.10	11.49	11.79	8.15	14.24	14.34	12.52	9.37	5.68	11.57	
	August	7.69	6.99	11.44	11.58	7.72	14.22	14.29	12.80	9.96	6.88	11.50	
	September	6.67	7.50	11.80	12.06	8.24	14.21	14.28	12.60	9.76	6.21	11.43	
	October	3.77	6.71	11.84	12.00	8.32	14.23	14.31	12.51	10.35	7.64	10.87	
	November	1.81	6.27	11.74	11.96	8.28	14.25	14.31	12.45	9.38	6.87	10.80	
	December	3.55	6.02	11.44	11.71	8.33	14.19	14.27	12.29	9.31	6.90	11.16	
	Relative significance <sup>a</sup>	–	–	55.34	49.16	20.82	28.35	27.10	1.25	6.18	2.68	3.49	

<sup>a</sup> 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 weighted averages of banks' and savings banks' monthly interest rates on kuna credits not indexed to f/c, reported on a yearly basis.

Up to December 2001, data refer to 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.

Starting from January 2002, data refer to weighted averages of banks' and savings 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 showed interest rates on the interbank money market, according to information published by the Zagreb Money Market (ZMM). Starting from March 1996, interest rates on the money market are calculated as weighted monthly averages of weighted daily interest rates and shown separately for trading in over-

night credits and trading in other credits on the ZMM. In the period between May 1998 and January 2001, the repayment of credits granted on the interbank overnight market was guaranteed by banks' required reserves with the CNB. Columns 5 through 13 show weighted averages of banks' and savings 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' and savings banks' interest rates on kuna credits not indexed to f/c are based on banks' and savings banks' periodic reports. The basis for calculation of 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 weighted averages were calculated based on the balance of these loans at the end of the reporting month.

Relative significance of particular interest rates (reported in the last line of the table) refers to data for the last period included in the table. It is calculated as a percentage of the corresponding credit category (to which exchange rates apply) in total credits included in the calculation of weighted averages for that period.

**Table G2: Banks' Interest Rates on Kuna Credits Indexed to Foreign Currency and on Credits in Euros**

weighted averages of monthly interest rates, in % on annual basis

Year	Month	Interest rates on kuna credits indexed to foreign currency									Interest rates on credits in euros		
		Total average	On short-term credits			On long-term credits					Total average	On short-term credits	On long-term credits
			Total average	Enterprises	Households	Total average	Enterprises	Households					
								Total average	Housing credits	Other			
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1996	December	18.97	22.56	22.40	27.00	12.12	13.15	11.30	....	....	19.50	21.46	10.77
1997	December	14.40	16.92	17.00	14.02	12.25	13.00	11.02	....	....	13.61	14.95	9.71
1998	December	13.04	14.28	14.25	13.64	11.15	10.55	12.12	....	....	6.95	8.37	5.71
1999	December	12.53	13.66	13.54	17.21	10.81	10.46	11.65	....	....	6.75	7.43	6.07
2000	December	10.74	11.17	11.10	13.59	10.52	9.41	11.64	....	....	7.70	7.49	8.05
2001	December	9.29	9.45	9.45	11.30	9.20	7.52	10.79	....	....	5.94	5.70	7.27
2002	December	8.25	9.34	8.72	11.37	7.98	6.37	9.50	7.42	10.11	5.91	6.66	5.44
2003	December	7.07	7.21	7.00	8.66	7.03	5.76	8.04	6.02	9.70	5.62	6.22	5.18
2004	January	7.00	7.51	7.24	9.65	6.86	5.51	7.72	5.38	9.91	5.26	5.71	4.77
	February	7.99	7.58	7.45	8.37	8.14	6.78	8.65	6.62	9.91	6.00	6.20	5.68
	March	7.48	7.36	7.21	8.37	7.51	5.95	8.42	6.81	9.46	4.58	4.24	5.46
	April	7.66	7.37	7.26	8.20	7.75	6.49	8.34	6.84	9.33	5.47	5.85	4.83
	May	7.53	7.14	6.92	8.73	7.65	6.32	8.33	6.71	9.46	5.69	5.53	5.94
	June	7.18	7.09	6.86	8.59	7.20	6.19	7.65	6.02	8.69	4.90	5.70	4.30
	July	7.25	7.16	6.98	8.55	7.28	5.70	8.23	6.09	9.40	5.50	6.27	4.95
	August	7.49	7.47	7.21	8.80	7.50	5.82	8.28	5.79	9.83	5.43	6.21	4.96
	September	7.16	6.78	6.55	8.57	7.32	5.82	8.08	5.73	9.57	4.99	5.77	4.26
	October	7.51	7.47	7.31	8.32	7.52	6.06	8.06	6.74	9.29	5.08	5.69	4.42
	November	7.26	7.03	6.77	8.64	7.33	5.94	8.11	5.87	9.06	5.65	5.90	5.32
	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
	Relative significance <sup>a</sup>	38.32	10.04	8.85	1.18	28.29	12.50	15.79	5.42	10.37	6.34	2.96	3.38

<sup>a</sup> 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 weighted averages of banks' and savings 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 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.

Starting from January 2002, data refer to weighted averages of banks' and savings 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' and savings banks' interest rates on kuna credits indexed to f/c and on credits in euros are based on

banks' and savings banks' periodic reports. The basis for calculation of weighted averages are amounts of credits bearing corresponding interest rates, which were disbursed during the reporting month.

Columns 3 through 11 show weighted averages of banks' and savings 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 weighted averages are calculated based on their kuna equivalent using current exchange rate. Credits released in other currencies are not included in this table.

Relative significance of particular interest rates (reported in the last line of the table) refers to data for the last period included in the table. It is calculated as a percentage of the corresponding credit category (to which exchange rates apply) in total credits included in the calculation of weighted averages for that period.

**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
1996	December	4.15	2.19	10.19	10.11	9.84	10.26	12.36	15.49	9.88
1997	December	4.35	2.19	9.10	9.08	9.30	8.96	9.48	11.24	8.06
1998	December	4.11	2.31	7.73	7.63	9.47	7.15	10.19	10.72	9.56
1999	December	4.27	2.24	8.87	8.79	9.62	8.38	10.96	11.56	10.18
2000	December	3.40	1.64	7.20	7.13	7.44	7.03	8.89	9.19	8.63
2001	December	2.76	1.40	5.68	5.60	6.35	5.38	7.35	7.93	6.70
2002	December	1.55	0.94	3.64	3.53	4.39	2.86	6.05	7.24	3.23
2003	December	1.66	0.75	4.46	4.46	3.62	4.69	4.58	4.90	2.82
2004	January	1.77	0.75	4.96	4.96	3.86	5.22	4.84	5.07	4.08
	February	1.89	0.75	4.94	4.94	3.67	5.26	4.58	4.84	2.56
	March	1.98	0.74	5.35	5.37	3.65	5.87	4.30	4.59	2.79
	April	1.71	0.76	4.31	4.30	3.57	4.46	4.75	4.71	4.81
	May	1.67	0.74	3.42	3.41	3.81	3.35	4.51	4.80	3.69
	June	1.64	0.74	3.34	3.34	3.82	3.25	3.22	4.84	2.02
	July	1.89	0.72	5.09	5.11	3.88	5.30	3.72	4.84	2.06
	August	2.11	0.75	6.25	6.28	3.80	6.57	3.68	4.90	2.10
	September	2.17	0.74	5.93	5.95	3.87	6.16	3.56	4.69	2.20
	October	2.06	0.74	4.67	4.68	3.92	4.76	3.80	4.76	3.05
	November	1.76	0.75	3.36	3.34	4.01	3.26	4.53	4.67	4.45
	December	1.83	0.74	4.11	4.11	3.93	4.13	4.10	4.65	3.30
	Relative significance <sup>a</sup>	45.69	28.60	14.07	13.87	1.37	12.50	0.20	0.12	0.08

<sup>a</sup> 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 weighted averages of banks' and savings banks' monthly interest rates on kuna deposits not indexed to f/c, reported on a yearly basis.

Up to December 2001, data refer to 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.

Starting from January 2002, data refer to weighted averages of banks' and savings 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' and savings banks' interest rates on kuna deposits not indexed to f/c are based on banks' and savings banks' periodic reports.

Column 3 reports 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 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 weighted averages of monthly interest rates on total time deposits not indexed to f/c.

The basis for calculation of 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 calculation of weighted averages for deposits in giro and current accounts are the end-of-month book balances of those deposits. Weighted 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 weighted averages.

Relative significance of particular interest rates (reported in the last line of the table) refers to data for the last period included in the table. It is calculated as a percentage of the corresponding deposit category (to which exchange rates apply) in total deposits included in the calculation of weighted averages for that period.

**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
1996	December	9.46	9.56	8.80	5.09	1.44	1.32	1.95	1.47	1.39
1997	December	7.63	7.24	11.77	4.77	1.75	1.89	2.43	0.83	1.40
1998	December	7.47	7.67	5.58	3.98	2.09	2.38	2.40	0.72	0.74
1999	December	6.62	6.91	1.10	4.23	1.80	1.95	2.04	0.78	1.30
2000	December	5.54	5.94	2.16	3.47	1.03	0.99	1.23	0.65	1.29
2001	December	4.58	4.92	2.56	2.60	0.71	0.71	0.81	0.82	0.40
2002	December	2.92	3.45	1.48	2.55	0.50	0.52	0.41	0.52	0.38
2003	December	3.48	3.74	5.55	2.22	0.31	0.35	0.23	0.23	0.15
2004	January	3.67	3.44	4.43	2.46	0.31	0.33	0.22	0.26	0.17
	February	3.78	3.61	4.78	2.38	0.31	0.33	0.22	0.30	0.22
	March	3.70	3.53	4.87	2.38	0.30	0.33	0.22	0.27	0.23
	April	3.74	3.51	4.72	2.51	0.30	0.33	0.23	0.25	0.19
	May	3.85	3.48	5.08	2.51	0.31	0.33	0.22	0.32	0.17
	June	3.64	3.44	5.08	2.50	0.31	0.33	0.22	0.28	0.17
	July	3.90	3.60	5.06	2.62	0.30	0.33	0.22	0.25	0.18
	August	3.89	3.63	4.96	2.54	0.31	0.34	0.22	0.28	0.31
	September	3.89	3.40	4.69	2.56	0.31	0.34	0.22	0.25	0.22
	October	3.94	3.58	4.59	2.64	0.32	0.35	0.22	0.26	0.20
	November	3.94	3.65	5.06	2.57	0.31	0.34	0.22	0.26	0.23
	December	4.17 <sup>a</sup>	3.61	5.19	2.65	0.31	0.34	0.22	0.22	0.21
Relative significance <sup>a</sup>		1.96	1.54	0.40	52.34	27.37	19.35	3.08	3.98	0.97

<sup>a</sup> 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).

<sup>b</sup> Of the total amount of deposits to which this interest rate refers, 22.25 percent refers to enterprises.

**Table G4 a and b:** Banks' Interest Rates on Kuna Deposits Indexed to Foreign Currency and on Foreign Currency Deposits

The table contains weighted averages of banks' and savings 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 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.

Starting from January 2002, data refer to weighted averages of banks' and savings 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' and savings banks' interest rates on kuna deposits indexed to f/c and on foreign currency deposits are based on banks' and savings banks' periodic reports.

Column 3 reports 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 weighted averages of monthly interest rates on time deposits are shown in columns 4 (short-term deposits) and 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 weighted averages are calculated based on their kuna equivalent using current exchange rate. Deposits received in other currencies are not included in this table.

The basis for calculation of 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 calculation of weighted averages for savings deposits indexed to f/c are the end-of-month book balances of those deposits. Starting from January 2002, weighted 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 time deposits, which are weighted by the end-of-month balances of all categories included in the calculation.

The basis for calculation of weighted averages of monthly

**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				Total average	On long-term deposits				
			Total average	Households		Enterprises		Households	Enterprises			
12	13	EUR		USD	EUR	USD	18		EUR	USD	21	USD
1996	December	7.77	6.95	5.65	6.21	9.86	5.47	12.24	7.71	7.97	19.92	1.50
1997	December	6.36	6.07	6.03	6.42	5.09	7.10	7.32	7.87	8.71	5.09	6.76
1998	December	4.89	4.49	5.42	6.16	2.84	5.37	7.29	7.68	8.59	4.93	6.92
1999	December	5.43	5.17	4.93	6.39	3.97	6.00	6.59	6.64	8.09	3.66	6.77
2000	December	4.57	4.36	3.65	5.15	4.59	6.62	5.56	5.17	6.61	5.97	8.53
2001	December	3.54	3.35	3.42	3.23	3.60	2.44	4.59	4.72	4.42	4.58	0.23
2002	December	3.13	2.96	3.27	2.21	2.89	1.43	4.59	4.69	3.84	3.46	2.30
2003	December	2.64	2.46	2.83	1.65	2.29	1.08	3.69	4.71	3.13	2.85	1.64
2004	January	2.73	2.47	2.86	1.65	2.22	1.08	3.87	4.85	3.29	3.28	1.67
	February	2.62	2.42	2.82	1.62	2.24	1.09	4.68	4.95	3.18	3.18	1.10
	March	2.61	2.44	2.85	1.63	2.35	1.11	4.45	4.89	2.94	3.11	–
	April	2.70	2.47	2.82	1.65	2.35	1.15	3.79	4.93	3.08	2.98	1.34
	May	2.78	2.58	3.02	1.68	2.33	1.13	4.33	4.76	2.30	3.25	1.95
	June	2.75	2.58	3.05	1.70	2.40	1.17	4.57	4.86	3.26	3.08	4.81
	July	2.87	2.63	3.08	1.74	2.38	1.34	3.95	4.89	3.18	3.24	0.21
	August	2.90	2.70	3.10	1.72	2.38	1.56	4.62	4.95	2.88	3.23	1.30
	September	2.82	2.63	3.05	1.70	2.35	1.72	4.70	4.96	3.20	3.25	2.09
	October	2.85	2.64	3.05	1.89	2.32	1.76	3.92	4.94	3.30	3.26	3.07
	November	2.79	2.61	3.00	1.69	2.36	1.94	4.77	4.98	3.08	3.05	3.20
	December	2.85	2.65	3.01	1.69	2.46	2.28	4.20	4.85	3.13	3.61	2.65
Relative significance <sup>a</sup>		24.97	21.79	10.08	1.09	7.89	2.73	3.17	1.57	0.12	1.48	0.00

<sup>a</sup> 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).

interest rates on total foreign currency savings deposits (column 7) are the end-of-month balances of those deposits.

The basis for calculation of 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 weighted averages of monthly interest rates on total short-term foreign currency deposits (column 13) and on to-

tal long-term foreign currency deposits (column 18).

Relative significance of particular interest rates (reported in the last line of the table) refers to data for the last period included in the table. It is calculated as a percentage of the corresponding deposit category (to which exchange rates apply) in total deposits included in the calculation of weighted averages for that period.

**Table G5: Banks' Trade with Foreign Exchange**

million euros, current exchange rate

	2003	2004											
		Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
<b>A. Purchase of foreign exchange</b>													
1. Legal persons	6,433.1	478.0	501.1	654.2	599.7	615.0	583.4	679.4	529.9	651.1	575.8	583.9	1,013.8
2. Natural persons	3,571.6	218.0	233.7	276.3	324.7	311.7	346.5	442.3	448.5	337.5	318.1	328.2	350.3
2.1. Residents	3,103.3	212.5	226.6	268.8	–	288.0	304.7	366.0	347.0	301.6	304.8	317.9	340.2
2.2. Non-residents	468.2	5.5	7.1	7.5	–	23.7	41.8	76.4	101.6	35.9	13.4	10.3	10.1
3. Domestic banks	6,324.4	537.2	624.4	967.3	929.1	909.2	690.0	1,024.1	745.7	877.3	1,015.1	810.9	1,669.2
4. Foreign banks	1,430.6	65.8	59.8	214.6	144.0	50.6	113.3	138.6	108.4	165.0	108.3	100.1	157.6
5. Croatian National Bank	438.3	33.0	–	–	–	–	–	–	–	–	–	–	–
<b>Total (1+2+3+4)</b>	<b>18,197.9</b>	<b>1,331.9</b>	<b>1,419.0</b>	<b>2,112.3</b>	<b>1,997.5</b>	<b>1,886.5</b>	<b>1,733.1</b>	<b>2,284.5</b>	<b>2,284.5</b>	<b>2,030.9</b>	<b>2,017.3</b>	<b>1,823.1</b>	<b>3,190.9</b>
<b>B. Sale of foreign exchange</b>													
1. Legal persons	10,852.4	797.3	722.4	923.5	867.0	881.0	922.7	1,108.0	946.4	993.3	980.2	893.3	1,245.2
2. Natural persons	1,403.1	117.3	98.1	140.2	126.8	138.6	133.8	177.8	165.8	149.7	138.0	125.3	154.8
2.1. Residents	1,393.1	116.5	96.2	139.3	–	137.7	131.9	175.5	164.2	148.1	136.7	124.2	153.6
2.2. Non-residents	10.0	0.8	2.0	0.9	–	1.0	1.9	2.3	1.6	1.6	1.3	1.1	1.3
3. Domestic banks	6,324.4	537.2	624.4	967.3	929.1	909.2	690.0	1,024.1	745.7	877.3	1,015.1	810.9	1,669.2
4. Foreign banks	765.3	43.3	54.2	71.7	101.1	74.5	101.4	95.4	84.0	128.2	77.2	93.5	76.6
5. Croatian National Bank	84.5	–	–	162.7	–	–	–	46.0	70.0	25.0	–	–	239.5
<b>Total (1+2+3+4)</b>	<b>19,429.7</b>	<b>1,495.1</b>	<b>1,499.1</b>	<b>2,265.3</b>	<b>2,024.0</b>	<b>2,003.3</b>	<b>1,848.0</b>	<b>2,451.3</b>	<b>2,011.8</b>	<b>2,173.6</b>	<b>2,210.5</b>	<b>1,922.9</b>	<b>3,385.3</b>
<b>C. Net purchase (A-B)</b>													
1. Legal persons	-4,419.4	-319.4	-221.3	-269.2	-267.3	-266.0	-339.4	-428.6	-416.4	-342.3	-404.5	-309.4	-231.4
2. Natural persons	2,168.4	100.7	135.6	136.1	197.9	173.1	212.7	264.5	282.7	187.8	180.1	202.9	195.4
2.1. Residents	1,710.2	95.9	130.5	129.5	–	150.4	172.8	190.5	182.7	153.5	168.1	193.7	186.6
2.2. Non-residents	458.2	4.7	5.1	6.6	–	22.7	39.9	74.1	100.0	34.3	12.0	9.2	8.8
3. Foreign banks	665.3	22.5	5.6	142.9	42.9	-23.9	11.8	-46.0	24.4	36.8	31.2	6.6	81.1
4. Croatian National Bank	353.8	33.0	–	-162.7	–	–	–	–	-70.0	-25.0	–	–	-239.5
<b>Total (1+2+3)</b>	<b>-1,231.8</b>	<b>-163.2</b>	<b>-80.1</b>	<b>-153.0</b>	<b>-26.5</b>	<b>-116.8</b>	<b>-114.9</b>	<b>-210.0</b>	<b>-179.3</b>	<b>-142.7</b>	<b>-193.2</b>	<b>-99.9</b>	<b>-194.4</b>
Memo items: Other Croatian National Bank transactions													
Purchase of foreign exchange	570.9	0.0	–	0.0	145.0	–	0.0	–	–	–	–	–	0.0
Sale of foreign exchange	94.9	–	44.1	–	1.2	–	–	0.4	0.0	–	1.2	187.5	4.9

**Table G5: Banks' Trade with Foreign Exchange**

Data on trade with foreign exchange between banks comprise spot transactions of the purchase and sale of foreign exchange in domestic foreign currency market. Spot transactions are contracted obligations to buy/sell foreign currency within maximally 48 hours.

The transactions are classified by category of participants

(legal and natural persons, domestic and foreign banks and the CNB). Sources of data are banks' reports on trading with foreign exchange and statistical data on foreign payment operations.

Other Croatian National Bank transactions include foreign exchange sales and purchases on behalf of the Ministry of Finance.

**Table H1: Balance of Payments – Summary**

million euros

	2000	2001	2002	2003	2004 <sup>a</sup>	2004			
						Q1	Q2	Q3	Q4 <sup>a</sup>
<b>A. CURRENT ACCOUNT (1+6)</b>	-489.9	-817.7	-2,097.2	-1,756.9	-1,277.2	-1,181.2	-972.6	1,991.7	-1,115.1
<b>1. Goods, services, and income (2+5)</b>	-1,448.7	-1,917.2	-3,249.4	-3,001.4	-2,437.6	-1,454.5	-1,281.0	1,692.9	-1,395.0
1.1. Credit	9,788.6	11,272.5	11,583.7	13,696.4	15,059.4	2,466.1	3,322.9	6,250.8	3,019.6
1.2. Debit	-11,237.3	-13,189.7	-14,833.1	-16,697.8	-17,497.0	-3,920.6	-4,603.9	-4,557.8	-4,414.6
<b>2. Goods and services (3+4)</b>	-1,028.9	-1,301.0	-2,675.6	-1,927.4	-1,819.2	-1,216.8	-1,041.0	1,769.3	-1,330.7
2.1. Credit	9,411.3	10,800.1	11,125.4	13,251.4	14,417.7	2,341.8	3,184.3	5,987.9	2,903.7
2.2. Debit	-10,440.2	-12,101.1	-13,801.0	-15,178.7	-16,236.9	-3,558.6	-4,225.3	-4,218.6	-4,234.4
<b>3. Goods</b>	-3,499.4	-4,603.8	-5,960.3	-6,974.2	-6,724.7	-1,436.5	-1,950.1	-1,627.1	-1,711.1
3.1. Credit	4,969.3	5,318.8	5,293.1	5,571.7	6,601.9	1,483.4	1,623.1	1,729.7	1,765.7
3.2. Debit	-8,468.6	-9,922.6	-11,253.5	-12,545.9	-13,326.7	-2,919.8	-3,573.2	-3,356.8	-3,476.8
<b>4. Services</b>	2,470.5	3,302.8	3,284.8	5,046.9	4,905.5	219.7	909.1	3,396.4	380.4
4.1. Credit	4,442.0	5,481.3	5,832.3	7,679.7	7,815.8	858.5	1,561.2	4,258.2	1,138.0
4.2. Debit	-1,971.5	-2,178.5	-2,547.5	-2,632.8	-2,910.2	-638.8	-652.1	-861.8	-757.6
<b>5. Income</b>	-419.8	-616.2	-573.8	-1,074.1	-618.4	-237.7	-240.1	-76.3	-64.4
5.1. Credit	377.3	472.4	458.3	445.0	641.7	124.3	138.6	262.9	115.9
5.2. Debit	-797.2	-1,088.6	-1,032.1	-1,519.1	-1,260.1	-362.0	-378.6	-339.2	-180.3
<b>6. Current transfers</b>	958.9	1,099.5	1,152.2	1,244.5	1,160.4	273.3	308.4	298.7	279.9
6.1. Credit	1,195.5	1,333.3	1,453.2	1,538.7	1,529.2	367.8	401.9	388.1	371.4
6.2. Debit	-236.6	-233.8	-301.1	-294.2	-368.7	-94.4	-93.4	-89.4	-91.5
<b>B. CAPITAL AND FINANCIAL ACCOUNT</b>	1,244.5	1,050.9	2,731.9	2,996.4	2,255.1	1,173.7	898.0	-549.2	732.5
<b>B1. Capital account</b>	22.2	154.1	501.2	72.4	23.1	7.0	7.4	6.4	2.3
<b>B2. Financial account, excl. reserves</b>	1,899.5	2,445.8	2,972.6	4,159.5	2,275.0	745.1	1,093.2	-466.9	903.6
<b>1. Direct investment</b>	1,140.6	1,326.9	597.2	1,695.4	666.9	225.2	219.7	123.4	98.5
1.1. Abroad	-1.5	-175.6	-597.8	-93.0	-254.5	-40.7	-17.1	-167.7	-29.1
1.2. In Croatia	1,142.1	1,502.5	1,195.1	1,788.4	921.4	265.9	236.8	291.1	127.6
<b>2. Portfolio investment</b>	728.0	666.0	-440.2	868.8	234.4	-68.4	410.4	214.0	-321.6
2.1. Assets	-25.0	-143.2	-650.6	121.3	-752.9	-363.1	-184.3	10.5	-215.9
2.2. Liabilities	753.0	809.2	210.4	747.5	987.3	294.8	594.7	203.6	-105.7
<b>3. Other investment</b>	30.9	453.0	2,815.5	1,595.2	1,373.7	588.3	463.1	-804.4	1,126.7
3.1. Assets	-1,040.4	394.3	451.9	-2,151.8	-412.5	85.7	-159.7	-227.8	-110.7
3.2. Liabilities	1,071.3	58.7	2,363.6	3,747.0	1,786.2	502.5	622.8	-576.6	1,237.4
<b>B3. Reserve assets (CNB)</b>	-677.3	-1,549.0	-741.9	-1,235.5	-43.1	421.7	-202.7	-88.6	-173.4
<b>C. NET ERRORS AND OMISSIONS</b>	-754.6	-233.3	-634.7	-1,239.5	-977.8	7.4	74.6	-1,442.5	382.6

<sup>a</sup> Preliminary data.**Table H1–H6: Balance of Payments**

The balance of payments of the Republic of Croatia represents a systematic overview of the value of economic transactions performed by the Croatian residents with foreign countries within a particular period. It is compiled in accordance with the recommendations of the International Monetary Fund (Balance of Payments Manual, Fifth Edition, 1993). Data sources include: 1. reports of the government institutions (Central Bureau of Statistics and Croatian Institute for Health Insurance), 2. special reports of the Croatian National Bank (International Transaction Reporting System (ITRS), external debt relations, monetary statistics and reserve assets) and 3. estimates and statistical research carried out by the Croatian National Bank.

Balance of payments of the Republic of Croatia data are reported in three currencies: in euros (EUR), US dollars (USD) and domestic currency (HRK). In all cases, the same data sources are used and the same principles regarding the scope of transactions and the procedures for compiling particular items are applied. Since the original data are reported in different currencies, the transaction values are converted from the original currency into the reporting currency by applying the exchange rate from the CNB exchange rate list in one of the following manners:

- by applying the midpoint exchange rate on the date of the transaction;
- by applying the average monthly or quarterly midpoint exchange rate in the case the transaction date is not available;
- 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 merchandise foreign trade 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

**Table H2: Balance of Payments – Goods and Services**

million euros

	2000	2001	2002	2003	2004*	2004			
						Q1	Q2	Q3	Q4*
<b>Goods</b>	-3,499.4	-4,603.8	-5,960.3	-6,974.2	-6,724.7	-1,436.5	-1,950.1	-1,627.1	-1,711.1
<b>1. Credit</b>	4,969.3	5,318.8	5,293.1	5,571.7	6,601.9	1,483.4	1,623.1	1,729.7	1,765.7
1.1. Exports (f.o.b.) in trade statistics	4,821.6	5,214.1	5,188.2	5,464.4	6,452.6	1,453.7	1,590.8	1,684.3	1,723.8
1.2. Adjustments for coverage	147.7	104.7	105.0	107.3	149.3	29.6	32.4	45.4	41.9
<b>2. Debit</b>	-8,468.6	-9,922.6	-11,253.5	-12,545.9	-13,326.7	-2,919.8	-3,573.2	-3,356.8	-3,476.8
2.1. Imports (c.i.f.) in trade statistics	-8,597.5	-10,244.8	-11,327.0	-12,538.0	-13,349.9	-2,922.3	-3,573.1	-3,372.4	-3,482.1
2.2. Adjustments for coverage	-481.5	-405.3	-348.9	-475.6	-474.7	-106.5	-133.4	-110.2	-124.6
2.3. Adjustments for classification	610.4	727.4	422.5	467.7	498.0	109.0	133.3	125.8	129.9
<b>Services</b>	2,470.5	3,302.8	3,284.8	5,046.9	4,905.5	219.7	909.1	3,396.4	380.4
<b>1. Transportation</b>	195.2	186.1	172.0	252.2	245.3	59.4	69.5	87.5	28.9
1.1. Credit	606.3	658.6	622.8	696.3	791.1	160.2	201.0	226.9	203.0
1.2. Debit	-411.1	-472.5	-450.8	-444.1	-545.8	-100.8	-131.5	-139.4	-174.1
<b>2. Travel</b>	2,399.5	3,072.9	3,138.6	5,090.4	5,010.7	252.4	860.9	3,421.5	475.9
2.1. Credit	3,011.8	3,749.3	3,960.8	5,686.5	5,687.0	414.6	1,025.6	3,626.8	619.9
2.1.1. Business	288.1	305.8	341.2	334.5	389.0	82.1	108.8	92.7	105.4
2.1.2. Personal	2,723.7	3,443.6	3,619.7	5,352.0	5,297.9	332.5	916.8	3,534.1	514.5
2.2. Debit	-612.3	-676.5	-822.2	-596.1	-676.2	-162.2	-164.7	-205.3	-144.0
2.2.1. Business	-281.2	-322.7	-482.6	-292.3	-297.3	-66.7	-75.9	-66.5	-88.1
2.2.2. Personal	-331.1	-353.8	-339.6	-303.8	-379.0	-95.5	-88.8	-138.9	-55.8
<b>3. Other services</b>	-124.2	43.9	-25.9	-295.8	-350.5	-92.1	-21.3	-112.6	-124.4
3.1. Credit	824.0	1,073.4	1,248.6	1,296.9	1,337.7	283.6	334.6	404.4	315.1
3.2. Debit	-948.1	-1,029.5	-1,274.5	-1,592.7	-1,688.2	-375.7	-355.9	-517.1	-439.5

\* Preliminary data.

1993-2001 period, this share stood at 7.10% (estimated only on the basis of the largest and large exporters), while from 2002 on it has amounted to 5.75%. 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. Starting from 1996, goods exports and imports have been 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. Starting from 1999, 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, have been compiled on the basis of the results of the Research on transactions related to international transportation services, carried out by the CNB. Owing to an exceptionally large population of road carriers, revenues and expenditures on the basis of road transportation are not adopted from this research. They are compiled by using ITRS data. As regards transportation of goods, expenditures are supplemented by a portion of transportation and insurance costs related to imports of goods which belongs to non-residents and which is estimated by adjusting the value of imports at c.i.f. parity to the value of imports f.o.b.

Revenues from services rendered to foreign travellers and tourists, as well as expenditures incurred by domestic travellers and tourists abroad are shown under the position Travel.

In the 1993-1998 period, this position was assessed by using various data sources which did not provide for a full coverage in accordance with the recommended methodology. Accordingly, in the second half of 1998, the Croatian National Bank started to carry out the Survey on Consumption of Foreign Travellers in Croatia and Domestic Travellers Abroad and use its results for compiling the Travel position. Since early 1999, the results of this Survey, based on carrying out a survey of travellers (stratified sample) at border crossings, have been combined with the Ministry of the Interior data on total number of foreign and domestic travellers, along with the data on distribution of foreign travellers by countries contained in the CBS Report on tourism, in order to assess the corresponding balance of payment items.

Other services position is compiled by using different data sources: apart from revenues and expenditures related to insurance and communication services, which have been determined by the CNB special statistical research since 2001, the values of all other services are adopted from the ITRS.

Transactions in the income account are classified into four main groups. Compensation of employees item is compiled on the basis of the ITRS. Income from direct investment, portfolio investment and other investment are reported separately. Data on reinvested earnings are reported separately, under direct investment income, calculated on the basis of the CNB Research on direct and other equity investment. In contrast to data on dividends, these data are not available for the 1993-1996 period, since at that time they were not reported separately. On the basis of statistical data on external debt relations, starting from 1997, income from direct investment includes data on interest arising from credit relations between residents and non-residents directly related through ownership. Income from equity portfolio investment is compiled on the basis of the same research, whereas data on debt portfolio investment income have been compiled since 1999, based on income reported in statistics on foreign credit relations, which also encompass payments related to debt securities owned by

**Table H3: Balance of Payments – Income and Current Transfers**

million euros

	2000	2001	2002	2003	2004 <sup>a</sup>	2004			
						Q1	Q2	Q3	Q4 <sup>a</sup>
<b>Income</b>	-419.8	-616.2	-573.8	-1,074.1	-618.4	-237.7	-240.1	-76.3	-64.4
<b>1. Compensation of employees</b>	76.0	143.1	167.6	183.9	233.9	54.9	62.2	55.9	60.9
1.1. Credit	90.2	157.4	187.2	217.3	268.3	62.7	70.6	67.4	67.6
1.2. Debit	-14.2	-14.3	-19.5	-33.4	-34.4	-7.8	-8.4	-11.5	-6.7
<b>2. Direct investment income</b>	-154.1	-357.8	-353.4	-844.5	-421.8	-82.1	-236.1	-69.2	-34.3
2.1. Credit	10.4	22.8	23.6	33.4	165.0	4.2	15.8	147.2	-2.2
o/w: Reinvested earnings	7.7	17.1	7.4	30.3	156.3	3.2	11.4	144.4	-2.8
2.2. Debit	-164.5	-380.6	-377.1	-877.8	-586.8	-86.2	-251.9	-216.5	-32.1
o/w: Reinvested earnings	-87.3	-188.4	-161.8	-588.9	-275.8	-73.1	-162.5	-66.0	25.8
<b>3. Portfolio investment income</b>	-188.1	-241.8	-214.8	-239.6	-256.6	-178.9	-22.6	-25.6	-29.5
3.1. Credit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.2. Debit	-188.1	-241.9	-214.9	-239.6	-256.6	-178.9	-22.6	-25.6	-29.5
<b>4. Other investment income</b>	-153.6	-159.6	-173.2	-173.9	-173.9	-31.6	-43.5	-37.4	-61.4
4.1. Credit	276.7	292.2	247.4	194.4	208.4	57.4	52.2	48.3	50.5
4.2. Debit	-430.3	-451.8	-420.6	-368.3	-382.4	-89.1	-95.8	-85.6	-111.9
<b>Current transfers</b>	958.9	1,099.5	1,152.2	1,244.5	1,160.4	273.3	308.4	298.7	279.9
<b>1. General government</b>	24.6	65.3	32.2	70.5	0.5	-7.3	9.7	1.7	-3.6
1.1. Credit	129.4	142.7	143.4	213.1	178.3	40.6	55.6	42.8	39.2
1.2. Debit	-104.8	-77.4	-111.2	-142.6	-177.8	-48.0	-45.9	-41.1	-42.9
<b>2. Other sectors</b>	934.3	1,034.2	1,120.0	1,174.0	1,160.0	280.7	298.7	297.0	283.6
2.1. Credit	1,066.1	1,190.6	1,309.8	1,325.6	1,350.9	327.1	346.3	345.3	332.2
2.2. Debit	-131.8	-156.4	-189.8	-151.6	-190.9	-46.4	-47.6	-48.3	-48.6

<sup>a</sup> Preliminary data.

non-residents. Income from other investments includes all payments and collections of interest in accordance with the foreign credit relations statistics.

Current transfers are reported separately for the general government sector and other sectors. The ITRS is used as the main data source on current transfers for both sectors. In addition to taxes and excise duties, pensions, monetary support and donations, which are included in current transfers of both sectors, the government sector also encompasses data on multilateral co-operation, whereas other sectors include data on workers' remittances. Current transfers of the general government sector also include data on exports and imports of goods without a payment obligation, provided by the CBS. In the 1993-1998 period, current transfers of other sectors also encompassed an estimate of unregistered foreign currency remittances, which accounted for 15% of the positive difference between unclassified inflows and outflows of the household sector. From 1993 to the second quarter of 1996, the CNB also assessed a portion of the outflow based on current transfers. Since 2002, inflows and outflows based on current transfers of other sectors are supplemented by the data of the CNB special statistical research on international transactions related to insurance services.

Capital account is compiled on the basis of the ITRS, particularly on their part related to transfers of migrants. In addition, capital account includes transfers that cannot be classified into current transfers, such as allocation of gold of the former SFRY or investments in patents and rights.

Foreign direct investments include equity capital, reinvested earnings and debt relations between ownership-related residents and non-residents. Direct investments are investments whereby a foreign owner acquires a minimum of 10% interest in equity capital of a company, regardless of whether a resident invests abroad or a non-resident invests in Croatian residents. The CNB Research on foreign direct investments started in 1997 when companies included in the

survey also delivered data on direct investments for the 1993-1996 period. For the same period, no data are available on reinvested earnings and other capital under direct investment position, where all debt relations between related residents and non-residents are classified (excluding the banking sector). Such data actually became available only after the stated research has been launched. Since 1999 data on debt relations within direct investments have been collected on the basis of external debt relations statistics.

Data on equity portfolio investments are collected from the same data source as the data on direct investments. Debt portfolio investments include all investments in short-term and long-term debt securities that cannot be classified under direct investments. In the 1997-1998 period, these data were collected through the CNB Research on direct and portfolio investments, and since 1999 data on external debt relations and monetary statistics data for bank investment have been used. Starting from 2002 and 2004, this position has also been compiled for investment funds and pension funds, respectively.

Other investment encompasses all other debt investments that have not been mentioned, apart from investment constituting reserve assets. Other investments are classified by instruments, maturity and sectors. Trade credits, in the 1996-2002 period, included the CNB estimates of advance payment and deferred payments, made on the basis of the sample of the largest and large importers and exporters. Data on advance payments have been estimated since 1996, while data on short-term deferred payments (first up to 90 days, then up to 150 days, and today from 8 days to 1 year) have been collected since 1999. In 2003 this research was replaced by a new one, where the selected companies, regardless of their size (stratified sample), are obliged to submit data. Data on deferred payments with the original maturity of more than one year are adopted from the CNB foreign credit relations statistics. Credits granted by residents to non-resi-

**Table H4: Balance of Payments – Direct and Portfolio Investments**

million euros

	2000	2001	2002	2003	2004*	2004			
						Q1	Q2	Q3	Q4*
<b>Direct investment</b>	<b>1,140.6</b>	<b>1,326.9</b>	<b>597.2</b>	<b>1,695.4</b>	<b>666.9</b>	<b>225.2</b>	<b>219.7</b>	<b>123.4</b>	<b>98.5</b>
<b>1. Abroad</b>	<b>-1.5</b>	<b>-175.6</b>	<b>-597.8</b>	<b>-93.0</b>	<b>-254.5</b>	<b>-40.7</b>	<b>-17.1</b>	<b>-167.7</b>	<b>-29.1</b>
1.1. Equity capital and reinvested earnings	-38.1	-139.4	-594.1	-101.9	-228.4	-44.3	-20.1	-157.9	-6.2
1.1.1. Claims	-38.6	-139.4	-597.0	-101.9	-231.2	-44.3	-20.1	-157.9	-9.0
1.1.2. Liabilities	0.5	0.0	2.9	0.0	2.8	0.0	0.0	0.0	2.8
1.2. Other capital	36.6	-36.2	-3.7	8.9	-26.1	3.6	3.0	-9.8	-22.9
1.1.1. Claims	-11.0	5.5	-6.4	-12.8	-28.6	-4.3	3.0	-9.0	-18.2
1.2.2. Liabilities	47.6	-41.7	2.7	21.7	2.5	8.0	0.0	-0.8	-4.7
<b>2. In Croatia</b>	<b>1,142.1</b>	<b>1,502.5</b>	<b>1,195.1</b>	<b>1,788.4</b>	<b>921.4</b>	<b>265.9</b>	<b>236.8</b>	<b>291.1</b>	<b>127.6</b>
2.1. Equity capital and reinvested earnings	835.6	1,087.8	873.8	1,345.1	546.4	230.1	192.9	230.7	-107.4
2.1.1. Claims	-26.4	-8.0	0.0	-1.2	-25.8	0.0	0.0	0.0	-25.8
2.1.2. Liabilities	862.0	1,095.8	873.8	1,346.4	572.2	230.1	192.9	230.7	-81.6
2.2. Other capital	306.5	414.7	321.2	443.3	375.0	35.8	43.9	60.4	235.0
2.2.1. Claims	0.0	0.1	-0.3	-1.5	-12.2	-0.1	-11.9	0.0	-0.2
2.2.2. Liabilities	306.5	414.5	321.6	444.8	387.1	35.9	55.8	60.4	235.1
<b>Portfolio investment</b>	<b>728.0</b>	<b>666.0</b>	<b>-440.2</b>	<b>868.8</b>	<b>234.4</b>	<b>-68.4</b>	<b>410.4</b>	<b>214.0</b>	<b>-321.6</b>
<b>1. Assets</b>	<b>-25.0</b>	<b>-143.2</b>	<b>-650.6</b>	<b>121.3</b>	<b>-752.9</b>	<b>-363.1</b>	<b>-184.3</b>	<b>10.5</b>	<b>-215.9</b>
1.1. Equity securities	-0.2	0.3	-78.4	-58.0	-33.3	-3.9	-18.7	-7.8	-2.8
1.1.1. General government	0.0	0.0	-2.9	0.0	0.0	0.0	0.0	0.0	0.0
1.1.2. Banks	-0.1	0.4	-2.8	0.3	0.0	0.0	0.0	0.0	0.0
1.1.3. Other sectors	-0.1	-0.1	-72.7	-58.3	-33.3	-3.9	-18.7	-7.8	-2.8
1.2. Debt securities	-24.8	-143.5	-572.2	179.4	-719.6	-359.2	-165.6	18.2	-213.1
1.2.1. Bonds	-19.7	-128.8	-586.9	165.9	-585.0	-277.8	-136.1	35.1	-206.2
1.2.1.1. General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.2.1.2. Banks	-19.7	-128.8	-566.6	180.1	-592.9	-270.9	-134.9	22.1	-209.1
1.2.1.3. Other sectors	0.0	0.0	-20.3	-14.1	7.9	-6.8	-1.2	13.0	2.9
1.2.2. Money market instruments	-5.1	-14.8	14.7	13.5	-134.6	-81.4	-29.5	-16.8	-6.9
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	-5.1	-14.8	20.9	7.3	-134.7	-81.0	-29.9	-16.8	-6.9
1.2.2.3. Other sectors	0.0	0.0	-6.2	6.2	0.0	-0.5	0.5	0.0	0.0
2. Liabilities	753.0	809.2	210.4	747.5	987.3	294.8	594.7	203.6	-105.7
2.1. Equity securities	-0.1	15.1	44.2	13.5	140.8	8.9	47.1	26.4	58.4
2.1.1. Banks	0.5	-5.2	4.7	-2.1	-0.1	0.7	-0.1	1.0	-1.7
2.1.2. Other sectors	-0.6	20.3	39.5	15.6	140.9	8.1	47.2	25.4	60.2
2.2. Debt securities	753.1	794.1	166.2	734.0	846.5	285.9	547.5	177.2	-164.1
2.2.1. Bonds	762.1	774.2	197.2	700.0	880.2	283.2	577.3	183.9	-164.1
2.2.1.1. General government	762.1	774.2	67.2	527.3	404.9	272.6	482.1	-183.4	-166.5
2.2.1.2. Banks	0.0	0.0	0.0	0.0	444.5	0.0	0.0	443.1	1.4
2.2.1.3. Other sectors	0.0	0.0	130.0	172.6	30.8	10.6	95.2	-75.8	0.9
2.2.2. Money market instruments	-9.0	19.9	-30.9	34.0	-33.8	2.7	-29.7	-6.8	0.0
2.2.2.1. General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.2.2. Banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.2.3. Other sectors	-9.0	19.9	-30.9	34.0	-33.8	2.7	-29.7	-6.8	0.0

\* Preliminary data.

dents, i.e. foreign loans utilised by residents and granted by non-residents, which cannot be classified into direct investments or trade credits, are classified by the institutional sector and maturity under the corresponding positions of other investment. The CNB foreign credit relations statistics represent the data source for these positions. Currency and deposit position shows residents' claims on foreign countries for foreign cash and deposits with foreign banks, as well as obligations of the Croatian banks for deposits owned by non-residents. Monetary statistics represent a data source for the general government sector and banks sector. Data on balance and currency structure of foreign assets and liabilities, contained in monetary statistics, are used to assess transactions from which the exchange rate effect was eliminated. In the 1993-1998 period, data on other sectors'

claims under this position were compiled on the basis of the CNB estimate of a portion of net foreign currency inflows of the household sector which is not classified under current transfers. Since 1999 this position has included only the data based on the Bank for International Settlement quarterly data, while data in the fourth quarter of 2001 and in the first two quarters of 2002 relate to the effect of the EMU countries' currencies changeover to the euro.

In the period from 1993 to 1998, the estimate of reserve assets transactions was made by converting the changes in the original currencies into the US dollars by applying the average monthly exchange rate of the currencies contained in the reserves. Since 1999 the changes in reserve assets balance have been calculated on the basis of the CNB accounting data.

**Table H5: Balance of Payments – Other Investment**

million euros

	2000	2001	2002	2003	2004*	2004			
						Q1	Q2	Q3	Q4*
<b>Other investment (net)</b>	<b>30.9</b>	<b>453.0</b>	<b>2,815.5</b>	<b>1,595.2</b>	<b>1,373.7</b>	<b>588.3</b>	<b>463.1</b>	<b>-804.4</b>	<b>1,126.7</b>
<b>1. Assets</b>	<b>-1,040.4</b>	<b>394.3</b>	<b>451.9</b>	<b>-2,151.8</b>	<b>-412.5</b>	<b>85.7</b>	<b>-159.7</b>	<b>-227.8</b>	<b>-110.7</b>
1.1. Trade credits	100.1	57.9	-88.4	-167.2	-182.3	-159.0	-16.0	18.9	-26.2
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	100.1	57.9	-88.4	-167.2	-182.3	-159.0	-16.0	18.9	-26.2
1.1.2.1. Long-term	2.8	9.2	-16.3	-23.0	16.4	-14.0	14.8	11.9	3.8
1.1.2.2. Short-term	97.3	48.7	-72.1	-144.1	-198.7	-144.9	-30.8	7.0	-30.0
1.2. Loans	-107.9	39.2	-54.7	-22.5	11.1	1.7	11.6	-5.6	3.5
1.2.1. General government	0.0	-3.4	0.6	-1.0	-0.3	0.3	0.0	0.3	-0.9
1.2.1.1. Long-term	0.0	-3.4	0.6	-1.0	-0.3	0.3	0.0	0.3	-0.9
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	1.7	-10.0	-22.0	4.3	6.1	-0.3	10.8	-7.3	2.9
1.2.2.1. Long-term	1.9	-3.4	-16.5	5.0	7.0	-2.1	8.3	2.0	-1.3
1.2.2.2. Short-term	-0.2	-6.6	-5.5	-0.6	-0.9	1.7	2.5	-9.3	4.2
1.2.3. Other sectors	-109.6	52.6	-33.3	-25.9	5.3	1.7	0.8	1.3	1.5
1.2.3.1. Long-term	-109.6	52.6	-33.2	-26.0	5.6	1.7	0.8	1.6	1.5
1.2.3.2. Short-term	0.0	0.0	-0.1	0.1	-0.4	0.0	-0.1	-0.3	0.0
1.3. Currency and deposits	-1,032.6	297.3	594.9	-1,962.1	-241.3	243.1	-155.3	-241.1	-88.0
1.3.1. General government	-26.5	-18.1	-24.2	30.3	72.7	-83.0	-44.8	63.6	137.0
1.3.2. Banks	-964.2	-1,790.9	1,516.5	-1,964.5	-368.7	289.2	-162.7	-270.3	-225.0
1.3.3. Other sectors	-41.9	2,106.3	-897.4	-27.9	54.7	36.8	52.3	-34.4	0.0
1.4. Other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>2. Liabilities</b>	<b>1,071.3</b>	<b>58.7</b>	<b>2,363.6</b>	<b>3,747.0</b>	<b>1,786.2</b>	<b>502.5</b>	<b>622.8</b>	<b>-576.6</b>	<b>1,237.4</b>
2.1. Trade credits	318.2	96.3	501.3	-226.9	-76.1	10.0	-6.7	-82.4	3.0
2.1.1. General government	-3.5	1.2	-0.1	1.5	-0.3	-0.1	0.3	-0.4	-0.1
2.1.1.1. Long-term	-0.5	1.2	-0.1	1.5	-0.3	-0.1	0.3	-0.4	-0.1
2.1.1.2. Short-term	-3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.1.2. Other sectors	321.7	95.1	501.4	-228.4	-75.8	10.1	-7.1	-82.0	3.1
2.1.2.1. Long-term	-13.8	-22.1	-1.2	-47.4	-31.1	-12.4	-13.6	0.0	-5.1
2.1.2.2. Short-term	335.5	117.2	502.6	-181.0	-44.8	22.5	6.5	-82.0	8.2
2.2. Loans	873.0	-260.5	653.8	2,833.9	1,620.6	409.1	679.6	-10.6	542.5
2.2.1. Croatian National Bank	-16.9	-4.1	-177.2	354.2	-371.7	-240.8	-128.8	-0.5	-1.7
2.2.1.1. o/w: IMF	-31.5	-34.3	-129.5	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	-31.5	-34.3	-129.5	0.0	0.0	0.0	0.0	0.0	0.0
2.2.1.2. Short-term	14.7	30.3	-47.6	354.2	-371.7	-240.8	-128.8	-0.5	-1.7
2.2.2. General government	345.2	-212.2	433.9	502.9	406.5	42.9	132.4	214.0	17.2
2.2.2.1. Long-term	5.7	185.4	433.9	502.9	406.5	42.9	132.4	214.0	17.2
2.2.2.1.1. Drawings	286.4	363.2	598.2	697.8	700.7	131.0	183.8	271.3	114.6
2.2.2.1.2. Repayments	-280.6	-177.8	-164.3	-194.9	-294.2	-88.1	-51.4	-57.3	-97.4
2.2.2.2. Short-term	339.4	-397.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.3. Banks	117.0	87.2	79.3	1,005.7	625.1	447.0	346.5	-459.9	291.5
2.2.3.1. Long-term	122.8	93.0	81.6	927.2	568.5	233.5	274.7	-11.4	71.7
2.2.3.1.1. Drawings	722.7	829.3	656.9	1,644.7	993.1	415.1	395.2	49.7	133.2
2.2.3.1.2. Repayments	-599.8	-736.3	-575.3	-717.5	-424.5	-181.5	-120.5	-61.0	-61.5
2.2.3.2. Short-term	-5.8	-5.8	-2.3	78.5	56.6	213.5	71.8	-448.5	219.9
2.2.4. Other sectors	427.6	-131.5	317.8	971.2	960.7	160.0	329.6	235.7	235.5
2.2.4.1. Long-term	534.2	-133.6	335.4	920.7	890.4	127.8	291.2	227.2	244.1
2.2.4.1.1. Drawings	1,107.1	818.1	1,326.0	1,898.1	1,943.5	394.1	515.9	545.1	488.5
2.2.4.1.2. Repayments	-572.9	-951.7	-990.7	-977.3	-1,053.1	-266.3	-224.7	-317.8	-244.3
2.2.4.2. Short-term	-106.6	2.1	-17.6	50.4	70.3	32.2	38.4	8.5	-8.7
2.3. Currency and deposits	-119.8	223.0	1,209.4	1,140.7	243.3	84.7	-50.1	-483.4	692.0
2.3.1. Banks	-119.8	223.0	1,209.4	1,140.7	243.3	84.7	-50.1	-483.4	692.0
2.4. Other liabilities	0.0	-0.1	-0.9	-0.7	-1.6	-1.4	-0.1	-0.2	0.0

\* Preliminary data.

**Table H6: Balance of Payments – Summary**

million kuna

	2000	2001	2002	2003	2004 <sup>a</sup>	2004			
						Q1	Q2	Q3	Q4 <sup>a</sup>
<b>A. CURRENT ACCOUNT (1+6)</b>	-3,978.1	-6,083.1	-15,509.0	-13,353.1	-9,801.9	-8,910.7	-7,173.7	14,750.0	-8,467.5
<b>1. Goods, services, and income (2+5)</b>	-11,291.6	-14,276.1	-24,285.8	-23,058.5	-18,666.5	-11,039.6	-9,534.3	12,485.2	-10,577.8
1.1. Credit	74,468.0	84,083.8	85,563.6	103,318.8	112,405.7	18,766.1	24,706.2	46,148.3	22,785.1
1.2. Debit	-85,759.5	-98,359.9	-109,849.4	-126,377.3	-131,072.2	-29,805.7	-34,240.4	-33,663.1	-33,362.9
<b>2. Goods and services (3+4)</b>	-8,043.7	-9,950.0	-20,004.4	-14,802.4	-13,983.0	-9,250.8	-7,737.3	13,049.6	-10,044.4
2.1. Credit	71,592.3	80,321.0	82,188.2	100,061.5	107,613.2	17,820.1	23,674.8	44,208.1	21,910.3
2.2. Debit	-79,636.0	-90,270.9	-102,192.6	-114,863.9	-121,596.2	-27,070.9	-31,412.1	-31,158.5	-31,954.6
<b>3. Goods</b>	-26,681.2	-34,323.1	-44,135.8	-52,782.7	-50,331.8	-10,922.6	-14,488.0	-12,006.3	-12,915.0
3.1. Credit	37,909.7	39,695.8	39,198.3	42,167.2	49,471.2	11,283.5	12,077.3	12,787.7	13,322.8
3.2. Debit	-64,591.0	-74,018.9	-83,334.1	-94,949.9	-99,803.0	-22,206.0	-26,565.2	-24,794.0	-26,237.7
<b>4. Services</b>	18,637.5	24,373.1	24,131.4	37,980.3	36,348.8	1,671.7	6,750.6	25,055.9	2,870.6
4.1. Credit	33,682.6	40,625.2	42,989.9	57,894.3	58,142.0	6,536.6	11,597.5	31,420.4	8,587.5
4.2. Debit	-15,045.0	-16,252.1	-18,858.5	-19,914.0	-21,793.2	-4,864.9	-4,846.9	-6,364.5	-5,716.9
<b>5. Income</b>	-3,247.9	-4,326.1	-4,281.4	-8,256.1	-4,683.5	-1,788.7	-1,796.9	-564.4	-533.4
5.1. Credit	2,875.7	3,762.9	3,375.4	3,257.3	4,792.5	946.0	1,031.4	1,940.2	874.9
5.2. Debit	-6,123.5	-8,089.0	-7,656.8	-11,513.4	-9,476.1	-2,734.8	-2,828.3	-2,504.6	-1,408.3
<b>6. Current transfers</b>	7,313.5	8,192.9	8,776.7	9,705.4	8,864.6	2,128.9	2,360.5	2,264.9	2,110.3
6.1. Credit	9,118.6	9,934.0	10,761.2	11,639.9	11,454.5	2,797.7	2,989.0	2,866.9	2,800.9
6.2. Debit	-1,805.1	-1,741.1	-1,984.4	-1,934.6	-2,589.9	-668.8	-628.4	-602.1	-690.6
<b>B. CAPITAL AND FINANCIAL ACCOUNT</b>	9,598.4	7,343.6	20,661.6	23,316.0	17,468.1	8,877.6	6,596.4	-3,960.2	5,954.3
<b>B1. Capital account</b>	170.1	1,145.1	3,695.6	546.9	172.8	53.2	55.4	47.0	17.2
<b>B2. Financial account, excl. reserves</b>	14,614.7	17,695.5	22,454.5	32,121.5	17,632.0	5,676.1	8,063.9	-3,353.7	7,245.7
<b>1. Direct investment</b>	8,738.8	9,839.3	4,888.5	13,293.9	5,231.6	1,647.7	1,629.5	945.4	1,008.9
1.1. Abroad	-22.1	-1,278.4	-4,419.4	-713.8	-1,892.4	-309.3	-127.7	-1,236.8	-218.6
1.2. In Croatia	8,761.0	11,117.7	9,307.9	14,007.7	7,124.0	1,957.0	1,757.3	2,182.2	1,227.5
<b>2. Portfolio investment</b>	5,658.7	4,978.9	-3,227.3	6,669.8	1,623.7	-487.2	2,995.1	1,626.0	-2,510.3
2.1. Assets	-189.8	-1,081.7	-4,839.8	936.8	-5,690.4	-2,771.8	-1,365.3	76.4	-1,629.7
2.2. Liabilities	5,848.4	6,060.6	1,612.6	5,733.0	7,314.1	2,284.7	4,360.4	1,549.6	-880.6
<b>3. Other investment</b>	217.2	2,877.2	20,793.3	12,157.8	10,776.6	4,515.6	3,439.2	-5,925.2	8,747.0
3.1. Assets	-7,942.6	2,569.6	3,261.5	-16,361.3	-3,023.3	676.1	-1,187.1	-1,677.2	-835.1
3.2. Liabilities	8,159.8	307.6	17,531.8	28,519.1	13,799.9	3,839.4	4,626.3	-4,248.0	9,582.1
<b>B3. Reserve assets (CNB)</b>	-5,186.4	-11,497.0	-5,488.5	-9,352.4	-336.7	3,148.3	-1,522.9	-653.4	-1,308.7
<b>C. NET ERRORS AND OMISSIONS</b>	-5,620.3	-1,260.4	-5,152.6	-9,962.9	-7,666.2	33.0	577.3	-10,789.9	2,513.3

<sup>a</sup> Preliminary data.

Note: From 1999 on, item "Other investment – Liabilities" includes CNB repo transactions.

**Table H7: International Reserves and Banks' Foreign Exchange Reserves<sup>a</sup>**

end of period, million euros

Year	Month	International reserves of the Croatian National Bank							Banks' foreign exchange reserves
		Total	Special drawing rights	Reserve position in the Fund	Gold	Foreign exchange			
						Total	Currency and deposits	Bonds and notes	
1996	December	1,867.7	101.3	0.0	–	1,766.3	1,627.6	138.7	1,549.2
1997	December	2,303.7	133.4	0.1	–	2,170.2	1,825.2	345.0	2,078.9
1998	December	2,400.2	197.1	0.1	–	2,203.0	1,642.6	560.4	1,607.0
1999	December	3,012.7	188.7	0.2	–	2,823.7	2,449.8	373.9	1,344.7
2000	December	3,783.2	158.5	0.2	–	3,624.5	2,763.0	861.5	2,310.7
2001	December	5,333.6	122.9	0.2	–	5,210.5	3,469.7	1,740.7	4,056.0
2002	December	5,651.3	2.3	0.2	–	5,648.8	3,787.8	1,861.0	2,581.6
2003	December	6,554.1	0.7	0.2	–	6,553.2	3,346.0	3,207.2	3,927.1
2004	January	6,650.1	0.9	0.2	–	6,649.0	3,512.6	3,136.4	3,742.2
	February	6,646.6	0.7	0.2	–	6,645.7	3,365.2	3,280.5	3,535.4
	March	6,178.5	0.7	0.2	–	6,177.6	2,726.8	3,450.9	3,627.3
	April	6,449.1	1.2	0.2	–	6,447.7	2,953.6	3,494.1	3,632.1
	May	6,393.1	1.0	0.2	–	6,391.9	2,800.1	3,591.8	3,786.4
	June	6,389.5	1.0	0.2	–	6,388.3	2,761.4	3,626.9	3,784.7
	July	6,366.1	1.2	0.2	–	6,364.7	2,672.9	3,691.8	3,915.7
	August	6,482.2	0.7	0.2	–	6,481.4	2,864.6	3,616.7	4,175.2
	September	6,451.8	0.7	0.2	–	6,450.9	2,831.4	3,619.5	4,073.4
	October	6,372.6	0.9	0.2	–	6,371.5	3,150.8	3,220.6	3,995.0
	November	6,324.5	0.6	0.2	–	6,323.7	3,129.2	3,194.5	4,016.7
	December	6,436.2	0.6	0.2	–	6,435.4	3,173.3	3,262.0	4,220.1

<sup>a</sup> International reserves of the Republic of Croatia include only the foreign exchange reserves of the CNB.**Table H7: International Reserves and Banks' Foreign Exchange Reserves**

The international reserves of the Croatian National Bank are shown according to the methodology contained 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 International Monetary Fund, gold, foreign currency and deposits with foreign banks, as well as bonds and debt instruments.

The foreign exchange reserves of banks include foreign currency and domestic banks' deposits with foreign banks. These foreign exchange reserves represent an additional source of liquidity for bridging imbalances in international payments.

**Table H8: International Reserves and Foreign Currency Liquidity**

end of period, million euros

	2003	2004											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
<b>I. Official reserve assets and other f/c assets (approximate market value)</b>													
<b>A. Official reserve assets</b>	<b>6,554.1</b>	<b>6,650.1</b>	<b>6,646.6</b>	<b>6,178.5</b>	<b>6,449.1</b>	<b>6,393.1</b>	<b>6,389.5</b>	<b>6,366.1</b>	<b>6,482.2</b>	<b>6,451.8</b>	<b>6,372.6</b>	<b>6,324.5</b>	<b>6,436.2</b>
(1) Foreign currency reserves (in convertible f/c)	5,740.1	5,510.3	5,491.4	5,477.7	5,741.0	5,876.9	5,898.3	5,894.7	6,031.4	5,950.9	6,221.5	6,223.7	6,235.4
(a) Securities	3,207.2	3,136.4	3,280.5	3,450.9	3,494.1	3,591.8	3,626.9	3,691.8	3,616.7	3,619.5	3,220.6	3,194.5	3,262.0
o/w: Issuer headquartered in reporting country but located abroad	–	–	–	–	–	–	–	–	–	–	–	–	–
(b) Total currency and deposits with:	2,532.9	2,373.9	2,210.9	2,026.8	2,246.8	2,285.1	2,271.4	2,202.9	2,414.6	2,331.4	3,000.8	3,029.2	2,973.3
(i) other national central banks, BIS and IMF	271.1	235.5	227.7	229.4	232.8	228.9	229.9	214.0	214.2	212.2	209.2	205.6	233.1
(ii) banks headquartered in the reporting country	–	–	–	–	–	–	–	–	–	–	–	–	–
o/w: Located abroad	–	–	–	–	–	–	–	–	–	–	–	–	–
(iii) banks headquartered outside the reporting country	2,261.8	2,138.4	1,983.3	1,797.4	2,014.0	2,056.2	2,041.5	1,988.8	2,200.4	2,119.2	2,791.6	2,823.6	2,740.3
o/w: Located in the reporting country	–	–	–	–	–	–	–	–	–	–	–	–	–
(2) IMF reserve position	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
(3) SDRs	0.7	0.9	0.7	0.7	1.2	1.0	1.0	1.2	0.7	0.7	0.9	0.6	0.6
(4) gold	–	–	–	–	–	–	–	–	–	–	–	–	–
(5) other reserve assets	813.1	1,138.7	1,154.3	700.0	706.7	515.0	490.0	470.0	450.0	500.0	150.0	100.0	200.0
– reverse repo	813.1	1,138.7	1,154.3	700.0	706.7	515.0	490.0	470.0	450.0	500.0	150.0	100.0	200.0
<b>B. Other foreign currency assets (specify)</b>	<b>–</b>												
– time deposits	–	–	–	–	–	–	–	–	–	–	–	–	–
<b>C. Total (A+B)</b>	<b>6,554.1</b>	<b>6,650.1</b>	<b>6,646.6</b>	<b>6,178.5</b>	<b>6,449.1</b>	<b>6,393.1</b>	<b>6,389.5</b>	<b>6,366.1</b>	<b>6,482.2</b>	<b>6,451.8</b>	<b>6,372.6</b>	<b>6,324.5</b>	<b>6,436.2</b>
<b>II. Predetermined short-term net drains on f/c assets (nominal value)</b>													
<b>1. F/c loans, securities, and deposits (total net drains up to one year)</b>	<b>-1,538.0</b>	<b>-1,324.8</b>	<b>-970.3</b>	<b>-1,351.7</b>	<b>-1,381.2</b>	<b>-1,365.2</b>	<b>-1,368.3</b>	<b>-1,200.6</b>	<b>-1,205.3</b>	<b>-1,194.2</b>	<b>-1,190.3</b>	<b>-1,178.0</b>	<b>-988.6</b>
(a) Croatian National Bank	-646.9	-427.7	-115.3	-1.4	-1.2	-1.2	-1.2	-1.4	-1.3	-1.6	-1.5	-1.5	-1.8
Up to 1 month	Principal	-355.9	-311.6	-113.8	–	–	–	–	–	–	–	–	–
Interest	-1.9	-2.0	-1.5	-1.4	-1.2	-1.2	-1.2	-1.4	-1.3	-1.6	-1.5	-1.5	-1.8
More than 1 and up to 3 months	Principal	-288.3	-113.8	–	–	–	–	–	–	–	–	–	–
Interest	-0.7	-0.3	–	–	–	–	–	–	–	–	–	–	–
More than 3 months and up to 1 year	Principal	–	–	–	–	–	–	–	–	–	–	–	–
Interest	–	–	–	–	–	–	–	–	–	–	–	–	–
(b) Central government (excl. central government funds)	-891.1	-897.1	-855.1	-1,350.4	-1,380.0	-1,364.0	-1,367.0	-1,199.2	-1,204.0	-1,192.5	-1,188.8	-1,176.5	-986.8
Up to 1 month	Principal	-85.9	-2.5	-6.9	-3.2	-2.6	-25.6	-236.9	0.0	-8.7	-2.8	-2.6	-76.5
Interest	-34.4	-58.4	-109.9	-2.5	-1.0	-15.2	-26.0	-2.9	-3.6	-2.6	-1.1	-14.3	-13.8
More than 1 and up to 3 months	Principal	-9.3	-10.0	-5.8	-28.0	-265.0	-236.4	-9.2	-11.5	-5.4	-211.7	-291.9	-78.1
Interest	-168.3	-112.9	-3.7	-17.0	-42.6	-28.7	-6.4	-6.5	-3.7	-16.5	-30.6	-72.4	-169.0
More than 3 months and up to 1 year	Principal	-495.2	-586.5	-568.1	-1,063.7	-830.8	-823.3	-844.9	-923.1	-923.8	-713.8	-630.6	-631.1
Interest	-98.0	-126.8	-160.8	-236.0	-238.1	-234.9	-243.6	-255.3	-258.8	-245.1	-232.1	-174.9	-73.8
<b>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)</b>	<b>–</b>												
(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	–	–	–	–	–	–	–	–	–	–	–	–	–
<b>3. Other</b>	<b>-363.5</b>	<b>-764.5</b>	<b>-575.0</b>	<b>-128.2</b>	<b>–</b>								
– outflows related to repos (–)	-363.5	-764.5	-575.0	-128.2	–	–	–	–	–	–	–	–	–
Up to 1 month	Principal	-363.1	-763.7	-574.3	-128.2	–	–	–	–	–	–	–	–
Interest	-0.4	-0.8	-0.7	–	–	–	–	–	–	–	–	–	–
More than 1 and up to 3 months	Principal	–	–	–	–	–	–	–	–	–	–	–	–
Interest	–	–	–	–	–	–	–	–	–	–	–	–	–
More than 3 months and up to 1 year	Principal	–	–	–	–	–	–	–	–	–	–	–	–
Interest	–	–	–	–	–	–	–	–	–	–	–	–	–
<b>4. Total predetermined short-term net drains on f/c assets (1+2+3)</b>	<b>-1,901.5</b>	<b>-2,089.3</b>	<b>-1,545.3</b>	<b>-1,479.9</b>	<b>-1,381.2</b>	<b>-1,365.2</b>	<b>-1,368.3</b>	<b>-1,200.6</b>	<b>-1,205.3</b>	<b>-1,194.2</b>	<b>-1,190.3</b>	<b>-1,178.0</b>	<b>-988.6</b>
<b>III. Contingent short-term net drains on f/c assets (nominal value)</b>													
<b>1. Contingent liabilities in foreign currency</b>	<b>-1,300.4</b>	<b>-1,348.4</b>	<b>-1,782.8</b>	<b>-1,750.3</b>	<b>-1,783.1</b>	<b>-1,787.6</b>	<b>-1,833.9</b>	<b>-1,852.4</b>	<b>-1,881.9</b>	<b>-1,867.5</b>	<b>-1,805.7</b>	<b>-1,737.3</b>	<b>-1,772.9</b>
(a) Collateral guarantees on debt falling due within 1 year	-426.8	-445.1	-441.8	-401.5	-401.7	-402.6	-406.8	-411.4	-412.8	-438.0	-432.7	-382.2	-370.9
– Croatian National Bank	–	–	–	–	–	–	–	–	–	–	–	–	–
– Central government (excl. extrabudgetary funds)	-426.8	-445.1	-441.8	-401.5	-401.7	-402.6	-406.8	-411.4	-412.8	-438.0	-432.7	-382.2	-370.9
Up to 1 month	-55.8	-39.0	-57.1	-23.7	-5.3	-31.6	-66.2	-7.5	-49.5	-23.4	-53.4	-42.4	-62.7
More than 1 and up to 3 months	-94.9	-81.8	-29.8	-42.7	-99.4	-75.1	-56.9	-72.8	-77.0	-95.5	-109.1	-84.2	-33.9
More than 3 months and up to 1 year	-276.1	-324.3	-354.8	-335.1	-297.0	-295.9	-283.6	-331.1	-286.3	-319.0	-270.2	-255.7	-274.4
(b) Other contingent liabilities	-873.6	-903.3	-1,341.0	-1,348.8	-1,381.4	-1,385.1	-1,427.1	-1,441.0	-1,469.2	-1,429.5	-1,373.0	-1,355.1	-1,402.0
– Croatian National Bank	-873.6	-903.3	-1,341.0	-1,348.8	-1,381.4	-1,385.1	-1,427.1	-1,441.0	-1,469.2	-1,429.5	-1,373.0	-1,355.1	-1,402.0
Up to 1 month	–	–	–	–	–	–	–	–	–	–	–	–	–
More than 1 and up to 3 months	-873.6	-903.3	-1,341.0	-1,348.8	-1,381.4	-1,385.1	-1,427.1	-1,441.0	-1,469.2	-1,429.5	-1,373.0	-1,355.1	-1,402.0
More than 3 months and up to 1 year	–	–	–	–	–	–	–	–	–	–	–	–	–
– Central government (excl. central government funds)	–	–	–	–	–	–	–	–	–	–	–	–	–

2. F/c 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)	-1,300.4	-1,348.4	-1,782.8	-1,750.3	-1,783.1	-1,787.6	-1,833.9	-1,852.4	-1,881.9	-1,867.5	-1,805.7	-1,737.3	-1,772.9	
IV. Memo items														
(a) short-term domestic currency debt indexed to the exchange rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-
o/w: Central government (excl. extrabudgetary 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 repaid and included in Section I	-351.0	-734.6	-557.7	-121.8	-	-	-	-	-	-	-	-	-	-
– lent or repaid but not included in Section I	-	-	-	-	-	-	-	-	-	-	-	-	-	-
– borrowed or acquired and included in Section I	-	-	-	-	-	-	-	-	-	-	-	-	-	-
– borrowed or acquired but not included in Section I	785.1	1,089.9	1,080.0	638.8	669.6	491.1	479.5	459.0	421.3	475.9	140.5	89.6	180.7	
(e) financial derivative assets (net, marked to market)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(f) currency composition of official reserves assets														
– currencies in SDR basket	6,554.1	6,650.1	6,646.6	6,178.5	6,449.1	6,393.1	6,389.4	6,366.1	6,482.2	6,451.8	6,372.6	6,324.5	6,436.2	
– currencies not in SDR basket	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
– by individual currencies														
USD	1,937.6	2,133.6	1,994.8	1,887.2	1,930.9	1,892.3	1,963.2	2,019.8	2,046.1	1,960.0	1,918.0	1,810.7	1,609.1	
EUR	4,615.6	4,515.4	4,650.9	4,290.4	4,516.7	4,499.6	4,425.0	4,344.8	4,435.2	4,490.9	4,453.4	4,326.0	4,826.3	
Other	0.9	1.1	0.9	0.9	1.4	1.2	1.2	1.5	0.9	0.9	1.1	187.9	0.8	

**Table H8:** International Reserves and Foreign Currency Liquidity

International reserves and foreign currency liquidity are shown in accordance with a Template on international reserves and foreign currency liquidity, drawn up by the IMF. A detailed explanation of the Template is given in "International Reserves and Foreign Currency Liquidity – Guidelines for a Data Template, 2001".

The first part of the Template shows total assets of the Croatian National Bank in convertible foreign currency. Official reserve assets (I.A.) show those types of assets that are readily available to the CNB at any moment for bridging imbalances in international payments. Official international reserves include: short-term foreign negotiable debt securities, foreign cash, foreign currency sight deposits, foreign currency time deposits which can be withdrawn before maturity, foreign currency time deposits with a remaining maturity of up to 1 year, reserve position with the IMF, special drawing rights, gold, and reverse repos with foreign negotiable debt securities.

The second part of the Template shows fixed predetermined foreign currency net liabilities of the Croatian National Bank and the central government (excluding central government funds) that fall due in the next 12 months. Foreign currency loans, securities and deposits (II.1.) include future interest payments on banks' foreign currency reserve requirements with the CNB (only interest payments for the next month are included), payments of future maturities of foreign currency CNB bills, future principal and interest payments on loans from the IMF, and future principal and interest payments on the central government's foreign currency debts (excluding central government funds). Aggregate short and long positions in forwards and futures in foreign currencies (II.2.) include future collections (+) or payments (-) arising from currency swaps between the CNB and domestic banks (temporary sale or purchase of foreign currency). Item Other (II.3.) includes future payments arising from repo

agreements with foreign negotiable debt securities.

The third part of the Template shows predetermined contingent foreign currency net liabilities of the Croatian National Bank and the central government (excluding central government funds), which fall due in the following 12 months. Contingent liabilities in foreign currency (III.1.) include future principal and interest payments on foreign loans guaranteed by the central government, and banks' foreign currency reserve requirements. (The inclusion of reserve requirements in foreign currency is based on the assumption that there will be no changes in ratios or in the base of foreign currency reserve requirements, which comprises foreign exchange sources of funds, including ordinary foreign exchange accounts, special foreign exchange accounts, sight foreign exchange accounts and savings deposits, received foreign exchange deposits and received foreign exchange loans, as well as obligations arising from securities issued in foreign exchange (excluding the bank's 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 Exchange Deposits into the Public Debt of the Republic of Croatia, which fall due in the next 12 months. Pledged assets (IV.c) show time deposits in foreign currency with a maturity over 3 months listed in item I.B. which are also a pledge. Repo transactions with securities show the value of collateral that is the subject of repo agreements and reverse repo transactions with securities as well as how these transactions are registered in the Template. Until December 2000, the currency structure of international and other foreign currency reserves showed the currency structure of the total foreign currency assets of the CNB (section I.). From January 2001, the currency structure refers to official reserve assets (section I.A.).

**Table H9: Midpoint Exchange Rates of the Croatian National Bank (period average)**

Year	Month	HRK/EUR	HRK/ATS	HRK/FRF	HRK/100 ITL	HRK/CHF	HRK/GBP	HRK/USD	HRK/DEM
1996		6.804708	0.513722	1.062735	0.352150	4.404976	8.479850	5.433800	3.614536
1997		6.959708	0.505322	1.056355	0.361942	4.246962	10.081567	6.157050	3.555932
1998		7.136608	0.514421	1.079581	0.366683	4.395149	10.539883	6.362292	3.619321
1999		7.579622	0.550834	1.155501	0.391455	4.738375	11.504100	7.112441	3.875409
2000		7.634973	0.554855	1.163944	0.394313	4.901679	12.529639	8.276819	3.903700
2001		7.468966	0.542791	1.138637	0.385740	4.946376	12.010492	8.339074	3.818822
2002		7.406773				5.050089	11.788895	7.863712	
2003		7.563414				4.977823	10.945665	6.701390	
2004		7.495169				4.855608	11.048232	6.035494	
2004	January	7.690466				4.913582	11.080823	6.093513	
	February	7.650180				4.864021	11.296065	6.059802	
	March	7.500547				4.786610	11.163558	6.113773	
	April	7.505864				4.827528	11.296071	6.240743	
	May	7.426838				4.819473	11.052733	6.185583	
	June	7.377982				4.861664	11.123095	6.081234	
	July	7.372077				4.831126	11.067028	6.011773	
	August	7.369254				4.791269	11.021240	6.055250	
	September	7.410331				4.805074	10.886861	6.069909	
	October	7.544859				4.888467	10.917838	6.049878	
	November	7.554380				4.963436	10.813955	5.824814	
	December	7.544991				4.916727	10.873149	5.643633	

**Table H10: Midpoint Exchange Rates of the Croatian National Bank (end of period)**

Year	Month	HRK/EUR	HRK/ATS	HRK/FRF	HRK/100 ITL	HRK/CHF	HRK/GBP	HRK/USD	HRK/DEM
1996		6.863600	0.506253	1.055662	0.362600	4.098835	9.359000	5.539600	3.562200
1997		6.947200	0.499445	1.050510	0.357700	4.332003	10.475600	6.303100	3.511000
1998		7.329100	0.531546	1.114954	0.377700	4.567584	10.451000	6.247500	3.739700
1999		7.679009	0.558055	1.170657	0.396588	4.784268	12.340257	7.647654	3.926215
2000		7.598334	0.552192	1.158359	0.392421	4.989712	12.176817	8.155344	3.884966
2001		7.370030	0.535601	1.123554	0.380630	4.977396	12.101856	8.356043	3.768237
2002		7.442292				5.120256	11.451442	7.145744	
2003		7.646909				4.901551	10.860544	6.118506	
2004		7.671234				4.971314	10.824374	5.636883	
2004	January	7.670249				4.910845	11.203986	6.188180	
	February	7.607293				4.818707	11.357559	6.138379	
	March	7.395440				4.740667	11.044564	6.055879	
	April	7.533576				4.872317	11.249180	6.365506	
	May	7.369765				4.817155	11.037539	6.016626	
	June	7.365831				4.823095	11.034953	6.057925	
	July	7.406563				4.809769	11.171287	6.148056	
	August	7.391677				4.797921	10.979912	6.136718	
	September	7.547840				4.862672	11.088350	6.125996	
	October	7.490452				4.893801	10.760598	5.874864	
	November	7.600835				5.012090	10.825858	5.731289	
	December	7.671234				4.971314	10.824374	5.636883	

**Table H11:** Indices of the Effective Exchange Rate of the Kuna

indices 2001 = 100

Year	Month	Nominal effective exchange rate of the kuna	Real effective exchange rate of the kuna; deflator	
			Producer price index	Consumer price index
1996	December	83.82	90.13	96.63
1997	December	87.73	93.01	98.79
1998	December	91.08	95.99	95.39
1999	December	99.23	102.76	102.08
2000	December	101.51	99.96	101.79
2001	December	99.07	98.63	98.89
2002	December	95.97	95.63	96.24
2003	December	94.09	94.46	94.62
2004	January	93.61	94.20	93.56
	February	93.13	94.28	93.48
	March	92.03	93.55	92.83
	April	92.61	93.83	93.50
	May	91.68	91.55	92.27
	June	90.84	91.08	91.70
	July	90.50	90.36	91.67
	August	90.64	89.87	92.00
	September	91.05	90.19	92.78
	October	92.15	91.44	93.71
	November	91.29	91.17	92.43
	December	90.43	90.61	90.85

Note: From 1 January 2001, the eurozone related price series includes Greece as well.

**Table H11:** Indices of the Effective Exchange Rate of the Kuna

The index of the nominal effective exchange rate of the kuna is a weighted geometric average of the index of bilateral nominal exchange rates of the kuna against the euro, US dollar, Swiss franc, pound sterling and Slovenian tolar. The series of the indices of the effective exchange rate of the kuna, calculated in accordance with the modified CNB methodology for calculating the nominal and real effective kuna exchange rate (for the basic CNB methodology, see Bulletin No. 64, Box: 2, October 2001), were first published in the CNB Bulletin No. 94 (June 2004). The weights are determined based on the average share of a particular foreign currency in the structure of the current account – ITRS data between January 2000 and December 2003 (between July 1996 and January 2000 in the previous version of notes on methodology under Table H10). The new weights have been assigned to the euro (70.6%), US dollar (27.2%), Swiss franc (1.0%) and pound sterling (1.0%) and thus replaced the old weights: euro (66.2%), US dollar (30.7%), Swiss franc (1.6%) and pound sterling (1.2%). The weight assigned to the Slovenian tolar remained unchanged at 0.2%.

The year 2001 is a base period for calculating the indices of the effective exchange rate of the kuna (1995 in the previous version of notes on methodology under Table H10). The index of the nominal effective exchange rate is an aggregate indicator of the average value of the domestic currency against a basket of currencies. An increase in the index of the nominal effective exchange rate of the kuna in a certain period indicates that the kuna has depreciated against the basket of currencies, and vice versa. The index of the real effective exchange rate is a weighted geometric average of the index of bilateral exchange rates of the kuna adjusted for the relevant relative price indices (the ratio of price indices in partner countries and domestic prices). Producer price and consumer price indices, and the total harmonized consumer price index for the eurozone countries are used as deflators. The time series for consumer prices in Croatia is constructed in the following manner: retail price indices are used until December 1997 inclusive, and consumer price indices are used as of January 1998. The historical data may be corrected for the subsequent changes in the data published by the statistical offices of the countries whose prices are included in the calculation of the index of the real effective exchange rate of the kuna.

Table H12: Gross External Debt by Domestic Sectors

million euros

	2003	2004											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
<b>1. Government</b>	<b>6,600.6</b>	<b>6,604.8</b>	<b>6,821.1</b>	<b>6,873.1</b>	<b>7,462.1</b>	<b>7,453.5</b>	<b>7,526.5</b>	<b>7,488.5</b>	<b>7,566.4</b>	<b>7,527.6</b>	<b>7,537.4</b>	<b>7,453.3</b>	<b>7,236.1</b>
1.1. Short-term	0.9	1.4	1.4	1.5	2.1	2.2	2.3	2.5	2.5	2.6	3.3	3.3	3.4
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	0.0	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	0.9	1.4	1.4	1.5	2.1	2.2	2.3	2.5	2.5	2.6	3.3	3.3	3.4
Principal arrears	0.9	1.3	1.3	1.3	1.9	1.9	2.0	2.1	2.1	2.1	2.8	2.8	2.9
Interest arrears	0.1	0.1	0.1	0.2	0.2	0.2	0.3	0.4	0.4	0.4	0.5	0.5	0.6
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
1.2. Long-term	6,599.6	6,603.4	6,819.7	6,871.6	7,460.0	7,451.3	7,524.2	7,486.0	7,563.9	7,525.0	7,534.1	7,450.0	7,232.6
Bonds	4,310.9	4,285.2	4,488.6	4,516.7	5,045.4	5,013.7	5,034.5	4,817.7	4,850.1	4,831.1	4,852.2	4,855.7	4,635.2
Credits	2,286.4	2,315.8	2,328.7	2,352.6	2,411.9	2,435.0	2,487.1	2,665.9	2,711.4	2,691.6	2,679.6	2,592.1	2,595.3
Trade credits	2.3	2.4	2.3	2.4	2.7	2.7	2.6	2.4	2.4	2.3	2.3	2.3	2.1
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>2. Croatian National Bank</b>	<b>365.7</b>	<b>766.3</b>	<b>584.6</b>	<b>130.5</b>	<b>2.3</b>	<b>2.8</b>	<b>2.4</b>	<b>2.4</b>	<b>2.4</b>	<b>2.4</b>	<b>1.9</b>	<b>2.4</b>	<b>2.4</b>
2.1. Short-term	363.1	763.7	582.4	128.2	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	363.1	763.7	582.4	128.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2. Long-term	2.6	2.6	2.2	2.3	2.3	2.8	2.4	2.4	2.4	2.4	1.9	2.4	2.4
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	2.6	2.6	2.2	2.3	2.3	2.8	2.4	2.4	2.4	2.4	1.9	2.4	2.4
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
<b>3. Banks</b>	<b>6,121.1</b>	<b>6,005.4</b>	<b>6,241.9</b>	<b>6,632.7</b>	<b>6,781.0</b>	<b>6,954.6</b>	<b>6,938.2</b>	<b>6,934.3</b>	<b>6,755.9</b>	<b>6,723.4</b>	<b>6,783.4</b>	<b>6,935.8</b>	<b>7,652.4</b>
3.1. Short-term	617.1	720.5	781.2	830.5	763.6	794.2	902.4	507.0	431.2	453.9	473.6	548.7	673.3
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	604.2	706.6	767.7	817.7	750.7	781.2	889.6	493.6	415.8	441.0	460.9	536.1	660.8
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
Other debt liabilities	12.9	13.8	13.4	12.8	12.9	12.9	12.8	13.4	15.4	12.8	12.7	12.6	12.5
Principal arrears	12.9	13.8	13.4	12.8	12.9	12.9	12.8	13.4	15.4	12.8	12.6	12.5	12.4
Interest arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	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
3.2. Long-term	5,503.9	5,285.0	5,460.8	5,802.1	6,017.4	6,160.4	6,035.8	6,427.3	6,324.7	6,269.6	6,309.8	6,387.1	6,979.2
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	447.0	443.1	444.5	444.9	444.5	444.5
Credits	2,767.7	2,804.1	2,895.5	3,021.0	3,164.1	3,359.8	3,300.6	3,296.6	3,315.4	3,273.9	3,278.5	3,269.4	3,315.7
Currency and deposits	2,736.2	2,480.8	2,565.3	2,781.1	2,853.3	2,800.7	2,735.2	2,685.6	2,562.3	2,552.6	2,586.7	2,672.8	3,219.0
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
<b>4. Other sectors</b>	<b>4,878.4</b>	<b>4,916.5</b>	<b>4,973.9</b>	<b>5,072.9</b>	<b>5,162.8</b>	<b>5,379.1</b>	<b>5,465.8</b>	<b>5,618.1</b>	<b>5,705.5</b>	<b>5,633.1</b>	<b>5,653.4</b>	<b>5,749.1</b>	<b>5,798.1</b>
4.1. Short-term	523.2	574.0	579.8	593.0	577.3	578.7	608.8	624.2	629.4	633.9	636.3	633.3	664.2
Money market instruments	33.5	62.4	62.4	36.5	11.7	11.7	6.8	6.8	6.8	0.0	0.0	0.0	0.0
Credits	70.1	78.3	85.2	101.0	112.2	112.2	136.1	138.5	134.0	137.5	136.9	133.4	125.4
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	22.2	24.4	22.2	27.3	29.7	29.3	28.8	30.9	33.6	36.7	29.8	25.4	24.9
Other debt liabilities	397.4	408.9	410.0	428.2	423.6	425.5	437.2	448.0	455.1	459.8	469.6	474.5	513.9
Principal arrears	369.9	380.5	381.3	398.2	392.6	394.2	403.0	412.9	419.7	422.1	430.9	435.2	462.7
Interest arrears	27.6	28.4	28.7	30.0	31.1	31.3	34.2	35.1	35.4	37.7	38.8	39.3	51.2
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4.2. Long-term	4,355.3	4,342.5	4,394.1	4,479.9	4,585.5	4,800.4	4,857.0	4,994.0	5,076.1	4,999.2	5,017.2	5,115.8	5,133.9
Bonds	345.3	348.1	350.5	363.3	351.5	455.9	454.0	457.7	461.4	388.4	391.4	395.6	384.3
Credits	3,858.3	3,850.1	3,902.3	3,980.9	4,102.8	4,217.6	4,278.8	4,409.5	4,491.4	4,487.8	4,507.5	4,605.5	4,637.3
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	151.7	144.4	141.3	135.8	131.2	126.9	124.2	126.7	123.3	123.0	118.3	114.7	112.3
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>5. Direct investment</b>	<b>1,844.8</b>	<b>1,865.8</b>	<b>1,898.2</b>	<b>1,895.0</b>	<b>1,918.3</b>	<b>1,934.2</b>	<b>1,956.4</b>	<b>1,974.3</b>	<b>1,999.0</b>	<b>2,016.8</b>	<b>1,982.9</b>	<b>1,983.1</b>	<b>1,986.5</b>
5.1. Short-term	124.0	123.3	119.0	149.7	153.4	161.0	170.1	172.5	173.0	179.7	177.8	191.4	247.9
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	43.9	44.9	49.6	73.2	66.0	74.7	79.3	79.4	87.3	87.0	84.1	93.2	61.9
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	80.1	78.5	69.4	76.5	87.4	86.3	90.9	93.0	85.8	92.8	93.7	98.3	186.0
Principal arrears	75.9	74.1	64.9	71.7	82.2	80.9	85.1	86.6	79.2	85.6	85.7	89.5	166.3
Interest arrears	4.2	4.4	4.5	4.8	5.2	5.3	5.7	6.4	6.5	7.1	8.0	8.8	19.7
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5.2. Long-term	1,720.8	1,742.5	1,779.2	1,745.3	1,764.8	1,773.3	1,786.3	1,801.9	1,826.0	1,837.0	1,805.1	1,791.7	1,738.6
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	1,689.7	1,711.8	1,747.7	1,716.1	1,735.1	1,744.5	1,758.0	1,774.0	1,798.6	1,810.7	1,779.4	1,766.4	1,714.8
Trade credits	31.1	30.7	31.5	29.2	29.7	28.7	28.2	27.9	27.4	26.3	25.7	25.3	23.8
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total (1+2+3+4+5)</b>	<b>19,810.6</b>	<b>20,158.9</b>	<b>20,519.8</b>	<b>20,604.2</b>	<b>21,326.5</b>	<b>21,724.3</b>	<b>21,889.2</b>	<b>22,017.8</b>	<b>22,029.2</b>	<b>21,903.2</b>	<b>21,959.1</b>	<b>22,123.8</b>	<b>22,675.4</b>

**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 foreign markets (at face value), credits (repo agreements included) regardless of their contractual maturity, deposits of non-residents, and trade credits granted by non-residents with contractual maturity of more than 180 days (90 days up to 11 July 2001 and 150 days up to 31 December 2002).

External debt by domestic sectors is shown in the same manner as in the Capital and Financial Account of the BOP. Item Government shows external debt of the general government, which includes the Republic of Croatia, central government funds (including the Croatian Bank for Reconstruction and Development, the State Agency for Deposit Insurance and Bank Rehabilitation, the Croatian Roads and the Croatian Highways), and local government. Item

Croatian National Bank shows the central bank debts. Item Banks shows debts of banks. Item Other sectors shows debts of other banking institutions, non-banking financial institutions, 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 percent of the other).

Each sector data are further shown by contractual maturity (short-term and long-term) and by debt instrument.

Outstanding gross external debt includes principal and interest arrears, as well as accrual interest and future principal payments.

Outstanding debt data are shown at the CNB's midpoint exchange rate at the end of the period.

Data are considered preliminary until after publication of the final BOP data for the reporting quarter.

**Table H13: Public Sector Gross External Debt, and Publicly Guaranteed and Non-Publicly Guaranteed Private Sector Gross External Debt**

million euros

	2003	2004											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
<b>1. Public sector</b>	<b>8,334.0</b>	<b>8,717.1</b>	<b>8,758.3</b>	<b>8,344.5</b>	<b>8,804.1</b>	<b>8,798.5</b>	<b>8,834.4</b>	<b>8,780.0</b>	<b>8,862.1</b>	<b>8,813.5</b>	<b>8,794.8</b>	<b>8,711.3</b>	<b>8,521.2</b>
1.1. Short-term	409.5	814.9	631.7	179.1	47.7	45.1	36.6	28.6	29.9	30.7	28.5	37.3	34.9
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	390.9	791.9	611.0	157.1	29.7	27.0	18.1	12.6	13.8	13.5	11.2	20.0	9.2
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	18.6	23.1	20.7	21.9	18.0	18.1	18.5	16.0	16.0	17.2	17.3	17.3	25.6
Principal arrears	18.6	22.9	20.6	21.8	17.8	17.9	18.2	15.7	15.7	16.7	16.7	16.7	24.5
Interest arrears	0.1	0.1	0.1	0.2	0.2	0.2	0.3	0.4	0.4	0.5	0.6	0.6	1.2
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.2. Long-term	7,924.2	7,901.9	8,126.4	8,165.2	8,756.1	8,753.1	8,797.5	8,751.1	8,832.0	8,782.6	8,766.0	8,673.8	8,486.1
Bonds	4,310.9	4,285.2	4,488.6	4,516.7	5,045.4	5,013.7	5,034.5	4,817.7	4,850.1	4,831.1	4,852.2	4,855.7	4,635.2
Credits	3,560.7	3,568.8	3,590.2	3,599.7	3,662.9	3,696.2	3,722.4	3,886.7	3,937.0	3,905.3	3,869.8	3,774.5	3,806.9
Currency and deposits	2.6	2.6	2.2	2.3	2.3	2.8	2.4	2.4	2.4	2.4	1.9	2.4	2.4
Trade credits	50.0	45.3	45.3	46.6	45.5	40.5	38.2	44.2	42.6	43.9	42.1	41.2	41.6
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.3. Direct investment	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
<b>2. Publicly guaranteed private sector</b>	<b>428.6</b>	<b>409.1</b>	<b>410.5</b>	<b>409.5</b>	<b>412.2</b>	<b>411.4</b>	<b>411.5</b>	<b>387.6</b>	<b>389.2</b>	<b>354.4</b>	<b>351.9</b>	<b>349.6</b>	<b>343.3</b>
2.1. Short-term	32.0	36.0	35.9	37.0	37.8	37.8	39.6	39.5	39.7	40.8	42.0	40.8	42.4
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	0.0	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	32.0	36.0	35.9	37.0	37.8	37.8	39.6	39.5	39.7	40.8	42.0	40.8	42.4
Principal arrears	23.3	27.2	27.1	28.1	28.6	28.6	29.8	28.7	28.9	30.0	31.0	29.9	30.8
Interest arrears	8.7	8.8	8.8	8.9	9.2	9.2	9.8	10.8	10.8	10.7	11.0	11.0	11.5
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
2.2. Long-term	396.6	373.1	374.6	372.5	374.4	373.6	371.9	348.0	349.5	313.6	309.8	308.7	300.9
Bonds	31.2	31.4	31.6	31.2	31.4	31.6	31.2	31.4	31.6	0.0	0.0	0.0	0.0
Credits	362.9	339.3	340.7	339.0	340.7	339.9	338.6	314.6	316.0	311.8	308.1	307.2	299.4
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	2.5	2.5	2.4	2.3	2.3	2.2	2.1	2.0	1.9	1.8	1.7	1.6	1.5
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
2.3. 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
<b>3. Non-publicly guaranteed private sector</b>	<b>11,048.1</b>	<b>11,032.7</b>	<b>11,350.9</b>	<b>11,850.2</b>	<b>12,110.1</b>	<b>12,514.4</b>	<b>12,643.4</b>	<b>12,850.2</b>	<b>12,777.9</b>	<b>12,735.3</b>	<b>12,812.4</b>	<b>13,062.8</b>	<b>13,810.9</b>
3.1. Short-term	1,062.9	1,208.7	1,277.2	1,337.2	1,257.5	1,292.1	1,437.3	1,065.6	993.5	1,018.9	1,042.6	1,107.2	1,263.6
Money market instruments	33.5	62.4	62.4	36.5	11.7	11.7	6.8	6.8	6.8	0.0	0.0	0.0	0.0
Credits	646.6	756.8	824.3	889.8	833.2	866.4	1,007.5	619.5	536.0	565.0	586.6	649.5	777.0
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	22.2	24.4	22.2	27.3	29.7	29.3	28.8	30.9	33.6	36.7	29.8	25.4	24.9
Other debt liabilities	360.7	365.1	368.3	383.5	382.8	384.7	394.3	408.3	417.2	417.2	426.3	432.3	461.8
Principal arrears	341.8	345.6	348.4	362.4	361.0	362.6	369.8	384.1	392.6	390.2	398.6	404.0	422.6
Interest arrears	18.9	19.6	19.9	21.1	21.8	22.1	24.4	24.3	24.6	27.0	27.7	28.3	39.2
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.2. Long-term	8,140.6	7,958.4	8,175.7	8,618.3	8,934.6	9,288.2	9,249.9	9,810.6	9,785.6	9,699.9	9,787.2	9,972.8	10,561.0
Bonds	314.1	316.7	318.9	332.1	320.1	424.3	422.8	871.4	876.8	831.4	836.0	840.5	828.8
Credits	4,988.8	5,061.9	5,195.6	5,415.8	5,675.1	5,976.4	6,005.4	6,170.7	6,265.3	6,236.3	6,287.7	6,385.3	6,441.9
Currency and deposits	2,736.2	2,480.8	2,565.3	2,781.1	2,853.3	2,800.7	2,735.2	2,685.6	2,562.3	2,552.6	2,586.7	2,672.8	3,219.0
Trade credits	101.5	99.0	95.9	89.3	86.2	86.9	86.5	82.9	81.2	79.6	76.8	74.2	71.2
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
3.3. Direct investment	1,844.6	1,865.6	1,898.0	1,894.7	1,918.0	1,934.0	1,956.2	1,974.1	1,998.8	2,016.5	1,982.7	1,982.9	1,986.3
<b>Total (1+2+3)</b>	<b>19,810.6</b>	<b>20,158.9</b>	<b>20,519.8</b>	<b>20,604.2</b>	<b>21,326.5</b>	<b>21,724.3</b>	<b>21,889.2</b>	<b>22,017.8</b>	<b>22,029.2</b>	<b>21,903.2</b>	<b>21,959.1</b>	<b>22,123.8</b>	<b>22,675.4</b>

**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 (including the Republic of Croatia, central government funds and local government), the central bank, public enterprises and mixed ownership companies. Public enterprises are defined as enterprises in 100% ownership of business entities from the public sector. Mixed ownership companies are defined as

companies in which business entities from the public sector have a share larger than 50%.

Publicly guaranteed private sector gross external debt is defined as the external debt liabilities of business entities not covered by the definition of the public sector, the servicing of which is guaranteed by a business entity from the public sector.

Non-publicly guaranteed private sector gross external debt is defined as the external debt liabilities of business entities not covered by the definition of the public sector, the servicing of which is not guaranteed by the public sector.

Items are valued in the same manner as in Table H12.

Table H14: Gross External Debt by Domestic Sectors and Projected Future Payments

million euros

	Gross external debt 31/12/2004	Immediate	Projected future principal payments												
			Q1/2005	Q2/2005	Q3/2005	Q4/2005	2005	2006	2007	2008	2009	2010	2011	2012	Other
<b>1. Government</b>	<b>7,236.1</b>	<b>3.4</b>	<b>753.6</b>	<b>52.4</b>	<b>107.2</b>	<b>55.4</b>	<b>968.6</b>	<b>792.2</b>	<b>636.9</b>	<b>534.3</b>	<b>989.0</b>	<b>774.9</b>	<b>1,362.6</b>	<b>183.6</b>	<b>990.6</b>
1.1. Short-term	3.4	3.4	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
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	3.4	3.4	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
Principal arrears	2.9	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	0.6	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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
1.2. Long-term	7,232.6	0.0	753.6	52.4	107.2	55.4	968.6	792.2	636.9	534.3	989.0	774.9	1,362.6	183.6	990.6
Bonds	4,635.2	0.0	676.2	0.0	51.4	0.0	727.5	547.6	333.6	238.8	713.5	549.4	1,025.3	13.8	485.8
Credits	2,595.3	0.0	77.4	52.2	55.7	55.2	240.5	244.0	302.7	295.2	275.4	225.5	337.3	169.8	504.8
Trade credits	2.1	0.0	0.1	0.2	0.1	0.2	0.6	0.6	0.6	0.3	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
<b>2. Croatian National Bank</b>	<b>2.4</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>2.4</b>
2.1. 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
2.2. Long-term	2.4	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	2.4
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	2.4	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	2.4
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	0.0	0.0
<b>3. Banks</b>	<b>7,652.4</b>	<b>12.5</b>	<b>617.8</b>	<b>167.0</b>	<b>517.3</b>	<b>86.3</b>	<b>1,388.5</b>	<b>1,011.7</b>	<b>341.0</b>	<b>394.8</b>	<b>789.2</b>	<b>178.4</b>	<b>92.6</b>	<b>118.5</b>	<b>3,325.2</b>
3.1. Short-term	673.3	12.5	510.5	122.0	27.9	0.4	660.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	660.8	0.0	510.5	122.0	27.9	0.4	660.8	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	12.5	12.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal arrears	12.4	12.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	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
3.2. Long-term	6,979.2	0.0	107.4	45.0	489.4	85.9	727.7	1,011.7	341.0	394.8	789.2	178.4	92.6	118.5	3,325.2
Bonds	444.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	444.5	0.0	0.0	0.0	0.0
Credits	3,315.7	0.0	107.4	45.0	489.4	85.9	727.7	1,011.7	341.0	394.8	344.7	178.4	92.6	118.5	106.2
Currency and deposits	3,219.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3,219.0
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
<b>4. Other sectors</b>	<b>5,798.1</b>	<b>513.9</b>	<b>243.1</b>	<b>247.2</b>	<b>241.2</b>	<b>243.5</b>	<b>975.1</b>	<b>739.3</b>	<b>989.7</b>	<b>557.6</b>	<b>569.9</b>	<b>259.4</b>	<b>212.8</b>	<b>174.3</b>	<b>806.3</b>
4.1. Short-term	664.2	513.9	29.3	76.8	37.2	7.0	150.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	125.4	0.0	29.3	76.8	12.3	7.0	125.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	24.9	0.0	0.0	0.0	24.9	0.0	24.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	513.9	513.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal arrears	462.7	462.7	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	51.2	51.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4.2. Long-term	5,133.9	0.0	213.8	170.4	204.0	236.5	824.7	739.3	989.7	557.6	569.9	259.4	212.8	174.3	806.3
Bonds	384.3	0.0	19.8	0.0	0.0	0.0	19.8	0.0	200.3	5.7	5.7	6.6	6.6	8.2	131.3
Credits	4,637.3	0.0	179.5	156.3	193.8	210.7	740.4	709.8	778.2	546.9	562.6	252.4	206.0	166.1	674.9
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	112.3	0.0	14.5	14.1	10.2	25.8	64.6	29.5	11.1	4.9	1.5	0.5	0.1	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>5. Direct investment</b>	<b>1,986.5</b>	<b>186.0</b>	<b>79.7</b>	<b>65.1</b>	<b>40.8</b>	<b>58.9</b>	<b>244.5</b>	<b>292.3</b>	<b>235.1</b>	<b>201.9</b>	<b>108.7</b>	<b>57.6</b>	<b>38.0</b>	<b>28.8</b>	<b>593.7</b>
5.1. Short-term	247.9	186.0	35.6	7.7	9.6	9.0	61.9	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	61.9	0.0	35.6	7.7	9.6	9.0	61.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	186.0	186.0	0.0	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	166.3	166.3	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
Interest arrears	19.7	19.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5.2. Long-term	1,738.6	0.0	44.1	57.3	31.1	49.9	182.5	292.3	235.1	201.9	108.7	57.6	38.0	28.8	593.7
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	1,714.8	0.0	43.1	56.4	30.2	48.3	178.1	287.0	231.0	198.3	106.9	56.1	36.7	27.9	592.7
Trade credits	23.8	0.0	1.0	0.9	0.9	1.6	4.4	5.2	4.1	3.6	1.8	1.5	1.3	0.9	0.9
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
<b>Total (1+2+3+4+5)</b>	<b>22,675.4</b>	<b>715.8</b>	<b>1,694.3</b>	<b>531.7</b>	<b>906.5</b>	<b>444.1</b>	<b>3,576.5</b>	<b>2,835.5</b>	<b>2,202.8</b>	<b>1,688.5</b>	<b>2,456.8</b>	<b>1,270.2</b>	<b>1,705.9</b>		

**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.

Estimated interest payments do not include interest on deposits from non-residents, repo transactions and hybrid

and subordinated instruments, as well as late interest on these instruments. Future interest payments are estimated at the interest rates at the contracting time and do not reflect changes of variable interest rates.

Projected payments of accrual interest, which are an integral part of the gross external debt, increase the projected principal payments in the first quarter period and, consequently, decrease the interest payments estimated for the same period.

**Table H15:** International Investment Position – Summary

million euros

	2000	2001	2002	2003	2004*	2004			
						Q1	Q2	Q3	Q4*
1. International investment position (net)	-6,376.9	-4,772.2	-8,676.3	-12,386.0	-16,733.1	-13,923.3	-14,847.4	-16,308.0	-16,733.1
2. Assets	8,966.2	12,565.7	11,779.5	14,132.4	13,739.1	13,174.1	13,867.2	14,008.7	13,739.1
2.1. Direct investment abroad	939.2	1,095.9	1,753.2	1,642.9	1,782.8	1,762.1	2,043.2	1,949.8	1,782.8
2.2. Portfolio investment	15.3	25.5	39.3	40.6	43.4	42.6	48.7	45.9	43.4
2.2.1. Equity securities	15.3	25.5	39.3	40.6	43.4	42.6	48.7	45.9	43.4
2.2.2. Debt securities	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
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.3. Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.4. Other investment	4,231.3	6,110.7	4,335.8	5,894.9	5,476.8	5,191.0	5,385.9	5,561.2	5,476.8
2.4.1. Trade credits	200.0	206.1	181.0	178.1	151.9	195.6	181.4	168.0	151.9
2.4.2. Loans	166.1	121.6	128.7	119.6	114.3	120.8	110.6	117.9	114.3
2.4.3. Currency and deposits	3,865.2	5,782.9	4,026.0	5,597.1	5,210.6	4,874.6	5,093.9	5,275.4	5,210.6
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)	3,780.4	5,333.6	5,651.3	6,554.1	6,436.1	6,178.5	6,389.4	6,451.8	6,436.1
3. Liabilities	15,343.1	17,337.8	20,455.8	26,518.4	30,472.2	27,097.4	28,714.6	30,316.6	30,472.2
3.1. Direct investment in Croatia	3,829.6	4,806.1	6,634.4	8,382.1	9,544.2	8,220.6	8,602.7	10,181.0	9,544.2
3.2. Portfolio investment	3,601.4	4,495.2	4,282.3	4,860.2	5,703.2	5,084.1	5,674.3	5,911.7	5,703.2
3.2.1. Equity securities	116.8	164.8	173.6	170.5	239.2	167.6	179.1	249.1	239.2
3.2.2. Debt securities	3,484.6	4,330.4	4,108.7	4,689.7	5,464.0	4,916.4	5,495.3	5,662.5	5,464.0
Bonds	3,474.4	4,299.3	4,108.7	4,656.2	5,464.0	4,879.9	5,488.5	5,662.5	5,464.0
Money market instruments	10.2	31.1	0.0	33.5	0.0	36.5	6.8	0.0	0.0
3.3. Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.4. Other investment	7,912.1	8,036.5	9,539.1	13,276.1	15,224.9	13,792.8	14,437.6	14,223.9	15,224.9
3.4.1. Trade credits	293.1	268.4	258.4	176.1	139.3	165.5	155.5	162.0	139.3
3.4.2. Loans	6,812.4	6,722.9	6,981.2	9,949.9	11,334.5	10,401.4	11,092.0	11,031.8	11,334.5
3.4.3. Currency and deposits	465.8	719.9	1,898.6	2,738.7	3,221.4	2,783.4	2,737.6	2,554.9	3,221.4
3.4.4. Other liabilities	341.0	325.3	400.9	411.3	529.8	442.4	452.4	475.2	529.8

\* Preliminary data.

**Table H15:** International Investment Position – Summary

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.

Data on international investments of the Republic of Croatia and international investments into the Republic of Croatia are recorded in euros (EUR) and US dollars (USD). Depending on the sources of data available, the conversion of values from the original currencies into the reporting currencies is performed:

- by applying the current rate of exchange or the average monthly midpoint exchange rate of the Croatian National Bank to transactions;

- by applying the midpoint exchange rate of the Croatian National Bank on the reporting date to balances.

The source of data on foreign direct and portfolio equity investment is the statistical research of the Croatian National Bank. The equity investments have been monitored since the beginning of 2001 and are corrected for changes in the official index of the Zagreb Stock Exchange (CROBEX).

Portfolio debt investment and other investment are classified according to the following institutional sectors: the Croatian National Bank, government, banks and other sectors. The government sector comprises central government and funds and local government authorities. The banking sector comprises banks.

Item Portfolio debt investment – Assets and liabilities comprises data on investments of residents into debt securities issued by non-residents (assets) and investments of non-residents into debt securities issued by residents (liabilities). The

source of data is the register of foreign credit relations kept by the Croatian National Bank, which also comprises claims and liabilities arising from bonds and money market instruments.

Item Other investment – Trade credits – Assets and liabilities comprises foreign claims and foreign liabilities of the said sectors arising from trade credits. The source of data is the register of foreign credit relations kept by the Croatian National Bank.

Item Other investment – Loans – Assets and liabilities comprises data on loans granted and received between residents and non-residents classified according to institutional sectors. The source of data is the register of foreign credit relations kept by the Croatian National Bank.

Item Other investment – Currency and deposits – Assets

shows the total liquid foreign exchange of banks authorized to do business abroad reduced by the amount of foreign exchange deposited by banks with the CNB in fulfilment of a part of their reserve requirements. In addition to banks' foreign claims, foreign claims of the government sector are also shown. The sources of data are reports from the government and banks.

Item Other investment – Currency and deposits – Liabilities shows the total foreign exchange 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 H16: International Investment Position – Direct Investment**

million euros

	2000	2001	2002	2003	2004 <sup>a</sup>	2004			
						Q1	Q2	Q3	Q4 <sup>a</sup>
Direct investment (net)	-2,890.4	-3,710.2	-4,881.2	-6,739.2	-7,761.3	-6,458.6	-6,559.5	-8,231.3	-7,761.3
1. Abroad	939.2	1,095.9	1,753.2	1,642.9	1,782.8	1,762.1	2,043.2	1,949.8	1,782.8
1.1. Equity capital and reinvested earnings	884.5	1,050.2	1,712.8	1,581.4	1,675.9	1,695.6	1,967.7	1,865.7	1,675.9
1.1.1. Claims	884.5	1,050.2	1,712.8	1,581.4	1,675.9	1,695.6	1,967.7	1,865.7	1,675.9
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	54.7	45.6	40.4	61.5	106.9	66.5	75.5	84.1	106.9
1.2.1. Claims	....	....	....	....	....	....	....	....	....
1.2.2. Liabilities	....	....	....	....	....	....	....	....	....
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	3,829.6	4,806.1	6,634.4	8,382.1	9,544.2	8,220.6	8,602.7	10,181.0	9,544.2
2.1. Equity capital and reinvested earnings	3,117.0	3,714.7	5,227.4	6,537.3	7,557.7	6,325.7	6,646.3	8,164.3	7,557.7
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	3,117.0	3,714.7	5,227.4	6,537.3	7,557.7	6,325.7	6,646.3	8,164.3	7,557.7
2.2. Other capital	712.6	1,091.4	1,407.0	1,844.8	1,986.5	1,895.0	1,956.4	2,016.8	1,986.5
2.2.1. Claims	....	....	....	....	....	....	....	....	....
2.2.2. Liabilities	....	....	....	....	....	....	....	....	....
2.3. Financial derivatives (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

<sup>a</sup> Preliminary data.

**Table H17: International Investment Position – Portfolio Investment**

million euros

	2000	2001	2002	2003	2004 <sup>a</sup>	2004			
						Q1	Q2	Q3	Q4 <sup>a</sup>
Portfolio investment (net)	-3,586.1	-4,469.7	-4,243.0	-4,819.6	-5,659.8	-5,041.5	-5,625.6	-5,865.7	-5,659.8
1. Assets	15.3	25.5	39.3	40.6	43.4	42.6	48.7	45.9	43.4
1.1. Equity securities	15.3	25.5	39.3	40.6	43.4	42.6	48.7	45.9	43.4
1.1.1. Banks	7.7	8.0	8.1	4.2	4.5	4.5	5.1	4.8	4.5
1.1.2. Other sectors	7.6	17.5	31.1	36.3	38.8	38.1	43.6	41.1	38.8
1.2. Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Liabilities	3,601.4	4,495.2	4,282.3	4,860.2	5,703.2	5,084.1	5,674.3	5,911.7	5,703.2
2.1. Equity securities	116.8	164.8	173.6	170.5	239.2	167.6	179.1	249.1	239.2
2.1.1. Banks	39.2	41.1	36.2	38.5	40.5	35.6	35.4	43.9	40.5
2.1.2. Other sectors	77.6	123.8	137.3	132.0	198.6	132.0	143.7	205.2	198.6
2.2. Debt securities	3,484.6	4,330.4	4,108.7	4,689.7	5,464.0	4,916.4	5,495.3	5,662.5	5,464.0
2.2.1. Bonds	3,474.4	4,299.3	4,108.7	4,656.2	5,464.0	4,879.9	5,488.5	5,662.5	5,464.0
2.2.1.1. General government	3,443.2	4,268.2	3,947.6	4,310.9	4,635.2	4,516.7	5,034.5	4,831.1	4,635.2
2.2.1.2. Banks	0.0	0.0	0.0	0.0	444.5	0.0	0.0	443.1	444.5
2.2.1.3. Other sectors	31.2	31.2	161.2	345.3	384.3	363.3	454.0	388.4	384.3
2.2.2. Money market instruments	10.2	31.1	0.0	33.5	0.0	36.5	6.8	0.0	0.0
2.2.2.1. Other sectors	10.2	31.1	0.0	33.5	0.0	36.5	6.8	0.0	0.0

<sup>a</sup> Preliminary data.

**Table H18: International Investment Position – Other Investment**

million euros

	2000	2001	2002	2003	2004*	2004			
						Q1	Q2	Q3	Q4*
Other investment (net)	-3,636.0	-1,849.1	-5,180.2	-7,015.6	-9,745.7	-8,471.3	-9,049.3	-8,660.4	-9,745.7
<b>1. Assets</b>	<b>4,231.3</b>	<b>6,110.7</b>	<b>4,335.8</b>	<b>5,894.9</b>	<b>5,476.8</b>	<b>5,191.0</b>	<b>5,385.9</b>	<b>5,561.2</b>	<b>5,476.8</b>
1.1. Trade credits	200.0	206.1	181.0	178.1	151.9	195.6	181.4	168.0	151.9
1.1.1. General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.1.2. Other sectors	200.0	206.1	181.0	178.1	151.8	195.6	181.3	167.9	151.8
Long-term	165.7	180.2	169.6	173.5	147.5	191.0	176.8	163.3	147.5
Short-term	34.3	25.9	11.4	4.6	4.4	4.6	4.6	4.6	4.4
1.2. Loans	166.1	121.6	128.7	119.6	114.3	120.8	110.6	117.9	114.3
1.2.1. General government	3.7	6.1	5.6	5.2	5.3	5.0	5.0	4.7	5.3
Long-term	3.7	6.1	5.6	5.2	5.3	5.0	5.0	4.7	5.3
1.2.2. Banks	130.6	82.7	93.6	86.2	79.9	87.2	76.7	83.6	79.9
Long-term	89.7	46.9	60.2	62.3	56.2	64.8	56.8	54.6	56.2
Short-term	40.9	35.8	33.4	23.9	23.7	22.4	19.9	29.0	23.7
1.2.3. Other sectors	31.7	32.8	29.5	28.2	29.1	28.5	28.8	29.6	29.1
Long-term	31.7	32.8	29.4	28.2	28.7	28.5	28.8	29.2	28.7
Short-term	0.0	0.0	0.1	0.0	0.4	0.0	0.1	0.4	0.4
1.3. Currency and deposits	3,865.2	5,782.9	4,026.0	5,597.1	5,210.6	4,874.6	5,093.9	5,275.4	5,210.6
1.3.1. General government	74.1	94.7	115.7	81.9	8.9	165.9	211.1	147.0	8.9
1.3.2. Banks	2,564.3	4,438.8	2,754.3	4,551.9	4,317.0	3,722.8	3,892.6	4,151.2	4,317.0
1.3.3. Other sectors	1,226.8	1,249.4	1,156.0	963.4	884.7	985.9	990.2	977.2	884.7
1.4. Other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>2. Liabilities</b>	<b>7,867.3</b>	<b>7,959.7</b>	<b>9,515.9</b>	<b>12,910.4</b>	<b>15,222.5</b>	<b>13,662.3</b>	<b>14,435.2</b>	<b>14,221.6</b>	<b>15,222.5</b>
2.1. Trade credits	293.1	268.4	258.4	176.1	139.3	165.5	155.5	162.0	139.3
2.1.1. General government	0.1	1.3	1.1	2.3	2.1	2.4	2.6	2.3	2.1
Long-term	0.1	1.3	1.1	2.3	2.1	2.4	2.6	2.3	2.1
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	293.0	267.1	257.4	173.8	137.2	163.1	153.0	159.7	137.2
Long-term	248.5	226.7	209.9	151.7	112.3	135.8	124.2	123.0	112.3
Short-term	44.5	40.4	47.5	22.2	24.9	27.3	28.8	36.7	24.9
2.2. Loans	6,768.8	6,647.8	6,959.7	9,586.8	11,334.5	10,273.2	11,092.0	11,031.8	11,334.5
2.2.1. Croatian National Bank	170.6	138.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w: IMF	170.6	138.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.2. General government	1,832.6	1,672.7	1,950.8	2,286.4	2,595.3	2,352.6	2,487.1	2,691.6	2,595.3
Long-term	1,444.6	1,672.7	1,950.8	2,286.4	2,595.3	2,352.6	2,487.1	2,691.6	2,595.3
Short-term	388.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.3. Banks	1,715.8	1,813.5	1,878.7	3,372.0	3,976.4	3,838.7	4,190.1	3,715.0	3,976.4
Long-term	1,708.0	1,810.8	1,878.4	2,767.7	3,315.7	3,021.0	3,300.6	3,273.9	3,315.7
Short-term	7.8	2.6	0.3	604.2	660.8	817.7	889.6	441.0	660.8
2.2.4. Other sectors	3,049.7	3,022.9	3,130.1	3,928.5	4,762.8	4,081.9	4,414.8	4,625.2	4,762.8
Long-term	3,003.5	2,969.0	3,103.0	3,858.3	4,637.3	3,980.9	4,278.8	4,487.8	4,637.3
Short-term	46.2	53.9	27.2	70.1	125.4	101.0	136.1	137.5	125.4
2.3. Currency and deposits	464.5	718.3	1,896.9	2,736.2	3,219.0	2,781.1	2,735.2	2,552.6	3,219.0
2.3.1. Banks	464.5	718.3	1,896.9	2,736.2	3,219.0	2,781.1	2,735.2	2,552.6	3,219.0
2.4. Other liabilities	341.0	325.3	400.9	411.3	529.8	442.4	452.4	475.2	529.8

\* Preliminary data.

**Table I1: Consolidated Central Government**

million kuna

	2003	2004			
	Dec.	Jan.	Feb.	Mar.	Apr.
<b>REVENUE AND GRANTS</b>					
1. Budgetary central government	74,953.7	5,271.3	4,903.1	6,434.6	6,324.4
2. Central government funds	6,038.3	601.0	439.3	515.7	418.8
2.1. CPII	108.9	51.1	11.2	15.0	9.2
2.2. CIHI	822.3	43.3	50.8	48.9	37.6
2.3. CES	17.9	2.0	1.4	1.7	1.4
2.4. Child Benefit Fund	–	–	–	–	–
2.5. Croatian Waters	1,144.8	123.6	59.4	73.8	75.1
2.6. Environment Protection Fund	–	–	–	11.3	18.1
2.7. Development and Employment Fund	–	–	–	–	–
2.8. Regional Development Fund	–	–	–	–	–
2.9. Croatian Highways	1,932.4	161.5	114.6	144.9	152.0
2.10. Croatian Roads	1,185.0	103.2	89.3	106.7	108.5
2.11. State Agency for Deposit Insurance and Bank Rehabilitation	584.5	97.7	105.9	103.2	7.9
2.12. Croatian Privatization Fund	242.5	18.6	6.7	10.2	9.0
<b>A. Total (1+2)</b>	<b>80,992.0</b>	<b>5,872.3</b>	<b>5,342.4</b>	<b>6,950.3</b>	<b>6,743.2</b>
<b>EXPENDITURE AND LENDING (minus repayments)</b>					
3. Budgetary central government	74,713.8	5,177.9	6,178.6	7,445.1	7,565.1
4. Central government funds	11,920.5	1,054.5	595.4	927.8	777.6
4.1. CPII	1,838.0	82.1	75.9	82.0	84.7
4.2. CIHI	875.0	35.2	85.4	62.7	72.5
4.3. CES	136.5	9.0	9.0	7.4	9.7
4.4. Child Benefit Fund	–	–	–	–	–
4.5. Croatian Waters	1,691.0	180.5	57.2	91.1	87.1
4.6. Environment Protection Fund	–	0.1	0.1	0.7	0.8
4.7. Development and Employment Fund	–	–	–	–	–
4.8. Regional Development Fund	–	–	–	–	–
4.9. Croatian Highways	5,583.5	646.8	280.2	525.4	364.5
4.10. Croatian Roads	1,369.9	108.9	77.9	151.3	121.6
4.11. State Agency for Deposit Insurance and Bank Rehabilitation	253.2	1.4	1.0	1.6	1.0
4.12. Croatian Privatization Fund	173.3	–9.3	8.7	5.6	35.8
<b>B. Total (3+4)</b>	<b>86,634.3</b>	<b>6,232.4</b>	<b>6,773.9</b>	<b>8,373.0</b>	<b>8,342.7</b>
<b>C. Overall surplus/deficit (A-B)</b>	<b>–5,642.3</b>	<b>–360.1</b>	<b>–1,431.6</b>	<b>–1,422.7</b>	<b>–1,599.4</b>
5. Budgetary central government (1-3)	239.9	93.4	–1,275.5	–1,010.5	–1,240.7
6. Central government funds (2-4)	–5,882.2	–453.5	–156.1	–412.2	–358.8

Source: Ministry of Finance.

**Table I2: Budgetary Central Government Operations**

million kuna

	2003	2004			
	Dec.	Jan.	Feb.	Mar.	Apr.
<b>1. Total revenue</b>	78,249.6	5,552.5	5,244.8	6,718.9	6,616.4
1.1. Current revenue	74,652.1	5,530.3	5,231.0	6,690.7	6,599.9
1.1.1. Tax revenue	72,697.9	5,446.3	5,128.5	6,542.8	6,493.6
1.1.2. Non-tax revenue	1,954.1	84.0	102.5	147.9	106.3
1.2. Capital revenue	3,597.6	22.2	13.8	28.3	16.5
<b>2. Grants</b>	10.4	0.0	0.0	0.0	0.0
2.1. Current	10.4	0.0	0.0	0.0	0.0
2.2. Capital	0.0	0.0	0.0	0.0	0.0
<b>A. Total revenue and grants (1+2)</b>	78,260.0	5,552.5	5,244.8	6,718.9	6,616.4
<b>3. Total expenditure</b>	79,113.1	5,528.0	6,495.0	7,667.3	7,947.7
3.1. Current expenditure	75,041.4	5,425.5	6,386.2	7,353.6	7,539.5
3.2. Capital expenditure	4,071.7	102.6	108.8	313.6	408.1
<b>4. Lending minus repayments</b>	1,333.5	23.5	107.6	194.4	55.3
<b>B. Total expenditure and lending minus repayments (3+4)</b>	80,446.6	5,551.5	6,602.7	7,861.7	8,002.9
<b>5. Current account surplus without grants (1.1.-3.1.)</b>	-389.3	104.8	-1,155.2	-662.9	-939.6
<b>6. Current account surplus with current grants (5+2.1.)</b>	-378.9	104.8	-1,155.2	-662.9	-939.6
<b>7. Gross fixed capital formation<sup>a</sup></b>	-1,627.6	6.0	24.8	98.2	168.1
<b>8. Gross capital formation<sup>b</sup></b>	-1,627.6	6.0	24.8	98.2	168.1
<b>C. Overall surplus/deficit (A-B)</b>	-2,186.6	1.0	-1,357.9	-1,142.8	-1,386.5
<b>9. Foreign financing</b>	3,050.0	-666.6	-4.7	-57.0	4,823.0
<b>10. Domestic financing</b>	-863.4	665.6	1,362.6	1,199.8	-3,436.4
10.1. From other general government	0.0	0.0	0.0	0.0	0.0
10.2. From monetary authorities	-1,026.8	670.3	355.4	-1,237.3	-3,426.3
10.3. From banks	168.6	-18.9	997.5	2,523.6	241.0
10.4. Other domestic financing	-5.2	14.2	9.7	-86.6	-251.0
<b>D. Total financing (9+10)</b>	2,186.6	-1.0	1,357.9	1,142.8	1,386.5

<sup>a</sup> Net purchase of fixed capital formation. <sup>b</sup> Net purchase of fixed capital formation and net purchase of shares. Source: Ministry of Finance.

**Table I3: Central Government Debt**

end of period, million kuna

	2003	2004											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
<b>1. Domestic debt of central government</b>	<b>34,736.4</b>	<b>34,673.9</b>	<b>35,933.1</b>	<b>35,893.2</b>	<b>36,079.3</b>	<b>36,407.5</b>	<b>37,641.2</b>	<b>39,094.2</b>	<b>38,946.9</b>	<b>40,039.8</b>	<b>40,775.1</b>	<b>42,727.4</b>	<b>41,615.9</b>
1.1. Domestic debt of the Republic of Croatia	28,160.8	27,968.1	28,712.1	28,674.8	29,304.4	29,762.4	30,846.7	34,522.7	34,385.8	35,975.1	36,513.4	38,422.6	37,329.7
Treasury bills	6,548.1	6,526.3	6,590.9	6,349.1	6,952.3	8,024.8	8,263.2	7,944.5	7,471.7	8,067.2	8,630.5	8,982.2	9,022.5
Money market instruments	0.3	0.9	8.4	0.0	72.1	72.4	54.2	5.0	–	–	–	–	–
Bonds	17,422.0	17,306.2	18,176.3	18,371.4	18,645.7	18,117.3	18,310.6	20,665.3	20,557.3	21,682.9	21,475.6	22,997.6	23,186.2
Credits from the CNB	1.4	–	1.2	1.9	1.2	3.0	3.0	3.5	0.6	1.0	1.6	2.2	3.3
Credits from banks	4,189.1	4,134.8	3,935.2	3,952.3	3,633.0	3,545.0	4,215.8	5,904.5	6,356.3	6,223.9	6,405.7	6,440.6	5,117.8
1.2. Domestic debt of central government funds	6,575.5	6,705.8	7,221.0	7,218.5	6,774.8	6,645.1	6,794.5	4,571.5	4,561.2	4,064.7	4,261.7	4,304.8	4,286.2
Money market instruments	–	–	–	–	–	–	–	–	–	–	–	–	–
Bonds	3,616.4	3,655.5	3,695.8	3,582.6	3,653.0	3,567.0	3,558.5	1,922.7	1,886.1	1,960.9	1,960.0	2,002.2	2,033.0
Credits from banks	2,959.1	3,050.3	3,525.2	3,635.9	3,121.8	3,078.0	3,236.0	2,648.7	2,675.0	2,103.8	2,301.7	2,302.6	2,253.2
<b>2. External debt of central government</b>	<b>50,137.9</b>	<b>50,351.4</b>	<b>51,586.7</b>	<b>50,537.4</b>	<b>55,917.9</b>	<b>54,636.7</b>	<b>55,149.1</b>	<b>55,200.7</b>	<b>55,668.8</b>	<b>56,556.2</b>	<b>56,200.0</b>	<b>56,388.0</b>	<b>55,248.4</b>
2.1. External debt of the Republic of Croatia	41,048.8	40,939.2	40,260.0	39,495.7	44,515.4	43,303.9	43,470.2	41,996.5	42,416.5	43,057.9	42,774.9	43,271.5	41,951.9
Money market instruments	–	–	–	–	–	–	–	–	–	–	–	–	–
Bonds	32,144.8	32,066.2	31,388.0	30,707.5	35,264.5	34,253.2	34,378.3	32,948.0	33,084.5	33,671.6	33,583.9	34,115.0	32,793.2
Credits	8,904.1	8,873.0	8,872.0	8,788.2	9,250.9	9,050.7	9,092.0	9,048.5	9,332.0	9,386.3	9,190.9	9,156.5	9,158.7
2.2. External debt of central government funds	9,089.1	9,412.1	11,326.7	11,041.8	11,402.6	11,332.9	11,678.8	13,204.3	13,252.4	13,498.3	13,425.2	13,116.5	13,296.4
Money market instruments	–	–	–	–	–	–	–	–	–	–	–	–	–
Bonds	820.6	802.5	2,758.2	2,695.3	2,745.7	2,696.2	2,705.0	2,734.8	2,765.6	2,792.7	2,761.2	2,792.2	2,764.8
Credits	8,268.6	8,609.7	8,568.5	8,346.5	8,656.8	8,636.7	8,973.9	10,469.5	10,486.7	10,705.6	10,663.9	10,324.2	10,531.6
<b>Total (1+2)</b>	<b>84,874.3</b>	<b>85,025.2</b>	<b>87,519.8</b>	<b>86,430.7</b>	<b>91,997.2</b>	<b>91,044.3</b>	<b>92,790.3</b>	<b>94,294.9</b>	<b>94,615.8</b>	<b>96,596.0</b>	<b>96,975.1</b>	<b>99,115.4</b>	<b>96,864.3</b>
Supplement: Central government guaranteed debt*													
– guarantees for domestic debt	6,895.4	6,882.4	6,645.3	6,667.0	6,969.7	6,528.1	5,847.0	5,839.7	6,108.9	5,969.4	5,669.9	5,818.7	5,407.5
– guarantees for external debt	8,618.5	8,494.4	8,503.7	8,208.5	8,556.4	8,446.8	8,361.8	8,135.5	8,187.7	8,054.0	7,932.4	8,003.1	7,809.8

\* Irrespective of the note under the heading "Classification and presentation of data on claims and liabilities", the debt of the Croatian Roads, the Croatian Highways and the State Agency for Deposit Insurance and Bank Rehabilitation, presented in this table under headings 2. External debt of central government and 1. Domestic debt of central government, was reclassified from the sub-sector of the Republic of Croatia to the sub-sector central government funds in December 1998 and December 2002 respectively.

**Table I3: Central Government Debt**

Data on the central government debt are gathered from available data and are not reconciled with the Ministry of Finance of the Republic of Croatia. The central government debt consists of domestic and external debt. The sources of data on domestic debt of the central government are the following: the Ministry of Finance Monthly Statistical Review,

Monetary Authorities Accounts and Banks' Accounts. The source of data on the central government external debt is the external debt statistics collected by the CNB. The supplement provides data on the central government guaranteed debt. Banks are the source of data on guarantees for domestic debt, while the external debt statistics collected by the CNB are the source of data on guarantees for external debt.

**Table J1: Consumer Price and Producer Price Indices**

in current prices, in kuna

Year	Month	Basic indices, 2001 = 100			Chain indices				Monthly year-on-year indices			
		Consumer price indices			Consumer price indices <sup>a</sup>			Producer prices	Consumer price indices <sup>b</sup>			Producer prices
		Total	Goods	Services	Total	Goods	Services		Total	Goods	Services	
1996	December	....	....	....	100.0	100.2	99.5	100.3	103.4	102.3	108.7	101.5
1997	December	....	....	....	100.7	100.3	102.3	99.9	103.8	102.7	108.2	101.6
1998	December	89.6	90.6	86.2	100.3	100.4	100.0	100.0	105.4	104.3	109.2	97.9
1999	December	93.1	93.4	91.8	100.6	100.8	100.0	100.3	103.9	103.1	106.5	105.9
2000	December	98.2	98.5	96.9	100.4	100.4	100.1	100.2	105.5	105.5	105.5	111.2
2001	December	100.5	99.8	103.5	100.4	100.4	100.5	99.0	102.4	101.3	106.8	96.9
2002	December	102.4	100.9	108.3	100.4	100.6	99.6	99.9	101.8	101.1	104.6	102.3
2003	December	104.1	102.5	110.6	100.3	100.2	100.5	100.0	101.7	101.6	102.2	101.0
2004	January	105.1	103.7	111.0	101.0	101.1	100.4	100.3	102.1	102.1	102.4	100.8
	February	105.0	103.4	111.5	99.9	99.8	100.5	99.7	101.8	101.6	102.6	100.1
	March	105.1	103.5	111.8	100.1	100.0	100.3	100.2	101.4	101.1	102.6	99.5
	April	105.3	103.7	111.9	100.2	100.2	100.0	100.9	101.9	101.8	102.6	101.3
	May	106.1	104.2	113.5	100.7	100.5	101.5	102.3	102.4	102.0	103.6	104.4
	June	105.8	103.6	114.3	99.7	99.5	100.7	99.7	102.5	102.1	103.7	103.9
	July	105.3	102.7	115.6	99.6	99.1	101.2	100.9	101.9	101.6	103.0	104.6
	August	105.4	102.7	115.8	100.1	100.1	100.2	101.0	102.0	101.6	103.1	105.1
	September	105.2	102.7	115.0	99.8	100.0	99.3	100.2	101.6	100.7	104.3	105.7
	October	105.7	103.5	114.3	100.4	100.7	99.4	100.8	102.0	101.4	103.9	106.3
	November	106.2	104.1	114.4	100.5	100.6	100.0	99.5	102.3	101.8	103.9	105.5
	December	106.9	105.0	114.6	100.7	100.9	100.2	99.3	102.7	102.5	103.6	104.8

<sup>a</sup> Data from January 1992 to December 1997 relate to the retail price index. <sup>b</sup> Data from January 1992 to December 1998 relate to the retail price index. Source: Central Bureau of Statistics.

**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 has stopped publishing 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 characteristic of the CPI are discussed in Box 1 in the CNB Bulletin No. 91 (2004). 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, 2001 = 100			Chain indices			Monthly year-on-year indices		
		Total	Goods	Services	Total	Goods	Services	Total	Goods	Services
1998	December	93.2	93.7	90.6	99.9	99.9	100.0	....	....	....
1999	December	95.9	96.4	93.3	100.1	100.1	100.1	102.9	102.9	103.0
2000	December	99.1	99.3	98.0	100.4	100.4	100.2	103.3	103.0	105.0
2001	December	100.3	100.1	101.8	99.8	99.7	100.3	101.2	100.8	103.8
2002	December	101.5	101.1	104.2	100.0	100.1	99.4	101.2	101.0	102.4
2003	December	102.7	102.0	107.3	100.2	100.1	101.0	101.2	100.9	103.0
2004	January	102.7	101.8	108.1	100.0	99.8	100.7	101.3	101.0	103.6
	February	102.5	101.5	108.5	99.8	99.7	100.4	101.3	100.9	103.7
	March	102.5	101.5	108.6	100.0	100.0	100.1	101.4	101.0	103.6
	April	102.7	101.8	108.5	100.2	100.3	99.9	101.9	101.6	103.3
	May	103.1	102.2	109.2	100.4	100.3	100.7	101.8	101.5	103.6
	June	103.5	102.3	110.9	100.4	100.2	101.5	101.9	101.5	104.0
	July	103.7	102.2	112.8	100.2	99.9	101.8	101.6	101.6	101.9
	August	104.3	102.9	112.9	100.6	100.6	100.1	102.2	102.2	101.9
	September	104.2	103.0	111.2	99.9	100.1	98.5	102.4	102.0	104.2
	October	104.7	103.8	109.9	100.5	100.8	98.8	102.3	102.1	103.5
	November	105.0	104.2	110.0	100.3	100.4	100.1	102.4	102.2	103.5
	December	105.1	104.2	110.4	100.1	100.1	100.4	102.3	102.2	102.9

Source: Central Bureau of Statistics.

**Table J2: Core Consumer Price Indices**

The Central Bureau of Statistics calculates the core consumer price index 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 consumer price index. A total of 111 goods and services are excluded and their share in the consumer price basket stood at 30.06% in 2005 (of which: agricultural products accounted for 9.93 percentage points, and administrative prices for 23.13 percentage points). The zero weighting method is used to exclude the prices of goods and services.

**Table J3: Average Monthly Net Wages**

in current prices, in kuna

Year	Month	Nominal amount in kuna	Chain indices	Monthly year-on-year indices	Cumulative year-on-year indices
1996	December	2,217.0	104.4	117.7	111.8
1997	December	2,544.0	100.8	114.8	116.9
1998	December	2,935.0	104.6	115.4	112.8
1999	December	3,262.0	100.9	111.2	114.0
2000	December	3,499.0	99.9	107.3	108.9
2001	December	3,582.0	96.6	102.4	106.5
2002	December	3,839.0	98.0	107.2	105.0
2003	December	4,045.0	99.8	105.4	105.9
2004	January	4,070.0	100.6	104.6	104.6
	February	4,003.0	98.4	105.7	105.2
	March	4,153.0	103.8	108.0	106.1
	April	4,129.0	99.4	106.1	106.1
	May	4,169.0	101.0	104.9	105.9
	June	4,226.0	101.4	106.0	105.9
	July	4,209.0	99.6	105.7	105.8
	August	4,178.0	99.3	106.7	106.0
	September	4,132.0	98.9	106.0	106.0
	October	4,128.0	99.9	103.3	105.7
	November	4,352.0	105.4	107.4	105.8
	December	4,312.0	99.1	106.6	105.9

Source: Central Bureau of Statistics.

# List of Abbreviations and Symbols

BIS	– Bank for International Settlements	NCS	– National Clearing System
bn	– billion	OECD	– Organization for Economic Co-Operation and Development
BOP	– balance of payments	OPEC	– Organization of Petroleum Exporting Countries
c.i.f.	– cost, insurance and freight	o/w	– of which
CBRD	– Croatian Bank for Reconstruction and Development	PPI	– producer price index
CBS	– Central Bureau of Statistics	R.	– Republic
CEFTA	– Central European Free Trade Agreement	RPI	– retail price index
CES	– Croatian Employment Service	RR	– reserve requirement
CIHI	– Croatian Institute for Health Insurance	S&L	– savings and loans association
CH	– Croatian Highways	SAA	– Stabilisation and Association Agreement
CLVPS	– Croatian Large Value Payment System	SAL	– Structural Adjustment Loan
CMI	– Croatian Monetary Institute	SAPARD	– Special Accession Programme for Agriculture and Rural Development
CNB	– Croatian National Bank	SDR	– special drawing rights
CPI	– consumer price index	SITC	– Standard International Trade Classification
CPII	– Croatian Pension Insurance Institute	SWIFT	– Society for Worldwide Interbank Financial Payments
CPF	– Croatian Privatization Fund	URBEA	– Unified Register of Business Entities' Accounts
CR	– Croatian Roads	VAT	– value added tax
CW	– Croatian Waters	VSE	– Varaždin Stock Exchange
DAB	– State Agency for Deposit Insurance and Bank Rehabilitation	WTO	– World Trade Organization
EBRD	– European Bank for Reconstruction and Development	ZIBOR	– Zagreb Interbank Offered Rate
ECB	– European Central Bank	ZMM	– Zagreb Money Market
EEEF	– Environment and Energy Efficiency Fund	ZSE	– Zagreb Stock Exchange
EFSAL	– Enterprise and Financial Sector Adjustment Loan		
EIB	– European Investment Bank		
EMTN	– Euro Medium Term Note		
EMU	– European Monetary Union		
EU	– European Union		
excl.	– excluding		
f/c	– foreign currency		
FDI	– foreign direct investment		
FINA	– Financial Agency		
FISIM	– Financial Intermediation Services Indirectly Measured		
f.o.b.	– free on board		
GDP	– gross domestic product		
GVA	– gross value added		
HICP	– harmonised index of consumer prices		
IBAN	– international bank account number		
IBRD	– International Bank for Reconstruction and Development		
ICC	– International Chamber of Commerce		
IDB	– Inter-American Development Bank		
IFC	– International Finance Corporation		
IIF	– Institute for International Finance		
ILO	– International Labour Organization		
IMF	– International Monetary Fund		
ISO	– International Organization for Standardization		
ISPA	– Instrument for Structural Policies for Pre-Accession		
JCIF	– Japanese Center for International Finance		
m	– million		
MIGA	– Multilateral Investment Guarantee Agency		
MoF	– Ministry of Finance		
MRR	– marginal reserve requirement		
NCEA	– National Classification of Economic Activities		

## Abbreviations for currencies

ATS	– Austrian schilling
CHF	– Swiss franc
DEM	– German mark
EUR	– euro
FRF	– French franc
GBP	– pound sterling
HRK	– Croatian kuna
ITL	– Italian lira
JPY	– Japanese yen
SIT	– Slovenian tolar
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
*	– corrected data
( )	– incomplete or insufficiently verified data



