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Summary

In 2003, the Croatian economy recorded solid economic growth and low inflation. However, large current account and fiscal deficits, and a sharp rise in the country's external debt, posed important challenges to policy makers.

The central bank responded to these challenges with policies aimed at slowing down credit growth, which had reached the very high rate of 30% in 2002. The central bank targeted credit growth with the intention of limiting the current account deficit, containing the growth of the external debt and preventing increases in bad loans that can easily arise if increased lending is accomplished by lowering credit underwriting standards. It was recognised that these measures would most likely lead to a temporary reduction in economic growth, but this was seen as preferable to running the risk of much more severe problems in the future. The central bank introduced measures to penalise rapid credit growth and to ensure that banks hold adequate foreign exchange liquidity in January 2003, and reinforced these measures with tightened reserve requirements (increases in the percentage of the reserve requirement on foreign exchange obligations that must be held in kuna from 25% to 35% in September and from 40% in November to 42% in December).

To begin with economic growth. Real GDP grew 4.3% in 2003, down from the 5.2% rate in 2002. The driving forces behind growth in 2003 were investment, above all in public infrastructure, and personal consumption. Investment grew some 16.8% in real terms, even higher than the 10.1% growth of 2002. Personal consumption growth slowed from 6.6% in 2002 to 4.1%. There were some signs that the consumption boom of recent years began to taper off in the second half of 2003, although automobile sales remained brisk and helped swell the trade deficit.

Government consumption stagnated during 2003, as it did during the preceding two years. Foreign demand once again made a negative contribution to GDP growth, with merchandise imports again growing strongly. Both imports of capital goods and imports of consumer durables grew rapidly as a result of fast growth in investment and personal consumption respectively. The growth rate of merchandise exports increased in 2003 relative to the low rate seen in 2002, and the growth rate of services increased very sharply. Tourism revenues were up some 47% in kuna terms.

As a result of solid economic growth, employment grew by 2.5%, or 33,000, in 2003. This was a substantially larger gain than in 2002. Registered unemployment also fell, by some 19.3% or 73,000. However, the causes of decreases in registered unemployment are harder to sort out, because of recent changes in relevant legislation that have changed eligibility for registration. Survey unemployment data, which is compatible with the internationally-accepted methodology of the ILO, showed unemployment falling from 15.2% in the first half of 2002 to 14.1% in the first half of 2003.

Wage growth was modest in 2003. Tax decreases led to more rapid increases in net wages than gross wages. Net wages, the amount that employees actually get after taxes and contributions, grew 3.8% in real terms, while gross wages paid by employers rose 2.8%.

Such mild wage pressures were one of the factors contributing to low inflation in 2003. The average annual rate of increase of retail prices was 1.5% in 2003, 0.7% less than in 2002. Exchange rate stability vis-à-vis the euro also played a major role in keeping inflation low. Furthermore, the appreciation of the kuna against the US dollar insulated Croatia from the effects of increased oil prices on the international market. Low inflation in the European countries and Croatia's main trading partners also helped keep imported inflation low. Administrative price increases were modest, but prices of agricultural products rose sharply due to a prolonged drought. Core inflation, which excludes both administrative prices and prices of agricultural products, rose by a mere 0.7% in 2003.

In keeping with the central bank's policy of maintaining a broadly stable exchange rate, the average daily exchange rate of the kuna against the euro depreciated 2.1% in 2003. The kuna appreciated strongly against the US dollar, with the average daily exchange rate of the kuna strengthening some 14.8% compared to 2002. This led to an appreciation of the real effective exchange rate of the kuna (deflated by retail prices) of 2.5%. It is important to note that the impact of this appreciation is quite uneven, since some sectors of the Croatian economy hardly use the dollar at all, while others, such as the shipbuilding industry, realise most of their export proceeds in this currency.

Croatia's current account improved in 2003, but the trade balance did not. The current account deficit decreased from some 8.5% of GDP in 2002 to 7.2% in 2003 (preliminary data). The main cause of improvement was the services balance, which rose by some 78.8% in dollar terms, on account of record tourist revenues. Meanwhile, the trade balance deteriorated 40.2%. In looking at both of these figures, it is important to note that they are both substantially inflated by changes in the value of the dollar vis-à-vis the euro and the kuna.

Two other developments are important in assessing the current account in 2003. First, as a result of substantial increases in foreign direct investment in Croatia in recent years, the current account in 2003 includes significant negative items in the form of retained earnings by FDI enterprises. Such items do not represent actual outflows of money from the country, but could in the future form the basis for actual outflows via repatriation of profits.

Second, the current account includes a very large, one-off item: the transfer of patent rights by the Pliva pharmaceutical company to its subsidiary in Hungary. If this unique transaction is excluded from the current account, the deficit would be just about 6% of GDP.

Strong capital inflows characterised the capital account in 2003. Inward FDI grew to USD 1.7bn, with the sale of 25% of the INA oil company to Hungary's MOL for USD 505m being the largest single transaction. Portfolio investment also grew strongly to USD 1.0bn. These capital inflows led to a large increase in the

central bank's international reserves, which increased by some USD 1.3bn to USD 8.2bn.

Croatia's external debt grew by USD 8.2bn in 2003, from USD 15.4bn in 2002 to USD 23.6bn in 2003. Again, a substantial portion of this growth, USD 2.8bn, is simply the result the weakening of the US dollar. However, external debt increased well beyond this amount. Banks' external debt grew by some 83.3%, other enterprises' debt 49.5%, and the government's external debt grew by 33.0%. There is no question that Croatia will be able to meet its foreign obligations in the immediate future. Nonetheless, the rate of growth of debt seen in 2003 is clearly unsustainable, and the level of debt is high enough that policy makers should focus on immediate measures to slow the rate of growth of external debt down to approximately the rate of growth of GDP or lower.

In response to these developments in the current account and external debt, the central bank strongly tightened monetary policy in 2003. In January, two measures were taken: the "16% rule", which penalised banks whose loan portfolios grew faster than 4% per quarter by requiring them to buy central bank bills bearing only 0.5% interest in an amount twice as large as the excess of lending over the 4% limit; and the "35% rule", which required banks to hold liquid foreign exchange assets of at least 35% of their foreign exchange liabilities and to maintain this ratio on a daily basis.

The effects of the 16% rule were seen quickly, as most banks reduced their loan growth to stay under the 4% per quarter level. However, the reality was more complex, as banks reduced certain items included in the loan base calculation by, for example, cutting unused credit lines and accelerating loan write-offs. In addition, growing activity by leasing companies, which are independent entities owned by domestic banks or their strategic partners and whose activity was not covered by the measures, partially offset the decrease in loan growth. Also, some banks directed customers to their foreign owners, thereby increasing foreign borrowing. Overall, the growth rate of bank lending fell from 33.6% in 2002 to 11.3% in 2003. However, when leasing and foreign borrowing are analysed, the growth in total credit made available to the economy only decreased from 25.7% in 2002 to 18.0% in 2003.

In short, the January 2003 measures did slow down the rate of credit growth. But they did not lead to an improvement in the trade balance, nor did they slow down the growth in external debt. In fact, the 35% rule, which came into force in phases and became binding for all banks at the end of March 2004, seems to have led to increased foreign borrowing by some banks. This should be a one-off adjustment, contributing to the improvement of banks' balances between foreign exchange asset and foreign exchange liabilities. This balance was seriously undermined in 2002 and proved that the "53% rule" does not guarantee the daily maintenance of a satisfactory ratio between banks' liquid foreign exchange assets and foreign exchange liabilities. The "53% rule" was replaced by the "35% rule", which was observed by banks in 2003 and the first quarter of 2004. Accordingly, it stands to reason that slower credit growth in the future will decrease banks' need for foreign funds.

The banking system, despite the measures, displayed strong profitability, with the return on average equity reaching 15.6% in 2003. Fully recoverable assets grew slightly, to 94.9% of risk assets, and irrecoverable assets fell to 1.6% from the 2.3% seen in 2002. The capital adequacy of the banking system remains strong at 15.7%. Thus, at this point, there are no signs of a deterioration in banks' portfolio quality due to the rapid growth of 2002. Although it is possible that the negative effects of rapid growth on banks portfolios may still appear in the coming period, it seems that the central banks' measures to slow loan growth in 2003 have prevented such problems from building up.

The measures and the generally tighter stance of monetary policy did result in slower growth of monetary aggregates. M1 grew by 9.8% in real terms in 2003, approximately three times less than in 2002. M4 also grew moderately, at 11.0%. Deposit growth was moderate, with foreign exchange deposit growth returning to positive figures at 5.5%. In the last decade, foreign exchange deposits have usually grown much more rapidly, but the euro conversion process in late 2001 and the beginning of 2002 seems to have exhausted most of the sources of increased foreign exchange deposits.

A new and somewhat unexpected development in the monetary aggregates in 2003 is the increased importance of kuna quasi-money (a 44% growth). This new phenomenon can partly be explained by banks' eagerness to avoid increasing their foreign exchange liabilities in light of the 35% rule. It may also be the result of savers' increased confidence in the stability of the kuna exchange rate and of the banking system.

In 2003, the channels of money creation differed somewhat from previous years. Purchases of foreign exchange by the central bank, which had in previous years accounted for the vast majority of money creation, played a smaller role than the decrease in CNB bills. The central bank, by offering an interest rate of only 2.5% on CNB bills, allowed the stock of bills to decrease by some HRK 5.0bn. Net purchases of foreign exchange from banks and the government only created HRK 965m. These money creation flows were partly sterilised by increases in the kuna portion of the foreign exchange reserve requirements, resulting in the modest increases in monetary aggregates indicated above.

One of the motivations for not raising interest rates on CNB bills was to avoid high costs of monetary sterilisation. The central bank, in fact, realised net interest income of some HRK 642m, only 7% lower than the HRK 691m realised in 2002. However, the central bank showed an overall operating deficit of HRK 342m, thanks to negative valuation adjustments of HRK 610m brought by changes in the dollar component of its international reserves. This deficit was far smaller than the HRK 597m deficit in 2002. Two-thirds of the central bank's international reserves are held in euros, and one-third in US dollars. This currency structure mirrors the currency structure of both Croatia's foreign trade and its external debt. A currency structure reflecting trade flows and debt obligations is used by most central banks, because the international reserves of the central bank in a sense "stand behind" economic actors and can be sold to the market as needed. If the currency structure of the reserves were substantially different than the debt and trade flows, agents would have to buy one currency from the central bank,

and then purchase the needed currencies on private markets, most likely abroad. This would be a rather cumbersome and costly process.

One implication of this currency structure of international reserves is that the value of the dollar in terms of kuna can vary substantially from year to year. The losses generated by negative valuation effects are paper losses only. Since the dollar's value fluctuates in a 5-10 year cycle against the euro, and therefore against the kuna as well, there are years when valuation changes causes losses, and years when they cause gains. Over the cycle, the expected loss or gain is zero. Thus there is no reason to incur the substantial costs of hedging, since over time any losses will be evened out by gains.

Turning now to the other major macroeconomic policy component, fiscal policy was more expansionary than planned in 2003. Although revenues were very close to target, expenditures exceeded plan by about 0.5% of GDP. This led to a deficit of consolidated general government of 5.1% of GDP, according to preliminary data from the Ministry of Finance. The deficit was largely financed from foreign sources, which is more expansionary than domestic financing. Both foreign borrowing and privatisation contributed significantly to deficit financing in 2003. General government debt increased by HRK 9.4bn in 2003, reaching 44% of GDP at year-end. General government external debt increased by HRK 6.3bn, and amounted to 29.6% of GDP. In the future, both decreases in the government deficit and increases in the use of domestic financing will be needed to bring Croatia's foreign borrowing under control and to preserve and strengthen the country's access to international financial markets.

Macroeconomic Developments

1

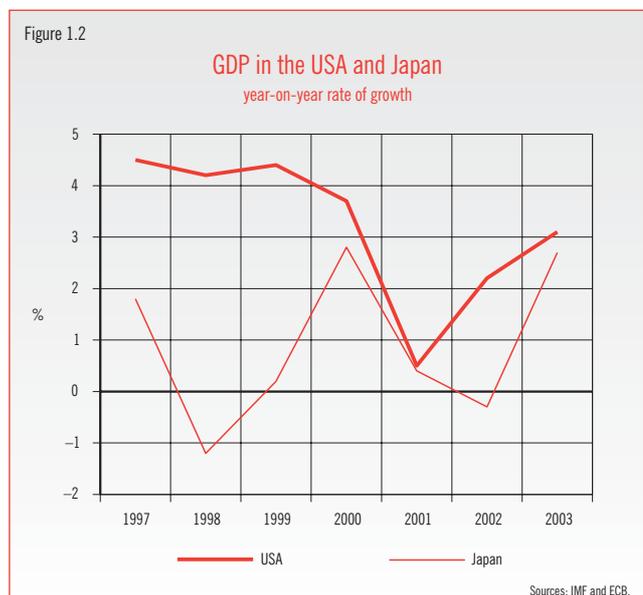
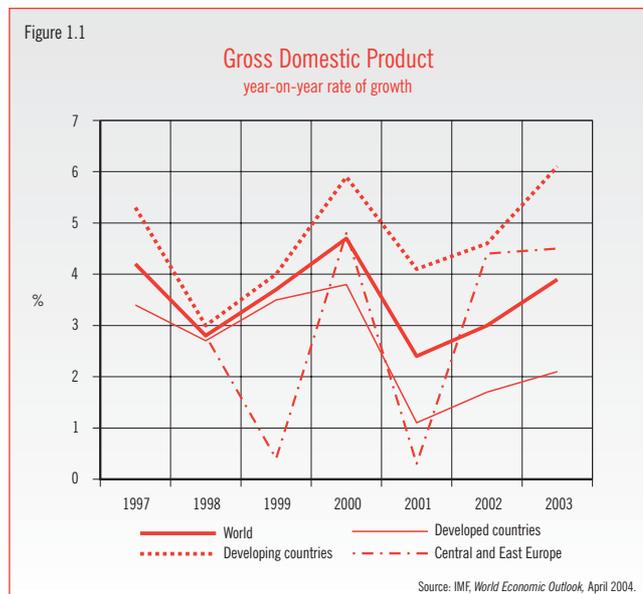
1.1 International Environment

1.1.1 World

In 2003, the world GDP grew at an annual rate of 3.9%, 0.9 percentage points faster than in the previous year. The main contributors to the world output growth in 2003 were fading geopolitical tensions and improved security situation in the second half of the year, as well as stimulating economic policy measures throughout 2003. The most favourable developments were observed in the USA, the largest generator of the world economic growth, as well as in some East Asian countries. Despite a rise in domestic demand in the eurozone countries, they limped far behind the real economic growth in the USA, mainly due to their poor export results.

The year 2001 was marked by economic slowdown in the USA. However, a recovery of the US economy started only a year later, followed by a relatively mild growth in 2003 despite the culmination of the crisis due to the attack on Iraq, which marked the beginning of the year. Economic activity heightened in the second half of the year, with the highest growth rate in the last 20 years recorded in the third quarter of 2003 (8.2% compared with the rate in the previous quarter). The main contributors to the US economic growth during 2003 were low interest rates and fiscal incentives. Owing to reduced taxes, the available household income went up, which led to an upsurge in personal consumption, so this GDP component made the largest contribution to the US output growth. The rise in personal consumption was paralleled with a significant increase in public spending, particularly in the military sector, as well as a growth of investment in communications and information technology. However, there were no substantial investments in equipment and other capital goods.

The US economy, which has been expanding over the last two years, recorded a relatively modest improvement in employment-related indicators, showing that its growth in 2002 and 2003 was almost entirely based on increased productivity, with the available production capacity still not being fully utilised. Such developments contributed to a lessening of price pressures, despite the fact that the US Federal Fund Target Rate remained at a historically low level of 1%. Low interest rates and investors' concern about the balance of pay-



ments deficit contributed to a 20% depreciation of the US dollar against the euro in 2003.

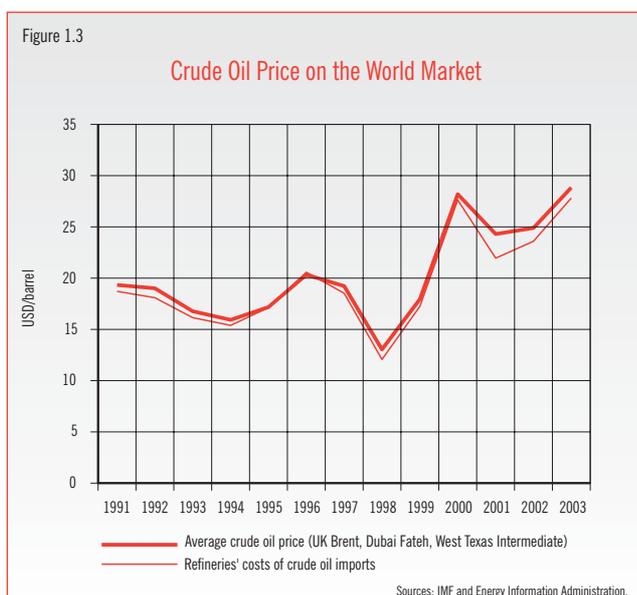
The Japanese economy grew at a much faster pace than in the previous years (2.7% in 2003 compared with a -0.3% and 0.4% growth in 2002 and 2001 respectively) owing to the strengthening of demand in Asian economies, primarily China. A growth of exports in Japan resulted in a series of substantial domestic investments (the channelling-of-funds effect). However, a recovery was only observed in individual industrial branches, so it did not prevent deflation neither did it significantly reduce unemployment. In addition, public debt reached almost 160% at end 2003, with the budget deficit standing at about 8% of GDP and interest rates approaching zero. A slow resolution of problems related to the banking system continued to prevent the Japanese economy from being significantly stimulated by expansive monetary and fiscal policies.

Taken as a whole, developing countries again recorded a relatively strong economic growth in 2003. As to developing countries in Latin America, their economic recovery was primarily the result of a growing demand (particularly from the USA) and an increase in the market prices of goods they produce, but also of improved financial conditions for borrowing on foreign capital markets. On the other hand, economic activity in the developing countries of Asia (primarily China and India) was marked by the continuation of a long-term (as opposed to the cyclical) economic growth trend in 2003, which reflected a growth of productivity owing to the privatisation, foreign direct investment, stimulation of exports and deepening of capital markets.

A recovery of the world economy stimulated the growth of demand for crude oil in 2003 in an environment of decreased crude oil production due to the Iraq war. As a result, the daily crude oil price, measured by refineries' costs of crude oil imports, exceeded USD 30 a barrel several times during the year.

The highest crude oil price since the Kuwait war in 1990 (USD 38 a barrel) was

recorded in early 2003. At the beginning of the year, oil prices jumped due to a general strike in Venezuela, the uncertainty about the Iraq situation and the reports about diminished US oil reserves. A decline in crude oil prices started in March 2003, i.e. after the uncertainty and anxiety about a possible oil-well destruction had been relieved. A further decline in crude oil prices was caused by an increase in the OPEC crude oil production quota in April, which resulted in an average crude oil price of USD 24.4 a barrel. In the second half of 2003, crude oil prices rose at a slow pace until autumn, when OPEC decided to reduce its production quota due to concerns over excessive supply and too low prices. Thus, the average crude oil price rose by 6.5% in October compared with that in the previous month and stood at USD 27.3 a barrel. A mild growth in the average crude oil prices till end-2003 was stimulated by the reports about low



crude oil reserves in the OECD countries and a very cold winter in the Northern Hemisphere.

1.1.2 European Union and the Eurozone

During 2003, the eurozone recorded a relatively low average GDP growth rate of 0.4%. The economic slowdown was particularly pronounced in the first half of the year, which was marked by a decreased foreign demand, strong appreciation of the euro against the US dollar and a decline in long-term corporate investment. The second half of the year saw an increase in consumer and producer confidence, accompanied by a greater demand for corporate crediting. Lower interest rates, as the result of reduced ECB's benchmark interest rate, and lower import prices stimulated the growth of overall domestic demand in the eurozone.

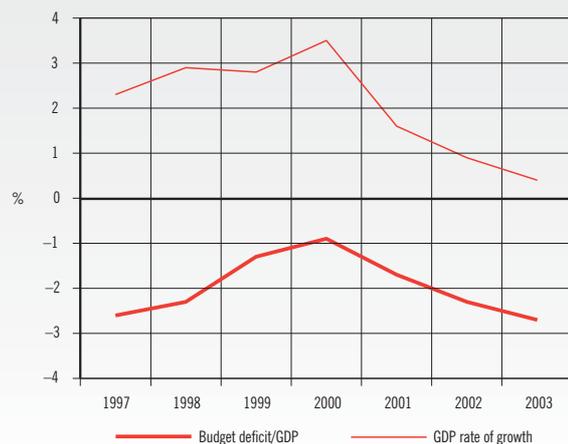
The low economic growth also contributed to deterioration in public finances compared with the 2002 indicators. The general government budget deficit in the eurozone reached 2.7% of GDP in 2003, 0.4 percentage points more than in 2002. The general government budget deficits in the strongest economies within the EU exceeded the reference value of 3% of GDP prescribed by the Stability and Growth Pact, e.g.: France (4.1%), Germany (3.9%), Great Britain (3.2%) and the Netherlands (3%). The European Commission reacted to the worsened public finances, so France and Germany undertook to reduce their general government budget deficits to 3% of GDP by 2005, in order to preserve confidence in the established fiscal policy rules.

A weak economic growth in the eurozone also resulted in a slight annual increase in unemployment rate. Thus, at end-2003, the unemployment rate in the eurozone stood at 8.8%, which was 0.2 percentage points more than at end-2002. A series of analyses has shown that no significant improvements of the labour market situation can be expected in the eurozone in the near future. This is because, unlike in the USA, private enterprises in the EU make relatively small adjustments in their levels of employment during economic recession.

In 2003, monetary aggregates in the eurozone continued to grow at a rate providing sufficient liquidity to finance and stimulate economic growth without generating inflation pressures. Thus, the monetary aggregate M3 grew at an annual rate of 8% in 2003, and the

Figure 1.4

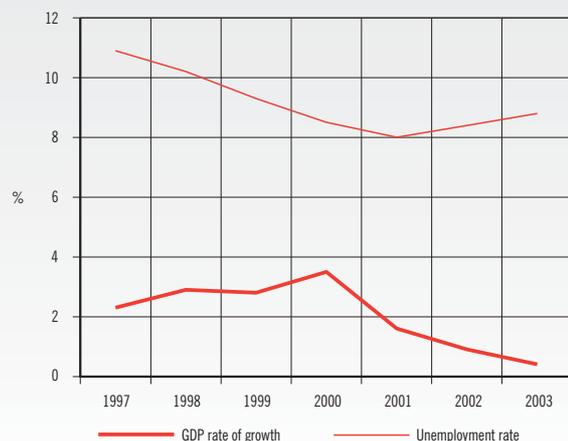
GDP and General Government Budget Deficits in Eurozone Countries



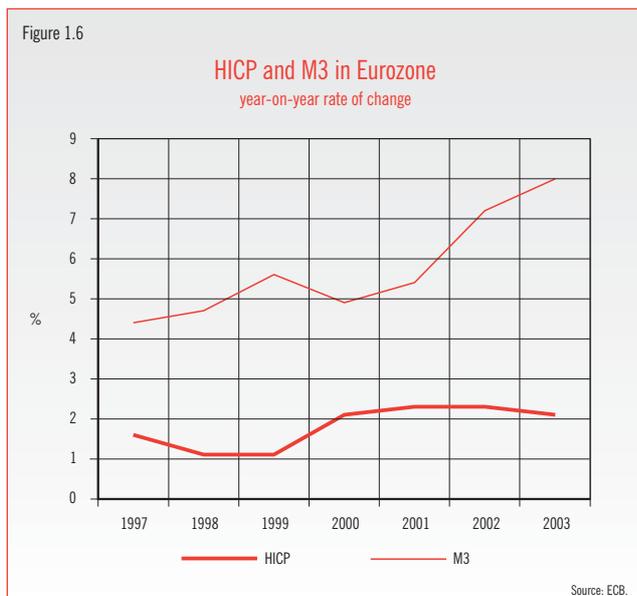
Source: ECB.

Figure 1.5

GDP and Unemployment in Eurozone

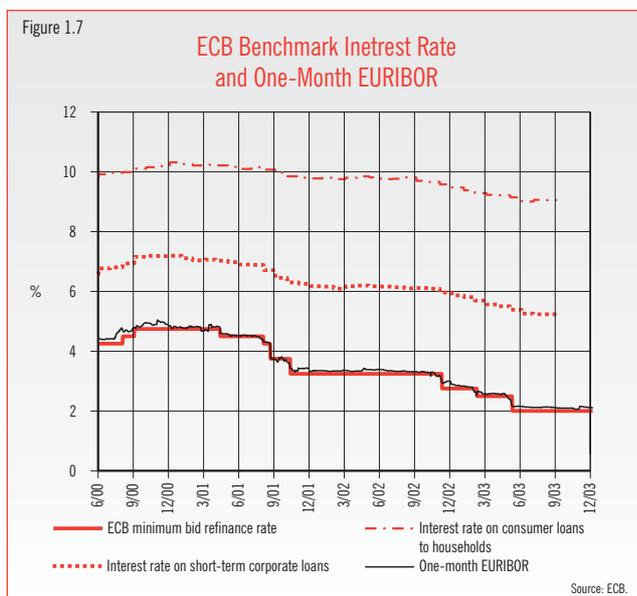


Source: ECB.



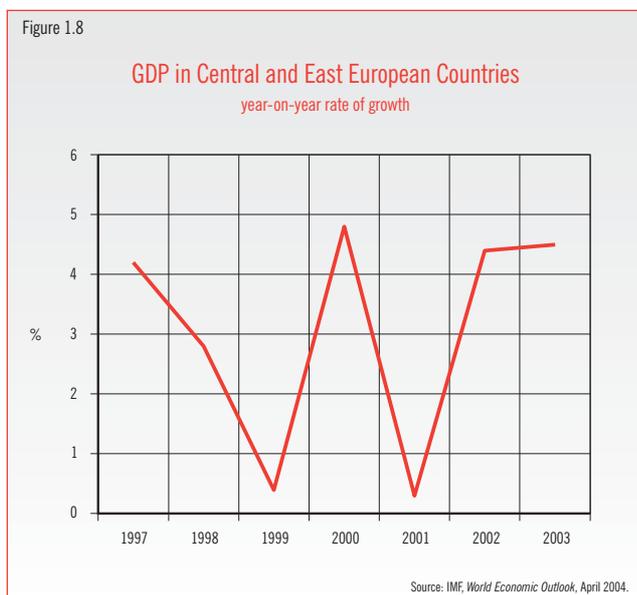
average annual inflation rate, measured by the harmonised index of consumer prices (HICP), at a rate of 2.1%. The increase in the general level of prices in the eurozone during 2003 was mainly attributable to a draughty summer, which adversely affected food production, where the largest weight in HICP calculation is assigned exactly to food.

During 2003, the European Central Bank reduced its Minimum Bid Refinance Rate from 2.75% to 2.5% in February and by additional 0.5 percentage points in May, thus improving the financial system liquidity. This contributed to reducing the money market interest rates and the interest rates on short-term loans of the banking sector. Low interest rates stimulated a growth in the volume of loans to the private sector. The largest share in the total annual growth of loans to the private sector was that of households, while in the second half of 2003, the corporate demand for loans also increased.



1.1.3 Transition Countries

In 2003, the Central and East European transition countries saw a slight economic recovery compared with 2002, which was mainly attributable to increased exports and boosted personal consumption. The improvement was most visible in Romania, whose faster economic growth (in 2003, the real annual growth rate was 4.9%) resulted from a strong domestic demand owing to a strong growth of loans to the private sector and a high wage growth rate. Bulgaria and Slovakia also recorded high growth rates (4.3% and 4.2% respectively). However, while the main generator of economic growth in Bulgaria was domestic demand stimulated by a rapid credit growth, the heightened economic activity in Slovakia resulted from massive private investments and exports. The strongest transition economies in Central Europe grew at somewhat slower paces in 2003. The economic growth in the Czech Republic (2.9%) and Hungary (2.9%) was spurred by personal consumption, while the real GDP growth in Poland (3.7%) was mainly attributable to a good performance in exports. As individual transition countries derive 10%-35% of GDP from their goods exports to the European Union, the transition econ-



omies' medium term growth potential will primarily depend on the economic recovery in the EU.

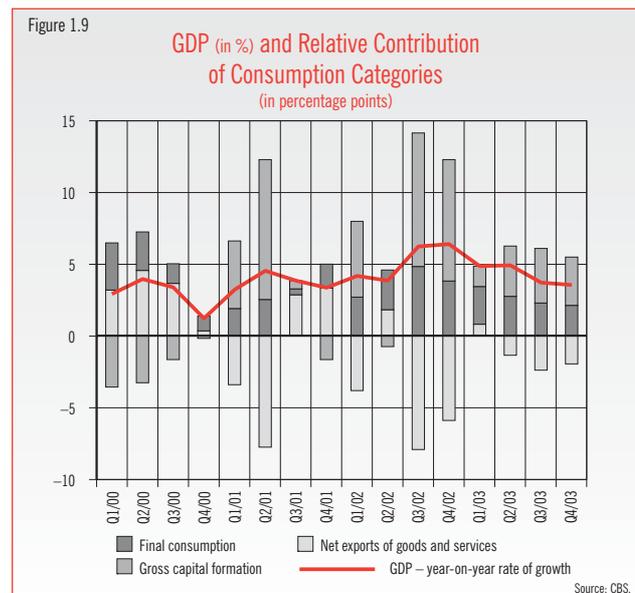
1.2 General Characteristics of Economic and Monetary Developments

1.2.1 Economic Activity

Demand

According to the quarterly GDP estimate, real GDP grew 4.3% in 2003, down from the 5.2% rate in 2002. Observed at the end of 2002, the slowdown in the economic activity continued into 2003 and accelerated its pace towards the end of the year. As a result, the fourth quarter of 2003 saw the lowest annual growth rate of 3.3%. While strong domestic demand was the primary source of the growth in 2003, foreign demand once again made a negative contribution to GDP growth. Final consumption decreased in the second half of the year (personal consumption especially), contributing to the deceleration of GDP growth.

The rate of change in the general level of prices, measured by the growth in the implicit GDP deflator, stood at 3.3% in 2003. Government consumption saw the highest growth in implicit deflator (5.7%), while other consumption categories registered a below-average growth. This high growth in government consumption deflator resulted from a considerable nominal growth in government consumption, stimulated by expenditures on severance payments to the employees who have left government administration (i.e. who have been retired) and by other benefits to the employees who are no longer employed by government. Given the achieved real economic growth and the overall growth in prices, nominal GDP was estimated at HRK 189.9bn in 2003, up HRK 13.5bn compared with 2002.¹



¹ Preliminary data on quarterly GDP estimates based on preliminary data for 2001 and 2002 – to be adjusted with the final annual calculation of GDP for 2001.

Gross fixed capital formation contributed the most to GDP growth in 2003. With a real annual growth of 16.8%, their contribution to GDP growth stood at 4.1%. This trend reflects exceptionally strong growth of investment consumption in 2003 compared with 2002 when investment grew 10.1% in real terms. The driving forces behind this growth were large investments in road infrastructure, which contributed to a heightened construction activity. In March, owing to a more favorable weather conditions, road construction activities heightened and continued even more intensely in the following months. This was aimed at opening to traffic some motorway sections before the beginning of the main tourist season. Therefore, the construction activity peaked at the end of the second quarter, while a mild slowdown began in July compared with the exceptionally strong trends in the previous period. Although the slowdown continued even in the autumn and winter months of 2003, construction activity remained at a much higher level compared with the same periods in the last year. The growing imports of capital equipment additionally increased the gross fixed capital formation in 2003. Reported at the constant 2002 exchange rate, imports of machinery and equipment (imports of road vehicles and ships excluded) grew 45.2% in 2003 compared with 2002. Apart from a substantial increase in gross fixed capital formation, 2003 saw reduced investment in stock.² As a result, the total growth in investment (12.2%) was lower than the growth in gross fixed capital formation.

In 2003, personal consumption strongly contributed to the growth in domestic demand but slowed down compared with trends registered in 2002. Personal consumption grew 4.1% in real terms in 2003 compared with 2002 when its real growth rate stood at 6.6%. However, it decelerated in the first half of the year and thus contributed to the lower growth in GDP. Like in the previous year, the growing personal consumption in 2003 was increasingly financed by bank loans. In nominal terms, bank loans to household grew 35.4% on average in 2003 compared with 2002, while their annual rate of growth reached 27.7% in December. Concurrently, an upward trend was also perceived in regular sources of financing. The average net wage increased 3.8% in 2003 compared with 2002 and, accompanied by the growth in registered unemployment, positively contributed to the increase in personal consumption. Government transfers to the household grew at the rate of 4.3% in 2003 compared with 2002, or only slightly faster than inflation. The developments in the sources of consumption financing (bank loans and wages) followed the developments in personal consumption, and trended downwards throughout the year.

In 2003, government consumption remained at approximately the same level as in 2002, i.e. according to the quarterly GDP estimate it fell by 0.3% in real terms in 2003 compared with 2002. This halted the downward trend in government consumption observed in the previous three years when the contribution of this consumption category to the growth of gross domestic product was also reduced. According to preliminary MoF data, consolidated general government expenditures on goods and services rose by 5.2% in nominal terms. In addition, expenditures for purchases of goods and services grew by 1.2% in nominal terms or less

² It is worth noting that the change in stock, which is one of the components used for GDP calculation made by the expenditure method, also includes a statistical discrepancy. The discrepancy arises from the adjustment between GDP calculation made by the expenditure and the production method.

than the inflation rate and fell in real terms. In contrast, expenditures on wages saw a strong nominal growth. Given the fall in the number of employed and the growth in expenditures on wages that was induced by severance payments, government consumption did not grow in real terms and its high nominal growth was reflected in increased government consumption deflator. Accordingly, instead of showing a real growth, the quarterly estimate of GDP for 2003 showed a slight fall in government consumption.

Like in the previous two years, a growing domestic demand provided an impetus to a considerable increase in imports of goods and service in 2003. The annual real growth rate of imports of goods and services was 10.9% in 2003, indicating further increase in imports in 2003 in comparison with the previous years. Exports also grew at a high rate in 2003 and, according to the quarterly GDP estimate, stood at 10.9%. This increase resulted from revived exports of goods paralleled with a strong growth in exports of services. Despite favourable developments in exports, their positive effects were overpowered by strong imports (expressed in absolute terms) which contributed more to GDP formation. Therefore, net foreign demand participated with –1.5 percentage points to GDP growth.

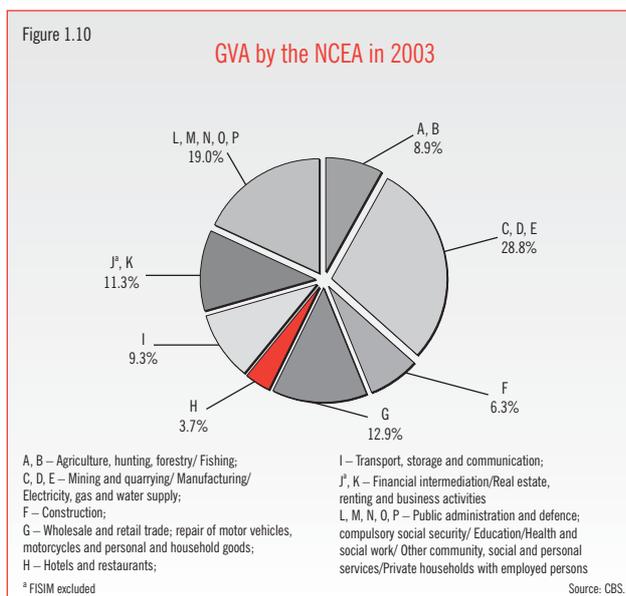
According to balance of payments data, trade deficit reached USD 7.9bn in 2003 and was accompanied by a surplus in services of USD 5.6bn. Total growth in exports outdid total growth in imports of goods and services and thus contributed to the decrease in trade and services deficit in 2003 compared to that registered in 2002. These developments differ from those registered by the quarterly GDP estimate which showed the same growth rates of imports and exports of goods and services. The difference between these two sources of data stems from GDP estimates for the second and the third quarters of 2003. Tourism revenues included in GDP estimates for these periods were lower than those included in the balance of payments statistics. As a result, the quarterly GDP estimate showed negative contribution of net foreign demand to GDP growth as tourism revenues account for significant shares in exports in the said two quarters.

The growth in exports of goods and services, as shown by preliminary balance of payments data, came from increased exports in both categories. However, exports of services grew at a higher rate than exports of goods, paralleled with a strong growth in exports of tourism services. Accordingly, tourism revenues estimate for 2003 showed an increase of 47.0% compared with 2002 (measured in kuna). Although the growth in exports of goods was slower than the growth in exports of services, it should be noted that good exports were more intense in 2003 than in 2002. The strongest contribution to the growth in total goods exports, like in the previous year, came from increased exports of electrical machinery, apparatus and equipment, other transport equipment (ships), oil and refined petroleum products, clothes, and sugar, sugar and honey products. At the same time, high economic growth stimulated higher demand which provided an impetus to increased imports. Trend registered in the second half of 2002 thus continued into 2003. Imports of goods grew significantly and imports of services slowed down. The strong growth in goods imports was accounted for by imports of road vehicles and ships – following finishing operations performed in Croatia, ships are again exported.

Output

According to the GDP estimate made by the production method, gross value added (GVA) rose by 4.9% in 2003 compared to 2002 or at a higher rate than

gross domestic product. This can be attributed to a slower growth in “taxes on goods reduced by government subsidies”. According to the production method, gross domestic product is estimated as a total of gross value added realised in all activities increased by taxes reduced by subsidies. As a result of a slower growth of the specified category, which was the consequence of a slower growth of taxes on goods and a faster growth of subsidies, GDP grew at a slower pace than gross value added. The strongest growth of gross value added was recorded in construction, while an above-average growth was registered in transport, storage and communications, hotels and restaurants and financial intermediation, and in trade. The two-year stagnation in gross value added in public and social activities continued. Agriculture recorded a sharp decline in gross value added, particularly in the second and third quarters of 2003 due to a long draught.



Industry

In 2003, production in overall industry, which includes manufacturing, mining and quarrying as well as electricity, gas and water supply, grew at a slower pace than in the previous year, so its annual growth rate dropped from 5.7% in 2002 to 4.0%. Gross value added followed the trends in the total volume of industrial production and the annual increase in gross value added was 4.5%. The second quarter of 2003 was marked by the sharpest rise in gross value added. This rise was followed by the slowdown that resulted in rather low growth in the last quarter of 2003.

According to the main industrial groupings, the highest growth rate in the index of the total volume of industrial production of 6.9% was recorded in non-durable consumer goods. In contrast, the production of capital goods fell in 2003 compared to the previous year, by as much as 1.8%.

In 2003, all three sections of the NCEA saw an increase in production. The growth in production in manufacturing, which accounts for 82.5% of the total industrial production, was 4.3% in 2003, or slightly above those registered in other two sections. Production in mining and quarrying grew at an annual rate of 2.3%, while the annual production growth in electricity, gas and water supply was 3.4%. The largest contribution to the growth of the index of the total volume of industrial production in manufacturing was made by the growth of production in publishing and printing, manufacture of food and beverages and manufacture of fabricated metal products. In addition to this, production increased significantly

in a number of minor divisions like the manufacture of electrical machinery and apparatus and recycling. In the same period, nine out of 23 divisions recorded a decline in production where the largest negative contribution to the growth of production in manufacturing was made by the manufacture of chemicals and chemical products and manufacture of other transport equipment (ships), as well as the manufacture of machinery and apparatus. Besides, production declined in all divisions of textile industry.

Stocks of final industrial products grew by 1.2% on average in 2003 compared with 2002. The most perceptible in the first half of the year, when the highest rates of production growth were recorded, this trend saw a mild growth in the second half of the year. In November and December, marked by stagnant production, stocks fell considerably, making up for sluggish production.

The growth of production in industry was paralleled with a continued restructuring of business entities, which resulted in reduced employment. These developments and increased production stimulated by new technologies led to increase in labor productivity – 7.7% in 2003 compared with 2002. A particularly strong growth of labor productivity was recorded in manufacture of tobacco products and in radio, television and communications equipment and apparatus, which also saw large reductions in number of employees. In contrast to this, a sharp rise in labor productivity in publishing and printing as well as manufacture of fabricated metal products approximated the exceptionally strong growth of production, and was therefore not the consequence of a decline in employment.



Construction

With a 20.2% real growth in gross value added, construction was the strongest growing economic activity in 2003. Such a strong growth of activity in construction was mainly the result of a large investment in road infrastructure, which has been put high on the Government agenda. In 2003, capital expenditures of government agencies for the construction and maintenance of roads and motorways rose by over 40% compared with the previous year. This was paralleled with a change in the structure of overall construction works, i.e. the construction of buildings decreased in relative terms, while the share of other projects, mainly roads increased. Of the total value of construction works completed in 2003, 60% was accounted for by the construction of roads and the remaining 40% by the construction of buildings. The upward trend in residential construction continued in 2003, and the number of completed dwellings rose by 25.1% in 2003 compared with the previous year.

The index of total volume of construction projects, measuring the working hours of construction workers at building sites, rose by 22.5% in 2003 in comparison with 2002. Thus, after a considerable fall in 1998 and 1999, the index of total volume of construction projects continued its upward trend for the fourth consecu-

tive year and was especially pronounced in 2003. Expressed in nominal terms, the value of construction projects completed in 2003 grew by a considerable 43.8% in 2003 compared with the previous year. Contrary to this, however, the value of net construction project orders declined, so construction is not expected to rise at high rates in 2004.

Trade

A slowdown in personal consumption in 2003 contributed to a decrease in trade turnover. Gross value added in overall trade rose by 7.1% in real terms compared to the previous year, while in 2001 and 2002 gross value added in trade grew at annual rates exceeding 10.0%. In 2001 and 2002, trade turnover grew exceptionally fast owing to the expansion of numerous chains of stores throughout the country. A heavier competition resulted in improved services and reduced sales prices, which stimulated the growth of consumption. However, the effects of these developments wore off. It should be emphasised that the recorded growth rate of gross value added is still very high, above the average growth rate of the total gross value added.

Gross value added has gradually slowed down since the beginning of the year. The lowest annual growth rate of gross value added (4.8%) was recorded in the fourth quarter. Similar trends were also observed in trade turnover, which has also slowed down since the beginning of the year. Owing to the big Christmas shopping, a growth of turnover was only recorded in December, and slightly improved the overall trade performance.

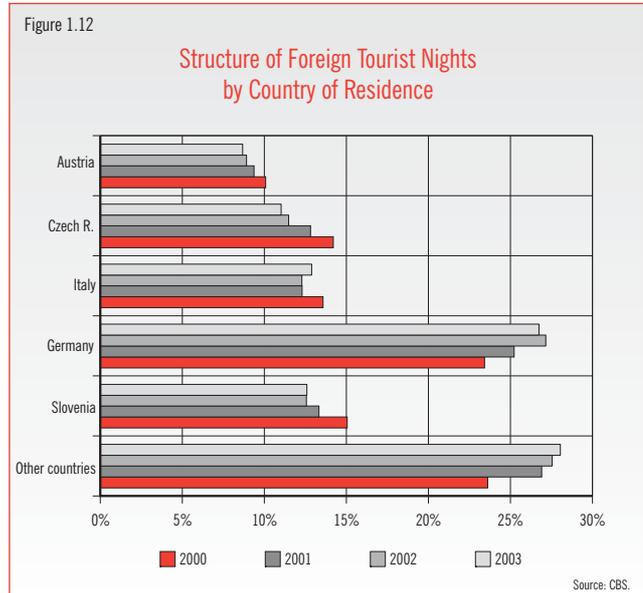
Tourism

In 2003, tourism grew considerably. Tourist nights stood at 46.6 million, up 4.3%, while tourist arrivals reached 6.7% in 2003 compared with 2002. According to the GDP estimate made by the production method, gross value added in hotels and restaurants rose by 8.3% compared with the previous year, while the strongest growth rates were registered in the second and the third quarters of 2003.

The highest growth rate of tourist nights, 10.0%, was registered in the second quarter, but it stood at only 3.0% in the third quarter. The slower growth of tourist nights in the third quarter resulted from limited accommodation facilities and their high occupancy rate. Accordingly, an increase in tourism revenues can only be generated by improving the quality of services. In addition, 2003 also saw a sharp rise in tourist services prices, which caused a change in the structure of tourists. The most important result of these developments was an increase in the number of tourists from less represented countries, which was a continuation of a diversified-structure-of-tourists trend perceived in the last few years. As already mentioned, the sharpest rise was observed in the number of nights stayed by tourists from less represented countries. Thus, the largest contribution to a 4.1% growth of foreign tourist nights in 2003 was made by tourists from Italy (9.0%), the Netherlands (24.3%) and France (64.7%). Germany was the last with a 2.5%

growth. Compared with 2002, nights stayed by tourists from Poland fell sharply, while the fall in the nights of tourists from Slovakia was less serious and the nights of tourists from the Czech Republic stagnated.

In 2003, different trends were perceived in the manner of booking and the structure of accommodation facilities. Thus, the nights of tourists who arrived in Croatia individually rose significantly, while the nights of tourists whose arrivals were organized by travel agencies stagnated at the level from 2002. As concerns the structure of accommodation facilities, nights stayed in hotels stagnated at the level from 2002, while nights stayed in private rooms, apartments and vacation houses rose significantly. This can be accounted for by a growth in the number of individual arrivals. Nights stayed in camps rose at the average rate for all accommodation facilities. Like the previous two categories, they participated with one fourth in the total number of nights. The remaining one fourth of tourist nights was registered in other, less represented, categories of accommodation facilities.



Transport and Communication

In 2003, transport, storage and communications saw a growth of activity compared with the previous year. Gross value added rose by 9.2% in real terms relative to 2002, which confirms the propulsiveness of this activity in 2003. The growth trend accelerated from the beginning of the year, so in the fourth quarter gross value added reached its peak (11.0%).

For several consecutive years, the sharpest rise has been observed in telecommunications. This is the result of a heavier competition, an increased number of users and new services, particularly in mobile network. Similar developments were observed in 2003, when minutes spent in mobile network rose by 27.7% compared with the previous year. Minutes spent in fixed network also grew but much slower than in mobile network.

As concerns transport, different trends were observed in the individual types of transport in 2003. Thus, compared with 2002, transport of passengers declined while transport of goods went up. However, despite a 1.7% fall in the number of transported passengers, the number of kilometres passed by passengers slightly increased. The number of passengers went up only in less significant types of transport – sea and air transport. In contrast to this, transport of goods went up resulting in an 11.1% increase in the quantity of transported goods (in tons) compared with 2002, with a much slower growth in the number of tons/kilometres. An upward trend was observed in all types of goods transport, particularly in the most significant ones: railroad and sea transport. The same trend was also observed in supporting activities, particularly related to traffic in seaports, 9.3% compared with 2002.

Economic Activity in the First Quarter of 2004

According to economic activity indicators, the downward trend in the economic growth was halted in the first quarter of 2004. This was most pronounced in industrial production which revived after it had stagnated in the last quarter of 2003. January 2004 saw a continuation of the slowdown trend in industrial production that started in mid-2003. However, industrial production grew at higher rates in February and March, and the total volume of industrial production rose by 3.5% in the first quarter of 2004 compared with the same period in 2003.

Although less intensive than in 2003, construction activity saw a continuation of strong upward trends. The index of total volume of construction projects rose by 16.5% in the first two months of 2004 compared with the same period last year. As stated above and indicated by a decline in net construction projects orders at end-2003, construction activity is expected to slowdown in 2004.

In addition, exceptionally good results were recorded in tourism. Tourist nights rose by 16.1% in January and February compared with the same months in 2003 and were accompanied by a growth in the number of tourist arrivals – 7.1%. Although nights stayed at the beginning of the year participate with a small share in the total annual number of nights, these extremely favourable indicators suggest the lengthening of tourist season and the possibility of generating higher income from tourism.

As opposed to these markedly favourable developments, monthly indicators on trade turnover showed somewhat poorer results at the beginning of 2004. All legal persons engaged in retail trade showed lower real growth in overall turnover in the first two months of 2004 than in the same period last year. However, retail trade turnover grew at a somewhat faster pace. Sales of motor vehicles fell and thus contributed to an increase in retail trade turnover which excludes motor vehicles and motor-cycles; the real annual cumulative growth rate stood at 7.1% in February.

1.2.2 Labour Market

The main characteristic of the labour market developments in 2003, which attracted considerable attention of the public, was a rapid decline in registered unemployment. It started as early as March 2002, and then it accelerated in the last quarter of that year and continued throughout 2003. Signs of a slowdown in these developments were observed in the last quarter of 2003. During the year in which registered unemployment recorded the strongest downward trend, i.e. from August 2002 to August 2003, when it sank to its lowest level, registered unemployment decreased by 19.3% (75 thousand). Compared with its peak reached in March 2002, registered unemployment declined by a total of 26.2% during these 17 months (i.e. in August 2003, the number of the registered unemployed was 109 thousand smaller than in March 2002), which was partly attributable to seasonal factors. After September 2003, registered unemployment rose slightly,

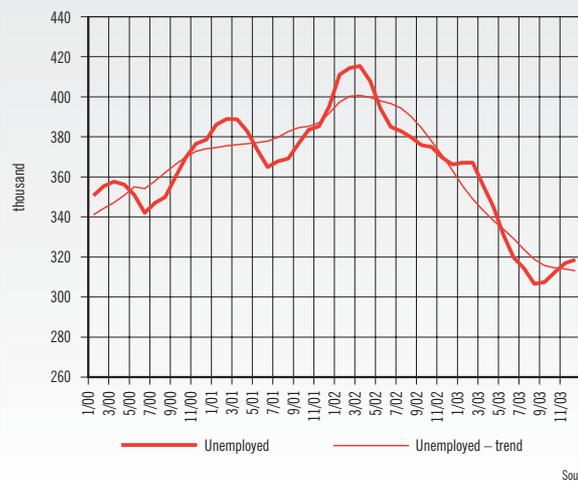
which weakened its downward trend but did not reverse it, despite the usual return of seasonally employed persons to the CES records in the last quarter of the year.

As the beginning of a downward trend in registered unemployment coincided with entering into force of the new Act on Employment Intermediation and Rights during Unemployment in March 2002, and a stronger downturn was observed in September 2002 when new business procedures were introduced in the CES, the decline in registered unemployment was accounted for by the application of the new Act. The new Act also contains a changed definition of unemployed person, which now includes active job seeking and availability for work. In addition, pursuant to the Act, persons whose occasional income per month exceeds HRK 900 are not considered as unemployed. A Job-Seekers Register has also been established to include the persons who do not satisfy the criteria for the enrolment in the register of the unemployed or those who avoid the enrolment on account of the requirements imposed by the new Act and business procedures implemented by the CES. However, the upward trend in employment started as early as 2001, and a continuation of the strong economic growth in 2003 stimulated the demand for labour, so the decline in registered unemployment was partly attributable to the growth of employment.

The relative importance of various causes of the decline in registered unemployment can be assessed by analysing the flows within the CES register. A comparison of the flows within CES register between the period of the sharpest decline in registered unemployment and the year preceding that period shows that the decline was mainly attributable to a reduced inflow into the register, while the growth of outflow from the register, i.e. clearing from the CES records, was much slower than the decline in inflow into the CES register. In the period September 2002-August 2003, i.e. during the strongest decline in registered unemployment, inflows into the register stood at 217 thousand. This was 73 thousand (about 1/4) less than in the period September 2001– August 2002 before the sharp fall in registered unemployment. The decline in inflow into the CES register relates to all categories of the newly registered persons and cannot be limited to any particular group. On the other hand, total outflows from the register stood at 290 thousand in the period September 2002-August 2003, i.e. they increased by as little as ten thousand (3.8%) compared with the preceding year. However, the slight growth in outflows from the register implies a change in their structure. Thus, outflow from the CES register to employment fell by 12 thousand (7.4%), while clearing from the records increased by 23 thousand (20.3%). The decline in outflows from the register to employment can be considered as modest given the reduced inflow into the register during that period. The growth in clearing from the records was mainly attributable to the fact that these persons did not satisfy the new legal requirements, or did not actively seek job or derived occasional income exceeding the prescribed limit. As the decline in inflows into the CES register was more than three times sharper than the growth in clearings from the records, it is

Figure 1.13

Unemployed Persons Registered with the Croatian Employment Service



Source: CES.

evident that the reduced inflow into the register was the main reason for the decline in registered unemployment.

After September 2003, inflows into the CES register increased, particularly the inflow of persons from inactivity. This growth is probably due to the reinclusion in the records of persons who were excluded from them for non-employment reasons or persons cleared from the CES records. A downward trend in outflow from the register to employment continued into the period from September to the end of 2003, which was paralleled with a slight reversal of the upward trend in clearing from the records, i.e. the number of clearings from the records decreased a little.

Though it may be concluded that clearing from the records was not the main reason for the decline in registered unemployment, the labour market flows do not clearly indicate whether the decline resulted from the change in regulations or employment growth. It is only possible to examine to what extent individual scenarios correspond with the observed CES flow dynamics. Thus, a reduced inflow into the register could be a sign of a decline in the number of persons who lost their jobs, or it could mean that persons who had lost their jobs quickly found new jobs. It is also possible that, owing to the improved CES business procedures, it is possible to early identify persons who register with the CES for the purpose of health insurance or receiving maternity benefit, without knowing that these entitlements are not subject to the registration with the CES. This, however, does not contribute to the growth of employment.

Table 1.1 Inflows into and Outflows from the CES Register
in thousand and %

	Period		Change	
	Sep./2001 – Aug./2002	Sep./2002 – Aug./2003	in thousand	in %
1. Newly registered	290.1	216.9	-73.1	-25.2
1.1. First-time job seekers	74.5	58.7	-15.8	-21.2
1.2. Previously employed	215.6	158.3	-57.3	-26.6
1.2.1. Business closure	15.7	5.7	-10.0	-63.5
1.2.2. Employer-initiated notice	162.9	123.7	-39.2	-24.1
– End of temporary contract	104.1	80.7	-23.4	-22.5
– Redundant workers	54.0	38.6	-15.3	-28.4
– Other	4.8	4.3	-0.4	-9.2
1.2.3. Notice given with the offer of a new contract	0.4	0.6	0.2	56.9
1.2.4. Employee-initiated notice	12.0	8.8	-3.3	-27.1
1.2.5. Termination of employment by consent	23.8	19.2	-4.6	-19.5
1.2.6. Other reasons	0.8	0.4	-0.4	-52.9
2. Outflow from the CES register	279.5	290.1	10.6	3.8
2.1. Outflow from the register to employment	166.2	153.9	-12.4	-7.4
2.2. Cleared for other reasons	113.3	136.2	23.0	20.3

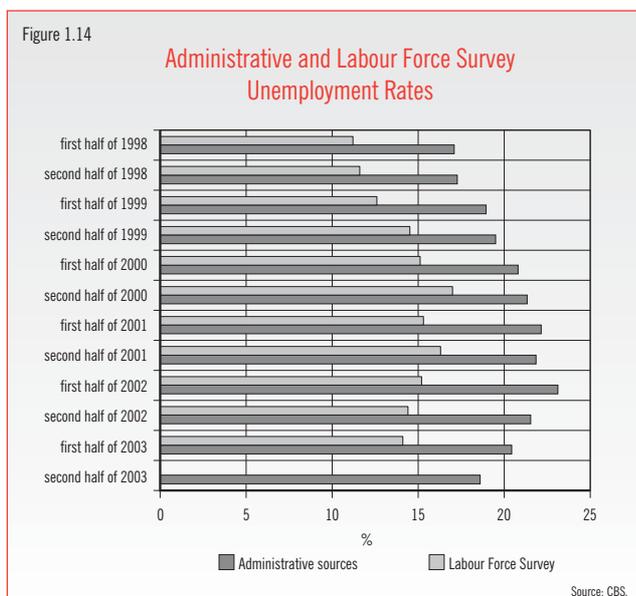
	Period		Change	
	Sep./2002 – Dec./2002	Sep./2003 – Dec./2003	in thousand	in %
1. Newly registered	59.1	73.2	14.2	23.9
1.1. Directly from employment	40.5	45.3	4.9	12.1
1.2. From private agriculture or similar work	0.7	1.2	0.5	67.5
1.3. Directly from school	5.5	6.2	0.6	11.2
1.4. From inactivity	12.4	20.5	8.2	66.1
1.4.1. First-time job seekers	11.9	17.0	5.1	43.2
1.4.2. Previously employed	47.2	56.2	9.0	19.1
1.4.2.1. Business closure	1.2	2.3	1.1	93.5
1.4.2.2. Employer-initiated notice	39.8	47.9	8.1	20.3
– End of temporary contract	28.7	34.7	6.0	21.1
– Redundant workers	10.0	11.9	1.9	18.7
– Other	1.1	1.3	0.2	16.2
1.4.2.3. Notice given with the offer of a new contract	0.1	0.1	–0.0	–36.8
1.4.2.4. Employee-initiated notice	2.3	1.6	–0.8	–32.4
1.4.2.5. Termination of employment by consent	3.7	4.3	0.6	15.3
1.4.2.6. Other reasons	0.1	0.1	0.0	24.4
2. Outflow from the CES register	96.6	85.9	–10.8	–11.1
2.1. Outflow from the register to employment	48.1	39.4	–8.7	–18.0
2.2. Cleared for other reasons	48.5	46.4	–2.1	–4.3

Source: CES.

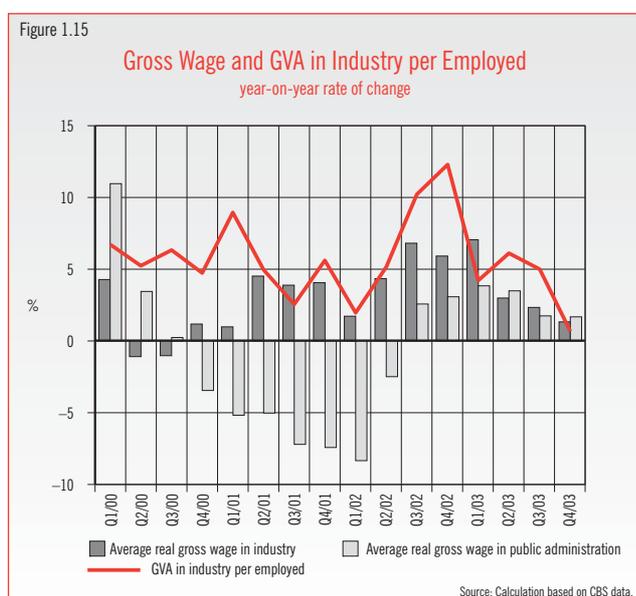
Finally, it is possible that the unemployed are less inclined to register with the CES, due to the fear of being revealed if they engage in some unofficial economic activities, thanks to the more efficient CES procedures. Moreover, the reduced confidence in the CES employment intermediation, as indicated in the Labour Force Survey, may be additionally shaken by terminating the obligation of employers to report vacancies to the CES. It is also possible that unemployed persons are reluctant to accept the obligations imposed by the new Act. And finally, a certain number of persons who should be registered with the CES probably registered as job seekers whose number stood at almost 14 thousand at the end of 2003.

The upward trend in total employment that started in 2001 strengthened in 2003. According to the adjusted preliminary indicators for the period February 2003-January 2004, total employment rose at an average rate of 2.6% (by almost 36 thousand) in that period. This changed the perception of a stagnant employment in 2003, which was based on preliminary administrative indicators of total employment. According to the adjusted total employment indicators, employment grew by 2.5% (33 thousand) in 2003, three times faster than in 2002. It should also be noted that the total employment indicator includes individual farmers who pay pension insurance contributions but do not necessarily engage in an economic activity. In 2003, their number declined significantly, by more than 7 thousand, so employment probably grew at a higher rate in 2003 than that suggested by the total employment indicators. Given the biased indicators of total employment, a growth of employment accounts for somewhat more than a half of the decrease in registered unemployment in the period between 2002 and 2003. This suggests that the before described policy of activating the unemployed also contributed to the decline in registered unemployment, particularly at end-2002, when the decline in registered unemployment was more rapid than the growth of

total employment, without having a decisive influence on reducing the registered unemployment. Such activation policies have been implemented in the developed countries for a long time now with visible beneficial effects on job seeking by the unemployed, identification of actually unemployed persons, allocation of funds by public employment intermediation agencies to these persons and a more rational use of public funds.



According to the latest available data for the first half of 2003, the Labour Force Survey Unemployment rate points to a decline in unemployment, yet much slower than the fall in registered unemployment. While the registered unemployment rate decreased by 2.7 percentage points between the first half of 2002 and the first half of 2003, the Labour Force Survey Unemployment rate dropped by 1.1 percentage points in that period. However, the Labour Force Survey unemployment rate started to decline as early as 2002, almost simultaneously with the growth of employment, whose cumulative decline relative to the recorded maximum also exceeded 2 percentage points.



While the employment and unemployment dynamics in 2003 show a continuation of a strong labour market activity, the real average wage stagnated in that year. Subsequent to the lifting of restrictions on the wage bill in the public administration, education and health and social insurance in mid-2002, and a somewhat faster growth of real average wage, its growth slowed down again in early 2003. The wage stagnation in public administration is primarily reflected in low annual growth rates of real average gross wage, which dropped to 1.7% in the second half of 2003, following the disappearance of the base period effects of the real average wage growth in mid-2002. However, due to the previously mentioned base period effects, the annual growth rate of real average gross wage in public administration for 2003 was somewhat higher, 2.7%.

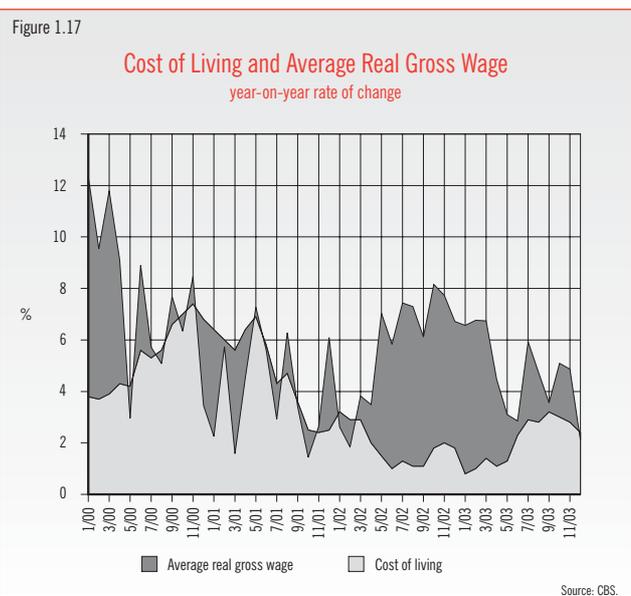
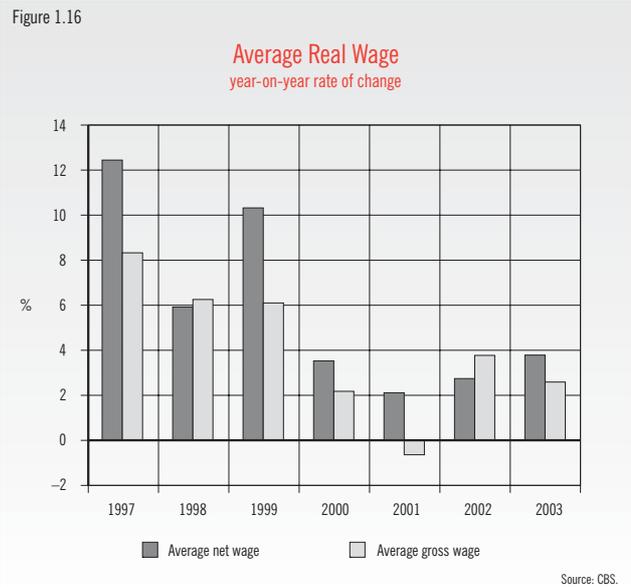
Owing to the less restrictive wage policy in the public sector, the real growth of wages in industry also accelerated in the second half of 2002. This growth was stimulated by the economic upturn and an increased productivity in industry, and outstripped the real wage growth recorded during the last few years. However,

as early as the second quarter of 2003, the growth of average wage in industry slowed down significantly, followed by a decline in industrial production that occurred towards the year-end. Towards the end of 2003, the real growth of average gross wage in industry slowed down additionally, so its annual growth rate dropped to 1.3%. Despite the much higher annual growth rate of average gross wage in industry for the whole 2003 of 3.4%, the growth of gross value added per employed person in industry was half a percentage point higher. This leads to the

conclusion that in 2003, labour costs in industry followed the growth of productivity, but as they grew at a somewhat lower annual rate they are unlikely to result in inflationary pressures.

Besides a continuation of the restrictive wage policy in the public sector and somewhat lower economic growth rates at the end of 2003, several other factors slowed down the average gross wage growth in that year. Firstly, personal deduction rose in early 2003, while, owing to reduced tax wedges, the share of taxes and contributions in the total labour cost at the average wage level decreased by approximately four percentage points. This provided a basis for a faster net wage growth, without increasing the gross wage, i.e. total labour costs. Thus, the real average net wage rose by 3.8% in 2003, 1 percentage point more than in 2002. This was paralleled by a slowdown in real average gross wage from 3.8% in 2002 to 2.6% in 2003, 1.2 percentage points below the real growth of average net wage in that year.

Finally, the slower growth of real gross wage in 2003, particularly in the second half of the year, can be attributed to a slightly faster growth in the cost of living. As the annual growth rate of nominal gross wage dropped from 5.7% in 2002 to 4.9% in 2003, it is clear that the slower growth of the nominal gross wage played the decisive role in slowing down the real growth of gross wages. However, the cost of living index grew at a rate of 2.1% in 2003, 0.2 percentage points faster than in 2002. The consequences of the cost of living growth were particularly pronounced in the second half of the year, when the growth of the cost of living index accelerated to 2.9% at the annual level.



Labour Market in the First Quarter of 2004

The beginning of 2004 saw a continuation of the developments from the last quarter of 2003. Thus, registered unemployment remained stagnant, with a usual seasonally induced growth during the first two months of the year and a decline in March, which was somewhat earlier than usual for the season. In contrast to this, preliminary indicators of total employment point to a continuation of its upward trend in the first quarter of 2004, without a serious impact on the registered unemployment trend. It therefore appears that the effect of the reinclusion in the CES records of persons cleared from the records at end-2002 and in the first three quarters of 2003 was also significant in the first quarter of 2004.

Owing to a heightened economic activity in the first quarter of 2004, wages grew at a slightly accelerated pace toward the end of that quarter. However, the real average gross wage grew at an annual rate of 2.9% in the first quarter, which is only slightly above the rate in 2003.

1.2.3 Prices and Exchange Rate

Prices

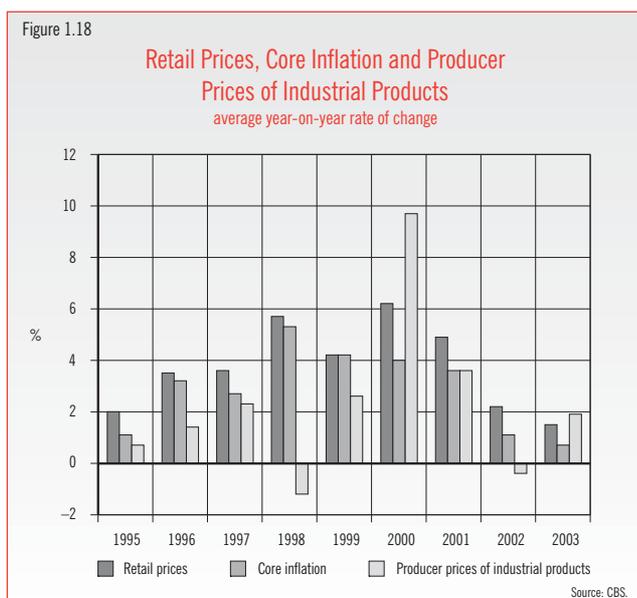
All basic price movement indicators of 2003 showed a continuation of price stability in the domestic economy. A slowdown in the year-on-year rate of growth of retail prices, registered in 2001 and 2002, continued in 2003. The average year-on-year rate of change of retail prices stood at 1.5% in 2003, 0.7 percentage

points below the average year-on-year inflation rate in 2002 and 3.4 percentage points below that in 2001. Other domestic price indicators grew by less than 2.0% in 2003 compared with 2002. The average year-on-year core inflation rate fell from 1.1% in 2002 to only 0.7% in 2003. In addition, the average year-on-year rate of change of producer prices of industrial products stood at 1.9% in 2003 (up 2.3 percentage points compared with 2002).

Observed at year-end level, the year-on-year rate of change of the retail price index dropped to 1.8% in 2003, from 2.6% in December 2001 or 2.3% in December 2002. The fall in the year-on-year rate of change of non-food industrial products prices from 2.6% in 2002 to 1.0% in 2003, stimulated by the decline in the year-on-year rate of change in the prices of clothes and footwear,³ electricity,⁴ and refined petroleum products,⁵ contributed most to the decrease in

the total year-on-year retail price inflation rate in 2003. A somewhat lower contribution to the decrease in the total year-on-year rate of change of retail prices came from the fall in the year-on-year rate of change of beverage and services prices; beverage prices and service prices fell from 5.1% and 3.5% respectively in December 2002 to 2.2% and 2.8% respectively in December 2003.

In 2003, the year-on-year rate of change of retail prices ranged between a minimum of 0.9% in April and May and a maximum of 1.9% in November. Volatility



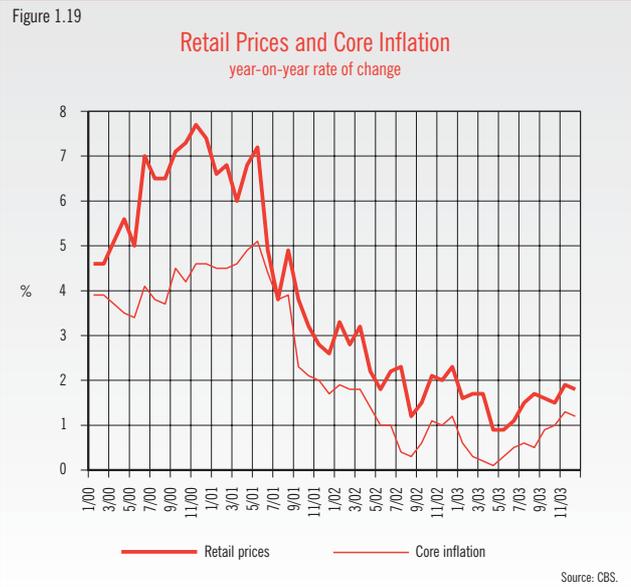
3 The year-on-year rate of change in clothes and footwear prices fell from 4.6% and 4.1% respectively in December 2002 to 0.9% and -4.3% respectively in December 2003.

4 From 4.2% in December 2002 to -0.6% in December 2003.

5 From 6.4% in December 2002 to 0.9% in December 2003.

of the year-on-year retail price inflation rate in 2003 was to a large extent brought about by the fluctuations in crude oil prices in the world market that have spilled over into the movements in domestic prices of refined petroleum products and by adverse weather conditions (draught) that stimulated a strong growth in prices of agricultural products. In addition, a substantial volatility in the year-on-year inflation rate was to a large extent the result of the so-called base period since the change in the year-on-year rate of growth in one month in comparison with the year-on-year growth rate in the previous month does not depend solely on the current monthly change in prices but also on the monthly change in prices registered twelve months ago. The impact of the base period was especially pronounced in April 2003 when the year-on-year inflation retail price inflation rate fell by 0.8 percentage points or from 1.7% in March to 0.9% in April. This fall was brought about by a high growth in the aggregate retail price level, 0.4% on the monthly level, which was recorded in the base period (April 2002) and thus increased the base for the annual comparison. In addition to the impact of the reference base period, a substantial fall in the year-on-year rate of change of prices in April 2003 was stimulated by the fall in crude oil price in the world market (a short duration of the Iraq war) and the concurrent appreciation of the kuna against the US dollar. Retail prices of refined petroleum products fell thus in the domestic market by 5.3% in April compared with March. Summer months were marked by an increase in the year-on-year inflation rate. Although prices remained unchanged in July in comparison with the previous month and grew only slightly in August (0.1%), due to the impact of the base period the year-on-year retail price inflation rate grew from 1.1% in June to 1.5% in July and to 1.7% in August. In the August-December period of 2003, the year-on-year inflation rate moved between 1.5% and 1.9%.

As the volatile components (prices of agricultural products, energy prices and administrative prices) are not used in the calculation of core inflation, the year-on-year core inflation rate is considered an indicator which reflects the inflation trend better than the inflation rate measured by the movements in the retail price index. The core inflation rate stood at 1.2% in December 2003, or at the same level as in December 2002, down 0.5 percentage points compared with that in 2001. The low year-on-year core inflation rate, which in 2003 fluctuated between a minimum of 0.1% in April to a maximum of 1.3% in November shows that pressures generated by the demand side were subdued in the domestic market. Despite the fact that the year-on-year core inflation rate registered in December 2003 did not diverge from that registered in December 2002, changes in contributions of individual components of the core retail price index to the total



core inflation can be observed. Due to the increase in the year-on-year rate of change of market-set services prices from 0.2% in December 2002 to 3.6% in December 2003, the contribution of these prices to the total core inflation rate also grew. In contrast, due to the fall in the year-on-year rate of change of market-set goods prices from 1.4% in December 2002 to 0.7% in December 2003, these prices contributed less the total core inflation rate.

The year-on-year rate of change of administrative prices fell considerably – by 5.2 percentage points – from 7.5% in December 2002 to 2.3% in December 2003. The reduced contribution of administrative prices to the total year-on-year inflation in 2003 in comparison with 2002 was to a large extent the result of the fall in prices of refined petroleum products and electricity prices. In addition, the fall in the year-on-year rate of change of administrative prices can in part be attributed to the fact that 2003 was an election year and to the fact that the fulfilment of requests for an increase in certain administrative prices was probably postponed to 2004. This fall in the year-on-year rate of change of administrative prices contributed more to the change in the total year-on-year retail price inflation rate registered at end-2003 than a substantial increase in the year-on-year rate of change of agricultural products prices, from –7.9% in December 2002 to 17.1% in December 2003; the weight assigned to administrative price stands at 23.0% and is much higher than the weight of 2.2% assigned to agricultural products prices. A considerable annual growth of agricultural products prices was due to bad weather conditions (draught).

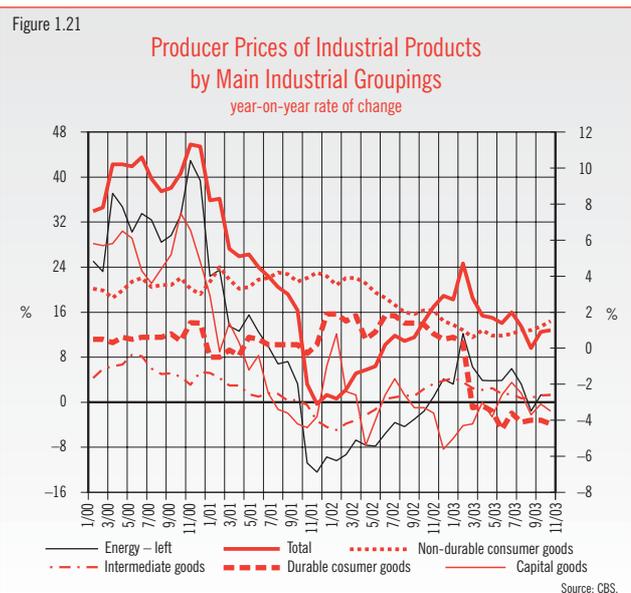
The policy of maintaining stability in the nominal exchange rate of the kuna against the euro, the main anchor for domestic inflationary expectations, is one of the key prerequisites for achieving price stability. The nominal depreciation of the average daily exchange rate of the kuna against the euro was 2.1% in 2003 compared with 2002. The year-on-year core inflation rate movement did not go beyond 1.3% in 2003, showing that demand side pressures were subdued in the domestic market. The stability of the domestic demand was greatly influenced by the policy of moderate wage increase in the government and private sector, present throughout 2003. The average monthly net wage grew by 6.0% in nominal terms in 2003 in comparison with 2002. The strong competition in the domestic retail trade and fiercer competition between domestic and imported products, brought about by foreign trade liberalisation, were the factors which, like in previous years, restrained the pressures on the growth of domestic retail prices. In addition, the domestic price stability in 2003 was influenced by an additional factor – a slow growth in administrative prices. Moreover, the low inflation rate achieved in 2003 resulted from a significant appreciation of the average daily kuna/US dollar exchange rate of 14.8% which, on the one hand, alleviated the pronounced growth in the prices of crude oil and other raw materials in the world market and, on the other, decreased the import prices of final products that are paid for in US dollars. In addition, total imported pressures on the growth of domestic retail prices were mild in 2003, taking into account the low and diminishing year-on-year rate of growth of producer prices in the eurozone (from 1.6% in December 2002 to only 1.0% in December 2003).

The average daily price of crude oil in the world market rose to USD 28.9 per barrel in 2003, a significant increase of 15.9 % compared with the price of USD 24.9 per barrel in 2002. The growth in crude oil prices resulted from rising uncertainty

brought about by political tensions in the world and expectations related to the US military intervention in Iraq. Following a short duration of the Iraq war and a short-term fall in crude oil prices, oil prices started to grow again in the world market due to the news on slow recovery of crude oil production in Iraq and the reports on lower-than-usual OECD stocks of oil and refined petroleum products (especially in the USA), which in turn created expectations of a growing demand in order to replenish the supplies. However, due to the appreciation of the kuna/US dollar exchange rate, the average daily price of crude oil in the world market, expressed in kunas, fell by 0.7% in 2003, or from 195.2 kuna in 2002 to 193.9 kuna in 2003. Accordingly, the strong growth in crude oil prices in the world market did not trigger a rise in the prices of refined petroleum products in the domestic market, if prices recorded at year-end level are observed.

Raw materials prices, measured by the movements in the aggregate HWWA index (excluding energy) and expressed in US dollars, grew by 14.1% in 2003. The dollar price of agricultural raw materials grew on account of reduced supply, brought about by unfavorable weather conditions, while the price of non-ferrous metals grew on account of increased demand (China's demand especially), stimulated by a reviving world economy. Expressed in euros, the average year-on-year rate of change of raw materials prices in the world market was negative in 2003 and stood at -4.6%. The year-on-year rate of change of producer prices in the eurozone was low and on a downward trend – it fell from 2.4% at the end of the first quarter of 2003 to 1.4% and 1.1% at the end of the second and third quarters of 2003 respectively. This development in producer prices and a relatively stable exchange rate of the kuna against the euro reduced the pressures from these sources on the growth in import prices.

Following the eurozone trends, the year-on-year rate of change of domestic producer prices saw a downward trend. After an initial leap from 2.3% in December 2002 to 4.7%⁶ in March 2003, the movements in the index of producer prices of industrial products, registered in the May-December period, showed rather mild pressures from this source on the growth of retail prices. Accordingly, the year-on-year rate of change of producer prices fell to 1.7% in June from its level registered at the end of the first quarter and to 1.2% and 1.0% respectively in September and December. The comparison of movements within the main industrial groupings shows a considerable fall in the year-on-year rate of change of durable consumer goods prices (from 0.8% in December 2002 to -4.2% in December 2003) and of intermediate products prices (from 3.3% in December 2002 to 1.3% in December 2003). The year-on-year rate of change of non-durable consumer prices fell slightly, from 2.1% in December 2002 to 1.5% in December 2003. The registered year-on-year rates of change of durable and



6 The year-on-year rate of change of energy producer prices saw a considerable growth, from 1.0% in December 2002 to 12.2% in March 2003.

non-durable consumer goods, which directly influence the movements in the retail price index when they enter the retail network, were low, so that pressures from this source on the growth of domestic retail prices were mild. The year-on-year rate of change of capital goods prices was negative but grew slightly from -3.6% at end-2002 to -3.5% at end-2003, and the year-on-year rate of change of energy producer prices grew from 1.0% in December 2002 to 1.3% in December 2003.

Price Movements in the First Quarter of 2004

The CBS started to publish the consumer price index (CPI) in February 2004 and 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 new indicator of price movements – the CPI – was compiled in accordance with the methodological principles laid down by the ILO and Eurostat, and can therefore be used in international comparisons of inflation. The CPI is the main domestic measure of inflation in Croatia and measures the change in the prices of goods and services between the two time periods. The total basket of goods and services is divided into twelve major groups in accordance with the COICOP (Classification of Individual Consumption by Purpose). The shares (weights) assigned to individual groups of products in the CPI depict the structure of individual consumption expenditures of households within the domestic territory. The most important data source for calculating the weights was the Household Budget Survey conducted in 2001 by the CBS. The core consumer price index is calculated by the CBS in the manner that agricultural products prices and administrative prices are excluded from the basket of goods and services used in the calculation of the total index. These two groups of products account for a total of 29.8% in the total basket (agricultural products 7.2% , and administrative products 22.6%).

The average year-on-year inflation rate registered in 2003 and measured by the new index of consumer prices was low and stood at 1.8% , up 0.3 percentage points compared with the inflation rate measured by the retail price index. On the other hand, the year-on-year inflation rate of consumer prices registered in December 2003 was 1.7% or down 0.1 percentage point compared with the year-on-year inflation rate measured by the retail price index.

According to the CBS data, the CPI grew strongly in January 2004 – 1.0% on average compared with the previous month. In addition, the year-on-year inflation rate measured by the movements in the total CPI reached 2.1% in January 2004 (goods accounted for 2.1% and services accounted for 2.4%), up 0.4 percentage points compared with the consumer price inflation rate in December 2003. January 2004 saw a strong monthly growth in prices of food and non-alcoholic drinks (3.0%). Due to the increase in prices of liquid fuels and lubricants and driving tests, transport prices grew by a considerable 1.5% compared with the previous month. The seasonal fall in prices of clothing and footwear of 4.3% in January compared with December reduced the intensity of the CPI monthly growth. In January 2004, prices that are included in the calculation of the core RPI re-

mained, on average, at almost the same level as in December 2003, while the year-on-year core inflation rate grew to 1.3% from 1.2% in December.

Compared with January 2004, consumer prices fell by 0.1% on average in February due to the seasonal fall in prices of clothes and footwear of -1.3% and in prices of food of -0.2%. Reinforced by the impact of the base period (0.3 percentage points higher growth in consumer prices in February 2003), the year-on-year inflation rate measured by the movements in the total CPI fell to 1.8% in February 2004. The largest contribution to the fall in the total year-on-year consumer prices inflation rate in February compared with January was brought about by the decrease in the year-on-year rate of change of food prices, from 4.9% in January to 4.4% in February and transport prices, from 0.7% in January to -0.4% in February. Prices used in the calculation of core inflation fell by 0.2% on average in February compared with the previous month, while the year-on-year core inflation rate remained at its January level of 1.3%.

With the average monthly increase of 0.1% in producer prices and the impact of the base period, the year-on-year inflation rate fell to 1.4% in March (goods accounted for 1.1% and services 2.6%). The fall in the year-on-year rate of change of food prices (from 4.4% in February to 3.5% in March), transport prices (from -0.4% to -1.9%) and housing prices (from 0.7% to 0.5%) contributed most to the decrease in the total year-on-year consumer prices inflation rate in March. The year-on-year core inflation rate saw a mild increase, from 1.3% in February to 1.4% in March.

The downward trend in the year-on-year rate of change of producer prices that started in 2003 continued into the first quarter of 2004, whereas the year-on-year rate of change of producer prices fell from 1.0% in December 2003 to 0.8% in January and to 0.1% in February and -0.5% in March 2004. Observed by components, lower year-on-year rates of change of producer prices in March 2004 in comparison with end-2003 were observed with respect to the following industrial groupings: energy (-3.6% in March 2004 relative to 1.3% in December 2003) and non-durable consumer goods (0.5% in March relative to 1.5% in December 2003). Other groupings saw a slight year-on-year increase in prices in March 2004 in comparison with December 2003: intermediate goods prices rose from 1.3% in December to 1.9% in March, capital goods prices grew from -3.5% to -3.4% and durable consumer goods prices grew from -4.2% to -3.6% in March.

Exchange Rate

Although stable in 2003, the kuna/euro exchange rate movements were marked by usual seasonal fluctuations. The average daily exchange rate stood at HRK 7.56/EUR in 2003, down 2.1% in nominal terms in comparison with HRK 7.41/EUR in 2002. The daily exchange rate of the kuna against the euro fluctuated between a minimum of 7.44 and a maximum of 7.71 or within a relatively narrow band between -1.6% and 1.9% of the average daily exchange rate recorded in 2003. The kuna/euro exchange rate recorded at year-end grew from 7.44 in 2002 to 7.65 in 2003, accounting for a nominal depreciation of the kuna totalling 2.8% (31 December 2003 to 31 December 2002).



The central bank intervened nine times in 2003, selling a total of USD 379.6m (net) to banks and withdrawing HRK 2.7bn. Strong foreign capital inflows to the government sector in 2003 were, to a large part, generated by borrowings (eurobonds, Samurai bonds, the second tranche of the SAL) and the privatisation of INA, and, to a small part, by the succession. With a view to preventing the build-up of appreciation pressures on the kuna in the domestic foreign exchange market, the central bank purchased USD 559.6m (net) directly from the MoF in 2003 and created a total of 3.7bn in kuna liquidity. Compared to HRK 4.8bn (net) in 2002, the CNB created a total of HRK 965.2m (net) via transactions in the foreign exchange market in 2003. This was a considerable decline, indicating tighter monetary conditions in 2003.

In the first quarter of 2003, the domestic foreign exchange market was marked by the trend of the nominal depreciation of the kuna against the euro. In this period, the kuna weakened against the euro by a total of 3.4% and the euro value went up from 7.44 kuna at end-2002 to 7.69 kuna at the end of the first quarter of 2003. Depreciation of the kuna against the euro was the most pronounced in January 2003 when the kuna weakened by a total of 1.5% against the euro. In contrast, the kuna depreciation was milder in February and March and stood at 0.9% in both months. The kuna depreciation stimulated the sale of foreign exchange at the central bank's auctions in the first quarter of 2003 – EUR 315.2m was sold and HRK 2.4bn withdrawn from the market. Of this amount, banks were sold EUR 115.7m in January, EUR 49.4m in February and EUR 150.1m in March. In addition, the CNB sold USD 96.5m to the MoF in January and repurchased them in February following the inflow of EUR 497.5m (or USD 538.8m) to the government account with the CNB from the eurobond issue.

In addition to usual seasonal effects, the growth of demand for foreign exchange in the first quarter of 2003 can be attributed to government and banks' increased demand for foreign exchange required for the payment of credit instalments to the London and Paris Clubs, and that of enterprises paying for imports from the fourth quarter last year. Moreover, rather than entering the banking system, the foreign exchange inflow from the placement of government bonds in the international market was deposited in the government's account with the CNB with a view to facilitating the cooperation between the MoF and the CNB and improve the coordination of fiscal and monetary policies.

The kuna depreciated against the euro over the first quarter of 2003 and the euro approached the HRK 7.70/EUR limit. In the first nine days of April however, the kuna strengthened by a considerable 2.3%, while the euro fell to HRK 7.51/EUR. The kuna/euro exchange rate then fluctuated between 7.50 and 7.60 until end-May, appreciating and depreciating alternatively over short periods. Marked by a slight kuna appreciation trend, the kuna/euro exchange rate was stable during June. The level of exchange rates recorded at the end of months shows a 0.50% appreciation of the kuna in June compared with May. Overall, the kuna grew against the euro by 2.4% in the second quarter of 2003 (30 June to 31

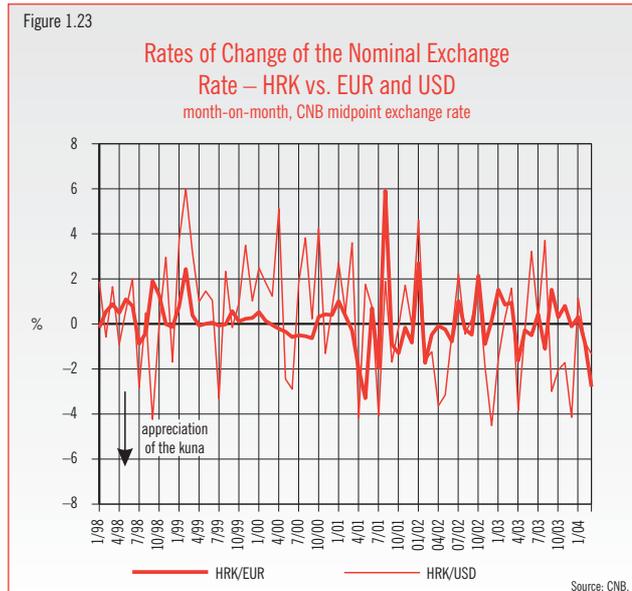
March), and the euro fell from 7.69 kuna on 31 March to 7.51 kuna on 30 June. Monetary authorities estimated that such conditions did not call for a central bank intervention in the second quarter of 2003. In that period, the CNB purchased foreign exchange from the government amounting to EUR 150.0m. Of that amount, EUR 81.0m was purchased on 15 April and EUR 69.0m on 19 May. Although effected, the sale of foreign exchange by the government did not create additional pressures on the exchange rate appreciation in the domestic market.

Over the third quarter, the exchange rate of the kuna against the euro held steady, with no significant fluctuations or expressed trends towards appreciation or depreciation. Therefore, like in the second quarter, there was no need for a CNB intervention in the foreign exchange market. The analysis of exchange rates at the end of the period shows that the rate of HRK 7.57/EUR, recorded at the end of the third quarter, was merely 0.8% lower than that at the end of the previous quarter when it stood at HRK 7.51/EUR.

Appreciation pressures on the kuna exchange rate were restrained and less pronounced over the second and third quarters of 2003 than in the comparable periods in the previous years. As a result, the CNB held no foreign exchange auctions during these two quarters. However, in order to ease the appreciation pressures the CNB purchased a total of EUR 530.4m from banks in the second and third quarters of 2001 compared with EUR 389.4m purchased during the same quarters in 2002.

The lessening of appreciation pressures on the kuna exchange rate during 2003 resulted from several factors. The Decision on the Minimum Required Amount of Foreign Currency Claims that came into effect in early 2003 resulted in a growing demand of some banks for foreign exchange and relieved the pressure of other banks on the sale of foreign exchange to the central bank at foreign exchange auctions. Moreover, in order to improve the coordination between the fiscal and monetary policies the MoF deposited the foreign exchange inflows from eurobonds, the succession and Samurai bonds in its account with the CNB. In accordance with the government's current needs for kuna liquidity the central bank then purchased the foreign exchange from the government with a view to preventing the build-up of appreciation pressures on the kuna in the domestic foreign exchange market. In the second quarter of 2003, the central bank purchased a total of USD 165.9m from the government, while no purchases of foreign exchange from the government were recorded in the third quarter. The appreciation pressures on account of the foreign exchange inflows from tourism were restrained, because a stronger supply of foreign exchange over the summer months was absorbed by an increased demand for foreign exchange by banks and enterprises.

The appreciation pressures on the kuna exchange rate increased in the second half of August of 2003, at the time of preparation and adoption of the amended



Decision on Reserve Requirements pursuant to which the reserve requirement rate of 19.0% remained the same, while the foreign exchange part of the reserve requirements allocated in kuna was increased. Thus, as from 8 September 2003, 35% of the calculated foreign exchange reserves have been allocated in kuna and 65% in foreign exchange (instead of the earlier 25% in kuna and 75% in foreign exchange). This resulted in a build-up of appreciation pressures on the kuna due to a stronger demand for domestic currency in the money market and an increased supply of foreign exchange on the foreign exchange market. These pressures were temporary and led to a slight depreciation of the kuna in September. At the end of September, the kuna exchange rate weakened by 1.5% against the euro compared with the end-August.

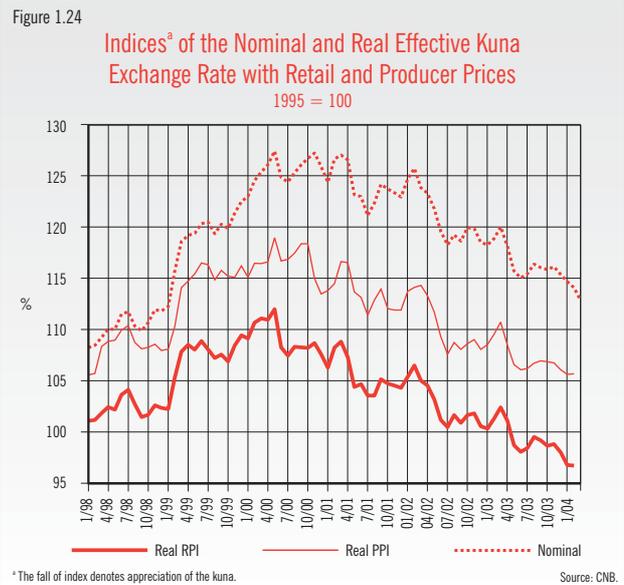
Owing to a seasonal increase in demand for foreign exchange, the fourth quarter of 2003 was mostly marked by depreciation pressures in the domestic foreign exchange market. In this period, the kuna nominally depreciated against the euro by 1.0%, and the euro strengthened from HRK 7.57/EUR on 30 September to HRK 7.65/EUR on 31 December 2003. The CNB responded by selling a total of EUR 38.6m (net) to banks at three foreign exchange auctions held in the fourth quarter. At the first two auctions, it auctioned foreign exchange to the amount of EUR 123.1m. Of this amount, EUR 60.0m were sold at the auction held on 19 November and EUR 63.1m at the auction held on 9 December. Following the last foreign exchange auction, the required stability of the kuna/euro exchange rate was not achieved and the kuna/euro exchange rate reversed its trend prompting the monetary authority to intervene again by purchasing, for the first time in 2003, foreign exchange from banks. At the auction held on 22 December, the central bank purchased a total of EUR 84.5m. In addition, the CNB purchased a substantial amount of USD 400.0m of INA privatization receipts, which in the total amount of USD 505.0m were deposited in the government's account in early November 2003 (USD 200.0m on 11 November and USD 100.0m on 1 December and 18 December respectively).

The appreciation trend of the kuna against the US dollar, which marked 2002, continued into 2003. On account of the depreciation of the US dollar against the euro in the world foreign exchange market, the nominal exchange rate of the kuna against the US dollar also appreciated significantly in 2003. Compared with the average daily exchange rate of HRK 7.86/USD in 2002, the average daily exchange rate of HRK 6.70/USD in 2003 strengthened by 14.8%. The exchange rate of the kuna against the US dollar fluctuated significantly due to a pronounced volatility in the exchange rate of the US dollar against the euro and moved within a wide range of -8.7% to 8.1% relative to the average daily exchange rate in 2003. The kuna/US dollar exchange rate slid to 6.12 on 31 December 2003, from 7.14 on 31 December 2002, accounting for a nominal appreciation of the kuna totalling 14.4%. As a result, the kuna/US dollar exchange rate strengthened by a total of 26.8% in the last two years, and the value of the US dollar fell from 8.36 kuna on 31 December 2001 to 6.12 kuna on 31 December 2003.

Analysts estimate that in 2003 the key factor influencing the continued weakening of the US dollar against the euro has been market participants' concern over discouraging fundamental indicators in the US economy (current account and fiscal deficits). Being reflected in their expectations, they have dwarfed the favourable

indicators on cyclical movements in the US economy (the strong GDP growth). Market participants focused their attention on the movements of structural indicators in the US economy due to, inter alia, significantly reduced foreign capital investments in shares offered in the US market, which called into question the financing of a considerable current account deficit.

With a slight depreciation against the euro and a pronounced appreciation against the US dollar, the index of the nominal effective kuna exchange rate, in which the euro and the dollar account for the largest shares (66.0% and 31.0%⁷) appreciated by 2.7% in 2003 (December 2003 to December 2002), down 0.6 percentage points compared with its appreciation rate in 2002. As a result of somewhat slower growth in domestic retail prices, and especially producer prices, in the country than abroad, the index of the real effective kuna exchange rate appreciated less than the nominal effective kuna exchange rate in 2003. The real effective kuna exchange rate index, deflated by retail and producer prices, appreciated by 2.5% and 1.8% respectively in 2003 or 1.0 and 1.6 percentage points less than in 2002.



Exchange Rate Movements in the First Quarter of 2004

The exchange rate of the kuna against the euro strengthened by a total of 3.3% in the first quarter of 2004, and the euro stood at HRK 7.40/EUR at the end of the first quarter of 2004 compared with HRK 7.65/EUR at end-2003. The kuna/euro exchange rate depreciated by a total of 0.3% in nominal terms over January 2004. Depreciation pressures, common for the beginning of the year, resulted from the growth in demand for foreign exchange required for the external debt servicing and the settlement of short-term external liabilities by enterprises. These pressures were mild and more pronounced in the first half of January, when the kuna exchange rate weakened by a total of 0.9% in nominal terms compared with end-2003, and the value of the euro rose to HRK 7.72/EUR on 16 January. The central bank intervened in the foreign exchange market by selling a total of EUR 33.0m to banks at the auction held on 8 January. The government made no contribution to the strengthening of depreciation pressures in the domestic foreign exchange market and used foreign exchange receipts generated in 2003 to meet its January external liabilities of USD 128.5m, which to a large extent included liabilities to the London and Paris Club. The second half of January saw a mild depreciation of the exchange rate of the kuna against the euro. Reduced demand for foreign exchange in the market was in part the result of the discontinuance of foreign currency CNB bills which in turn provided banks with additional foreign exchange.

7 The remaining 3.0% is accounted for by the pound sterling, the Swiss franc and the Slovene tolar. In 2003 (December 2003 to December 2002), the kuna strengthened by 5.5% against the pound sterling and 2.5% against the Swiss franc, while it weakened by 0.4% against the Slovene tolar.

The appreciation trend of the kuna against the euro that started in the second half of January continued in February and March. The kuna/euro exchange rate strengthened nominally by a mere 0.8% in February 2004, requiring no intervention by the central bank in the domestic foreign exchange market. In the same month, the CNB sold EUR 26.7m (net) to the MoF. The exchange rate of the kuna against the euro strengthened nominally by a total of 2.8% in March, and the euro value fell from HRK 7.61/EUR on 29 February to HRK 7.40/EUR on 31 March. In an effort to ease the appreciation of the kuna against the euro, the central bank intervened four times in the foreign exchange market in March and purchased a total of EUR 162.7m (EUR 55.0m on 9 March, EUR 20.0m on 17 March, EUR 59.3m on 23 March and EUR 28.4m on 26 March). In doing so, the central bank created a total of 1,215.1m in kuna liquidity. Increased demand for domestic currency in the first quarter of 2004 was to a large extent the result of government bonds' subscriptions (expressed in euros, 200.0m worth of bonds were subscribed in February and 150.0m in March).

With a 3.3% appreciation against the euro in the first quarter of 2004, the kuna appreciated also against other currencies used in the calculation of the nominal effective exchange rate – 1.0% against the US dollar, 3.3% against the Swiss franc, 3.9% against the Slovene tolar but depreciated against the pound sterling by 1.7%. The index of the daily nominal effective kuna exchange rate appreciated by a total of 2.5% in the first quarter of 2004. In the first two months of 2004 (February 2004 to December 2003), according to the data on the index of the real effective kuna exchange rate, the kuna appreciated against the basket of currencies by 0.4% (deflated by producer prices) and by 1.3% (deflated by consumer prices).

1.2.4 Monetary Developments and International Reserves

In 2003 the central bank operated in the environment characterised by price stability, particularly in the eurozone, where the consumer prices rose by 2.1% and in the countries of Central and Eastern Europe which were also characterised by low inflation. With the stability of the exchange rate of the kuna against the euro continuing into 2003 and kuna's strengthening against the American dollar, there was no significant pressure on the prices as regards tradables. In addition, strong domestic demand and growing GDP continued to exert no upward pressure on domestic prices. Therefore, price stability, as the main objective of the Croatian National Bank was achieved again in 2003. The new consumer price index shows that prices rose by an average of 1.8% in 2003, compared with those in 2002.

Though it did not influence price developments, growing domestic demand reflected negatively on the current account deficit, especially the goods account whose deficit remained high. The measures of monetary policy led to a slowdown in credit activities of banks. As a result, the growth of bank placements to the non-banking sector in 2003 halved in comparison to that in the previous year and stood at HRK 22.5bn or 14.6%. However, total financial placements to the busi-

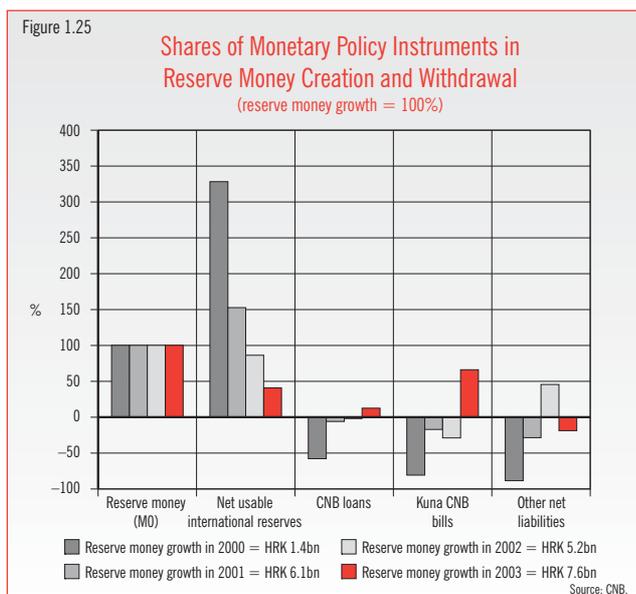
ness sector grew much faster, owing to direct borrowing abroad of companies and to heightened leasing activities. Furthermore, the government also continued to borrow abroad and it also realised large foreign currency privatisation-related inflows (mostly from the privatisation of INA). All these factors led to a continued rapid inflow of foreign capital and external debt growth. Such developments can be halted and external balance achieved only through strong government support in the form of reduced borrowing, especially foreign borrowing and discouraged consumption of imported products.

Monetary Policy and Flows of Creating and Withdrawing Reserve Money

Monetary policy in 2003 was marked by measures adopted at the beginning of the year which were aimed at slowing down foreign borrowing-related credit activities of banks and at withdrawing the surplus kuna liquidity created during the previous years.

In general, measures adopted for slowing down credit activities of banks proved effective. Banks slowed down the growth of their placements to the non-banking sector to avoid the obligation to purchase compulsory CNB bills, a penalising measure imposed on banks. One of the measures, indirectly aimed at slowing down placements' growth was the adoption of a Decision on the Minimum Required Amount of Foreign Currency Claims. This Decision, also known as the "35% Decision", was intended to increase banks' foreign currency liquidity, following its decline by almost one quarter during 2002. It replaced the previous, unpopular "53% Decision". Under the new Decision, banks have to maintain a minimum 35% of the value of their foreign currency liabilities by their foreign currency claims. The purpose of the measure was also to reduce credit potential of banks. In adjusting to the imposed requirements, banks increased their foreign assets, largely on the basis of foreign sources. As a result, there was a simultaneous increase in foreign liabilities and foreign assets of banks.

Flows of creating and withdrawing reserve money in 2003 largely differed from those in the previous years. While purchases of foreign currency from the banks and the government provided the main form of reserve money creation in 2002, they were used to a lesser extent in 2003. Instead, in 2003 the banks ensured the needed liquidity through redemptions of due kuna CNB bills, accumulated during the previous years through the channelling of banks' surplus liquidity into CNB bills, an instrument widely used by the central bank to sterilise the liquidity created through foreign currency purchases. Central bank's interest rate policy in 2003 was very discouraging for kuna CNB bills subscriptions due to lower interest rates offered at auctions than on the money market. One of the reasons behind such a selection of instruments in 2003, was the CNB's effort to modernise its monetary policy instruments. The CNB believes that the situation in 2004 will warrant the introduction of money market operations as one of the instruments of banking system liquidity management. Under such a monetary scheme, and in accordance with fiscal policy measures and fiscal deficit financing, the CNB would purchase from the banks (by means of repo transactions), government securities and thus issue reserve money, or sell them when surplus liquidity needs to



be withdrawn. This could ensure an improvement in the quality of domestic financing and a modernisation of monetary policy instruments as well as their harmonisation with the standard instruments used by central banks of EU acceding countries.

Towards the end of the third quarter, the central bank raised the share of reserve requirements against foreign liabilities set aside in kuna from 25% to 35%, causing a slowdown in kuna CNB bills subscriptions and a temporary shortage of liquidity, turning some banks again, after a one year break, to the Lombard facility to meet their liquidity needs. The share was raised further to 40% and 42%, in November and December, respectively, to sterilise the kuna liquidity created in the system following a larger than anticipated purchase of foreign currency from the government. As a result of the measures taken and the ensuing devel-

opments, reserve money grew by a record HRK 7.6bn in 2003, the increased amount of the reserve requirements allocated in kuna included. Therefore, marked growth of reserve money in 2003 cannot be attributed to an expansive monetary policy.

Foreign exchange transactions with the banks and the government, usually a key instrument of the CNB's monetary policy, played only a minor part in the increase of reserve money in 2003, in contrast with the previous years when it was often necessary to issue CNB bills to sterilise a part of the money created through foreign currency purchases. Foreign exchange transactions created a net total of HRK 965m in 2003. By contrast, foreign exchange transactions created a net total of HRK 3,359m in 2000, HRK 7,297m in 2001 and HRK 4,757m in 2002.

It should be noted that the share of foreign currency purchases from the government in total foreign currency purchases increased considerably in 2003. Over one half of the CNB's foreign exchange transactions in that year can be attributed to transactions with the government (56%), in contrast with the previous years when the share of the government in such transactions was much smaller, and the share of banks larger (the government accounted for 27% of transactions in 2001 and 11% in 2002). The increased volume of foreign exchange transactions in 2003 is the result of co-operation between the Ministry of Finance and the CNB and the use of the CNB's depositing services by the government for its foreign currency deposits. In addition, the central bank also continued to provide international payment transaction and foreign currency conversion services for the government. Therefore, in 2003 the CNB engaged predominantly in purchases of foreign currency from the government. The total net amount of foreign currency purchased stood at HRK 3,665m, with total purchases amounting to HRK 4,380m and total sales to HRK 715m. Major purchases involved a purchase of EUR 150m in the second quarter arising from a eurobond issue and USD 400m worth of receipts in the fourth quarter arising from the first phase of the privatisation of INA.

Conversely, the CNB's foreign currency transactions with the banks involved mainly foreign currency sales. Total sales amounted to, in kuna counter value, HRK 3,346m. By contrast, the total amount of foreign currency purchased, through a single intervention, was HRK 646m. The net monetary effect of foreign exchange interventions was the withdrawal of HRK 2,699m. The CNB's foreign currency sales reached their peak in the first quarter, coinciding with a seasonal decline in reserve money, following a sale of foreign currency to the banks and a withdrawal of a total of HRK 2,401m from the system. In the second and the third quarters, there were no interventions and in the fourth quarter, total net CNB sales to the banks were HRK 298m.

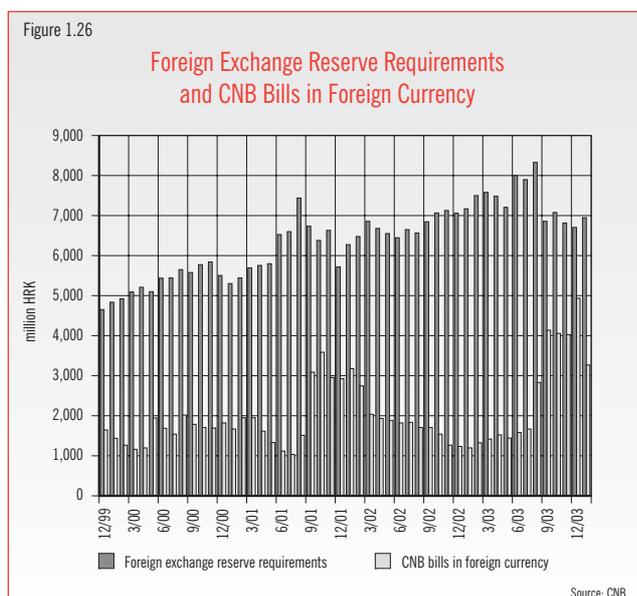
With decreased kuna creation through foreign exchange transactions, the banks turned to their liquidity stocks accumulated during the previous years in the form of kuna CNB bills. After they fell due in 2003, their total stock at end-2002, HRK 4,986m, was freed into the system. This amount accounted for 2/3 of the total increase in reserve money in 2003. After declining by almost one half in the first six months of 2003, CNB bills continued to decline, reaching their record fall in the third quarter, particularly in August and September. With the last subscribed kuna CNB bills falling due in October, there were no further issues of this instrument. While the use of due CNB bills in the first half of the year was due to a decline in the creation of money through foreign exchange interventions, large redemptions of CNB bills in the third quarter can be attributed to an increased demand for reserve money due to increased kuna reserve requirements allocation against foreign liabilities.

Unlike kuna CNB bills, the subscriptions of CNB bills in foreign currency multiplied by a factor of four in 2003, thus increasing their stock by HRK 3,813m. Their rapid growth is the result of the decline in the subscriptions of kuna CNB bills. Banks can use foreign currency CNB bills to meet their foreign exchange reserve requirements and the minimum required foreign currency claims. In addition, by purchasing foreign currency CNB bills, which can also be used as collateral for Lombard loans, though at a lower ratio, the banks offset their collateral loss after their kuna CNB bills fell due. The subscription dynamics of foreign currency CNB bills in 2003 reflected banks' efforts to harmonise their portfolios with the obligation on the minimum required foreign currency liquidity and their collateral needs after kuna CNB bills were discontinued. Thus, in the first half of the year, when only a smaller adjustment was needed in terms of the minimum foreign currency liquidity, and when banks still had at their disposal larger amounts of kuna CNB bills, the foreign currency CNB bills increased by a mere HRK 343m. By contrast, the subscription of foreign currency CNB bills amounted to a high HRK 2,555m in the third quarter and an additional HRK 795m in the fourth quarter.

For the most part, kuna liquidity created in 2003 was again tied by reserve requirements. Kuna reserve requirements grew in 2003 due to the increased base and the increase in the kuna share of reserve requirements against foreign liabilities. The reserve requirements rate remained the same throughout 2003 (19%). Of the total 19%, one part has to be allocated to a special account, and another part has to be met by minimum required average funds in the settlement account.

Although the increase in the kuna share of reserve requirements against foreign liabilities indicates a shift towards the full unification of reserve requirements (which also includes the unification of the currency of allocation) it also indicates monetary policy tightening. While allowed to keep a part of their foreign exchange reserve requirements in the accounts abroad, banks have to keep their entire kuna reserve requirements in the accounts with the CNB. Therefore, by increasing the share of reserve requirements against foreign liabilities that has to be allocated in kuna in an account with the CNB, the central bank has immobilised a larger share of bank assets. The first increase, from 25% to 35%, took place in September, when the central bank decided to tighten its monetary policy, under the pressure created by the rising merchandise trade deficit. The second increase to 40% that took place in November, followed by an additional increase to 42% in December, was instituted in response to the increased liquidity created in the banking system following large foreign currency purchases from the government in the fourth quarter.

Total reserve requirements in kuna rose by HRK 6.7bn in 2003, of which 43% could be attributed to an increase in the base (HRK 2.9bn), and 57% to the increased reserve requirements against foreign liabilities that has to be allocated in kuna (HRK 3.8bn). Such a substantial increase in kuna reserve requirements led to high reserve money growth in 2003 (Figure 1.28). As a result of the increase in the share of reserve requirements against foreign liabilities that has to be allocated in kuna, foreign exchange reserve requirements fell by HRK 0.6bn. Of the total decline, foreign exchange reserve requirements allocated to a special account with the CNB declined by HRK 356m in 2003, with their largest fall taking place in September, as shown in Figure 1.26.



The funds created through foreign currency purchases and kuna CNB bills redemptions did not provide sufficient liquidity for banks to meet their reserve requirements. Thus, unlike their almost total absence in the preceding three years due to high liquidity, Lombard loans were becoming increasingly popular with some banks since August 2003 (Figure 1.29). As regards the previous three-year period, larger use of the Lombard facility was recorded only once in 2001 (in the third quarter) as a result of currency speculation of banks. In addition, a short-term liquidity loan was granted to Riječka banka in March 2002, which was undergoing a crisis at the time.

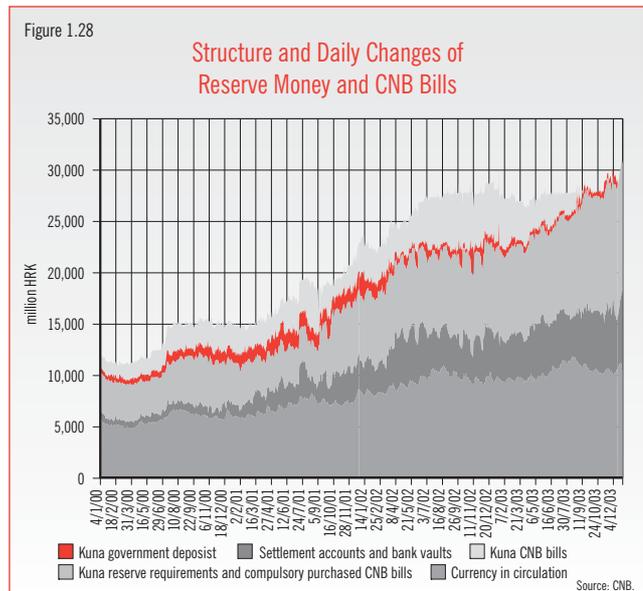
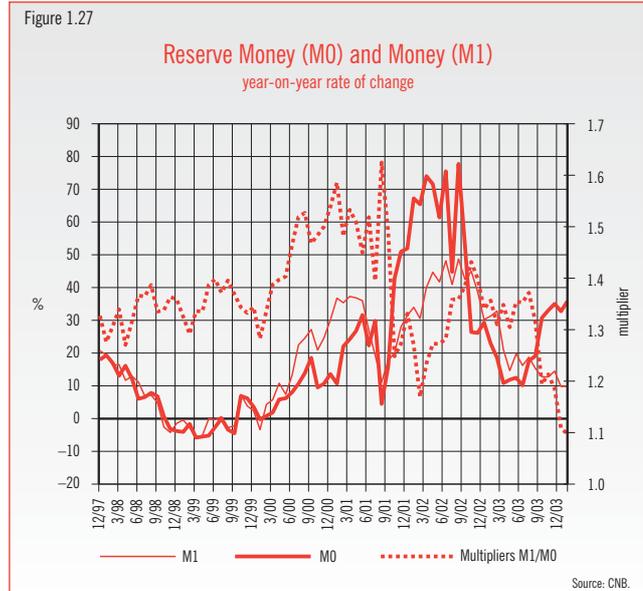
Reserve Money and International Reserves

As mentioned above, reserve money rose rapidly for the third consecutive year in 2003. The annual growth rate of M0 stood at 32.8% in 2003, 51.9% in 2001 and 29.3% in 2002. Its high increase in 2003 was the result of an increase in kuna reserve requirements, which, together with currency and free reserves in the settlement accounts of banks is the main component of the central bank's reserve

money (M0). Reserve money' growth accelerated since September 2003, following an increase in the share of reserve requirements against foreign liabilities that has to be met in kuna (Figure 1.28). Faster growth of M0, compared with the growth of other monetary aggregates led to a decline in money multipliers. Money and reserve money multiplier thus fell from the average 1.34 in the first eight months to 1.19 in September and 1.11 in December, reflecting a tighter monetary policy. Therefore, the high growth rate of reserve money does not suggest an expansive monetary policy. Rather, reserve money's large growth reflects changes in the instruments of monetary policy in 2003, when the funds previously held in kuna CNB bills were channelled into reserve requirements in kuna following an increase in the share of reserve requirements against foreign liabilities that has to be allocated in kuna (Figure 1.28). Namely, unlike CNB bills, the accounts in which kuna reserve requirements are held constitute reserve money aggregates. The average level of reserve money in 2003 rose by 20.2% compared with 2002.

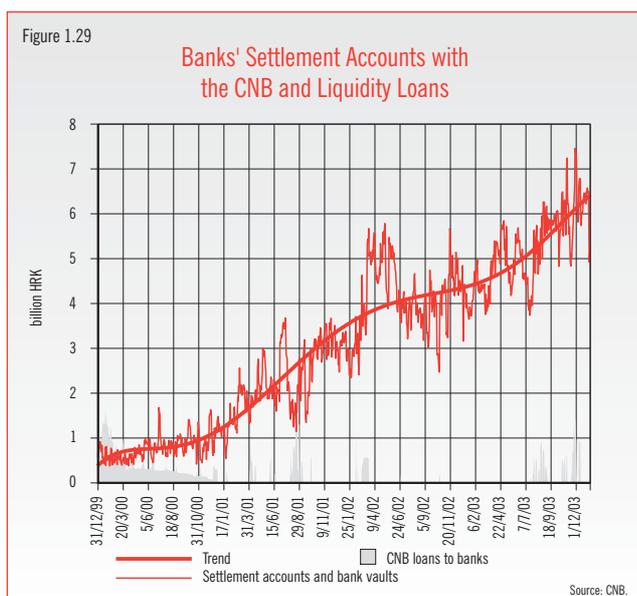
Looking at the components of reserve money, the largest contribution to its growth in 2003, as in the previous years, came from bank deposits growth with the CNB (4/5 of the total increase in M0) following an increase in the calculated reserve requirements in kuna. Of all the categories of bank deposits, reserve requirements allocated in kuna increased the most (HRK 4.4bn). Settlement accounts rose by HRK 1.7bn during the same period. Compulsory subscription of CNB bills is an instrument of monetary policy, which, due to its compulsory nature, also constitutes an aggregate of reserve money. An obligation to purchase CNB bills was introduced in 2003 for banks whose placements' growth exceeds the maximum allowed limit of 16%. After curbing their loan activities and restructuring their portfolios by selling their claims or transferring placements to leasing companies in the same group, the banks' stock of compulsory CNB bills stood at only HRK 109m at end-2003. Cash in bank vaults, also used to meet the reserve requirements, rose by HRK 468m in 2003, while currency in circulation rose by HRK 892m. Figure 1.28 shows the structure of reserve money and a gradual transfer of funds from kuna CNB bills to reserve money (in particular reserve requirements), causing an almost unchanged balance of kuna CNB liabilities since mid-2002.

Cash in vaults rose by HRK 468m or 38.6% in 2003. Though it was a rapid growth, its magnitude diminished in comparison with a large increase of cash in vaults at the end of 2002, when it more than doubled in the wake of payment system reform and changes in the supply of banks with cash (the increase in 2002 amounted to 125.5%). It should be mentioned that the number of cash supply



centres in FINA branches fell to 22 early in 2003, causing a marked increase in cash in vaults in the last days of December 2002. The average balance of cash in vaults stood at HRK 1,468m in 2003, which is an increase of 76.7%, or HRK 637m over its average balance in 2002.

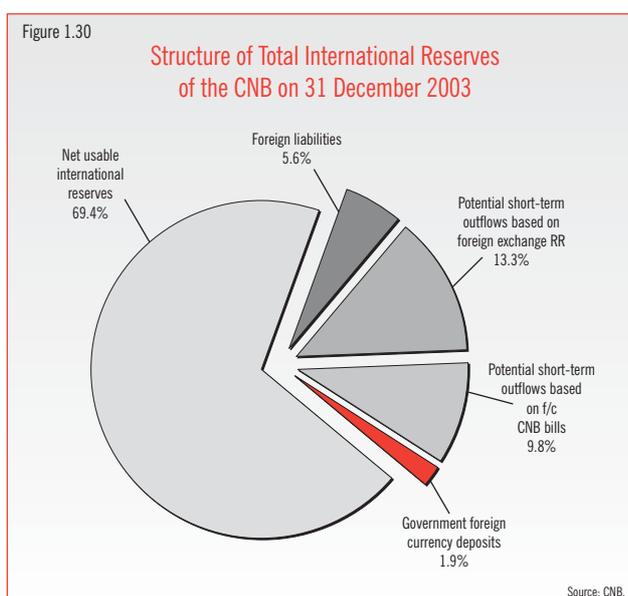
Of all the categories of reserve money, settlement accounts fluctuated the most. The average balance in the settlement accounts stood at HRK 3.6bn in 2003, which is an increase of 12.2%, compared with their average balance in 2002. At the end of the year, balances in the settlement accounts stood at HRK 5.6bn, which is an annual increase of 43.1%.



Growing settlement account balances also reflect the increase in reserve requirements that has to be met in kuna. In 2003, the banks were required to set aside a minimum 40% of their reserve requirements into a special account with the CNB, while the remaining reserve requirements met in kuna lead to an increase in the balances in the settlement accounts and cash in vaults. The reserve requirements set aside in kuna at end-2003 amounted to HRK 12.6bn, which is an annual increase of 54.0%.

Currency growth decelerated mildly in 2003 in comparison with the previous years. At end-2003, currency in circulation stood at HRK 10.6bn, which is an annual increase of 9.2% (13.8% in 2002).

Average government deposits in kuna with the CNB continued to fall in 2003. This was an important development, if viewed in terms of the transfer of funds from government accounts to the accounts of private companies, and the ensuing direct improvement of bank liquidity. At end-December, kuna government deposits stood at HRK 600m, equal to their level at end-2002. The average balance of kuna government deposits in 2003 was HRK 564m. By comparison, their balance in 2002 was HRK 925m and in 2001 it was HRK 1,401m. Government foreign currency deposits grew in importance in 2003 after the government started depositing its foreign currency inflows with the CNB to avoid shocks that capital inflows may cause on the foreign exchange market. At end-2003, government foreign currency deposits stood at HRK 951m.



International reserves of the Croatian National Bank stood at USD 8,191m at end-December 2003, which is an increase of USD 2,305m, or 39.2%, compared with the beginning of the year. In kuna terms, total international reserves stood at HRK 50.1bn at end-December, increasing by HRK 8.1bn or 19.2% over the beginning of the year. A part of the increase may be attributed to the strengthening of the euro against the American dollar, as almost 3/4 of total international

reserves of the Republic of Croatia are held in euro. In 2003, the American dollar recorded its largest fall since 1987. As mentioned previously, foreign currency purchases from the banks and the government were much below the levels achieved in the previous years so the related reserves increased by USD 180m. Total international reserves rose as a result of subscriptions of CNB bills in foreign currency amounting to HRK 3.7bn, government foreign currency deposits with the CNB (USD 155m) and repo transactions arising from reserve requirements management (HRK 2.6bn) and fell following a decline of HRK 356m in allocated foreign exchange reserve requirements. The developments in foreign exchange reserve requirements and foreign currency CNB bills did not have an effect on net usable international reserves, which stood at USD 5,682m at end-December, increasing by USD 980m over the beginning of the year (for more details, see 2.2 International Reserves Management).

Monetary policy tightening that took place in 2003 involved measures aimed at reducing kuna liquidity, curbing excessive placements' growth through a compulsory purchase of CNB bills and at ensuring minimum foreign currency claims. The main objective of the measures introduced by the central bank was to slow down the rapid growth of banks' placements that amounted to 30% in 2002.

Monetary Policy in the First Quarter of 2004

In December 2003, the Council of the Croatian National Bank adopted measures that were to constitute the backbone of its monetary policy in 2004. As regards the instruments that marked the previous year, the decision on the compulsory purchase of CNB bills saw its revocation, while the decision on the minimum required foreign currency claims remained in effect.

In line with the restrictive monetary policy, the existing instruments underwent certain modifications in 2004. These included stricter criteria for granting Lombard loans. In particular, the period of their use has been cut from 15 to 5 business days in a month. The collateral required for the Lombard facility was also changed as a result of changes in CNB bills issue. The regular weekly auctions of kuna CNB bills were replaced by extraordinary auctions that will be held only exceptionally and at CNB discretion, due to lower expected liquidity of the banking system in 2004. CNB bills in foreign currency have been fully discontinued.

The minimum percentage of reserve requirements that has to be allocated to a special account with the CNB has been raised since February 2004. The foreign exchange reserve requirements against foreign liabilities of non-residents and against foreign currency deposits of persons in a special relation with a bank have to be allocated in a 100% amount, while the remaining allocation relating to total foreign exchange and kuna reserve requirements has been raised from the minimum of 40% to the minimum of 60% of the calculated reserve requirements.

The allocated reserve requirements in kuna increased by a total of HRK 1.1bn in the first quarter of 2004, or by HRK 0.8bn in February alone. It should be stressed, though, that, quite unlike foreign exchange reserve requirements, banks

commonly tended to allocate a much larger percentage of kuna reserve requirements than they were required to do so the increase in the minimum percentage of reserve requirements allocation reflected more on the foreign exchange reserve requirements, which increased by HRK 3.3bn or by almost 50% in the third quarter, of which almost the entire increase took place in February, than on kuna reserve requirements. The sharp increase in reserve requirements allocated in foreign currency largely served to offset the negative impact of the discontinued foreign currency CNB bills (HRK 4.9bn) on total international reserves.

The most significant monetary policy operations in the first quarter were again foreign exchange transactions of the CNB. Especially important was the succession of four foreign exchange auctions in March prompted by the appreciation of the exchange rate of the kuna against the euro at which the CNB purchased the total of EUR 162.7m from the banks, thus creating HRK 1.2bn which helped improve the liquidity of the banking system. This, together with the expected purchases of foreign currency in the second quarter, indicates that there will be no need to create reserve money through the planned open market operations.

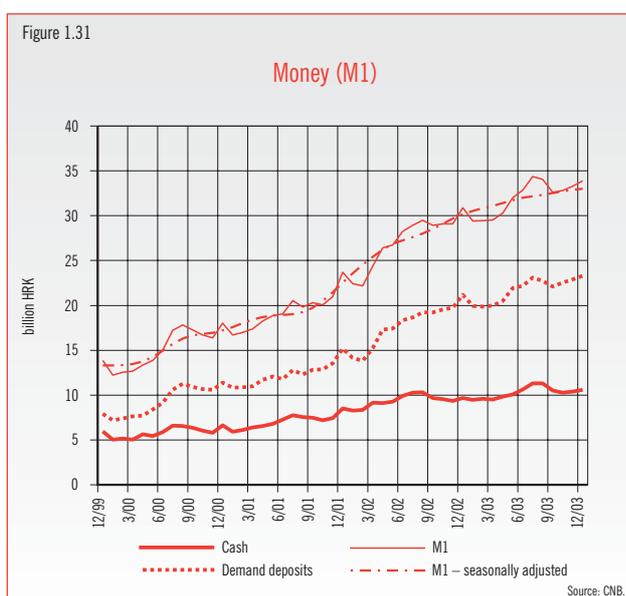
Monetary and Credit Aggregates

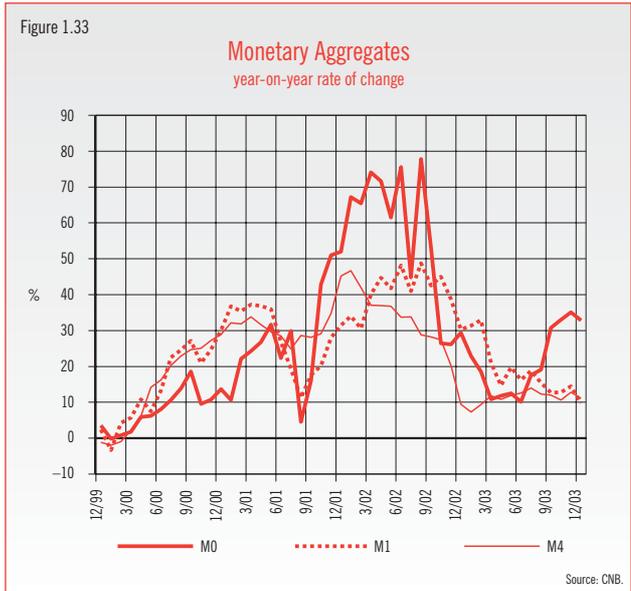
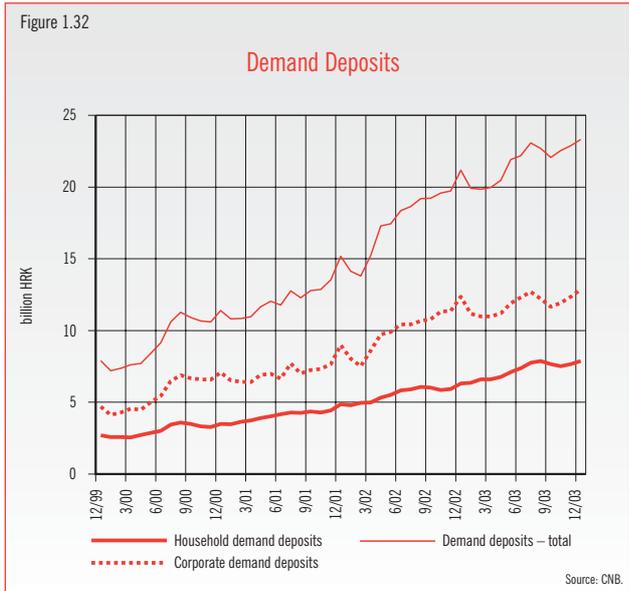
After three years of steady and robust growth, money (M1) slowed down considerably in 2003. Its annual growth rate of 9.8% in 2003, which is a threefold decline compared with its annual growth rate in 2002, is attributable to slower credit activities of banks. The growth of M1 was evenly distributed throughout the year, with the usual seasonal fluctuations. Such developments in M1 in 2003 were largely due to a large slowdown in demand deposits following their rapid growth in 2002, and less to a slighter slowdown in currency.

As developments in demand deposits directly reflect the intensity of economic and credit activity, the reduced credit activities of banks led to a marked slowdown in their growth, from 39.4% in 2002 to 10.0% in 2003. Corporate demand deposits decelerated the most, recording a growth of only 4.3% in 2003. Household demand deposits continued to grow steeply, rising by 24.8%.

The slowdown in currency growth was less significant than in demand deposits' growth. Nevertheless, at 9.2%, this growth rate represented a decline compared with the growth rate of currency in 2002 (13.8%). Currency decelerated considerably in 2002, following its rapid growth in 2001 (28.2%). Slower currency growth in 2003 is a result of the wider card and electronic payment methods use and a somewhat slower growth of personal consumption.

Total liquid assets were characterised by a steep growth of kuna non-monetary deposits (savings and time), which rose by 43.5% in 2003, which is a considerable increase compared with 2002 when they in-



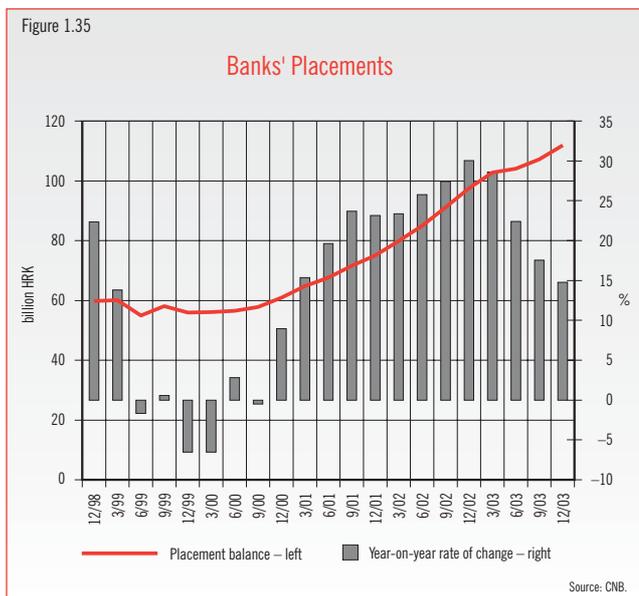
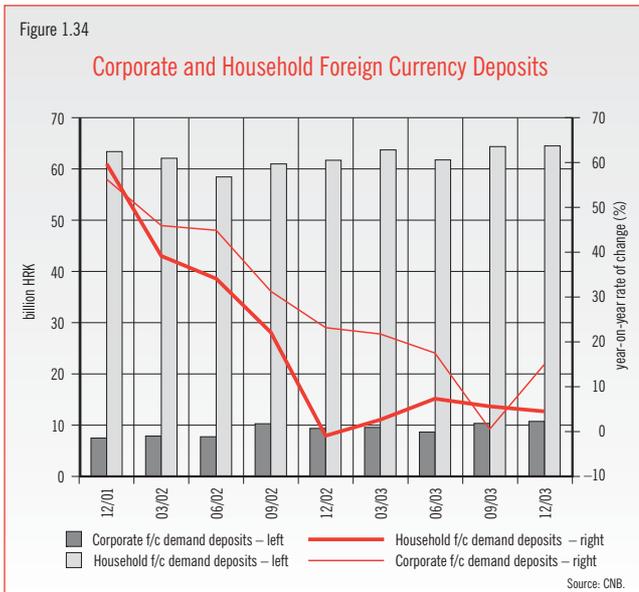


creased by 25.5%. The growth of kuna deposits can be attributed to macroeconomic stability and improved confidence in the domestic currency but also to the adjustment of banks to the CNB measures, i.e. the efforts of banks to reduce the share of foreign liabilities in their balance sheets. Both the household and the corporate sectors recorded a high growth rate of kuna deposits.

Foreign currency deposits started growing again, following their stagnation in 2002. Though low, (5.5%) their growth rate in 2003 represents an absolute increase in foreign currency savings of HRK 4.0bn, which accounts for 2/3 of the absolute increase in the kuna share of quasi-money (kuna non-monetary deposits). By sectors, the most rapid growth was recorded with corporate foreign currency deposits (15.2%). Due to their large share in total deposits (over 85%), the dynamics of total foreign currency deposits continued to be determined by household foreign currency deposits, which increased by 4.5% in 2003.

As a result of developments in its components, total liquid assets (M4), the broadest monetary aggregate, grew by 11.0% in 2003, or only slightly faster compared with their growth in 2002. Faster growth of quasi-money made up for the somewhat slower growth of money.

Bank placements to the non-banking sector grew at a much slower rate than in the previous years characterised by placements' growth following rapid remonetisation, similarly as in other transition coun-



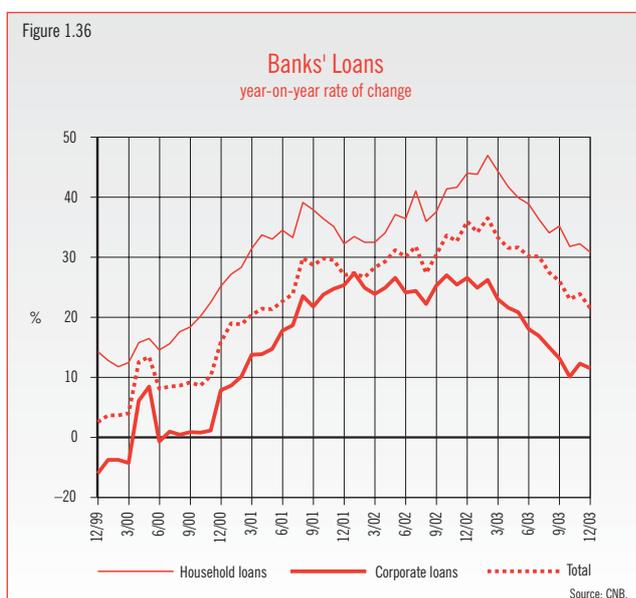
tries. The increase in the domestic sources was stimulating for banks, leading to particularly intense credit activities in 2002, and continuing also after the domestic sources were exhausted, this time financed through foreign borrowing, mainly from their parent banks.

In response to such developments, early in 2003 the CNB introduced measures whose aim was to slow down the growth of bank placements financed by foreign funds (Decision on the Compulsory Purchase of CNB Bills and the Decision on the Minimum Required Foreign Currency Claims). Monetary policy saw further tightening during the year in the form of the instrument of reserve requirements, leading to lower kuna liquidity and rising interest rates on the money market.

As suggested by developments in bank placements, the CNB measures contributed to a slowdown in bank placements' growth in 2003, which amounted to 14.6% in that year, compared with their much more rapid growth in the preceding two years, namely, 25.5% in 2001 and 30.0% in 2002. However, it should be stressed that the growth of placements in 2003 remained very high and sufficient for financing further economic growth (see: The Effects of the CNB Measures to Slow Down Banks' Loan Growth in 2003).

Developments in placements are largely determined by loans, which make up 95% of total placements. Banks' loans increased by 15.9% in 2003, which is a considerable decline compared with the preceding years (24.3% in 2001 and 31.2% in 2002). A slowdown in loan growth is the result of a significant decline in corporate lending growth and a moderate decline in household lending growth. This type of adjustment, involving the change in the ratios between household and corporate lending, brings larger profits to the banks and carries lower risk. The process of granting household loans involves greater costs, which affect the ultimate price of loans.

Some companies replaced traditional bank loans with other forms of financing, such as leasing and direct credit lines from abroad. Corporate loans rose by a slight 5.1% in 2003, which is a considerable decline, compared with their growth in 2002 (22.6%).



Household lending fell from 43.0% in 2002 to 27.7% in 2003. This can be attributed to the effects of the CNB measures, but probably also to weaker demand for household loans due to a high level of household indebtedness and their decreased creditworthiness due to the larger share of loan payments in household income.

Banks' net claims on the central government held steady in 2003 after the government continued to borrow abroad. Banks' loans granted to the government stagnated, and their securities' placements decreased. The government used its foreign inflows not only to finance its infrastructural projects but also to reduce its obligations arising from bond issues and money market instruments. Any excess foreign currency was de-

posited with the CNB, leading to an increase in government deposits with the CNB and a decline in government deposits with the banks.

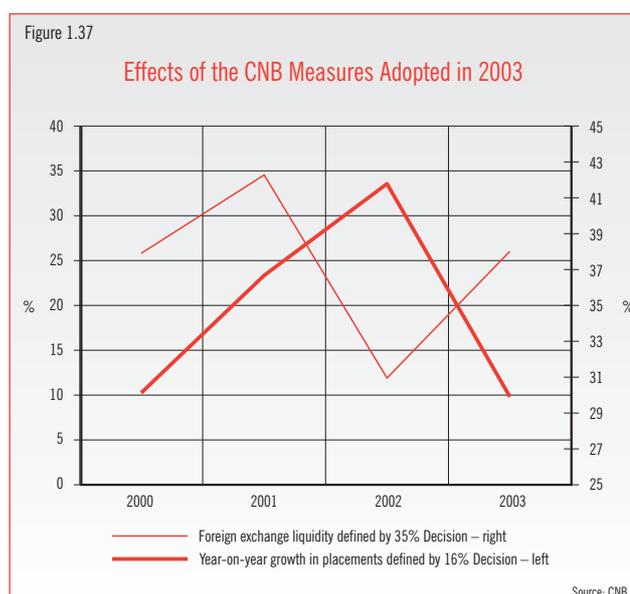
Developments in banks' foreign assets and liabilities saw significant intensification in 2003 and the slowdown in placements' growth in that year was not sufficient to halt further deterioration in the country's external position nor to reduce the country's foreign borrowing. The banks and the government caused further increase in foreign borrowing. One half of the net increase in total external debt in 2003 can be ascribed to banks in connection with their domestic placements and their adjustment with the 35% Decision (see: The Effects of the CNB Measures to Slow Down Banks' Loan Growth in 2003). Banks found their existing domestic sources insufficient for financing their lending activities and their adjustment with the CNB measures so they continued to rely on foreign sources of financing, thus increasing their foreign liabilities. Another half of the total external debt increase was due to government foreign borrowing used for financing large infrastructural projects.

Such developments led to a large increase in foreign liabilities (HRK 14.9bn) and foreign assets (HRK 9.4bn), causing net foreign assets (NFA) of banks to fall by HRK 5.5bn. A simultaneous increase in foreign assets and liabilities of banks reflects banks' adjustments to the Decision on the Minimum Required Amount of Foreign Currency Claims. The measure also led to changes in the currency structure of foreign liabilities of banks. A number of foreign parent banks increased their kuna deposits with their Croatian subsidiaries and granted kuna loans to them, thus causing the kuna component to increase in total foreign liabilities, which increased fourfold in 2003 in comparison with end-2002.

The Effects of the CNB Measures to Slow Down Banks' Loan Growth in 2003

The main objective of the measures undertaken by the CNB in 2003 was to slow down domestic loan growth, compared with its growth rate achieved in 2002. In addition to their common anticyclic effect, the reduced loan activities were also meant to lead to an improvement in the country's balance of payments position and to a reduction in the external debt growth.

To fulfil its objectives the CNB adopted two restrictive monetary policy measures in January 2003. With its first measure, embodied in the Decision on the Compulsory Purchase of CNB Bills (hereinafter the "16% Decision"), the CNB introduced an obligatory subscription for banks of CNB bills amounting to 200 percent of the value of their placements' growth which exceeds the maximum restricted growth of 16% annually, in respect of specific placements to the private non-financial sector. Under its second measure, em-



bodied in the Decision on the Minimum Required Amount of Foreign Currency Claims (hereinafter the “35% Decision”), the banks were required to maintain on a daily basis a minimum 35% of their foreign currency liabilities in liquid foreign currency claims.

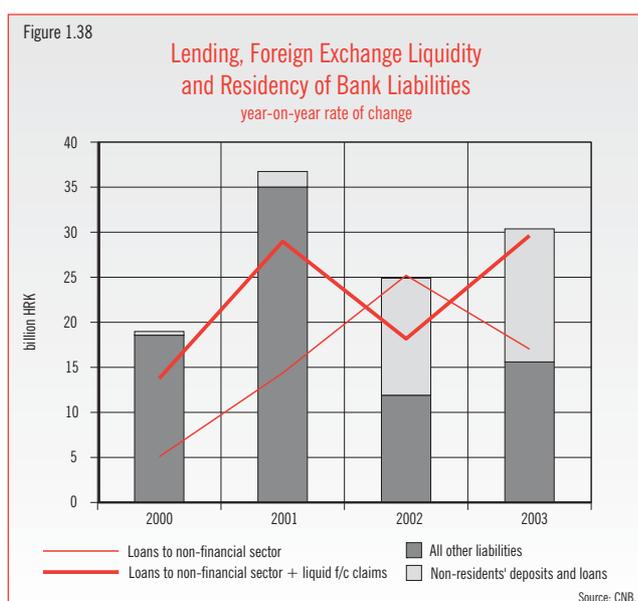
As suggested by unaudited data as at 31 December 2003, the CNB measures were successful in accomplishing their immediate goals. The annual growth rate of targeted domestic banks’ placements to the private non-financial sector declined considerably, from 33.6% at end-2002 to 11.3% at the end of 2003.⁸ Foreign currency liquidity of banks also increased in accordance with the 35% Decision, rising from 31% at end-2002 to 38% at end-2003 (Figure 1.37).

However, the CNB measures failed to prevent further deterioration in the country’s external position. Rapid growth in the net external debt of all domestic sectors in 2003, especially banks, caused the largest annual net increase in Croatia’s total external debt in the preceding four years, both in absolute and in relative terms (debt to GDP ratio).

Table 1.2 External Debt of the Republic of Croatia by Debtor
in million HRK

Period	Change in external debt balance					Total	End of period balance
	Banks	Public sector ^a	Enterprises	Non-banking financial institutions	Households		
1999							76,307.7
2000	307.5	8,975.5	-40.1	4,563.8	41.6	13,848.4	90,156.1
2001	2,197.8	3,511.0	1,950.4	-3,329.5	76.5	4,406.1	94,562.2
2002	9,601.3	2,551.6	1,121.2	2,189.6	171.5	15,635.2	110,197.4
2003	16,420.1	6,288.5	4,659.3	6,582.6	62.2	34,012.8	144,210.1

^a Public sector includes the CBRD; non-banking financial institution include the CNB; enterprises include public enterprises; and households includes non-profit organisations.



Around one half of the total external debt net increase in 2003 expressed in kuna can be attributed to the net increase in the banks’ external debt which multiplied by a factor of two compared with the end of 2002, or by almost a factor of eight compared with the end of 2001.

The answer to the question of what lies behind such a sharp increase in foreign liabilities of banks might lie in the fact that domestic financing was only sufficient to ensure the growth of placements to the non-financial sector. It could therefore not provide sufficient foreign currency liquidity for the banks’ adjustment with the 35% Decision, turning banks to foreign borrowing. Available data seem to substantiate this claim. Namely, the net increase in banks’ resident and

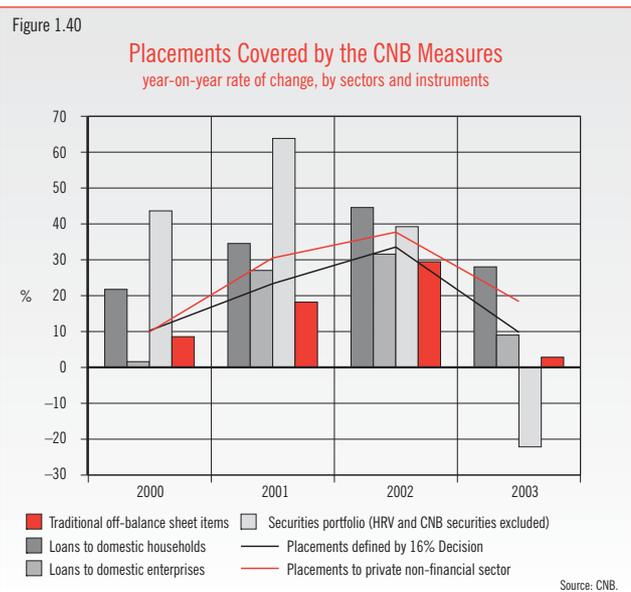
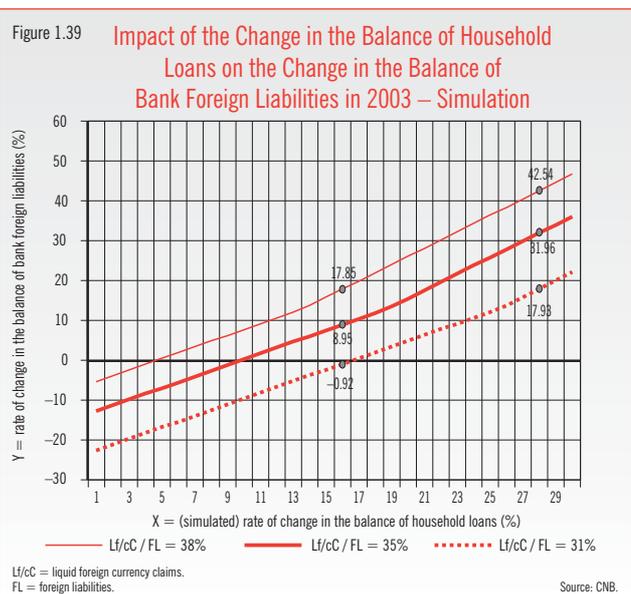
⁸ The growth of targeted placements, restricted to 16% under the above mentioned Decision, indeed amounted to 11.3% in 2003. Due to the unavailability of data on their growth in the previous years, a close substitute is used further in the analysis and in Figure 1.37, whose growth amounted to 9.8% in 2003. This substitute comprises placements referred to in the 16% Decision, before the increase for the claims brought forward and before the reduction for loans granted from CBRD funds.

non-resident deposit and loan liabilities equalled the amount required by banks for their placements' growth and for their adjustment with the 35% Decision (Figure 1.38).⁹

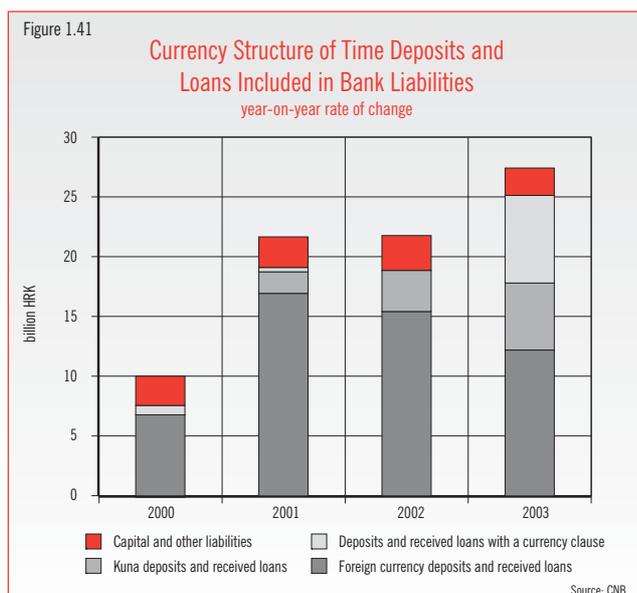
However, another explanation is also possible. As shown by household lending growth, the large increase in banks' external debt can be largely attributed to business policies of banks rather than to the restrictive monetary policy measures. Interest rates on household lending and credit worthiness criteria did not lead to a reduction in the supply of loans to the household sector in 2003. Placements covered by the 16% Decision rose by only 11.3%, while household loans rose by a high 28%. Had the growth rate of household lending been 16%, banks' needs for foreign financing could have fallen to the level which could have easily been satisfied with the annual growth of foreign liabilities of banks of 9% instead of 43% recorded in 2003, while at the same time foreign currency liquidity of banks would have risen to 35% instead of 38% recorded in 2003 (Figure 1.39). Therefore, the growth rate of banks' foreign liabilities could have been 79% lower had the banks reduced their household loan supply.

Rapid growth in foreign liabilities of banks may also be viewed in the context of broad credit aggregates. Total bank loans to the non-financial sector, which comprises household loans, loans to public enterprises, other companies and non-profit organisations, rose by 18.4% during 2003, which is a two-quarter increase compared with the 11.3% increase in the placements covered by the 16% Decision.

The difference between the growth rate of placements to the non-financial sector and the growth rate of placements shown in Figure 1.37 declined from 7.1 percentage points to 4.1 percentage points in 2002 and rose to 8.6 percentage points in 2003, as shown in Figure 1.40, indicating banks' efforts to adjust to CNB measures by restructuring placements covered by the 16% Decision. The analysis of placements shows that banks' adjustment involved mainly a relative reduction in the risk securities portfolio and a very small increase in traditional off-balance sheet items,¹⁰ thus making room for increased placements, primarily to the household sector. In absolute terms, following a decline in the value of risk bond portfolio, which played a major role in this adjustment, equally important were the slight growth of traditional off-balance sheet items and an unexpectedly large slowdown of loan growth to domestic companies, which fell from



9 Loans to the non-financial sector shown in Figure 1.38 comprise the entire credit portfolio of banks net of loans to domestic and foreign financial institutions.
 10 Traditional off-balance sheet items include guarantees, letters of credit, bills of exchange and financing obligations, including granted but unused credit lines.



32% in 2002 to 9% in 2003, well below the level of 16%.

Another form of banks' adjustment to the CNB measures involved a shift towards the kuna sources of financing. The year 2003 saw a rapid acceleration of the trend of an increase in the share of kuna time deposits in total time deposits as well as an increase in the kuna share of received loans. This indicates improved confidence of domestic entities in the stability of the domestic currency as well as their sensitivity to market conditions, or rather their response to the deposit interest rates on kuna sources, which rose considerably in the second half of 2003. There was a record increase in kuna time deposits and received loans with a currency clause. This was the first time in the ten years of Croatian banking that the growth of kuna time deposits and received loans included in banks' liabilities

(with or without a currency clause) exceeded the growth of foreign currency time deposits and loans.

In their further attempts to achieve adjustment with the CNB measures, the banks transferred their loans businesses to their ownership-related companies. Though bank loans continued to be the most important form of financing for the private sector, particularly the household sub-sector, leasing companies and direct foreign borrowing abroad were increasingly gaining on significance as alternative forms of borrowing for companies. By and large, ownership of leasing companies is in the hands of domestic banks, commonly leading foreign banks in the region.

When assessing the effects of CNB measures aimed at impeding the growth of loans to the domestic non-financial private sector, one has to take into account the increased supply of non-banking sources of financing.

The growth rate of placements to the non-financial sector, including placements of domestic and foreign banks as well as placements of leasing companies, fell from approximately 26% in 2002 to 18% in 2003.

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

	31/12/1998	31/12/1999	31/12/2000	31/12/2001	31/12/2002	31/12/2003
Banks	58,942.7	54,494.1	59,189.0	73,003.9	94,796.0	108,811.2
Year-on-year rate of change		-7.5	8.6	23.3	29.9	14.8
Abroad	22,025.6	27,470.6	32,075.9	28,822.9	31,184.0	37,828.9
Year-on-year rate of change		24.7	16.8	-10.1	8.2	21.3
Leasing	372.4	713.2	1,202.6	1,958.4	4,261.8	7,059.0
Year-on-year rate of change		91.5	68.6	62.9	117.6	65.6
Total: Banks and leasing	59,315.1	55,207.3	60,391.6	74,962.3	99,057.7	115,870.2
Year-on-year rate of change		-6.9	9.4	24.1	32.1	17.0
Total: Banks and abroad	80,968.3	81,964.7	91,265.0	101,826.8	125,980.0	146,640.0
Year-on-year rate of change		1.2	11.3	11.6	23.7	16.4
Total	81,340.7	82,786.6	92,561.5	103,861.2	130,397.4	153,800.8
Year-on-year rate of change		1.8	11.8	12.2	25.5	17.9

Sources: FINA and CNB.

Note: Data presented under item Leasing are the CNB's estimates for the stated periods.

In conclusion, it can be said the Croatian National Bank was successful in its efforts to reduce significantly the growth of domestic loans to the non-financial private sector. Much more measurable success, in terms of loan growth slowdown, was recorded in the area of corporate lending, compared with household lending, despite the introduction of loans provided by the leasing companies. The CNB measures which enabled this slowdown in total domestic loan activities also had a positive impact on the currency structure of banks' liabilities. The increase in their kuna share in 2003 was almost equal to the increase in the foreign currency share, implying, in relative terms, a greater increase in the kuna component of banks' liabilities. However, a slowdown in the growth of loans to the non-financial private sector did not lead to an improvement in the country's external position. Just the opposite, all domestic sectors recorded a sharp increase in foreign borrowing in 2003. This is why the slowdown in total foreign financing of the non-financial private sector in 2003 was somewhat less pronounced than the slowdown in its domestic counterpart.

Monetary Developments in the First Quarter of 2004

Bank placements to the non-banking sector continued to grow moderately in the first quarter of 2004. With a seasonal decline in monetary aggregates, money and total liquid assets, placements' growth was largely financed by foreign borrowing.

The broadest monetary aggregate, total liquid assets (M4) declined by 6.8% in the first quarter as a result of a seasonal fall, which affects money the most and a decline in the kuna amount of foreign currency deposits due to an appreciation of the exchange rate of the kuna.

The seasonal fall in money (M1) in the first three months of 2004 was 7.0%. The effects of the season excluded, money held steady. Both components of M1 fell in seasonal terms, though demand deposits recorded a sharper fall (7.9%) than currency (5.1%).

Kuna non-monetary deposits (savings and term) grew by 5.8% in the first quarter of 2004, continuing their rapid growth from the previous period. By contrast, foreign currency deposits decreased by 2.5% because of 3.3% strengthening of the exchange rate of the kuna against the euro. Exchange rate effects excluded, foreign currency deposits held steady in the first three months (0.4% increase).

Moderate growth of placements to the non-banking sector continued into the first three months of this year, with placements increasing by HRK 1.6bn (1.4%). The nominal value of bank placements was influenced by the appreciation of the kuna. Exchange rate effects excluded, placements grew by 4.0% in the first three months of 2004.

Banks' net claims on the central government held steady in the first quarter of 2004, with a slight increase in banks placements to the government and government deposits with the banks.

In the light of decreasing domestic sources in the first quarter of 2004, the banks continued to finance their domestic placements by means of foreign borrowing. After banks adjusted their business activities with the obligation on the minimum foreign currency liquidity towards the end of 2003, the HRK 2.3bn increase in foreign liabilities is fully attributable to domestic placements' financing.

1.2.5 Money Market

The CNB's restrictive monetary policy in 2003, aiming at slowing down the growth in banks' placements to the private sector, led to a reduction in the primary liquidity of banks in the second half of the year. This resulted in the increased demand and higher interest rates on the money market.

In early 2003, money market interest rates continued their slightly upward trend which started as early as at end-2002. This was also a consequence of an increased demand for kuna due to the CNB's foreign exchange interventions where kuna was withdrawn from circulation, as well as of an increased demand for foreign currency following the issuance of the decision on the 35-percent cover of banks' foreign currency liabilities by liquid foreign currency claims. In the first half of the year, a mildly upward trend in interest rates was transferred on the CNB bill and T-bill primary market.

In the second half of the year monetary policy tightening by the CNB continued. In September, the decision was adopted on the increase in a share of reserve requirements on banks' foreign currency liabilities to be allocated in kuna, from 25% to 35%, by which around HRK 2.1bn was withdrawn from circulation. In November 2003, the share increased from 35% to 42%, due to which another HRK 1.5bn was withdrawn from circulation. A reduction in the banking system kuna liquidity resulted in a sharp rise in money market interest rates. Interest rates on T-bills followed the movements in money market interest rates. However, the CNB did not agree to a rise in CNB bills interest rates, which soon brought their balance to zero. Accordingly, starting from 1 January 2004, kuna CNB bill auctions are no longer held regularly every week, but rather as needed for the purpose of surplus liquidity sterilisation, whereas foreign currency CNB bills are no longer issued.

The central bank measures taken in 2003 resulted in curbing the downward trend in most of the banks' lending rates, which started in early 1999. Interest rates on kuna deposits were effected by the money market developments, so that they temporarily increased for several times in the second half of 2003.

Money Market Interest Rates

In the first half of 2003, ZMM interest rates on loans slightly increased under the influence of an increased kuna demand, without significant fluctuations, from the average 1.3% in January to the average 2.2% in June 2003. However, at the be-

ginning of the second half of 2003 a seasonally high demand for kuna additionally increased since the amendments to the decision on reserve requirements were announced. Turnover grew significantly and interest rates leapt to above 8% at end-August. During September and October, a seasonal inflow of cash and funds freed by kuna CNB bills redemption improved bank liquidity, which contributed to a gradual reduction in interest rates. However, the CNB decision to increase the share of foreign exchange reserve requirements to be allocated in kuna, net foreign currency sales through foreign exchange interventions by the central bank in November and December and a seasonally high cash demand in December resulted in a strong growth in kuna demand. Consequently, money market interest rates rose again sharply and money market trading increased as well, particularly in instruments of longer maturities.

The weighted interest rate on overnight loans grew slowly in the first half of 2003, from 1.37% in January to 1.95% in June. Prior to the adoption of the amendments to the decision on reserve requirements in the second half of August, kuna demand rose considerably, as well as short-term interest rates, so that the weighted interest rate on overnight loans increased to 3.98% in August. Interest rates on overnight loans remained high during entire September, when the weighted interest rate on these loans stood at 6.29%, a record high since end-2000. During October and November 2003, interest rates on overnight loans were on a gradual decrease, only to rise again in December and remain at this high level in early 2004.

In 2003, interest rates on other ZMM loans followed the movements in interest rates on overnight loans, but at a somewhat higher level. The weighted interest rate on other loans stood at 1.71% in January 2003. Following an almost continuous growth in the entire year, it hit its three-year record high of 7.02% in December, continuing its growth in 2004 as well. In November and December its growth was additionally effected by a larger share of longer maturity loans granted at higher interest rates.

Total ZMM turnover in 2003 amounted to HRK 28.1bn, an increase of almost HRK 11bn compared to the previous year. More than two thirds of the total turnover was recorded in the second half of 2003. In the first half of 2003, the average daily turnover in total ZMM loans stood at around HRK 65m, increasing to approximately HRK 160m in the second half of 2003. The average daily turnover in overnight loans was around HRK 47m in the first half of the year and it almost doubled in the second half of 2003. The average daily turnover in other loans stood at HRK 20m in the first half of 2003, whereas it went up to almost HRK 70m in the second half of the year.

Figure 1.42

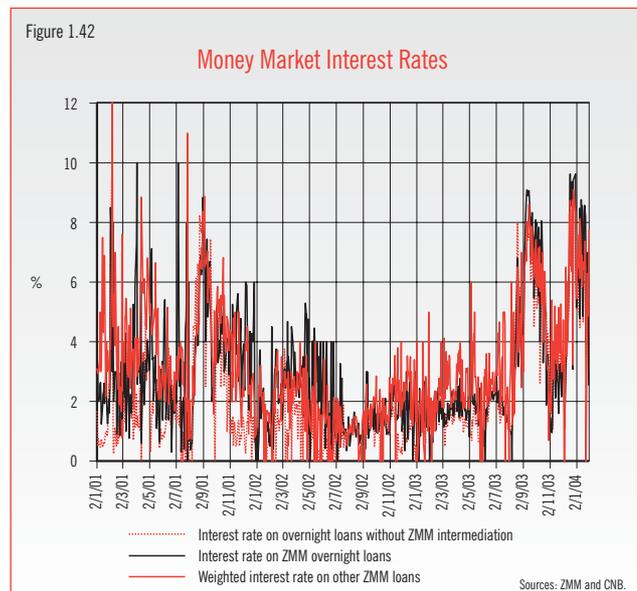
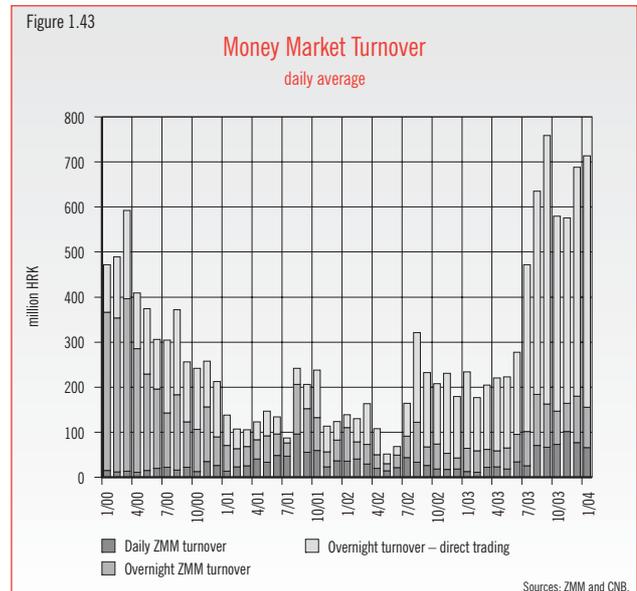


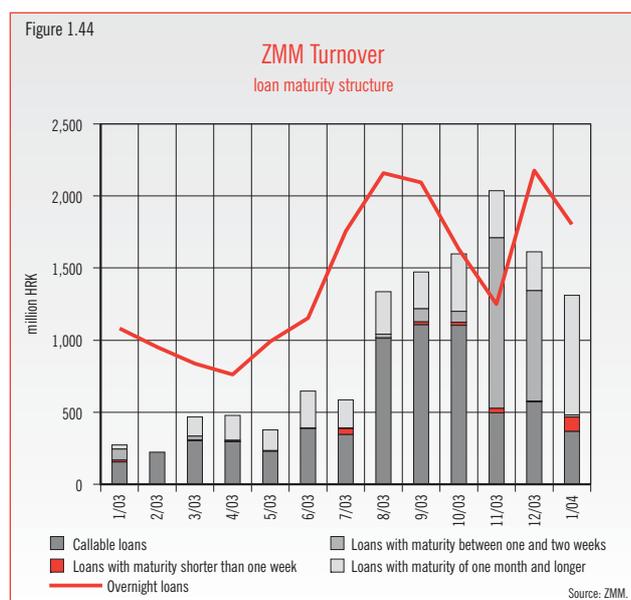
Figure 1.43



Interest rate increase also brought about changes in the maturity structure of money market trading. More specifically, in the period of high liquidity and exceptionally low interest rates, from early 2002 to mid-2003, money market participants disposing of surplus liquid assets, invested only in the shortest maturities, expecting interest rate rise. Overnight loans and callable loans thus predominated in the structure of total loans. Since monetary policy measures spurred the interest rate rise to over 8% in the second half of 2003, banks and money market funds with surplus liquid assets granted loans only under condition that they were of longer maturity, expecting a fall in interest rates after banks have become compliant with the new CNB measures. The upward trend in longer-term crediting started at the beginning of the second half of 2003, was particularly pronounced in the last two months of 2003, and continued into January 2004.

In the fourth quarter of 2003, the share of overnight loans was reduced from the usual two thirds to approximately one half of the total loans. The share of callable loans in total other loans went down in the last two months of 2003, from more than two thirds to approximately one third of total other loans. In November and

December, the majority of loans granted were those of one-week maturity, compared to one-month maturity in the first three months of 2004.



A large kuna demand in the second half of 2003 mostly effected the direct interbank market. The average daily turnover in direct interbank overnight loans reached its peak in September 2003, when it stood at almost HRK 600m. After a reduction in the following two months, it went up again to HRK 500m in December and continued its growth in early 2004. The weighted interest rate on direct interbank overnight loans increased in the first half of the year, from 1.22% in January to 1.97% in July and then soared to 4.8% and to 7.27% in August and September respectively. As in the case of ZMM loans, the weighted average interest rate on direct interbank overnight loans was gradually falling in October and November, only to rise again to 6.57% in December.

Interest Rates in the Short-Term Securities Market

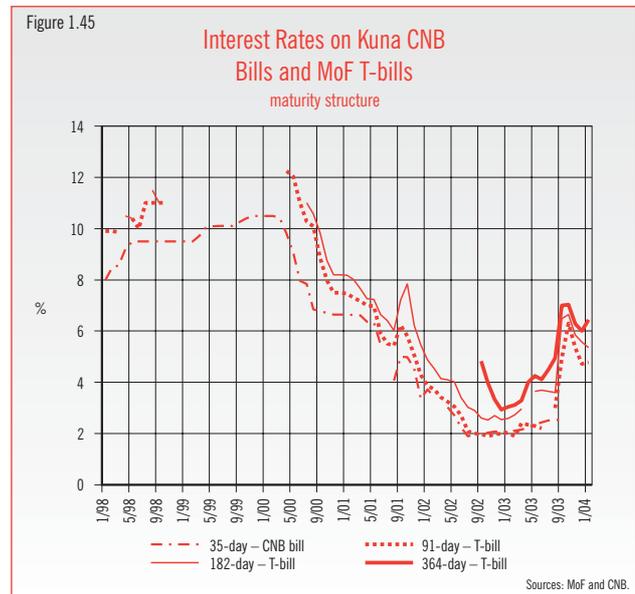
In the first half of 2003, interest rates recorded at the auctions in the primary market of the MoF and CNB short-term securities were on the increase. In contrast to movements in interest rates on T-bills, which followed ZMM interest rates, a rise in interest rates on kuna CNB bills was considerably milder.

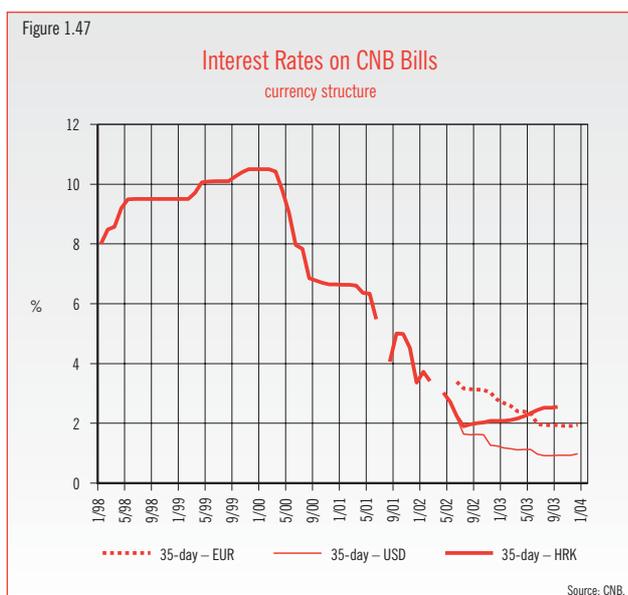
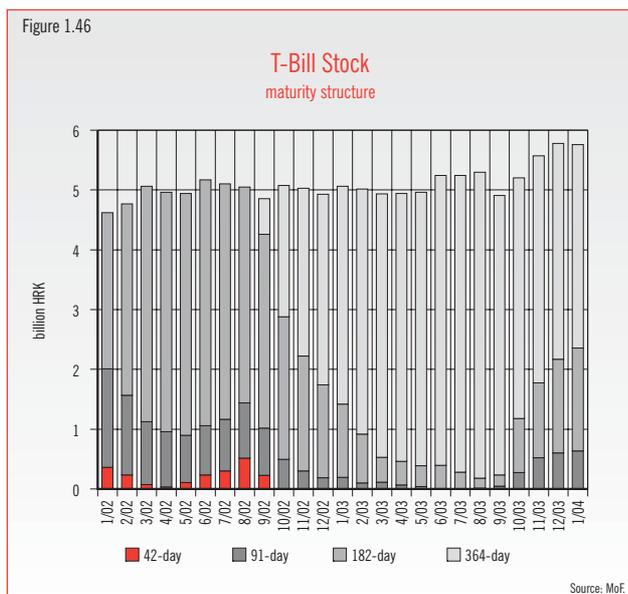
The weighted interest rate on CNB bills grew slightly in 2003 – it stood at 2.08% in January compared to 2.55% in September. Since mid-September 2003, the CNB has not agreed to a further increase in interest rates on CNB bills and has not accepted a single bid received at the kuna CNB bill auctions. The increase in

CNB bills interest rates was considerably lower relative to the intensity of a rise in other money market interest rates, reflecting the CNB's intention not to effect additionally the interest rate rise. The stock of subscribed CNB bills was thus on a rapid decline in 2003, falling to zero at end-October. In early December, bids for the subscription of CNB bills ceased to arrive.

During 2003, interest rates on T-bills followed the movements in ZMM interest rates. In the first half of the year, the interest rate on the longest maturity T-bills increased most and these bills were subscribed most by the investors. In the second quarter of 2003, the MoF reduced the frequency of T-bill auctions which were held every week until that time. One of the reasons for this was a structure of subscribed T-bills, where one-year bills predominated (the first fell due only at end-September 2003), so that the need for short-term financing was temporarily reduced. From January to June 2003, the weighted interest rate recorded at the T-bill auctions rose from 2.04%, 2.59% and 3.05% to 2.20%, 3.69% and 4.11% for 91-day, 182-day and 364-day T-bills respectively. In August, interest rate on one-year T-bills exceeded 4.9%, the rate at which they were issued for the first time. In September, T-bill auctions again started to be held every week and the interest rate rise on the money market at end-August influenced a rise in interest rates on T-bills with all maturities. In October, interest rates on 91-day and 182-day bills almost reached the interest rate level of one-year T-bills, as a result of which these bills again started to attract investors who purchased them in larger amounts. The weighted interest rates on T-bills hit their 2003 record high in October, standing at 6.31%, 6.65% and 7.03% for 91-day, 182-day and 364-day maturities respectively. In November and December 2003, they were gradually falling and the interest rate spread between the shortest and the longest maturity increased again. Since in the second part of December 2003 no T-bill auction was held due to holidays, an increase in money market interest rates effected T-bill interest rates only at the first auctions in January 2004. The weighted interest rate on 91-day, 182-day and 364-day T-bills amounted to 4.72%, 5.57% and 6.0% in December.

The stock of subscribed T-bills grew by HRK 850m during 2003, reaching HRK 5.78bn at the year end. In the first ten months of 2003, the stock of subscribed T-bills ranged between HRK 4.9bn and 5.2bn, growing by HRK 581.2m only in the last two months of 2003. This is most likely a consequence of the banks' need to provide for a collateral for the CNB Lombard loan, which again gained importance due to a decreased liquidity of banks and increased money market interest rates at end-2003. One-year bills predominated in the structure of subscribed T-bills. The share of 91-day and 182-day T-bills was on a decrease from January to August 2003 when these bills again became attractive to investors due to an increase in interest rates. At end-2003, out of a total of HRK 5.78bn subscribed T-bills, HRK 3.6bn related to one-year bills (62.5%), HRK 1.6bn to 182-day bills (27.1%) and HRK 603m (10.4%) to 91-day bills.





In 2003, the CNB issued foreign currency CNB bills denominated in euro and US dollar with maturities of 35 and 63 days. In accordance with the new monetary policy measures for 2004, the CNB no longer issues foreign currency CNB bills starting from 1 January 2004. In contrast to kuna CNB bills and T-bills, interest rates on foreign currency denominated CNB bills were not set at the primary market auctions, but were rather calculated by deducting 1/16 percentage points from the LIBID rate for the respective currency and maturity as at the auction date. The price of foreign currency denominated CNB bills thus depended on the monetary policy of the European, i.e. US central bank, since LIBID is very sensitive to movements in the key interest rates of these central banks.

In the first half of 2003, the ECB lowered its key interest rates twice, compared to the US central bank that reduced them once, which contributed to a continuation of a downward trend in interest rates on foreign currency CNB bills, which started as early as in late 2002. In the second part of 2003, interest rates on foreign currency CNB bills did not change significantly. From January to June 2003, the weighted interest rate on 35-day and 63-day CNB bills denominated in euro fell from 2.67% and 2.66%, respectively, to around 1.97% for both maturities, slightly fluctuating around 1.94% by the end of the year. In the same period, the weighted interest rates on 35-day and 63-day CNB bills denominated in US dollar went down from 1.18% and 1.17% to 0.97% and 0.94% respectively. In the second half of 2003, they stood at around 0.93% on average for both maturities, increasing to 0.98% and 0.97%, respectively, in December.

Despite the interest rate fall, the stock of subscribed foreign currency CNB bills was on the increase during entire 2003, in the second part of the year in particular. Such a movement resulted from a superiority of foreign currency CNB bills over other forms of foreign currency liquidity. More specifically, by holding foreign currency CNB bills banks may at the same time meet three requirements: maintaining of foreign exchange required reserves, maintaining of a minimum foreign currency liquidity and provision of collateral for Lombard loan of the CNB.

Banks' Interest Rates

In 2003, a downward trend in almost all banks' interest rates was mainly curbed. Following an intense reduction in 2002, interest rates on short-term household loans without a currency clause further decreased in early 2003 and then held

steady until the end of the year. In the period from January to April 2003, the weighted interest rate on short-term household loans without a currency clause fell from 15.2% to 15% and then stood at around 14.9% until the year end. On the other hand, interest rates on short-term corporate loans without a currency clause were mainly on the increase during 2003. In 2003, the weighted interest rate on short term corporate loans without a currency clause increased from 7.49% in early 2003 to 8.02% in December.

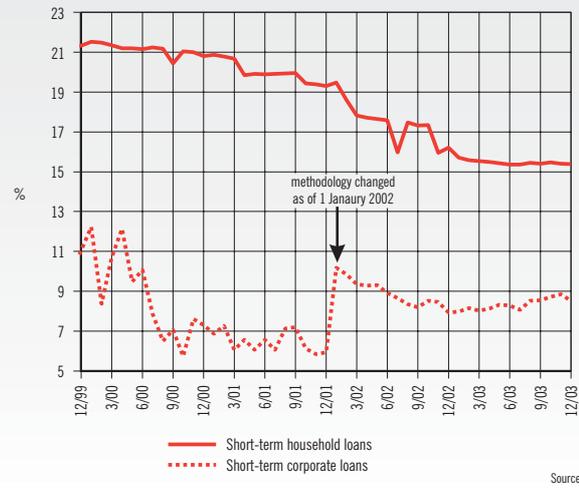
Interest rates on long-term household loans with a currency clause were on a decline in the first few months of 2003 and then held steady until December when a rather sharp fall was recorded, caused primarily by a high share of home loans granted at low interest rates. The weighted interest rate on long-term household loans with a currency clause was decreasing until May, when it stood at 8.49%, and then it went up to 8.8% in the following three months. It fluctuated around that level until December when it fell sharply to its record low of 8.04%. The fall in this interest rate can be accounted for by an increase in the share of home loans, granted at relatively low interest rates relative to other long-term household loans and by a sharp reduction in the weighted interest rate on all long-term household loans in December.

Interest rates on long-term corporate loans with a currency clause recorded relatively large fluctuations in 2003. At the year end, they stood at lower levels than at the end of 2002 primarily as a result of a reduction in the last two months of 2003. The weighted interest rate on these loans amounted to 6.73% in January, hit its 2003 record high (6.86%) in February and then fluctuated until October within a relatively wide band around the average of 6.2%. In November, this interest rate was reduced by 126 basis points, slightly increasing again in December to 5.76%, which is a fall of 61 basis point compared to end-2002.

Reduced primary liquidity of the banking system and a rise in money market interest rates mostly effected the movements in interest rates on kuna corporate deposits with banks. While interest rates and the amounts of new household kuna time deposits were relatively stable during the entire 2003, interest rates and the amounts of new corporate time deposits depended on the movements in money market interest rates. The weighted interest rate on kuna time deposits continued its previous year's downward trend into the first five

Figure 1.48

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



Source: CNB.

Figure 1.49

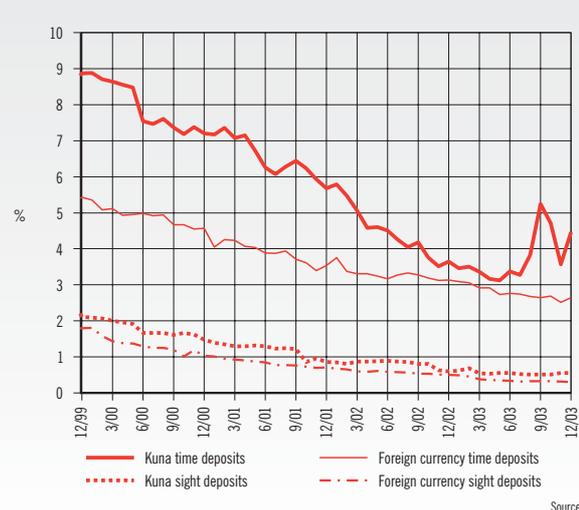
Banks' Average Interest Rates on Long-Term Loans with a Currency Clause



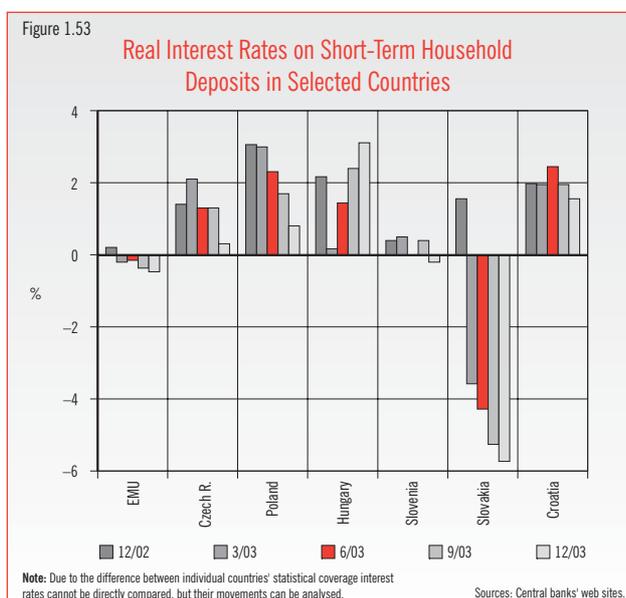
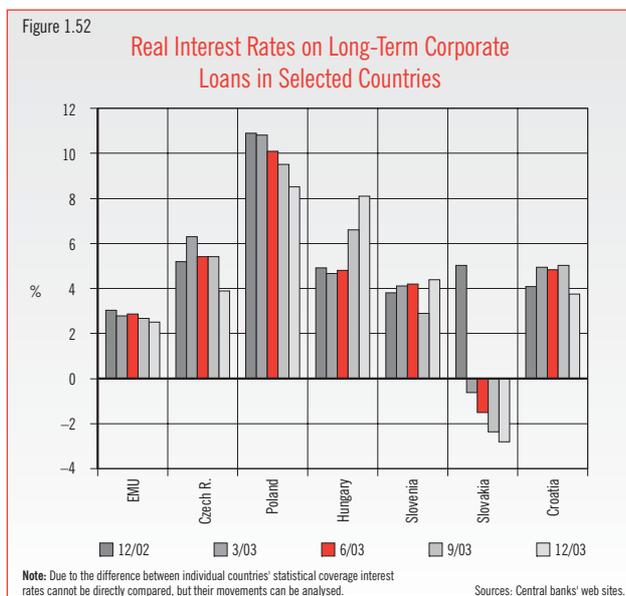
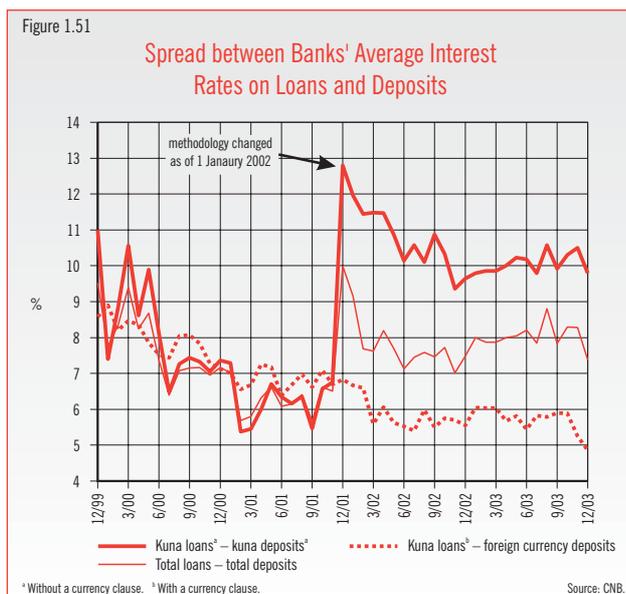
Source: CNB.

Figure 1.50

Banks' Average Deposit Interest Rates



Source: CNB.



months of 2003, but in a somewhat milder form (a fall from 3.46% in January to 3.13% in May). In the following two months it rose slightly and then soared to 3.83% and 5.25% in August and September respectively, under the influence of interest rates on corporate time deposits, hitting thus its record high since March 2002. In October and November, the weighted interest rate on time deposits was gradually reduced, with a 4.46% rise in December. The weighted interest rate on kuna sight deposits was falling in 2003, with occasional increases until August, when it stood at 0.51%. Following a three-month stagnation, it increased to 0.55% and 0.56% in November and December respectively. Interest rates on foreign currency deposits continued to fall during 2003 as well, which was more pronounced in the first half of the year. The weighted interest rate on foreign currency time deposits, which stood at 3.13% in December 2002, was reduced to 2.64% at end-2003. The weighted interest rate on foreign currency sight deposits went down from 0.50% in December 2002 to 0.31% in December 2003.

As a result of a further reduction in deposit rates and a stagnation or even rise in particular lending rates of banks, the spread between total lending and deposit rates broadened in the first half of 2003. At the year end, a reduction in interest rates on kuna loans with a currency clause (due to a fall in interest rates on household loans) and a rise in interest rates on kuna deposits narrowed this spread to 7.37 percentage points in December 2003, 12 basis points less than at the end of the previous year. The spread between interest rates on kuna loans with a currency clause and interest rates on foreign currency deposits was around 5.8 percentage points during 2003. Nevertheless, it narrowed to 4.85 percentage points in December due to a fall in interest rates on long-term corporate and household loans in November and December.

The described movements in nominal interest rates of banks, together with low and stable inflation brought about a reduction in real interest rates (i.e. nominal interest rates deflated by the consumer price index) in the second half of 2003 (deposit rates) and at end-2003 (lending rates). Such a movement corresponded to the movements in EMU countries and in most of the observed transition countries, where deflated lending and deposit rates decreased moderately with occasional fluctuations at end-2003. A reduction in deposit rates and a simultaneous moderate rise in in-

flation at the end of 2003 led to negative deflated interest rates on deposits in EMU countries and Slovenia. In Slovakia deflated interest rates on both loans and deposits were negative during the entire 2003 due to a rising inflation. In contrast, a rise in banks' deflated deposit and lending rates was recorded in Hungary despite an increase in the rate of consumer price inflation.

Developments in the First Quarter of 2004

In January 2004, money market activity started to slow down, although interest rates remained relatively high, following a leap at end-December 2003. After six consecutive months of exceptionally high demand for kuna, it was considerably reduced in February 2004, which was reflected in a reduced level of trading and lower interest rates. However, as a consequence of a seasonal decrease in liquidity and a subscription of the second tranche of the RHMF14 government bonds in March 2004, the kuna demand increased again. As a result, the reported demand for ZMM loans was double the reported supply of surplus funds in March, which again caused a leap in interest rates to their 3-year record high (the weighted interest rate on overnight loans and on other loans amounted to 7.74% and 8.17%, respectively, in March).

The new CNB's decision governing CNB bills has been effective since 1 January 2004. The kuna CNB bill auctions are no longer held regularly every week, but rather as required for the purpose of surplus liquidity sterilisation, whereas foreign currency CNB bills are no longer issued. In the first three months of 2004, no kuna CNB bill auction was held. The stock of foreign currency CNB bills was brought to zero during March 2004. At the T-bills auctions, following a January growth, interest rates did not change significantly in February and March despite high money market interest rates. This resulted in poorer subscription at auctions than planned, leading to a reduction in the stock of subscribed T-bills (HRK 5.6bn at end-March). The weighted monthly interest rate on T-bills in March was 4.85%, 5.76% and 6.35% for 91-day, 182-day and 364-day maturities respectively.

Banks' lending rates were mainly reduced in January 2004, but they went up considerably in February, exceeding the level recorded in December 2003. A significant reduction in the weighted interest rate on long-term household loans with a currency clause in December 2003 and January 2004 can be accounted for by a large share of home loans granted at very low interest rates at that time. An increase in banks' interest rates on home loans in February led to a rise in that interest rate to 8.65%. Banks' deposit rates on kuna sources of funds increased in January and February as a result of increased rates on the money market. In the first two months of 2004, interest rates on foreign currency deposits also increased moderately. Accordingly, the spread between lending and deposit rates narrowed sharply in January and in February it almost returned to the December 2003 level.

1.2.6 Capital Market

Last year was marked by several important events in the capital market. First, the Republic of Croatia issued the first kuna denominated government bond in the domestic market in May and listed it on the Zagreb Stock Exchange (ZSE). This issue extended the kuna yield curve to a 5-year maturity and laid the basis for the evaluation of future corporate bond issues. Already in June it was followed by the first kuna denominated corporate bond issue. Second, pursuant to the Securities Market Act of July 2002, public limited companies had to have their shares listed in the quotation of public limited companies on a stock exchange or regulated public market by July 2003. In terms of this Act, public limited companies are joint stock companies, which issue shares through public offerings or have more than 100 shareholders and an initial capital of at least HRK 30m. In January 2003, the Croatian Securities Commission approved the ZSE Regulations, which provided for the listing of public limited companies in a special quotation (Quotation JDD) and enabled the initiation of all public limited companies' application and listing procedures. 114 and 123 public limited companies were listed on the ZSE and the Varaždin Stock Exchange (VSE) respectively by the end of 2003. This lifted market capitalisation on both exchanges and made a positive impact on the total share turnover.

The volume of trade on the ZSE doubled in 2003 compared with the previous year, mainly on account of bond trading, although with a turnover rise recorded in all trading segments.

Equities Market

The ZSE volume of trade rose considerably in 2003 in comparison with the previous year. The total share turnover amounted to HRK 1,495.1m, an increase of 27.6% relative to 2002. Share listings of public limited companies brought the number of shares listed on the ZSE up to 175 at end-2003, from 73 in 2002, with 143 shares actively traded. As in previous years, Pliva shares were traded the most, accounting for a turnover of HRK 532.1bn, 35.6% of the total ZSE share turnover. They were followed by Tvornica duhana Rovinj shares, traded intensively after their listing in Quotation JDD in July 2003, representing 18.4% of the total turnover, and those of Podravka, Karlovačka pivovara and Croatia osiguranje (common share) accounting for 9.0%, 3.5% and 3.4% in the total turnover respectively. The high turnover of Karlovačka pivovara shares resulted from the company's takeover by Heineken Adria d.d. (completed in May 2003), which pushed up share prices and turnover in March and April 2003.

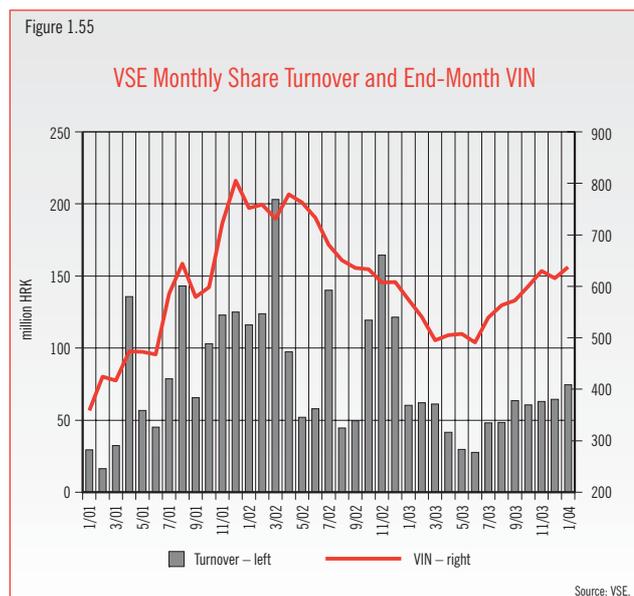
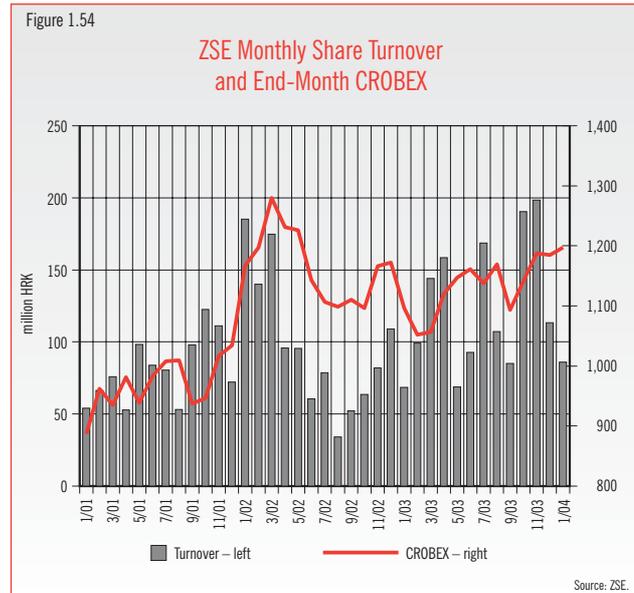
In 2003, share trading on the ZSE was conducted on the following four markets: Quotation I, Quotation II, Quotation JDD and Quotation TN. Pliva and Podravka shares were the only ones listed in Quotation I after Viktor Lenac shares were delisted in December 2003. Croatia osiguranje common and preferred shares, previously in Quotation JDD, were listed in Quotation I in January 2004.

ZSE market capitalisation of shares stood at HRK 37.13bn at end-2003 (19.5% of the GDP estimate for 2003), which was a growth of HRK 8.81bn over the previous year, mostly accounted for by the increase in the number of shares listed on the ZSE. Liquid shares with the largest end-2003 market capitalisation were those of Pliva (HRK 9.1bn or 24.6% of the total market capitalisation), Privredna banka Zagreb (HRK 3.7bn) and Tvornica duhana Rovinj (HRK 1.9bn).

Global developments (Iraq crisis and unfavourable economic indicators) brought down share prices in the domestic market in the first two months of 2003. The value of the ZSE share index, CROBEX, declined to 1000 points in the same period for the first time since 2001, and then started to trend upwards, reaching its three-year high of 1,329.22 points late in May. Having fluctuated between 1100 and 1200 points in the period from June to end-2003, the CROBEX stood at 1185.1 points on 31 December, 1.1% up from 31 December 2002. Since its regular revision in September 2003, the CROBEX has comprised shares of Croatia osiguranje, Istraturist, Kraš, Končar Elektroindustrija, Plava laguna, Pliva, Podravka and Riviera Holding, with the largest market capitalisation shares, those of Pliva and Podravka, having the strongest influence on its value. In 2003, movements in Croatian companies' share prices and the CROBEX value were opposite from the movements of exchange indices in other transition countries, growing almost continuously throughout the year.

The VSE share trading volume was cut in half in 2003 compared with the previous year. Standing at HRK 630.6m, the total share turnover was 2.4 times lower than that on the ZSE.

With the introduction of Quotation JDD, the number of VSE trading segments rose to six; shares are traded in five segments, while the Quotation of Rights involves trading in rights of the Ministry of Finance and the (former) Ministry of Public Works, Reconstruction and Construction. Rights are securities entitling their holders to some shares from the CPF portfolio and can be exchanged for shares at public auctions intermediated by the VSE, or traded on the VSE. VSE trading is mostly done in the Free Market segment. Following Dom Fund's delisting from the VSE Quotation I in May 2003, due to its merger with Korifej joint stock company, there were no share listings in Quotation I until Varteks shares were listed in September. Following the transformation of Sunce and Pleter privatisation investment funds into closed-end funds in April and July, there were no share listings in PIF Quotation either. The VSE volume of trade, positively in-



fluenced by the introduction of Quotation JDD, started trending upwards in the second half of the year, after having declined throughout the first half.

Market capitalisation of active shares on the VSE stood at HRK 23.36m at the end of 2003; a rise of almost 50% compared with the end of the previous year. The value of the VSE index, VIN, continued the downward trend from April 2002 in the first two months of 2003, held steady around 500 points for the next four months and increased to 613,4 points at year-end, a rise of 0.8% compared with end-2002.

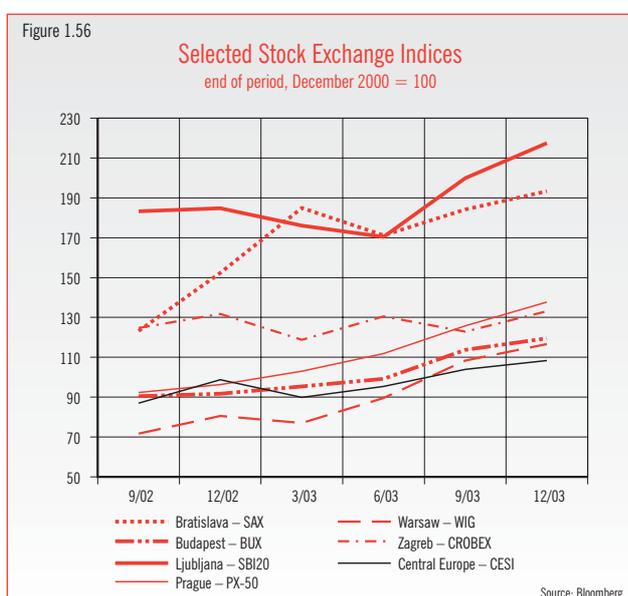
The VIN underwent two regular and five extraordinary revisions in 2003. Since the last (extraordinary) revision, the index has included 12 shares, with the highest weights assigned to the shares of Ericsson Nikola Tesla, Riviera Holding, Kraš and Dom Holding.

In 2003, Croatian capital market trends, in terms of market size and liquidity, were very similar to those in capital markets of selected transition countries. All observed countries saw a rise in their respective stock exchange turnover, both in

Table 1.4 Comparison of Capital Market Indicators

December 2003	Bratislava	Budapest	Ljubljana	Prague	Warsaw	Zagreb
Average daily turnover, shares (million USD)	3.0	26.7	5.3	58.1	79.9	0.9
Average daily turnover, bonds (million USD)	363.1	3.2	3.5	144.3	20.5	8.4
Turnover ^a /GDP ^c , annual level (%)	2.6	10.2	5.8	19.0	10.2	1.0
Turnover ^b /GDP ^c , annual level (%)	213.8	1.2	3.8	47.3	2.6	8.9
Turnover velocity ^d	18.3	34.6	18.1	52.7	51.2	3.7
Market capitalisation ^a (million USD), end month	3,369	16,689	7,075	25,122	37,428	6,069
Market capitalisation ^b (million USD), end month	10,083	26,365	4,622	19,706	....	2,298
Market capitalisation ^a /GDP ^c , end month (%)	14.2	25.4	32.2	36.1	19.8	27.0
Market capitalisation ^b /GDP ^c , end month (%)	42.6	40.1	21.0	28.3	....	10.2
Index movement from the beginning of the year (%)	26.9	20.3	17.7	43.1	42.0	2.1
Index movement from the beginning of the month (%)	0.8	3.0	-0.3	5.6	8.3	2.4

^a Shares. ^b Bonds. ^c 2002. ^d Annualised monthly share turnover x 100/ market capitalisation of shares. Sources: Reports from BSSE, BSE, PSE, LJSE, WSE, ZSE and FIBV Statistics Reports (www.fibv.org).



share and bond trading. Also, market capitalisation of both bonds and shares rose on all observed stock exchanges at end-2003 compared with December 2002.

However, in contrast with all observed indices showing a rise in share prices on transition countries' stock exchanges, which is in keeping with global capital market trends, the CROBEX has shown no signs of long-term growth in the last 18 months. The combined index of Central European stock exchanges, CESI, reached 1364.3 points over 2003, rising by 9.7%. Also on the increase were stock exchange indices in transition countries. The Prague Stock Exchange index, WIG-20, recorded the highest rise of 49.9% compared to end-2002, whereas other indices

grew between 17 and 43% in the same period. The CROBEX recorded the lowest rise of 1.1% compared with end-2002.

Debt Securities Market

There were 10 bond issues in the domestic market at the end of 2003, including 6 government and 4 corporate bond issues. Obligations to savers having insured savings deposits in banks that had to leave the market in 1998 and 1999 were fully settled with one of the two DAB bonds, issued in December 2000, maturing in December 2003 (the other being due in December 2005).

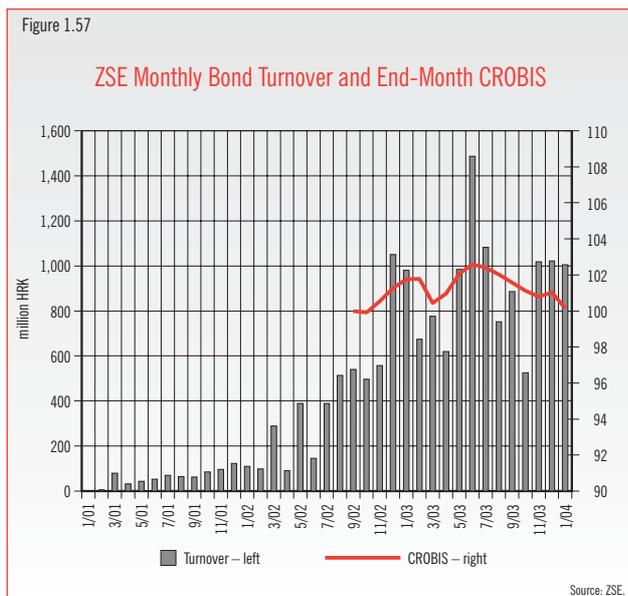
The third and the last tranche of Republic of Croatia “pension” bonds, maturing in 2012 and worth EUR 200m, was listed on the ZSE in January 2003. In May, Croatia’s Ministry of Finance issued the first kuna denominated government bond maturing in 2008, valued at HRK 1bn and with a coupon rate of 6.125%. Standard&Poor’s awarded a BBB+ rating to Croatia’s kuna government bond. The first corporate kuna bond valued at HRK 150m, with a 6.5% coupon rate and a 5-year maturity, was listed in the ZSE Quotation I in June. The end of February 2003 saw the first listing of a foreign corporate bond on the ZSE, that of Bina Istra, issued at the Luxembourg Stock Exchange in December 2002.

Table 1.5 Bond Issues in the Domestic Market

Series	Issuer	Issue date	Maturity	Currency	Issue nominal value	Nominal interest rate	Last price	Current yield 31/12/2003
DAB-0-05CA	DAB	19/12/2000	19/12/2005	EUR	225,000,000	8.375%	108.80	7.698%
HZZO-0-047A	CIHI	19/7/2000	19/7/2004	EUR	222,000,000	8.500%	103.13	8.242%
RHMF-0-049A	Republic of Croatia	20/9/2001	20/9/2004	EUR	200,000,000	6.500%	102.00	6.373%
RHMF-0-08CA	Republic of Croatia	14/12/2001	14/12/2008	EUR	200,000,000	6.875%	110.40	6.227%
RHMF-0-125A	Republic of Croatia	23/5/2002	23/5/2012	EUR	500,000,000	6.875%	110.00	6.250%
RHMF-0-085A	Republic of Croatia	28/5/2003	28/5/2008	HRK	1,000,000,000	6.125%	100.40	6.101%
BLSC-0-051A	Belišće d.d.	17/1/2002	17/1/2005	EUR	17,000,000	7.375%	102.50	7.195%
PLAG-0-048A	Plava laguna d.d.	25/2/2002	25/8/2004	EUR	12,000,000	6.750%	101.20	6.670%
HYBA-0-086A	Hypo-Alpe-Adria Bank d.d.	6/6/2003	6/6/2008	HRK	150,000,000	6.500%	99.10	6.539%
BNAI-0-22CA	Bina-Istra d.d.	15/12/2002	15/12/2022	EUR	210,000,000	8.000%	100.00	8.000%

Source: ZSE.

Bond turnover reached HRK 10.76bn in 2003, rising 2.3 times from 2002. Due to a moderate corporate bond liquidity, resulting from relatively low issue values, corporate bond turnover was HRK 269.1m, or 2.5% of the total ZSE bond turnover. The most liquid bond, accounting for 40% of the total turnover (HRK 4.33bn), was the Republic of Croatia bond maturing in 2012. Republic of Croatia bonds maturing in 2008 and 2004 also produced a high turnover of HRK 1.33bn and HRK 1.32bn respectively, as well as the CIHI bond maturing in 2004 (HRK 1.31bn). Trading in the Republic of Croatia kuna bond, intensive for several months following its issue, declined substantially late in August due to a rise in money market interest rates, and revived in October following their decline.

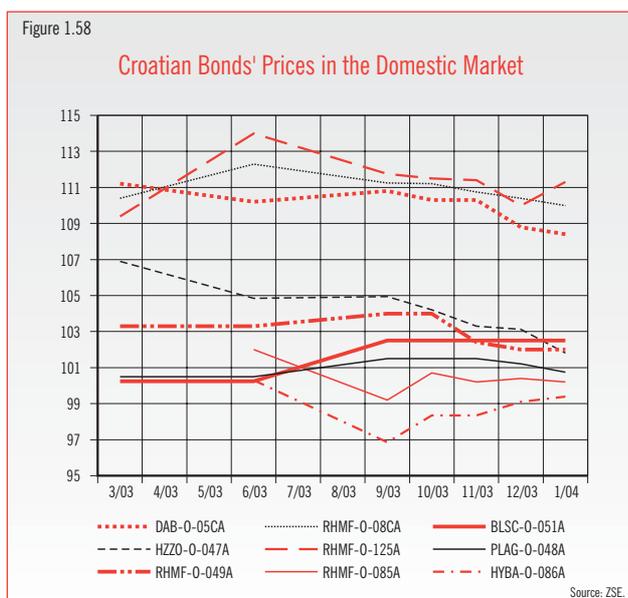


At end-December 2003, government bonds' market capitalisation stood at HRK 12.1bn (EUR 1.58bn), or 6.4% of the estimated GDP for 2003. Market capitalisation of the four corporate bonds at the end of 2003 was HRK 1.98bn (EUR 259m), or 1.05% of the 2003 GDP estimate.

Prices of domestic bond issues decreased late in the first quarter of 2003, due to several reasons. First, the January issue of the third tranche of Republic of Croatia bonds, maturing in 2012, temporarily satisfied investors' demand. Second, the breakout of the Iraq war prompted a decline in international bond prices, which also produced an effect on the domestic market. Prices of domestic bond issues went up in the second quarter, mostly due to a revival of demand from institutional investors. However, the rise in money market interest rates and the fall in bond prices in international

markets, caused by indications of an economic recovery in the United States, negatively impacted bond prices in the second half of 2003.

The value of the ZSE bond indexes, CROBIS, reflected bond price developments. Calculated since 2002, the CROBIS comprises all government and government agencies' bonds listed on the ZSE, on the condition that an issue's nominal value exceeds or equals EUR 75m and that bonds are issued with a maturity longer than 18 months, at a fixed interest rate. In late 2003, the index included four Republic of Croatia bonds (maturing in 2004, 2008 and 2012), DAB bonds maturing in 2005 and CIHI bonds maturing in 2004.



Having reached its all-time high of 102.83 points in July 2003, the CROBIS decreased until the year-end, standing at 101.02 points at end-December 2003, down by 0.25% from 101.27 points at end-2002.

In 2003, a total of 13 Croatian government bonds were listed on international capital markets. EUR 500m worth of the Croatian eurobonds, maturing in 2010, was placed in February 2003. This issue was placed at the lowest ever coupon rate of 4.625% and at the lowest spread at issue to the benchmark German bond – 102 base points. In June 2003, the Republic of Croatia placed the fifth issue of Samurai bonds, valued at JPY 25bn (USD 212.3m), maturing in 2009, again under very favourable terms, at a coupon rate of 1.23% and the spread at issue in relation to the benchmark Japanese bond of 99 base points.

The nominal value of all 13 issues of the Croatian eurobonds amounted to HRK 35.76bn (USD 5.85bn or EUR 4.68bn) at end-December 2003.

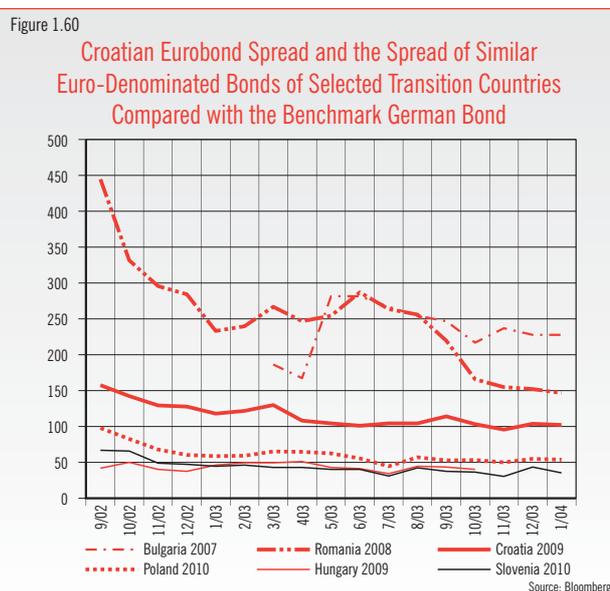
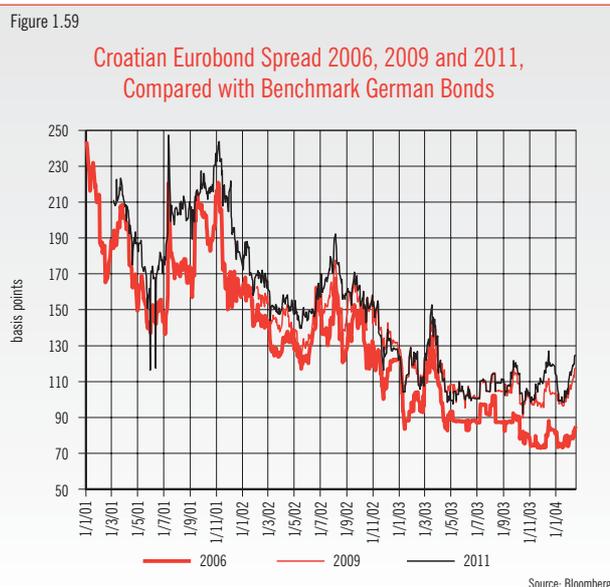
Table 1.6 Republic of Croatia International Bond Issues

Bond	Currency	Amount	Nominal interest rate	Yield on issue date	Spread ^a 31/3/2003	Spread ^a 30/6/2003	Spread ^a 30/9/2003	Spread ^a 31/12/2003
London Club Series A, 2010	USD	857,796,000	6 month LIBOR + 81.25 b.p.		133	129	121	127
London Club Series B, 2006	USD	604,426,000	6 month LIBOR + 81.25 b.p.		128	126	107	118
Euro-DEM bonds, 2004	DEM	300,000,000	6.125%	6.20%	93	74	62	44
Eurobond, 2006	EUR	300,000,000	7.375%	7.45%	113	87	91	81
Samurai bonds, 2004	JPY	25,000,000,000	4.00%	4.00%	79	67	69	47
Eurobond, 2005	EUR	500,000,000	7.00%	7.06%	88	76	78	73
Samurai bonds, 2007	JPY	40,000,000,000	3.00%	3.00%	137	89	92	79
Samurai bonds, 2006	JPY	25,000,000,000	2.5%	2.50%	121	83	83	73
Eurobond, 2011	EUR	750,000,000	6.8%	6.90%	135	101	118	114
Eurobond, 2009	EUR	500,000,000	6.25%	6.45%	129	100	114	104
Samurai bonds, 2008	JPY	25,000,000,000	2.15%	2.15%	150	109	107	90
Eurobonds, 2010	EUR	500,000,000	4.625%	4.65%	124	99	107	108
Samurai bonds, 2009 ^b	JPY	25,000,000,000	1.230%	1.23%	....	....	....	....

^a In relation to benchmark bond. ^b No benchmark bond.
Source: Bloomberg.

In 2003, Croatian eurobond yields were in line with international and regional trends. Interest rates were cut to very low levels owing to uncertainty related to the crisis in Iraq and unfavourable American and European economic indicators. Bond yields started climbing early in the second half of 2003, on confirmation of the expected strong economic recovery by most American economic indicators. As neither the Fed nor the ECB raised their interest rates despite the recovery, bond yields started dropping again and continued to drop early in 2004. Except for sporadic increases, the spread between the Croatian eurobonds and the benchmark German bonds was relatively stable in 2003. Croatian eurobond prices declined on account of the political situation in Serbia in late March 2003, with the result that the spread on all bond maturities widened. It narrowed again in the second quarter due to Croatia's application for EU membership and a stable macroeconomic environment. The spread between the Croatian eurobonds and the benchmark German bonds mostly held steady until the end of the year, rising only temporarily on the eve of the parliamentary elections.

Croatia's bond spread in relation to the benchmark German bond is still twice higher than the spread of countries that joined the EU on 1 May 2004. The spread between Hungarian and Slovene EUR denominated eurobonds, maturing in 2009 and 2010 respectively, and the benchmark German bond, remained at around 40 base points in the last nine months of 2003, whereas the spread of the Polish eurobond maturing in 2010 stood at about 60 base points. The yield on the



Croatian eurobond maturing in 2009 exceeded the benchmark German bond yield by an approximate 100 base points. Compared with the spread of EU candidate countries, Romania and Bulgaria, Croatian bond spreads were almost twice lower in 2003. However, the spread between the Romanian eurobond and the benchmark German bond narrowed considerably late in 2003, coming close to the Croatian eurobond spread.

Developments in the First Quarter of 2004

Share turnover continued the upward trend into the first quarter of 2004. Market capitalisation of shares at the end of the first quarter of 2004 was HRK 39.55bn, or 20.8% of GDP. Share prices drifted lower in the first quarter of 2004, which was reflected in the CROBEX value, declining from 1185.1 to 1160.8 points from end-December 2003 to end-March 2004.

4 new bond issues were listed on the ZSE early in 2004. Two government bonds and one corporate bond were issued in February. The Republic of Croatia issued the first tranche of a new government bond, worth EUR 200m, due in 2014 and with a coupon rate of 5.5%. The second tranche, worth EUR 150m, was issued late in March. CBRD bonds, issued on the Luxembourg Stock Exchange on 11 February 2004, were listed on the ZSE Official Market on 16 February. The issue, valued at EUR 300m and with a coupon rate of 4.875%, matures in 2011. Following this bond's listing, market capitalisation of government bonds rose to HRK 15.4bn at end-March (EUR 2.1bn or 8.1% of GDP). After a few series of short-term commercial papers, Podravka issued a three-year bond valued at EUR 27m in February, at a coupon rate of 5%, maturing in 2007. The number of corporate bonds listed on the ZSE has thus risen to five, with the market capitalisation totalling HRK 2.1bn (EUR 286.4m or 1.12% of GDP) at the end of the first quarter of 2004.

1.2.7 Balance of Payments

Favourable economic developments recorded in 2003 only partly relate to the area of international transactions. The preliminary balance of payment data show that current account deficit in 2003 stood at USD 2,039m or 7.2% of GDP. A large current account deficit can mostly be accounted for by a negative balance in goods account. It should also be noted that the Croatian exports in 2003 were significantly more dynamic relative to the previous year. In 2003, surplus of expenditures over revenues recorded in the current account was also strongly effected by a growth in net outflows from the income account, which almost entirely resulted from increased expenditures incurred on the basis of reinvested profit from equity investments. On the other hand, in 2003, a strong positive contribution to current account movements was made by services account, i.e. the annual growth in revenues from services rendered in tourism.

External debt continued to grow, reaching a high USD 23.6bn at end-2003, which is a USD 8.1bn or 52.8% annual growth. Negative movements of indicators related to the Republic of Croatia external debt balance (83.2% of GDP for 2003) show that Croatia has seriously approached the limit separating moderately from heavily indebted countries. A large balance of payment current account deficit in 2002 and 2003 creates an additional burden on the Croatia's economic position.

Current Account

The CBS data show that goods exports (f.o.b.) reached USD 6.2bn¹¹ in 2003, a nominal annual growth of USD 1.3bn or 25.7%. In evaluating the stated results, the account should be taken of the fact that a significant portion of growth in total goods exports reflects the annual depreciation rates of the average monthly exchanged rate of the reporting currency – US dollar against the euro (19.7%) and the unit of domestic currency (17.2%) recorded in 2003. As a result of significant exchange rate fluctuations and the fact that, according to the currency structure of goods exports reported in only two currencies, the average share of the euro in total goods exports stood at 74% in 2003, the merchandise trade movements should be properly analysed and evaluated only if they are reported at the constant exchange rate. If the effect of the exchange rate fluctuations on the value of merchandise trade of the Republic of Croatia with foreign countries is excluded, the annual growth rate of the seasonally adjusted goods exports amounts to 10.9% in

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

	2001	2002	2003 ^a	Rate of change 2003/2002
A. CURRENT ACCOUNT (1+6)	-725	-1,916	-2,039	6.4
1. Goods, services and income (2+5)	-1,691	-2,993	-3,432	14.7
1.1. Credit	10,053	10,999	15,387	39.9
1.2. Debit	-11,744	-13,992	-18,819	34.5
2. Goods and services (3+4)	-1,174	-2,494	-2,279	-8.6
2.1. Credit	9,634	10,571	14,907	41.0
2.2. Debit	-10,809	-13,065	-17,186	31.5
3. Goods	-4,101	-5,649	-7,921	40.2
3.1. Credit (f.o.b.)	4,759	5,004	6,285	25.6
3.2. Debit (f.o.b.)	-8,860	-10,652	-14,206	33.4
4. Services	2,927	3,155	5,642	78.8
4.1. Credit	4,876	5,567	8,621	54.9
4.2. Debit	-1,948	-2,413	-2,980	23.5
5. Income	-516	-499	-1,153	131.2
5.1. Credit	419	428	480	12.1
5.2. Debit	-935	-927	-1,633	76.1
6. Current transfers	966	1,076	1,394	29.5
6.1. Credit	1,175	1,359	1,727	27.1
6.2. Debit	-209	-282	-333	18.1

^a Preliminary data.
Source: CNB.

¹¹ Difference between goods exports (f.o.b.) balance of USD 6,164m, reported by the CBS, and USD 6,285m, reported in the preliminary balance of payment of the Republic of Croatia in Table 1.7 (CNB statistics), reflects the effects of the adjustments for coverage.

2003, which is a 9.8 percentage point rise against the average annual growth rate recorded in the previous year.

In 2003, exports of electrical machinery, apparatus and equipment, together with exports of other transport equipment accounted for the largest portion of annual growth in total goods exports. According to the CBS data, exports of ships (ships make the largest part of other transport equipment) amounted to USD 751m or 12.2% of total goods exports in 2003. In comparison with the value of ships exports in the previous year (USD 610m), the annual growth of USD 141m or 23.1% was recorded.

Even if positive contributions of cross-currency movements and ships exports are excluded, the data still confirm considerably more favourable results in goods exports in 2003 compared to the previous year. More specifically, an annual increase in goods exports, excluding exports of ships, reported at the constant exchange rate, soared to 11.1% in 2003, indicating a more aggressive foreign market penetration of the Croatian exporters. Despite relatively low rates of economic growth recorded by the Croatia's most important foreign trade partners in 2003, such movements were influenced by a continuous and stronger imports of capital goods, continuation of domestic companies restructuring, as well as by the signed bilateral and multilateral foreign trade agreements.

Table 1.8 Free Trade Agreements (concluded and in force)

Economic groupings/country	Concluded	Entered into force on
EU	29/10/2001	1/1/2002
EFTA	22/6/2001	1/8/2002 (most recent)
CEFTA	5/12/2002	1/3/2003
Macedonia	9/5/1997	9/6/1997
Bosnia and Herzegovina	19/12/2000	1/1/2001
Turkey	13/3/2002	1/7/2003
Albania	27/9/2002	1/6/2003
Lithuania	24/10/2002	1/5/2003
Serbia and Montenegro	23/12/2002	to be ratified by Serbia and Montenegro
Moldova	27/2/2004	to be ratified by Moldova and Croatia

Source: Ministry of the Economy.

According to the CBS data, the value of goods imports (c.i.f.) recorded in the last three months of 2003 reached an exceptionally high level of USD 14.2bn. The annual nominal increase of USD 3.5bn or 32.4% (15.3%, reported at the constant exchange rate) shows that a strong growth in goods imports, which marked 2002 was not curbed. A rise in banks' loans together with an increased credit activity of the leasing companies helped in maintaining the purchasing power of the Croatian citizens at a relatively high level. By end-2003, household loans extended by banks grew by HRK 11.9bn against end-2002. Data on the leasing companies' external debt also indicate a continued downward trend. Debt of leasing companies thus totalled USD 1.5bn by end-2003, a USD 894m or 145.8% increase compared to end-2002. In view of such developments, data on the continued strong imports of cars are not surprising, totalling USD 1.6bn, which is an annual growth of 38.2%. The following SITC divisions also made a significant contribution to the growth in total goods imports: imports of ships which are

overestimated due to the CBS methodology (nominal annual growth of 145.5% in 2003) and imports of capital goods. The annual growth rate of imports of electrical machinery, apparatus and equipment thus amounted to 47.1% in 2003, imports of general purpose machinery grew at 35.7%, while special purpose machinery grew at 39.7%. In 2003, a pronounced annual growth of total goods imports exceeded severalfold the absolute positive movements in goods exports, so that Croatia's merchandise trade led to an annual growth in foreign trade deficit of 19.1%, reported at the constant exchange rate.

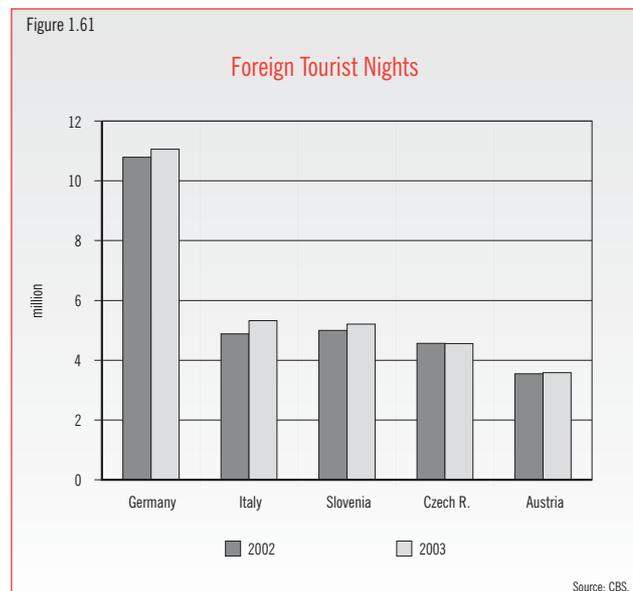
The preliminary balance of payment data show record high results in net exports of services in 2003. Income from tourism accounted for the largest part of the annual growth in net income from rendered services, soaring to USD 6.4bn in 2003. Income from tourism in 2003 rose by USD 2.6bn or 67.3% in comparison with 2002.

In addition to the described significant exchange rate fluctuations of the reporting currency – US dollar against the euro in which Croatia largely earns its income from services rendered in tourism, a large annual increase in income from tourism in 2003, reported in US dollars, was influenced by a strong growth in volume indices, annual increase in prices of tourist nights and other catering services, and to the greatest extent, by a significantly larger number of tourists with high average consumption.

Volume indices of tourism show that during 2003 total number of foreign tourist arrivals recorded the annual growth of 6.7%. As a result of a larger number of foreign tourist arrivals total nights increased as well. The CBS data thus indicate that in 2003 46.4m nights were recorded in commercial residential facilities, of which 41.3m refers to foreign tourists (4.1% annual growth). A somewhat slower growth in foreign tourist nights relative to the annual growth in foreign tourist arrivals is partly a consequence of a global trend towards shortening the travel duration, and partly the effect of the grey economy that is particularly pronounced in the private sector where the real turnover is not reported. Nautical tourism and cruise travels, generally attracting tourists with the above average purchasing power, recorded a large growth in turnover.

As regards the share in total number of recorded foreign tourist nights, the Germans predominated during 2003 (26.8% share), followed by the Italians (12.9% share), Slovenes (12.6%), the Czechs (11%) and Austrians (8.7%). Interestingly, the number of tourists from all the previously stated countries in 2003 exceeded the pre-war tourist turnover.

Apart from growth in volume indices, higher prices of tourist nights, i.e. of total catering services (encompassing apart from night stays, price of food, alcoholic and non-alcoholic beverages) also contributed to an increase in income from tourism. The average price of a night stay during high season in 2003 (June – August period) recorded the annual growth of 11.9%, which was a result of a strong foreign demand, on the one



hand, and a limited residential capacity currently available in Croatia, on the other. An intense investment in hotels and other types of residential capacities in the last two years (due to which a significant number of these facilities earned a higher rating compared to 2002) also contributed to an increase in the average price of nights in 2003. For instance, there was 62 thousand available beds classified under the group of hotels with 3, 4 and 5 stars in 2003 (62.8% of the total number of beds available in hotels), which is an increase of 13 thousand beds or 27.2% relative to the same indicator for 2001. Investments of lessors – natural persons, also recorded a large annual growth in 2003 and the estimates show that a large growth in turnover was recorded in this segment as well.

The improved quality of the facilities classified under the group of hotels and of other services and provided entertainment, allowed for a gradual change in the structure of tourists, i.e. a rise in foreign tourists with a larger purchasing power. This is supported by the fact that the largest contribution to growth in income from tourism in 2003 was made by a pronounced rise in tourists with large individual consumption (more than HRK 5,000 or the amount equivalent to around EUR 650, spent per person during the entire stay in Croatia). The survey, for example, shows that in 2003 the number of foreign tourists from Germany, whose individual consumption exceeded HRK 5,000, reached almost 1.6m, which is an annual increase of 199.7%. They are followed by the Italians (annual growth of 221.1%), Slovenes (233.3%) and Austrians (168.2%).

The data reported indicate that, despite instability that has continuously marked the global tourist turnover since the tragic events in September 2001 and the resulting fierce competition in the international tourist market, in 2003 Croatia recorded above-average results in comparison with the Mediterranean and other global tourist destinations. Owing to a perception of Croatia as a safe tourist destination with exceptional natural beauties and the cleanest sea in the Mediterranean, improved overall tourist offer and transport connection, as well as successful promotion in the world market, Croatia may continue to count on good results from the services rendered in tourism.

A significantly improved tourist turnover also contributed to an increase in services rendered in transportation. More specifically, in 2003 income from air transportation of passengers recorded an annual growth of USD 55m or 47.7%. As regards other transportation services, a considerable annual growth was recorded in maritime freight transportation (USD 67m or 33.5%)

On the other hand, in 2003 a significant annual rise was recorded in net expenses of other services subaccount, where net income from construction projects completed in Croatia had a negative growth (annual nominal reduction of USD 96m). Net expenditures arising from licenses and reserved rights recorded the annual growth (USD 103m), as well as expenditures arising from services provided by leasing companies (USD 65m) and net expenditures arising from other business, professional and technical services provided (USD 51m).

In the income account, significant, seasonally uncommon annual changes were recorded during 2003. In this period, total net outflow from the income account reached USD 1.2bn, which corresponds to an annual growth of USD 0.7bn or exceptionally high 131.2%. The net outflow growth predominantly results from

increased expenditures based on reinvested profit from equity investments – profit reported by the Croatian companies in 2003 (mainly pharmaceutical industry, financial intermediation and telecommunications) in partial or majority foreign ownership, which belongs to foreign investors and is reinvested in development and improvement of the competitive position of companies in the Republic of Croatia (nominal annual growth of USD 508m or 355.1% was recorded). It should be noted that a significant amount of the total reinvested profit in 2003 can be accounted for by reinvested profit of PLIVA d.d., which is mostly a result of the reported income on the basis of a transfer of the patents' market value to its related company abroad, where this transfer was not accompanied by a financial counterflow. Dividends paid out also increased (by USD 111m or 70.4%). The annual growth in outflow of funds in 2003 was also recorded by the funds related to interest payment on foreign issues of bonds (USD 65m or 34.5%). Half of this amount relates to government payments, and the other half to the fulfilment of obligations by other sectors (corporate).

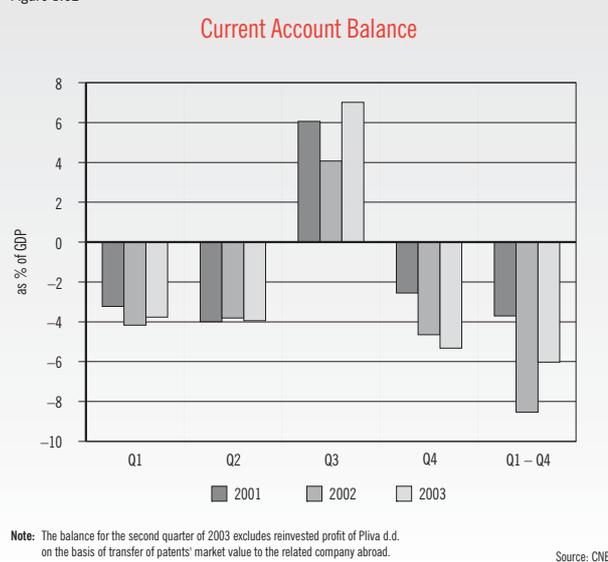
During 2003, net income from current transfers also increased (nominal annual growth of USD 317m or 29.5%), primarily as a result of the annual growth in income from workers' remittances and other transfers. Since these transfers are almost entirely denominated in euro, their annual growth should partly be attributed to a strong influence of exchange rate differences between the reporting currency – US dollar and the euro in 2003 in comparison with the previous year.

Net effect of the described developments in the current account, when reinvested profit of foreign owners based on extraordinary transfer of Pliva d.d. patents to the related company abroad is excluded, shows that current account deficit of the Republic of Croatia amounted to USD 1,711m or 6% of GDP in 2003. The mid-term unsustainable external imbalance of the Republic of Croatia, recorded in 2003, improved by 2.5 percentage points compared to the same indicator for 2002.

Merchandise Trade

The value of total goods exports (f.o.b.) in 2003 stood at USD 6.2bn, whereas total goods imports reached USD 14.2bn. Since in 2003 the nominal annual growth rate of goods imports (32.4%) was higher than the annual growth rate of goods exports (25.7%), the indicator of imports coverage by exports was reduced – from the average 45.7% in 2002 to 43.4% in 2003. Movements in total goods exports and imports in 2003 resulted in foreign trade deficit of USD 8bn, which corresponds to a nominal growth of 38.1% relative to 2002 (i.e. the stated 19.1%, reported at the constant exchange rate). In addition, other transport equipment (ship exports) grew by 23.1%, also significantly contributing to a growth in total goods exports in 2003.

Figure 1.62



The seasonally adjusted total goods exports reported in US dollars at the constant exchange rate grew at the rate of 10.9% in 2003, which was a 9.8% percentage point increase compared to the growth rate in 2002. As in the previous year, the division of electrical machinery, apparatus and equipment made the largest contribution to a growth in total goods exports in 2003, growing at the annual rate of 46.4%, reported at the current exchange rate.

Data provided by Hrvatska brodogradnja Jadranbrod d.d., a company collecting and compiling data on merchandise trade in ships of all Croatian shipyards and foreign customers, show that during 2003 a total of 15 ships was exported from Croatia, the total value of which was USD 428m.¹² Concerning the type of exported ships in 2003, the largest part refers to exports of ships (tankers) for the transportation of crude oil, refined petroleum products and chemicals (89%), and only a smaller part to exports of ships for the transportation of bulk freight (7%) and ships for the transportation of cars (4%).

Although several Croatian shipyards still operate at loss (despite subsidies amounting to a maximum 12% of the ship price at delivery, depending on the share of the built-in domestic component, according to the Decision of the Government of the Republic of Croatia issued in August 2002), it is encouraging that the second stage of technological renovation in the shipyards Uljanik, Brodosplit and 3. maj began in 2003 and that the number of employees directly employed with the shipyards recorded an annual fall of 6.3% in 2003, and that the successfully privatised and restructured Uljanik shipyard operates at profit for the third consecutive year.

According to the data and assessments of Hrvatska brodogradnja Jadranbrod, the orders recorded so far will assure almost maximum production capacity and delivery dynamics in the following mid-term period. These assessments are also confirmed by the data from the world order book of ships as at 4 March 2004, according to which Croatia takes a very high 6th place, with respect to total ordered ships, measured in deadweight tonne.

Table 1.9 Extract from the World Order Book of Ships on 4 March 2004

Country	Number of ships	Deadweight tonne
South Korea	807	65,988,719
Japan	753	52,298,615
China	494	25,118,507
Taiwan	40	2,660,330
Germany	94	2,630,345
Croatia	46	2,166,660
Poland	55	2,069,212
USA	18	1,178,419
Philippines	22	1,148,580
Denmark	9	781,150

Source: *Fairplay Newbuildings*, March 2004, No. 90.

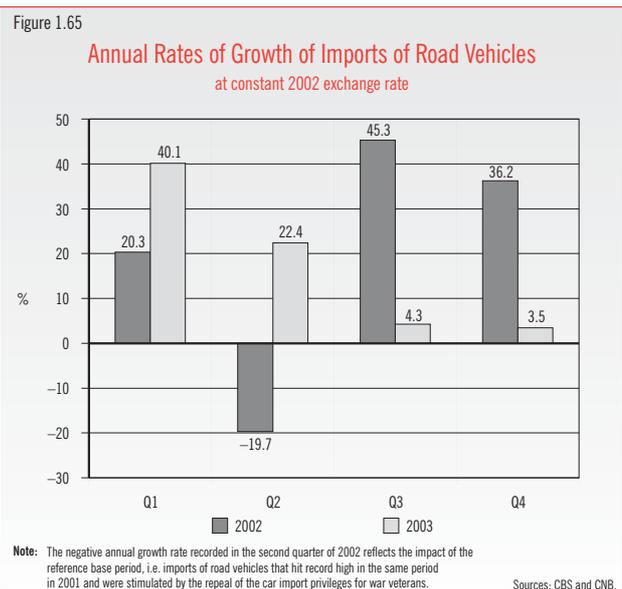
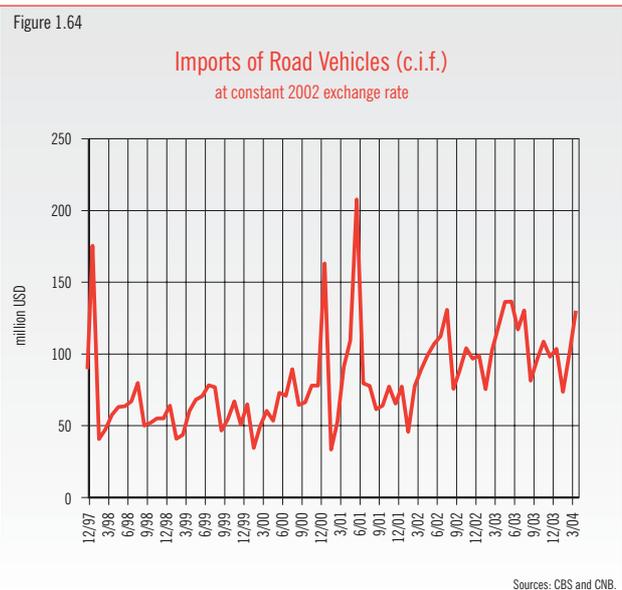
12 A significant difference relative to the value of ship exports reported by the CBS results from the fact that in the CBS methodology of monitoring merchandise trade in ships the value of an individual ship is taken into account for several times when recording the value of finishing operations, so that the recorded values of goods exports and ship imports are partly overestimated.

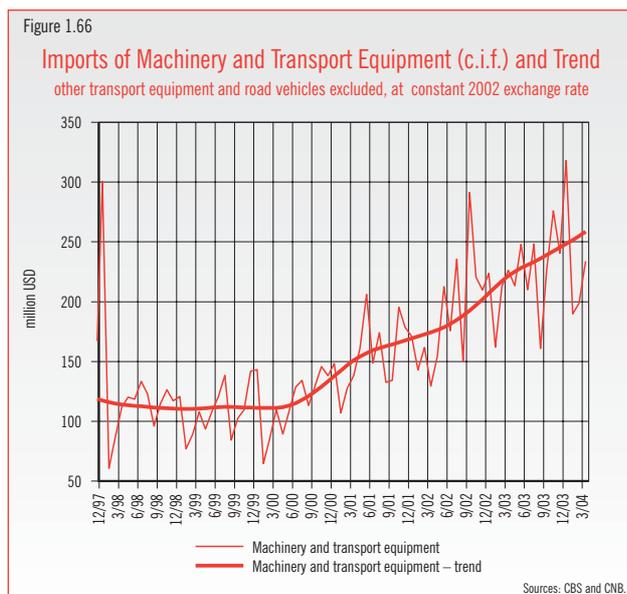
Since the competition in the area of tanker construction is exceptionally fierce and market price (which is to a large extent subsidised) is determined by particular Far East countries, it is encouraging that the share of highly specialised ships in the number of ships ordered from the Croatian shipyards is on a considerable increase (e.g. ships for the transportation of cars, delivered by Uljanik shipyard, account for 22% of the total number of ordered ships).

Since the CBS in statistically monitoring merchandise trade in ships, takes account of (overestimates) the value of the same ship for several times in finishing operations, the analysis of the merchandise trade movements of the Republic of Croatia with foreign countries should rather be based on total merchandise trade excluding ships. The time series on merchandise trade excluding ships also show an increase in exports dynamics of the Croatian economy. The annual growth rate of the seasonally adjusted goods exports excluding other transport equipment, in terms of US dollars, at the constant 2002 exchange rate, amounts to 11.1%, which is a significant increase compared to the annual growth of 5% recorded in 2002. Apart from exports of electrical machinery, apparatus and equipment this can, to a smaller extent, be accounted for by an increased exports of: oil and refined petroleum products (according to the CBS data, a 28.3% annual growth in 2003), wearing apparel (16.4%) and sugar, products of sugar and honey (168.1%).

The annual growth rate of seasonally adjusted total goods imports, reported in US dollars at the constant exchange rate, was 15.3% in 2003, which is a 2.9 percentage point increase compared to the annual growth rate in 2002. Viewed by sections and divisions of the SITC, imports of road vehicles, the value of which reached USD 1.6bn (annual growth of USD 434m or 38.2% at the current exchange rate, i.e. 15.9% at the constant exchange rate) contributed most to total goods imports growth in 2003, along with imports of ships (the value of imported ships stood at USD 527m in 2003, which is a 145.5% annual growth).

Although in all four quarters of 2003 the value of imported road vehicles exceeded that recorded in the same period of the previous year, the annual growth rates of imports of road vehicles in 2002 and 2003, reported at the constant exchange rate, nevertheless show that the dynamics of car imports slowed down considerably in the second half of 2003.





Apart from imports of road vehicles and ships, imports of capital goods continued to account for a significant share of the growth in total goods imports, i.e. imports of: electrical machinery, apparatus and equipment (according to CBS data, 47.1% nominal growth), general purpose machinery (35.5%) and special purpose machinery (39.7%). Their average movements represented, for simplification purposes, by the value of imports of machinery and transport equipment excluding ships and road vehicles, reported at the constant exchange rate, recorded an 18.9% annual growth rate in 2003.

Imports of raw material, i.e. oil and refined petroleum products (according to CBS data, annual growth of 15.3%), iron and steel (38%), as well as other metal products (35.6%) made somewhat lower contribution

to a growth in total goods imports in 2003.

Table 1.10 Imports and Exports by Economic Classification of Countries
in %

Exports	2000	2001	2002	2003 ^a
Developed countries	60.1	61.7	58.1	61.6
EU-15	54.5	54.1	52.7	54.6
Austria	6.6	5.7	7.5	7.8
Italy	22.3	23.7	22.7	26.4
Germany	14.3	14.8	12.5	11.9
EFTA	1.0	1.1	0.8	0.8
Other developed countries	4.6	6.5	4.6	6.2
Developing countries	39.9	38.3	41.9	38.4
CEFTA	13.8	12.1	12.4	11.9
Slovenia	10.8	9.1	8.7	8.3
Bosnia and Herzegovina	11.2	12.0	14.4	14.5
Serbia and Montenegro	2.4	3.2	3.5	3.1
Imports	2000	2001	2002	2003 ^a
Developed countries	64.7	66.0	64.5	65.4
EU-15	55.4	57.1	55.8	56.6
Austria	6.7	6.9	6.6	6.6
Italy	16.6	18.1	17.3	18.2
Germany	16.5	17.3	16.3	15.6
EFTA	2.4	2.1	2.0	1.8
Other developed countries	7.0	6.8	6.8	7.0
Developing countries	35.3	34.0	35.5	34.6
CEFTA	14.8	14.8	16.0	16.6
Slovenia	7.9	7.8	7.7	7.4
Bosnia and Herzegovina	1.0	1.4	1.6	1.6
Serbia and Montenegro	0.4	0.4	0.5	0.2

^a Preliminary data.
Source: CBS.

Merchandise trade structure by the economic classification of countries shows that in 2003 the share of goods exports of the Republic of Croatia to EU in total goods exports reached 54.6%, i.e. the annual growth was 1.9 percentage points. The absolute annual growth in exports to EU in the stated period amounted to 30.1%, which is mostly the result of increased imports to Italy, Austria and Germany (Croatia's most important foreign trade partners). The share of Croatia's exports to developing countries in total exports stood at 38.4% in 2003, which represents an annual decrease of 3.5 percentage points. An exception to this, among the important foreign trade partners, is the share of exports to Bosnia and Herzegovina which recorded a slight growth.

The share of the Republic of Croatia's imports from EU in total goods imports amounted to 56.6% in 2003, a 0.8 percentage point rise compared to 2002. Imports from Italy (annual growth of 39.5%) made the largest contribution to the increase in the value of total goods imports in the Republic of Croatia in 2003, followed by Germany (27.4%) and France (35%). The share of the Republic of Croatia's imports from developing countries fell by 0.9 percentage points, from 35.5% in 2002 to 34.6% in 2003. The increase in the value of total goods imports of the Republic of Croatia from the stated countries can mostly be accounted for by an increased imports from Slovenia (in 2003, annual growth of 27.2% was recorded), China (58.1%) and Hungary (33.5%). As regards the Republic of Croatia's merchandise trade by the economic classification of countries, a process of the Croatia's EU economic integration continued in 2003.

Data for the first three months of 2004 point to a slowing down of the exports and imports activity relative to the same period of 2003. Total goods exports thus amounted to USD 1.8bn in the first quarter of 2004 and the annual growth in seasonally adjusted total goods exports, reported in the US dollar at the constant exchange rate, was 9.7%. This cumulative rate was predominantly influenced by the annual growth rate of 25.7% recorded in March 2004 (annual growth rate of goods exports was only 2.9% in January and February 2004), which is mainly a result of increased exports of ships in March 2004. Apart from ships, the largest contribution to a growth in total goods exports in the first quarter of 2004 was made by exports of: electrical machinery, apparatus and equipment (75.7% annual growth according to CBS data) and various finished goods (88%). If ships are excluded from the time series of total goods exports, the data indicate a slow-down in exports dynamics compared to the same period of the previous year. Total goods exports, excluding other transport equipment, reported at the constant exchange rate, thus recorded an annual growth rate of 6.2%, 12.1 percentage point less than in the same period of the previous year. This can partly be accounted for by a more pronounced annual fall in exports of sugar, products of sugar and honey, medical and pharmaceutical products, oil and refined petroleum products.

On the other hand, total goods imports reached USD 3.6bn in the first three months of 2004, seasonally adjusted total goods imports growing at an annual rate of 9.2%, reported at the constant exchange rate (a 7.5 percentage point fall relative to the growth rate in the first three months of the previous year). Such movements can be accounted for by a milder annual growth in capital goods imports (imports of machinery and transport equipment, excluding other transport equipment and road vehicles, reported at the constant exchange rate, grew at an

annual rate of 3.5% compared to 38.4% in the first quarter of 2003), as well as by a considerably lower annual growth rate of imports of road vehicles (2.1% against 40.1%). In January – March 2004 period, imports of oil and refined petroleum products significantly contributed to the absolute annual growth in total goods imports, from which capital goods are excluded (USD 65m or 28% annual growth was recorded according to CBS data).

Capital and Financial Account

The 2003 preliminary balance of payments data indicate that foreign direct investments in the Republic of Croatia soared to USD 1.7bn (6% of GDP in 2003),

which is a USD 0.6bn or 52.4% rise relative to 2002. Investments on the basis of reinvested profit (USD 670m) made the largest contribution to a rise in foreign direct investments in Croatia in 2003, being at the same time a category of foreign direct investments (see Figure 1.67) that records the largest annual changes (USD 519m or 342.5% growth). A growth in reinvested profit was predominantly recorded in the second quarter of 2003, when most of the companies reported their profit for the previous financial year. The two leading telecommunication operators and two strongest banks on the domestic financial intermediation market recorded the largest increase in reinvested profit. Pliva d.d. also reported a significant reinvested profit which was, as already mentioned, to a great extent earned on the basis of a transfer of the patents' market value to the related company abroad. An increase in reinvested profit, as well as the annual growth

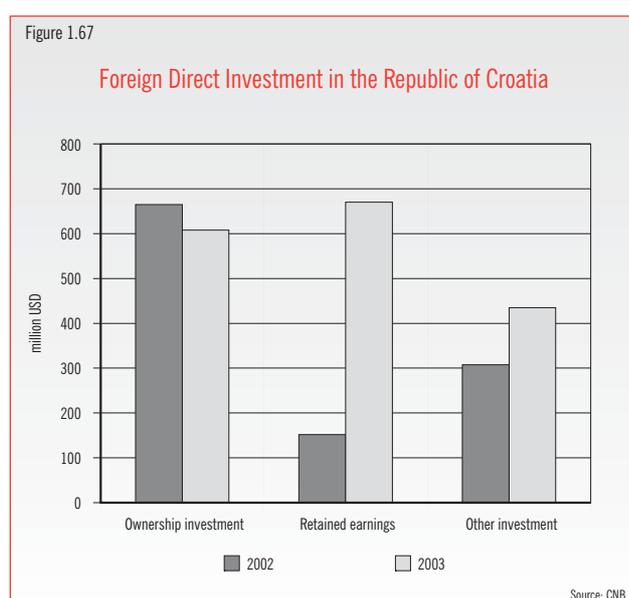


Table 1.11 Capital and Financial Account of the Republic of Croatia in million USD and %

	2001	2002	2003 ^a	Rate of change 2003/2002
B. CAPITAL AND FINANCIAL ACCOUNT	1,271	2,762	3,005	8.8
B1. Capital account	133	443	84	-81.1
B2. Financial account (excl. reserves)	2,451	3,015	4,313	43.0
1. Direct investment	1,407	591	1,651	179.2
1.1. Abroad	-155	-533	-62	-88.3
1.2. In Croatia	1,561	1,124	1,713	52.4
2. Portfolio investment	601	-260	1,006	-
2.1. Assets	-129	-670	174	-
2.2. Liabilities	730	410	833	103.1
3. Other investment	443	2,684	1,656	-38.3
3.1. Assets	350	384	-2,536	-
3.2. Liabilities	94	2,300	4,192	82.3
B3. Reserve assets (CNB)	-1,313	-697	-1,391	99.6
C. NET ERRORS AND OMISSIONS	-545	-845	-967	14.3

^a Preliminary data.
Source: CBS.

in dividends paid out on the basis of equity and portfolio investments recorded in the income account in 2003 (USD 111m or 70.4%) confirms the fact that foreign investors invested their money only in already highly developed segments of the Croatian economy, which may be readily adjusted to the market economy and are profitable in the long run.

The value of transactions based on equity investments in the Republic of Croatia (a total of USD 608m) is mainly a result of inflow from privatisation of 25% INA shares, i.e. from the sale of shares to the strategic partner from Hungary (USD 505m), realised in the fourth quarter of 2003. At the annual level, equity investments in 2003 recorded an annual fall of USD 57m or 8.6%.

The classification of direct equity investments in the Republic of Croatia, according to the NCEA shows that during 2003 the following investments had the largest share in total equity investments: investments in the production of refined petroleum products (60.8% of total equity investments), followed by retail trade (6.7%), monetary intermediation (5.8%), business management consultancy activities (4.1%), and extraction of crude oil and natural gas (2.3%). In the previous year, investments in monetary intermediation predominated in direct equity investments (63.4%), followed by investments in hotels and motels (7.2%), business management consultancy activities (3.3) restaurants (3%) and wholesale food (2.4%).

In 2003, the Republic of Croatia's foreign direct investments abroad totalled USD 62m, where equity investments recorded huge annual changes. Claims on related companies abroad thus reached USD 521m (of which almost two thirds refers to extraordinary transfer of Pliva d.d. patents' market value) in 2002, compared to USD 54m in 2003. During 2003, no significant annual changes were observed in the subaccounts: reinvestment profit and other direct investments of the Republic of Croatia abroad.

Data on portfolio investments show that the funds based on portfolio investments amounted to a total of USD -174m. Such a balance was mainly the result of restructuring of bank portfolios of foreign issues of bonds. More specifically, during 2003 a reduction in funds on this basis was recorded, totalling USD 212m, compared to a USD 550m increase in 2002. Obligations arising from portfolio investments reached a total of USD 833m in 2003, which is USD 423m or 103.1% more than in 2002. The largest portion of this increase relates to the government's obligations since the identical foreign issues of bonds of the Government of the Republic of Croatia were recorded in 2002 and 2003: EUR 500m and JPY 25bn. Not a single repayment on that basis fell due in 2003, compared to USD 300m of

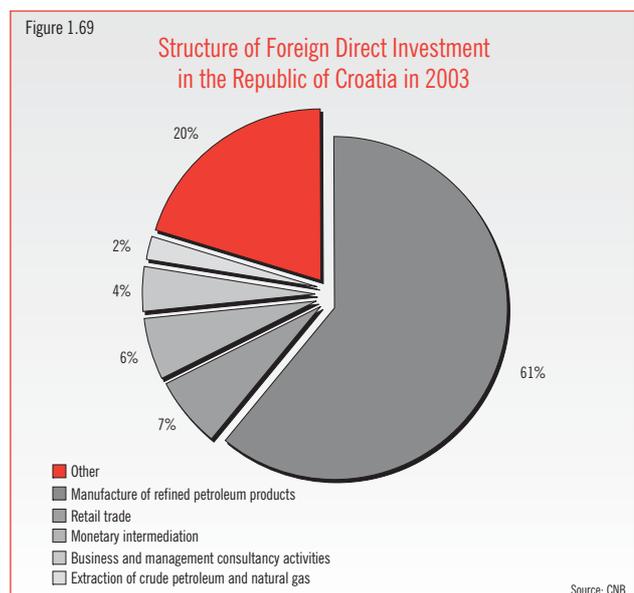
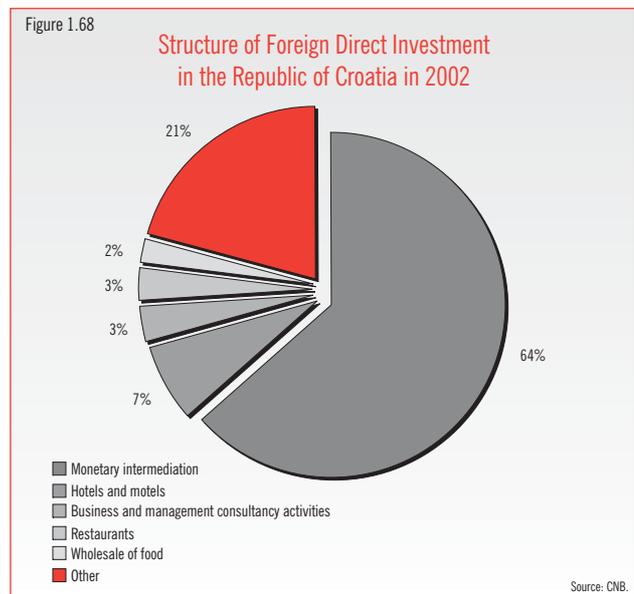


Table 1.12 International Reserves by Investment Instruments
in million USD and %

	31/12/2002	31/12/2003	2003/2002
1. Foreign currency reserves (in convertible f/c)	4,423	7,174	62.2
1.1. Securities	1,938	4,008	106.8
1.2. Total currency and deposits with:	2,485	3,166	27.4
– other national central banks, BIS and IMF	339	339	0.1
– banks headquartered in the reporting country	2,146	2,827	31.7
2. IMF reserve position	0	0	9.3
3. SDRs	2	1	-66.4
4. Gold	0	0	-
5. Other reserve assets	1,460	1,016	-30.4
o/w: Reverse repo	1,460	1,016	-30.4
Total (1 + 2 + 3 + 4 + 5)	5,886	8,191	39.2

Source: CNB.

eurodollar bonds that matured 2002. A significant part of the difference between portfolio investments in 2002 and 2003 refers to the exchange rate differences – the dollar equivalent of government bonds foreign issue of EUR 500m was USD 436m in the first quarter of 2002, as compared to the dollar equivalent of the identical issue of USD 542m in 2003 (an increase of USD 106m). In 2003, foreign issues of the Croatian corporate bonds also recorded a significant annual growth. The single issue of Bina-Istra company of USD 202m in 2003 was thus USD 88m larger than the only issue of Agrokor company in 2002. As a result of larger investments of domestic investment and pension funds on the foreign markets in 2003, net liabilities arising from money market instruments also increased.

During 2003, the value of transactions related to funds for other investments soared to USD 2.5bn and total movements in the assets account were mostly marked by a strong growth in deposits of domestic banks abroad (an annual growth of USD 2.3bn was recorded). A stronger inflow of foreign currency during the summer months effected a rise in banks' foreign assets, particularly in the second half of 2003, together with the CNB decision concerning the required minimum foreign exchange liquidity. A milder annual growth in 2003 was recorded in trade credits and loans granted to foreign legal persons.

Liabilities arising from other investments in 2003 reached a high level of USD 4.2bn (USD 1.9bn or 82.3% annual growth), the largest part of the difference referring to an increase in the received long-term loans. Net long-term loans stood at USD 2.3bn in 2003, a USD 1.6bn increase or 244.2% more than in the previous year. Banks recorded the greatest increase in long-term loans in 2003 (USD 0.7bn), followed by other sectors (USD 0.6bn; it should be noted that leasing companies accounted for a significant part of debt of other sectors in 2003) and the government (USD 0.1bn). As a part of the transactions based on long-term loans, the Croatian National Bank repaid USD 130m of long-term liabilities to the International Monetary Fund in 2002, whereas in 2003 the value of the CNB transactions based on long-term loans equalled zero.

Balance of payment data show that the value of the CNB's international reserves transactions reached USD 1.4bn during 2003. On the other hand, data on the stock of the CNB's international reserves, including cross-currency changes show that international reserves reached USD 8.2bn at end December 2003, an absolute annual growth of USD 2.3bn or 39.2%, a record high since the onset of their formation. The international reserve structure at end-2003 shows that debt securities had the largest annual growth (USD 2.1bn or 106.8%), followed by currency and deposits with foreign banks (USD 680m or 31.7% annual growth). The value of other reserve assets was reduced on the basis of reverse repos by 30.4%, from USD 1.5bn at end-2002 to USD 1bn at end-2003.

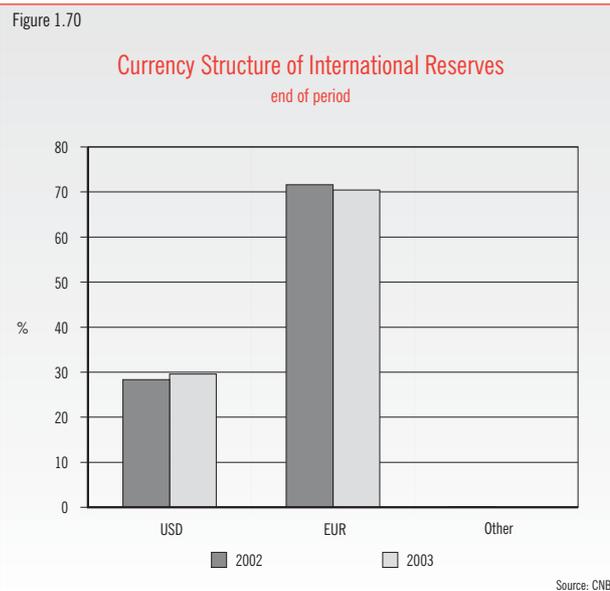
As regards currency structure of the CNB's international reserves, the euro continued to predominate. The share of euro in total international reserves was 70.4% in 2003 (in comparison with end 2002, a 1.2 percentage point fall), whereas the US dollar accounted for 29.6%.

A strong growth in the CNB's international reserves during 2003 influenced favourably movements in several derived indicators. In terms of months of imports of goods and services, the CNB's international reserves thus increased from 5.4 months at end-2002 to 5.7 months at end-2003. The share of international reserves in potential government external debt¹³ also increased from 79% at the end of 2002 to 83.7% in late 2003, whereas their share in total external debt fell from 38.1% to 34.7%

Current account, capital and financial account data indicate that net errors and omissions in 2003 amounted to USD 967m, which is not a significant increase relative to net errors and omissions for 2002 (USD 845m), despite a strong growth in income from tourism in 2003.

External Debt

By the end of 2003, external debt of the Republic of Croatia went up by USD 8.1bn, or 52.8% in comparison with the end of 2002, and reached USD 23.6bn. The structure of external debt by debtor sector shows that directly concluded external debt of the government accounted for the largest part of total external debt of the Republic of Croatia (35.9%), although the share fell in 2003 by as much as 5.4 percentage points. By an increased borrowing from foreign parent banks in 2003, banks, the share of which in total external debt of the Republic of Croatia



13 Government external debt increased by total issued guarantees of the central government, excluding the guarantees provided to the government sector.

has been continuously increasing for years, mostly financed household consumption, which is largely reflected in a strong imports growth of durable consumer goods. Banks also financed the corporate needs for capital and/or capital goods, and partly the government. If direct investments are included in the external debt of enterprises, i.e. foreign investments in enterprises exceeding 10% of an individual enterprise's share capital, the share of directly concluded external debt of enterprises in total external debt of the Republic of Croatia recorded a slight annual growth of 0.1 percentage points in 2003.

Table 1.13 External Debt by Debtor
end of period, in million USD and %

	2001	2002	2003	3/2004	Structure			Indices		
					2001	2002	2003	2001/2000	2002/2001	2003/2002
1. Government	5,133	6,359	8,454	8,632	45.4	41.2	35.9	106.3	123.9	132.9
2. Central bank (CNB)	122	0	0	0	1.1	0.0	0.0	76.9	0.0	0.0
3. Banks	2,299	4,033	7,393	7,818	20.3	26.1	31.4	110.2	175.4	183.3
4. Other sectors (enterprises)	3,128	3,964	5,925	5,975	27.6	25.8	25.1	93.2	127.1	149.1
5. Direct investment (enterprises)	635	1,066	1,797	1,775	5.6	6.9	7.6	101.3	167.1	169.4
Total (1 + 2 + 3 + 4 + 5)	11,317	15,421	23,570	24,199	100.0	100.0	100.0	102.4	136.3	152.8

Source: CNB.

Data on external debt changes in 2003 show that the share of net transactions contributed by as much as USD 5.3bn or 65.6% to a total increase in external debt of the Republic of Croatia of USD 8.1bn, whereas cross-currency changes accounted for the remaining part.

Table 1.14 Change in External Debt by Debtor in 2003
in million USD

	Outstanding debt 31/12/2002	Change				Cross-currency change	Outstanding debt 31/12/2003
		Disbursement	Amortisation				
			Principal	Interest			
1. Government	6,359	1,555	390	305	930	8,454	
2. Central bank (CNB)	0	0	0	0	0	0	
3. Banks	4,033	3,356	875	87	880	7,393	
4. Other sectors (enterprises)	3,964	2,504	1,276	188	733	5,925	
5. Direct investment (enterprises)	1,066	1,079	606	39	258	1,797	
Total (1 + 2 + 3 + 4 + 5)	15,421	8,495	3,147	619	2,801	23,570	

Source: CNB.

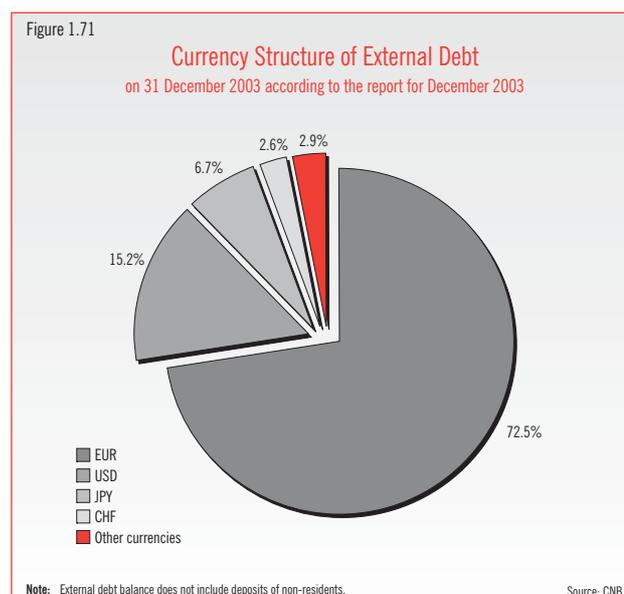
As regards debtors sector, in 2003 the largest contribution to the increase in total external debt arising from net transactions was made by banks. In the stated period, banks' external debt arising from net transactions rose by USD 2.5bn, of which USD 1.4bn refers to a debt increase on the basis of deposits received from parent banks abroad and USD 1.1bn to a debt increase on the basis of net transactions arising from loans (USD 1bn or 91.7% of which are long-term loans).

The contribution of other sectors (enterprises) follows, whose external debt arising from net transactions grew by USD 1.2bn and the annual growth relative to end-2002 predominantly refers to other investments (trade credits and loans). Interestingly, increase in net transactions arising from other investments (USD 1bn) resulted from movements in loans. In addition, in 2003 net disbursements of total trade credits was reduced, i.e. principal payments on this basis exceeded the value of newly-granted trade credits. An increase in external debt of enterprises on the basis of net portfolio investments (USD 241m) mainly refers to the foreign issue of Bina-Istra corporate bonds in the first quarter of 2003 (USD 202m), while the remaining amount can be accounted for by a rise in money market instruments net transactions.

The government sector follows whose external debt arising from net transactions additionally increased by USD 1.2bn in 2003, mainly due to portfolio investments, i.e. net transactions based on foreign bonds (USD 593m rise). Disbursements arising from foreign bonds in the stated period amounted to USD 754m (US dollar equivalent of the EUR 500m foreign issue of government bonds, recorded in the first quarter of 2003, and foreign issue on the Japanese market of JPY 25bn, recorded in the third quarter). Concerning portfolio investments, two London club debt repayments were recorded at the same time, totalling USD 161m. An increase in net disbursed long-term loans to government in 2003 stood at USD 571m, and a strong growth in registered and withdrawn long-term loans was recorded in the fourth quarter of 2003 in particular. Although repayment of interest on external debt does not affect changes in external debt, it should be noted that due interests on external government debt in 2003 burdened the government budget by as much as USD 305m (1.1% of GDP for 2003) of which USD 225m refers to interests paid on foreign issues of government bonds, whereas the remaining amount refers to drawn credit lines.

As a result of cross-currency changes in 2003, the statistical increase in total external debt of the Republic of Croatia reached a high level of USD 2.8bn or more than one third of the total increase in external debt of the Republic of Croatia in 2003. Such a large value of cross-currency changes can be explained by two factors: firstly, the largest portion of external debt of the Republic of Croatia is denominated in EUR (the share of EUR in the external debt balance which does not include deposits of non-residents stands at 72.5%), and secondly, the exchange rate of the US dollar depreciated against the euro by 20% in 2003, relative to the exchange rate recorded at end-2002.

In late March 2004, external debt of the Republic of Croatia increased by an additional USD 629m compared to the amount of debt recorded at end-2003. In the first three months of 2004, the government disbursed a total of USD 528m, the largest portion of which (EUR 300m or USD 383m) refers to the foreign bond issue of the Croatian Bank for Reconstruction and Development, as a part of the so called EMNT



programme.¹⁴ At the same time, the government repaid USD 228m of principal (USD 119m of which refers to repayments based on portfolio investments, and USD 109m to repayments based on loans) and USD 240m of interests (USD 220m of which can be accounted for by interests based on issued foreign government bonds). In the January – March period, banks' net disbursements increased by USD 567m, while net disbursements by other sectors (including direct investments in other sectors) stood at USD 186m. The described movements resulted in a growth in external debt based on net transactions of USD 1,053m. Since in late March 2004, the price of one euro was USD 1.22, due to a 2.3% appreciation compared to the exchange rate recorded at end-2003, the negative value of cross-currency changes (USD 424m) and the previously described movements in net transactions contributed to a total increase in debt of USD 629m.

Table 1.15 Change in External Debt by Debtor in the First Quarter of 2004
in million USD

	Outstanding debt 31/12/2003	Change			Cross-currency change	Outstanding debt 31/3/2004
		Disbursement	Amortization			
			Principal	Interest		
1. Government	8,454	528	228	240	-123	8,632
2. Central bank (CNB)	0	0	0	0	0	0
3. Banks	7,393	614	47	26	-143	7,818
4. Other sectors (enterprises)	5,925	539	367	30	-121	5,975
5. Direct investment (enterprises)	1,797	142	128	12	-37	1,775
Total (1+2+3+4+5)	23,570	1,824	770	309	-424	24,199

Source: CNB.

External debt indicators deteriorated significantly in 2003 in relation to the indicators for 2002. At end-2003, the share of total external debt of the Republic of Croatia in GDP for 2003 amounted to 83.2%, which is a 14.4 percentage point rise compared to the indicator for end-2002 (68.7%). The share of government external debt in GDP stood at 29.8% at end-2003, which corresponds to a 1.5 percentage point increase compared to the indicator for end-2002. It should be noted, however, that none of the foreign issues of government bonds fell due in 2003, compared to USD 300m of eurodollar bonds that matured in 2002. Data on the potential government external debt (government external debt increased by total issued guarantees of the central government, excluding the guarantees provided to the government sector) also show that this debt increased by 1.4 percentage points, from 33.2% of GDP at end-2002 to 34.6% of GDP at end-2003. The value of the central government guarantees, excluding the guarantees issued for the government sector stood at USD 1.3bn at the end of 2003, which is an absolute increase of USD 256m compared to the balance recorded at the end of 2002. External debt of banks increased from 18% of GDP at end-2002 to 26.1% of GDP at end-2003, whereas the share of external debt of other sectors, increased by direct investments in enterprises, grew by 4.8 percentage points in the

14 In 2000, the CBRD agreed a mid-term programme (the Euro Medium Term Note or EMTN) on the basis of which it can borrow a total of EUR 500m, upon the provision of guarantees of the Republic of Croatia. 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. Funds raised by the issue will be used for exports financing and exports insurance, restructuring and development of the Croatian economy and infrastructure, as well as for providing incentives to small and medium size enterprises.

stated period, from 22.4% of GDP at the end of 2002 to 27.3% of the estimated GDP at the end of 2003.

Negative movements of indicators related to the Republic of Croatia external debt balance at the end of 2003, indicate that Croatia has seriously approached the limit separating moderately from heavily indebted countries. A large balance of payment current account deficit recorded in 2002 and 2003 creates an additional burden on the Croatia's economic position.

1.2.8 Government Finance

Budget Highlights in 2003

Fiscal policy was slightly more expansionary than planned in 2003. According to preliminary Ministry of Finance data, the consolidated general government deficit came to 5.1% of GDP, on a cash basis, overshooting the 4.7% target by 0.4 percentage points. As consolidated general government revenues exceeded the plan by only a small margin, the deficit outturn was wholly attributable to the overrun in expenditures, primarily in local government expenditures on a cash basis, consolidated central government expenditures having been realised as planned.

Standing at HRK 9.8bn (5.1% of GDP) in 2003, excluding capital revenues, the consolidated general government deficit was financed largely from foreign sources, mostly through bond issues and to some extent through borrowings. The deficit was also partly funded through revenues generated from the privatisation of the state portfolio, primarily from the sale of 25% of INA's shares.

Budget Revenues

According to preliminary MoF data, consolidated general government revenues totalled HRK 89.7bn in 2003, increasing HRK 6.9bn, or 8.3%, compared with the previous year and exceeding the annual revenue plan by HRK 200m (0.2%). This was in consequence of substantial local government revenues and a rise in privatisation revenues, included in budget revenues by the MoF. The following comments relate to consolidated central government revenues and expenditures, including state agencies' operations (CH, CR, DAB and CPF), since that is the highest consolidation level comprising budgetary data presented by economic classification, unavailable for the quarterly dynamics of the consolidated general government budget. This excludes the local government, accounting for an approximate 10% in general government revenues and expenditures in 2003.

Consolidated central government revenues stood at HRK 81bn in 2003, rising by HRK 6.2bn (8.4%) from the previous year, although HRK 0.4bn less than

planned. Excluding capital revenues of HRK 3.7bn, (current) revenues grew by a slightly lower 7.1% in 2003, mostly on account of their shortfall in the second and third quarters, evident from the quarterly revenue growth dynamics: 11.5%, 2.4%, 5.5% and 9.8%. The revenue shortfall in the second quarter was caused by a decline in non-tax revenues and that in the third quarter by weaker tax revenues, increasing at a slightly lower rate throughout 2003. Making up more than a third of total budget revenues, VAT revenues exceeded the planned amount by HRK 804m in 2003, rising by 8.4% for the year (three percentage points less than in the previous year). Despite a very successful tourist season, VAT revenues grew at the lowest rate in the third quarter, undoubtedly owing to VAT exemptions granted excessively in the tourist sector and possibly to growing tax evasion.

Other than VAT revenues, only profit tax revenues and car excise revenues reached the amounts planned for the year. This also refers to revenues from excises on luxury products and non-alcoholic beverages, but these make up only a minor share of total tax revenues. All other tax revenues were lower than planned. The downward trend is mainly due to the weakening of tax revenues having significant shares in total revenues, i.e. income tax revenues, revenues from taxes on international trade and excise revenues (with the exception of car import excises). Income tax revenues decreased by 7.4% in 2003 compared with 2002 and fell short of the planned amount by 4.2%, due to several reasons. Firstly, the effects of tax reliefs, introduced in 2002, became visible in 2003 when taxpayers received tax refunds, and secondly, income taxation underwent a number of modifications in 2003, which included the increase in personal allowance, change of marginal tax rates and introduction of new tax brackets. Although aimed at developing a more equitable tax system requiring higher-income taxpayers to pay higher taxes, these modifications have also considerably increased potential gains from tax avoidance and the probability of tax evasion. The result could be a more inequitable system than that applying a unified tax rate structure. In other words, if taxpayers report lower income to avoid paying taxes at progressively higher rates, then higher-income taxpayers actually pay taxes at lower rates than lower-income taxpayers.

Having risen by 3.3% year-on-year, excise revenues (exclusive of car import excises) were HRK 0.54bn (5.5%) lower in comparison with those planned for 2003. The decline was caused mainly by a slowdown in excises on refined petroleum products, which make up an approximate 60% of total excise revenues. Standing at HRK 5.7bn in 2003, they were up by a mere 1.5% compared with the previous year and fell short of the amount planned by a considerable 6.26%, which comes as a surprise in view of a very good tourist season and the fact that most tourists come to Croatia by car. Social security contributions were also lower than planned (1%). However, their growth, especially important concerning their approximate one-third share in overall tax revenues, continued at a robust 8.5%, mostly on account of wage growth, employment growth and the amended calculation of contributions. Finally, revenues generated from customs duties decreased significantly compared with the previous year in consequence of foreign trade liberalisation.

In conclusion, although it is worth pointing out that consolidated general government revenues were collected as planned, 2003 was marked by a relative weaken-

ing of tax revenues, probably caused by economic trends, or a possible increase in tax evasion.

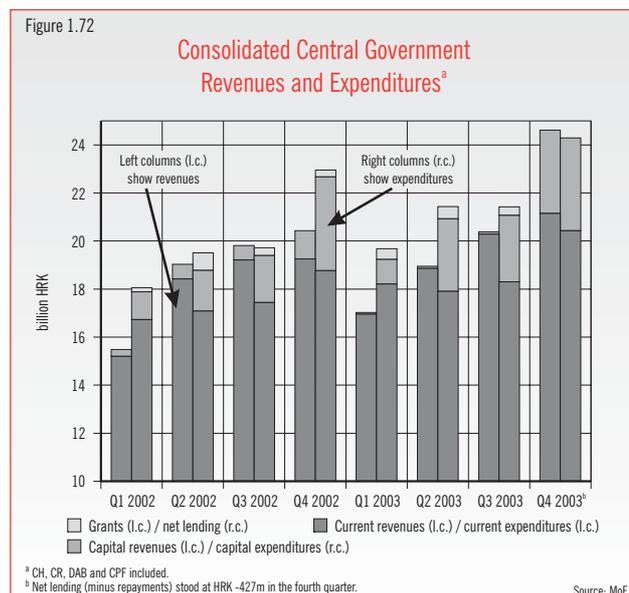
Budget Expenditures

As shown by preliminary MoF data, consolidated general government expenditures totalled HRK 95.3bn in 2003, rising by HRK 7.7bn (8.6%) compared with the previous year and exceeding the 2003 expenditure plan by an approximate HRK 0.9 bn, or 0.5 percentage points of GDP. As already mentioned, this was mainly accounted for by local government expenditures considerably exceeding the planned amount. It needs re-emphasising that total expenditure data are presented on a cash basis, which excludes a possible growth of government arrears over last year.

Consolidated central government expenditures stood at HRK 86.6bn, increasing 7.9% compared with the previous year and coming close to the annual expenditure plan on a cash basis. While general government expenditures exceeded the amount planned, central government expenditures were only 0.1% lower than planned. In 2003 expenditures trended upwards at quarterly rates similar to those achieved in the same periods in 2002, excepting the last quarter when they rose at a low 4.0%, half the rise recorded in the first, second and third quarters, 9.0%, 9.9% and 8.6% respectively. However, as these data are presented on a cash basis, both for the previous year and the years before, actual expenditure growth rates on an accrual basis might be significantly different.

Current expenditures of the consolidated central government totalled HRK 75bn in 2003, increasing by 6.8% over 2002, in keeping with the annual plan. Expenditures on goods and services were up by 4.4% compared with 2002, which can wholly be attributed to the 9.1% increase in wages paid in 2003 compared with the previous year (1.2% over the planned amount). This was due primarily to the growth of wages in government administration and severance payments made to government employees who were laid off in line with the employment reduction policy. In contrast, other expenditures on goods and services drifted lower in 2003 in comparison with the previous year and were 2.8% below the plan. In addition to wages paid, total expenditures were also boosted by a rise in subsidies and transfers, accounting for a significant 44% in overall budget expenditures, which rose by almost 9% in 2003 in comparison with the previous year.

Capital expenditures totalled HRK 10.5bn in 2003, increasing one-fifth over the previous year and exceeding the amount planned for the year by 6.3%. Growing at accelerated quarterly rates of 78.1% and 41.5% in the second and third quarters respectively, capital expenditures, due to the effect of the base period, almost held steady in the fourth quarter compared with the same quarter in 2002, which made up 45% of total capital



expenditures in that year. The CH and CR accounted for a high HRK 5.8bn in total capital expenditures, a rise of 42% over 2002. Construction works, intensified in the first half of 2003 when several highway sections were opened before the tourist season, continued at a strong pace to the year-end. The CH and CR exceeded the planned volume of construction works and, consequently, the planned expenditures.

Budget Balance and Deficit Financing

According to preliminary MoF data, the consolidated general government deficit was HRK 5.5bn in 2003, i.e. HRK 9.8bn or 5.1% of GDP, exclusive of capital revenues. The deficit is shown on a cash basis and excludes government arrears generated late in 2003. The deficit, with repayments, was mostly financed from foreign sources, primarily through bond issues and to some extent by borrowings. EUR 500m of eurobonds was placed in February and JPY 25bn (approximately USD 212m) of Samurai bonds was placed in the Japanese market in June. The deficit was also extensively financed from domestic sources. Two government bond issues were placed in the domestic market in 2003, an EUR 200m “pension bond” issue in January and a HRK 1bn bond issue in May, both maturing in 2008. In addition to long-term borrowing through bonds, government borrowing was also facilitated by issuing T-bills, the highest amount being the HRK 839m issued in the fourth quarter. The fourth quarter was also marked by borrowings, mostly from foreign sources. USD 100m, disbursed under the second tranche of the SAL in the same period, was utilised for financing in the first quarter of 2004.

Table 1.16 Balance of the Consolidated General Government by Levels
in million HRK and %

	2002	2003		2003/2002
	Q1 – Q4	Q1 – Q4	Q1 – Q4 ^a	Q1 – Q4
Government budget	-2,771	-1,148	-909	0.41
Revenues	70,680	76,784	77,010	1.09
Expenditures	73,451	77,932	77,919	1.06
State agencies	-1,907	-3,436	-3,288	1.80
CH	-2,030	-3,651	-3,599	1.80
CR	62	-185	-145	-2.98
DAB	12	331	360	27.38
CPF	49	69	97	1.42
Local government budgets	-45	-962	-656	21.50
Consolidated general government balance	-4,723	-5,546	-4,854	1.17
as % of GDP	-2.7		-2.5	
Consolidated general government balance (capital revenues excluded)	-7,873	-9,759	-8,937	1.24
as % of GDP	-4.5	-5.1	-4.7	
Note:				
General government arrears, change	....	-585	....

^a Revised plan.
Source: MoF.

Considerable privatisation receipts paid into the government budget were used entirely for deficit financing. This includes USD 505m generated from the privatisation of 25% of INA's shares, completed in the last quarter of 2003, and USD 55m of extraordinary revenue generated from succession proceedings that was also used for financing in the first quarter of 2004. According to MoF data, general government arrears to suppliers declined in comparison with the previous year by a cumulative HRK 585m, with HRK 195m remaining to be settled from 2003. This information should be viewed in light of the fact that it is technically possible for a deficit on an "accrual basis" to exceed that on a "cash basis", with arrears decreasing at the same time. This is in case when outstanding arrears' increase is faster than the decrease in arrears due.

The government budget was passed at the end of the first quarter in 2004 due to the parliamentary elections held late in 2003. In the first three months, the budget was financed on a temporary basis. The MoF projected the consolidated central government deficit at HRK 8.87bn (excluding capital revenues), or 4.45% of the expected GDP in 2004, which is to be financed primarily from foreign sources and to a smaller extent in the domestic market. The remaining financing will be effected by the planned proceeds from the privatisation of the government portfolio and the funds earmarked in 2003 for budget financing in the first quarter of 2004 (USD 55m of extraordinary revenue from succession proceedings and USD 100m withdrawn under the second tranche of the SAL).

Government Debt¹⁵

The general government debt, including the CBRD debt, continued to grow in 2003. According to revised CNB data, it amounted to HRK 84.6bn at the year-end or an approximate 44% of GDP. The debt increased by HRK 9.4bn over 2003, up 52% from the HRK 6.1bn increase in the previous year. Inclusive of HRK 15.0bn of the potential debt arising from issued government guarantees, the debt reached a total of HRK 99.6bn or an estimated 52% of GDP at the end of 2003. As regards its quarterly trends, the general government debt rose the most in the first quarter of 2003, by a considerable HRK 5.8bn, which was 62% of the total annual increase. This was mainly due to the EUR 500m eurobond issue and to some extent to the issuing of the third tranche of "pension bonds", valued at HRK 200m in kuna equivalent. The debt increase in the second and third quarters made up 8.4% and 9.7% of the annual increase respectively. Domestic and foreign borrowing alternatively contributed to the debt increase. The domestic component dominated the second quarter, due a HRK 1bn bond issue and a parallel decrease in external debt. The trend was reversed in the third quarter as the domestic component declined and was replaced by the foreign component, because of a JPY 25bn issue of Samurai bonds. The fourth quarter accounted for a 19.6% share of the overall debt increase on an annual basis. It was completely dominated by foreign borrowing that was, in contrast with the third quarter, facilitated mainly by foreign bank loans. Over 90% of the CBRD's total annual bor-

15 Data on government debt do not include government commitments to domestic non-financial institutions. Data on issued guarantees do not include CBRD guarantees.

rowing (HRK 1.0bn out of HRK 1.1bn on the annual level) was made in the fourth quarter, mostly through foreign loans, which contributed significantly to the debt increase in that quarter.

Two thirds of the total debt increase over 2003 (HRK 9.4bn) were accounted for by the HRK 6.2bn increase in its foreign component whereas one third resulted from the HRK 3.2bn rise in its domestic component. The total general government debt remained almost the same in structure as in the previous year, both with regard to its increase in 2003 and the total amount. Standing at HRK 51.7bn, the external debt of the general government rose its share in the total general government debt by a slight 0.6 percentage points, to 61.1% late in 2003.

According to revised CNB data, issued Republic of Croatia guarantees amounted to HRK 15.0bn at the end of 2003, decreasing by HRK 0.23bn (1.5%) compared with 2002. This was solely due to a decrease of HRK 0.63bn in domestic guarantees as foreign guarantees rose by HRK 0.4bn in the same period. This was in contrast with 2002, when domestic guarantees recorded a strong growth of HRK 1.4bn, while foreign guarantees fell by HRK 0.44bn.

Central government accounted for a high 98.5% (HRK 83.4bn) in the total general government debt, amounting to HRK 84.6bn at the end of 2003. As the general government debt, inclusive of the central government debt, comprises the CBRD debt, the resulting difference between the two government levels relates exclusively to the local government debt.

Central Government Domestic Debt

As shown by the revised data presented by the CNB, the central government domestic debt was HRK 32.0bn at end-2003. However, its HRK 3.3bn increase was still 14% below the increase in 2002. The domestic debt trended upwards over the first two quarters of 2003 and declined during the other two quarters in the second half of the year. The debt increase on an annual basis was almost fully accounted for by a rise in the Republic of Croatia debt of HRK 4.1bn, whereas the debt of central government funds decreased HRK 0.8bn in the same period.

Bank loans, T-bills and bonds accounted for the largest shares in the debt increase, 51.7%, 27.7% and 20.6% respectively. The share of bank loans was reduced by 13 percentage points in comparison with the previous year, primarily because of the increased share of T-bills and, to a degree, of bonds.

Central Government External Debt

According to revised CNB data, the external central government debt stood at HRK 51.3bn at the end of 2003, growing by HRK 6.3bn over the year, 138% over the increase in 2002. The largest share in the increase (80%) was accounted for by the borrowing of the Republic of Croatia and the remaining share by central government funds. Bonds and loans contributed equally to the debt increase on

the annual level. The share of loans in the debt increase, standing at a low 10% in the first nine months in 2003, rose strongly towards the year-end and came close to the share of bonds, the main reason being extensive borrowing through loans in the fourth quarter.

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

	Stock				Change	
	Dec. 2001	Dec. 2002	Sep. 2003	Dec. 2003 ^a	Jan. – Dec. 2002	Jan. – Dec. 2003
1. Domestic debt of central government	24,907	28,747	32,187	32,053	3,839	3,307
1.1. Domestic debt of the Republic of Croatia	21,468	24,735	28,263	28,862	3,267	4,127
Treasury bills	4,892	5,633	5,646	6,548	740	915
Money market instruments	7	0	0	0	-7	0
Bonds	15,416	16,022	17,508	16,658	606	636
Credits from CNB	–	0	3	1	–	1
Credits from banks	1,152	3,080	5,106	5,654	1,928	2,574
1.2. Domestic debt of central government funds	3,439	4,012	3,924	3,192	572	-820
Money market instruments	–	–	–	–	–	–
Bonds	1,636	1,652	1,681	1,698	16	45
Credits from banks	1,803	2,360	2,243	1,494	556	-866
Note: Issued guarantees	6,026	7,528	6,535	6,895	1,502	-633

^a Revised data.

Source: CNB Bulletin, Table I3.

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

	Stock				Change	
	Dec. 2001	Dec. 2002	Sep. 2003	Dec. 2003 ^a	Jan. – Dec. 2002	Jan. – Dec. 2003
1. External debt of central government	42,413	45,056	49,452	51,339	2,643	6,283
1.1. External debt of the Republic of Croatia	39,657	41,297	45,603	46,337	1,640	5,040
Bonds	30,029	30,115	34,057	33,548	86	3,433
Credits	9,628	11,182	11,546	12,789	1,554	1,607
1.2. External debt of central government funds	2,757	3,759	3,849	5,002	1,003	1,243
Bonds	697	1,019	1,012	1,000	323	-19
Credits	2,060	2,740	2,837	4,002	680	1,262
Note: Issued guarantees	8,549	7,929	8,105	8,315	-619	385

^a Revised data.

Source: CNB Bulletin, Table I3.

**Monetary
Policy
Instruments**

2

2.1 Monetary Policy Instruments

The first half of 2003 was marked by high liquidity in the banking system. Following the changes in the reserve requirement regulation by the central bank, banks experienced reduced liquidity in the second half of 2003. Free reserves had a negative sign in mid-August, mid-September, mid-November and mid-December. In addition, the central bank was primarily focused on sterilisation instruments in the first half of the year, while in the second half of the year banks largely used the 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 8.6bn in 2003, and was 2.9 times higher than the amount placed in 2002.

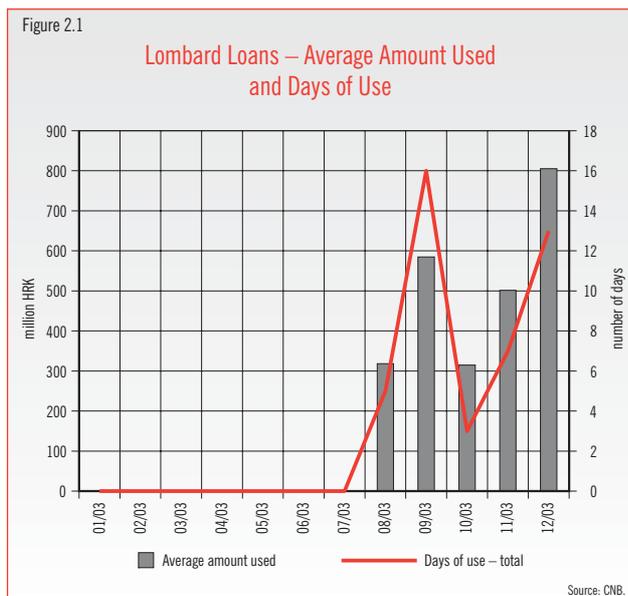
Lombard Loans

In 2003, 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 and up to 30% of the nominal value of foreign currency CNB bills, for a maximum of 15 business days in a month. The interest rate charged on this loan was 9.5%.

Table 2.1 Lombard Loans – Average Amount Used and Days of Use in 2003

Month	Lombard loan	
	Days of use	Average amount used (in kuna)
January	0	0
February	0	0
March	0	0
April	0	0
May	0	0
June	0	0
July	0	0
August	5	318,026,542
September	16	584,614,381
October	3	314,737,075
November	7	501,204,938
December	13	805,179,965

Source: CNB.



Lombard loans used by banks totalled HRK 8.6bn in 2003, which was 3.6 times above the amount of loans used in 2002. The average amount of Lombard loans used in 2003 was HRK 587.8m. In this period, Lombard loans were used for 44 days. The days of use were two times larger and the average amount used was 6.5 times higher in 2003 than in 2002. Due to short periods of illiquidity experienced by the banking system in the second half of 2003, banks were forced to use the Lombard loan instrument, as evidenced by the total amount of loans extended by the central bank in the said period. Moreover, some banks took out the Lombard loan in order to solve the difficulties they had experienced in complying with the new reserve requirement regulation, while some used the loan due to the increased deposit base.

Short-Term Liquidity Loans

In 2003, banks did not turn to the central bank as the lender of last resort, i.e. they did not use the short-term liquidity loan. The interest rate on the short-term liquidity loan was the interest on Lombard loans plus 0.5 percentage points for a loan utilization period of up to 3 months and 1 percentage point for longer utilization periods.

Repo Auctions

Like in the previous year, there were no repo auctions held in 2003 and there were no placements from the primary issue on this basis. The last repo auction was held on 31 October 2001.

Reserve Requirements

In 2003, the reserve requirement calculation rate was 19% and it was calculated on the base consisting of the kuna and foreign exchange components. 25% of the calculated foreign exchange component was allocated in kuna and added to the calculated kuna reserve requirements. This percentage was increased to 35% in September, to 40% in November and finally to 42% in December. Minimum 40% of the calculated reserve requirements had to be deposited in the accounts with the CNB, whereas maximum 60% could be maintained by the average daily balances in the accounts of liquid claims.

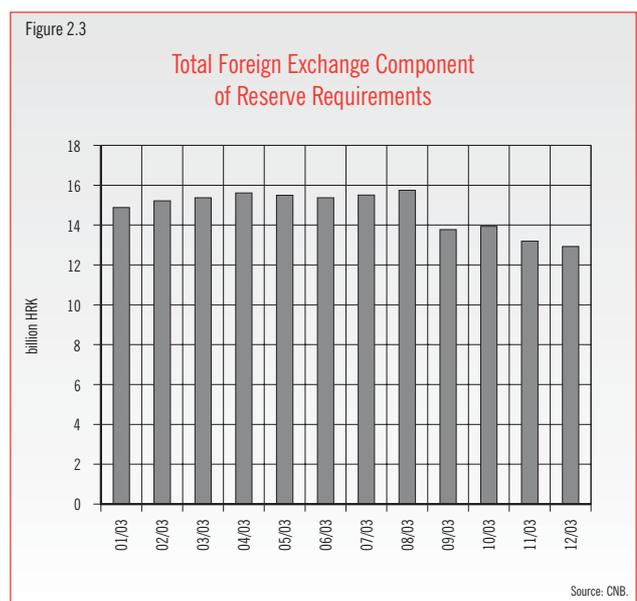
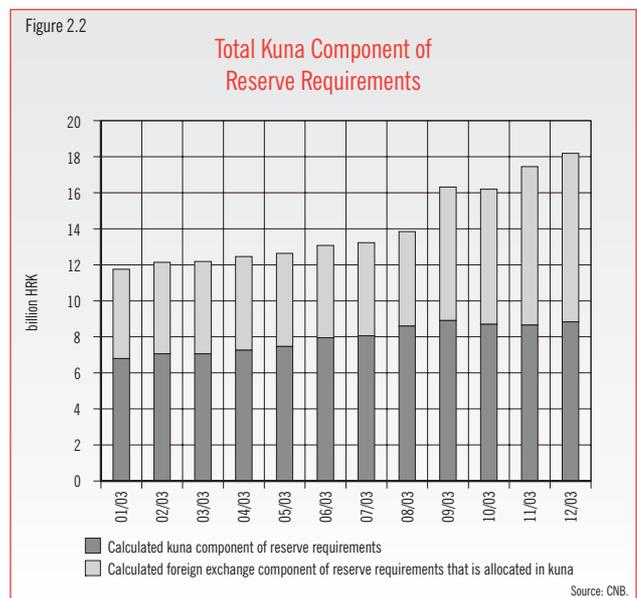
The kuna component of reserve requirements grew steadily over 2003, primarily owing to the increase in the calculation base (i.e. the growth in kuna and foreign currency deposit with banks) and the increase in the percentage of the calculated

foreign exchange component allocated in kuna. The kuna component of the base ranged between HRK 35.8bn registered in the December 2002 calculation period to HRK 46.5bn registered in the November 2003 calculation period, and went up 30.0%. In the same period, the foreign exchange component of the base ranged between HRK 104.4bn and HRK 117.3bn and grew 12.3%. The total kuna reserve requirements grew throughout 2003, from HRK 11.8bn in January to HRK 18.2bn in December, which was an increase of 54.8%. On account of the increase in the percentage of the foreign exchange component allocated in kuna, the growth rate of the kuna reserve requirements exceeded the growth rate of the kuna component of the base. Moreover, the share of the calculated foreign exchange component which was allocated in kuna grew by 88.7% from the January 2003 maintenance period to the December 2003 maintenance period. 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 remained almost unchanged over 2003. The average percentage of allocation ranged between 67.14% and 70.52% in 2003, and was slightly lower than that in 2002.

At the same time, stimulated by the said growth in the foreign exchange component of the base, the foreign exchange component of reserve requirements was on an upward trend till mid-August, growing from HRK 14.9bn to HRK 15.8bn or by 5.9%. However, due to the increase in the percentage allocated in kuna, the second half of the year saw a decrease in the foreign exchange component of reserve requirements to HRK 12.9bn in December, which was a fall of 15.5% compared with the beginning of 2003.

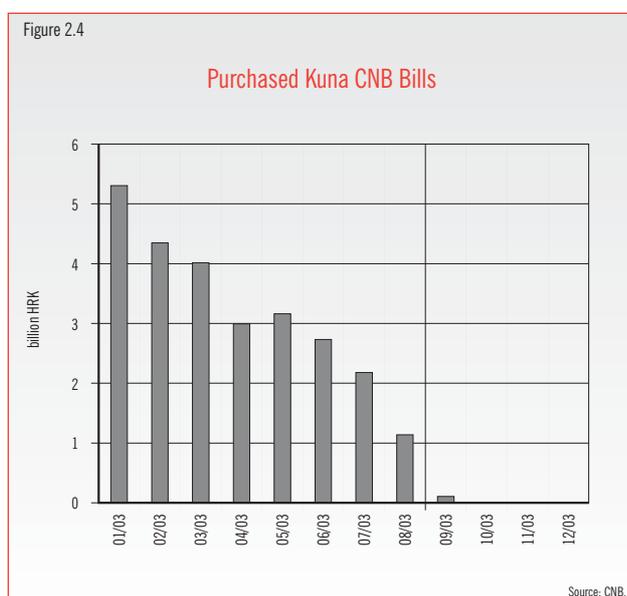
In 2003, the Croatian National Bank paid remuneration on the allocated kuna component of reserve requirements, including the calculated reserve requirement deposit in a special account with the CNB and the calculated reserve requirement deposited in the settlement accounts for the purpose of maintaining average balance and in a special account with the CNB for the settlement of net position in bank clearing account with the NCS. The remuneration rate paid on the kuna component fell from 1.75% to 1.5% per year on 29 January 2003 and to 1.25% per year on 13 November.

In addition, the remuneration rate paid by the CNB on the calculated foreign exchange component of reserve requirements, allocated in the foreign exchange accounts with the CNB, equalled the average interest rates earned on placements abroad.



Croatian National Bank Bills in Kuna

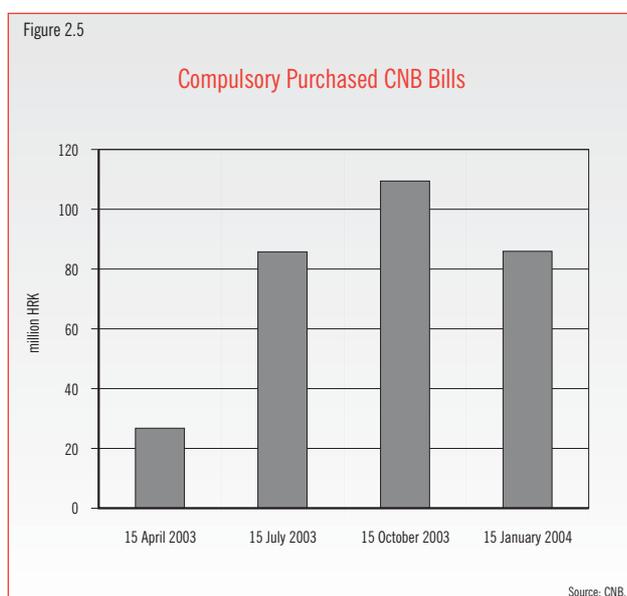
CNB's auctions of kuna CNB bills maturing in 35 days were held on a daily basis in 2003. The stock of CNB bills was on a downward trend throughout 2003; their average stock fell from HRK 5.4bn in January to only HRK 24.5m in October. The reason for this was twofold: funds obtained through increased redemption of CNB bills were in part used by banks for overcoming the liquidity shortage, induced by the changes in the reserve requirement instrument, and in part for the purchase of foreign exchange required for complying with the regulation on the minimum foreign exchange liquidity. The last auction of CNB bills was held on 10 September 2003. In the observed period, the average stock of subscribed kuna CNB bills stood at HRK 2.3bn.



Interest rates on kuna CNB bills grew over 2003, from the average 2.08% in January to the average of 2.55% in September when the last subscription of CNB bills was recorded.

Compulsory Purchase of CNB Bills

The quantitative measure designed to slow down credit expansion was adopted by the CNB on 15 January 2003. Banks 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, were required to subscribe low-yield CNB bills in the amount equal to 200% of the exceeded growth. The interest rate charged by the CNB on compulsory purchased CNB bills was 0.5% per year. The measure introduced in early 2003 was temporary.

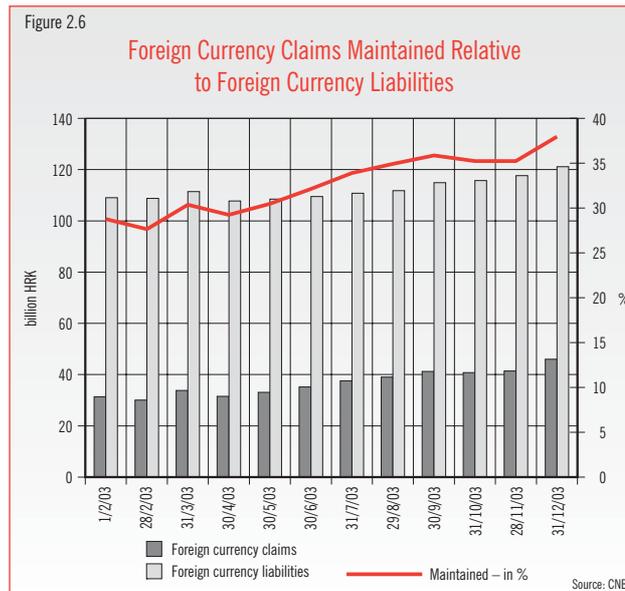


Compulsory CNB bills were purchased on four occasions or every three months, with the first purchase being recorded on 15 April 2003 and the last on 15 January 2004. The average amount of compulsory purchased CNB bills stood at HRK 77.0m in this period and covered no more than fifteen banks.

Minimum Required Foreign Currency Claims

The Decision on the Minimum Required Amount of Foreign Currency Claims, adopted by the CNB in February 2003, obligated banks to maintain a minimum of 35% of their foreign currency liabilities by foreign currency claims on a daily basis. Banks whose percentage of foreign currency liabilities as maintained by foreign currency claims fell short of the 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 maintenance percentage was below 19% on 1 February 2003. The 35% rule replaced the similar rule that was in force till February 2003 and in accordance to which the ratio of foreign currency liabilities to foreign currency claims was set at a minimum of 53%. Since pursuant to the decision in force in 2003 banks were obliged to maintain their total foreign currency liabilities by foreign currency claims with a remaining maturity of up to 3 months, the main effect of this measure was a gradual increase in foreign exchange liquidity.

In 2003, the percentage coverage between foreign currency liabilities and foreign currency claims grew from 28.76%, registered on the first day the decision entered into force, to 37.95% at end-December 2003.



Croatian National Bank Interest Rates and Remuneration

High liquidity of the system in the first half of 2003, temporary liquidity shortfalls in the second half of 2003 and movements in the money market interest rates were in part reflected in the central bank's interest rates on loans and deposits. The average interest rate on 35-day kuna CNB bills stood at 2.08% in January and grew to 2.55% in September. In order to reduce its expenses, the CNB reduced the rate remunerated on the kuna component of reserve requirements from 1.75% to 1.5% in January and to 1.25% in November. Interest rates charged on CNB loans remained unchanged throughout 2003.

In an effort to limit the current account deficit and contain the external debt growth, the CNB tightened the monetary policy at the end of 2003 and adopted a number of decisions that came into effect in 2004. The most significant changes were made with respect to the reserve requirement instrument in order to limit bank foreign borrowings and to reduce the growth in bank placements. With the change in the reserve requirement instrument, 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 special relationship with a bank was increased to 100%,

while the minimum percentage for allocating the remaining portion of the foreign exchange component of reserve requirements was increased from 40% to 60%. From a maximum of 15 business 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 for overnight inter-bank loans and for the funds allocated in euros 75% of the ECB Minimum Bid Refinance Rate for two-week loans granted to banks for the purpose of liquidity improvement. 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.

2.2 International Reserves Management

The total international reserves of the CNB grew by USD 2,305.4m in 2003, up 39.2%. Expressed in nominal terms, this growth was the highest annual increase in international reserves. They stood at USD 5,885.6m¹ on the last day of 2002, whereas they were USD 8,191.1m on the last day of 2003.

Table 2.2 International Reserves
end of period, in million USD

Year	Month	Total reserves
2002	December	5,885.61
2003	January	5,948.67
	February	6,429.28
	March	6,207.82
	April	6,523.85
	May	7,003.26
	June	6,771.95
	July	6,663.22
	August	6,623.84
	September	7,058.28
	October	7,236.78
	November	7,859.78
	December	8,191.06
Change Dec. 2003 – Dec. 2002		2,305.45

Source: CNB.

The main factors contributing to the growth in total international reserves in 2003, at the year-end exchange rate, were:

¹ At market value.

- on the inflow side:
 - 1) USD 1,517m inflow to the MoF account, which to a large extent derived from:
 - a) the issuance of bonds denominated in euros and Japanese yens,
 - b) the privatisation of INA, and
 - c) the second tranche of SAL.
 - 2) The unrealised foreign currency translation gains of USD 825m, which were the result of a 20% increase in the value of the euro against the US dollar. The value of one euro equalled 1.0488 US dollars on 31 December 2002, or 1.2612 US dollars on 31 December 2003. This was the largest fall in the US dollar value against the euro (i.e. ECU) in the last sixteen years. As international reserves are expressed in dollars and predominately maintained in euros, any increase in the value of the euro against the US dollar results in the increase of the dollar value of international reserves. Concurrently, any increase in the value of the kuna against the US dollar is reflected in the decrease of the kuna value of international reserves maintained in US dollars in the Monetary Authorities Accounts, i.e. the unrealised foreign currency translation losses are recognised in the Income Account. These exchange rate differences are also known as the *unrealised exchange differences*. In contrast, the *realised exchange differences* are confirmed in the market (gain or loss).
 - 3) USD 604m from subscribed CNB bills.
 - 4) USD 427m from increase in the volume of concluded repo agreements. Pursuant to the repo agreement, securities held in the foreign exchange portfolios are lent, while deposits are obtained (collateral) and invested at a higher interest rate. Interest premium is the result of this transaction.
 - 5) USD 139m earned on invested (net) international reserves of the CNB. Net international reserves are those reserve assets which are actively managed by the CNB. Funds of subscribed foreign currency CNB bills, allocated foreign exchange reserve requirements and funds of the MoF are invested in their original currencies and in accordance with original maturity in order to protect the CNB from incurring currency risk and interest rate risk. Interest earned on these investments is transferred to banks and to the MoF.
 - 6) USD 106m purchased from banks at auctions.

- on the outflow side:
 - 1) USD 644m outflow from the MoF account for the settlement of different external payments.
 - 2) USD 548m sold to banks at auctions held in January, February, March, November and December 2003.
 - 3) USD 107m sold to the MoF for the settlement of additional payments.

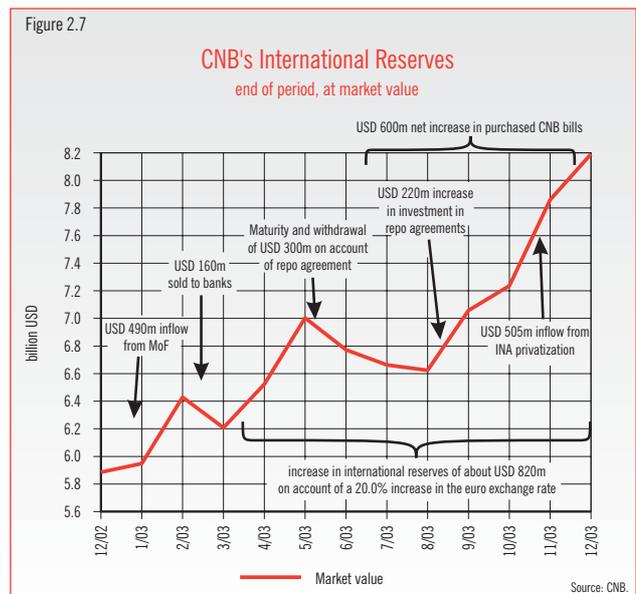


Table 2.3 Total CNB Turnover on the Foreign Exchange Market, 1 January – 31 December 2003
in million, at the exchange rate applicable on the intervention date

	Purchase (1)		Sale (2)		Net (1 – 2)	
	USD	HRK	USD	HRK	USD	HRK
Auction	104.86	646.43	484.44	3,345.71	-379.58	-2,699.29
Ministry of Finance	662.39	4,379.97	102.78	715.47	559.61	3,664.50
Total	767.26	5,026.39	587.22	4,061.18	180.04	965.22

Source: CNB.

The CNB intervened in the domestic foreign exchange market by buying from and selling foreign exchange to:

1. Ministry of Finance of the Republic of Croatia, and
2. domestic banks at auctions.

Foreign exchange sales by the CNB intensified in 2003 in comparison with 2002, both in terms of the number of auctions held and in the volume of foreign exchange sold. Foreign exchange inflows generated by the MoF in 2003 were predominantly sold to the CNB and thus contributed to the reduced purchases of foreign exchange by banks. Accordingly, banks purchased foreign exchange from the CNB more frequently in 2003 than in 2002, in order to meet the prescribed level of the minimum foreign exchange liquidity and to match the legal persons' demand for foreign exchange needed for the settlement of payments related to their increased imports.

In 2003, the CNB intervened nine times in the foreign exchange market. USD 379.58m (net) was sold to banks as a result of which a total of HRK 2.70bn was withdrawn from the foreign exchange market (sterilised). In the reporting period, a total of USD 662.39m was purchased from the MoF, while USD 102.78m was sold, with the net trading result of USD 559.61m. Net purchases of foreign exchange in the Croatian market created HRK 965.21m.

Investments in international reserves are analysed by the type of instrument, credit risk and currency structure.

The CNB invests international reserves funds 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, and
6. cash in vault.

Exposure to credit risk is monitored with respect to the credit rating of countries in which the CNB's international reserves are invested; the rating may range between AAA and AA-. On 31 December 2003, as much as 84.07% of the total international reserves was invested in countries with an AAA rating.

The currency structure of international reserves of the Croatian National Bank 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 CNB's net reserves is very stable, with the euro and the dollar accounting for 70% and 30% respectively. Exchange rate fluctuations between individual foreign currencies and vis-à-vis the kuna result in the fluctuation of international reserves denominated in the euro and the US dollar. Due to a substantial weakening of the US dollar against the euro and the kuna in 2003, the kuna value of international reserves denominated in US dollars fell in 2003 and brought an operating deficit which, in accordance with the new international standards, was recognized in the Income Statement. The negative net effect of HRK 621,072 thousand was recorded in 2003 (see Note 6 – Net Foreign Exchange Losses and Note 31 – Foreign Exchange Risk). On the other hand, the strengthening of the euro against the US dollar brought about a substantial increase in the dollar value of international reserves.

Table 2.4 Currency Structure of Total International Reserves
at the exchange rate applicable at the end of period

Currency	Total reserves		Share	
	In million USD	o/w: CNB bills and RR	31 December 2003	31 December 2002
EUR	5,743.47	1,079.53	70.34	71.54
USD	2,421.48	815.81	29.65	28.42
XDR	0.82	–	0.01	0.04
Other currencies	0.02	–	0.00	0.00
Total	8,165.80	1,895.34	100.00	100.00

Source: CNB.

Realised income and yields on the euro and dollar portfolios, actively managed by the CNB, are shown in Table 2.5. The analyses presented in this Table excludes foreign cash, funds invested on the basis of subscribed foreign currency CNB bills, funds invested on the basis of allocated foreign exchange reserve requirements and funds of the Ministry of Finance.²

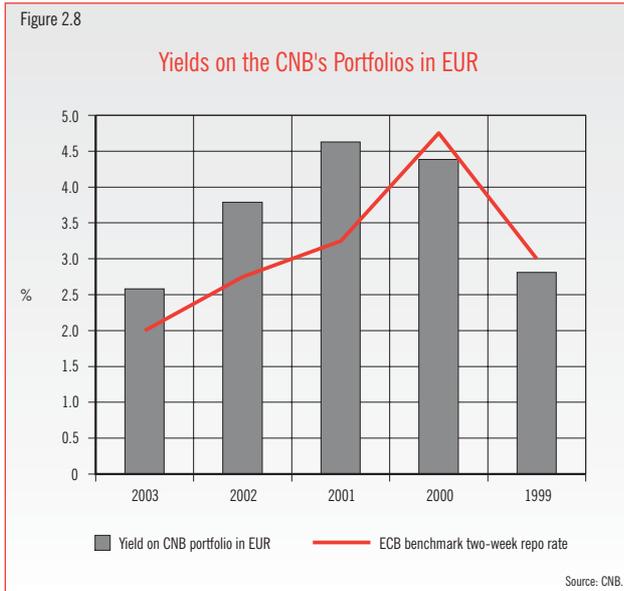
Table 2.5 Realised Income and Average Yields on the CNB's Foreign Exchange Portfolios
at market value, in million EUR and USD and %

CNB portfolios	Realised income	Average amount invested	Annual yield rate				
			2003	2002	2001	2000	1999
EUR	84.17	3,258.88	2.58	3.79	4.63	4.38	2.81
USD	16.86	1,203.87	1.40	2.38	4.72	6.56	5.02

Source: CNB.

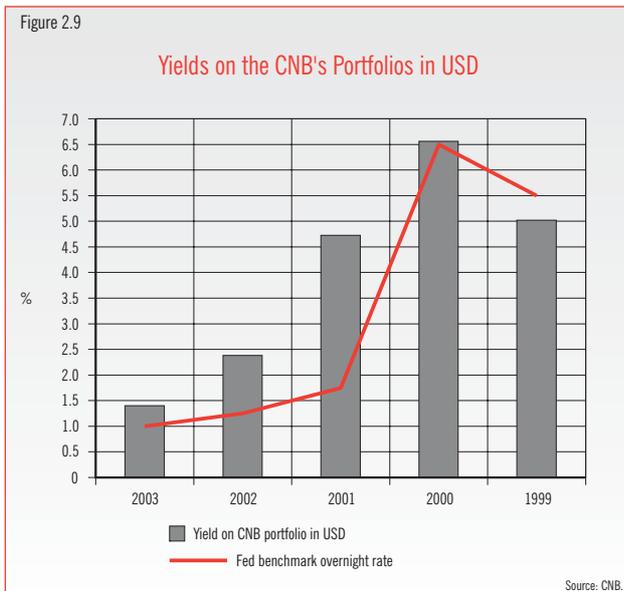
In 2003, the average yield on the euro portfolio was 2.58%, while the average yield on the dollar portfolio was 1.40%. Continuously lower yields on the CNB's

² Interest earned on funds from subscribed foreign currency 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.



foreign exchange portfolios reflect the cuts in interest rates in the dollar and euro markets in recent years and relatively short average duration of portfolios.

In the first half of 2003, the Fed cut its benchmark overnight rate by 0.25%, or from 1.25% to 1.00%. In the same period, the ECB decreased twice its benchmark two-week repo rate, from 2.75% to 2.00%.



**Banking System
of the Republic
of Croatia**

3

3.1 Characteristics of the Banking System

At the end of 2003, the banking system of the Republic of Croatia comprised 45 banking institutions: 41 commercial bank and 4 housing savings banks, which is 5 less than at the end of 2002.

Table 3.1 shows the changes in the number of banking institutions in 2003. During the course of the year four banks merged with other banks, while one bank initiated liquidation proceedings.¹ As a result, the number of banks in Croatia declined from 46 at end-2002 to 41 bank at end-2003, while the number of savings banks and housing savings banks remained the same. Although the only remaining savings bank² was forced to initiate liquidation proceedings, 2003 saw the establishment of a new housing savings bank.³

Table 3.1 Changes in the Number of Banking Institutions

Banks	2001	2002	2003
Number of banks at the beginning of the year	43	43	46
Former savings banks that were granted bank license	1	7	–
Banks that merged with other banks	–	–3	–4
Banks undergoing bankruptcy proceedings	–	–	–1
Banks whose license was revoked	–1	–	–
Foreign bank branch removed from the register	–	–1	–
Number of banks at the end of the year	43	46	41
Savings banks and housing savings banks	2001	2002	2003
Number of savings banks at the beginning of the year	26	19	4
Savings banks that were granted bank license	–	–	1
Savings banks transformed into banks	–1	–7	–
Savings banks that merged with other banks/savings banks	–2	–4	–
Savings banks undergoing liquidation	–2	–3	–1
Savings banks undergoing bankruptcy proceedings	–	–1	–
Savings banks whose license was revoked	–2	–	–
Number of savings banks and housing savings banks at the end of the year	19	4	4
– housing savings banks	4	3	4

Source: CNB.

In the reporting three-year period, the share of banks in majority foreign ownership in total bank assets continually rose, while the share of banks in majority domestic ownership reduced (Table 3.2). The number of banks in total or majority private ownership of domestic shareholders as well as the number of banks in total or majority foreign ownership decreased in 2003, primarily due to the contin-

1 Cassa di Risparmio di Trieste - Banca d.d., Zagreb merged with Zagrebačka banka d.d., Zagreb, HVB Bank Croatia d.d., Zagreb merged with Splitska banka d.d., Split, Zagorska banka d.d., Krapina merged with Samoborska banka d.d., Samobor, Erste & Steiermärkische Bank d.d., Zagreb merged with Riječka banka d.d., Rijeka, which changed its name to Erste & Steiermärkische Bank d.d., Rijeka, while Convest banka d.d., Zagreb initiated liquidation proceedings.

2 Međimurska štedionica d.d., Čakovec.

3 PBZ stambena štedionica d.d., Zagreb.

Table 3.2 Ownership Structure of Banks

Ownership structure	Number of banks			Share of assets in total bank assets		
	2001	2002	2003	2001	2002	2003
Banks in total or majority private ownership of domestic shareholders	16	21	20	5.6	5.8	5.6
Banks in total or majority state ownership	3	2	2	5.0	4.0	3.4
Banks in total or majority foreign ownership	24	23	19	89.3	90.2	91.0
Total	43	46	41	100.0	100.0	100.0

Source: CNB.

uation of the consolidation process in the banking system and several mergers it witnessed. However, during the period in question the share of bank assets in full or majority foreign ownership in total bank assets increased mildly, from 90.2% to 91%, while the share of bank assets in total or majority private ownership of domestic shareholders decreased slightly, to 9% from 9.8%.

Table 3.3 shows the number of banks in peer groups of banks classified by asset size and the share of each group in total bank assets.

Table 3.3 Number of Banks by Asset Size
in million HRK and %

Assets	Number of banks			Share of assets of peer groups of banks in total bank assets		
	2001	2002	2003	2001	2002	2003
Group I Assets exceeding 5,000	6	9	8	70.7	79.6	82.9
Group II Assets from 1,000 to 5,000	14	12	11	23.1	15.2	12.5
Group III Assets from 500 to 1,000	7	7	8	3.3	2.7	2.7
Group IV Assets below 500	16	18	14	2.9	2.5	1.9
Total	43	46	41	100.0	100.0	100.0

Source: CNB.

The number of banks with assets exceeding HRK 5bn (Group I) reduced from 9 to 8 in 2003, whereas their share in total bank assets went up from 79.7% in 2002 to 82.9% in 2003.⁴ The number of banks with assets ranging from HRK 1bn to 5bn (Group II) declined from 12 to 11 in 2003, with their share in total bank assets falling from 15.2% to 12.5%.⁵ Groups III and IV (totalling 22 banks), which comprise banks with assets from HRK 0.5bn to 1bn, accounted together for only 4.6% of total bank assets at end-2003. Group I encompasses banks with very different asset sizes, with assets of the two largest banks far above those of other Group I banks. By contrast, Group II banks make up a more homogeneous group in terms of asset size. Group III consists of similar small banks and Group IV comprises small banks of different sizes, of which 5 were formerly savings banks.

4 This group includes Zagrebačka banka d.d., Zagreb, Privredna banka Zagreb d.d., Zagreb, Raiffeisenbank Austria d.d., Zagreb, Splitska banka d.d., Split, Hypo Alpe-Adria-Bank d.d., Zagreb, Erste & Steiermärkische Bank d.d., Zagreb, Hrvatska poštanska banka d.d., Zagreb, Nova banka d.d., Zagreb and Riječka banka d.d., Rijeka, which merged with Erste & Steiermärkische Bank d.d., Zagreb, from the same bank group, creating a new bank which operates under the name Erste & Steiermärkische Bank d.d., Rijeka.

5 Karlovačka banka d.d., Karlovac joined this group in 2003, while Dresdner Bank Croatia d.d., Zagreb and HVB Bank Croatia d.d., Zagreb, which merged with Splitska banka d.d., Split exited the group.

These data also show that Group I banks, i.e. the country's largest banks, continued increasing their share in total banking sector assets.

Croatia's banking system is dominated by six banks/banking groups, accounting for 84.1% of total banking sector assets,⁶ with all of them being majority foreign-owned. Competition among banks and banking groups has been rising, as is clearly visible from the continued reduction of interest rates, continued adjustment of loan approval conditions aimed at outperforming the competition and ever increasing number of innovative products on offer specially tailored to fit the needs of different market segments.

As part of its monetary measures, the central bank adopted a Decision on the Compulsory Purchase of CNB Bills⁷ early in 2003, under which banks whose placements' growth and the growth of other specified assets items exceeded the targeted 16% annually were required to subscribe CNB bills in the amount equal to 200% of the exceeded growth. In order to avoid the unattractive yield from having to subscribe CNB bills at 0.5% annual interest rate banks adopted different measures and adjusted their business activity so as not to be obligated to subscribe CNB bills. In the end, the Decision covered only fifteen banks because it had prompted banking groups to make use of their synergy and allocate financial products among their group members in a way which gave them better control over their asset growth. This resulted in the expansion of leasing companies, housing savings banks, asset management companies etc. The side effect of the decision in question were innovations such as trading in loans and loan portfolios among banks as well as development of an evaluation and pricing system for such transactions. The very appearance of said transactions points to the level of solidarity among banks in the market and also to the existence of market characteristics inherent to developed secondary loan markets.

In 2003, the CNB undertook different steps to establish co-operation with supervisory authorities of banks owning Croatian banks as well as banks owned by Croatian banks. As a result, the 2003 saw the signing of the Memorandum of Understanding and Co-operation in Banking Supervision with the agency responsible for bank supervision in Bosnia and Herzegovina, while similar agreements are underway with the responsible authorities in Austria and Italy.

6 Banks/banking groups dominating the national banking system include: Zaba Group (Zagrebačka banka d.d. and Varaždinska banka d.d.), PBZ Group (Privredna banka Zagreb d.d., Riadria banka d.d., Međimurska banka d.d. and Privredna banka – Laguna banka d.d.), HAA Group (Hypo Alpe-Adria-Bank d.d. and Slavonska banka d.d.), Splitska banka d.d., Raiffeisenbank Austria d.d. and Erste & Steiermärkische Bank d.d.

7 Official gazette *Narodne novine*, Nos. 10/2003, 54/2003 and 203/2003.

3.2 Balance Sheet Structure of Banks

3.2.1 Bank Asset Structure

Total bank assets amounted to HRK 204.5bn⁸ at the end of 2003, which is a 17.4% increase on the end of 2002 when they stood at HRK 174.1bn (Table 3.4). This was mostly the result of the rise in net loans to other clients (non-financial sector), which stood at HRK 107.2bn at the end of 2003 and grew by 17.1bn or 18.9% compared to the end of 2002. To finance this rise banks used funds obtained from deposit growth and received loans. The share of loans to other clients in the structure of bank assets increased from 51.8% at end-2002 to 52.4% at end-2003.

Loan growth exceeding 20% was recorded at 23 banks. The six largest banks,⁹ whose share in total bank assets stood at 77.6% at end-2003, accounted for 85% of the nominal increase in total loans, whereas four leading banks, with a 62.58% share in total bank assets, accounted for 75.4% of nominal loan growth. Six banks recorded a nominal decrease in loans compared to the previous year.

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

	2001			2002			2003		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Money assets and deposits with the CNB	22,196.3	15.0	93.2	21,387.9	12.3	-3.6	27,993.6	13.7	30.9
1.1. Money assets	7,822.5	5.3	419.3	2,236.9	1.3	-71.4	2,955.7	1.4	32.1
1.2. Deposits	14,373.9	9.7	44.0	19,151.0	11.0	33.2	25,037.9	12.2	30.7
2. Deposits with banking institutions	23,900.1	16.1	35.1	20,146.2	11.6	-15.7	31,186.6	15.2	54.8
3. MoF treasury bills and CNB bills	9,687.2	6.5	59.9	10,116.7	5.8	4.4	7,829.7	3.8	-22.6
4. Trading portfolio of securities	4,795.6	3.2	94.8	8,408.9	4.8	75.3	7,354.5	3.6	-12.5
5. Loans to financial institutions	1,479.6	1.0	36.3	2,157.8	1.2	45.8	3,057.0	1.5	41.7
6. Loans to other clients	64,402.5	43.4	28.5	90,135.1	51.8	40.0	107,165.6	52.4	18.9
7. Investment portfolio of securities	12,741.3	8.6	-10.1	12,684.7	7.3	-0.4	10,961.9	5.4	-13.6
8. Investments in subsidiaries and associates	2,199.8	1.5	-8.8	2,448.2	1.4	11.3	2,448.0	1.2	0.0
9. Foreclosed and repossessed assets	446.8	0.3	-27.3	375.4	0.2	-16.0	354.1	0.2	-5.7
10. Tangible assets and software (net of depreciation)	3,501.2	2.4	7.6	3,755.4	2.2	7.3	4,092.5	2.0	9.0
11. Interest, fees and other assets	4,273.5	2.9	34.8	4,042.3	2.3	-5.4	3,805.6	1.9	-5.9
12. Net of: Specific reserves for unidentified losses	1,195.7	0.8	71.0	1,519.4	0.9	27.1	1,745.2	0.9	14.9
Total	148,428.3	100.0	32.7	174,139.2	100.0	17.3	204,503.9	100.0	17.4

Source: CNB.

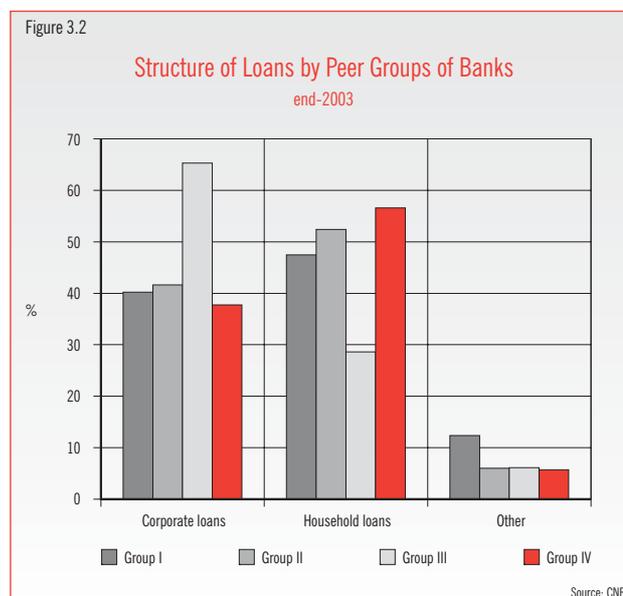
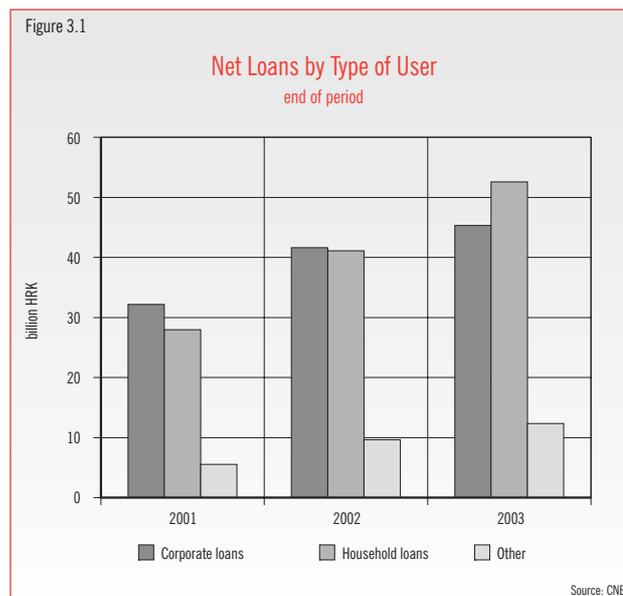
⁸ All financial data are based on preliminary unaudited bank reports for 2003.

⁹ Zagrebačka banka d.d., Privredna banka Zagreb d.d., Erste & Steiermärkische Bank d.d., Splitska banka d.d., Raiffeisenbank Austria d.d. and Hypo Alpe-Adria-Bank d.d.

Figure 3.1, which shows net loans by type of user, indicates that strong credit activity related to households, which started over the previous years, continued into 2003. Net household loans totalled HRK 52.6bn in 2003, while in 2002 they amounted to HRK 41.1bn. Large banks led the way, as evident from Figure 3.2 which shows the structure of total net loans by 4 peer groups of banks classified by asset size. Household loans predominated in Group I (47.4%), Group II (52.4%) and Group IV (56.6%). Although household loans predominated in Group I, two banks from this group, one being in majority state ownership, granted predominantly corporate loans. Corporate loans predominated also in Group III, in which they accounted for 65.3% of total granted loans. The influence of this group, with its 2.7% share in total bank assets, on the entire banking system was negligible, while movements in the loan structure of other groups resulted in a larger share of household loans, totalling 47.7%, than the share of corporate loans, amounting to 41.1%. The share of other loans (loans to financial institutions, the public sector, non-profit institutions and non-residents) accounted for 12.4% of total loans granted by Group I banks. The shares of other loans in total loans granted by remaining three bank groups ranged from 5.7% to 6.1% at end-2003.

Table 3.4 shows that cash at banks increased substantially, while deposits with the CNB continued the previously started trend of strong growth (compared to 2002 they grew 30.7%, while their share went up from 11% to 12.2%). This was influenced by the Decision on the Compulsory Purchase of CNB bills and the increase in kuna reserve requirements allocated with the CNB.

Deposits with banking institutions registered substantial growth, both in absolute terms, increasing by as much as 54.8%, and in relative terms (an increase of their share in assets), primarily due to the Decision on the Minimum Required Amount of Foreign Currency Claims.¹⁰ Investments in MoF T-bills and CNB bills reduced substantially compared to previous periods, primarily due to low yields registered in 2003. The trading portfolio of securities reduced by 12.5% on 2002, with its share in the total asset structure totalling 3.6% compared to 4.8% registered in the previous year. The said reduction in investments in the trading portfolio of securities spilled over to loans to other clients, that is, deposits with the CNB. The largest por-



¹⁰ Pursuant to the Decision on the Minimum Required Amount of Foreign Currency Claims banks are obligated to maintain a minimum of 35% of their foreign currency liabilities by foreign currency claims.

tion of the trading portfolio of securities at the end of 2003 consisted of bonds issued by the Republic of Croatia, T-bills and CNB bills as well as bonds issued by foreign countries and financial institutions.

3.2.2 Bank Liability Structure

Deposits predominated in the bank liability structure. At end-2003, they accounted for 70.3% of total liabilities, which is less than at end-2002 when they amounted to 71.5% (Table 3.5). Almost all banking groups registered similar deposit shares in total liabilities, while deposits were most prominent in the liabilities of Group II banks with a share of 72.3%, as illustrated by Figure 3.3. In 2003, total deposit growth amounted to HRK 19.3bn, while total credit growth was lower, totalling HRK 17.9bn. At 13 banks the 2003 deposit growth rate was above 20%, with the four leading banks accounting for 84.7% of the total nominal deposit growth. Six banks registered a decline in deposits compared to end-2002. Time deposits increased by HRK 16.5bn or 21.4%, of which deposits of foreign financial institutions grew the most (accounting for 41% of the overall nominal deposit growth) followed by household time deposits and corporate time deposits. Giro and current account deposits also went up (by HRK 2bn or 8.5%), of which household giro and current account deposits, accounting for 7.8% of the total nominal growth, went up the most. Due to the faster growth of corporate deposits

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

	2001			2002			2003		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Loans from financial institutions	3,629.1	2.4	3.4	4,084.6	2.3	12.6	7,111.7	3.5	74.1
1.1. Short-term loans	595.7	0.4	-47.3	1,184.4	0.7	98.8	3,689.1	1.8	211.5
1.2. Long-term loans	3,033.3	2.0	27.4	2,900.2	1.7	-4.4	3,422.6	1.7	18.0
2. Deposits	104,697.2	70.5	44.0	124,471.8	71.5	18.9	143,754.2	70.3	15.5
2.1. Giro account and current account deposits	16,548.6	11.1	31.1	23,272.3	13.4	40.6	25,240.1	12.3	8.5
2.2. Savings deposits	26,373.9	17.8	49.1	23,980.0	13.8	-9.1	24,773.1	12.1	3.3
2.3. Time deposits	61,774.6	41.6	45.8	77,219.6	44.3	25.0	93,741.0	45.8	21.4
3. Other loans	15,947.7	10.7	-2.3	19,492.6	11.2	22.2	25,080.3	12.3	28.7
3.1. Short-term loans	594.0	0.4	18.0	4,451.2	2.6	649.4	3,429.0	1.7	-23.0
3.2. Long-term loans	15,353.7	10.3	-3.0	15,041.4	8.6	-2.0	21,651.3	10.6	43.9
4. Debt securities issued	19.4	0.0	-	24.7	0.0	27.6	169.0	0.1	583.0
4.1. Short-term debt securities issued	0.0	0.0	-	5.2	0.0		0.0	0.0	-100.0
4.2. Long-term debt securities issued	19.4	0.0	-	19.6	0.0	1.0	169.0	0.1	763.0
5. Supplementary capital	2,655.8	1.8	410.4	2,910.2	1.7	9.6	3,075.2	1.5	5.7
5.1. Subordinated instruments issued	339.4	0.2	20.0	641.3	0.4	89.0	813.6	0.4	26.9
5.2. Hybrid instruments issued	2,316.4	1.6	875.7	2,268.9	1.3	-2.1	2,261.6	1.1	-0.3
6. Interest, fees and other liabilities	7,783.0	5.2	42.1	6,646.4	3.8	-14.6	6,834.1	3.3	2.8
7. Profit/loss for the current year	570.0	0.4	-49.3	1,925.5	1.1	237.8	2,738.7	1.3	42.2
8. Capital	13,126.3	8.8	7.6	14,583.3	8.4	11.1	15,740.7	7.7	7.9
Total	148,428.3	100.0	32.7	174,139.2	100.0	17.3	204,503.9	100.0	17.4

Source: CNB.

and deposits of financial institutions, the share of household deposits in total deposits reduced from 58.7% to 55.4%. As in the previous years, the majority of deposits were denominated in foreign currency (67.6%).

Received loans accounted for the second largest share in the liability structure. Other loans received rose by 28.7% compared to the end of 2002, while loans from financial institutions went up 74.1% (Table 3.5). The share of total received loans (loans from financial institutions and other loans) in the liability structure rose from 13.5% at end-2002 to 15.8% at end-2003, while the largest contribution to total received loans came from loans from foreign financial institutions (74.6%), followed by CBRD loans, which made up 9.7% of total received loans. Maturities of 77.9% of total received loans were longer than 1 year.

The liability structure by peer groups of banks (Figure 3.3) shows that Group I banks (21.7%) and Group II banks (17.3%) used other sources the most. Figure 3.3 also shows that capital (together with profit for the current year) accounted for the smallest share in the liability structure of large banks in Group I (8.3%), while it accounted for as much as 19.4% at Group IV banks. Small banks, which comprise Group IV, registered the largest share of share capital in their liability structure.

Household deposits dominated the deposit base of banks, being, relatively speaking, most prominent in total savings deposits and time deposits. Looking at nominal amounts of deposits by type and sector, the importance of household deposits in total deposits may primarily be seen in total time deposits, where their share is 3.8 times larger than their share in total savings deposits.

3.3 Bank Capital

At the end of 2003, bank capital totalled HRK15.7bn, rising 7.9% compared to 2002 (Table 3.6). This was mostly the result of the growth of all items apart from share capital, which during the observed period grew at the rate of only 1.8% or by HRK 173.1m in nominal terms. As a result, share capital continued with its downward trend in the total capital, ending 2003 with a share of 63.5%. Retained income grew at the largest rate of 46.8%, i.e. by HRK 402.5m in nominal terms.

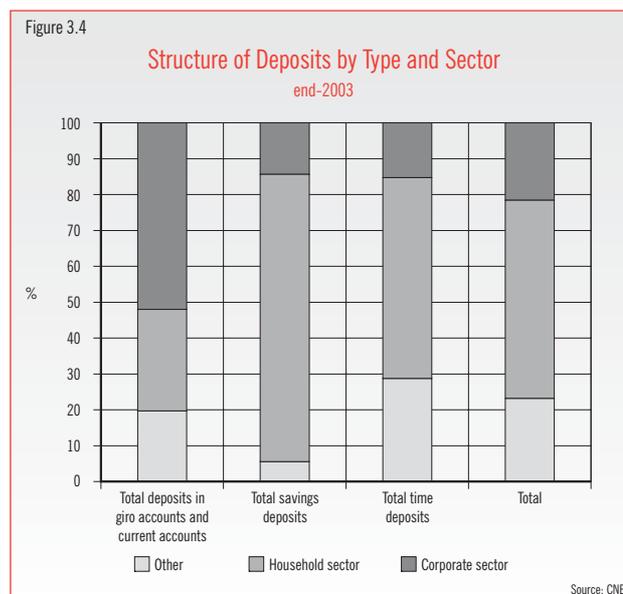
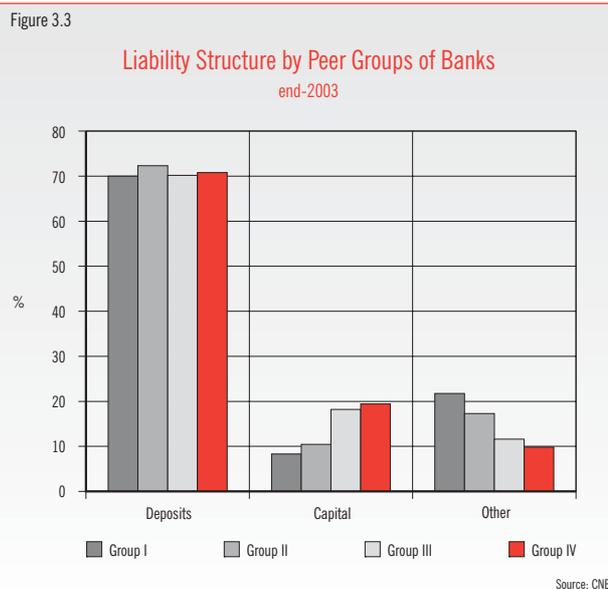


Table 3.6 Structure of Bank Capital
end of period, in million HRK and %

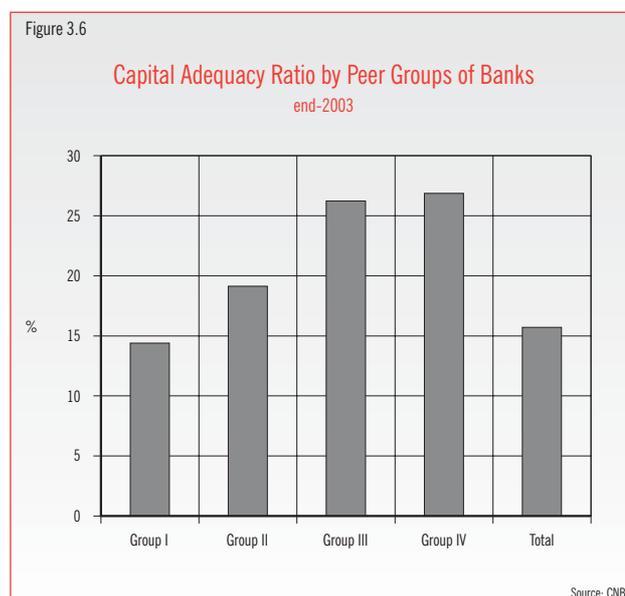
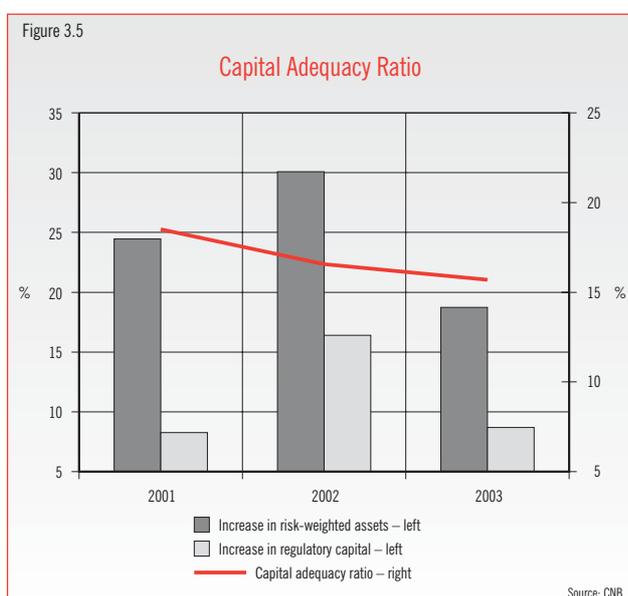
	2001			2002			2003		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Share capital	8,966.5	68.3	4.9	9,772.1	67.0	9.0	9,945.2	63.2	1.8
2. Retained income/loss	77.8	0.6	-76.2	860.3	5.9	1,006.0	1,352.9	8.6	57.3
3. Legal reserves	853.3	6.5	-59.3	583.5	4.0	-31.6	712.0	4.5	22.0
4. Reserves provided for by the articles of association and other capital reserves	3,228.7	24.6	164.5	3,367.4	23.1	4.3	3,820.7	24.3	13.5
5. Profit/loss from the previous year	-	-	-	-	-	-	-90.1	-0.6	-
Total	13,126.3	100.0	2.8	14,583.3	100.0	11.1	15,740.7	100.0	7.9

Source: CNB.

The rise in legal reserves and reserves provided for by the articles of association and other capital reserves totalled 22% and 13.5% respectively.

Regulatory capital is a calculation category to measure a bank's ability to cover unexpected losses. At end-2003, banks' regulatory capital amounted to HRK 18.3bn, which is an 8.9% increase over that at end-2002 when it stood at HRK 16.8bn. Supplementary capital (the share which is included in the regulatory capital) grew at the fastest rate of 18.9%, thus increasing its share in gross regulatory capital to 19.9%. Its growth was prompted primarily by strong growth of subordinated instruments (31%) and an increase in special reserves for unidentified losses (11.8%) which are included in the calculation of regulatory capital. The share of core capital in the regulatory capital structure reduced by 2.1%.

Banks' capital adequacy ratio (regulatory capital to risk-weighted assets ratio) totalled 15.7% at end-2003, which is less than at end-2002 when it stood at 16.6%. All but one bank reported capital adequacy above the minimum prescribed ratio of 10%. The downward trend in the capital adequacy ratio, which was recorded over the last three years, resulted from a faster growth in risk-weighted assets than in regulatory capital (Figure 3.5).



Large banks in Group I, whose assets make up 82.9% in total bank assets, had the strongest influence on the capital adequacy at banking system level. Capital adequacy ratio of Group I banks has been on the decline, ending 2003 at 14.4%, while other groups registered a higher capital adequacy ratio (Figure 3.6). This reducing trend in capital available for covering credit risks has been observed for some time.

3.4 Bank Asset Quality

The quality of bank assets in financial reports is assessed in accordance with the International Accounting Standard 39. As regards to the asset share related to their placements, banks are required to adopt and implement their internal placement classification systems, as prescribed by the decisions enacted under the former Banking Act.¹¹

Bank placements (including risky off-balance sheet items) are first classified into three main categories and then into risk groups, depending on the degree of risk. First category encompasses fully recoverable placements, which are assessed with certainty as fully recoverable according to the debtor's financial position and available instruments of collateral (groups A and B). These placements are not subject to value impairment. The second category encompasses partly recoverable placements (groups C and D). These placements involve impairment loss corresponding to the difference between the asset's carrying and recoverable amount, which equals the present value of expected future cash flows arising from these placements. The third category (group E) includes placements whose present value equals zero (irrecoverable placements). Impairment loss on partly recoverable placements and irrecoverable placements represents bank expenses by which the asset items are reduced. Although placements graded A and B are not subject to individual impairment, banks are required to form reserves for them for unidentified losses. For placements graded A, banks are required to form (set aside) reserves in line with the Decision on the Amount and Method of Forming Specific Reserves to Ensure Against Potential Losses of Banks. For placements classified into group B, banks are required to form reserves in accordance with their own policy.

¹¹ The Decision on the Classification of Placements and Risky Off-Balance Sheet Items and Assessment of Bank Exposure, the Decision on the Amount and Method of Forming Specific Reserves to Ensure Against Potential Losses of Banks, and the Decision on the Method of Improving the Compliance of the Croatian National Bank Subordinate Legislation with the International Accounting Standards.

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

Placements	2001		2002		2003	
	Amount	Share	Amount	Share	Amount	Share
1. Fully recoverable placements	140,586.6	92.7	172,251.3	94.1	200,554.6	94.9
1.1. Group A	137,195.6	90.5	168,693.2	92.2	194,180.4	91.9
1.2. Group B	3,391.0	2.2	3,558.0	1.9	6,374.2	3.0
2. Partly recoverable placements	6,719.5	4.4	6,473.3	3.5	7,414.9	3.5
2.1. Group C	3,193.3	2.1	3,717.8	2.0	4,756.5	2.3
2.2. Group D	3,526.2	2.3	2,755.5	1.5	2,658.4	1.3
3. Irrecoverable placements	4,287.3	2.8	4,245.4	2.3	3,370.2	1.6
3.1. Group E	4,287.3	2.8	4,245.4	2.3	3,370.2	1.6
Total	151,593.3	100.0	182,970.0	100.0	211,339.7	100.0

Source: CNB.

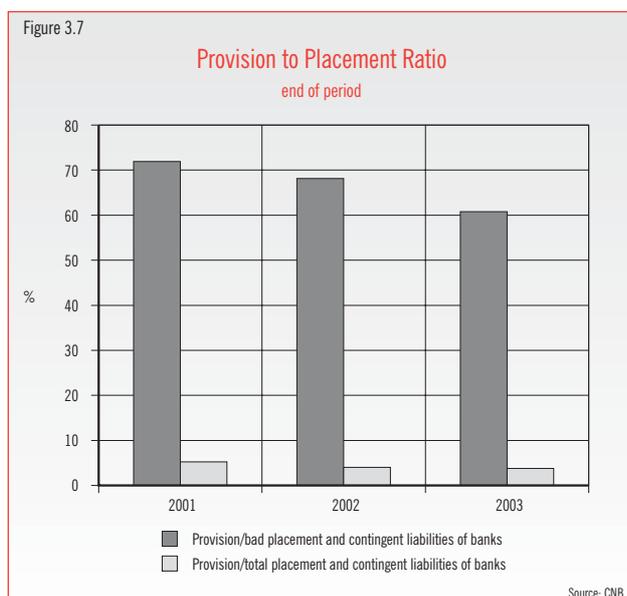
Table 3.8 Total Provision to Total Placement Ratio of Banks
end of period, in million HRK and %

	2001	2002	2003
1. Total provisions for losses	9,326.7	9,121.2	8,590.0
1.1. Placement value impairment (loss)	7,912.1	7,303.4	6,557.4
1.2. Provisions for unidentified losses	1,414.6	1,817.9	2,032.7
2. Total placements	151,593.3	182,970.0	211,339.9
3. Relative ratio of total provisions to total placements	6.2	5.0	4.1

Source: CNB.

At the end of 2003, fully recoverable placements (groups A and B) grew by 1.4% compared to 2002 and accounted for 94.9% of total risk assets (Table 3.7). Partly recoverable placements (groups C and D) went up in nominal terms and accounted for 3.5% of total risk assets, while placements whose present value equals zero (group E) went down in nominal terms and accounted for 1.6% of total risk assets. As shown in Table 3.8, total provisions (placements reduced by the

amount of established losses arising from partly recoverable and irrecoverable placements together with reserves for unidentified losses) totalled HRK 8.6bn at end-2003, 5.8% less than at end-2002. The share of total provisions in total placements continued its downward trend by reducing from 6.2% in 2001 and 5% in 2002 to 4.1% in 2003 (Table 3.8). This downward trend in total provisions, both in absolute amount and relative to total placements, resulted from a 1% increase in the share of group B, but also a lower average provisioning percentage for groups C and D, as well as a reduction in placements of group E. Reserves for unidentified losses rose both in nominal terms and by their share in total reserves, primarily as a result of the method by which the degree of risk is assessed, pursuant to which group B placements are considered fully recoverable and make up the integral part of the base for calculation of reserves for unidentified losses.



Household loans continued growing in 2003, with their share rising from 44.5% in 2002 to 47.7% in 2003. In the household indebtedness structure housing loans accounted for 31.4%. On concern that rapid credit growth might have an adverse effect on bank profitability in the future (due to the possible increase in provisioning expenses), early in 2003 the CNB adopted the Decision on the Compulsory Purchase of CNB Bills aimed at reducing the speedy growth of banks' placements and consequently the need for borrowing abroad. After leading to a successful reduction in placement growth from 30% in 2002 to 14.6% in 2003, the Decision was revoked at the end of 2003. The new Decision on the Classification of Placements and Contingent Liabilities of Banks prescribes the formation of additional reserves for general bank risks that may arise as a result of the rapid growth in bank balance sheet and off-balance sheet activities and, as a consequence, increased bank exposure to various types of risks. The provisions of this decision will be applied in preparing annual reports for 2004.

3.4.1 Prescribed Limitations on Exposure and Extent of Investments

To protect the stability of bank operations, and especially their asset quality, banks have to adhere to various limitations. The purpose of these limitations is to limit the risk to which a bank is exposed in its operation in view of the amount and concentration of granted loans and investments. The applicable Banking Act prescribes that banks are obliged to observe the limitations on exposure and the extent of investments, and regularly report to the CNB on the amount and type of their exposure and the extent of their investments. The following limitations are prescribed:

- ❑ A bank's exposure to a single person may not exceed 25% of its regulatory capital (does not apply to a bank's exposure to the entities which constitute a banking group in the Republic of Croatia and are subject to CNB's supervision at consolidated level).
- ❑ A bank's overall exposure to persons directly or indirectly controlled by the bank or to the persons directly or indirectly controlled by the person controlling the bank may not exceed 20% of its regulatory capital (does not apply to a bank's exposure to the entities which constitute a banking group in the Republic of Croatia and are subject to CNB's supervision at consolidated level).
- ❑ A bank's exposure to a single person in a special relationship with the bank may not exceed 10% of its regulatory capital. Persons in a special relationship with the bank are: a) shareholders of the bank owning 5% or more of voting shares at the general meeting of the bank and their immediate family members, b) members of the bank management and supervisory board, the bank's procurators and their immediate family members, c) persons who have concluded work contracts with the bank under special terms and their immediate family members, d) legal persons in whose capital persons referred to above own more than 20% of voting shares, e) legal persons in whose capital the bank owns more

than 20% of voting shares or controls these legal persons in a different way.

- ❑ The sum of all large exposures may not exceed 600% of the bank's regulatory capital. Large exposure of a bank is exposure to one person equalling or exceeding 10% of its regulatory capital.
- ❑ Total investments of a bank in land, buildings, equipment and the furnishing of business premises may not exceed 40% of its regulatory capital.
- ❑ Total bank's investments in the capital of non-financial institutions may not exceed 30% of its regulatory capital.
- ❑ A bank's investment in the capital of a single non-financial institution may not exceed 15% of its regulatory capital.

Banks comply with prescribed exposure limitations and investment volumes for commercial banks. Temporary departures have been recorded in cases of a bank's exposure to one person, which is not to exceed 25%. Such deviations are rare, short-term occurrences and as such are characterised as exceptions without a significant effect on the overall banking system.

3.5 Bank Earnings Quality

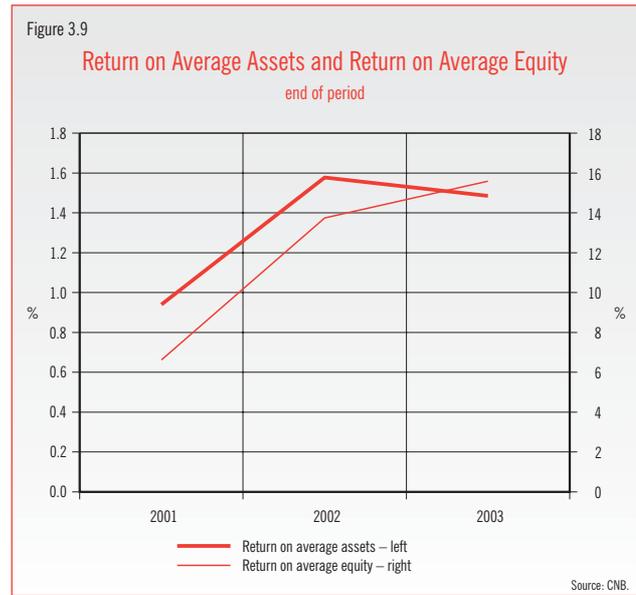
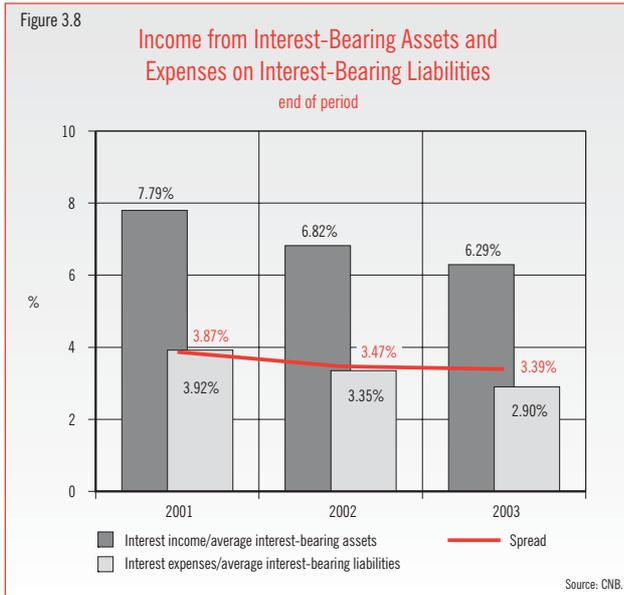
In 2003, banks reported a profit of HRK 2,727.8m. Of 41 banks 36 earned profit amounting to HRK 2,786.1m, while 5 banks incurred losses in the total amount of HRK 58.3m.

Table 3.9 Bank Income Statement
in million HRK and %

	2001		2002		2003	
	Amount	Change	Amount	Change	Amount	Change
1. Net interest income	4,658.1	7.7	5,285.4	13.5	6,330.7	19.8
1.1. Interest income	8,973.6	6.9	9,940.4	10.8	11,119.1	11.9
1.2. Interest expenses	4,315.5	6.0	4,655.0	7.9	4,788.4	2.9
2. Net non-interest income	1,256.7	-36.6	2,175.3	73.1	1,911.8	-12.1
2.1. Non-interest income	3,230.8	12.2	4,107.2	27.1	4,440.6	8.1
2.2. Non-interest expenses	1,974.1	119.8	1,931.9	-2.1	2,528.8	30.9
3. General administrative expenses and depreciation	3,878.1	8.4	4,427.2	14.2	4,832.7	9.2
4. Net operating income before provisions	2,036.7	-25.3	3,033.6	48.9	3,409.9	12.4
5. Loan loss provision expenses	807.9	-37.8	488.8	-39.5	597.8	22.3
6. Pre-tax profit/loss	1,228.8	-14.0	2,544.8	107.1	2,812.1	10.5
7. Income tax	334.6	171.4	470.0	40.5	84.3	-82.1
8. After-tax profit/loss	894.2	-31.5	2,074.8	132.0	2,727.8	31.5

Source: CNB.

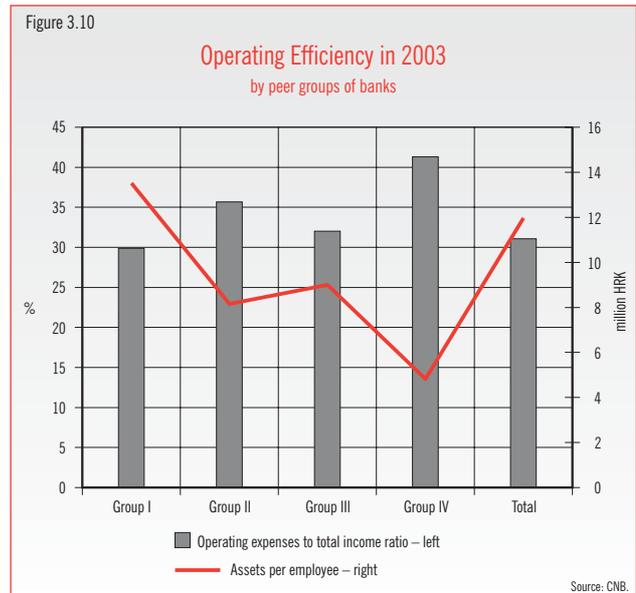
As shown in Table 3.9, net interest income generated in 2003 went up 19.8% compared to 2002, resulting from the larger growth of interest income over interest expenses. Net non-interest income reduced 12.1% compared to the previous



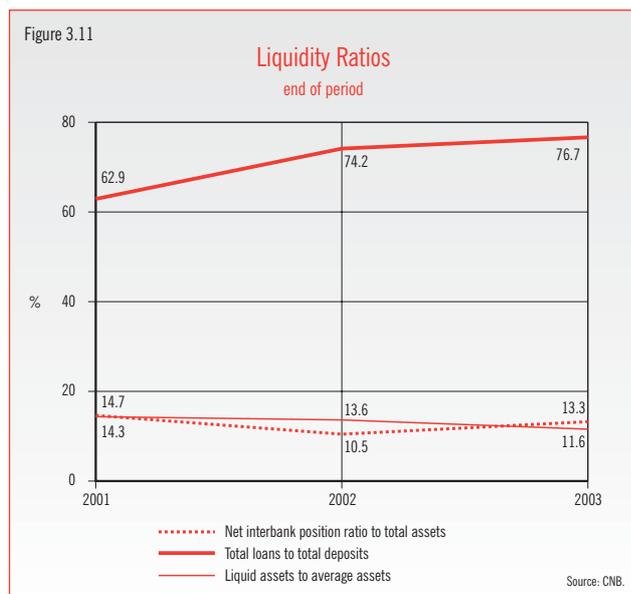
year due to a substantial, 30.9%, growth of non-interest expenses. Net non-interest income rose by only 8.1%. Regardless of the above-mentioned rise in non-interest income and general administrative expenses and depreciation in 2003 (which rose by 9.2%), net operating income before provisions grew by 12.4% on a year earlier.

Interest income measured in relation to average interest-bearing assets declined from 6.82% in 2002 to 6.29% at the end of 2003.

Expenses for loan loss provisions grew by 22.3%, while at the same time the share of bad placements in total placements reduced from 5.9% at the end of 2002 to 5.1% in 2003. Earned profit grew by 31.5% over the previous year, which triggered an upward trend in the return on average assets, while the return on average equity fell, primarily due to a substantial growth of total assets not followed by an increase in profit as it was the case in the previous year when it grew 132% (Figure 3.9). Large banks in Group I managed their resources more successfully than banks in other three groups, which impacted the efficiency of the entire banking system (Figure 3.10).



Respectable results the banking system recorded in 2003 were primarily driven by the volume of business activity in 2003 which will surely be the decisive factor in the future as well.



3.6 Bank Liquidity

Figure 3.11 shows the movements of the three bank liquidity ratios. Net interbank position ratio to total assets¹² grew from 10.5% in 2002 to 13.3% in 2003. The ratio of total loans to total deposits grew mildly from 74.2% at the end of 2002 to 76.7% at the end of 2003, while the gross liquid assets to total assets ratio continued decreasing, from 14.3% in 2001 to 13.6% in 2002, to end 2003 at 11.6%.

3.7 Performance of Housing Savings Bank

At the end of 2003, total assets of housing savings banks amounted to HRK 3,521m. There were 4 housing savings banks, while the only remaining savings bank initiated liquidation proceedings (see Table 3.1). Assets of housing savings banks grew by 48.5% in 2003 compared to the previous year but accounted for only 1.7% of total bank assets.

3.7.1 Balance Sheet Structure of Housing Savings Banks

As shown in Table 3.10 investment portfolio of securities registered the largest growth rate and the largest change in its share in total assets. It grew due to substantially larger investments of housing savings banks in central government bonds. A substantial rise, in nominal terms, was recorded in loans granted to financial institutions (1,441.2%) and investments in MoF T-bills and CNB bills (33.5%). On the other side, there was a serious reduction in deposits with banking institutions (58%), trading portfolio of securities (33.3%), and tangible assets and software (26.6%). Such changes in certain asset items of housing savings banks were driven by changes in the price of capital in the market and changes in the attractiveness of returns on different products.

¹² The difference between assets placed with financial institutions and assets received from financial institutions relative to total assets.

Table 3.10 Structure of Savings Bank and Housing Savings Bank Assets
end of period, in million HRK and %

	2001			2002			2003		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Money assets and deposits with the CNB	156.8	6.6	71.1	27.9	1.2	-82.2	0.0	0.0	-100.0
1.1. Money assets	54.7	2.3	58.5	4.6	0.2	-91.6	0.0	0.0	-100.0
1.2. Deposits	102.0	4.3	78.7	23.3	1.0	-77.2	0.0	0.0	-100.0
2. Deposits with banking institutions	123.5	5.2	24.8	61.6	2.6	-50.1	25.9	0.7	-58.0
3. MoF treasury bills and CNB bills	418.9	17.6	76.5	561.5	23.7	34.0	749.6	21.3	33.5
4. Trading portfolio of securities	472.6	19.8	227.4	1,149.6	48.5	143.2	766.8	21.8	-33.3
5. Loans to financial institutions	14.4	0.6	34.4	13.7	0.6	-5.0	211.4	6.0	1,441.2
6. Loans to other clients	701.2	29.4	12.1	200.1	8.4	-71.5	187.8	5.3	-6.2
7. Investment portfolio of securities	337.0	14.1	76.5	277.8	11.7	-17.6	1,527.9	43.4	450.1
8. Investments in subsidiaries and associates	1.1	0.0	-18.1	1.2	0.1	5.9	0.0	0.0	-100.0
9. Foreclosed and repossessed assets	16.4	0.7	-7.5	6.0	0.3	-63.1	0.0	0.0	-100.0
10. Tangible assets and software (net of depreciation)	56.2	2.4	-1.6	25.9	1.1	-54.0	19.0	0.5	-26.6
11. Interest, fees and other assets	96.1	4.0	-12.4	48.8	2.1	-49.2	38.9	1.1	-20.3
12. Net of: Specific reserves for unidentified losses	9.0	0.4	13.8	2.6	0.1	-70.6	6.1	0.2	132.3
Total	2,385.3	100.0	51.2	2,371.4	100.0	-0.6	3,521.0	100.0	48.5

Source: CNB.

Deposits were dominant in the liability structure of housing saving banks, totaling HRK 3,265.2m at the end of 2003. Their share in total liabilities reflected an upward trend (from 91.7% at end-2002 to 92.7% at end-2003), rising by 50.1% in nominal terms, primarily on account of deposit growth in housing savings banks. The share of other liability items in total liabilities was negligible.

Table 3.11 Structure of Savings Bank and Housing Savings Bank Liabilities
end of period, in million HRK and %

	2001			2002			2003		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Loans from financial institutions	3.5	0.1	-74.1	0.0	0.0	-100.0	0.4	0.0	-
1.1. Short-term loans	2.5	0.1	-79.8	0.0	0.0	-100.0	0.4	0.0	-
1.2. Long-term loans	1.0	0.0	-15.9	0.0	0.0	-100.0	0.0	0.0	-
2. Deposits	1,964.8	82.4	64.1	2,175.3	91.7	10.7	3,265.2	92.7	50.1
2.1. Giro account and current account deposits	6.7	0.3	-3.5	0.3	0.0	-95.3	0.0	0.0	-100.0
2.2. Savings deposits	47.2	2.0	0.7	7.6	0.3	-83.9	0.1	0.0	-98.3
2.3. Time deposits	1,910.9	80.1	67.2	2,167.4	91.4	13.4	3,265.0	92.7	50.6
3. Other loans	2.0	0.1	-54.0	0.0	0.0	-100.0	0.0	0.0	-
4. Debt securities issued	0.0	0.0	-	0.0	0.0	-	0.0	0.0	-
5. Supplementary capital	28.0	1.2	-46.7	0.0	0.0	-100.0	10.7	0.3	-
5.1. Subordinated instruments issued	3.8	0.2	-51.4	0.0	0.0	-100.0	0.0	0.0	-
5.2. Hybrid instruments issued	24.2	1.0	-45.9	0.0	0.0	-100.0	10.7	0.3	-
6. Interest, fees and other liabilities	85.1	3.6	31.9	45.6	1.9	-46.4	89.9	2.6	97.2
7. Profit/loss for the current year	-29.4	-1.2	-55.5	14.6	0.6	-149.6	-9.3	-0.3	-164.0
8. Capital	331.2	13.9	6.3	135.9	5.7	-59.0	164.1	4.7	20.8
Total	2,385.3	100.0	51.2	2,371.2	100.0	-0.6	3,521.0	100.0	48.5

Source: CNB.

3.7.2 Housing Savings Bank Capital

Total housing savings bank capital amounted to HRK 164.1m at the end of 2003, which was 33% more than at the end of 2002. In the structure of total housing savings bank capital, share capital increased by HRK 10m, i.e. 5.5% compared to 2002. The structure of housing savings bank capital is shown in Table 3.12.

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

	2001			2002			2003		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Share capital	379.4	114.5	11.7	183.4	148.6	-51.7	193.4	117.8	5.5
2. Retained income/loss	-64.7	-19.5	22.4	-73.2	-59.3	13.1	-51.5	-31.3	-29.7
3. Legal reserves	3.6	1.1	-7.9	0.3	0.3	-90.8	1.5	0.9	347.8
4. Reserves provided for by the articles of association and other capital reserves	12.9	3.9	-38.4	12.9	10.4	-0.4	20.7	12.6	61.1
Total	331.2	100.0	22.9	123.4	100.0	-62.7	164.1	100.0	33.0

Source: CNB.

At the end of 2003, regulatory capital of housing savings banks totalled HRK 168.2m, up from HRK 115m as per 31 December 2003. The capital adequacy ratio of housing savings banks stood at 30.5%, compared to 47.2% at the end of 2002. Housing savings banks reported exceptionally high capital adequacy due to low risk-weighted assets (still low credit activity).

3.7.3 Asset Quality of Housing Savings Banks

Table 3.13 Classification of Savings Bank and Housing Savings Bank Placements by Risk Groups
end of period, in million HRK and %

Placements	2001		2002		2003	
	Amount	Share	Amount	Share	Amount	Share
1. Fully recoverable placements	1,653.8	93.4	1,047.3	98.0	2,707.3	100.0
1.1. Group A	1,582.9	89.4	980.9	91.8	2,707.3	100.0
1.2. Group B	70.9	4.0	66.4	6.2	0.0	0.0
2. Partly recoverable placements	79.5	4.5	18.2	1.7	0.2	0.0
2.1. Group C	59.8	3.4	14.1	1.3	0.2	0.0
2.2. Group D	19.7	1.1	4.1	0.4	0.0	0.0
3. Irrecoverable placements	36.6	2.1	3.2	0.3	0.0	0.0
3.1. Group E	36.6	2.1	3.2	0.3	0.0	0.0
Total	1,770.0	100.0	1,068.7	100.0	2,707.5	100.0

Source: CNB.

Table 3.14 Total Provision to Total Placement Ratio of Savings Banks and Housing Savings Banks
end of period, in million HRK and %

	2001	2002	2003
1. Total provisions for losses	82.5	18.8	6.3
1.1. Placement value impairment (loss)	73.5	16.1	0.1
1.2. Provisions for unidentified losses	9.0	2.7	6.2
2. Total placements	1,770.0	1,073.6	2,717.5
3. Relative ratio of total provisions to total placements	4.7	1.8	0.2

Source: CNB.

At the end of 2003, fully recoverable placements (groups A and B) accounted for 100% of total risk assets of housing savings banks. Therefore, it would not be incorrect to expect a similar trend in the future if we bear in mind the specific loan product these specialised institutions provide.

3.7.4 Housing Savings Bank Earnings Quality

In 2003, housing savings banks reported operating loss of HRK 9.3m. Of four housing savings banks three reported a loss in the total amount of HRK 12m, while one reported a profit of HRK 2.7m.

All income statement items (except non-interest income and net non-interest income) rose in nominal terms compared to 2002. A substantial decrease in net non-interest income of housing savings banks influenced this loss. Housing savings banks have been operating for six consecutive years. Therefore, it is expected that they will register substantial income from interest on loans over the years to come since they will soon start granting housing loans based on housing savings agreements with large contracted amounts, which required a minimum of 5 years of saving.

Table 3.15 Savings Bank and Housing Savings Bank Income Statement
in million HRK and %

	2001		2002		2003	
	Amount	Change	Amount	Change	Amount	Change
1. Net interest income	90.9	19.6	44.6	-51.0	61.8	38.7
1.1. Interest income	208.6	7.6	114.4	-45.1	152.0	32.8
1.2. Interest expenses	117.7	-0.1	69.9	-40.6	90.2	29.1
2. Net non-interest income	46.8	373.2	70.3	50.3	30.7	-56.4
2.1. Non-interest income	101.3	40.5	117.3	15.8	81.5	-30.5
2.2. Non-interest expenses	54.5	-12.4	47.0	-13.9	50.8	8.3
3. General administrative expenses and depreciation	146.2	11.5	80.9	-44.7	96.8	19.6
4. Net operating income before provisions	-8.5	-81.2	34.0	-499.2	-4.3	-112.7
5. Loan loss provision expenses	11.4	-29.6	6.9	-39.7	4.8	-30.6
6. Pre-tax profit/loss	-19.9	-67.6	27.1	-236.3	-9.1	-133.5
7. Income tax	3.8	-17.9	0.0	-100.0	0.3	
8. After-tax profit/loss	-23.7	-64.1	27.1	-214.4	-9.3	-134.5

Source: CNB.

Payment Operations

4

4.1 Cashless Payment System

The transfer of business entities' accounts from FINA to banks and the associated adjustment of the structure of business entities' accounts, as the most demanding part of the payment system reform, saw their completion and implementation in 2002. In 2003, the terms and the manner of payment transactions between banks and their clients were given their final form. The same year also saw the launching of a growing number of new banking services, such as e-payments, ATMs for business entities, and prepaid cards.

In 2003, the CNB issued approvals for conducting payment transactions to eleven savings and loan co-operatives, thus allowing them to manage accounts on behalf of their members and execute payment transactions across these accounts. A National Payment System Committee was set up which discussed, at its four sessions, issues related to domestic payment system transactions. Efforts were made to further modernise the Croatian Large Value Payment System in accordance with the standard interbank system requirements. Communication channels for the transfer of payment transactions between the CNB and cash supply centres have been upgraded with program solutions that ensure automated processing of payment transactions in real time, from the receipt of the payment order to the moment when the account of a bank with the CNB is credited with cash. After the work on the opening of business entities' accounts in accordance with their prescribed structure was completed, adjustments were made to household accounts in accordance with the prescribed structure.

4.1.1 Introduction of New Technological Solutions and an Overview of Payments Executed through Interbank Systems

With the aim of achieving technical and technological improvement and adjustment with international standards in the area of interbank system development, a new version of the Croatian Large Value Payment System was installed, new standards were put in place for the users of the SWIFT technology and a licence was obtained for the *SWIFT Alliance Access Workstation*. All the necessary actions were taken for the introduction of *SWIFTNet* as a new technology.

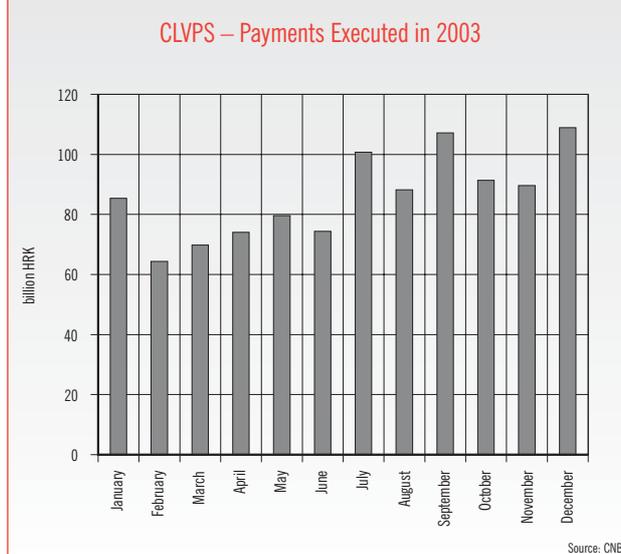
The settlement of payment transactions through the Croatian Large Value Payment System and the National Clearing System on each business day throughout the year was conducted in accordance with the rules defining interbank system settlement, without any larger deviations as regards the time of settlement prescribed by payment execution schedule. No problems were detected that could in any way compromise the stability and safety of interbank systems as the basic payment transaction infrastructure in the country.

Table 4.1 CLVPS – Payments Executed in 2003

Month	CLVPS – total		Average amount per payment transaction c = (a/b)
	Transaction amount	Transaction number	
	a	b	
January	85,423,826,292	7,821	10,922,366
February	64,396,179,555	7,326	8,790,087
March	69,756,997,844	7,987	8,733,817
April	73,998,919,969	8,442	8,765,567
May	79,636,251,949	8,306	9,587,798
June	74,389,495,639	7,993	9,306,830
July	100,709,162,625	10,717	9,397,141
August	88,188,194,295	9,194	9,591,929
September	107,200,558,882	10,787	9,937,940
October	91,370,080,696	9,905	9,224,642
November	89,589,057,339	8,634	10,376,310
December	108,838,889,998	10,053	10,826,509
Total	1,033,497,615,081	107,165	9,643,985
Average	86,124,801,257	8,930	9,643,985

Source: CNB.

Figure 4.1



Source: CNB.

Table 4.2 CLVPS – Payments Executed

Year	CLVPS		Average amount per payment transaction
	Transaction amount	Transaction number	
Total in 2002	903,749,342,511	103,803	8,706,389
Total in 2003	1,033,497,615,081	107,165	9,643,985

Source: CNB.

Table 4.3 NCS – Payments Executed in 2003

Month	NCS – total		Average amount per payment transaction c = (a/b)
	Transaction amount	Transaction number	
	a	b	
January	44,378,226,884.26	8,096,399	5,481
February	42,004,188,841.43	8,069,113	5,206
March	44,919,898,780.50	8,820,589	5,093
April	47,501,892,280.52	9,199,055	5,164
May	50,291,252,517.58	9,298,986	5,408
June	47,608,520,377.92	9,014,487	5,281
July	48,794,624,327.52	10,337,952	4,720
August	46,927,733,381.03	8,688,532	5,401
September	51,681,474,886.57	9,608,646	5,379
October	53,487,573,520.26	9,807,043	5,454
November	50,808,014,684.13	8,861,947	5,733
December	63,024,150,006.81	10,221,141	6,166
Total	591,427,550,489	110,023,890	5,375
Average	49,285,629,207	9,168,658	5,375

Source: CNB.

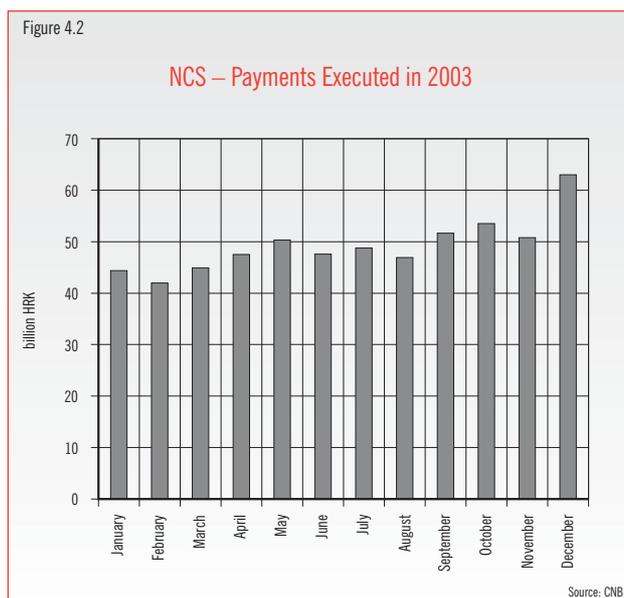


Table 4.4 NCS – Payments Executed

Year	NCS		Average amount per payment transaction
	Transaction amount	Transaction number	
Total in 2002	557,975,849,272	99,087,556	5,631
Total in 2003	591,427,550,489	110,023,890	5,375

Source: CNB.

4.1.2 Receipt and Processing of Savings and Loan Co-operatives' Applications for Authorisations to Conduct Payment Transactions

During 2003, twelve savings and loan co-operatives applied for authorisations to conduct payment transactions on behalf of their members. After reviewing the submitted applications, authorisations were granted to 11 savings and loan co-operatives, while the authorisation process for one application is still underway. At first, all applications were found to be incomplete, so the applicants were asked to make the necessary amendments. As provided by the Decision on the Terms and the Manner of Conducting Payment Transactions in Savings and Loan Co-operatives (official gazette *Narodne novine*, No. 150/2002), the Ministry of Finance was asked to give its opinion on the business history of each savings and loan co-operative. On the basis of issued authorisation, each savings and loan co-operative was assigned a number in the domestic payment system.

4.1.3 Unified Register of Business Entities' Accounts (URBEA)

As shown by URBEA data as at 31 December 2003, the total number of registered business entities in the Republic of Croatia was 245,484, of which 124,923 were legal persons (50.89%), 110,253 (44.91%) were natural persons carrying out a registered activity (craftsmen) and 10,308 (4.20%) were free-lancers.

Business entities had a total of 296,829 regular operating accounts in banks, or 1.21 accounts on average per each business entity.

Of the total of 245,484 business entities at end-2003, 197,597 (80.49%) were liquid, while 47,887 (19.51%) of them had registered arrears (blocked accounts).

Of the total number of regular operating accounts, 53,255 (17.94%) were blocked (registered arrears), while 243,574 (82.06%) business entities' accounts were liquid.

A total of 490 regular operating accounts were registered with the URBEA as at 31 December 2003, opened with savings and loan co-operatives authorised by the CNB to conduct payment transactions on behalf of their members.

Tables and figures shown below present URBEA data as at 31 December 2002 and 31 December 2003.

Table 4.5 Number of Business Entities

Total	Number		Share	
	2002	2003	2002	2003
1. Business entities	249,254	245,484	100.00	100.00
1.1. Legal persons	135,648	124,923	54.42	50.89
1.2. Natural persons (craftsmen)	103,859	110,253	41.67	44.91
1.3. Free-lancers	9,747	10,308	3.91	4.20

Source: CNB.

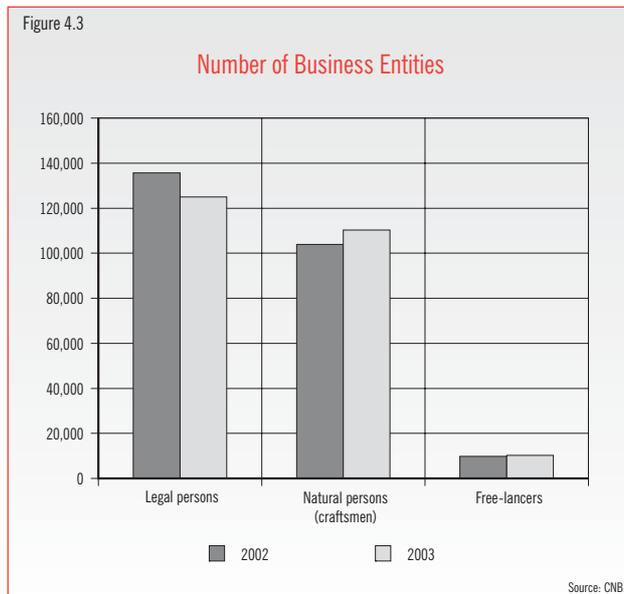


Table 4.6 Business Entities' Accounts

Total	Number		Share	
	2002	2003	2002	2003
1. Business entities	249,254	245,484	100.00	100.00
1.1. Liquid business entities	201,603	197,597	80.88	80.49
1.2. Illiquid (blocked) business entities	47,651	47,887	19.12	19.51

Source: CNB.

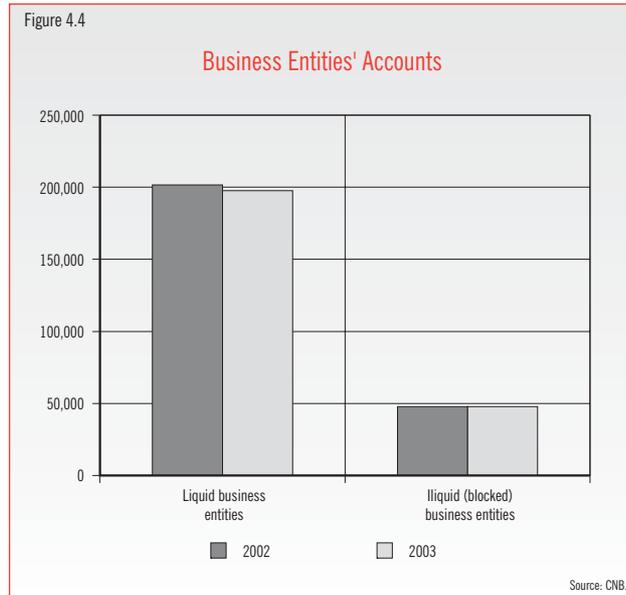


Table 4.7 Regular Operating Accounts

Total	Number		Share	
	2002	2003	2002	2003
1. Opened accounts	287,901	296,829	100.00	100.00
1.1. Liquid accounts	236,780	243,574	82.24	82.06
1.2. Illiquid (blocked) accounts	51,121	53,255	17.76	17.94

Source: CNB.

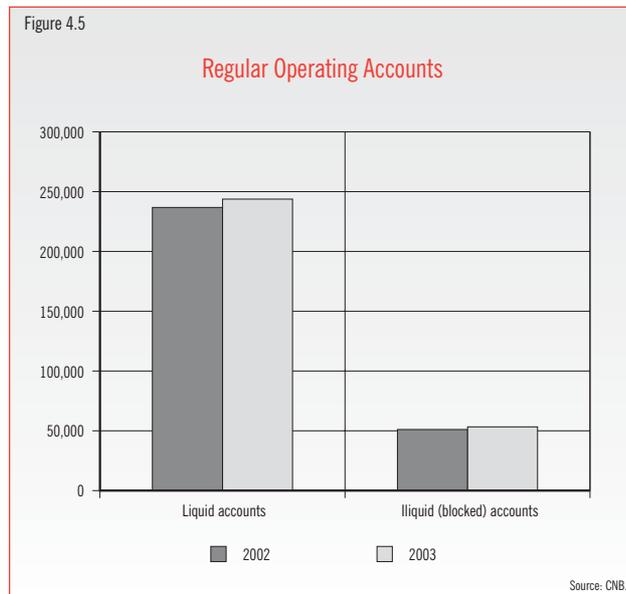


Table 4.8 Average Number of Regular Operating Accounts per Business Entity

	2002	2003
Average number of accounts per business entity	1.16	1.21

Source: CNB.

4.1.4 National Payment System Committee

The National Payment System Committee was set up by the Croatian National Bank, the Ministry of Finance, the Croatian Chamber of Commerce (its Banking and Finance Department) and the Croatian Banking Association on 24 February 2003 on the basis of a document entitled the Agreement Establishing the National Payment System Committee. The purpose of this Committee was to establish interinstitutional co-operation in the area of domestic payment system and to promote its further development. At its four sessions, the Committee discussed various unresolved issues involving broader aspects of the payment system. An agreement was reached on the common procedures to be followed to ensure a uniform application of the legislation in the area of payment transactions. The Committee also examined the possibility of co-operation between the relevant law-making bodies and launched an initiative for resolving the issue of the future organisation of the National Clearing System. The issues discussed also included the question of the collection of bills of exchange in the payment system and different interpretations by banks of the provisions of the Default Interest Rate Act. A possible model for the future organisation of cash supply centres in the country was also presented at one of the sessions. Within its jurisdiction, the National Payment System Committee adopted several decisions laying down recommendations for the procedures to be followed when dealing with unresolved issues.

Further Activities

The establishment of a Council of a group of users of the National Clearing System was initiated with the aim of developing mutual co-operation between banks as participants in the clearing system and major users of the NCS and the CNB as the domestic payment system regulator. The NCS user group is expected to promote an on-going technical and technological development and increased functionality of the NCS, in accordance with the needs of the system's users, by establishing rules that would govern their work and by providing basic guidelines for the future development of the domestic payment system.

One of the activities related to the system's development and its information upgrading involves collecting statistical data regarding the payment system that will enable a follow up of developments in its instruments, a maximum use of domestic payment system capacities, the system's development and its comparability with payment systems around the world. This will ensure the availability of information required in terms of appropriate measures that have to be taken to ensure future development of the payment system. The collection and disclosure of statistical data regarding the payment system is a standard practice around the world. The data collected will be harmonised with the recommendations provided by the Bank for International Settlements. The collected statistical data regarding the payment system will be incorporated in a document issued by the European Central Bank entitled *Payment and Securities Settlement System in the Accession Countries (Blue Book)*, intended for EU candidate countries, a variant of a docu-

ment entitled *Payment and Securities Settlement System in the European Union (Blue Book)* intended for EU member countries. The collection of data is scheduled to begin in the second half of 2004.

The preparations for the survey that should help the CNB examine user perception of the payment system reform and user satisfaction as regards the system's functioning are in their final form. The survey will include banks as bodies responsible for the domestic payment system and legal persons (small, medium and large companies) and natural persons carrying out a registered activity (craftsmen). The survey, based on a representative sample and a questionnaire prepared by the CNB will be conducted by an independent company to provide a comprehensive picture of the functioning of the domestic payment system.

The CNB plans to commence imposing tariffs on banks for their use of payment execution services through the CLVPS. The CNB will also define the tariff for the CLVPS services on a non-profit principle for the coverage of costs related to the functioning, maintenance, and the development of the CLVPS that will have to be paid from the income realised from tariffs paid for CLVPS services. This type of tariff is commonly used in Europe.

**Currency
Department
Operations**

5

5.1 Currency Department Operations

5.1.1 The Balance and Movements of Cash in Circulation

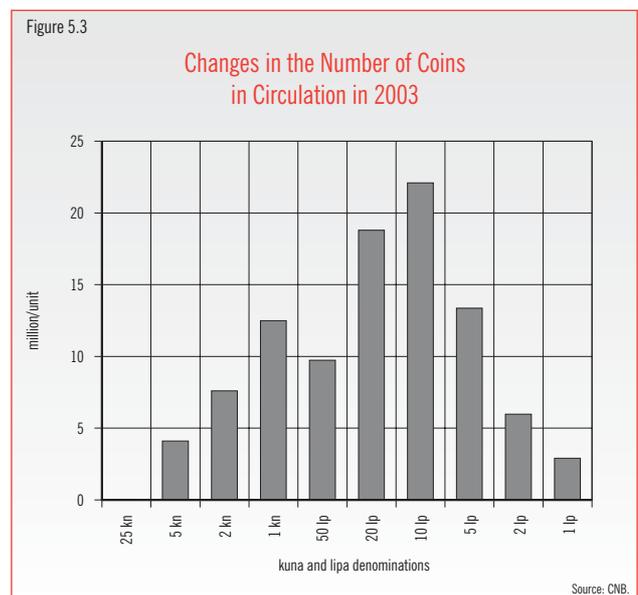
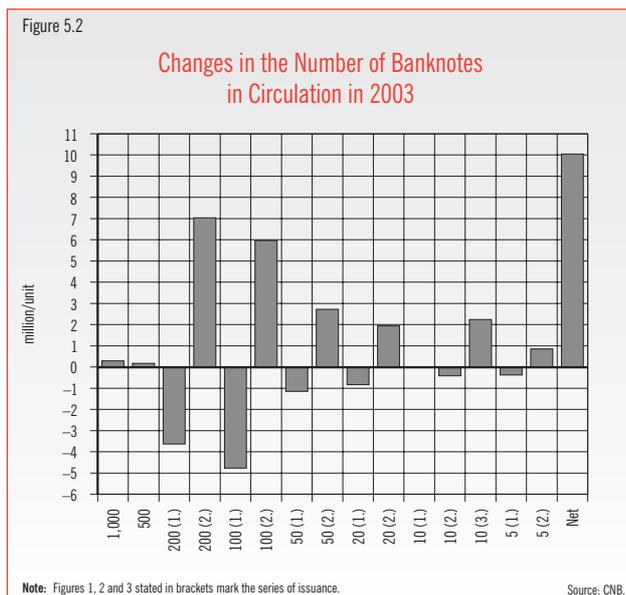
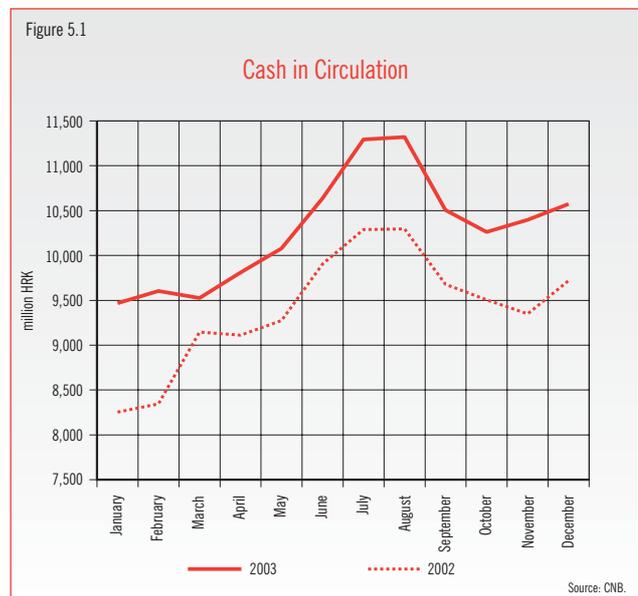
On 31 December 2003, the balance of cash in circulation totalled HRK 10.57bn, which was a rise of 9.2% in comparison to the end of 2002. The growth of cash in circulation by 9.2% in 2003 was 4.2 percentage points lower than the growth rate registered in 2002.

On 31 December 2003, there were 94.7 million banknotes, valued at HRK 10.078bn, outside the CNB and cash supply centres.

Compared with late 2002, the quantity of banknotes outside the vaults rose by 11.8%, while the total value of banknotes outside the vaults rose by 8.5%.

On 31 December 2003, there were 960 million coins outside the vaults, worth HRK 0.495bn.

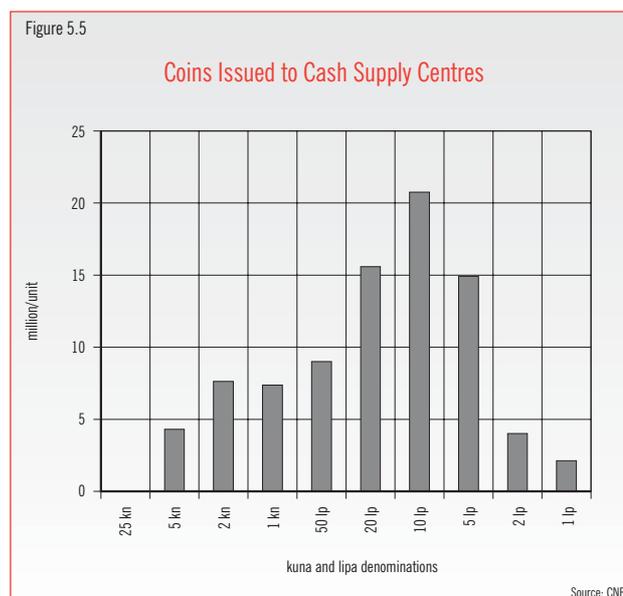
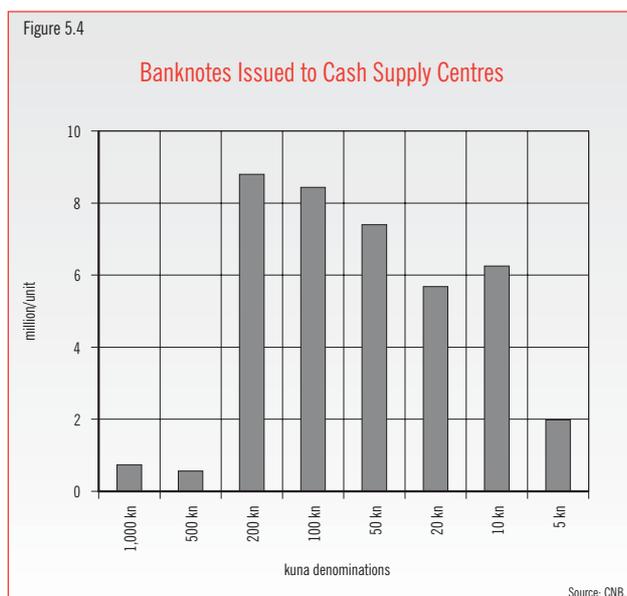
In comparison with late 2002, the quantity of coins outside the vaults increased by 11.2%, while their value increased by 14.1%.



The amount of kuna and lipa banknotes and coins outside the vaults in 2003 averaged 21 banknote and 218 coins per citizen.

5.1.2 Supply with Cash

For the purpose of settling bank cash requirements in 2003 39.8 million banknotes (worth HRK 4.1bn) and 85.6 million coins (worth HRK 0.054bn) were issued from the vault of the Croatian National Bank to cash supply centres. The value of issued banknotes decreased by 12% compared to 2002, while the value of issued coins went up 182% (or 51% by the number of coins). Such a significant rise was the result of the increased demand for 5, 2 and 1 kuna coins.



5.1.3 Withdrawing and Processing Worn Out Banknotes

The CNB withdrew 35.2 million banknotes from cash supply centres over 2003, valued at HRK 3.8bn. The banknote sorting system processed 34.0 million banknotes, of which 88.2%, that is, 30.0 million units valued at HRK 2.9bn, were immediately destroyed as they failed to meet the quality standards set for banknotes in circulation.

Table 5.1 Total Processed and Destroyed Banknotes in 2003

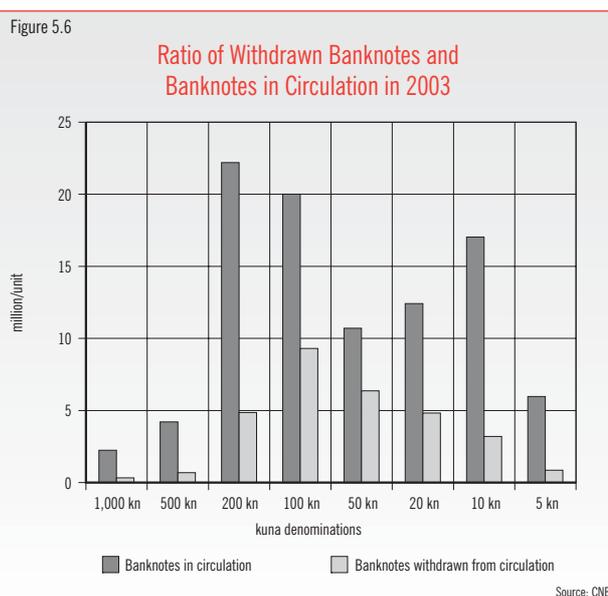
Total processed			Total destroyed			
Units	Denominations	Amount in HRK	Units	Denominations	Amount in HRK	Kilogrammes
584,734	1,000	584,734,000.00	369,266	1,000	369,266,000.00	388
1,733,384	500	866,692,000.00	1,308,637	500	654,318,500.00	1,309
2,367,868	200 (1.)	473,573,600.00	2,305,565	200 (1.)	461,113,000.00	2,190
375	200 (2.)	75,000.00	202	200 (2.)	40,400.00	0
10,222,250	100 (1.)	1,022,225,000.00	9,687,321	100 (1.)	968,732,100.00	8,719
261	100 (2.)	26,100.00	212	100 (2.)	21,200.00	0
8,535,021	50 (1.)	426,751,050.00	6,421,432	50 (1.)	321,071,600.00	5,458
202	50 (2.)	10,100.00	199	50 (2.)	9,950.00	0
7,345,947	20 (1.)	146,918,940.00	6,847,404	20 (1.)	136,948,080.00	5,478
97,548	20 (2.)	1,950,960.00	95,435	20 (2.)	1,908,700.00	79
2	10 (1.)	20.00	0	10 (1.)	0	0
1,034,235	10 (2.)	10,342,350.00	938,254	10 (2.)	9,382,540.00	704
504,509	10 (3.)	5,045,090.00	491,104	10 (3.)	4,911,040.00	383
1,607,954	5 (1.)	8,039,770.00	1,549,053	5 (1.)	7,745,265.00	1,084
10,348	5 (2.)	51,740.00	10,193	5 (2.)	50,965.00	7
34,044,638		3,546,435,720.00	30,024,277		2,935,519,340.00	25,800

Source: CNB.

According to the latest data, the renewal index was 32 (destroyed banknotes/circulation x 100).

5.1.4 Expert Evaluation of Banknotes

In 2003, the expert evaluation of banknotes identified 3,316 counterfeit banknotes valued at HRK 975,380.00. Compared with 2002, the number of identified counterfeits rose by 134%. The largest number of counterfeits 971 or 29% of the total went to 200 kuna banknotes. As 2003 saw a substantial rise in counterfeits, additional campaigns were launched in order to make the general public and banknote users (especially networks of retail outlets) acquainted with the security features of kuna banknotes. As shown by the above indicators, 35 counterfeits were discovered per 1 million banknotes in circulation in 2003. 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.



Source: CNB.

Table 5.2 Identified Counterfeit Banknotes in 2003

Denominations	1,000	500	200	100	50	20	10	5	
Units	585	140	971	951	593	67	9	0	3,316
Share	18.0	4.0	29.0	29.0	18.0	2.0	0.0	0.0	100.0

Source: CNB.

5.1.5 Issuing Commemorative Coins

In 2003, the Croatian National Bank issued 1,000 numismatic sets of kuna and lipa circulation coins, with "2003" marking the year of issue.

5.1.6 Cash Supply Centres

With the Decision on Supplying Banks with Cash (official gazette *Narodne Novine*, No. 22/2002), the Croatian National Bank regulated the supply of cash to banks through cash centres. In accordance with the said Decision the CNB began setting up a new cash flow system in the Republic of Croatia in 2002, which was to provide for the supply of cash through cash centres functioning as specialised institutions for depositing, issuing and processing large amounts of cash. For this reason, the Croatian National Bank in co-operation with FINA – which has been entrusted with performing cash centre transactions on behalf and for the account of the Croatian National Bank pursuant to the agreement the two institutions entered – launched a study on the concept of organisation of cash supply centres in the Republic of Croatia. The study is aimed at evaluating the current state in cash operations, existing infrastructure and the overall costs of the system, in order to be able to devise a new model and dynamics of cash supply centre organisation based on the analysis of the existing one. The new model should optimise the costs of cash management for all institutions involved (processing, safekeeping, and transport), while at the same time enabling the implementation of new products in accordance with clients' needs.

The said study on the organisation of cash supply centres will be completed on 15 June 2004.

The Croatian National Bank estimated that the creation as well as the application of the results of this study would substantially influence cash operations in the Republic of Croatia. Therefore, from the very beginning it included banks, cash transportation companies and large shop chains into the process in order to achieve consensus among all participants on the future model of cash operations and services provided by cash supply centres.

Public Relations

6

6.1 Public Relations of the Croatian National Bank

The Croatian National Bank awards great attention to informing the public of its goals and aims, monetary policy measures and their effects, as well as other activities within the realm of its responsibility. It considers the transparency of its activities a key prerequisite for its credibility and wide support in performing its central bank role in accordance with the principles of market economy and compliance with contemporary international standards.

The Croatian National Bank uses and develops different forms of communication with the domestic and international public. It publishes press releases on the decisions of the CNB Council, the bank's governing body, immediately upon their adoption, as well as issues press releases on the CNB's interventions in the foreign exchange market and on other measures of general interest. Press releases, of which there were several dozens in 2003, are published or broadcast in the media and posted on the CNB's official home page both in Croatian and English language.

Through its eleven press conferences or group briefings as well as through a large number of interviews and press releases its top officials gave domestic and foreign press, the Croatian National Bank strove to inform both experts and the general public, as detailed as possible, on the activities of Croatia's central monetary institution and the problems it has faced in executing its tasks. These public relations activities were also aimed at informing the public on the methods and instruments chosen to maintain the country's macroeconomic stability and thus strengthening the foundations of healthy and sustainable economic growth. Participation in numerous meetings of experts in the field as well as presentations in the country and abroad served the same purpose.

In addition to answering to numerous telephone inquiries, Public Relations Office of the Croatian National Bank replied in writing (via fax or e-mail) to several hundred individual queries by members of the press from the country and abroad. It also responded to over a thousand queries of citizens, banks, companies and other different domestic and foreign institutions in need of an explanation, directions or help in solving problems they felt belonged to the scope of central bank's responsibility.

In order to make journalists who cover this particular field better acquainted with the work of the Croatian National Bank or new regulation related to its activities, the Croatian National Bank occasionally organises seminars. In addition, the CNB organised lectures for several groups of visitors who were interested in learning more about the role and work of Croatia's central bank, such as economic advisors at different embassies, secondary school and university students, and women's association.

The world-renowned Dubrovnik Conference on Transition Economies organised by the Croatian National Bank every year for almost a decade, which boasts the

participation of acclaimed scientists and finance policy makers from Croatia and numerous other countries as well as participants from most important international financial institutions, contributes to the recognition of the CNB's achievements as well as overall achievements of our country.

Maintaining of its home page plays an increasingly important role in the transparency of the CNB's operations. Apart from posting press releases related to decisions adopted by the CNB's Council, the CNB's interventions in the foreign exchange market, its exchange rate lists and other similar topics this page provides access to legal and other regulations, decisions, instructions and numerous other documents relevant to the operation of the Croatian National Bank and Croatia's banking system. This page also gives experts and the general public access to the CNB's monthly and quarterly bulletins, annual reports, lists of banking institutions and bank bulletins as well as numerous other useful publications and analyses, almost all in both Croatian and English language. All documents related to Croatia's relations with the International Monetary Fund are also available to those interested on the said CNB's home page – www.hnb.hr.

It is noteworthy that Croatia was included in the first group, counting some several dozen countries, whose central banks adopted and started applying the highest international standards of public accessibility and speedy publication of statistical data related to their scope of activity. Regularly updated data on its home page can be seen as yet another proof of the high level of transparency of the CNB's activity. We should add in the end, that by the evaluation of two American scientists, Steve Hanke and Matt Sekerke, of John Hopkins University, based on a survey that encompassed 174 central banks and their web pages, the Croatian National Bank was grouped among the 16 most transparent central banks in the world.

International Relations

7

7.1 Relations between the Republic of Croatia and the International Monetary Fund (IMF)

Within the framework of the country's co-operation with the International Monetary Fund, numerous contacts were made in 2003 with experts of the IMF, both through this institution's representative office and through repeated IMF visits to Croatia and the CNB delegation visits to the IMF.

Especially intensive were talks relating to the signing and the implementation of the financial stand-by arrangement. In addition, IMF technical mission visited Zagreb in April 2003.

Regular consultations related to Article IV of the Articles of Agreement of the IMF were not conducted in 2003; with the approval of the stand-by arrangement, Croatia was automatically placed on the 24-month consultation cycle.

7.1.1 Stand-by Arrangement

In the second half of 2002 preparatory work was initiated for the conclusion of a new stand-by arrangement that was, similarly as the previous arrangement, to be treated as "precautionary", implying that the funds approved were not planned to be, but could be purchased if needed.

The ensuing 14-month, SDR 105.88m Stand-By Arrangement with the Republic of Croatia that was approved by the Executive Board of the IMF on 3 February 2003 provided international confirmation of Croatia's credibility in its commitment towards further fiscal consolidation and structural changes, especially with regard to public debt stabilisation, increased labour market flexibility and further privatisation.

The first review of the arrangement was completed on 1 August 2003. While Croatia's observance of the quantitative performance criteria under the arrangement was satisfactory, the IMF pointed to a delay in the observance of the structural performance criteria. The IMF also expressed its view that the government was on its way to achieve a stabilisation of the public debt ratio, one of the main goals under the arrangement.

Following the second review of the arrangement that was completed on 12 November 2003, the Executive Board of the IMF granted the request of the Republic of Croatia for waivers for the non-observance of four quantitative performance criteria for September 2003 relating to the consolidated central government budget, central government arrears, net usable international reserves and net domes-

tic assets of the Croatian National Bank. The authorities were warned that reducing external vulnerability was a key macroeconomic priority and were advised to continue with sweeping structural reforms.

As end-year measures and criteria under the arrangement were not fully achieved, the current arrangement could not be concluded. Therefore, the authorities have announced a new round of negotiations for a new stand-by arrangement.

7.1.2 Constituency

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 eleven countries (Armenia, Bosnia and Herzegovina, Bulgaria, Cyprus, Georgia, Israel, Macedonia, Moldova, the Netherlands, Romania and Ukraine). The Constituency, which is headed by an Executive Director, a Dutch representative, has a voting power of 4.85% of the total votes in the IMF.

Following years of Constituency leadership as Executive Director, J. de Beaufort Wijnholds was replaced on 15 January 2003 by Jeroen J. M. Kremers, until then Deputy Treasurer General with the Dutch Finance Ministry. Early in April 2003, Mr Kremers paid an inaugural, several-day visit to Croatia where he met with high representatives of the Government of the Republic of Croatia, the Croatian National Bank and the Ministry of Finance.

In June 2003, the Republic of Croatia, in accordance with the rules governing the work of the Constituency, appointed its representative for a two-year term to the post of Advisor to the Executive Director.

7.1.3 Other Forms of Co-operation with the IMF

In 2003, the 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, they took part in the work of the Spring Meeting in Washington and Annual Meeting of the IMF Board of Governors in Dubai, where they met with the representatives of international financial institutions, banks and investment companies.

7.1.4 Financial Transactions

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 Organizations on the Basis of Succession, official gazette *Narodne novine*, No. 89/1992) the Croatian National Bank 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. After repaying before maturity the entire outstanding debt towards the end of 2002, arising from the country's arrangements with the IMF in the '90s, the obligations due in 2003 related to the interest on those arrangements for the last quarter of 2002 (SDR 0.29m) and to the charges on the new stand-by arrangement (SDR 0.26m) in 2003.

As a member of the Special Drawing Rights Department (of the IMF), Croatia also regularly repaid its obligations arising from the allocation of special drawing rights. During 2003, SDR 0.76m was paid on this basis.

Balance at 31 December 2003

General Resources Account	SDR (million)	% quota
Quota	365,10	100,00
IMF holdings	364,94	99,96
Reserve position	0,16	0,04
SDR Department	SDR (million)	% net cumulative allocation
Net cumulative allocation	44,21	100,00
Deposit in SDR account	0,03	0,07
Deposit with PRGF-HIPC Trust Fund	0,52	—
Liabilities Paid in 2003	SDR (million)	—
Interest payments on all arrangements	0,29	—
Charges on the stand-by arrangement	0,26	—
SDR Department membership fee	0,01	—
Net cumulative allocation costs	0,76	—

Note: The value of special drawing rights (SDRs) is the weighted average of the basket of leading world currencies, which is revised every five years. As of 1 January 2001, the currency basket is composed of the American dollar (45%), the euro (29%), the Japanese yen (15%) and the pound sterling (11%).

7.2 Relations between the Croatian National Bank and the Bank for International Settlements (BIS)

The representatives of the CNB participate in the work of regular annual general meetings and extraordinary general meetings of the BIS.

At an Extraordinary General Meeting of the BIS held on 10 March 2003 amendments to the Statutes of the BIS were made under which, starting from the begin-

ning of the new financial year (1 April 2003), new Special Drawing Right would replace the gold franc as the Bank's unit of account, the latter's use being considered as untransparent and not in line with current accounting practices. SDR's introduction as a unit of account led to a change in the structure of BIS capital and a reduction of 12.2% in the Bank's share capital. The BIS reserve fund was increased by the corresponding amount as the nominal value of one share, converted into special drawing rights, was rounded down from its precise converted amount of SDR 5,696 as at 31 March 2003 to SDR 5,000 due to the decision to round down its value.

At its regular Annual General Meeting held on 30 June 2003, the BIS released its 73rd Annual Report for the year 2002/03 and decided that dividends to be paid were to amount to 400 Swiss francs per share.

In addition to the Annual General Meeting, central bank governors from the BIS member countries also met regularly during 2003 to discuss topical issues in the area of international banking and finance. The Governor and other members of the CNB participated in these meetings.

The Croatian National Bank participated in the activities of the BIS aimed at co-ordinating technical assistance provided by the G-10 central banks to the central banks in Central and Eastern Europe. In this context, several bilateral contacts were made and various forms of technical assistance were agreed on in principle.

Furthermore, CNB representatives participated in the work of regional groups of the Basle Committee on Banking Supervision and the Committee on Payment and Settlement Systems. Early in May, the CNB hosted a five-day international Workshop on the New Capital Accord Proposals, co-organised by the Financial Stability Institute of the BIS. The Croatian National Bank was also actively involved in the exchange of information between central banks of BIS member countries.

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 Croatian National Bank and Other International Institutions

In 2003, the Croatian National Bank also co-operated with other international financial institutions. These included, among others, the Institute for International Finance (IIF) whose representatives paid a visit to the CNB and other relevant institutions in January and September 2003 and the Japan Centre for International Finance (JCIF) whose representatives visited Croatia in June 2003.

The aim of these visits was to acquire information on Croatia's economic and political situation and to prepare reports on the situation in the Croatian economy.

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

The Stabilisation and Association Agreement between the Republic of Croatia and the European Union was initialled in Brussels on 14 May 2001. The Agreement was signed in October 2001 in Luxembourg, and ratified by the Croatian Parliament and the European Parliament in December 2001. Its ratification by the EU member countries is currently underway.

To expedite its progress towards EU membership and ensure its inclusion in the next wave of enlargement, the Republic of Croatia submitted its application for full EU membership on 21 February 2003. On 14 April 2003, the European Commission started preparing its opinion on Croatia's application for full membership, and on 10 July 2003 issued to Croatia an extensive list of questions related to the fulfilment of the three Copenhagen criteria (the so-called European Commission Questionnaire). All the institutions of the Government of the Republic of Croatia and the Croatian National Bank, each in their sphere of competence, were actively involved in the work on the Questionnaire which involved the provision of information relating to the economic criteria (macroeconomic data, economic and structural development and reforms, financial markets), economic and monetary union and free movement of capital and services. Croatia's replies to the Questionnaire were submitted to the European Commission on 9 October 2003.

Within its sphere of competence, the Croatian National Bank maintained its contacts throughout 2003 with the representatives of the European Central Bank, a head institution of the European System of Central Banks. In particular, co-operation was established in connection with the preparations for harmonising the Croatian monetary statistics with the requirements of the European Central Bank.

7.5 International Payment Operations

International payment operations grew in significance considerably in 2003, after the Croatian National Bank and the Ministry of Finance of the Republic of Croatia concluded an agreement on the provision by the central bank of payment system services on behalf of the Government. As a result, the number of interna-

tional payment and collection transactions on behalf of the government, i.e. the Ministry of Finance of the Republic of Croatia, increased. As a fiscal agent the CNB executed on a daily basis payment and collection transactions on behalf of the Ministry of Finance in connection with the membership of the Republic of Croatia in international financial institutions and loans granted by such institutions (EFSAL, SAL). The Croatian National Bank also executed international payment operations in its name and for its account in connection with its regular transactions and collections related to the sale of coins and commemorative coin editions.

The Croatian National Bank monitored economic and political developments in selected countries and regions of special interest for both the Croatian National Bank and for the Croatian banking system and the country's economy as a whole.

As in the previous years, in 2003 the central bank again paid special attention to the analysis of credit and investment ratings of financial institutions, potential CNB partners and to the analysis of countries and banking systems of candidate countries scheduled for accession in the first round of EU enlargement.

Over 50 meetings with the representatives of foreign financial institutions were held during 2003. The representatives of several central and commercial banks, investment funds and credit and investment rating agencies visited the Croatian National Bank. The CNB made contacts with other institutions, including embassies of Croatia's most prominent partner countries.

**Financial
Statements of the
Croatian National
Bank**

8

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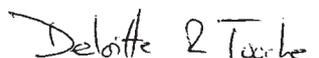
Independent Auditors' Report

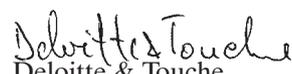
To the Governor and Council of the Croatian National Bank, Zagreb

We have audited the accompanying balance sheet of the Croatian National Bank, Zagreb ("the Bank") as of 31 December 2003 and the related statements of income, changes in equity and cash flows for the year then ended. These financial statements set out on pages 162 to 192 are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. Financial statements for 2002 were audited by another auditor who expressed unqualified opinion on 5 May, 2003.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the 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 of 31 December 2003, and of the result of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.


Deloitte & Touche
Prague, March 25, 2004


Deloitte & Touche
Zagreb, March 25, 2004

Income Statement of the Croatian National Bank

Income Statement of the Croatian National Bank
for the year ended 31 December 2003, in thousand HRK

	Notes	2003	2002
Interest and similar income	3	1,104,593	1,279,297
Interest expense and similar charges	4	(462,649)	(588,426)
Net interest income		641,944	690,871
Fee and commission income		3,196	3,192
Fee and commission expense		(2,850)	(2,971)
Net fee and commission income		346	221
Dividend income		4,420	4,330
Net trading result	5	(66,189)	45,140
Net effect of precious metals revaluation	5	87	(366)
Total		(66,102)	44,774
Net foreign exchange losses	6	(609,737)	(1,240,948)
Other income	7	13,891	7,843
Operating expenditure		(15,238)	(492,909)
Operating expenses	8	(250,641)	(215,660)
(Increase)/decrease in provisions	10	(76,624)	111,299
Operating deficit		(342,503)	(597,270)
Operating deficit covered from general reserves		342,503	597,270

Balance Sheet of the Croatian National Bank

Balance Sheet of the Croatian National Bank
as at 31 December 2003, in thousand HRK

Item	Notes	2003	2002
Assets			
Cash and current accounts with other banks	11	6,944	7,729
Due from other banks	12	25,566,504	28,142,782
Trading securities	13	24,525,534	13,850,038
Loans	14	954,594	34,667
Placements with the International Monetary Fund	15	3,324,568	3,562,714
Equity investments	16	34,047	27,830
Accrued interest and other assets	17	61,270	114,429
Tangible and intangible assets	18	389,829	385,973
Total assets		54,863,290	46,126,162
Liabilities			
Banknotes and coins in circulation		12,256,309	10,895,792
Croatian National Bank bills	19	4,920,178	6,392,307
Due to banks and other financial institutions	20	27,859,248	19,395,535
Due to the State and State institutions	21	1,506,921	599,308
Due to the International Monetary Fund	22	3,318,027	3,545,340
Accrued interest and other liabilities	23	95,568	51,204
Total liabilities		49,956,251	40,879,486
Equity			
Capital	24	2,500,000	2,500,000
Reserves	24	2,407,039	2,746,676
Total equity		4,907,039	5,246,676
Total equity and liabilities		54,863,290	46,126,162

The financial statements set out on pages 162 to 192 were approved on March 25, 2004 by:

Director of Accounting Department:

Ivan Branimir Jurković



Governor:

Dr Željko Rohatinski



Statement of Changes in Equity of the Croatian National Bank

Statement of Changes in Equity of the Croatian National Bank
for the year ended 31 December 2003, in thousand HRK

	Capital	General reserves	Revaluation reserves	Operating surplus (deficit)	Total equity
Balance at 1 January 2002	2,500,000	3,078,966	232,773	–	5,811,739
Operating deficit				(597,270)	(597,270)
Coverage of deficit from general reserves		(597,270)		597,270	–
Real estate revaluation			32,207		32,207
Transfer to general reserves		5,122	(5,122)		–
Balance at 31 December 2002	2,500,000	2,486,817	259,859	–	5,246,676
Real estate revaluation			29,630		29,630
Elimination 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	–
Balance at 31 December 2003	2,500,000	2,149,374	257,665	–	4,907,039

See Note 24 for further information

Cash Flow Statement

Cash Flow Statement

for the year ended 31 December 2003, in thousand HRK

	2003	2002
Cash flows from operating activities		
Interest received	996,635	1,279,826
Interest paid	(446,958)	(602,629)
Commissions received	3,060	3,161
Commissions paid	(2,487)	(2,053)
Dividends received	4,420	4,330
Other income received	5,323	5,232
Expenses paid	(196,478)	(170,227)
	363,515	517,640
Increase/decrease in operating assets/liabilities		
Decrease/(increase) in deposits with other banks	2,566,553	(2,661,598)
(Increase)/decrease in loans	(937,467)	92,618
Increase in trading securities	(10,683,281)	(964,876)
Net increase/(decrease) in other assets/liabilities	(18,928)	(377,223)
Decrease in amounts due to the IMF	–	(1,010,512)
Increase in currency in circulation	1,360,518	1,849,627
Increase in amounts due to banks and other financial institutions	8,391,557	4,167,249
Increase/(decrease) in amounts due to the State	924,767	(931,068)
	1,603,719	164,217
Net cash from operating activities	1,967,234	681,857
Cash flows from investing activities		
Purchase of property and equipment	(56,004)	(46,284)
Acquisitions of equity investments	(74)	–
Net cash from investing activities	(56,078)	(46,284)
Cash flows from financing activities		
Net issue of CNB bills	(1,312,146)	87,433
Paid to the Republic of Croatia	–	(341,504)
Net cash from financing activities	(1,312,146)	(254,071)
Exchange rate effect	(610,523)	(1,266,495)
Net decrease in cash and cash equivalents	(11,513)	(884,993)
Cash and cash equivalents at the beginning of the year	23,475	908,468
Cash and cash equivalents at the end of the year	11,962	23,475

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 Croatian National Bank is fully owned by the Republic of Croatia, which guarantees for its obligations. The Croatian National Bank is headquartered in Zagreb, Trg hrvatskih velikana 3. Its area of competence comprises the responsibility for the stability of the national currency and the general domestic and foreign currency liquidity. 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 within the framework of 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 bank supervision;
- ❑ 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;
- ❑ opening and maintaining the accounts of the Republic of Croatia;
- ❑ performing other operations on behalf of the Republic of Croatia, as provided by law;
- ❑ enacting subordinate legislation on operations within its fields 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 the International Financial Reporting Standards). Thus, the financial statements of the Croatian National Bank for the year ended 31 December 2003 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 under historical cost convention as modified for revaluation of certain assets and liabilities to fair value in accordance with the International Financial Reporting Standards.

The amounts in the financial statements are denominated in Croatian kuna (HRK).

The preparation of financial reports in accordance with the generally accepted accounting standards requires the use of estimates and judgements 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 recognised in the income statement for all interest bearing instruments on an accrual basis by applying the effective yield method on the actual purchase price.

Interest is suspended when it is estimated that loans are being repaid irregularly. Such loans are recorded on the cash basis rather than on the accrual basis and interest on these loans is recognised as income when received. Loans and related interest are accounted for on the accrual basis again, as soon as their collection is no longer estimated as doubtful and when outstanding interest and principal amounts are collected.

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

Fee and commission income arises on financial services provided by the Croatian National Bank and is recognised when the corresponding service is provided.

(2.3) Net trading result

Net trading result includes gains and losses on disposals and changes in the fair value of financial assets and liabilities held for trading.

(2.4) Foreign currencies

Foreign exchange gains and losses on exchange rate fluctuations are recorded in the income statement as unrealised gains or losses. Foreign exchange gains and losses arising from trading in foreign currencies are included in realised income or expenditure.

Income and expenditure denominated in foreign currencies are translated to Croatian kuna at the midpoint exchange rate of the Croatian National Bank ruling at the transaction date.

Assets and liabilities denominated in foreign currencies are translated on a daily basis to Croatian kuna at the midpoint exchange rate of the Croatian National Bank ruling at the last day of the accounting period except for Special Drawing Rights (XDR), which are translated to Croatian kuna at the exchange rate provided by the International Monetary Fund.

The exchange rates of major foreign currencies at 31 December 2003 were as follows:

USD 1 = HRK 6.118506 (2002: HRK 7.145744)
EUR 1 = HRK 7.646909 (2002: HRK 7.442292)
XDR 1 = HRK 9.091916 (2002: HRK 9.714782).

(2.5) Financial instruments

2.5.1 Classification

Financial assets of the Croatian National Bank are classified into the following categories:

- a) *Financial assets held for trading*
This category comprises marketable securities in which the Croatian National Bank invests international reserve funds it manages on behalf of the Republic of Croatia, for the purpose of short-term profit taking.
- b) *Loans and receivables originated by the Croatian National Bank*
This category comprises loans created by the Croatian National Bank providing money to banks and savings banks other than those created with 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.

2.5.2 Recognition

The Croatian National Bank recognises financial assets on settlement date. Any gains and losses arising from changes in fair value of the assets are recognised from that date.

2.5.3 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. Instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost, which includes transaction costs, less impairment losses.
- Effects of foreign currency exchange rates are applied on monetary financial liabilities denominated in foreign currency. Gains and losses on exchange rate fluctuations are reported under net profit or loss.

2.5.4 Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using discounted cash flow techniques.

In discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions.

2.5.5 Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of trading instruments are recognised in the income statement.

(2.6) 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 recognised in the balance sheet. Outflows arising from these agreements are recognised as due amounts from banks or other financial institutions. Securities sold under repurchase agreements are still recognised in the balance sheet and reported in accordance with the accounting policy for such financial assets. Inflows from sales of securities are recognised 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.

(2.7) 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. Dividend income is recognised in the year when it is earned.

(2.8) Derivative financial instruments

Derivative financial instruments, including foreign exchange contracts and other derivatives (if any), which are initially recognised in the balance sheet at cost, are subsequently measured at fair value.

(2.9) Impairment

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.

(2.10) 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 recognised in the income statement.

(2.11) Tangible and intangible fixed assets

Tangible and intangible fixed assets are carried in the balance sheet at cost or re-valued amount less accumulated depreciation and amortisation. Depreciation and amortisation is provided on a straight line basis at prescribed rates designed to write off the cost or valuation of assets over their estimated useful lives.

The following annual rates are used:

in %

	2003	2002
Buildings	2.50	2.50
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 25.0	5.0 to 25.0
Banknotes and coins	50.0 and 20.0	50.0 and 20.0

Land is not depreciated. Assets in the course of construction are not depreciated until they are brought into use.

Maintenance and repairs are charged to the income statement when incurred and improvements are capitalised.

Land and buildings are revalued when their fair value materially differs from the book amount. The fair value of land and buildings equals their market value, which is based on the appraisal of qualified valuers.

(2.12) Placements with the International Monetary Fund (IMF)

Placements with the International Monetary Fund are denominated in Special Drawing Rights (XDR) and any unrealised exchange gains or losses are accounted for in accordance with Note 2.4.

(2.13) Banknotes and coins in circulation

The legal tender in the Republic of Croatia is the kuna. Banknotes and coins are carried at face value.

(2.14) Croatian National Bank bills

Croatian National Bank bills include kuna CNB bills and CNB bills denominated in EUR and USD and are carried at face value.

(2.15) Taxation

The Croatian National Bank is not subject to Croatian profit tax.

(2.16) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise balances of cash, and current accounts with foreign banks and the International Monetary Fund.

By applying 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.

(2.17) 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.

(2.18) Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Note 3 – Interest and Similar Income

in thousand HRK

Item	2003	2002
Deposits	447,477	785,778
Trading securities	568,016	480,890
International Monetary Fund	61	16,186
Loans to banks	11,109	9,098
Other interest income	5,051	7,360
Net foreign exchange gain/(loss) on foreign currency interest income	72,879	(20,015)
Total	1,104,593	1,279,297

Interest income from foreign currency denominated financial assets

Realised interest income on time deposits was lower than in 2002 owing to a decrease in the interest rates of the Federal Reserve Bank (Fed) and the European Central Bank (ECB). The benchmark Fed rate on overnight loans fell from 1.25% to 1.00%, whereas the ECB rate on two-week loans fell from 2.75% to 2.00%.

Special Drawing Rights with the International Monetary Fund (IMF) also recorded a significant interest decline as a result of maintaining XDRs during the year on the level lower than that in the previous year, which decreased the interest calculation base.

In 2003 interest on securities increased compared to the previous year because of an increased share of securities in the total international reserve placement structure.

Interest income from kuna denominated financial assets

Interest income from kuna loans granted in 2003 amounts to HRK 11,109 thousand, or 22.1% more than the corresponding income earned in 2002.

The largest share in interest income from loans refers to interest on Lombard loans, which amounted to HRK 7,871 thousand (over 50% of total interest income). Lombard loans were granted on several occasions to meet temporary sys-

tem liquidity shortfall, mainly from August 2003 to the year-end. Most of the Lombard loans were extended to major banks, which, due to a higher deposit base, experienced more problems in complying with the new reserve requirement regulation.

The most significant item within other interest income is interest earned from the fee for incorrectly calculated and subscribed compulsory CNB bills, which amounted to HRK 1,583 thousand.

Note 4 – Interest Expense and Similar Charges

in thousand HRK

Item	2003	2002
Kuna reserve requirements	192,969	185,206
Foreign currency reserve requirements	124,361	170,818
Kuna CNB bills	52,015	130,990
Mandatory kuna CNB bills	258	–
Foreign currency CNB bills	42,475	54,840
International Monetary Fund arrangements	2,395	24,794
Repurchase arrangements	28,683	25,711
Other interest expense	23,277	2,550
Net foreign exchange loss on foreign currency interest expense	(3,784)	(6,483)
Total	462,649	588,426

Interest expense for foreign currency denominated financial liabilities

A fall in the money market interest rates contributed to a decline in expense for interest paid on foreign currency reserve requirements and foreign currency CNB bills.

Interest on the International Monetary Fund arrangements represents expense for unused funds under the stand-by arrangement approved in February 2003.

Interest expense for kuna financial liabilities

The year 2003 was marked by restrictive monetary policy aimed at slowing down the growth in monetary aggregates. In this context, the interest expense for financial liabilities denominated in kuna exceeded kuna interest income, as it was the case in 2002.

Despite a 53.9% increase in allocated kuna reserve requirements, interest expense for the kuna component of reserve requirement rose by merely 4.2%, which was the result of the cut in the remuneration rate from 1.75% to 1.5% in January and then again to 1.25% in November.

Interest expense for kuna CNB bills in the amount of HRK 52,015 thousand accounts for 39.7% of these expenses in 2002. This was the result of a constant de-

crease in CNB bills balance during the year, although the interest rate rose from 2.08% in January to 2.55% in September.

The most significant item within other interest expense is written-off interest in the amount of HRK 21,728 thousand on due liquidity loan granted to Cibala banka d.d. undergoing bankruptcy proceedings. The written-off accrued interest refers to the period from 20 October 2000 (date of bankruptcy proceedings initiation) to 31 August 2003.

Note 5 – Net Trading Result and Revaluation of Precious Metals

in thousand HRK

Item	2003	2002
Gains on sale and changes in fair value of trading securities	377,446	219,681
Losses on sale and changes in fair value of trading securities	(443,635)	(174,541)
Net trading result	(66,189)	45,140
Gains arising from value adjustment of gold and precious metals to changes in market prices	128	20
Losses arising from value adjustment of gold and precious metals to changes in market prices	(41)	(386)
Net effect of revaluation of precious metals	87	(366)
Total	(66,102)	44,774

Note 6 – Net Foreign Exchange Losses

Global foreign currency markets were marked by significant cross-currency changes in 2003, which largely affected the performance of the Croatian National Bank. The effects of these cross-currency changes are unrealised foreign currency translation losses in the amount of HRK 9,800,590 thousand and unrealised foreign currency translation gains in the amount of HRK 9,179,518 thousand, with a negative net effect of HRK 621,072 thousand. The unrealised exchange differences were mostly affected by the depreciation of the US dollar against the Croatian kuna, the US dollar accounting for 29.65% of total international reserves as at 31 December 2003.

Since exchange differences are recorded under income and expense in accordance with the Croatian National Bank Act and the International Financial Reporting Standards, this resulted in an unrealised operating deficit recorded in the income statement.

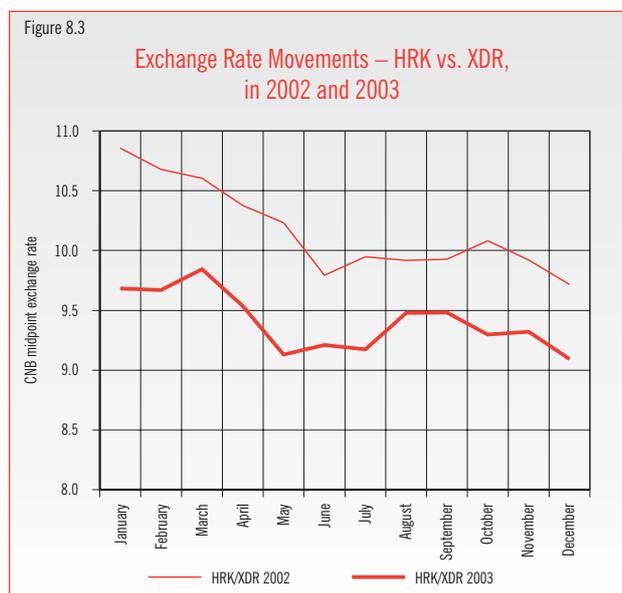
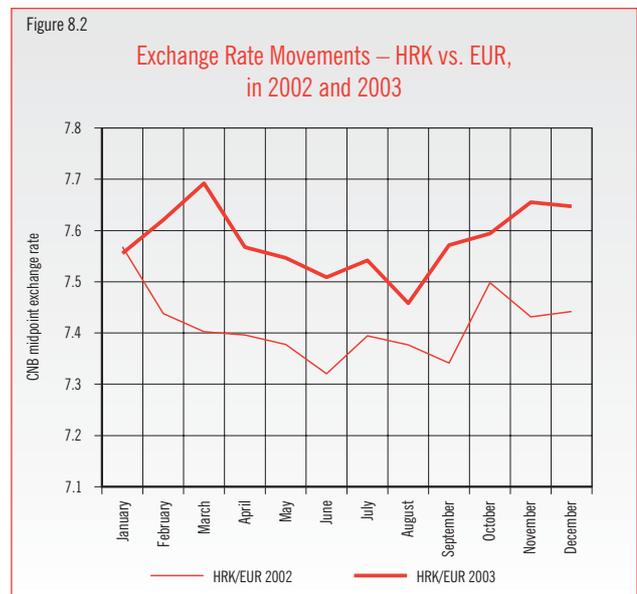
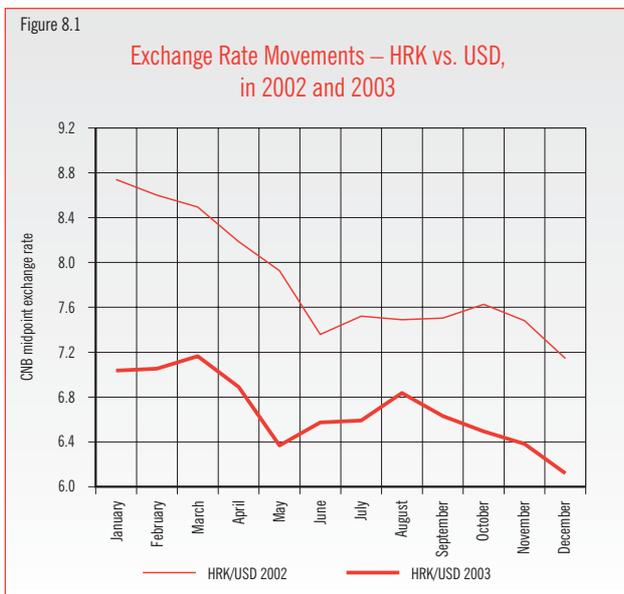
If the effect of the unrealised exchange differences were excluded, the operating surplus of the Croatian National Bank would amount to HRK 278,569 thousand. As opposed to unrealised exchange differences, which are merely an accounting category, the realised exchange differences are confirmed in the market (purchase or sale).

The currency structure of international reserves of the Croatian National Bank is adjusted to the planned 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. This currency structure safeguards the external obligations of the Republic of Croatia against cross-currency changes, i.e. preserves the purchasing power of the reserves. However, this also results in substantial fluctuations in the income statement (kuna). In the income statement, the component of currency risk is more important than interest rate risk. One should also bear in mind that in international reserves management, safety and liquidity of invested funds always take precedence over speculative investments aimed at earning higher yields.

The three figures below show movements in the exchange rate of major currencies in the currency structure (USD, EUR, XDR) against the kuna in 2002 and 2003.

The table and figure below show movements in net foreign exchange gains/losses in 2002 and 2003, with a final net negative effect which resulted in operating deficit recorded in the income statement of the Croatian National Bank for 2003.



Net Foreign Exchange Gains/Losses in 2003 and 2002
in thousand HRK

2003		2002	
Month	Net foreign exchange gains/losses	Month	Net foreign exchange gains/losses
January	246,821	January	1,009,743
February	226,567	February	(508,623)
March	361,962	March	(126,096)
April	(695,876)	April	(485,395)
May	(770,479)	May	(385,473)
June	137,293	June	(932,071)
July	123,917	July	441,531
August	21,594	August	(99,002)
September	128,824	September	(89,643)
October	(86,018)	October	647,241
November	53,939	November	(401,967)
December	(358,281)	December	(311,193)
Total	(609,737)	Total	(1,240,948)

Figure 8.4

Movements in Net Foreign Exchange Gains/Losses,
from 1 January 2002 to 31 December 2003



Movements in net gains (losses) arising from value adjustment of balance sheet items to changes in the exchange rate in the past six years:

in thousand HRK

Year	Gains	Losses
1998	497,826	–
1999	1,278,344	–
2000	288,416	–
2001	–	261,309
2002	–	1,240,948
2003	–	609,737

Note 7 – Other Income

in thousand HRK

Item	2003	2002
Gains on sales of numismatics	1,253	986
Other income	12,638	6,857
Total	13,891	7,843

Extraordinary income from closing of the payment operations account of the Croatian National Bank with the Fina, amounting to HRK 6,981 thousand, accounted for the largest portion of other income.

Note 8 – Operating Expenses

in thousand HRK

Item	2003	2002
Staff costs (Note 9)	145,727	120,624
Materials, services and administrative expenses	52,249	51,943
Depreciation and amortisation	52,665	43,093
Total	250,641	215,660

The largest item within materials, services and administrative expenses were costs of external services in the amount of HRK 15,082 thousand, with security services (HRK 4,025 thousand) accounting for the largest individual subitem.

The second largest item within the total materials, services and administrative expenses were costs of fixed assets repair and maintenance in the amount of HRK 11,155 thousand, followed by expenses for professional services in the amount of HRK 7,420 thousand, which mostly refer to expenses for Reuters, Bloomberg and other information services totalling HRK 2,694 thousand.

Depreciation and amortisation charge for 2003 amounted to HRK 52,665 thousand, i.e. it increased by HRK 9,572 thousand compared to the previous year. This significant increase is primarily a result of higher amortisation of intangible assets, i.e. banknotes and coins purchases in 2003. Amortisation of intangible assets thus grew from HRK 25,770 thousand in 2002 to HRK 36,963 thousand in 2003.

Note 9 – Staff Costs

in thousand HRK

Item	2003	2002
Net salaries	52,705	51,125
Contributions from and on salaries	31,338	31,371
Taxes and local taxes	15,334	15,801
Other staff costs	46,350	22,327
Total	145,727	120,624

The average number of employees during the year was 571 (2002: 581).

Staff costs for 2003 stood at HRK 145,727 thousand, and included salaries, allowances and other benefits, along with the corresponding taxes and contributions. In 2003, this expense item was largely affected by the enactment of the Foreign Exchange Act, which abolished the Foreign Trade Transactions Control Department, so that a certain number of staff became redundant. The gross cost of severance pay for the redundant staff amounted to HRK 24,563 thousand.

Note 10 – Increase/Decrease in Provisions

in thousand HRK

Item	2003	2002
Loans		
New impairment provisions made	27,322	–
Amounts collected	(9,777)	(92,603)
Accrued interest		
New impairment provisions made	–	17
Amounts collected	(2,028)	(18,723)
Total loans and interest	15,517	(111,309)
Impairment of receivables – FINA	51,402	–
Total loans, interest and receivables	66,919	(111,309)
Provisions for risks and charges		
New provisions made	9,705	680
Provisions cancelled	–	(670)
Total	76,624	(111,299)

The new loan impairment provision in the amount of HRK 27,322 thousand refers to previously approved liquidity loan to Cibalae banka d.d. undergoing bankruptcy.

The 2003 income from doubtful loans collected from banks and savings banks undergoing bankruptcy amounts to HRK 11,805 thousand and consists of collected due principal and interest payments on loans, and penalties for a failure to maintain and allocate kuna and foreign currency reserve funds.

Impairment of receivables in the amount of HRK 51,402 thousand that are charged to expenses were made in respect of receivables of the Croatian National Bank from the Financial Agency (FINA) for payment operations performed until 31 March 2002.

New litigation provisions made amounted to HRK 200 thousand.

Provisions for short-term and long-term employee benefits in the amount of HRK 9,505 thousand to be disbursed in the future represent a significant item within the provisions. HRK 3,195 (non-discounted) thousand out of this amount accounts for short-term provisions for employee benefits payable within twelve months from the end of the accounting period. The remaining HRK 6,310 (discounted amount) thousand refers to long-term provisions for employee benefits to be disbursed on a long-term basis at certain intervals and falling due at different dates for individual staff members.

Note 11 – Cash and Current Accounts with Other Banks

in thousand HRK

Item	2003	2002
Cash on hand	5,443	5,692
Current accounts with foreign banks	1,501	2,037
Total	6,944	7,729

Note 12 – Due from Other Banks

in thousand HRK

Item	2003	2002
Foreign central banks	368,946	628,111
Foreign commercial banks	25,183,667	27,497,538
Domestic commercial banks	13,891	17,133
Total	25,566,504	28,142,782

Time deposits with correspondent foreign central and commercial banks account for the major share in investments of total international reserves of the Republic of Croatia that are managed by the Croatian National Bank.

In 2003, the composition of total international reserves of the Republic of Croatia changed: the share of time deposits decreased whereas investment in securities increased. A more intense decline in the share of time deposits in total international reserves during the year was prevented by a significant increase in the funds collected from the sale of foreign currency CNB bills issued in the second half of 2003, which are placed with commercial banks.

Note 13 – Trading Securities

in thousand HRK

Item	2003	2002
Bonds denominated in EUR	16,995,979	7,890,787
Bonds denominated in USD	7,262,573	4,396,141
Certificates of deposit	266,982	1,563,110
Total	24,525,534	13,850,038

The bond portfolio mainly comprises government bonds of the Federal Republic of Germany, the United States of America, France, the Netherlands, Austria, Belgium, Ireland and Finland. The remaining bonds are issued by reputable European financial and government institutions, the World Bank and the International Bank for Reconstruction and Development (IBRD).

On the basis of the Decision issued by the Croatian National Bank Council in March 2003 to extend duration of EUR and USD portfolio of the CNB to ten months, the structure of placements changed, so that investments in securities now represent almost 50% of the international reserve investments. The longest maturity of an individual bond may not exceed five years.

Note 14 – Loans

a) type of loan

in thousand HRK

Item	2003	2002
Loans to domestic banks		
– Lombard	954,431	–
– Intervention	65,417	75,194
– Liquidity	27,322	34,500
Other loans	840	844
Gross loans and advances	1,048,010	110,538
Less: provision for loan impairment	(93,416)	(75,871)
Total	954,594	34,667

b) movements in allowances for loan impairment

in thousand HRK

Item	2003	2002
Balance at 1 January	75,871	194,474
New impairment allowances made	27,322	–
Amounts collected	(9,777)	(92,603)
Write-offs	–	(26,000)
Balance at 31 December	93,416	75,871

In the second half of 2003 several banks were using Lombard loans due to low liquidity. The total Lombard loan funds placed in 2003 amounted to HRK 8.6 billion and are higher 3.6 times than Lombard loans granted in 2002.

Despite occasional liquidity shortfalls in 2003, there was no need for repo auctions or liquidity loans.

The loan impairment allowance refers to previous loans granted to banks and savings banks undergoing bankruptcy or liquidation.

At 31 December 2003, the aggregate amount of loans in arrears against which provisions were made was HRK 93,416 thousand (2002: HRK 75,871 thousand).

Note 15 – Placements with the International Monetary Fund

in thousand HRK

Item	2003	2002
Membership quota	3,319,550	3,546,968
Special Drawing Rights (XDR) and deposits	5,018	15,746
Total	3,324,568	3,562,714

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. Compared to 2002, the 2003 level of XDRs was very low. (The liabilities, i.e. principal and interest under the International Monetary Fund arrangements are fully settled, so that there is no need to keep significant amounts in XDR). The International Monetary Fund pays an interest rate on XDR funds at an approximate rate of 1.57% per annum (2002: 1.98%).

Note 16 – Equity Investments

in thousand HRK

Item	2003	2002
Membership in other international institutions	25,993	19,776
Domestic enterprises	8,054	8,054
Total	34,047	27,830

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).

Since June 2003, XDR has been introduced as a new unit of account instead of the gold franc, in accordance to the Amendments to the BIS Statute. As a result, the shares have been recorded and presented in the new unit of account – XDR. The change in the amount of investments was also a result of purchase of additional five shares of SWIFT.

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 CNB's stake in the CMI is carried at cost, which amounts to HRK 8,054 thousand.

Note 17 – Accrued Interest and Other Assets

in thousand HRK

Item	2003	2002
Accrued interest	59,260	108,522
Numismatics	11,273	11,854
Gold and other precious metals	1,753	1,579
Other assets	66,984	21,173
Total	139,270	143,128
Less: – interest impairment	(26,598)	(28,699)
– impairment of receivables – FINA	(51,402)	–
Total	61,270	114,429

Item	2003	2002
Movements in impairment provisions		
Balance at 1 January	28,699	75,281
New impairment provision made	–	17
Amounts collected	(2,028)	(18,723)
Write-offs	(73)	(27,876)
Balance at 31 December	26,598	28,699

The most important item in accrued interest, amounting to HRK 28,090 thousand, was interest on foreign exchange deposits with non-resident correspondent banks, reaching HRK 59,260 thousand.

The two most significant items among other assets refer to HRK 51,402 thousand and HRK 9,625 thousand of the Croatian National Bank's receivables from the Financial Agency (FINA) for payment operations performed until 31 March 2002.

Note 18 – Tangible and Intangible Assets

in thousand HRK

	Land and buildings	Computers	Furniture and equipment	Motor vehicles	Other assets	Banknotes and coins	Investments in the course of construction	Software and licenses	Total
Balance at 31 December 2001									
Cost or revaluation	301,087	34,945	24,175	6,485	2,718	114,718	11,739	3,946	499,813
Accumulated depreciation	(18,077)	(26,745)	(19,381)	(5,750)	–	(42,030)	–	(1,857)	(113,840)
Net book amount	283,010	8,200	4,794	735	2,718	72,688	11,739	2,089	385,973
Year ended 31 December 2003									
Opening net book amount	283,010	8,200	4,794	735	2,718	72,688	11,739	2,089	385,973
Additions	–	–	–	–	122	19,440	34,331	–	53,893
Assets brought into use	5,015	8,924	2,345	496	–	7,203	(24,766)	782	–
Revaluation	29,630	–	–	–	–	–	–	–	29,630
Net write-offs	(26,763)	(38)	(200)	–	–	–	–	–	(27,002)
Depreciation charge	(5,804)	(7,207)	(2,419)	(272)	–	(36,112)	–	(851)	(52,665)
Closing net book amount	285,088	9,879	4,520	959	2,840	63,219	21,304	2,020	389,829
Balance at 31 December 2003									
Cost or revaluation	303,388	41,799	24,906	6,196	2,840	141,362	21,304	4,728	546,523
Accumulated depreciation	(18,300)	(31,920)	(20,386)	(5,237)	–	(78,143)	–	(2,708)	(156,694)
Net book amount	285,088	9,879	4,520	959	2,840	63,219	21,304	2,020	389,829

Tangible and intangible assets of the Croatian National Bank were HRK 389,829 thousand as at 31 December 2003, an increase of 1.01% compared to 2002. Land and buildings represent the most significant item in the total assets of the CNB, accounting for 73% of these assets in 2003.

The Croatian National Bank reviewed net book amount of buildings in 2003 and revalued buildings whose net value was significantly below the market value. According to the appraisal made by qualified independent valuers as at 30 October 2003, buildings of the CNB in its former branches in Dubrovnik, Osijek and Umag were included in the revalued net amount of HRK 29,630 thousand.

The tangible fixed assets of the Croatian National Bank are neither subject to a mortgage nor to a fiduciary relationship.

Note 19 – Croatian National Bank Bills

in thousand HRK

Item	2003	2002
Foreign currency CNB bills	4,920,178	1,226,289
Kuna CNB bills	–	5,166,018
Total	4,920,178	6,392,307

Foreign currency CNB bills are denominated in euro (EUR) and US dollars (USD) and have a maturity of up to 63 days. A significant increase in subscribed foreign currency CNB bills was recorded in the second half of 2003.

In 2003, the Croatian National Bank held regular weekly auctions of kuna CNB bills with 35-day maturity. The stock of CNB bills was decreasing throughout the year. Thus, the average stock fell from HRK 5.4 billion in January to only HRK 24.5 billion in October 2003. The last subscription of CNB bills was recorded at the auction held on 10 September, whereas no kuna CNB bills were subscribed from 15 October.

Note 20 – Due To Banks And Other Financial Institutions

in thousand HRK

Item	2003	2002
Kuna reserve requirements	12,600,722	8,187,046
Foreign currency reserve requirements	6,680,221	7,033,545
Other deposits of domestic banks	5,667,711	3,981,249
Foreign banks and other financial institutions	2,796,266	172,654
Court-mandated deposits	4,906	21,041
Mandatory kuna CNB bills	109,422	–
Total	27,859,248	19,395,535

Allocated reserve requirements of banks are accounted for as the Croatian National Bank's liabilities to commercial banks. Foreign currency reserve requirements are denominated in EUR and USD. Deposits received on the basis of repurchase agreements accounted for HRK 2,776,691 thousand of liabilities to foreign banks.

As a result of restrictive monetary policy, aimed at slowing down the growth in monetary aggregates, i.e. bank loans, the percentage of foreign currency component of reserve requirements allocated in kuna increased. This is also the key reason for the growth in kuna reserve requirements. Foreign currency reserve requirements allocated in kuna increased from 25% to 35% on 8 September and then again to 40% and 42% on 10 November and 8 December, respectively.

Other deposits received from domestic banks refer to settlement accounts, cash and limit accounts in the National Clearing System.

Mandatory CNB bills were subscribed on three occasions in the average amount of HRK 55.4 million and with a maturity of 3 months.

Note 21 – Due to the State and State Institutions

in thousand HRK

Item	2003	2002
Due to the State and State institutions	556,650	599,308
Foreign currency account balances of the Republic of Croatia	950,271	–
Total	1,506,921	599,308

The deposits of the Republic of Croatia are recorded as a liability in the Croatian National Bank's balance sheet, in the total amount of HRK 556,650 thousand. The deposit accounts of the Republic of Croatia held with the CNB 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 Croatian National Bank pays interest on deposits of the State budget of the Republic of Croatia at rates determined in accordance with the market conditions depending on the movements in interest rates that banks in the Republic of Croatia pay on kuna deposits in giro accounts of companies, which is in compliance with Article 32 of the Croatian National Bank Act.

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	2003	2002
Bills of exchange denominated in HRK	3,309,708	3,536,451
Other IMF's accounts	8,319	8,889
Total	3,318,027	3,545,340

The bills of exchange denominated in kuna 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	2003	2002
Accrued interest	25,820	27,610
Accrued interest on mandatory kuna CNB bills	117	–
Due to employees	4,475	4,690
Taxes and contributions	4,048	4,159
Due to the Ministry of Finance	6,624	7,395
Amounts due to suppliers	3,447	3,415
Other liabilities	51,037	3,935
Amounts on clearing accounts:		
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)
Total	95,568	51,204

Out of total interest payable in kuna, the most significant item of HRK 16,861 thousand relates to remuneration on allocated and maintained kuna reserve requirements, which was calculated in December 2003 and was due in January 2004.

The most significant individual item among other liabilities in the amount of HRK 38,126 thousand relates to the liabilities of the Croatian National Bank to the Ministry of Finance in respect of payment operations up to and including 31 March 2002, which should be interpreted in the context of receivables presented in Note 17 "Accrued interest and other assets".

Other liabilities also include litigation provisions in the amount of HRK 2,447 thousand (2002: HRK 2,247 thousand) and provisions for employee benefits in the amount of HRK 9,505 thousand (2002: nil).

Note 24 – Capital and Reserves

The Croatian National Bank Act determined the CNB's capital to be HRK 2,500,000 thousand. The CNB's capital is held by the Republic of Croatia. The capital is non-transferable and cannot be encumbered by any guarantees.

The HRK 29,630 thousand increase in the CNB's reserves resulted from the increase in revaluation reserves based on the revaluation of tangible fixed assets (CNB buildings in Osijek, Dubrovnik and Umag), out of which HRK 26,764 thousand refers to the revaluation of the building in Osijek the title to which was transferred to the Ministry of Finance at the end of the year. The revaluation reserves were reduced by depreciation of the revalued portion of tangible fixed assets (buildings) in the amount of HRK 5,060 thousand.

The HRK 342,503 thousand decrease in the Croatian National Bank's reserves resulted from the coverage of the 2003 operating deficit. Before that, general reserves stood at HRK 2,491,877 thousand. After being debited for the coverage of operating deficit of HRK 342,503 thousand, general reserves amounted to HRK 2,149,374 thousand as at 31 December 2003.

Note 25 – Contingencies and Commitments and Treasury Inventory System

Legal claims: As at 31 December 2003, 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 CNB will lose certain cases, and, consequently, provisions for potential losses on such cases were made by the CNB in the amount of HRK 2,447 thousand as at 31 December 2003 (2002: HRK 2,247 thousand).

Capital commitments: As at 31 December 2003, the Croatian National Bank had no capital commitments (2002: nil).

Credit related commitments: As at 31 December 2003, the Croatian National Bank had no credit related commitments (2002: nil).

Treasury inventory system: As at the balance sheet date, the Croatian National Bank had the following balances in the Treasury inventory system:

in thousand HRK

Item	2003	2002
Non-issued banknotes and coins	84,540,444	87,061,744
Stamp duties and bills of exchange	166,518	149,158
Total	84,706,962	87,210,902

Note 26 – Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances:

in thousand HRK

Item	2003	2002
Cash on hand	5,443	5,692
Current accounts with foreign banks	1,501	2,037
Special Drawing Rights (XDR) and deposits with the IMF	5,018	15,746
Total	11,962	23,475

Note 27 – 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.

in thousand HRK

Item	2003	2002
Surplus of income over expenditure	–	–
Shortfall between income and expenditure	(342,503)	(597,270)
Transfer of surplus to general reserves	–	–
Coverage of shortfall from general reserves	342,503	597,270
Transfer of surplus to the State budget	–	–

Note 28 – Related Party Transactions

Under the 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 Croatian National Bank and entities under majority state control, these financial statements do not include information on transactions between the CNB and such entities.

Note 29 – Risk Management Disclosure

The Croatian National Bank maintains active trading positions in money market and capital market instruments that are appropriate for central banks. Investments are exclusively made in fixed income instruments, while investments in equity securities and derivative financial instruments are not allowed. The Croatian National Bank pays special attention to the monitoring of credit, foreign exchange and interest rate risks, as well as other types of risks. The CNB's investment gain corresponds to assumed risks and reflects its basic investment principles – safety and liquidity.

Note 30 – Credit Risk

The Croatian National Bank is subject to credit risk that may arise as a result of counterparties' default on their obligations to the CNB. Therefore, the risk that counterparties might default on their obligations is monitored on an ongoing basis.

The Croatian National Bank has three levels of protection against credit risk:

- 1) it deals only with counterparties of the highest credit standing. Its assessment of counterparties' creditworthiness is closely based on ratings of internationally recognised rating agencies;
- 2) deals with an individual counterparty or country are subject to limits, which diversifies credit risk;
- 3) a large portion of deals is subject to collateral, which means that the placements of the Croatian National Bank with an individual financial institution are backed by government bonds (reverse REPO) whose value equals or exceeds the market value of its placements.

Geographical concentration of assets and liabilities:

in thousand HRK

	Total assets	Total liabilities
Balance at 31 December 2003		
Croatia	4,750,529	46,859,644
OECD countries	47,342,899	2,778,518
USA	2,769,819	3,318,089
Other countries	43	–
Total	54,863,290	49,956,251

in thousand HRK

	Total assets	Total liabilities
Balance at 31 December 2002		
Croatia	526,460	37,158,260
OECD countries	39,651,362	160,481
USA	5,948,330	3,560,745
Other countries	10	–
Total	46,126,162	40,879,486

Note 31 – Foreign Exchange Risk

The majority of the Croatian National Bank's assets is held in foreign currencies (international reserves), while its liabilities are predominantly held in kuna. As a result, the CNB's exposure to foreign exchange risk is large. At the end of 2003, the US dollar accounted for 29.65% and the euro accounted for 70.34% of the CNB's net international reserves. Due to substantial exchange rate fluctuations, primarily of the US dollar against the kuna, the Croatian National Bank has been recording large realised and unrealised gains (losses) on its currency positions for a number of years. Gains (losses) arising from currency positions are recognised in the income statement.

The Croatian National Bank had the following significant currency positions:

in thousand HRK

	EUR	USD	XDR	Other foreign currencies	HRK	Total
Balance at 31 December 2003						
Assets						
Cash and current accounts with other banks	4,107	2,322	–	485	30	6,944
Due from other banks	18,004,831	7,547,782	–	–	13,891	25,566,504
Trading securities	17,262,961	7,262,573	–	–	–	24,525,534
Loans	–	–	–	–	954,594	954,594
Placements with the IMF	–	–	3,324,568	–	–	3,324,568
Equity investments	81	–	25,912	–	8,054	34,047
Accrued interest and other assets	23,516	4,579	1	–	33,174	61,270
Tangible and intangible assets	–	–	–	–	389,829	389,829
Total assets	35,295,496	14,817,256	3,350,480	485	1,399,572	54,863,290
Liabilities						
Banknotes and coins in circulation	–	–	–	–	12,256,309	12,256,309
CNB bills	3,106,895	1,813,283	–	–	–	4,920,178
Due to banks and other financial institutions	5,528,164	3,937,900	–	–	18,393,184	27,859,248
Due to the State and State institutions	5	950,233	–	34	556,650	1,506,921
Due to the IMF	–	–	3,318,027	–	–	3,318,027
Accrued interest and other liabilities	5,946	2,962	–	19	86,640	95,568
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
Balance at 31 December 2002						
Total assets	30,126,453	11,933,719	3,564,409	561	501,020	46,126,162
Total liabilities	4,978,724	3,460,213	3,545,340	223	28,894,986	40,879,486
Net balance sheet position	25,147,729	8,473,506	19,069	338	(28,393,966)	5,246,676

Note 32 – Interest Rate Risk

The Croatian National Bank is exposed to the effects of market interest rates fluctuations on its financial position and cash flow. As a result of the application of clearly set guidelines, the CNB'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 months to 12 months	1 to 5 years	Non-interest bearing	Total
Balance at 31 December 2003						
Assets						
Cash and current accounts with other banks	–	–	–	–	6,944	6,944
Due from other banks	19,462,810	6,089,803	–	–	13,891	25,566,504
Trading securities	24,525,534	–	–	–	–	24,525,534
Loans	954,594	–	–	–	–	954,594
Placements with the IMF	298	–	–	–	3,324,270	3,324,568
Equity investments	–	–	–	–	34,047	34,047
Accrued interest and other assets	–	–	–	–	61,270	61,270
Tangible and intangible assets	–	–	–	–	389,829	389,829
Total assets	44,943,236	6,089,803	–	–	3,830,251	54,863,290
Liabilities						
Banknotes and coins in circulation	–	–	–	–	12,256,309	12,256,309
CNB bills	2,719,587	2,200,591	–	–	–	4,920,178
Due to banks and other financial institutions	22,167,056	–	–	–	5,692,192	27,859,248
Due to the State and State institutions	224,191	–	–	–	1,282,730	1,506,921
Due to the IMF	–	–	–	–	3,318,027	3,318,027
Accrued interest and other liabilities	–	–	–	–	95,568	95,568
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
Balance at 31 December 2002						
Total assets	36,235,440	5,774,268	11,348	–	4,105,106	46,126,162
Total liabilities	21,711,902	196,522	11,987	–	18,959,075	40,879,486
Net balance sheet position	14,523,538	5,577,746	(639)	–	(14,853,969)	5,246,676

The table below summarises the effective interest rate by major currencies for monetary financial instruments at 31 December 2003:

in %

Balance at 31 December 2003	EUR	USD	XDR	HRK
Assets				
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
Liabilities				
CNB bills	1.980	1.001		
Due to domestic banks	1.975	0.995		1.25
Due to the IMF				
Due to foreign banks	1.98	0.80		

in %

Balance at 31 December 2002	EUR	USD	XDR	HRK
Assets				
Current accounts with other banks	2.25	1.09		
Special Drawing Rights (XDR)			1.98	
Due from other banks	3.32	1.76		
Trading securities	2.69	1.34		
Loans				9.5
Liabilities				
CNB bills	3.21	1.71		2.05
Due to domestic banks	3.23	1.66		1.75
Due to the IMF			2.62	
Due to foreign banks	3.11	1.57		

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
Balance at 31 December 2003						
Assets						
Cash and current accounts with other banks	6,944	–	–	–	–	6,944
Due from other banks	19,462,810	6,089,803	–	–	13,891	25,566,504
Trading securities	24,525,534	–	–	–	–	24,525,534
Loans	954,435	–	–	–	159	954,594
Placements with the IMF	298	–	–	–	3,324,270	3,324,568
Equity investments	–	–	–	–	34,047	34,047
Accrued interest and other assets	26,909	5,753	–	–	28,608	61,270
Tangible and intangible assets	–	–	–	–	389,829	389,829
Total assets	44,976,930	6,095,556	–	–	3,790,804	54,863,290
Liabilities						
Banknotes and coins in circulation	–	–	–	–	12,256,309	12,256,309
CNB bills	2,719,587	2,200,591	–	–	–	4,920,178
Due to banks and other financial institutions	27,839,673	–	–	–	19,575	27,859,248
Due to the State and State institutions	1,506,921	–	–	–	–	1,506,921
Due to the IMF	–	–	–	–	3,318,027	3,318,027
Accrued interest and other liabilities	45,489	2,447	41,321	–	6,311	95,568
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
Balance at 31 December 2002						
Total assets	36,308,289	5,788,526	11,629	–	4,017,718	46,126,162
Total liabilities	26,214,439	199,343	11,987	–	14,453,717	40,879,486
Net liquidity gap	10,093,850	5,589,183	(358)	–	(10,435,999)	5,246,676

Note 34 – Subsequent Events

Clearing accounts presented in Note 23 “Accrued interest and other liabilities” were closed in February 2004.

**Management
and Internal
Organisation of the
Croatian National
Bank**

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**

International Affairs and External Relations Area – **Jadranka Granić**

Bank Supervision Area – **Marija Mijatović–Jakšić**

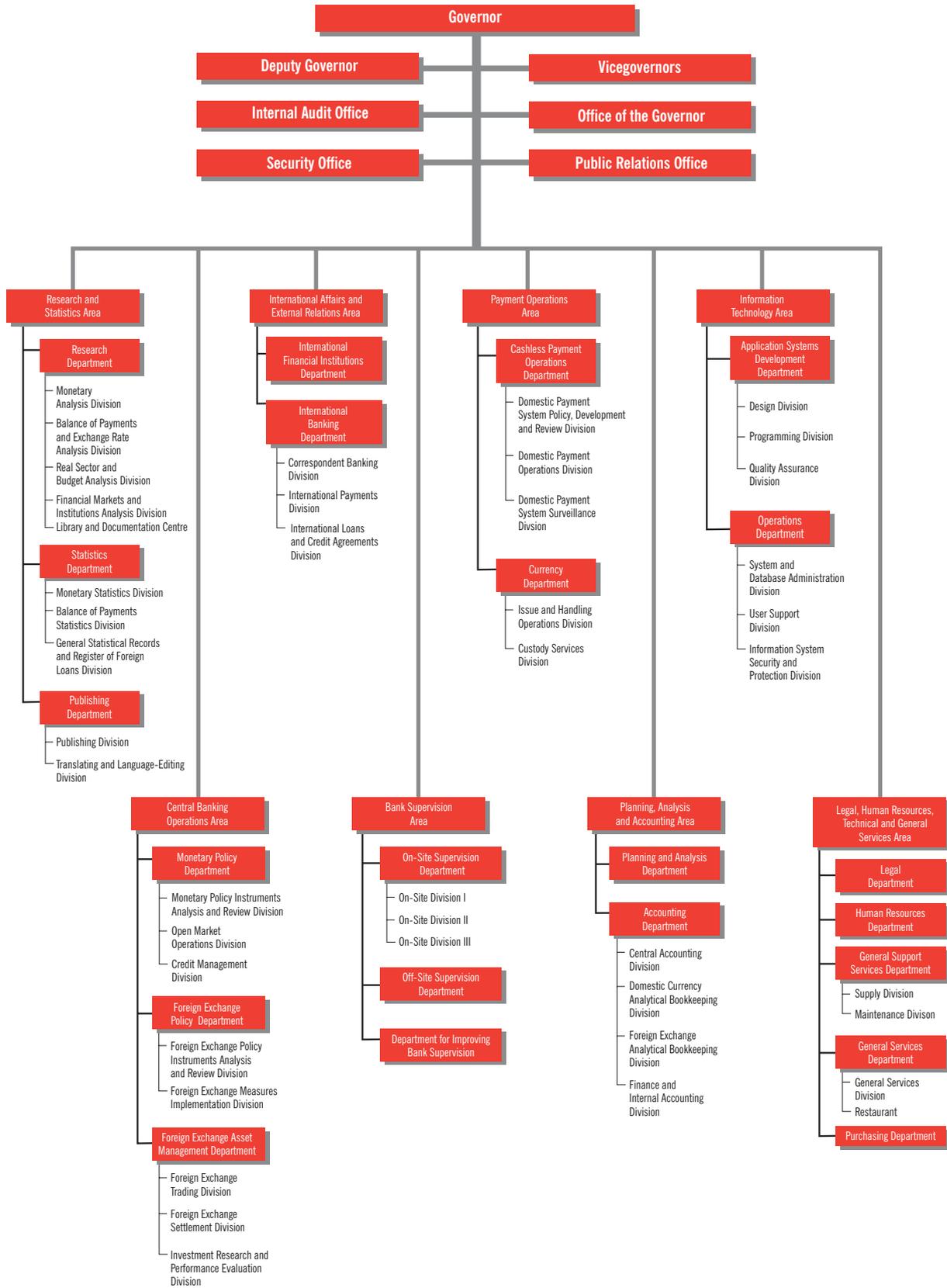
Planing, Analysis and Accounting Area – (vacant)

Payment Operations Area – **Neven Barbaroša**

Information Technology Area – **Mario Žgela**

Legal, Human Resources, Technical and General Services Area – **Boris Ninić**

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List of Banking Institutions

31 December 2003

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SWIFT: KALC HR 2X

KREDITNA ZAGREB d.d.

Ul. grada Vukovara 74
10000 Zagreb

Phone: + 385 1/6167-300
Fax: + 385 1/6116-466
Tlx: 21197 krez zg rh
SWIFT: KREZ HR 2X

KRIŽEVAČKA BANKA d.d.

Preradovićeveva 14
48260 Križevci

Phone: +385 48/681-018
Fax: +385 48/711-938
SWIFT: KREZ HR 2X

KVARNER BANKA d.d.

Jadranski trg 4/I
51000 Rijeka

Phone: + 385 51/353-555
Fax: + 385 51/353-566
Tlx: 24564 kbri hr
SWIFT: KVRB HR 22

MEĐIMURSKA BANKA d.d.

Valenta Morandinija 37
40000 Čakovec

Phone: + 385 40/370-500
Fax: + 385 40/370-623
Tlx: 23251 banka rh
SWIFT: MBCK HR 2X

NAVA BANKA d.d.

Tratinska 27
10000 Zagreb

Phone: + 385 1/3656-777
Fax: + 385 1/3656-700
SWIFT: NAVB HR 22

NOVA BANKA d.d.

Divka Budaka 1d
10000 Zagreb

Phone: +385 1/2352-810
Fax: +385 1/2352-805

PARTNER BANKA d.d.

Vončinina 2
10000 Zagreb

Phone: + 385 1/4602-222
Fax: + 385 1/4602-200
Tlx: 21212 parbaz rh
SWIFT: PAZG HR 2X
Reuters: PAHZ

PODRAVSKA BANKA d.d.

Opatička 1a
48300 Koprivnica

Phone: + 385 48/65-50
 Fax: + 385 48/655-174
 Tlx: 23368 pod kc rh
 SWIFT: PDKC HR 2X

POŽEŠKA BANKA d.d.

Republike Hrvatske 1b
34000 Požega

Phone: + 385 34/254-200
 Fax: + 385 34/254-258
 Tlx: 28550 pb pzg rh
 SWIFT: POBK HR 2X

PRIMORSKA BANKA d.d.

Scarpina 7
51000 Rijeka

Phone: + 385 51/355-704
 Fax: +385 51/332-762
 SWIFT: SPRM HR 22

PRIMUS BANKA d.d.

Tkalčićeva 11
10 000 Zagreb

Phone: + 385 1/4800-111, 4800-207
 Fax: + 385 1/4800-144
 SWIFT: HYZG HR 22 BIC

PRIVREDNA BANKA – LAGUNA BANKA d.d.

Prvomajska 4a
52440 Poreč

Phone: + 385 52/ 416-711
 Fax: +385 52/ 416-770
 SWIFT: LBPO HR 22

PRIVREDNA BANKA ZAGREB d.d.

Račkoga 6/p.p. 1032
10000 Zagreb

Phone: + 385 1 /4723-344
 Fax: + 385 1/4723-131
 Tlx: 21120 pbz rh
 SWIFT: PBZG HR 2X
 Reuters: PBZH

RAIFFEISENBANK AUSTRIA d.d.

Petrinjska 59
10000 Zagreb

Phone: + 385 1/4566-466
 Fax: + 385 1/4811-624
 Tlx: 21137 rba zg rh
 SWIFT: RZBH HR 2X

SAMOBORSKA BANKA d.d.

Trg kralja Tomislava 8
10430 Samobor

Phone: + 385 1/3362-530
 Fax: + 385 1/3361-523
 Tlx: 21811 samba rh
 SWIFT: SMBR HR 22

SLATINSKA BANKA d.d.

Vladimira Nazora 2
33520 Slatina

Phone: + 385 33/551-526
 Fax: + 358 33/551-138
 Tlx: 28277 slatb rh
 SWIFT: SBSL HR 2X

SLAVONSKA BANKA d.d.

Kapucinska 29
31000 OSIJEK

Phone: + 385 31/231-231
 Fax: + 385 31/201-039
 Tlx: 28235, 28090 hr banka
 SWIFT: SLBO HR 2X

SPLITSKA BANKA d.d.

Ruđera Boškovića 16
21000 Split

Phone: + 385 21/304-304
 Fax: + 385 21/304-034
 Tlx: 26252 st bank rh
 SWIFT: SPLI HR 2X
 Reuters: SBSH

SPLITSKO-DALMATINSKA BANKA d.d.¹

Boktuljin put bb
21000 Split

Phone: + 385 21/540-280
 Fax: + 385 21/540-290
 SWIFT: DALM HR 22

ŠTEDBANKA d.d.

Slavonska avenija 3
10000 Zagreb

Phone: 385 1/6306-666

Fax: 385 1/6187-015

SWIFT: STED HR 22

VARAŽDINSKA BANKA d.d.

Kapucinski trg 5
42000 Varaždin

Phone: + 385 42/400-000

Fax: + 385 42/400-742

Tlx: 23224 banka rh

SWIFT: VBDD HR 2X

Reuters: VBVH

VOLKSBANK d.d.

Varšavska 9

10000 Zagreb

Phone: + 385 1/4801-300

Fax: + 385 1/4801-365

SWIFT: VBCR HR 22

ZAGREBAČKA BANKA d.d.

Paromlinska 2

10000 Zagreb

Phone: + 385 1/6104-000

Fax: + 385 1/6110-555

Tlx: 21462 zaba rh

SWIFT: ZABA HR 2X

Reuters: ZBZH

REPRESENTATIVE OFFICES OF FOREIGN BANKS

1. **BANK FÜR KÄRNTEN UND STEIERMARK AG**,
Zagreb
2. **COMMERZBANK AKTIENGESELLSCHAFT**,
Zagreb
3. **DEUTSCHE BANK AG**, Zagreb
4. **LHB INTERNATIONALE HANDELSBANK AG**,
Zagreb
5. **San Paolo IMI S.p.A**, Zagreb

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.

LICENSED HOUSING SAVINGS BANKS

PBZ STAMBENA ŠTEDIONICA d.d.

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Fax: + 385 1/6349-781

PRVA STAMBENA ŠTEDIONICA d.d.

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10000 Zagreb

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Fax: + 385 1/4801-571

RAIFFEISEN STAMBENA ŠTEDIONICA d.d.

Radnička cesta 43
10000 Zagreb

Phone: + 385 1/6006-100
Fax: +385 1/6006-199

WÜSTENROT STAMBENA ŠTEDIONICA d.d.

Ilica 14
10000 Zagreb

Phone: + 385 1/4803-788
Fax: + 385 1/4803-798

Statistical Appendix

Classification and Presentation of Data on Claims and Liabilities

Data on financial institutions' claims and liabilities are classified according to institutional sectors and financial instruments. Institutional sectors are: financial institutions, central government and funds, other domestic sectors and foreign sector.

The financial institutions sector includes the following 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
1995	December	6,744.1	8,234.9	8,503.2	24,623.0	21,576.3	32,819.5	2.97	0.89	1.54	3.41	1.00	1.88
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*	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	January	21,678.2	29,412.1	30,260.9	116,614.9	86,344.4	100,155.5	-5.86	-4.72	-5.07	0.41	3.62	2.76
	February	22,483.3	29,456.0	30,071.0	117,208.5	84,687.7	102,161.0	3.71	0.15	-0.63	0.51	-1.92	2.00
	March	21,883.5	29,512.2	30,147.9	118,791.2	85,953.3	102,706.0	-2.67	0.19	0.26	1.35	1.49	0.53
	April	23,216.0	30,294.4	30,888.6	117,854.4	88,256.7	103,713.6	6.09	2.65	2.46	-0.79	2.68	0.98
	May	23,618.8	32,002.0	32,660.8	119,105.0	90,424.9	104,887.7	1.74	5.64	5.74	1.06	2.46	1.13
	June	24,264.7	32,828.3	33,494.6	120,021.6	89,724.0	104,065.6	2.73	2.58	2.55	0.77	-0.78	-0.78
	July	25,064.8	34,381.5	35,031.8	125,023.3	93,926.6	106,822.9	3.30	4.73	4.59	4.17	4.68	2.65
	August	25,854.2	34,044.3	34,586.9	126,979.7	92,451.1	106,761.8	3.15	-0.98	-1.27	1.56	-1.57	-0.06
	September	27,289.1	32,589.4	33,247.6	126,910.9	92,696.3	107,180.1	5.55	-4.27	-3.87	-0.05	0.27	0.39
	October	27,037.8	32,805.7	33,482.9	127,072.4	93,345.6	108,516.8	-0.92	0.66	0.71	0.13	0.70	1.25
	November	28,086.2	33,295.3	33,974.1	128,718.4	93,221.1	110,934.7	3.88	1.49	1.47	1.30	-0.13	2.23
	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

* 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. In September 1999, all the monetary aggregates were revised. In previous publications of the CNB, data on claims and obligations of savings banks were not included in the compilation of the monetary aggregates.

Reserve money is taken over in its entirety from the Monetary Authorities Accounts (Table C1).

Money (M1) is defined in the same way as the corresponding item in the Monetary Survey (Table B1). It comprises currency outside banks, deposits with the CNB by other banking institutions and other domestic sectors as well as banks' demand deposits. Money (M1a) comprises currency outside banks and banks' demand deposits, increased by the demand deposits of the central government and funds with banks.

Broadest money (M4) comprises Money (M1), savings and time deposits, foreign currency deposits as well as bonds and money market instruments (all components are taken over from the Monetary Survey, Table B1).

Net domestic assets are defined as a difference between total liquid assets and foreign assets (net).

Domestic credit comprises banks' claims on other domestic sectors, other banking institutions and non-banking financial institutions.

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

	2002	2003											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
ASSETS													
1. Foreign assets (net)	32,817.4	30,270.5	32,520.8	32,838.0	29,597.7	28,680.1	30,297.6	31,096.7	34,528.6	34,214.6	33,726.8	35,497.3	32,771.4
2. Domestic credit	112,518.9	116,346.0	115,183.9	117,269.0	118,609.7	120,327.3	119,500.8	123,792.9	122,557.4	123,208.2	123,767.8	124,372.3	126,371.6
2.1. Claims on central government and funds (net)	15,055.2	16,190.5	13,022.9	14,563.0	14,896.1	15,439.6	15,435.2	16,970.0	15,795.6	16,028.1	15,251.0	13,437.6	14,710.1
2.2. Claims on other domestic sectors	96,329.0	98,893.1	100,745.6	101,128.3	102,175.5	103,426.8	102,711.2	104,529.5	104,561.9	105,783.3	107,048.7	109,308.5	110,467.8
2.3. Claims on other banking institutions	219.5	215.7	267.8	214.0	296.2	295.9	209.2	396.4	249.9	455.9	515.1	508.9	431.8
2.4. Claims on non-banking financial institutions	915.3	1,046.6	1,147.6	1,363.7	1,241.8	1,165.0	1,145.2	1,896.9	1,949.9	940.9	952.9	1,117.3	761.8
Total (1+2)	145,336.3	146,616.6	147,704.7	150,107.0	148,207.3	149,007.4	149,798.4	154,889.6	157,086.0	157,422.9	157,494.5	159,869.6	159,143.0
LIABILITIES													
1. Money	30,869.8	29,412.1	29,456.0	29,512.2	30,294.4	32,002.0	32,828.3	34,381.5	34,044.3	32,589.4	32,805.7	33,295.3	33,888.7
2. Savings and time deposits	13,001.1	13,995.3	14,468.4	15,056.8	15,876.8	15,951.0	15,825.9	17,712.6	18,590.2	18,262.9	17,341.7	17,964.3	18,370.7
3. Foreign currency deposits	72,054.6	73,015.0	73,134.7	74,068.6	71,535.4	71,002.0	71,104.3	72,515.8	73,830.7	75,416.0	76,329.8	76,816.1	76,035.3
4. Bonds and money market instruments	216.3	192.5	149.4	153.7	147.8	150.0	263.0	413.3	514.6	642.6	595.2	642.8	598.4
5. Restricted and blocked deposits	1,729.5	1,645.5	1,827.6	1,812.6	1,705.8	2,065.0	1,873.8	1,734.6	1,742.9	1,958.0	1,768.7	1,703.9	1,721.6
o/w: Households' blocked f/c deposits	319.3	258.2	257.3	257.5	249.5	243.0	242.3	181.8	178.2	177.2	174.6	174.2	167.8
6. Other items (net)	27,465.1	28,356.1	28,668.5	29,503.2	28,647.2	27,837.4	27,903.1	28,131.7	28,363.4	28,553.9	28,653.4	29,447.3	28,528.2
Total (1+2+3+4+5+6)	145,336.3	146,616.6	147,704.7	150,107.0	148,207.3	149,007.4	149,798.4	154,889.6	157,086.0	157,422.9	157,494.5	159,869.6	159,143.0

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.

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 banks' balance sheet total amounted to 4,296.3 million kuna. Data for June 1999 are comparable with data for July 1999 if Claims on other domestic sectors and Other items (net) are increased by 3,513.5 million kuna.

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
1995	December	53	15	20	7	7	2	2	21	7	13	1
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	January	46	4	13	7	8	9	5	10	3	5	2
	February	46	4	13	8	7	9	5	10	4	4	2
	March	46	4	12	8	9	8	5	10	4	4	2
	April	46	4	12	8	9	8	5	9	4	3	2
	May	46	4	13	8	7	9	5	9	5	2	2
	June	45	4	12	8	7	9	5	9	5	2	2
	July	44	4	12	8	7	8	5	9	5	2	2
	August	43	4	13	7	6	7	6	9	5	2	2
	September	43	3	14	7	6	7	6	9	5	2	2
	October	43	3	13	8	6	7	6	9	5	2	2
	November	43	3	13	8	6	7	6	8	4	2	2
	December	42	2	13	8	5	8	6	7	3	2	2

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.

Special reporting requirements applied to savings banks until June 1995. Savings banks were not legally obliged to report on their operations, so that data up to June 1995 relate only to those savings banks that reported voluntarily to the CNB. From July 1995 on, the data cover all registered savings banks. 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

	2002	2003											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
ASSETS													
1. Foreign assets	42,058.8	41,851.6	45,345.7	44,479.0	44,947.0	44,604.2	44,520.5	43,919.4	45,277.0	46,801.6	47,000.7	50,170.7	50,118.6
1.1. Gold	–	–	–	–	–	–	–	–	–	–	–	–	–
1.2. Holdings of SDRs	17.4	17.4	10.0	10.2	9.9	7.7	8.3	8.3	6.9	6.9	6.7	5.1	5.0
1.3. Reserve position in the IMF	1.6	1.6	1.6	1.7	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.5
1.4. Currency and demand deposits with foreign banks	6.4	6.1	5.9	5.9	5.9	7.0	1,370.7	22.8	6.1	10.0	5.3	6.1	5.8
1.5. Time deposits with foreign banks	28,183.2	28,013.6	30,149.9	25,243.7	19,965.7	19,318.6	18,423.8	18,694.4	20,406.8	21,389.5	21,636.7	24,809.4	25,580.7
1.6. Securities in f/c	13,850.0	13,812.9	15,178.2	19,217.5	24,963.8	25,269.2	24,716.2	25,192.3	24,855.5	25,393.6	25,350.4	25,348.5	24,525.5
1.7. Nonconvertible foreign exchange	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Claims on central government and funds	0.5	0.5	2.0	2.0	3.2	0.9	1.5	0.5	2.6	3.0	2.5	–	1.4
2.1. Claims in kuna	0.5	0.5	2.0	2.0	3.2	0.9	1.5	0.5	2.6	3.0	2.5	–	1.4
2.2. Claims in f/c	–	–	–	–	–	–	–	–	–	–	–	–	–
3. Claims on other domestic sectors	110.6	110.5	110.6	110.5	102.4	102.4	102.4	102.4	100.8	94.5	93.8	93.6	93.6
4. Claims on banks	17.9	18.1	14.0	14.1	13.9	13.7	13.7	13.8	13.8	343.4	14.9	17.1	972.0
4.1. Credits to banks	–	–	–	–	–	–	–	–	–	329.4	–	–	954.4
Lombard credits	–	–	–	–	–	–	–	–	–	–	–	–	–
Short-term liquidity credits	–	–	–	–	–	–	–	–	–	–	–	–	–
Other credits	–	–	–	–	–	–	–	–	–	–	–	–	–
CNB bills under repurchase agreement	–	–	–	–	–	–	–	–	–	–	–	–	–
4.2. CNB deposits with banks	17.6	17.8	13.7	13.8	13.6	13.7	13.7	13.8	13.8	14.0	14.1	14.2	14.5
4.3. Overdue claims	0.3	0.3	0.3	0.3	0.3	–	–	–	–	–	0.8	2.9	3.1
5. Claims on other banking institutions	–	–	–	–	–	–	–	–	–	–	–	–	–
Total (1+2+3+4+5)	42,187.7	41,980.7	45,472.3	44,605.6	45,066.5	44,721.1	44,638.0	44,036.1	45,394.1	47,242.4	47,111.9	50,281.4	51,185.6
LIABILITIES													
1. Reserve money	23,027.9	21,678.2	22,483.3	21,883.5	23,216.0	23,618.8	24,264.7	25,064.8	25,854.2	27,289.1	27,037.8	28,086.2	30,586.2
1.1. Currency outside banks	9,680.9	9,468.1	9,605.0	9,526.1	9,812.5	10,078.1	10,637.2	11,294.2	11,320.6	10,506.0	10,261.7	10,399.7	10,573.1
1.2. Banks' cash in vaults	1,214.8	1,278.0	1,235.9	1,624.7	1,444.7	1,528.6	1,548.5	1,553.5	1,516.1	1,385.7	1,430.4	1,432.2	1,683.2
1.3. Banks' deposits	12,109.4	10,914.0	11,632.0	10,719.2	11,945.7	12,003.2	12,075.5	12,212.9	12,993.0	15,385.2	15,338.6	16,243.3	18,329.3
Settlement accounts	3,923.4	2,626.0	3,158.3	2,132.0	3,154.4	3,321.7	3,097.3	3,031.7	3,157.2	4,340.7	4,182.8	4,154.1	5,616.0
Statutory reserves	8,186.0	8,288.0	8,473.7	8,587.2	8,764.7	8,654.7	8,951.5	9,095.5	9,750.0	10,958.8	11,046.6	11,979.7	12,603.9
CNB bills on obligatory basis	–	–	–	–	26.7	26.7	26.7	85.8	85.8	85.8	109.2	109.4	109.4
1.4. Deposits of other banking institutions	19.1	15.0	7.3	4.2	9.3	6.4	1.5	1.6	1.2	1.2	–	–	–
1.5. Deposits of other domestic sectors ^a	3.5	3.2	3.1	9.2	3.6	2.6	1.8	2.6	23.3	11.0	7.1	11.1	0.6
2. Restricted and blocked deposits	7,091.2	7,196.6	7,536.6	7,589.1	7,493.9	7,209.2	7,998.5	7,896.8	8,327.7	6,858.4	7,086.9	6,812.8	6,699.2
2.1. Statutory reserve in f/c	7,042.3	7,149.6	7,484.6	7,562.5	7,467.2	7,187.7	7,983.0	7,880.7	8,310.4	6,839.7	7,060.1	6,798.4	6,686.6
2.2. Restricted deposits	49.0	47.0	52.1	26.6	26.7	21.6	15.5	16.1	17.3	18.7	26.9	14.4	12.6
2.3. Escrow deposits	–	–	–	–	–	–	–	–	–	–	–	–	–
3. Foreign liabilities	195.7	825.2	442.5	1,134.2	2,368.6	2,812.2	868.0	1,423.7	1,142.9	2,610.6	2,233.7	3,051.9	2,798.0
3.1. Use of IMF credit	2.8	2.8	–	–	–	–	–	–	–	–	–	–	–
3.2. Liabilities to international organisations	12.6	13.0	13.0	13.2	12.8	16.0	16.3	16.3	16.6	16.3	16.1	20.0	19.6
3.3. Liabilities to foreign banks ^a	180.2	809.4	429.4	1,121.0	2,355.8	2,796.2	851.7	1,407.4	1,126.3	2,594.3	2,217.5	3,031.9	2,778.5
4. Central government and funds' deposits	768.1	800.8	4,051.3	2,858.9	2,462.6	2,073.7	2,555.9	1,051.2	1,330.9	1,214.8	1,842.4	3,406.8	1,551.1
4.1. Demand deposits	608.3	631.2	806.0	649.9	974.6	961.2	750.1	536.1	816.8	762.2	836.1	688.9	600.2
Central government demand deposits	569.5	612.9	801.2	648.1	971.4	951.5	742.1	535.9	813.5	762.1	830.6	687.7	548.5
Central government funds' demand deposits	38.7	18.3	4.8	1.8	3.2	9.7	7.9	0.3	3.3	0.1	5.5	1.2	51.7
4.2. Central government f/c deposits	–	–	3,100.6	2,094.3	1,358.2	987.8	1,741.0	515.1	514.1	452.6	1,006.3	2,717.8	950.9
4.3. CNB bills	159.9	169.7	144.7	114.8	129.7	124.7	64.9	–	–	–	–	–	–
5. CNB bills	6,212.4	6,288.8	5,491.8	5,279.0	4,337.7	4,429.0	4,229.4	3,834.4	3,956.6	4,230.2	4,042.5	4,012.3	4,920.2
5.1. CNB bills in kuna	4,986.2	5,103.9	4,173.6	3,871.4	2,826.9	3,000.3	2,659.9	2,174.2	1,134.8	104.9	–	–	–
5.2. CNB bills in f/c	1,226.3	1,185.0	1,318.2	1,407.6	1,510.8	1,428.7	1,569.5	1,660.2	2,821.8	4,125.3	4,042.5	4,012.3	4,920.2
6. Capital accounts	5,353.5	5,655.8	5,933.4	6,328.8	5,653.5	5,041.8	5,194.0	5,236.2	5,251.1	5,482.8	5,312.3	5,367.1	5,039.0
7. Other items (net)	–461.1	–464.8	–466.6	–467.9	–465.7	–463.7	–472.4	–471.1	–469.3	–443.5	–443.8	–455.7	–408.1
Total (1+2+3+4+5+6+7)	42,187.7	41,980.7	45,472.3	44,605.6	45,066.5	44,721.1	44,638.0	44,036.1	45,394.1	47,242.4	47,111.9	50,281.4	51,185.6

^a From October 2001 to May 2003. Liabilities to foreign banks include also liabilities based on CNB bills subscribed by non-residents.

^b 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. In September 1999, the data were revised, with savings banks being transferred for the sub-sector other banking institutions to the sub-sector banks. The whole data series has been revised accordingly.

Foreign assets include the following forms of foreign currency and kuna claims on foreign legal and natural persons: monetary gold, holdings of special drawing rights, foreign cash in vault, reserve position in the International Monetary Fund, current account balances with foreign banks, time deposits with foreign banks and accrued interest, foreign currency security investments and other claims.

Claims on central government and funds are loans and overdue claims on the budget of the Republic of Croatia. Claims in kuna were short-term loans granted for the purpose of overcoming timing differences between incoming revenues and execution of budgetary expenditures, long-term loans granted by special decrees by the government of the Republic of Croatia, and overdue claims on the budgetary central government based on the liabilities to the IMF and foreign banks. Item Claims in foreign currency was a counter-entry to the liability to the IMF based on the succession of membership in that institution. 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. Item Lombard credits comprises credits to banks for regular maintaining of the day-to-day liquidity, which were replaced by lombard credits in December 1994. Short-term liquidity credits, which have been granted since the beginning of 1999, also serve to bridge liquidity problems. Other credits include intervention credits, special credits for bridging liquidity problems granted in the past (initial credits, prerehabilitation credits) and due but unpaid credits. Overdue claims on banks comprise settlement account overdrafts (until mid-1994) and banks' failure to correctly and promptly allocate and maintain statutory reserve requirements.

Since May 1999, Claims on other domestic sectors include overdue claims on banks against which bankruptcy

proceedings have been initiated. Due to the reclassification of savings banks from the sub-sector other banking institutions to the sub-sector banks, data for Claims on banks and Claims on other banking institutions have been revised.

Reserve money consists of currency outside banks, cash in banks' vaults, banks' deposits with the CNB, other banking institutions' deposits and other domestic sectors' deposits with the CNB. Banks' deposits are: settlement account balances, statutory reserves deposited on a special account with the CNB as well as CNB bills on an obligatory basis. Deposits by other banking institutions included, until September 2003, settlement account balances of housing savings banks. Deposits by other domestic sectors are other domestic sectors' giro account balances which, 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 and savings banks are required to place foreign exchange reserve deposits in accounts at the Croatian National Bank on the basis of certain foreign exchange deposits they hold. Restricted deposits are kuna funds set aside on the basis of a court order or legal regulation, kuna funds set aside in the period between May 1999 and April 2002 and deposits of banks against which bankruptcy proceedings have been initiated. Blocked foreign exchange deposits are funds that were set aside in special accounts at the Croatian National Bank for repaying unpaid amounts due to foreign creditors.

Foreign liabilities include use of IMF credits, liabilities to international financial institutions and foreign banks and accrued interest.

Central government and funds deposits are demand deposits and foreign currency deposits of the Republic of Croatia and central government funds with the CNB, and CNB bills purchased by central government institutions.

CNB bills are kuna and f/c CNB bills on a voluntary basis, excluding CNB bills voluntarily purchased by central government institutions.

Capital accounts include reserves, provisions and the income and cost accounts.

Other items (net) are unclassified liabilities decreased by unclassified assets of the Monetary Authorities Accounts.

Due to the reclassification of savings banks from the sub-sector other banking institutions to the sub-sector banks, data for Currency outside banks, Banks' cash in vaults, Banks' deposits and Deposits of other banking institutions were revised.

Table D1: Banks' Accounts

End of period, million kuna

	2002	2003											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
ASSETS													
1. Reserves with the CNB	20,373.5	19,379.5	20,411.4	19,993.5	20,903.4	20,790.4	21,492.5	21,697.4	22,885.4	23,678.7	23,855.4	24,524.9	26,783.7
1.1. In kuna	13,340.0	12,238.6	12,933.7	12,438.6	13,444.0	13,609.9	13,516.3	13,823.8	14,581.8	16,844.9	16,800.8	17,731.9	20,103.4
1.2. In f/c	7,033.5	7,140.9	7,477.7	7,554.8	7,459.5	7,180.5	7,976.2	7,873.7	8,303.6	6,833.8	7,054.6	6,792.9	6,680.2
2. Foreign assets	25,977.8	25,439.1	23,435.9	26,950.7	23,895.1	25,727.0	27,100.6	29,371.6	29,282.8	31,465.9	30,959.0	31,731.2	35,382.9
3. Claims on central government and funds	21,917.7	22,743.1	22,466.4	22,935.5	22,573.8	22,701.3	23,243.1	23,218.6	22,273.3	22,508.6	22,345.9	22,098.3	21,543.6
3.1. Bonds arising from blocked f/c deposits	2,473.5	2,014.4	2,032.4	2,047.2	2,014.8	2,009.3	1,999.5	1,514.1	1,495.9	1,517.6	1,523.0	1,534.5	1,531.9
3.2. Other claims	19,444.3	20,728.7	20,434.0	20,888.3	20,559.0	20,692.1	21,243.6	21,704.5	20,777.4	20,991.0	20,822.9	20,563.8	20,011.7
4. Claims on other domestic sectors	96,218.4	98,782.6	100,635.1	101,017.8	102,073.2	103,324.4	102,608.8	104,427.1	104,461.2	105,688.9	106,954.9	109,214.9	110,374.3
4.1. Claims on local government	1,422.4	1,421.2	1,400.6	1,307.4	1,295.7	1,276.1	1,278.7	1,271.7	1,243.3	1,274.0	1,327.7	1,356.2	1,563.1
4.2. Claims on enterprises	51,723.4	52,781.7	53,335.2	53,023.3	53,350.9	53,434.0	52,020.7	52,443.3	52,451.8	52,172.0	52,416.8	53,540.2	53,809.8
4.3. Claims on households	43,072.6	44,579.7	45,899.3	46,687.1	47,426.5	48,614.3	49,309.4	50,712.1	50,766.1	52,242.9	53,210.4	54,318.5	55,001.4
5. Claims on other banking institutions	219.5	215.7	267.8	214.0	296.2	295.9	209.2	396.4	249.9	455.9	515.1	508.9	431.8
6. Claims on non-banking financial institutions	915.3	1,046.6	1,147.6	1,363.7	1,241.8	1,165.0	1,145.2	1,896.9	1,949.9	940.9	952.9	1,117.3	761.8
Total (1+2+3+4+5+6)	165,622.2	167,606.7	168,364.1	172,475.1	170,983.5	174,004.0	175,799.5	181,008.1	181,102.5	184,738.9	185,583.3	189,195.5	195,278.0
LIABILITIES													
1. Demand deposits	21,166.2	19,925.8	19,840.6	19,972.7	20,468.8	21,915.0	22,187.7	23,083.1	22,699.1	22,071.2	22,536.9	22,884.5	23,315.0
2. Savings and time deposits	13,001.1	13,995.3	14,468.4	15,056.8	15,876.8	15,951.0	15,825.9	17,712.6	18,590.2	18,262.9	17,341.7	17,964.3	18,370.7
3. Foreign currency deposits	72,054.6	73,015.0	73,134.7	74,068.6	71,535.4	71,002.0	71,104.3	72,515.8	73,830.7	75,416.0	76,329.8	76,816.1	76,035.3
4. Bonds and money market instruments	216.3	192.5	149.4	153.7	147.8	150.0	263.0	413.3	514.6	642.6	595.2	642.8	598.4
5. Foreign liabilities	35,023.5	36,194.9	35,818.4	37,457.5	36,875.8	38,838.8	40,455.6	40,770.6	38,888.3	41,442.3	41,999.3	43,352.7	49,932.0
6. Central government and funds' deposits	6,094.9	5,752.3	5,394.2	5,515.5	5,218.3	5,189.0	5,253.5	5,197.8	5,149.3	5,268.7	5,254.9	5,254.0	5,283.3
7. Credit from central bank	17.6	17.6	13.7	13.8	13.6	13.7	13.7	13.8	13.8	343.4	14.1	14.2	968.9
8. Restricted and blocked deposits	1,680.5	1,598.5	1,775.5	1,785.9	1,679.1	2,043.4	1,858.3	1,718.5	1,725.6	1,939.3	1,741.9	1,689.5	1,709.0
o/w: Households' blocked f/c deposits	319.3	258.2	257.3	257.5	249.5	243.0	242.3	181.8	178.2	177.2	174.6	174.2	167.8
9. Capital accounts	26,323.2	26,574.4	26,792.1	26,526.4	26,024.9	26,263.4	26,120.3	26,458.1	26,640.9	26,808.6	27,184.8	27,404.0	27,389.5
10. Other items (net)	-9,955.6	-9,659.6	-9,022.9	-8,075.7	-6,857.1	-7,362.1	-7,282.8	-6,875.6	-6,949.9	-7,456.0	-7,415.3	-6,826.5	-8,324.2
Total (1+2+3+4+5+6+7+8+9+10)	165,622.2	167,606.7	168,364.1	172,475.1	170,983.5	174,004.0	175,799.5	181,008.1	181,102.5	184,738.9	185,583.3	189,195.5	195,278.0

Table D1: Banks' Accounts

Banks' Accounts include data on banks' claims and liabilities. Banks' mutual claims and liabilities are consolidated. In September 1999, the data was revised to include savings banks. The whole data series was revised accordingly.

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. Other claims also included, until July 2000, bonds issued in accordance with the Act on the Issue of Bonds for the Restructuring of the Economy of the Republic of Croatia. These bonds have been replaced, pursuant to a Decree of the Government of the Republic of Croatia on the Issuing of Replacement Bonds for the Restructuring of the Economy, issued in April 2000, by kuna bonds on which interest is paid.

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 (includ-

ing loro letters of credit and other forms of collateral), time deposits, loans received and liabilities due. Issued subordinate and hybrid instruments, purchased by foreign investors, are also included in loans received. Central government and funds' deposits are all forms of banks' kuna and foreign currency liabilities (except restricted and blocked deposits) to the central government and funds.

Credit from central bank comprises loans 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.

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 the banks' balance sheet total amounted to 5,701.4 million kuna. On the assets side, most significant were: Claims on enterprises (4,378.7 million kuna) and Claims on households (701.4 million kuna). On the liabilities side, most significant were: Foreign currency deposits (3,443.7 million kuna), Foreign liabilities (1,024.6 million kuna) and Capital accounts (854.6 million kuna). Beginning in July 1999, the total amount of provisions for identified losses is shown within the Capital accounts item. Data for June 1999 are comparable to data for July 1999 if Claims on other domestic sectors and Capital accounts are increased by 3,513.5 million kuna. Other items have been corrected by small amounts.

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

	2002	2003											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Foreign assets in f/c	25,924.4	25,374.9	23,362.0	26,879.1	23,789.9	25,662.7	26,948.4	29,262.7	29,026.3	31,355.5	30,896.3	31,608.1	35,261.9
1.1. Claims on foreign banks	21,333.5	20,983.3	19,659.1	23,598.3	20,522.9	22,548.1	23,785.5	25,778.7	25,587.5	27,276.8	26,886.3	27,904.8	31,877.6
Foreign currencies	1,019.8	773.7	764.3	853.0	1,012.4	949.1	1,270.7	1,319.4	1,233.1	1,041.0	942.6	864.6	1,268.6
Demand deposits	757.7	810.7	710.5	1,611.7	824.2	798.3	1,050.3	910.6	992.6	1,041.2	833.0	879.6	1,057.0
Time and notice deposits	17,569.8	17,163.3	15,836.7	18,477.0	16,065.2	18,500.2	19,349.9	21,483.4	21,293.5	23,181.1	23,051.1	24,364.3	27,969.4
Securities	1,690.2	1,942.0	2,051.2	2,330.3	2,350.4	2,034.0	1,845.2	1,764.8	1,754.1	1,749.5	1,745.0	1,466.1	1,364.2
Loans and advances	278.7	276.1	278.7	308.5	253.1	249.0	252.0	283.0	296.9	246.4	297.0	314.7	203.1
Shares and participations	17.2	17.5	17.6	17.8	17.5	17.5	17.4	17.5	17.2	17.4	17.5	15.4	15.4
1.2. Claims on foreign nonbanks	4,590.8	4,391.6	3,702.9	3,280.8	3,267.1	3,114.5	3,162.9	3,484.0	3,438.9	4,078.8	4,010.1	3,703.3	3,384.4
Claims on foreign governments	3,855.5	3,680.3	2,964.2	2,764.0	2,782.2	2,667.2	2,708.0	3,003.1	2,957.9	3,612.3	3,539.3	3,221.3	2,905.0
Claims on other nonresidents	733.7	709.7	737.2	515.2	483.2	445.7	454.6	480.5	480.5	466.0	470.4	481.6	478.9
Securities	191.3	193.1	194.9	40.3	38.6	35.7	36.7	36.0	37.1	35.9	38.5	34.2	32.1
Loans and advances	542.4	516.6	542.2	474.9	444.6	410.0	417.9	444.5	443.5	430.1	431.8	447.3	446.8
Shares and participations	1.6	1.6	1.6	1.6	1.7	1.6	0.3	0.3	0.4	0.4	0.4	0.4	0.4
2. Foreign assets in kuna	53.4	64.2	73.9	71.7	105.2	64.3	152.2	108.9	256.5	110.4	62.7	123.1	120.9
2.1. Claims on foreign banks	19.6	18.9	22.2	19.3	80.5	39.6	130.2	87.4	235.1	88.9	41.0	101.3	99.1
2.2. Claims on foreign nonbanks	33.8	45.3	51.7	52.4	24.7	24.7	22.1	21.5	21.3	21.5	21.7	21.8	21.9
o/w: Loans and advances	33.0	44.5	50.9	51.6	23.7	23.9	21.3	20.7	20.5	20.7	20.9	21.0	21.0
Total (1+2)	25,977.8	25,439.1	23,435.9	26,950.7	23,895.1	25,727.0	27,100.6	29,371.6	29,282.8	31,465.9	30,959.0	31,731.2	35,382.9

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 nonbanks (total and by financial instruments) are shown separately

within both foreign assets in kuna and in foreign currency.

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' Foreign assets amounted to 402.3 million kuna. Through June 1999, some households' f/c savings deposits were included in Demand deposits and f/c savings deposits.

Table D3: Banks' Claims on the Central Government and Funds

End of period, million kuna

	2002	2003											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Bonds (c'part to blocked f/c savings deposits)	2,473.5	2,014.4	2,032.4	2,047.2	2,014.8	2,009.3	1,999.5	1,514.1	1,495.9	1,517.6	1,523.0	1,534.5	1,531.9
2. Other claims	19,444.3	20,728.7	20,434.0	20,888.3	20,559.0	20,692.1	21,243.6	21,704.5	20,777.4	20,991.0	20,822.9	20,563.8	20,011.7
2.1. In kuna	15,970.9	16,943.4	16,769.1	17,178.0	16,901.8	17,210.3	17,425.3	17,713.0	16,580.9	16,593.9	16,500.0	16,279.4	16,475.2
2.1.1. Claims on central government	13,969.9	14,939.7	14,697.1	15,330.6	15,063.9	15,281.0	15,512.1	15,421.0	14,265.6	14,677.3	14,588.7	14,350.6	14,500.7
Securities	11,515.6	12,352.7	12,183.3	12,231.7	11,974.6	12,011.5	11,808.0	11,611.8	11,274.3	10,932.3	10,588.6	10,801.6	10,238.1
Loans and advances	2,454.3	2,586.9	2,513.7	3,098.8	3,089.2	3,269.5	3,704.1	3,809.2	2,991.3	3,745.0	4,000.1	3,549.0	4,262.6
2.1.2. Claims on central government funds	2,001.0	2,003.7	2,072.1	1,847.4	1,838.0	1,929.3	1,913.2	2,291.9	2,315.3	1,916.6	1,911.3	1,928.8	1,974.5
Securities	560.7	561.9	631.9	641.7	637.8	661.2	654.7	641.2	670.6	693.1	698.6	714.5	723.6
Loans and advances	1,440.3	1,441.8	1,440.2	1,205.7	1,200.1	1,268.2	1,258.5	1,650.7	1,644.7	1,223.5	1,212.7	1,214.3	1,250.9
2.2. In f/c	3,473.3	3,785.3	3,664.9	3,710.4	3,657.2	3,481.7	3,818.3	3,991.5	4,196.5	4,397.1	4,322.9	4,284.4	3,536.4
2.2.1. Claims on central government	2,359.1	2,630.6	2,504.0	2,591.3	2,511.8	2,383.3	2,777.2	2,943.7	3,179.6	3,207.9	3,247.2	3,206.9	3,196.9
Securities	1,733.4	1,921.4	1,793.3	1,860.8	1,795.5	1,689.3	1,687.8	1,637.5	1,865.2	1,847.1	1,822.9	1,786.4	1,805.4
Loans and advances	625.7	709.2	710.7	730.5	716.3	694.1	1,089.4	1,306.2	1,314.4	1,360.8	1,424.2	1,420.5	1,391.5
2.2.2. Claims on central government funds	1,114.2	1,154.7	1,160.8	1,119.0	1,145.4	1,098.4	1,041.1	1,047.8	1,016.9	1,189.2	1,075.8	1,077.5	339.5
Securities	195.0	244.1	258.1	218.4	222.1	206.8	171.4	187.9	174.9	169.5	171.4	168.6	96.4
Loans and advances	919.2	910.6	902.8	900.7	923.3	891.5	869.6	859.9	842.0	1,019.7	904.3	908.9	243.1
Total (1+2)	21,917.7	22,743.1	22,466.4	22,935.5	22,573.8	22,701.3	23,243.1	23,218.6	22,273.3	22,508.6	22,345.9	22,098.3	21,543.6

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 deposits are issued in accordance with the Act on Converting Households' Foreign Exchange Deposits into the Public Debt of the Republic of Croatia.

Big bonds are those issued in accordance with the Act on the Issue of Bonds for the Restructuring of the Economy of the Republic of Croatia.

Other claims are all other banks' kuna and foreign cur-

rency claims on the central government and funds: securities, loans and equities. The item Securities also comprised, until July 2000, bonds issued in accordance with the Act on the Issue of Bonds for the Restructuring of the Economy of the Republic of Croatia. These bonds have been replaced, pursuant to a Decree of the Government of the Republic of Croatia on the Issuing of Replacement Bonds for the Restructuring of the Economy, issued in April 2000, by kuna bonds on which interest is paid.

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' Claims on central government and funds amounted to 17.8 million kuna.

Table D4: Banks' Claims on Other Domestic Sectors

End of period, million kuna

	2003												
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Claims in kuna	85,418.7	87,951.2	89,981.5	90,821.9	91,966.5	93,088.7	92,714.2	94,748.2	94,584.2	95,916.7	96,995.9	98,972.4	100,365.0
1.1. Money market instruments	1,394.7	1,437.8	1,485.1	1,483.2	1,526.4	1,535.3	1,503.7	1,486.8	1,509.7	1,386.7	1,300.1	1,336.2	1,314.1
1.2. Bonds	72.4	67.4	69.0	60.5	69.5	68.2	78.2	68.0	70.8	69.4	73.6	72.6	56.2
1.3. Loans and advances	80,887.6	83,402.7	85,397.2	86,206.8	87,250.2	88,389.1	88,190.3	90,191.1	89,995.6	91,497.8	92,645.5	94,635.6	96,081.7
1.4. Shares and participations	3,064.0	3,043.3	3,030.2	3,071.3	3,120.4	3,096.1	2,942.0	3,002.3	3,008.2	2,962.8	2,976.8	2,928.0	2,912.9
2. Claims in f/c	10,799.8	10,831.4	10,653.6	10,195.9	10,106.7	10,235.7	9,894.6	9,679.0	9,876.9	9,772.2	9,959.0	10,242.5	10,009.3
2.1. Securities	243.2	247.5	267.7	197.3	214.4	206.8	276.2	303.9	298.5	298.1	271.0	270.3	130.6
2.2. Loans and advances	10,556.6	10,583.9	10,385.9	9,998.7	9,892.3	10,028.9	9,618.4	9,375.1	9,578.4	9,474.0	9,688.0	9,972.1	9,878.7
Total (1+2)	96,218.4	98,782.6	100,635.1	101,017.8	102,073.2	103,324.4	102,608.8	104,427.1	104,461.2	105,688.9	106,954.9	109,214.9	110,374.3

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.

Until October 1994, foreign currency loans could be granted only when banks simultaneously borrowed abroad in their own name and for the account of the end-user.

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' Claims on other domestic sector amounted to 5,088.0 million kuna. Data for June 1999 are comparable with data for July 1999 if item Loans and advances under Claims in kuna is increased by 2,904.3 million kuna, item Shares and participations is decreased by 520.3 million kuna, and if item Loans and advances under Claims in f/c is increased by 1,129.4 million kuna.

Table D5: Distribution of Banks' Loans by Domestic Institutional Sectors

End of period, million kuna

	2002	2003											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
LOANS IN KUNA													
1. Loans to central government and funds	3,894.6	4,028.8	3,953.9	4,304.5	4,289.4	4,537.7	4,962.6	5,459.9	4,636.0	4,968.5	5,212.7	4,763.3	5,513.5
1.1. Loans to central government	2,454.3	2,586.9	2,513.7	3,098.8	3,089.2	3,269.5	3,704.1	3,809.2	2,991.3	3,745.0	4,000.1	3,549.0	4,262.6
1.2. Loans to central government funds	1,440.3	1,441.8	1,440.2	1,205.7	1,200.1	1,268.2	1,258.5	1,650.7	1,644.7	1,223.5	1,212.7	1,214.3	1,250.9
2. Loans to local government	1,202.9	1,200.6	1,176.9	1,177.7	1,192.2	1,183.6	1,190.4	1,193.8	1,169.6	1,200.3	1,258.0	1,284.6	1,485.1
3. Loans to enterprises	36,708.1	37,719.9	38,417.4	38,437.9	38,729.4	38,688.2	37,791.1	38,387.5	38,163.0	38,199.4	38,343.3	39,204.3	39,777.4
4. Loans to households	42,976.6	44,482.3	45,802.9	46,591.3	47,328.6	48,517.3	49,208.8	50,609.8	50,663.0	52,098.1	53,044.2	54,146.7	54,819.3
o/w: Housing loans	12,363.4	12,803.5	13,212.5	13,604.9	13,785.9	14,165.7	14,432.0	14,914.5	14,990.3	15,555.3	15,967.0	16,392.8	16,896.2
5. Loans to other banking institutions	17.6	17.7	43.9	18.5	94.8	78.0	21.1	133.5	44.1	110.6	187.4	176.9	82.3
6. Loans to non-banking financial institutions	521.3	593.8	680.7	827.2	769.9	743.8	815.3	1,571.1	1,591.3	597.0	622.4	829.0	427.9
A. Total (1+2+3+4+5+6)	85,321.1	88,043.0	90,075.8	91,357.0	92,404.2	93,748.6	93,989.2	97,355.5	96,267.0	97,173.9	98,668.1	100,404.8	102,105.4
LOANS IN F/C													
1. Loans to central government and funds	1,544.9	1,619.9	1,613.5	1,631.2	1,639.6	1,585.6	1,959.0	2,166.2	2,156.4	2,380.5	2,328.6	2,329.4	1,634.7
1.1. Loans to central government	625.7	709.2	710.7	730.5	716.3	694.1	1,089.4	1,306.2	1,314.4	1,360.8	1,424.2	1,420.5	1,391.5
1.2. Loans to central government funds	919.2	910.6	902.8	900.7	923.3	891.5	869.6	859.9	842.0	1,019.7	904.3	908.9	243.1
2. Loans to local government	152.3	144.5	146.0	55.1	55.9	55.7	55.4	48.1	47.9	46.7	46.8	47.2	47.1
3. Loans to enterprises	10,308.3	10,341.9	10,143.5	9,847.7	9,738.5	9,876.2	9,462.3	9,224.6	9,427.4	9,282.5	9,475.0	9,753.2	9,649.4
4. Loans to households	96.0	97.5	96.4	95.8	97.9	97.0	100.6	102.3	103.1	144.8	166.2	171.8	182.1
5. Loans to other banking institutions	1.2	–	26.2	–	17.1	20.5	7.5	70.6	25.6	169.6	137.8	127.4	174.3
6. Loans to non-banking financial institutions	28.3	80.5	91.2	105.8	48.1	51.7	50.4	43.8	75.5	72.0	57.5	13.7	58.8
B. Total (1+2+3+4+5+6)	12,131.0	12,284.3	12,116.8	11,735.6	11,597.1	11,686.7	11,635.4	11,655.6	11,835.8	12,096.1	12,211.9	12,442.6	11,746.4
TOTAL (A+B)	97,452.1	100,327.3	102,192.6	103,092.6	104,001.3	105,435.3	105,624.5	109,011.1	108,102.8	109,270.1	110,880.0	112,847.4	113,851.8

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.

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' loans amounted to 4,463.3 million kuna. Data for June 1999 are comparable with data for July 1999 if total loans in kuna are increased by 2,972.6 million kuna, and total loans in f/c are increased by 840.9 million kuna.

Table D6: Demand Deposits with Banks

End of period, million kuna

	2002	2003											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Local government	1,910.4	1,886.1	1,827.8	1,867.3	1,964.7	2,112.8	1,995.5	2,070.6	2,077.9	2,200.6	2,525.5	2,312.7	2,006.2
2. Enterprises	12,344.5	11,184.8	10,982.7	10,982.9	11,207.9	11,903.8	12,301.5	12,685.4	12,205.1	11,656.0	11,918.6	12,352.6	12,872.9
3. Households	6,307.4	6,368.3	6,597.2	6,594.0	6,777.6	7,103.9	7,379.5	7,752.8	7,880.0	7,658.7	7,518.7	7,649.4	7,873.1
4. Other banking institutions	42.1	28.1	29.1	86.6	27.0	26.8	30.2	53.6	62.1	61.5	91.6	78.5	98.9
5. Non-banking financial institutions	568.1	463.9	408.5	443.9	494.5	770.1	485.1	524.0	478.7	497.8	485.8	494.9	468.1
6. Less: Checks of other banks and checks in collection	-6.4	-5.4	-4.7	-2.1	-2.7	-2.4	-4.0	-3.2	-4.7	-3.4	-3.3	-3.7	-4.2
Total (1+2+3+4+5+6)	21,166.2	19,925.8	19,840.6	19,972.7	20,468.8	21,915.0	22,187.7	23,083.1	22,699.1	22,071.2	22,536.9	22,884.5	23,315.0

Table D6: Demand Deposits with Banks

The table shows demand deposits with banks, classified by domestic institutional sectors.

Demand deposits are the sum of other domestic sectors', other banking institutions' and non-banking financial institutions' giro and current accounts balances, minus currency in the payment system (i.e. amount of checks in banks' vaults

and checks in collection). Banks' obligations arising from kuna payment instruments issued are included in the household sector.

In May 1999, bankruptcy proceedings have been initiated against several banks so their assets and liabilities are excluded from monetary statistics. In April 1999, Demand deposits with those banks amounted to 259.3 million kuna.

Table D7: Time and Savings Deposits with Banks

End of period, million kuna

	2002	2003											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Savings deposits	2,236.2	2,198.2	2,254.9	2,212.5	2,236.2	2,268.4	2,349.4	2,382.5	2,449.8	2,418.3	2,531.0	2,478.4	2,527.9
1.1. Local government	14.8	14.0	14.5	15.1	15.2	17.5	17.0	15.5	13.7	13.5	14.7	13.7	14.4
1.2. Enterprises	213.3	150.3	138.3	124.9	123.1	137.3	140.9	125.1	190.6	208.2	169.6	179.3	190.5
1.3. Households	1,996.3	2,016.4	2,082.9	2,061.9	2,090.5	2,089.4	2,129.8	2,215.5	2,216.1	2,170.5	2,309.5	2,243.4	2,288.8
1.4. Other banking institutions	0.0	0.0	0.0	0.0	0.0	—	0.0	0.0	0.0	—	—	—	—
1.5. Non-banking financial institutions	11.8	17.5	19.1	10.5	7.3	24.2	61.7	26.4	29.5	26.1	37.1	42.1	34.2
2. Time and notice deposits	10,764.9	11,797.1	12,213.5	12,844.3	13,640.6	13,682.7	13,476.5	15,330.1	16,140.3	15,844.6	14,810.7	15,485.8	15,842.9
2.1. Local government	482.8	563.7	671.9	684.5	691.0	689.6	653.9	659.9	660.5	685.3	683.9	684.7	551.6
2.2. Enterprises	4,633.6	5,182.9	5,274.5	5,620.2	6,431.6	6,375.7	6,095.8	6,698.8	7,426.5	7,606.8	6,650.6	6,847.5	7,165.3
2.3. Households	3,793.8	4,076.0	4,268.5	4,451.6	4,532.1	4,761.3	4,908.1	5,206.9	5,296.3	5,487.3	5,678.7	5,962.2	6,194.5
2.4. Other banking institutions	58.4	70.5	62.4	75.3	70.5	101.9	132.8	165.4	155.3	174.6	110.1	147.5	129.3
2.5. Non-banking financial institutions	1,796.3	1,903.9	1,936.2	2,012.6	1,915.4	1,754.1	1,685.9	2,599.1	2,601.7	1,890.6	1,687.4	1,843.9	1,802.2
Total (1+2)	13,001.1	13,995.3	14,468.4	15,056.8	15,876.8	15,951.0	15,825.9	17,712.6	18,590.2	18,262.9	17,341.7	17,964.3	18,370.7

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.

In May 1999, bankruptcy proceedings have been initi-

ated against several banks so their assets and liabilities are excluded from monetary statistics. In April 1999, Time and savings deposits with those banks amounted to 323.7 million kuna. In July 1999, certain deposits of local government, enterprises, other banking institutions and non-banking financial institutions were reclassified from savings to time deposits.

Table D8: Foreign Currency Deposits with Banks

End of period, million kuna

	2002	2003											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Savings deposits	21,074.4	21,153.5	20,959.2	21,649.3	20,592.9	20,344.5	20,835.2	21,528.2	22,123.6	22,363.1	22,329.3	21,988.1	21,546.96
1.1. Local government	12.2	12.3	13.0	12.9	12.8	12.9	13.3	13.8	13.7	13.9	14.0	14.6	14.68
1.2. Enterprises	3,346.7	3,293.3	3,269.3	3,703.9	3,231.0	3,224.8	3,473.3	3,920.9	4,037.8	4,048.6	3,979.0	3,933.1	3,620.21
1.3. Households	17,537.3	17,711.7	17,556.1	17,785.4	17,244.9	16,987.1	17,232.4	17,484.7	17,939.1	18,185.2	18,099.3	17,858.5	17,690.22
1.4. Other banking institutions	34.7	9.6	9.2	6.7	2.6	2.8	2.6	6.7	3.6	0.7	71.7	20.4	8.96
1.5. Non-banking financial institutions	143.5	126.6	111.7	140.4	101.6	117.0	113.6	102.2	129.4	114.7	165.3	161.6	212.89
2. Time deposits	50,980.3	51,861.5	52,175.4	52,419.3	50,942.5	50,657.5	50,269.1	50,987.6	51,707.1	53,052.9	54,000.5	54,827.9	54,488.36
2.1. Local governments and funds	9.5	9.7	6.8	6.8	6.6	6.6	5.0	4.5	4.5	4.5	3.8	3.8	3.82
2.2. Enterprises	6,009.6	5,949.6	5,755.4	5,868.3	5,180.0	5,503.2	5,186.9	5,204.7	5,760.7	6,297.0	7,118.0	7,439.1	7,154.04
2.3. Households	44,159.2	45,112.3	45,687.2	45,894.9	45,134.5	44,554.9	44,479.1	45,251.0	45,405.4	46,151.8	46,255.4	46,742.4	46,805.11
2.4. Other banking institutions	41.5	33.8	27.4	2.8	11.8	28.2	20.5	21.8	6.9	14.2	94.0	90.4	21.71
2.5. Non-banking financial institutions	760.5	756.1	698.8	646.5	609.6	564.6	577.6	505.7	529.7	585.4	529.3	552.3	503.68
Total (1+2)	72,054.6	73,015.0	73,134.7	74,068.6	71,535.4	71,002.0	71,104.3	72,515.8	73,830.7	75,416.0	76,329.8	76,816.1	76,035.31

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 de-

posits and foreign currency payment instruments issued while foreign currency time deposits also include foreign currency notice deposits.

In May 1999, bankruptcy proceedings have been initiated against several banks so their assets and liabilities are excluded from monetary statistics. In April 1999, Foreign currency deposits with those banks amounted to 3,443.7 million kuna.

Table D9: Bonds and Money Market Instruments

End of period, million kuna

	2002	2003											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Money market instruments (net)	5.1	5.1	0.2	0.2	–	–	–	–	–	–	–	–	–
2. Bonds (net)	92.8	63.1	64.3	62.5	61.3	59.7	138.9	152.5	148.9	145.5	145.8	147.0	151.9
3. Other domestic borrowing	118.4	124.3	84.9	91.0	86.6	90.3	124.2	260.8	365.7	497.1	449.4	495.7	446.5
3.1. Local government	–	–	–	–	–	–	0.8	0.8	0.8	0.8	0.8	0.8	0.9
3.2. Enterprises	46.3	59.6	44.2	44.0	43.9	43.7	43.6	42.0	42.0	41.8	51.9	42.6	92.7
3.3. Other banking institutions	10.0	4.0	4.0	8.5	9.0	23.2	24.3	52.0	25.3	78.1	37.2	90.7	222.1
3.4. Non-banking financial institutions	62.0	60.7	36.8	38.5	33.6	23.4	55.5	166.0	297.6	376.4	359.6	361.7	130.9
Total (1+2+3)	216.3	192.5	149.4	153.7	147.8	150.0	263.0	413.3	514.6	642.6	595.2	642.8	598.4

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 subordi-

nated and hybrid instruments, excluding those purchased by foreign investors.

Other domestic borrowing comprises loans received, reported total and classified by institutional sectors.

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' Bonds and Money market instruments amounted to 9 million kuna. In July 1999, certain debt and hybrid instruments were reclassified from Time and notice deposits to Bonds (net). The amount reclassified was 3,513.5 million kuna.

Table D10: Banks' Foreign Liabilities

End of period, million kuna

	2002	2003											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Foreign liabilities in f/c	34,198.5	35,239.6	34,666.1	36,276.5	35,323.7	36,298.5	37,421.8	37,273.8	36,745.7	38,372.7	38,784.2	40,122.6	44,574.3
1.1. Liabilities to foreign banks	28,662.3	29,644.3	29,014.9	30,461.5	29,695.4	30,299.4	31,635.5	31,528.0	30,809.1	32,200.9	32,694.6	34,013.2	38,623.1
Demand deposits	130.9	98.1	96.4	100.8	105.2	109.3	118.0	125.9	107.4	109.6	115.1	255.5	266.6
Time and notice deposits	9,002.9	8,714.9	9,191.2	9,621.7	9,315.1	10,429.6	11,003.4	11,313.0	10,863.9	11,443.7	11,558.8	11,617.0	14,875.4
Loans and advances	19,528.5	20,831.3	19,727.2	20,739.0	20,275.0	19,760.6	20,514.1	20,089.2	19,837.8	20,647.6	21,020.7	22,140.7	23,481.2
o/w: Subordinated and hybrid instruments	2,801.4	2,843.3	2,868.0	2,894.4	2,845.8	2,760.9	2,746.4	2,758.2	2,728.2	2,769.5	2,777.2	2,799.9	2,949.2
1.2. Liabilities to foreign nonbanks	5,536.2	5,595.2	5,651.2	5,815.1	5,628.4	5,999.0	5,786.4	5,745.8	5,936.6	6,171.8	6,089.7	6,109.4	5,951.2
Savings and time deposits	4,160.2	4,246.2	4,299.4	4,359.0	4,277.2	4,683.5	4,477.5	4,471.4	4,662.5	4,889.8	4,809.3	4,830.4	4,753.2
Sight deposits	875.6	939.5	936.9	938.6	895.0	833.3	855.7	888.2	949.0	969.3	894.1	925.8	898.6
Time and notice deposits	3,284.6	3,306.6	3,362.5	3,420.4	3,382.2	3,850.1	3,621.8	3,583.3	3,713.5	3,920.5	3,915.2	3,904.6	3,854.6
Loans and advances	1,376.0	1,349.1	1,351.8	1,456.0	1,351.1	1,315.6	1,308.8	1,274.3	1,274.1	1,282.0	1,280.4	1,279.0	1,198.0
o/w: Subordinated and hybrid instruments	39.7	40.3	40.6	41.0	40.3	40.3	40.1	40.3	39.8	38.7	38.8	39.1	39.1
2. Foreign liabilities in kuna	825.0	955.3	1,152.3	1,180.9	1,552.1	2,540.3	3,033.8	3,496.8	2,142.6	3,069.6	3,215.0	3,230.1	5,357.7
2.1. Liabilities to foreign banks	690.9	814.4	1,000.5	845.6	1,277.3	2,273.2	2,707.5	3,165.6	1,717.7	2,824.2	2,957.2	2,951.1	5,087.8
Demand deposits	53.6	125.4	357.5	225.8	151.8	202.8	64.4	170.4	91.7	59.1	227.2	57.0	86.4
Time and notice deposits	635.8	646.5	641.6	618.4	973.1	1,918.3	2,003.7	1,444.3	92.3	1,208.1	1,168.3	1,321.3	2,664.1
Loans and advances	1.5	42.5	1.5	1.5	152.5	152.1	639.4	1,550.9	1,533.8	1,557.1	1,561.7	1,572.9	2,337.3
2.2. Liabilities to foreign nonbanks	134.1	141.0	151.8	335.3	274.8	267.1	326.3	331.2	424.9	245.4	257.8	279.0	269.9
Demand deposits	56.2	55.9	65.7	54.0	67.8	63.4	67.0	72.6	110.2	85.6	87.8	88.3	76.8
Time and notice deposits	77.9	85.1	86.1	281.4	207.0	203.7	259.3	258.6	314.7	158.1	168.4	189.0	191.4
Loans and advances	–	–	–	–	–	–	–	–	–	1.7	1.7	1.7	1.7
o/w: Subordinated and hybrid instruments	–	–	–	–	–	–	–	–	–	1.7	1.7	1.7	1.7
Total (1+2)	35,023.5	36,194.9	35,818.4	37,457.5	36,875.8	38,838.8	40,455.6	40,770.6	38,888.3	41,442.3	41,999.3	43,352.7	49,932.0

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, lia-

bilities to foreign banks are reported separately from liabilities to foreign nonbanks (total and by financial instruments). Loans and advances also include issued subordinated and hybrid instruments purchased by foreign investors.

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' Foreign liabilities amounted to 1,024.6 million kuna.

Table D11: Central Government and Funds' Deposits with Banks

End of period, million kuna

	2002	2003											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. In kuna	4,036.8	3,952.8	3,713.1	3,805.2	3,638.4	3,699.6	3,748.8	3,722.1	3,664.9	3,892.0	4,007.2	3,968.7	4,104.4
1.1. Central government deposits	634.3	553.1	487.4	459.1	427.3	457.5	420.8	429.9	342.5	347.3	416.0	389.9	506.4
Demand deposits	476.4	367.5	293.4	265.4	286.1	318.7	287.9	300.1	250.1	248.4	311.5	307.7	448.0
Savings deposits	3.3	24.9	24.9	24.9	24.9	24.7	18.3	16.3	16.0	16.0	16.0	13.3	3.0
Time and notice deposits	153.6	159.6	168.0	167.7	115.2	113.0	113.6	112.4	75.4	81.9	87.5	67.7	54.2
Loans and advances	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
1.2. Central government funds' deposits	3,402.5	3,399.7	3,225.7	3,346.1	3,211.1	3,242.1	3,327.9	3,292.2	3,322.4	3,544.7	3,591.1	3,578.8	3,598.0
Demand deposits	553.2	499.4	331.9	383.7	321.1	349.0	381.8	354.4	317.2	422.0	372.8	382.2	294.8
Savings deposits	0.0	0.1	0.0	0.0	0.1	0.1	0.1	0.8	0.0	0.1	0.1	0.2	0.3
Time and notice deposits	144.3	179.8	178.7	173.7	186.8	182.0	196.7	197.5	186.9	208.8	214.6	240.5	156.2
Loans and advances	2,705.0	2,720.4	2,715.0	2,788.7	2,703.1	2,711.0	2,749.4	2,739.5	2,818.4	2,913.9	3,003.6	2,955.9	3,146.7
2. In f/c	2,058.1	1,799.5	1,681.1	1,710.3	1,579.9	1,489.4	1,504.7	1,475.7	1,484.4	1,376.6	1,247.8	1,285.3	1,178.9
2.1. Central government deposits	1,938.9	1,701.1	1,496.6	1,522.4	1,443.7	1,341.0	1,417.0	1,415.0	1,406.3	1,302.7	1,177.8	1,209.0	1,158.2
Savings deposits	263.0	461.6	254.1	265.5	235.0	223.3	263.4	381.1	334.3	262.8	159.2	210.1	198.5
Time and notice deposits	293.1	4.6	4.6	4.7	4.6	4.6	4.6	0.1	–	–	–	–	–
Refinanced loans and advances	1,382.8	1,234.8	1,237.9	1,252.2	1,204.0	1,113.0	1,148.9	1,033.8	1,072.1	1,039.9	1,018.6	999.0	959.6
2.2. Central government funds' deposits	119.2	98.4	184.5	188.0	136.3	148.4	87.7	60.7	78.1	73.9	70.0	76.3	20.8
Savings deposits	114.1	93.1	175.9	177.7	125.1	139.7	79.5	51.6	72.1	73.9	70.0	76.3	20.8
Time and notice deposits	5.0	5.3	8.6	10.3	11.1	8.7	8.3	9.1	6.0	–	–	–	–
Total (1+2)	6,094.9	5,752.3	5,394.2	5,515.5	5,218.3	5,189.0	5,253.5	5,197.8	5,149.3	5,268.7	5,254.9	5,254.0	5,283.3

Table D11: Central Government and Funds' Deposits with Banks

The table reports total banks' kuna and foreign currency liabilities to the central government and funds, with the exception of restricted (kuna and foreign currency) deposits by the central government and funds with banks.

Kuna and foreign currency deposits by the Republic of Croatia and central government funds are shown separately. Kuna deposits comprise demand deposits, savings deposits,

time and notice deposits, and loans obtained from the central government and funds. Foreign currency deposits comprise savings deposits, time and notice deposits, and refinanced loans.

In May 1999, bankruptcy proceedings have been initiated against several banks so their assets and liabilities are excluded from monetary statistics. In April 1999, Central government and funds deposits with those banks amounted to 193.5 million kuna.

Table D12: Restricted and Blocked Deposits with Banks

End of period, million kuna

	2002	2003											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Restricted deposits	1,361.2	1,340.4	1,518.2	1,528.4	1,429.5	1,800.4	1,616.0	1,536.7	1,547.4	1,762.2	1,567.3	1,515.4	1,541.2
1.1. In kuna	789.6	704.5	774.5	750.5	717.0	708.6	814.2	802.4	790.0	820.5	825.5	789.6	730.1
1.2. In f/c	571.6	635.9	743.7	777.9	712.5	1,091.8	801.8	734.3	757.4	941.7	741.8	725.8	811.1
2. Blocked f/c deposits of households	319.3	258.2	257.3	257.5	249.5	243.0	242.3	181.8	178.2	177.2	174.6	174.2	167.8
Total (1+2)	1,680.5	1,598.5	1,775.5	1,785.9	1,679.1	2,043.4	1,858.3	1,718.5	1,725.6	1,939.3	1,741.9	1,689.5	1,709.0

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.

In May 1999, bankruptcy proceedings have been initiated against several banks so their assets and liabilities are excluded from monetary statistics. In April 1999, Restricted and blocked deposits with those banks amounted to 39.9 million kuna. In July 1999, data on blocked deposits of the central government and of enterprises were revised.

Table E1: Housing Savings Banks' Accounts

End of period, million kuna

	2002	2003											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
ASSETS													
1. Reserves with the CNB	19.1	15.0	7.4	4.2	9.4	6.4	1.6	1.7	1.3	2.1	0.0	0.0	0.0
2. Claims on central government and funds	1,983.9	2,055.5	2,109.7	2,178.9	2,173.3	2,216.6	2,445.1	2,492.4	2,510.0	2,613.4	2,714.7	2,814.0	3,033.5
3. Claims on other domestic sectors	93.3	99.7	106.4	114.1	122.5	132.4	139.6	149.1	152.6	162.6	170.2	177.3	187.9
o/w: Claims on households	91.3	97.7	104.4	114.1	122.5	132.4	139.6	149.1	152.6	162.6	170.2	177.3	187.9
4. Claims on banks	37.2	29.3	30.3	36.8	34.5	34.5	60.6	50.2	62.7	80.5	56.0	79.1	247.2
5. Claims on other banking institutions	–	–	–	–	–	–	–	–	–	–	–	–	–
Total (1+2+3+4+5)	2,133.6	2,199.5	2,253.7	2,334.0	2,339.6	2,389.9	2,646.9	2,693.4	2,726.6	2,858.6	2,941.0	3,070.5	3,468.6
LIABILITIES													
1. Time deposits	2,012.9	2,087.1	2,142.8	2,210.7	2,208.9	2,244.5	2,470.5	2,534.3	2,559.6	2,690.6	2,773.3	2,887.0	3,265.2
2. Bonds and money market instruments	–	–	–	–	–	2.7	10.5	10.6	10.4	10.6	10.6	10.7	11.1
3. Capital accounts	141.1	148.3	147.2	159.7	162.6	174.7	181.8	184.3	174.0	170.2	164.3	160.1	159.7
4. Other items (net)	–20.4	–35.9	–36.3	–36.4	–31.9	–31.9	–16.0	–35.8	–17.4	–12.8	–7.3	12.6	32.6
Total (1+2+3+4)	2,133.6	2,199.5	2,253.7	2,334.0	2,339.6	2,389.9	2,646.9	2,693.4	2,726.6	2,858.6	2,941.0	3,070.5	3,468.6

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 ^a	On intervention credits	On intra-day refinancing facility	On short-term liquidity credits	On advances on the account of statutory reserves	On inaccurately calculated statutory reserves	On arrears
1	2	3	4	5	6	7	8	9	10
1995	December	8.50	25.49	19.00	17.00	–	–	19.00	22.00
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	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

^a 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 loans 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 ^a	Interest rates on CNB bills on an obligatory basis	Interest rates on CNB bills on a voluntary basis ^a				Interest rates on t/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
1995	December	5.50	16.50	12.00	25.54	27.00	–	–	–	–	–	–
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	January	1.50 ^b	–	–	2.08	–	–	2.27	2.30	–	–	–
	February	1.50	–	–	2.11	–	–	1.98	2.47	–	–	–
	March	1.50	–	–	2.16	–	–	1.89	2.07	–	–	–
	April	1.50	0.50	–	2.23	–	–	1.66	2.20	–	–	–
	May	1.50	0.50	–	2.34	–	–	1.60	2.00	–	–	–
	June	1.50	0.50	–	2.44	–	–	1.56	1.86	–	–	–
	July	1.50	0.50	–	2.52	–	–	1.43	1.88	–	–	–
	August	1.50	0.50	–	2.52	–	–	1.74	1.35	–	–	–
	September	1.50	0.50	–	2.55	–	–	1.69	1.19	–	–	–
	October	1.50	0.50	–	–	–	–	1.65	1.65	–	–	–
	November	1.25 ^c	0.50	–	–	–	–	1.61	1.73	–	–	–
	December	1.25	0.50	–	–	–	–	1.75	1.48	–	–	–

^a Breaks in the series of data are explained in notes on methodology.; ^b Since 29 January 2003.; ^c Since 13 November 2003.

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
1995	December	30.90	2,431.8	2,431.8	–	826.5	2,215.9	–	7.93	–
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	January	19.00	26,507.2	11,693.9	14,813.3	–	8,265.0	7,182.9	1.66	1.96
	February	19.00	27,119.0	12,011.3	15,107.6	–	8,414.0	7,359.0	1.41	2.10
	March	19.00	27,495.8	12,169.4	15,326.5	–	8,554.3	7,429.8	1.39	1.85
	April	19.00	27,949.3	12,394.7	15,554.6	14.0	8,723.3	7,563.2	1.40	1.73
	May	19.00	28,113.0	12,591.2	15,521.8	26.7	8,679.6	7,439.0	1.41	1.82
	June	19.00	28,357.6	12,952.8	15,404.8	26.7	8,872.4	7,737.2	1.40	1.65
	July	19.00	28,664.6	13,191.0	15,473.5	60.1	9,063.0	7,860.7	1.39	1.43
	August	19.00	29,398.7	13,703.8	15,694.8	85.8	9,602.2	8,143.7	1.37	1.55
	September	19.00	29,977.8	15,743.2	14,234.6	85.8	10,676.7	7,229.5	1.38	1.41
	October	19.00	30,120.0	16,227.5	13,892.5	99.7	11,023.3	6,995.3	1.41	1.54
	November	19.00	30,493.0	17,073.4	13,419.5	109.4	11,697.5	6,927.1	1.27	1.54
	December	19.00	31,009.4	18,023.8	12,985.6	109.4	12,459.8	6,850.2	1.17	1.47

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) and statutory reserves on f/c deposits, f/c credits from foreign banks and guarantees for such credits.

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 currently stands at 40%.

Column 9 shows the portion of the foreign currency reserve requirement which banks deposit in a special statutory reserve account with the CNB. The minimum percentage of

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
1995	December	49.4	....	0.63	199.4	218.7	–	–
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	January	890.4	9,601.7	2.50	0.6	5,113.0	1,184.0	4,337.5
	February	652.6	9,228.8	1.78	0.7	4,660.8	1,241.1	4,408.8
	March	622.1	10,130.5	1.67	0.6	3,880.5	1,370.7	4,213.7
	April	973.5	11,109.2	2.57	0.6	3,381.7	1,391.4	4,095.8
	May	1,282.3	10,104.0	3.29	0.4	2,808.9	1,463.6	4,069.6
	June	827.9	10,479.6	2.01	0.4	3,088.7	1,457.2	4,051.5
	July	756.3	13,122.4	1.79	0.4	2,002.4	1,617.3	4,052.0
	August	568.1	16,349.2	1.27	84.1	1,790.3	1,931.0	3,778.6
	September	326.0	18,023.3	0.70	425.5	388.6	3,911.2	3,335.5
	October	578.6	18,567.1	1.26	43.2	10.0	4,387.0	2,743.8
	November	621.8	18,914.1	1.36	178.2	0.0	3,893.2	2,980.9
	December	451.6	20,561.4	0.98	501.6	0.0	4,316.0	3,073.2

the total reserve requirement banks are required to deposit in a special statutory reserve account with the CNB currently stands at 40%.

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 in foreign currency. The Croatian National Bank pays remuneration equalling the average interest earned on placements abroad on the calculated foreign currency reserve requirement deposited in the foreign exchange accounts with the Croatian National Bank.

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 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	
1995	December	27.26	27.15	22.32	22.56	22.23	23.81	23.75	25.58	13.48	13.39	14.38	
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	January	1.37	1.71	11.26	11.56	7.49	15.20	15.27	9.72	7.74	7.43	7.87	
	February	1.43	1.92	11.43	11.63	7.65	15.07	15.20	9.17	9.47	7.44	10.60	
	March	1.60	2.48	11.30	11.50	7.52	15.04	15.14	11.18	9.38	6.58	10.61	
	April	1.90	2.83	11.41	11.62	7.64	15.00	15.10	11.71	9.85	7.19	11.23	
	May	2.00	2.58	11.58	11.96	7.83	14.92	15.04	11.80	9.80	7.17	11.18	
	June	1.95	2.67	11.55	11.75	7.78	14.85	15.02	10.79	10.21	6.64	11.05	
	July	1.84	2.98	11.15	11.39	7.56	14.86	15.01	11.21	9.79	6.83	10.82	
	August	3.98	3.94	12.08	12.32	8.03	14.94	15.03	12.12	10.10	6.99	11.12	
	September	6.29	6.79	11.71	12.02	8.04	14.90	15.00	11.69	9.77	7.63	11.20	
	October	5.37	5.54	12.00	12.25	8.23	14.96	15.07	12.39	9.87	7.84	10.97	
	November	3.02	4.65	12.00	12.33	8.36	14.90	14.99	12.72	9.02	7.04	10.48	
	December	5.47	7.02	11.45	11.80	8.02	14.89	15.01	12.38	8.51	6.14	10.69	
	Relative significance ^a	–	–	57.76	51.69	23.27	28.42	27.11	1.31	6.08	2.92	3.16	

^a Relative significance is calculated as a percentage of corresponding credit category in total credits disbursed in the reporting month (according to data for the last period included in the table).

Note: A break in the time series occurred due to changes in the methodology used in interest rate statistics as of 1 January 2001. This especially refers to interest rates shown in columns 5, 6 and 7. Interbank credits, which bear relatively low interest rates, were, among others, excluded from short-term credits to enterprises. The increase in interest rates was also caused by the weighting method: all categories are weighted by the amounts of newly-granted credits, except credit lines whose relative share grew in the new coverage, which are weighted by book balances.

Table G1: Banks' Interest Rates on Kuna Credits Not Indexed to Foreign Currency

The table contains 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					
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1995	December	19.56	21.62	21.09	18.10	14.33	15.79	10.48	....	....	17.18	19.06	12.27
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	January	8.09	8.35	7.74	10.39	8.01	6.73	9.01	7.24	9.76	6.19	6.70	5.59
	February	8.55	8.84	7.89	11.39	8.49	6.86	9.02	7.21	9.75	6.33	6.62	5.80
	March	8.41	8.64	8.06	10.67	8.35	6.69	8.87	7.18	9.61	5.70	6.40	5.30
	April	8.03	8.80	7.99	10.84	7.85	6.18	8.62	7.08	9.31	6.55	6.77	6.31
	May	8.07	8.31	7.66	10.86	8.02	6.74	8.49	7.12	9.27	4.60	6.00	4.03
	June	7.68	8.46	7.88	10.53	7.49	5.77	8.58	7.02	9.44	5.84	6.11	5.62
	July	8.05	8.67	8.17	10.54	7.90	6.41	8.62	7.04	9.47	4.74	6.31	4.20
	August	7.96	8.72	7.62	11.44	7.81	5.92	8.80	7.18	9.73	6.19	6.51	5.97
	September	8.12	7.79	7.25	10.21	8.24	6.64	8.77	7.10	9.81	4.77	5.14	4.42
	October	8.09	7.93	7.67	9.18	8.14	6.64	8.80	7.18	9.66	5.73	6.00	5.28
	November	7.39	7.42	7.24	8.46	7.38	5.38	8.78	6.92	9.80	5.58	6.25	5.08
	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
	Relative significance ^a	33.42	8.72	7.64	1.08	24.70	10.99	13.71	6.19	7.52	8.82	3.78	5.04

^a Relative significance is calculated as a percentage of corresponding credit category in total credits disbursed in the reporting month (according to data for the last period included in the table).

Table G2: Banks' Interest Rates on Kuna Credits Indexed to Foreign Currency and on Credits in Euros

The table contains 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
1995	December	6.10	3.88	13.65	13.80	10.56	14.28	9.88	10.67	9.62
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	January	1.61	0.92	3.45	3.34	4.21	2.77	6.62	7.27	1.53
	February	1.64	0.95	3.51	3.43	4.31	2.87	6.45	6.68	1.33
	March	1.44	0.83	3.36	3.29	3.82	2.83	4.44	5.37	3.90
	April	1.40	0.80	3.16	3.12	3.87	2.62	4.73	5.31	2.23
	May	1.35	0.80	3.13	3.08	3.74	2.58	4.30	5.54	1.62
	June	1.37	0.80	3.37	3.31	3.74	2.96	5.20	5.79	2.37
	July	1.36	0.79	3.28	3.21	3.59	2.99	4.93	5.53	1.86
	August	1.50	0.75	3.83	3.80	3.62	3.90	4.90	5.25	2.01
	September	1.79	0.74	5.25	5.25	3.88	5.66	4.98	5.30	4.22
	October	1.70	0.74	4.72	4.72	3.66	5.15	4.66	4.71	4.22
	November	1.50	0.78	3.56	3.54	3.58	3.52	4.50	4.49	4.51
	December	1.66	0.75	4.46	4.46	3.62	4.69	4.58	4.90	2.82
Relative significance ^a		43.14	32.99	6.95	6.82	1.50	5.32	0.13	0.11	0.02

^a Relative significance is calculated as a percentage of corresponding deposit category in total deposits received in the reporting month (according to data for the last period included in the table).

Table G3: Banks' Interest Rates on Kuna Deposits Not Indexed to Foreign Currency

The table contains 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
1995	December	12.69	11.46	19.36	4.57	2.82	3.53	4.20	1.10	1.53
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	January	3.61	3.47	4.45	2.54	0.50	0.52	0.42	0.50	0.35
	February	3.30	2.82	5.17	2.50	0.45	0.47	0.31	0.54	0.30
	March	3.61	3.15	4.92	2.37	0.38	0.40	0.26	0.45	0.32
	April	3.52	3.42	4.85	2.36	0.36	0.37	0.24	0.46	0.28
	May	2.98	2.62	4.47	2.26	0.35	0.37	0.23	0.37	0.25
	June	3.61	3.37	4.43	2.24	0.34	0.37	0.23	0.31	0.20
	July	3.25	3.26	4.69	2.22	0.32	0.35	0.24	0.22	0.19
	August	3.14	2.71	4.77	2.17	0.32	0.36	0.24	0.25	0.18
	September	3.40	3.46	4.89	2.22	0.32	0.36	0.24	0.26	0.19
	October	3.37	3.18	4.74	2.20	0.32	0.36	0.23	0.26	0.27
	November	3.25	3.53	4.61	2.14	0.32	0.35	0.23	0.26	0.25
	December	3.48	3.74	5.55	2.22	0.31	0.35	0.23	0.23	0.15
Relative significance ^a		1.70	0.98	0.36	55.16	30.51	21.68	3.82	4.11	0.91

^a Relative significance is calculated as a percentage of corresponding deposit category in total deposits received in the reporting month (according to data for the last period included in the table).

Table G4a 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										
		Total average	On time deposits									
			On short-term deposits					On long-term deposits				
			Total average	Households		Enterprises		Total average	Households		Enterprises	
EUR	USD	EUR		USD	EUR	USD	EUR		USD			
1	2	12	13	14	15	16	17	18	19	20	21	22
1995	December	6.83	6.66	7.10	6.97	5.86	6.68	8.73	8.78	8.81	3.27	4.50
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	January	3.09	2.91	3.29	2.20	2.76	1.44	4.42	4.63	3.85	3.28	4.60
	February	3.06	2.90	3.25	2.10	2.81	1.43	4.30	4.47	3.73	3.13	3.00
	March	2.91	2.78	3.12	1.90	2.72	1.46	4.33	4.53	3.29	3.22	2.00
	April	2.91	2.76	3.14	1.88	2.61	1.37	3.98	4.07	3.12	3.31	–
	May	2.72	2.60	2.94	1.83	2.56	1.42	4.25	4.41	2.96	3.65	1.84
	June	2.76	2.62	3.01	1.74	2.36	1.29	4.46	4.60	3.43	3.58	–
	July	2.75	2.57	2.91	1.75	2.37	1.20	4.31	4.44	3.01	2.61	1.33
	August	2.68	2.48	2.89	1.67	2.13	1.22	4.59	4.86	3.04	2.86	1.17
	September	2.64	2.46	2.89	1.70	2.21	1.15	4.23	4.90	3.00	3.07	–
	October	2.68	2.50	2.85	1.61	2.39	1.29	4.76	4.85	3.22	6.37	2.04
	November	2.52	2.36	2.79	1.59	2.15	1.12	4.19	4.31	2.98	3.37	0.00
	December	2.64	2.46	2.83	1.65	2.29	1.08	3.69	4.71	3.13	2.85	1.64
	Relative significance ^a	24.65	21.12	11.02	1.45	7.44	1.20	3.53	1.57	0.14	1.82	0.01

^a Relative significance is calculated as a percentage of corresponding deposit category in total deposits received in the reporting month (according to data for the last period included in the table).

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

	2002	2003											
		Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
A. Purchase of foreign exchange													
1. Legal persons	7,112.1	724.8	677.3	1,006.4	930.6	1,044.1	1,077.1	1,319.3	1,059.0	1,328.9	1,005.6	1,152.0	1,537.6
2. Natural persons	3,342.7	191.6	221.7	271.2	297.3	317.9	334.4	415.6	408.3	295.8	279.3	250.1	288.3
2.1. Residents	2,842.0	180.8	210.4	250.4	269.4	288.0	276.3	320.7	283.3	250.8	259.1	239.0	275.1
2.2. Non-residents	500.8	10.8	11.4	20.9	27.9	29.9	58.1	94.9	124.9	45.0	20.1	11.1	13.2
3. Banks	5,996.0	571.2	334.4	407.9	550.0	684.5	479.5	763.2	740.3	851.4	624.8	682.5	801.2
4. Croatian National Bank	294.4	74.6	90.5	150.1	–	–	–	–	–	–	–	60.0	63.1
Total (1+2+3+4)	16,745.2	1,562.1	1,323.9	1,835.7	1,777.9	2,046.4	1,890.9	2,498.2	2,207.6	2,476.1	1,909.7	2,144.7	2,690.3
B. Sale of foreign exchange													
1. Legal persons	11,227.4	981.2	965.3	1,399.6	1,337.9	1,449.4	1,396.3	1,591.2	1,510.8	1,722.1	1,345.5	1,403.4	1,757.8
2. Natural persons	1,333.6	115.6	120.5	119.1	101.8	103.0	93.5	126.4	119.7	141.9	115.6	108.5	137.4
2.1. Residents	1,329.9	115.1	120.3	118.9	101.5	102.5	92.6	124.9	118.2	140.3	114.8	107.7	136.2
2.2. Non-residents	3.7	0.5	0.2	0.3	0.3	0.6	0.9	1.6	1.5	1.6	0.8	0.8	1.2
3. Banks	5,996.0	571.2	334.4	407.9	550.0	684.5	479.5	763.2	740.3	851.4	624.8	682.5	801.2
4. Croatian National Bank	745.3	–	–	–	–	–	–	–	–	–	–	–	84.5
Total (1+2+3+4)	19,302.4	1,668.0	1,420.2	1,926.7	1,989.6	2,236.9	1,969.3	2,480.8	2,370.8	2,715.4	2,085.9	2,194.4	2,780.9
C. Net purchase (A-B)													
1. Legal persons	–4,115.1	–256.5	–288.0	–393.2	–407.2	–405.3	–319.2	–271.9	–451.7	–393.3	–340.0	–251.4	–220.2
2. Natural persons	2,009.1	76.0	101.2	152.1	195.5	214.8	240.9	289.2	288.5	153.9	163.7	141.6	151.0
2.1. Residents	1,512.3	–	90.1	131.5	167.9	185.5	183.6	195.9	165.1	110.5	144.4	131.3	138.9
2.2. Non-residents	497.0	–	11.2	20.6	27.6	29.3	57.3	93.3	123.4	43.4	19.4	10.3	12.1
3. Croatian National Bank	–450.9	74.6	90.5	150.1	–	–	–	–	–	–	–	60.0	–21.4
Total (1+2+3)	–2,557.0	–105.9	–96.2	–91.0	–211.7	–190.5	–78.4	17.3	–163.2	–239.4	–176.3	–49.8	–90.6
Memo items: Other Croatian National Bank transactions													
Purchase of foreign exchange	197.5	–	89.7	–	81.0	69.0	–	–	–	–	–	166.7	164.4
Sale of foreign exchange	3.3	89.6	–	–	–	–	5.3	–	–	–	–	–	–

Table G5: Banks' Trade with Foreign Exchange

Data on trade with foreign exchange between banks comprise transactions of purchase and sale of foreign exchange on domestic foreign currency market. The transactions are classified by categories of participants (legal and natural persons, banks, CNB). Source of data are banks' pe-

riodic reports on trading with foreign exchange, sent to the CNB on a regular basis. The amounts are stated in the euro (EUR), converted from other foreign currencies using the CNB's midpoint exchange rate (reporting period average). 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 US dollars

	1999	2000	2001	2002	2003 ^a	2003			
						Q1	Q2	Q3	Q4 ^a
A. CURRENT ACCOUNT (1+6)	-1,397.2	-459.4	-725.1	-1,916.4	-2,038.8	-1,071.6	-1,450.5	1,994.4	-1,511.1
1. Goods, services, and income (2+5)	-2,029.7	-1,342.6	-1,690.8	-2,992.6	-3,432.5	-1,400.0	-1,821.2	1,648.8	-1,860.1
1.1. Credit	8,372.6	9,008.9	10,053.1	10,999.4	15,386.8	2,447.1	3,480.8	6,277.8	3,181.1
1.2. Debit	-10,402.2	-10,351.4	-11,743.8	-13,992.1	-18,819.2	-3,847.1	-5,302.0	-4,629.0	-5,041.2
2. Goods and services (3+4)	-1,673.4	-935.9	-1,174.3	-2,493.9	-2,279.5	-1,179.7	-1,024.9	1,706.6	-1,781.5
2.1. Credit	8,117.8	8,663.1	9,634.2	10,571.0	14,906.7	2,325.9	3,366.7	6,155.5	3,058.5
2.2. Debit	-9,791.1	-9,598.9	-10,808.5	-13,064.9	-17,186.1	-3,505.6	-4,391.6	-4,449.0	-4,839.9
3. Goods	-3,298.6	-3,203.8	-4,101.3	-5,648.6	-7,921.0	-1,450.7	-2,123.1	-2,119.4	-2,227.9
3.1. Credit	4,394.7	4,567.2	4,758.7	5,003.6	6,285.2	1,485.8	1,547.5	1,500.2	1,751.7
3.2. Debit	-7,693.3	-7,770.9	-8,860.0	-10,652.2	-14,206.3	-2,936.5	-3,670.6	-3,619.6	-3,979.6
4. Services	1,625.2	2,267.9	2,927.0	3,154.7	5,641.6	271.0	1,098.2	3,826.0	446.4
4.1. Credit	3,723.0	4,095.9	4,875.5	5,567.4	8,621.4	840.1	1,819.2	4,655.3	1,306.8
4.2. Debit	-2,097.8	-1,828.0	-1,948.5	-2,412.7	-2,979.9	-569.1	-721.1	-829.3	-860.4
5. Income	-356.3	-406.7	-516.5	-498.8	-1,153.0	-220.3	-796.3	-57.7	-78.6
5.1. Credit	254.8	345.8	418.9	428.4	480.1	121.1	114.1	122.3	122.6
5.2. Debit	-611.1	-752.5	-935.3	-927.2	-1,633.1	-341.5	-910.4	-180.0	-201.2
6. Current transfers	632.5	883.2	965.7	1,076.2	1,393.7	328.4	370.7	345.6	349.0
6.1. Credit	967.4	1,101.0	1,174.5	1,358.5	1,727.2	393.0	449.3	430.1	454.8
6.2. Debit	-335.0	-217.8	-208.8	-282.3	-333.5	-64.6	-78.6	-84.5	-105.8
B. CAPITAL AND FINANCIAL ACCOUNT	2,497.1	1,197.4	1,270.5	2,761.8	3,005.5	1,089.8	1,110.2	-357.5	1,162.9
B1. Capital account	24.9	20.9	133.0	443.4	83.7	6.5	62.4	4.5	10.3
B2. Financial account, excl. reserves	2,850.7	1,758.7	2,450.6	3,015.3	4,313.2	1,257.9	1,338.4	-84.9	1,801.8
1. Direct investment	1,420.0	1,084.8	1,406.7	591.1	1,650.5	316.6	590.8	70.1	673.1
1.1. Abroad	-47.2	-3.9	-154.6	-532.9	-62.4	-22.3	-21.1	-0.4	-18.6
1.2. In Croatia	1,467.2	1,088.7	1,561.3	1,124.0	1,713.0	338.9	611.9	70.5	691.7
2. Portfolio investment	532.4	707.6	600.7	-259.8	1,006.1	811.8	244.3	-207.7	157.7
2.1. Assets	-38.3	-22.7	-129.3	-669.8	173.5	78.3	79.3	-152.8	168.7
2.2. Liabilities	570.8	730.3	730.0	410.0	832.6	733.6	165.0	-54.9	-11.0
3. Other investment	898.2	-33.7	443.2	2,684.0	1,656.5	129.5	503.3	52.7	971.0
3.1. Assets	-24.7	-986.5	349.6	384.4	-2,535.7	-73.5	-295.1	-981.2	-1,185.9
3.2. Liabilities	922.9	952.8	93.6	2,299.6	4,192.2	203.0	798.4	1,033.9	2,157.0
B3. Reserve assets (CNB)	-378.5	-582.1	-1,313.1	-696.9	-1,391.4	-174.5	-290.6	-277.1	-649.1
C. NET ERRORS AND OMISSIONS	-1,099.8	-738.0	-545.5	-845.4	-966.7	-18.2	340.3	-1,637.0	348.2

^a Preliminary data.

Table H1-H5: Balance of Payments

The balance of payments is compiled in accordance with the recommendations of the International Monetary Fund (Balance of Payments Manual, Fifth Edition, 1995). Data sources include: reports of the Central Bureau of Statistics, the Croatian Institute for Health Insurance, the Financial Agency, banks, enterprises and the Croatian National Bank, as well as research by an external agency and the Croatian National Bank.

Balance of payments of the Republic of Croatia data are recorded in US dollars (USD) and domestic currency (HRK). The balance of payments in both reporting currencies is compiled using the same sources of information and the same principles regarding the scope of transactions covered and the procedures for composing particular positions. Depending on the sources of data available, conversion of transaction values from the original currencies into reporting currencies is performed:

- by applying the midpoint exchange rate of the Croatian National Bank on the date of the transaction;
- by applying monthly and quarterly average midpoint exchange rates of the Croatian National Bank;

- by applying the average monthly exchange rate versus the US dollar when assessing transactions representing the difference between balances evaluated according to the exchange rate applicable at the end of the period.

Exports and Imports are shown on an f.o.b. basis. The basic data source for these items is the Report of the Central Bureau of Statistics on merchandise foreign trade of the Republic of Croatia. The data of the Central Bureau of Statistics are modified in accordance with the compilation method of the IMF: merchandise imports, which are shown in the Central Bureau of Statistics' report in c.i.f. terms, are corrected to f.o.b. (corrected for classification) and both imports and exports are corrected so that the coverage includes goods defined as such in the balance of payments methodology but not included in the statistics on merchandise trade.

Regarding exports, beginning with the first quarter of 1999, coverage has been increased via estimates on purchases by individual foreign travellers in the Republic of Croatia. These estimates are based on the Survey on Consumption of Foreign Travellers in Croatia, carried out jointly by the Croatian National Bank and an external agency. Regarding imports, the difference between c.i.f. and f.o.b. is estimated on the basis of research studies of the CNB on

Table H2: Balance of Payments – Goods and Services

Million US dollars

	1999	2000	2001	2002	2003 ^a	2003			
						Q1	Q2	Q3	Q4 ^a
1. Goods	-3,298.6	-3,203.8	-4,101.3	-5,648.6	-7,921.0	-1,450.7	-2,123.1	-2,119.4	-2,227.9
1.1. Credit	4,394.7	4,567.2	4,758.7	5,003.6	6,285.2	1,485.8	1,547.5	1,500.2	1,751.7
1.1.1. Exports f.o.b. in trade statistics	4,302.5	4,431.6	4,665.9	4,903.6	6,164.2	1,463.0	1,516.3	1,470.2	1,714.7
1.1.2. Adjustments for coverage	92.2	135.6	92.8	100.0	121.0	22.9	31.2	30.0	37.0
1.2. Debit	-7,693.3	-7,770.9	-8,860.0	-10,652.2	-14,206.3	-2,936.5	-3,670.6	-3,619.6	-3,979.6
1.2.1. Imports c.i.f. in trade statistics	-7,798.6	-7,886.5	-9,147.1	-10,722.0	-14,198.9	-2,952.3	-3,663.1	-3,595.1	-3,988.4
1.2.2. Adjustments for coverage	-448.4	-444.4	-362.3	-330.1	-537.0	-94.3	-144.1	-158.6	-139.9
1.2.3. Adjustments for classification	553.7	559.9	649.4	399.9	529.6	110.1	136.6	134.1	148.8
2. Services	1,625.2	2,267.9	2,927.0	3,154.7	5,641.6	271.0	1,098.2	3,826.0	446.4
2.1. Transportation	83.8	178.6	166.8	163.4	284.6	53.7	73.8	96.6	60.6
2.1.1. Credit	484.0	557.3	588.6	590.2	787.7	153.9	206.3	228.3	199.2
2.1.2. Debit	-400.1	-378.7	-421.8	-426.8	-503.0	-100.2	-132.6	-131.6	-138.7
2.2. Travel	1,742.0	2,189.9	2,728.6	3,030.2	5,704.1	270.7	1,098.0	3,802.5	532.8
2.2.1. Credit	2,493.4	2,758.0	3,335.0	3,811.4	6,376.4	397.8	1,245.6	4,025.5	707.5
2.2.2. Debit	-751.4	-568.1	-606.4	-781.3	-672.4	-127.1	-147.6	-223.0	-174.7
2.3. Other services	-200.6	-100.6	31.6	-38.9	-347.1	-53.4	-73.6	-73.2	-146.9
2.3.1. Credit	745.7	780.6	951.9	1,165.8	1,457.3	288.4	367.3	401.5	400.1
2.3.2. Debit	-946.3	-881.2	-920.3	-1,204.6	-1,804.4	-341.8	-440.9	-474.7	-547.0
Total (1 + 2)	-1,673.4	-935.9	-1,174.3	-2,493.9	-2,279.5	-1,179.7	-1,024.9	1,706.6	-1,781.5

^a Preliminary data.

samples of the largest and large importers, and the resulting value of f.o.b. imports is adjusted on the basis of foreign payments for repairs of ships and supply purchases in foreign ports, as well as estimates on purchases by individual Croatian citizens abroad, obtained via a research study of the CNB. From the first quarter of 1999 on, estimates are based on the Survey on Consumption of Domestic Travellers Abroad, carried out jointly by the Croatian National Bank and an external agency. For the 1993 to 1996 period, merchandise imports from the merchandise trade statistics are modified by estimates on imports in duty-free zones (prepared by the CNB), while from 1997 on, data on these imports are included in the merchandise trade statistics.

Beginning with the first quarter of 1999, income and expenditures from transport services are compiled on the basis of data from a new CNB research project on international transport services, with two exceptions: first, income and expenditures from road transport are compiled via data on realized foreign payments, and second, a portion of expenditures on transport services for transport of goods imported to the Republic of Croatia are based on a survey of the largest and large Croatia importers. This survey is carried out in the context of the reformulation of data on imports from a c.i.f. to an f.o.b. basis.

Income from travel-tourism is calculated on the basis of the Survey on Consumption of Foreign Travellers in Croatia starting in the first quarter of 1999. Additional data from the Croatian Institute for Health Insurance on health services provided to non-residents is also used.

Expenditures from travel-tourism are, starting in the first quarter of 1999, based on the results of the Survey on Consumption of Domestic Travellers Abroad, and supplemented by data on foreign exchange expenditures of the Croatian Institute for Health Insurance.

Item Other services includes data from the foreign pay-

ments statistics which relate to investment projects abroad, representation fees, insurance services, delivery services, postal services and the costs of Croatian representative offices overseas. To this category is added a part of unclassified services which can be explained as a linear trend, as well as estimates on expenditures of international peacekeeping and humanitarian missions for goods and services in the Republic of Croatia, based on a research by the Croatian National Bank.

The income account includes data from the foreign payments statistics on compensation of employees, payments on the basis of interest, data from the CNB's research on income paid from foreign direct and portfolio investment of the private sector, Croatian National Bank data and Financial Agency data on income paid from foreign portfolio investment in the official sector and estimates on residents' income from factor services to peacekeeping and humanitarian missions in the Republic of Croatia, based on the research of the Croatian National Bank for the period 1993 to 1996, data on foreign direct investment do not include data on retained profit.

Current transfers to the government include data from the foreign payments statistics on the payment of pensions and other social transfers, monetary support and gifts, as well as data from the merchandise trade statistics of the Republic of Croatia on imports and exports of goods without payment obligation.

Income from transfers to other sectors includes data from the foreign payments statistics on the total value of foreign exchange transfers received from abroad. To this is added an estimate on unregistered transfers. For the 1993 to 1998 period, this estimate is seen as 15% of the difference between the unexplained foreign exchange inflows and outflows of the household sector. Beginning with the first quarter of 1999, data on buy-out of foreign exchange cheques

Table H3: Balance of Payments – Income and Current Transfers

Million US dollars

	1999	2000	2001	2002	2003 ^a	2003			
						Q1	Q2	Q3	Q4 ^a
1. Income	-356.3	-406.7	-516.5	-498.8	-1,153.0	-220.3	-796.3	-57.7	-78.6
1.1. Compensation of employees	60.3	69.6	124.5	154.8	202.9	46.8	41.0	55.4	59.6
1.1.1. Credit	75.2	82.7	137.3	173.2	241.2	51.7	54.4	62.9	72.2
1.1.2. Debit	-14.9	-13.1	-12.8	-18.4	-38.3	-4.9	-13.4	-7.5	-12.5
1.2. Direct investment income	-65.5	-152.9	-290.5	-320.3	-948.6	-61.4	-783.3	-45.3	-58.5
1.2.1. Credit	4.6	9.3	20.2	23.3	21.4	10.7	6.0	5.3	-0.6
1.2.2. Debit	-70.1	-162.2	-310.7	-343.7	-970.0	-72.2	-789.3	-50.5	-58.0
1.3. Portfolio investment income	-129.4	-178.8	-218.1	-193.5	-258.9	-176.1	-18.2	-31.8	-32.9
1.3.1. Credit	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.3.2. Debit	-129.5	-178.8	-218.1	-193.6	-258.9	-176.1	-18.2	-31.8	-32.9
1.4. Other investment income	-221.6	-144.5	-132.4	-139.7	-148.4	-29.6	-35.9	-36.1	-46.9
1.4.1. Credit	174.9	253.8	261.4	231.8	217.5	58.7	53.7	54.1	51.0
1.4.2. Debit	-396.6	-398.3	-393.7	-371.5	-365.9	-88.3	-89.6	-90.2	-97.9
2. Current transfers	632.5	883.2	965.7	1,076.2	1,393.7	328.4	370.7	345.6	349.0
2.1. General government	-130.3	21.7	56.7	28.6	76.4	23.8	29.8	17.2	5.6
2.1.1. Credit	76.2	118.0	125.5	132.2	237.8	58.5	70.1	55.6	53.5
2.1.2. Debit	-206.5	-96.3	-68.9	-103.6	-161.4	-34.7	-40.3	-38.5	-47.9
2.2. Other sectors	762.7	861.5	909.0	1,047.6	1,317.3	304.6	340.9	328.4	343.4
2.2.1. Credit	891.2	983.0	1,049.0	1,226.3	1,489.4	334.4	379.2	374.4	401.3
2.2.2. Debit	-128.5	-121.5	-139.9	-178.7	-172.1	-29.8	-38.3	-46.0	-57.9
Total (1+2)	276.2	476.5	449.2	577.4	240.7	108.1	-425.6	287.9	270.4

^a Preliminary data.

from domestic natural persons are also included.

The foreign exchange receipts of the household sector include the purchase of foreign cash at exchange offices from residents and deposits of foreign cash in foreign exchange accounts of residents at domestic banks. Payments made abroad and income earned through business trips, education and training, tourist receipts and other tourist income are added to this. The total inflow is decreased by: estimated tourist income and estimates on purchases by individual foreign tourists in the Republic of Croatia (Survey on Consumption of Foreign Tourists in Croatia, carried out jointly by the Croatian National Bank and an external agency) plus estimated consumption of goods and services by members of peacekeeping and humanitarian missions in the Republic of Croatia.

The foreign exchange expenditures of the household sector include purchases of foreign cash from exchange offices and withdrawals of foreign cash from households' foreign exchange accounts at domestic banks. Realized foreign payments and expenditures from business trips, education and training, tourist payments and other tourist expenditures are added to this. The total outflow is decreased by: individuals' expenditures for goods abroad and expenditures for foreign tourism by residents (Survey on Consumption of Domestic Travellers Abroad, which is carried out jointly by the Croatian National Bank and an external agency). Expenditures on transfers of other sectors are based on foreign payments statistics data on the total value of foreign exchange transfers abroad.

Capital accounts are compiled from data on realized foreign payments by migrants (income and expenditures).

Foreign direct and portfolio investment includes data on those investments from the research of the CNB and data from the securities register of the official sector (central bank and central government) at the Croatian National Bank and

the Financial Agency. In the 1993 to 1996 period, data on foreign direct investment of the private sector (banks and other sectors) did not include direct foreign debt investment, nor retained profit of the investor.

Other investment is classified according to the following institutional sectors: the Croatian National Bank, government, banks and other. The government sector comprises central government and funds and local government authorities. The banking sector comprises banks.

Item Assets – Trade credits has been compiled since the first quarter of 1996. It includes advances paid for goods imports by Croatian importers. Starting in the first quarter of 1999, it includes loans with a maturity below 90 days given by Croatian exporters to foreign buyers as well as long-term and short-term (from 91 days to 1 year) trade credits granted to the government and other sectors.

Item Assets – Loans includes data on loans granted abroad, classified according to institutional sectors. The data are obtained from statistics on foreign credit relations of the Croatian National Bank, which are based on concluded credit agreements registered with the Croatian National Bank.

Item Assets – Currency and deposits – Banks in the 1993 to 1998 period shows the change in 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. Beginning with the first quarter of 1999, transaction-based changes are estimated by converting changes in the original currencies into US dollar changes using the average monthly exchange rate of currencies held in the banks' assets against the US dollar. Item Assets – Currency and deposits – Other sectors, in the 1993 to 1998 period includes a part of the net foreign exchange inflows of the household sector which is not classified on the current account, and which amounts to

Table H4: Balance of Payments – Other Investments

Million US dollars

	1999	2000	2001	2002	2003 ^a	2003			
						Q1	Q2	Q3	Q4 ^a
ASSETS	-24.7	-986.5	349.6	384.3	-2,535.8	-73.5	-295.1	-981.2	-1,185.9
1. Trade credits	-292.1	97.8	56.7	-91.5	-167.3	-29.0	-6.5	-8.7	-123.2
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. Long-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.1.2. Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.2. Other sectors	-292.1	97.8	56.7	-91.5	-167.3	-29.0	-6.5	-8.7	-123.2
1.2.1. Long-term	-20.7	2.4	8.3	-14.6	-8.5	-6.4	2.7	5.6	-10.5
1.2.2. Short-term	-271.4	95.4	48.4	-77.0	-158.8	-22.6	-9.3	-14.3	-112.7
2. Loans	-97.5	-93.2	34.7	-55.1	-39.3	11.1	26.4	-42.8	-34.0
2.1. General government	1.1	0.0	-3.2	0.6	-1.3	-0.6	-0.4	-0.3	0.0
2.1.1. Long-term	1.1	0.0	-3.2	0.6	-1.3	-0.6	-0.4	-0.3	0.0
2.1.2. Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2. Banks	-24.6	2.7	-9.2	-20.0	-2.3	-1.0	6.0	-2.1	-5.2
2.2.1. Long-term	-14.8	2.3	-3.0	-15.5	7.2	7.8	3.0	0.0	-3.6
2.2.2. Short-term	-9.8	0.4	-6.3	-4.5	-9.5	-8.9	2.9	-2.0	-1.6
2.3. Other sectors	-74.0	-96.0	47.1	-35.7	-35.6	12.8	20.8	-40.4	-28.8
2.3.1. Long-term	-74.0	-96.0	47.1	-35.6	-35.6	12.8	20.8	-40.4	-28.8
2.3.2. Short-term	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
3. Currency and deposits	364.9	-991.1	258.1	531.0	-2,329.2	-55.7	-315.1	-929.7	-1,028.7
3.1. Government	12.3	-26.7	-15.2	-28.4	27.6	69.3	-15.6	68.7	-94.7
3.2. Banks	185.6	-921.4	-1,613.7	1,366.8	-2,308.8	-194.9	-259.4	-920.4	-934.1
3.3. Other sectors	167.0	-43.0	1,887.0	-807.4	-48.0	70.0	-40.0	-78.0	0.0
LIABILITIES	922.9	952.8	93.6	2,299.6	4,192.2	203.0	798.4	1,033.9	2,157.0
1. Trade credits	310.6	276.9	72.7	474.0	570.0	-291.4	443.0	207.9	210.5
1.1. General government	0.9	-3.2	1.1	0.1	-0.5	-0.2	-0.1	-0.2	-0.1
1.1.1. Long-term	-1.0	-0.5	1.1	0.1	-0.5	-0.2	-0.1	-0.2	-0.1
1.1.2. Short-term	1.9	-2.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.2. Other sectors	309.7	280.1	71.6	474.0	570.6	-291.1	443.1	208.1	210.6
1.2.1. Long-term	-9.3	-12.7	-14.9	-8.4	-66.5	-8.4	-14.1	-17.6	-26.4
1.2.2. Short-term	319.0	292.8	86.5	482.3	637.1	-282.7	457.2	225.6	237.0
2. Loans	576.7	780.8	-179.8	658.0	2,267.1	393.8	-136.1	854.8	1,154.6
2.1. Monetary authorities	-31.4	-28.7	-30.8	-129.6	0.0	0.0	0.0	0.0	0.0
2.1.1. Use of Fund credit and loans	-31.4	-28.7	-30.8	-129.6	0.0	0.0	0.0	0.0	0.0
2.1.1.1. Drawings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.1.1.2. Repayments	-31.4	-28.7	-30.8	-129.6	0.0	0.0	0.0	0.0	0.0
2.2. General government	186.1	300.8	-189.8	390.1	509.1	-18.2	-1.1	127.5	401.0
2.2.1. Long-term	170.6	13.9	170.2	390.1	509.1	-18.2	-1.1	127.5	401.0
2.2.1.1. Drawings	236.1	264.6	325.3	547.3	731.4	34.5	67.2	183.1	446.5
2.2.1.2. Repayments	-65.5	-250.6	-155.1	-157.2	-222.3	-52.7	-68.3	-55.7	-45.6
2.2.2. Short-term (net)	15.5	286.9	-360.0	0.0	0.0	0.0	0.0	0.0	0.0
2.3. Banks	-5.7	101.5	127.6	65.6	792.0	250.3	-227.0	340.5	428.2
2.3.1. Long-term	-7.2	107.9	133.1	65.4	729.5	250.4	-194.2	331.2	342.1
2.3.1.1. Drawings	494.6	652.6	750.0	610.6	1,443.5	450.6	47.8	556.1	388.9
2.3.1.2. Repayments	-501.8	-544.7	-616.9	-545.2	-713.9	-200.3	-242.0	-224.9	-46.7
2.3.2. Short-term (net)	1.5	-6.4	-5.5	0.2	62.5	-0.1	-32.8	9.2	86.1
2.4. Other sectors	427.7	407.2	-86.8	331.8	966.0	161.7	92.0	386.8	325.4
2.4.1. Long-term	439.3	466.5	-38.7	252.0	861.5	131.4	74.4	369.4	286.2
2.4.1.1. Drawings	979.8	971.1	690.1	1,106.1	1,767.8	363.5	306.2	627.6	470.5
2.4.1.2. Repayments	-540.5	-504.6	-728.8	-854.1	-906.3	-232.2	-231.8	-258.1	-184.2
2.4.2. Short-term (net)	-11.6	-59.3	-48.1	79.9	104.6	30.4	17.6	17.4	39.2
3. Currency and deposits	35.6	-104.9	200.7	1,167.6	1,355.1	100.5	491.5	-28.7	791.8
3.1. Monetary authorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.2. Banks	35.6	-104.9	200.7	1,167.6	1,355.1	100.5	491.5	-28.7	791.8
4. Other liabilities (short-term)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4.1. General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4.2. Banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4.3. Other sectors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

^a Preliminary data.

Table H5: Balance of Payments – Summary

Million kunas

	1999	2000	2001	2002	2003 ^a	2003			
						Q1	Q2	Q3	Q4 ^a
A. CURRENT ACCOUNT (1+6)	-9,953.0	-3,894.0	-6,052.7	-15,676.6	-13,320.3	-7,553.0	-9,494.1	13,314.6	-9,587.8
1. Goods, services, and income (2+5)	-14,456.2	-11,217.5	-14,108.1	-24,176.6	-22,752.2	-9,892.9	-11,974.1	10,959.5	-11,844.8
1.1. Credit	59,736.5	74,694.1	83,975.4	85,409.6	102,930.5	17,300.2	23,281.5	41,821.7	20,527.0
1.2. Debit	-74,192.7	-85,911.5	-98,083.6	-109,586.1	-125,682.7	-27,193.1	-35,255.6	-30,862.2	-32,371.8
2. Goods and services (3+4)	-11,928.5	-7,894.9	-10,019.2	-20,108.6	-14,960.0	-8,332.3	-6,745.8	11,456.1	-11,338.1
2.1. Credit	57,919.7	71,797.8	80,246.0	82,071.6	99,827.5	16,444.6	22,525.5	41,115.3	19,742.1
2.2. Debit	-69,848.2	-79,692.7	-90,265.2	-102,180.2	-114,787.5	-24,776.9	-29,271.3	-29,659.2	-31,080.2
3. Goods	-23,586.6	-26,686.7	-34,327.9	-44,138.0	-52,868.1	-10,249.3	-14,184.2	-14,133.7	-14,300.9
3.1. Credit	31,369.6	37,910.1	39,690.9	39,196.2	42,021.4	10,504.7	10,258.2	9,997.1	11,261.4
3.2. Debit	-54,956.2	-64,596.7	-74,018.8	-83,334.2	-94,889.5	-20,754.0	-24,442.4	-24,130.7	-25,562.3
4. Services	11,658.1	18,791.7	24,308.7	24,029.4	37,908.0	1,917.0	7,438.4	25,589.8	2,962.8
4.1. Credit	26,550.1	33,887.7	40,555.2	42,875.5	57,806.1	5,939.9	12,267.3	31,118.2	8,480.7
4.2. Debit	-14,892.0	-15,096.0	-16,246.4	-18,846.0	-19,898.1	-4,022.9	-4,828.9	-5,528.4	-5,517.9
5. Income	-2,527.7	-3,322.5	-4,089.0	-4,068.0	-7,792.2	-1,560.6	-5,228.3	-496.6	-506.7
5.1. Credit	1,816.8	2,896.3	3,729.4	3,338.0	3,103.0	855.6	755.9	706.4	784.9
5.2. Debit	-4,344.5	-6,218.8	-7,818.4	-7,405.9	-10,895.2	-2,416.2	-5,984.3	-1,203.1	-1,291.6
6. Current transfers	4,503.2	7,323.5	8,055.5	8,500.0	9,431.9	2,339.9	2,480.0	2,355.1	2,257.0
6.1. Credit	6,898.2	9,131.4	9,795.4	10,465.9	11,360.3	2,757.9	2,928.6	2,832.3	2,841.6
6.2. Debit	-2,394.9	-1,807.9	-1,740.0	-1,965.9	-1,928.4	-418.0	-448.6	-477.3	-584.6
B. CAPITAL AND FINANCIAL ACCOUNT	17,191.0	9,958.9	10,184.5	21,603.9	20,144.9	7,702.3	7,373.0	-2,405.7	7,475.3
B1. Capital account	178.0	172.1	1,140.1	3,695.5	545.0	45.8	402.5	30.7	66.0
B2. Financial account, excl. reserves	20,005.0	14,596.5	20,079.4	23,480.7	28,884.8	8,866.1	8,974.3	-559.9	11,604.2
1. Direct investment	10,132.2	8,760.9	11,693.8	4,501.8	10,948.6	2,236.2	3,883.6	470.8	4,357.9
1.1. Abroad	-347.2	-32.9	-1,279.6	-4,375.9	-418.1	-157.6	-140.9	-0.5	-119.1
1.2. In Croatia	10,479.3	8,793.8	12,973.4	8,877.7	11,366.7	2,393.9	4,024.5	471.3	4,477.0
2. Portfolio investment	3,697.3	5,658.5	4,975.0	-1,889.0	6,967.1	5,737.2	1,606.0	-1,385.4	1,009.4
2.1. Assets	-277.4	-189.8	-1,081.7	-5,201.6	1,125.4	550.3	514.2	-1,019.0	1,079.9
2.2. Liabilities	3,974.8	5,848.2	6,056.7	3,312.6	5,841.7	5,186.9	1,091.7	-366.4	-70.5
3. Other investment	6,175.5	177.1	3,410.6	20,867.9	10,969.1	892.7	3,484.8	354.8	6,236.9
3.1. Assets	-503.7	-8,136.7	2,531.2	3,291.3	-16,340.8	-539.9	-1,776.6	-6,542.7	-7,481.7
3.2. Liabilities	6,679.1	8,313.8	879.4	17,576.6	27,310.0	1,432.6	5,261.3	6,897.4	13,718.6
B3. Reserve assets (CNB)	-2,992.0	-4,809.8	-11,035.1	-5,572.2	-9,284.8	-1,209.6	-2,003.9	-1,876.5	-4,194.9
C. NET ERRORS AND OMISSIONS	-7,238.0	-6,064.9	-4,131.8	-5,927.3	-6,824.6	-149.4	2,121.1	-10,908.9	2,112.5

^a Preliminary data.

85% of the unexplained foreign exchange inflows to the household sector. Beginning with the first quarter of 1999, this item is no longer estimated.

Item Liabilities – Trade credits has been compiled since the first quarter of 1996, and includes data on loans with a maturity below 90 days granted by foreign suppliers to Croatian importers. From the first quarter of 1999 on, this item includes data on advances granted by foreign purchasers to Croatian exporters for exports of goods, as well as data on long-term and short-term (from 91 days to 1 year) trade credits received by the government and other sectors.

Data on credits received from abroad and corresponding arrears are shown by institutional sectors. They are obtained from statistics on foreign credit relations of the Croatian National Bank, which are based on concluded credit agreements registered with the Croatian National Bank.

Item Liabilities-Currency and deposits includes changes

in those foreign exchange and kuna foreign liabilities of the monetary authorities (CNB) and banks based on current accounts, time and notice deposits, sight deposits and demand deposits.

Changes in the international reserves of the Croatian National Bank on a transactions basis are estimated using accounting data on the stock of foreign exchange reserves in particular currencies at the end of the month. In the estimate on transactions in the period from 1993 to the fourth quarter of 1998, changes in the original currencies were transformed into dollar changes using the average monthly exchange rate of the currency in question against the US dollar. Starting from the first quarter of 1999, the source of data on changes in international reserves has been a Report on International Reserves Transactions compiled by the CNB Accounting Department.

Table H6: International Reserves and Banks' Foreign Exchange Reserves

End of period, million US dollars

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	
1995	December	1,895.2	139.8	–	–	1,755.4	1,651.0	104.3	1,330.3
1996	December	2,314.0	125.6	–	–	2,188.4	2,016.6	171.8	1,919.5
1997	December	2,539.1	147.1	0.1	–	2,391.9	2,011.7	380.2	2,291.3
1998	December	2,815.7	231.2	0.2	–	2,584.4	1,927.0	657.4	1,885.2
1999	December	3,025.0	189.5	0.2	–	2,835.3	2,459.8	375.5	1,350.2
2000	December	3,524.8	147.7	0.2	–	3,376.9	2,574.3	802.6	2,152.9
2001	December	4,704.2	108.4	0.2	–	4,595.6	3,060.3	1,535.3	3,577.4
2002	December	5,885.8	2.4	0.2	–	5,883.2	3,945.0	1,938.2	2,688.7
2003	January	5,948.9	2.5	0.2	–	5,946.2	3,982.8	1,963.4	2,653.5
	February	6,429.5	1.4	0.2	–	6,427.9	4,275.8	2,152.1	2,443.1
	March	6,207.8	1.4	0.2	–	6,206.2	3,524.0	2,682.1	2,913.1
	April	6,524.1	1.4	0.2	–	6,522.4	2,898.9	3,623.5	2,601.4
	May	7,003.5	1.2	0.2	–	7,002.0	3,034.4	3,967.6	3,149.0
	June	6,772.2	1.3	0.2	–	6,770.7	3,011.0	3,759.7	3,232.3
	July	6,663.5	1.3	0.2	–	6,662.0	2,839.8	3,822.2	3,569.7
	August	6,624.1	1.0	0.2	–	6,622.8	2,986.4	3,636.4	3,404.9
	September	7,058.5	1.0	0.2	–	7,057.2	3,227.4	3,829.8	3,821.5
	October	7,237.0	1.0	0.2	–	7,235.7	3,332.4	3,903.4	3,810.8
	November	7,860.0	0.8	0.2	–	7,859.0	3,887.7	3,971.2	4,018.7
	December	8,191.3	0.8	0.3	–	8,190.2	4,181.8	4,008.4	4,908.1

Table H6: 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 H7: International Reserves and Foreign Currency Liquidity

Million US dollars

	2002	2003											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
I. Official reserve assets and other f/c assets (approximate market value)													
A. Official reserve assets	5,885.8	5,948.9	6,429.5	6,207.8	6,524.1	7,003.5	6,772.2	6,663.5	6,624.1	7,058.5	7,237.0	7,860.0	8,191.3
(1) Foreign currency reserves (in convertible foreign currencies)	4,423.1	4,498.4	5,047.3	4,909.2	5,388.6	6,094.1	6,121.6	5,893.5	5,912.6	6,220.8	6,385.9	6,868.6	7,174.0
(a) Securities	1,938.2	1,963.4	2,152.1	2,682.1	3,623.5	3,967.6	3,759.7	3,822.2	3,636.4	3,829.8	3,903.4	3,971.2	4,008.4
o/w: Issuer headquartered in reporting country but located abroad													
(b) Total currency and deposits with	2,484.9	2,535.0	2,895.2	2,227.0	1,765.1	2,126.5	2,361.9	2,071.4	2,276.2	2,391.0	2,482.5	2,897.4	3,165.6
(i) other national central banks, BIS and IMF	338.6	335.5	336.1	335.5	319.7	387.5	401.6	325.7	319.3	325.5	328.5	332.5	338.8
(ii) banks headquartered in the reporting country													
o/w: Located abroad													
(iii) banks headquartered outside the reporting country	2,146.3	2,199.5	2,559.1	1,891.5	1,445.4	1,739.0	1,960.3	1,745.7	1,956.9	2,065.5	2,154.0	2,564.9	2,826.8
o/w: Located in the reporting country													
(2) IMF reserve position	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3
(3) SDRs	2.4	2.5	1.4	1.4	1.4	1.2	1.3	1.3	1.0	1.0	1.0	0.8	0.8
(4) gold													
(5) other reserve assets	1,460.1	1,447.8	1,380.5	1,297.0	1,133.8	907.9	649.1	768.4	710.2	836.4	849.9	990.3	1,016.2
– reverse repo	1,460.1	1,447.8	1,380.5	1,297.0	1,133.8	907.9	649.1	768.4	710.2	836.4	849.9	990.3	1,016.2
B. Other foreign currency assets (specify)													
– time deposits													
C. Total (A+B)	5,885.8	5,948.9	6,429.5	6,207.8	6,524.1	7,003.5	6,772.2	6,663.5	6,624.1	7,058.5	7,237.0	7,860.0	8,191.3
II. Predetermined short-term net drains on f/c assets (nominal value)													
1. Foreign currency loans, securities, and deposits (total net drains up to one year)	-771.6	-792.8	-839.2	-846.3	-876.1	-906.3	-884.6	-1,071.7	-1,212.6	-1,448.7	-1,465.7	-1,483.4	-1,922.2
(a) Croatian National Bank	-174.4	-171.5	-189.7	-199.2	-222.1	-227.2	-241.4	-254.6	-415.9	-625.9	-626.0	-632.4	-808.5
Up to 1 month	Principal	-142.6	-69.4	-110.9	-150.6	-127.5	-144.7	-184.3	-168.7	-353.1	-477.1	-502.7	-591.5
Interest	-2.3	-2.0	-1.9	-2.0	-2.0	-2.0	-1.9	-1.9	-2.1	-2.2	-2.1	-2.5	-2.4
More than 1 and up to 3 months	Principal	-27.6	-99.5	-76.5	-46.4	-92.4	-80.2	-55.0	-83.8	-60.6	-146.3	-120.9	-38.2
Interest	-0.1	-0.5	-0.3	-0.2	-0.3	-0.3	-0.2	-0.2	-0.2	-0.3	-0.3	-0.1	-0.9
More than 3 months and up to 1 year	Principal	-1.7	-0.1	-0.1									
Interest	-0.1	0.0	0.0										
(b) Central government (excl. central government funds)	-597.3	-621.3	-649.5	-647.1	-654.0	-679.2	-643.2	-817.1	-796.7	-822.9	-839.8	-851.0	-1,113.7
Up to 1 month	Principal	-102.1	-2.6	-6.5	-3.1	-3.3	53.4	-104.5	0.0	-8.2	-3.5	-3.5	-28.9
Interest	-44.6	-40.4	-119.5	-3.2	-2.2	-18.8	-53.6	-4.6	-2.7	-3.4	-2.8	-19.0	-43.0
More than 1 and up to 3 months	Principal	-9.0	-9.6	-6.4	-55.0	-155.9	-105.1	-8.3	-11.9	-6.7	-31.9	-135.0	-109.6
Interest	-154.3	-121.2	-6.3	-20.2	-72.0	-58.4	-7.3	-6.1	-5.8	-22.8	-63.4	-112.9	-210.4
More than 3 months and up to 1 year	Principal	-183.5	-304.9	-305.2	-261.0	-161.3	-168.7	-186.6	-463.6	-449.7	-441.6	-346.4	-353.2
Interest	-103.8	-142.6	-205.6	-304.7	-259.1	-274.8	-282.9	-330.9	-323.6	-319.6	-288.8	-227.4	-122.4
2. Aggregate short and long positions in forwards and futures in f/c vis-a-vis the domestic currency (including the forward leg of currency swaps)													
(a) Short positions (-)													
Up to 1 month													
More than 1 and up to 3 months													
More than 3 months and up to 1 year													
(b) Long positions (+)													
Up to 1 month													
More than 1 and up to 3 months													
More than 3 months and up to 1 year													
3. Other	-22.4	-112.2	-58.1	-153.8	-337.6	-434.4	-129.6	-179.4	-164.7	-391.3	-341.4	-475.3	-454.3
– outflows related to repos (-)	-22.4	-112.2	-58.1	-153.8	-337.6	-434.4	-129.6	-179.4	-164.7	-391.3	-341.4	-475.3	-454.3
Up to 1 month	Principal	-22.4	-112.1	-58.0	-153.6	-337.4	-434.0	-129.5	-179.3	-164.7	-391.1	-341.2	-474.6
Interest	0.0	0.0	-0.1	-0.2	-0.2	-0.4	0.0	-0.1	-0.1	-0.3	-0.2	-0.6	-0.5
More than 1 and up to 3 months	Principal												
Interest													
More than 3 months and up to 1 year	Principal												
Interest													
4. Total predetermined short-term net drains on f/c assets (1+2+3)	-794.1	-905.0	-897.3	-1,000.1	-1,213.8	-1,340.8	-1,014.2	-1,251.1	-1,377.3	-1,840.1	-1,807.1	-1,958.7	-2,376.5
III. Contingent short-term net drains on f/c assets (nominal value)													
1. Contingent liabilities in foreign currency	-1,698.7	-1,304.6	-1,392.5	-1,424.9	-1,455.9	-1,522.3	-1,594.3	-1,415.0	-1,428.6	-1,437.5	-1,338.5	-1,322.4	-1,625.2
(a) Collateral guarantees on debt falling due within 1 year	-714.4	-289.5	-332.2	-370.5	-373.1	-394.8	-381.0	-220.4	-213.8	-406.9	-252.3	-258.2	-533.4
– Croatian National Bank													
– Central government (excl. central government funds)	-714.4	-289.5	-332.2	-370.5	-373.1	-394.8	-381.0	-220.4	-213.8	-406.9	-252.3	-258.2	-533.4
Up to 1 month	-54.5	-5.8	-29.0	-10.9	-2.8	-35.0	-59.8	-2.7	-22.6	-9.5	-2.5	-30.8	-69.7
More than 1 and up to 3 months	-36.7	-40.8	-15.4	-38.0	-92.3	-76.7	-39.8	-32.3	-10.4	-44.4	-74.8	-51.9	-118.6
More than 3 months and up to 1 year	-623.2	-243.0	-287.8	-321.6	-278.1	-283.2	-281.4	-185.4	-180.7	-352.9	-175.0	-175.5	-345.0
(b) Other contingent liabilities	-984.3	-1,015.0	-1,060.3	-1,054.4	-1,082.7	-1,127.4	-1,213.3	-1,194.6	-1,214.8	-1,030.7	-1,086.3	-1,064.2	-1,091.8
– Croatian National Bank	-984.3	-1,015.0	-1,060.3	-1,054.4	-1,082.7	-1,127.4	-1,213.3	-1,194.6	-1,214.8	-1,030.7	-1,086.3	-1,064.2	-1,091.8
Up to 1 month													
More than 1 and up to 3 months	-984.3	-1,015.0	-1,060.3	-1,054.4	-1,082.7	-1,127.4	-1,213.3	-1,194.6	-1,214.8	-1,030.7	-1,086.3	-1,064.2	-1,091.8
More than 3 months and up to 1 year													
– Central government (excl. central government funds)													

2. Foreign currency securities issued with embedded options (puttable bonds)														
3. Undrawn, unconditional credit lines provided by														
– BIS (+)														
– IMF (+)														
4. Aggregate short and long positions of options in f/c vis-a-vis the domestic currency														
5. Total contingent short-term net drains on f/c assets (1+2+3+4)	-1,698.7	-1,304.6	-1,392.5	-1,424.9	-1,455.9	-1,522.3	-1,594.3	-1,415.0	-1,428.6	-1,437.5	-1,338.5	-1,322.4	-1,625.2	
IV. Memo items														
(a) short-term domestic currency debt indexed to the exchange rate														
o/w: Central government (excl. central government funds)														
(b) financial instruments denominated in foreign currency and settled by other means (e.g., in domestic currency)														
(c) pledged assets														
(d) securities lent and on repo														
– lent or repoed and included in Section I		-20.8	-104.4	-52.4	-140.5	-316.7	-404.4	-122.8	-205.9	-159.1	-374.1	-325.6	-457.8	-438.7
– lent or repoed but not included in Section I														
– borrowed or acquired and included in Section I														
– borrowed or acquired but not included in Section I	1,385.5	1,377.3	1,308.0	1,231.3	1,072.3	859.7	578.3	713.0	675.2	799.3	791.5	934.0	981.2	
(e) financial derivative assets (net, marked to market)														
(f) currency composition of official reserves assets														
– currencies in SDR basket	5,885.8	5,948.9	6,429.5	6,207.8	6,524.1	7,003.5	6,772.2	6,663.4	6,624.1	7,058.5	7,237.0	7,860.0	8,191.3	
– 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	1,667.2	1,797.1	1,819.2	1,870.9	2,025.3	2,132.2	2,135.4	2,105.0	2,081.3	2,049.1	2,166.8	2,485.2	2,421.7	
EUR	4,215.9	4,149.1	4,608.7	4,335.2	4,497.1	4,869.8	4,427.7	4,554.4	4,541.5	5,008.1	5,069.0	5,373.7	5,768.6	
Other	2.7	2.7	1.7	1.7	1.7	1.5	209.2	4.1	1.3	1.3	1.3	1.1	1.1	

Table H7: 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.).

Table H8: 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
1995		6.757758	0.518734	1.047969	0.321342	4.425311	8.252950	5.22967	3.649342
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	
2003	January	7.500084				5.135489	11.424463	7.081599	
	February	7.583557				5.168355	11.367500	7.032163	
	March	7.662875				5.218167	11.233061	7.098993	
	April	7.553503				5.052297	10.967309	6.965821	
	May	7.542339				4.981129	10.611795	6.548923	
	June	7.535980				4.892906	10.710707	6.443352	
	July	7.497616				4.846985	10.726292	6.590582	
	August	7.514508				4.877767	10.754869	6.736661	
	September	7.498390				4.845884	10.782269	6.701337	
	October	7.591783				4.906285	10.874359	6.486725	
	November	7.610261				4.885643	10.991890	6.502923	
	December	7.670232				4.933835	10.933628	6.253412	

Table H9: 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
1995		6.812200	0.526742	1.085365	0.335800	4.618693	8.234500	5.316100	3.705900
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	
2003	January	7.555767				5.139628	11.544335	7.035165	
	February	7.620482				5.210230	11.185208	7.052737	
	March	7.692318				5.210186	11.196969	7.164976	
	April	7.567308				5.021772	10.965524	6.889392	
	May	7.546434				4.937150	10.514747	6.368836	
	June	7.508844				4.856007	10.879229	6.574019	
	July	7.541513				4.870205	10.704774	6.591079	
	August	7.457896				4.853189	10.816383	6.835209	
	September	7.571370				4.914878	10.936545	6.630502	
	October	7.593986				4.892087	11.055446	6.494472	
	November	7.655148				4.949662	11.006683	6.383013	
	December	7.646909				4.901551	10.860544	6.118506	

Table H10: Indices of the Effective Exchange Rate of the Kuna

Indices 1995 = 100

Year	Month	Nominal effective exchange rate of the kuna	Real effective exchange rate of the kuna; deflator	
			Indices of producer prices	Retail price index
1997	December	107.96	104.89	103.27
1998	December	111.87	108.03	102.41
1999	December	122.56	116.27	109.49
2000	December	125.97	113.53	107.66
2001	December	122.99	111.96	104.32
2002	December	118.58	108.13	100.64
2003	January	118.31	108.68	100.46
	February	118.95	109.68	101.38
	March	120.10	110.90	102.48
	April	118.17	108.49	101.16
	May	115.76	106.64	98.84
	June	115.10	106.12	98.20
	July	115.50	106.31	98.50
	August	116.45	106.78	99.60
	September	116.10	107.01	99.26
	October	115.93	106.92	98.73
	November	116.20	106.81	98.89
	December	115.43	106.16	98.08

Note: From 1 January 2001, the eurozone related price series includes Greece as well.

Table H10: 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 exchange rates of the kuna against the euro, US dollar, Swiss franc, pound sterling and Slovenian tolar. The weights are determined based on the average share of a particular foreign currency in the structure of the current account of the balance of foreign currency transactions between July 1996 and January 2000. The year 1995 is a base period for calculating the index. 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 in-

dex of the nominal effective exchange rate of the kuna in a certain period indicates that the kuna has depreciated against the basket of currencies. The index of the real effective exchange rate is a weighted geometric average of the index of bilateral exchange rates of the kuna corrected for the relevant relative price indices (the ratio of price indices in partner countries and domestic prices). Producer price and retail price indices are used, in particular the total harmonized retail price index for the Economic and Monetary Union member countries. Data for the last two months are preliminary. The historical data may be corrected for the subsequent changes in the data published by the statistical offices of the countries whose prices are included in the calculation of the index of the real effective exchange rate of the kuna.

Table H11: External Debt by Domestic Sectors

Million US dollars

	2002	2003											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Direct investment	1,066.0	1,100.5	1,128.0	1,274.8	1,342.2	1,539.9	1,546.7	1,618.0	1,569.7	1,652.9	1,741.7	1,818.7	1,797.2
2. Government	6,359.0	6,373.3	6,952.1	6,898.7	7,017.9	7,379.0	7,399.1	7,379.6	7,225.6	7,546.6	8,038.9	8,170.5	8,454.4
2.1. Portfolio investment	4,357.1	4,354.9	4,927.9	4,882.3	4,951.5	5,204.8	5,286.2	5,211.2	5,089.0	5,289.1	5,408.1	5,476.4	5,646.5
Bonds	4,357.1	4,354.9	4,927.9	4,882.3	4,951.5	5,204.8	5,286.2	5,211.2	5,089.0	5,289.1	5,408.1	5,476.4	5,646.5
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2. Other investment	2,001.9	2,018.4	2,024.2	2,016.4	2,066.4	2,174.2	2,112.9	2,168.5	2,136.6	2,257.5	2,630.9	2,694.2	2,807.9
2.2.1. Trade credits	1.1	0.9	0.9	1.1	1.5	1.9	2.0	2.0	2.2	2.3	2.4	2.6	3.1
Long-term	1.1	0.9	0.9	1.1	1.5	1.9	2.0	2.0	2.2	2.3	2.4	2.6	3.1
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
2.2.2. Credits	2,000.8	2,017.5	2,023.3	2,015.4	2,064.9	2,172.3	2,111.0	2,166.4	2,134.4	2,255.2	2,628.5	2,691.6	2,804.8
Long-term	2,000.8	2,017.5	2,023.3	2,015.4	2,064.9	2,172.3	2,111.0	2,166.4	2,134.4	2,255.2	2,628.5	2,691.6	2,804.8
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
3. Croatian National Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w: IMF	0.0	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. Banks	4,032.5	4,190.7	4,315.8	4,513.6	4,642.6	5,407.2	5,381.4	5,713.8	5,241.9	5,695.1	5,841.5	6,091.9	7,393.1
4.1. Portfolio 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
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
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
4.2. Other investment	4,032.5	4,190.7	4,315.8	4,513.6	4,642.6	5,407.2	5,381.4	5,713.8	5,241.9	5,695.1	5,841.5	6,091.9	7,393.1
4.2.1. Currency and deposits	1,975.7	1,986.1	2,089.7	2,130.0	2,191.5	2,765.2	2,737.0	2,709.2	2,376.4	2,707.8	2,792.2	2,876.1	3,745.0
4.2.2. Credits	2,056.8	2,204.6	2,226.1	2,383.6	2,451.1	2,642.0	2,644.4	3,004.6	2,865.5	2,987.3	3,049.3	3,215.8	3,648.1
Long-term	2,050.2	2,197.6	2,219.2	2,344.2	2,410.3	2,599.2	2,590.8	2,950.1	2,813.0	2,924.5	2,980.4	3,061.6	3,537.1
Short-term	6.7	7.0	6.9	39.4	40.7	42.8	53.6	54.5	52.5	62.8	68.9	154.2	111.0
5. Other sectors	3,963.8	4,066.9	4,243.0	4,433.9	4,549.6	4,886.7	4,850.0	4,990.3	4,899.1	5,242.8	5,336.5	5,543.2	5,925.0
5.1. Portfolio investment	167.7	172.9	377.1	374.7	383.3	413.5	409.9	410.7	391.6	428.8	439.1	460.3	478.0
Bonds	167.7	172.9	377.1	374.7	383.3	413.5	398.6	399.3	380.8	398.5	408.1	418.6	436.2
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	11.3	11.3	10.8	30.3	31.0	41.7	41.8
5.2. Other investment	3,796.1	3,894.0	3,865.9	4,059.3	4,166.3	4,473.2	4,440.1	4,579.6	4,507.6	4,814.0	4,897.4	5,082.9	5,447.0
5.2.1. Trade credits	311.0	315.9	315.2	311.1	319.6	328.3	320.6	312.2	294.7	301.4	296.4	299.7	294.8
Long-term	264.7	265.6	264.5	262.3	265.1	272.0	262.6	257.3	239.1	242.4	236.4	240.9	236.8
Short-term	46.4	50.3	50.6	48.8	54.5	56.3	58.0	54.8	55.5	58.9	60.0	58.8	58.1
5.2.2. Credits	3,485.1	3,578.1	3,550.8	3,748.1	3,846.7	4,144.8	4,119.5	4,267.5	4,212.9	4,512.6	4,601.0	4,783.3	5,152.1
Long-term	3,410.2	3,503.0	3,471.9	3,649.0	3,742.9	4,018.6	3,966.1	4,093.6	4,049.2	4,345.6	4,407.5	4,571.0	4,932.2
Short-term	74.9	75.0	78.8	99.2	103.8	126.2	153.4	173.9	163.7	167.1	193.5	212.2	220.0
Total (1+2+3+4+5)	15,421.4	15,731.4	16,638.9	17,121.0	17,552.2	19,212.7	19,177.3	19,701.7	18,936.3	20,137.4	20,958.6	21,624.4	23,569.6

Table H11: External Debt by Domestic Sectors

According to a new methodology in force starting in March 2000, external debt is defined as the total of liabilities of residents, including: deposits of foreign legal and natural persons (these deposits were not included under the old methodology), loans granted by foreigners with an original maturity longer than 150 days (up to 11 July 2001, this maturity was 90 days), loans for financial purposes, counted exceptionally regardless of their maturity, and bonds and money market instruments issued on foreign markets (at face value).

External debt by domestic sectors is shown in the same manner as in the Capital and Financial Account of the BOP: Direct investment includes borrower – lender transactions of other sectors that are interrelated by ownership (borrower or lender owns more than 10 percent of the other). Item Government shows external debt of the broadly defined government sector, which includes the central government, central

government funds (including the Croatian Bank for Reconstruction and Development), as well as local government.

Item Croatian National Bank shows the central bank debts. Item Banks shows debts of banks and saving banks. Item Other sectors consists of non-banking financial institutions (other than banks and savings banks), enterprises and households.

Each sector is further divided into Portfolio and other investment. Portfolio investment includes bonds and money market instruments. Other investment includes Currency and deposits (foreign deposits) and Credits. Credits are divided into Trade credits (sale of goods for delayed payment) and Credits (all other credit obligations).

Outstanding external debt is expressed in millions of US dollars according to the CNB's midpoint exchange rate at the end of the period.

The debt balance includes so-called non-reported principal payments (they should have been paid but are not statistically reported as paid) and future principal payments.

Table H12: External Debt by Creditors

Million US dollars

	2002	2003											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Portfolio investment	4,524.8	4,527.8	5,305.0	5,257.0	5,334.8	5,618.3	5,696.1	5,621.8	5,480.6	5,717.9	5,847.2	5,936.6	6,124.5
Bonds	4,524.8	4,527.8	5,305.0	5,257.0	5,334.8	5,618.3	5,684.8	5,610.5	5,469.8	5,687.6	5,816.1	5,894.9	6,082.7
o/w: London Club	956.7	876.1	876.1	876.1	876.1	876.1	876.1	795.5	795.5	795.5	795.5	795.5	795.5
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	11.3	11.3	10.8	30.3	31.0	41.7	41.8
2. Other investment	10,896.6	11,203.6	11,333.9	11,864.0	12,217.4	13,594.4	13,481.2	14,079.9	13,455.7	14,419.5	15,111.5	15,687.8	17,445.1
2.1. Currency and deposits	1,975.7	1,986.1	2,089.7	2,130.0	2,191.5	2,765.2	2,737.0	2,709.2	2,376.4	2,707.8	2,792.2	2,876.1	3,745.0
2.2. Long-term	8,744.6	9,048.2	9,071.0	9,414.0	9,685.1	10,401.1	10,263.8	10,862.7	10,593.4	11,194.6	11,752.6	12,131.9	13,172.1
2.2.1. Public creditors	2,606.4	2,661.3	2,705.1	2,688.1	2,746.5	2,929.5	2,806.4	2,809.6	2,747.9	2,855.7	2,988.5	3,103.2	3,284.0
a) International financial organisations	1,377.0	1,409.3	1,426.1	1,416.3	1,449.1	1,531.0	1,442.7	1,476.9	1,462.0	1,521.8	1,621.4	1,650.4	1,765.4
– IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
– IBRD	611.0	616.5	619.8	620.1	626.9	651.2	632.8	635.4	624.3	643.5	753.5	762.7	773.1
– IFC	132.3	134.7	135.2	131.2	133.0	139.1	105.3	105.4	101.6	101.6	103.4	105.4	108.9
– EBRD	374.9	395.1	406.3	403.8	416.0	446.8	412.9	429.3	410.9	433.3	413.6	422.2	482.3
– EUROFIMA	109.4	112.0	113.0	111.6	112.6	120.4	115.1	115.2	110.4	115.4	117.6	120.9	125.2
– EIB	84.8	84.7	85.2	83.4	93.0	101.2	103.8	107.0	129.3	136.7	140.0	143.6	158.4
– CEB	64.5	66.3	66.6	66.2	67.6	72.3	72.7	84.6	85.5	91.4	93.4	95.6	117.5
b) Governments and government agencies	1,229.5	1,252.1	1,279.0	1,271.8	1,297.4	1,398.5	1,363.7	1,332.7	1,285.8	1,333.9	1,367.1	1,452.8	1,518.6
– Paris Club	629.5	614.8	615.6	612.1	620.0	646.7	628.9	600.9	585.6	602.2	611.2	620.0	631.8
– Other	599.9	637.2	663.4	659.7	677.4	751.8	734.8	731.8	700.3	731.7	755.9	832.8	886.8
2.2.2. Private creditors	6,138.2	6,386.9	6,365.9	6,725.8	6,938.5	7,471.5	7,457.4	8,053.1	7,845.6	8,338.9	8,764.1	9,028.7	9,888.1
a) Banks	4,679.8	4,902.4	4,864.8	5,217.2	5,379.1	5,786.8	5,810.3	6,363.4	6,210.2	6,638.4	7,008.1	7,200.6	8,022.1
o/w: Guaranteed by government agencies	686.5	693.1	618.1	611.9	616.6	637.1	601.8	593.4	577.7	583.3	589.8	600.8	630.3
b) Other sectors	1,458.3	1,484.5	1,501.1	1,508.6	1,559.4	1,684.7	1,647.1	1,689.7	1,635.4	1,700.5	1,755.9	1,828.1	1,866.0
o/w: Guaranteed by government agencies	5.9	6.0	6.2	5.4	5.5	5.9	5.5	5.4	4.8	4.3	3.9	4.0	3.9
2.3. Short-term	176.3	169.3	173.2	320.1	340.9	428.2	480.4	508.0	485.9	517.1	566.7	679.8	528.0
2.3.1. Public creditors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.3.2. Private creditors	176.3	169.3	173.2	320.1	340.9	428.2	480.4	508.0	485.9	517.1	566.7	679.8	528.0
a) Banks	44.2	45.9	46.2	85.2	90.7	108.7	146.1	166.3	159.3	176.8	198.8	302.2	268.6
o/w: Guaranteed by government agencies	0.0	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) Other sectors	132.1	123.3	127.0	234.9	250.2	319.5	334.2	341.7	326.6	340.2	367.8	377.6	259.4
o/w: Guaranteed by government agencies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total (1+2)	15,421.4	15,731.4	16,638.9	17,121.0	17,552.2	19,212.7	19,177.3	19,701.7	18,936.3	20,137.4	20,958.6	21,624.4	23,569.6

Table H12: External Debt by Creditors

The Table shows outstanding external debt by foreign creditors valued in the same way as in Table H11.

Table H13: External Debt by Domestic Sectors and Projected Future Payments

Million US dollars

	Outstanding debt 31/12/2003	Nonreported principal payments	Projected future principal payments												
			Q1/2004	Q2/2004	Q3/2004	Q4/2004	2004	2005	2006	2007	2008	2009	2010	2011	Other
1. Direct investment	1,797.2	145.7	55.7	87.7	45.7	177.4	366.4	169.2	380.7	264.6	216.9	40.2	38.8	24.9	149.8
2. Government	8,454.4	1.0	226.9	64.6	339.3	358.3	989.0	1,047.8	1,053.4	789.5	652.3	1,236.5	932.4	1,304.7	447.6
2.1. Portfolio investment	5,646.5	0.0	119.1	0.0	272.3	233.7	625.1	786.1	769.9	451.9	336.7	961.6	727.9	962.3	25.0
Bonds	5,646.5	0.0	119.1	0.0	272.3	233.7	625.1	786.1	769.9	451.9	336.7	961.6	727.9	962.3	25.0
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
2.2. Other investment	2,807.9	1.0	107.8	64.6	67.0	124.6	363.9	261.7	283.6	337.6	315.6	274.9	204.6	342.3	422.6
2.2.1. Trade credits	3.1	0.2	0.3	0.2	0.3	0.3	1.1	0.5	0.5	0.5	0.3	0.0	0.0	0.0	0.0
Long-term	3.1	0.2	0.3	0.2	0.3	0.3	1.1	0.5	0.5	0.5	0.3	0.0	0.0	0.0	0.0
Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.2. Credits	2,804.8	0.8	107.5	64.3	66.7	124.3	362.8	261.2	283.1	337.1	315.3	274.9	204.6	342.3	422.6
Long-term	2,804.8	0.8	107.5	64.3	66.7	124.3	362.8	261.2	283.1	337.1	315.3	274.9	204.6	342.3	422.6
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
3. Croatian National Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w: IMF	0.0	0.0	0.0	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. Banks	7,393.2	70.7	54.4	73.3	123.1	149.7	400.5	925.6	1,043.5	281.1	333.8	211.9	115.2	82.5	3,928.4
4.1 Portfolio 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	0.0	0.0
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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
4.2. Other investment	7,393.2	70.7	54.4	73.3	123.1	149.7	400.5	925.6	1,043.5	281.1	333.8	211.9	115.2	82.5	3,928.4
4.2.1. Currency and deposits	3,745.1	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	3,745.1
4.2.2. Credits	3,648.1	70.7	54.4	73.3	123.1	149.7	400.5	925.6	1,043.5	281.1	333.8	211.9	115.2	82.5	183.3
Long-term	3,537.1	63.9	54.4	72.9	106.9	62.2	296.3	925.6	1,043.5	281.1	333.8	211.9	115.2	82.5	183.3
Short-term	111.0	6.8	0.1	0.4	16.2	87.5	104.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5. Other sectors	5,925.0	484.3	287.7	306.5	297.7	307.4	1,199.2	930.4	780.6	702.8	536.6	253.0	190.7	176.0	671.3
5.1. Portfolio investment	478.0	0.0	27.2	6.2	47.2	0.0	80.6	0.0	0.0	162.5	8.2	8.2	9.4	9.4	199.7
Bonds	436.2	0.0	0.0	0.0	38.7	0.0	38.7	0.0	0.0	162.5	8.2	8.2	9.4	9.4	199.7
Money market instruments	41.8	0.0	27.2	6.2	8.5	0.0	41.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5.2. Other investment	5,447.0	484.3	260.5	300.3	250.5	307.4	1,118.7	930.4	780.6	540.3	528.4	244.8	181.3	166.6	471.6
5.2.1. Trade credits	294.8	96.5	37.2	41.4	28.0	18.3	124.9	42.4	17.9	8.0	3.6	0.8	0.4	0.2	0.0
Long-term	236.8	68.6	23.4	30.6	22.6	18.2	94.8	42.4	17.9	8.0	3.6	0.8	0.4	0.2	0.0
Short-term	58.1	27.9	13.8	10.8	5.5	0.1	30.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5.2.2. Credits	5,152.1	387.7	223.3	258.9	222.5	289.1	993.7	888.1	762.7	532.3	524.7	244.0	180.8	166.5	471.6
Long-term	4,932.2	325.5	184.9	173.5	207.0	270.6	836.0	888.1	762.7	532.3	524.7	244.0	180.8	166.5	471.6
Short-term	220.0	62.3	38.4	85.4	15.4	18.4	157.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total (1+2+3+4+5)	23,569.7	701.7	624.6	532.0	805.9	992.7	2,955.2	3,073.1	3,258.3	2,038.0	1,739.5	1,741.7	1,277.1	1,588.1	5,197.1
Supplement: Projected interest payments		73.8	322.9	149.2	145.0	178.6	795.6	706.0	561.7	435.8	351.6	287.7	208.0	147.2	319.3
Note:															
Publicly guaranteed debt	2,849.2														
o/w: Banks and other sectors	1,349.9														

Table H13: External Debt by Domestic Sectors and Projected Future Payments

The Table shows outstanding external debt at the end of the period and the principal and interest payment projection. All data are shown at the midpoint exchange rate of the CNB at the end of period.

Projected interest payments do not include interest on deposits from non-residents and late interest. Payments are

projected at the interest rates at the contracting time and do not reflect changes of variable interest rates.

The note points out the outstanding publicly guaranteed debt – total and the outstanding debt of the banking sector and other sectors covered by government guarantees. The difference is the amount of the government guarantees issued to the government sector (for example the Croatian Bank for Reconstruction and Development, Croatian Roads Administration, etc. included in a broad definition of the government sector).

Table H14: International Investment Position – Summary

Million US dollars

	1999	2000	2001	2002	2003 ^a	2003			
						Q1	Q2	Q3	Q4 ^a
1. International investment position (net)	-5,196.3	-5,743.5	-4,452.8	-8,867.5	-14,260.4	-9,709.0	-11,964.8	-11,828.5	-14,260.4
2. Assets	7,142.9	8,353.9	11,083.4	12,245.9	17,907.6	12,519.8	14,179.4	14,653.9	17,907.6
2.1. Direct investment abroad	881.7	875.1	967.1	1,818.1	2,294.6	1,480.4	2,152.6	1,551.9	2,294.6
2.2. Portfolio investment	26.0	14.3	22.5	26.3	60.3	23.4	57.8	41.5	60.3
2.2.1. Equity securities	26.0	14.3	22.5	26.3	60.3	23.4	57.8	41.5	60.3
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	3,210.2	3,942.3	5,389.6	4,515.7	7,361.5	4,808.2	5,197.0	6,002.2	7,361.5
2.4.1. Trade credits	194.4	186.3	181.8	188.6	226.1	195.7	199.6	211.5	226.1
2.4.2. Loans	164.9	154.7	107.3	134.1	140.1	140.7	138.5	125.9	140.1
2.4.3. Currency and deposits	2,850.9	3,601.2	5,100.5	4,193.1	6,995.3	4,471.9	4,858.9	5,664.9	6,995.3
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)	3,025.0	3,522.2	4,704.2	5,885.8	8,191.3	6,207.8	6,772.2	7,058.3	8,191.3
3. Liabilities	12,339.2	14,097.4	15,536.3	21,113.5	32,168.1	22,228.8	26,144.2	26,482.4	32,168.1
3.1. Direct investment in Croatia	2,578.1	3,560.3	4,706.4	6,710.7	11,351.3	6,356.4	8,876.9	8,879.0	11,351.3
3.2. Portfolio investment	2,700.0	3,288.4	3,880.0	4,694.6	6,312.6	5,410.8	5,872.7	5,866.0	6,312.6
3.2.1. Equity securities	128.3	108.8	148.2	169.8	188.1	153.8	176.6	148.1	188.1
3.2.2. Debt securities	2,571.8	3,179.6	3,731.8	4,524.8	6,124.5	5,257.0	5,696.1	5,717.9	6,124.5
Bonds	2,554.4	3,170.1	3,704.4	4,524.8	6,082.7	5,257.0	5,684.8	5,687.6	6,082.7
Money market instruments	17.4	9.5	27.4	0.0	41.8	0.0	11.3	30.3	41.8
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	7,061.0	7,248.6	6,949.8	9,708.2	14,504.2	10,461.6	11,394.6	11,737.4	14,504.2
3.4.1. Trade credits	390.9	334.0	294.8	312.9	321.7	322.6	329.5	327.3	321.7
3.4.2. Loans	6,132.4	6,481.8	6,021.5	7,419.6	10,437.5	8,003.6	8,328.1	8,702.3	10,437.5
3.4.3. Currency and deposits	537.7	432.8	633.5	1,975.7	3,745.0	2,135.3	2,737.0	2,707.8	3,745.0
3.4.4. Other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

^a Preliminary data.**Table H14: International Investment Position**

This table is made in accordance with the recommendations of the IMF (Balance of Payments Manual, Fifth Edition, 1993). Data sources include: reports from banks, enterprises, the Croatian National Bank, and the Zagreb Stock Exchange.

Data on international investments of the Republic of Croatia and international investments into the Republic of Croatia are recorded in US dollars (USD). Depending on the sources of data available, the conversion of values from the original currencies into US dollars 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 H15: International Investment Position – Direct Investment

Million US dollars

	1999	2000	2001	2002	2003 ^a	2003			
						Q1	Q2	Q3	Q4 ^a
Direct investment (net)	-1,696.4	-2,685.2	-3,739.3	-4,892.6	-9,056.6	-4,876.0	-6,724.3	-7,327.1	-9,056.6
1. Abroad	881.7	875.1	967.1	1,818.1	2,294.6	1,480.4	2,152.6	1,551.9	2,294.6
1.1. Equity capital and reinvested earnings	839.7	824.1	926.8	1,776.0	2,211.4	1,428.1	2,089.8	1,483.7	2,211.4
1.1.1. Claims	839.7	824.1	926.8	1,776.0	2,211.4	1,428.1	2,089.8	1,483.7	2,211.4
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	42.0	51.0	40.3	42.1	83.2	52.3	62.7	68.2	83.2
1.1.1. 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	2,578.1	3,560.3	4,706.4	6,710.7	11,351.3	6,356.4	8,876.9	8,879.0	11,351.3
2.1. Equity capital and reinvested earnings	2,205.5	2,904.1	3,760.6	5,304.4	7,838.0	4,663.4	6,984.0	5,938.0	7,838.0
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	2,205.5	2,904.1	3,760.6	5,304.4	7,838.0	4,663.4	6,984.0	5,938.0	7,838.0
2.2. Other capital	372.6	656.2	945.9	1,406.3	3,513.3	1,693.0	1,892.8	2,941.1	3,513.3
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

^a Preliminary data.

Table H16: International Investment Position – Portfolio Investment

Million US dollars

	1999	2000	2001	2002	2003 ^a	2003			
						Q1	Q2	Q3	Q4 ^a
Portfolio investment (net)	-2,674.0	-3,274.1	-3,857.5	-4,668.3	-6,252.3	-5,387.4	-5,814.9	-5,824.4	-6,252.3
1. Assets	26.0	14.3	22.5	26.3	60.3	23.4	57.8	41.5	60.3
1.1. Equity capital and reinvested earnings	26.0	14.3	22.5	26.3	60.3	23.4	57.8	41.5	60.3
1.1.1. Banks	0.7	7.2	7.1	8.5	6.1	3.9	5.7	4.4	6.1
1.1.2. Other sectors	25.3	7.1	15.4	15.7	51.4	16.4	48.8	34.5	51.4
1.2. Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Liabilities	2,700.0	3,288.4	3,880.0	4,694.6	6,312.6	5,410.8	5,872.7	5,866.0	6,312.6
2.1. Equity capital and reinvested earnings	128.3	108.8	148.2	169.8	188.1	153.8	176.6	148.1	188.1
2.1.1. Banks	61.5	36.5	36.5	40.4	49.2	31.0	43.9	35.7	49.2
2.1.2. Other sectors	66.8	72.3	111.7	129.4	138.9	122.8	132.7	112.4	138.9
2.2. Debt securities	2,571.8	3,179.6	3,731.8	4,524.8	6,124.5	5,257.0	5,696.1	5,717.9	6,124.5
2.2.1. Bonds	2,554.4	3,170.1	3,704.4	4,524.8	6,082.7	5,257.0	5,684.8	5,687.6	6,082.7
General government	2,523.2	3,141.2	3,677.1	4,357.1	5,646.5	4,882.3	5,286.2	5,289.1	5,646.5
Other sectors	31.2	28.9	27.3	167.7	436.2	374.7	398.6	398.5	436.2
2.2.2. Money market instruments	17.4	9.5	27.4	0.0	41.8	0.0	11.3	30.3	41.8
Other sectors	17.4	9.5	27.4	0.0	41.8	0.0	11.3	30.3	41.8

^a Preliminary data.

Table H17: International Investment Position – Other Investment

Million US dollars

	1999	2000	2001	2002	2003 ^a	2003			
						Q1	Q2	Q3	Q4 ^a
Other investment (net)	-3,850.8	-3,306.3	-1,560.2	-5,192.5	-7,142.7	-5,653.3	-6,197.6	-5,735.2	-7,142.7
1. Assets	3,210.2	3,942.3	5,389.6	4,515.7	7,361.5	4,808.2	5,197.0	6,002.2	7,361.5
1.1. Trade credits	194.4	186.3	181.8	188.6	226.1	195.7	199.6	211.5	226.1
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	194.4	186.3	181.8	188.5	226.1	195.6	199.5	211.4	226.1
Long-term	182.4	154.4	158.9	176.6	219.0	186.7	191.5	203.3	219.0
Short-term	12.0	31.9	22.9	11.9	7.1	9.0	8.0	8.1	7.1
1.2. Loans	164.9	154.7	107.3	134.1	140.1	140.7	138.5	125.9	140.1
1.2.1. General government	3.7	3.5	5.4	5.8	6.6	5.7	5.9	6.3	6.6
Long-term	3.7	3.5	5.4	5.8	6.6	5.7	5.9	6.3	6.6
1.2.2. Banks	94.8	121.7	73.0	97.5	98.7	104.1	101.4	88.6	98.7
Long-term	60.0	83.6	41.4	62.7	70.7	64.9	67.9	62.6	70.7
Short-term	34.8	38.1	31.6	34.8	28.0	39.2	33.5	26.1	28.0
1.2.3. Other sectors	66.4	29.6	28.9	30.7	34.8	30.9	31.2	31.0	34.8
Long-term	66.4	29.6	28.9	30.6	34.8	30.8	31.1	31.0	34.8
Short-term	0.0	0.0	0.0	0.1	0.0	0.1	0.1	0.0	0.0
1.3. Currency and deposits	2,850.9	3,601.2	5,100.5	4,193.1	6,995.3	4,471.9	4,858.9	5,664.9	6,995.3
1.3.2. General government	46.0	69.0	83.5	120.5	102.3	53.2	70.7	1.5	102.3
1.3.3. Banks	1,562.9	2,389.2	3,915.0	2,868.6	5,689.0	3,110.7	3,472.2	4,407.4	5,689.0
1.3.4. Other sectors	1,242.0	1,143.0	1,102.0	1,204.0	1,204.0	1,308.0	1,316.0	1,256.0	1,204.0
1.4. Other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Liabilities	7,061.0	7,248.6	6,949.8	9,708.2	14,504.2	10,461.6	11,394.6	11,737.4	14,504.2
2.1. Trade credits	390.9	334.0	294.8	312.9	321.7	322.6	329.5	327.3	321.7
2.1.1. General government	3.3	0.1	1.1	1.3	0.6	1.0	1.0	0.8	0.6
Long-term	0.6	0.1	1.1	1.3	0.6	1.0	1.0	0.8	0.6
Short-term	2.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.1.2. Other sectors	387.6	334.0	293.7	311.6	321.1	321.6	328.5	326.5	321.1
Long-term	302.1	269.5	239.9	262.1	256.2	270.0	272.3	261.5	256.2
Short-term	85.4	64.4	53.8	49.6	65.0	51.6	56.3	65.0	65.0
2.2. Loans	6,132.4	6,481.8	6,021.5	7,419.6	10,437.5	8,003.6	8,328.1	8,702.3	10,437.5
2.2.1. Croatian National Bank o/w: IMF	196.7	158.7	122.1	0.0	0.0	0.0	0.0	0.0	0.0
2.2.2. General government	1,450.8	1,687.1	1,454.4	1,988.0	2,768.3	2,011.2	2,084.1	2,218.1	2,768.3
Long-term	1,375.4	1,327.1	1,454.4	1,988.0	2,768.3	2,011.2	2,084.1	2,218.1	2,768.3
Short-term	75.5	360.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.3. Banks	1,650.2	1,653.7	1,665.9	2,004.3	2,493.1	2,343.4	2,265.4	2,059.8	2,493.1
Long-term	1,630.1	1,640.0	1,657.7	1,995.0	2,419.7	2,334.0	2,257.0	1,996.5	2,419.7
Short-term	20.1	13.7	8.2	9.3	73.4	9.4	8.4	63.3	73.4
2.2.4. Other sectors	2,834.7	2,982.3	2,779.1	3,427.4	5,176.1	3,649.0	3,978.6	4,424.4	5,176.1
Long-term	2,606.5	2,838.0	2,691.6	3,258.3	4,932.2	3,469.2	3,809.7	4,226.2	4,932.2
Short-term	228.2	144.3	87.5	169.1	243.9	179.9	168.9	198.3	243.9
2.3. Currency and deposits	537.7	432.8	633.5	1,975.7	3,745.0	2,135.3	2,737.0	2,707.8	3,745.0
2.3.1. Banks	537.7	432.8	633.5	1,975.7	3,745.0	2,135.3	2,737.0	2,707.8	3,745.0
2.4. Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

^a Preliminary data.

Table I1: Consolidated Central Government

Million kuna

	2002	2003											
		Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec. ^a
REVENUE AND GRANTS													
1. Budgetary central government	66,932.2	4,933.0	5,083.2	5,739.7	5,795.6	5,703.7	6,026.8	6,704.3	5,879.1	6,085.1	6,537.7	9,427.7	7,037.9
2. Central government funds	4,026.3	399.4	492.4	380.1	399.8	494.5	532.2	572.4	599.9	541.3	480.0	517.0	629.1
2.1. Pension Fund	129.8	5.8	6.3	7.9	10.6	10.5	5.5	7.3	22.2	10.6	6.7	5.2	10.4
2.2. Health Insurance Fund	473.7	43.0	114.1	47.9	44.9	41.1	116.6	78.7	61.9	59.4	51.4	50.8	112.7
2.3. Employment Fund	25.4	2.5	1.6	2.2	1.7	1.7	1.6	2.0	1.1	1.7	1.1	1.7	-1.0
2.4. Child Benefit Fund	-	-	-	-	-	-	-	-	-	-	-	-	-
2.5. Croatian Waters	1,098.8	113.9	64.7	63.9	59.0	59.9	88.3	102.6	86.0	117.6	121.1	123.8	144.0
2.6. Development and Employment Fund	1,797.8	-	-	-	-	-	-	-	-	-	-	-	-
2.7. Regional Development Fund	500.9	-	-	-	-	-	-	-	-	-	-	-	-
2.8. Croatian Highways	-	128.3	134.6	136.1	140.2	149.9	161.0	191.3	198.3	195.6	177.4	136.4	183.4
2.9. Croatian Roads	-	91.1	70.5	94.2	99.8	97.4	111.5	106.6	111.3	121.5	104.3	77.9	98.9
2.10. State Agency for Deposit Insurance and Bank Rehabilitation	-	8.5	92.7	15.3	27.0	119.9	8.5	40.7	105.6	4.5	10.3	112.0	39.4
2.11. Croatian Privatisation Fund	-	6.3	7.9	12.6	16.7	14.3	39.3	43.2	13.6	30.3	7.7	9.1	41.4
A. Total (1+2)	70,958.5	5,332.4	5,575.6	6,119.8	6,195.4	6,198.2	6,559.0	7,276.7	6,479.0	6,626.4	7,017.7	9,944.7	7,667.1
EXPENDITURE AND LENDING (minus repayments)													
3. Budgetary central government	67,543.8	5,419.7	5,898.0	6,666.0	5,684.1	6,685.1	5,842.1	6,928.3	5,321.6	5,967.9	6,691.6	6,734.4	6,875.1
4. Central government funds	7,030.5	602.2	426.4	655.3	849.4	1,025.0	1,337.5	1,072.6	1,030.5	1,139.6	1,120.2	859.3	1,802.4
4.1. Pension Fund	1,558.1	129.4	143.2	139.8	143.4	141.5	152.0	149.3	148.6	155.1	163.1	167.6	205.0
4.2. Health Insurance Fund	1,261.1	22.5	83.2	33.6	46.3	65.1	155.6	73.9	50.4	22.8	118.0	60.5	143.0
4.3. Employment Fund	236.7	13.2	11.1	11.8	11.3	10.1	9.9	12.5	10.0	10.5	11.7	11.6	12.7
4.4. Child Benefit Fund	-	-	-	-	-	-	-	-	-	-	-	-	-
4.5. Croatian Waters	1,409.9	225.1	26.2	49.8	75.3	82.2	105.3	136.9	113.7	149.4	149.7	195.1	382.3
4.6. Development and Employment Fund	2,288.0	-	-	-	-	-	-	-	-	-	-	-	-
4.7. Regional Development Fund	276.6	-	-	-	-	-	-	-	-	-	-	-	-
4.8. Croatian Highways	-	84.3	109.0	291.8	448.4	597.5	653.4	509.0	600.7	588.7	570.8	327.3	802.5
4.9. Croatian Roads	-	122.0	49.0	102.7	108.7	117.8	150.2	180.5	102.9	104.7	101.2	92.1	138.1
4.10. State Agency for Deposit Insurance and Bank Rehabilitation	-	1.6	0.8	22.5	11.2	6.8	106.5	4.9	0.9	1.2	1.4	1.1	94.5
4.11. Croatian Privatisation Fund	-	4.0	3.9	3.2	5.0	3.9	4.6	5.7	3.2	107.1	4.3	4.1	24.4
B. Total (3+4)	74,574.3	6,021.9	6,324.4	7,321.3	6,533.5	7,710.0	7,179.6	8,001.0	6,352.1	7,107.5	7,811.8	7,593.7	8,677.5
C. Overall surplus/deficit (A-B)	-3,615.8	-689.5	-748.8	-1,201.5	-338.1	-1,511.8	-620.6	-724.2	126.9	-481.1	-794.1	2,351.1	-1,010.5
5. Budgetary central government (1-3)	-611.6	-486.7	-814.8	-926.3	111.5	-981.4	184.8	-224.1	557.5	117.2	-154.0	2,693.3	162.9
6. Central government funds (2-4)	-3,004.2	-202.7	66.0	-275.2	-449.6	-530.5	-805.3	-500.2	-430.6	-598.3	-640.2	-342.3	-1,173.3

^a Preliminary data.; Source: Ministry of Finance.

Table I2: Budgetary Central Government Operations

Million kuna

	2002	2003											
		Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec. ^c
1. Total revenue	69,869.1	5,221.1	5,348.9	6,012.1	6,113.2	5,971.4	6,315.6	6,999.0	6,137.7	6,382.9	6,761.3	9,687.3	7,299.1
1.1. Current revenue	69,651.1	5,204.8	5,332.8	5,989.9	6,094.5	5,956.2	6,297.3	6,980.7	6,124.7	6,359.9	6,732.9	6,324.6	7,253.8
1.1.1. Tax revenue	67,965.5	5,070.6	5,219.9	5,850.0	6,001.9	5,845.1	6,202.7	6,771.1	6,017.0	6,246.9	6,611.0	5,855.8	7,005.7
1.1.2. Nontax revenue	1,685.6	134.2	112.9	139.8	92.6	111.0	94.7	209.5	107.7	113.0	121.9	468.7	248.1
1.2. Capital revenue	218.0	16.2	16.1	22.2	18.7	15.2	18.3	18.4	13.0	23.0	28.4	3,362.8	45.3
2. Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	9.6	0.8	0.1
2.1. Current	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	9.6	0.8	0.1
2.2. Capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
A. Total revenue and grants (1+2)	69,869.1	5,221.1	5,348.9	6,012.1	6,113.2	5,971.4	6,315.6	6,999.0	6,137.7	6,382.9	6,770.8	9,688.1	7,299.2
3. Total expenditure	71,992.1	5,833.2	6,305.5	6,716.0	6,172.6	7,008.3	6,003.5	7,284.1	5,588.9	6,388.9	7,033.5	7,086.8	7,691.8
3.1. Current expenditure	68,923.5	5,739.1	6,166.7	6,540.0	6,007.2	6,475.0	5,569.5	6,896.8	5,500.2	6,046.7	6,636.7	6,507.2	6,956.4
3.2. Capital expenditure	3,068.7	94.2	138.8	176.1	165.5	533.3	434.0	387.3	88.8	342.2	396.8	579.6	735.4
4. Lending minus repayments	1,377.5	37.3	19.9	388.8	59.2	133.6	326.3	125.4	129.0	96.0	119.3	171.1	-272.3
B. Total expenditure and lending minus repayments (3+4)	73,369.6	5,870.5	6,325.4	7,104.8	6,231.8	7,141.9	6,329.8	7,409.5	5,717.9	6,484.9	7,152.7	7,257.9	7,419.5
5. Current account surplus without grants (1.1.-3.1.)	727.6	-534.2	-833.9	-550.1	87.3	-518.8	727.8	83.9	624.6	313.2	96.2	-182.6	297.4
6. Current account surplus with current grants (5+2.1.)	727.6	-534.2	-833.9	-550.1	87.3	-518.8	1,727.8	-916.1	624.6	313.2	105.7	-181.8	297.4
7. Gross fixed capital formation ^a	966.7	39.6	45.2	45.0	76.6	176.2	127.5	191.0	40.1	178.8	130.4	-3,024.8	346.7
8. Gross capital formation ^b	966.7	39.6	45.2	45.0	76.6	176.2	127.5	191.0	40.1	178.8	130.4	-3,024.8	346.7
C. Overall surplus/deficit (A-B)	-3,500.5	-649.4	-976.4	-1,092.8	-118.6	-1,170.5	-14.2	-410.5	419.8	-102.0	-381.9	2,430.2	-120.3
9. Foreign financing	2,347.8	-573.1	654.4	3,014.4	-580.8	-559.1	1,046.3	-583.6	143.3	-74.1	602.5	-21.4	-18.8
10. Domestic financing	1,152.7	1,222.5	322.0	-1,921.6	699.4	1,729.6	-1,032.2	994.0	-563.0	176.1	-220.6	-2,408.8	139.0
10.1. From other general government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
10.2. From monetary authorities	241.7	-177.1	304.2	-2,027.6	749.4	623.5	-947.5	1,455.7	-110.1	189.1	-829.5	-1,866.9	1,610.1
10.3. From Banks	782.9	1,356.6	-16.5	83.4	-33.9	1,067.7	-121.0	-444.3	-443.7	-109.5	595.3	-471.3	-1,294.3
10.4. Other domestic financing	128.1	43.1	34.3	22.6	-16.1	38.4	36.3	-17.4	-9.2	96.6	13.6	-70.6	-176.8
D. Total financing (9+10)	3,500.5	649.4	976.4	1,092.8	118.6	1,170.5	14.2	410.5	-419.8	102.0	381.9	-2,430.2	120.3

^a Net purchase of fixed capital formation.; ^b Net purchase of fixed capital formation and net purchase of shares.; ^c Preliminary data.; Source: Ministry of Finance.

Table I3: Central Government Debt

End of period, million kuna

	2002	2003											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Domestic debt of central government	28.746,7	30.353,0	30.344,1	30.814,2	30.519,1	31.541,2	32.554,8	32.834,9	31.785,4	32.186,9	32.722,3	32.636,1	32.053,4
1.1. Domestic debt of the Republic of Croatia	24.735,0	26.323,1	26.309,4	27.000,1	26.715,7	27.706,1	28.759,7	28.650,1	27.643,0	28.262,8	28.919,4	28.813,5	28.861,7
Treasury bills	5.632,7	5.773,6	5.764,0	5.696,1	5.690,2	5.705,0	5.983,8	5.988,1	6.023,2	5.645,9	5.940,3	6.316,2	6.548,1
Money market instruments	0,1	0,1	0,1	0,0	0,0	0,0	0,1	0,1	0,1	0,1	0,1	–	0,3
Bonds	16.021,7	17.252,7	17.318,8	17.472,6	17.216,7	18.036,6	17.980,8	17.546,1	17.311,5	17.508,1	17.552,3	17.527,9	16.657,8
Credits from the CNB	0,5	0,5	2,0	2,0	3,2	0,9	1,5	0,5	2,6	3,0	2,5	–	1,4
Credits from banks	3.080,0	3.296,2	3.224,5	3.829,3	3.805,5	3.963,6	4.793,5	5.115,4	4.305,6	5.105,8	5.424,3	4.969,4	5.654,1
1.2. Domestic debt of central government funds	4.011,8	4.029,8	4.034,7	3.814,1	3.803,4	3.835,0	3.795,1	4.184,9	4.142,4	3.924,1	3.802,9	3.822,6	3.191,7
Money market instruments	–	–	–	–	–	–	–	–	–	–	–	–	–
Bonds	1.652,2	1.677,4	1.691,7	1.707,7	1.679,9	1.675,3	1.667,0	1.674,2	1.655,7	1.680,8	1.685,9	1.699,4	1.697,6
Credits from banks	2.359,6	2.352,5	2.343,0	2.106,4	2.123,5	2.159,7	2.128,1	2.510,6	2.486,7	2.243,2	2.117,0	2.123,2	1.494,0
2. External debt of central government	45.056,1	44.437,6	48.627,7	49.025,3	47.941,9	46.631,3	48.100,0	48.223,7	48.774,6	49.452,0	51.759,0	51.652,7	51.338,8
2.1. External debt of the Republic of Croatia	41.296,8	40.735,7	44.886,9	45.243,0	44.216,4	42.957,6	44.432,9	44.574,3	45.149,9	45.602,7	46.665,9	46.565,7	46.336,6
Money market instruments	–	–	–	–	–	–	–	–	–	–	–	–	–
Bonds	30.115,3	29.611,0	33.721,7	33.936,6	33.090,6	32.148,4	33.747,4	33.339,4	33.775,4	34.056,8	34.113,1	33.944,4	33.547,8
Credits	11.181,6	11.124,7	11.165,3	11.306,4	11.125,8	10.809,1	10.685,5	11.234,9	11.374,5	11.545,9	12.552,9	12.621,3	12.788,8
2.2. External debt of central government funds	3.759,3	3.701,9	3.740,8	3.782,2	3.725,5	3.673,7	3.667,1	3.649,4	3.624,7	3.849,3	5.093,0	5.087,0	5.002,2
Money market instruments	–	–	–	–	–	–	–	–	–	–	–	–	–
Bonds	1.019,3	1.026,4	1.033,2	1.045,1	1.022,0	999,8	1.004,0	1.007,9	1.008,9	1.012,4	1.009,4	1.011,3	1.000,3
Credits	2.739,9	2.675,5	2.707,6	2.737,2	2.703,5	2.673,9	2.663,1	2.641,5	2.615,7	2.836,9	4.083,6	4.075,7	4.002,0
3. Total (1+2)	73.802,9	74.790,6	78.971,8	79.839,4	78.460,9	78.172,5	80.654,8	81.058,6	80.560,0	81.638,9	84.481,3	84.288,9	83.392,2
Supplement: Central government guaranteed debt													
– guarantees for domestic debt	7.528,1	7.668,9	7.615,5	7.683,7	7.287,1	7.387,4	6.807,7	6.562,2	6.452,8	6.534,8	6.761,5	7.000,4	6.895,4
– guarantees for external debt	7.929,2	8.087,0	8.183,4	8.231,6	7.906,3	7.716,7	7.741,8	7.641,3	8.140,4	8.104,9	8.077,2	8.227,5	8.314,6

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: Retail Price, Costs of Living and Producer Price Indices

Year	Month	Chain indices			Monthly year-on-year indices			Cumulative year-on-year indices		
		Retail prices	Costs of living	Producer prices	Retail prices	Costs of living	Producer prices	Retail prices	Costs of living	Producer prices
1995	December	100.2	100.7	100.5	103.7	104.6	101.6	102.0	104.0	100.8
1996	December	100.0	100.4	100.3	103.4	103.7	101.5	103.5	104.3	101.4
1997	December	100.7	101.2	99.9	103.8	104.9	101.6	103.6	104.1	102.3
1998	December	100.2	100.7	100.0	105.4	105.3	97.9	105.7	106.4	98.8
1999	December	100.3	101.0	100.3	104.4	103.6	105.9	104.2	103.5	102.6
2000	December	100.0	100.5	100.2	107.4	106.8	111.2	106.2	105.3	109.7
2001	December	99.8	100.6	99.0	102.6	102.5	96.9	104.9	104.8	103.6
2002	December	100.1	100.4	99.9	102.3	101.8	102.3	102.2	101.9	99.6
2003	January	100.4	100.4	100.5	101.6	100.8	102.9	101.6	100.8	102.9
	February	100.2	100.2	100.4	101.7	101.0	102.7	101.6	100.9	102.8
	March	100.4	100.5	100.8	101.7	101.4	104.7	101.7	101.1	103.4
	April	99.6	100.2	99.1	100.9	101.1	102.8	101.5	101.1	103.3
	May	100.2	101.0	99.2	100.9	101.3	101.8	101.4	101.1	103.0
	June	100.1	99.9	100.2	101.1	102.3	101.7	101.3	101.3	102.8
	July	100.0	99.7	100.2	101.5	102.9	101.4	101.3	101.5	102.5
	August	100.1	99.6	100.5	101.7	102.8	102.0	101.4	101.7	102.5
	September	100.4	100.6	99.6	101.6	103.2	101.2	101.4	101.9	102.4
	October	100.3	100.1	100.2	101.5	103.0	100.0	101.4	102.0	102.1
	November	100.1	100.1	100.3	101.9	102.8	100.9	101.5	102.0	102.0
	December	100.0	100.1	100.0	101.8	102.4	101.0	101.5	102.1	101.9

Source: Central Bureau of Statistics.

Table J2a: Core Retail Price Indices

Year	Month	Chain indices			Monthly year-on-year indices		
		Total	Goods	Services	Total	Goods	Services
1995	December	100.1	100.0	100.5	103.1	102.6	107.1
1996	December	100.0	100.0	100.0	102.8	101.9	109.5
1997	December	100.2	100.2	100.5	102.5	102.3	104.5
1998	December	100.1	100.0	100.2	105.7	105.3	107.8
1999	December	100.1	100.2	100.0	104.2	104.2	104.1
2000	December	100.1	100.1	100.2	104.6	104.8	103.5
2001	December	99.8	99.7	100.8	101.7	101.1	105.6
2002	December	100.0	100.0	100.0	101.2	101.4	100.2
2003	January	99.7	99.6	100.1	100.6	100.7	99.2
	February	99.9	99.9	99.9	100.3	100.5	98.9
	March	100.1	100.1	100.2	100.2	100.4	99.1
	April	100.0	99.9	100.5	100.1	100.1	99.5
	May	100.3	100.2	100.7	100.3	100.3	100.1
	June	100.2	100.2	100.1	100.5	100.5	100.2
	July	99.8	99.7	100.8	100.6	100.5	101.0
	August	99.9	99.8	100.1	100.5	100.3	101.3
	September	100.7	100.9	100.2	100.9	100.9	101.4
	October	100.5	100.4	100.6	101.0	100.8	101.5
	November	100.2	100.2	100.3	101.3	100.9	103.5
	December	99.9	99.8	100.1	101.2	100.7	103.6

Source: Central Bureau of Statistics.

Table J2a: Core Retail Prices Indices

The Central Bureau of Statistics calculates the core retail 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 cal-

ulation of the retail price index. A total of 92 goods and services are excluded and their share in the retail price basket stood at 25.14% in 2003 (of which: agricultural products accounted for 2.18 percentage points, and administrative prices for 22.96 percentage points). The zero weighting method is used to exclude the prices of goods and services.

Table J2b: Core Consumer Price Indices

Year	Month	Basic indices, 2001 = 100		
		Total	Goods	Services
2001	December	100,3	100,1	101,8
2002	December	101,5	101,1	104,2
2003	January	101,3	100,8	104,3
	February	101,2	100,6	104,7
	March	101,1	100,5	104,8
	April	100,8	100,2	105,0
	May	101,3	100,6	105,4
	June	101,6	100,8	106,5
	July	102,0	100,6	110,7
	August	102,1	100,6	110,8
	September	101,7	101,0	106,7
	October	102,3	101,7	106,2
	November	102,5	101,9	106,3
	December	102,7	102,0	107,3

Source: Central Bureau of Statistics.

Table J2b: 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 in-

clude 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. 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
1995	December	1,883.0	99.4	114.4	145.7
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	January	3,891.0	101.4	108.2	108.2
	February	3,786.0	97.3	108.2	108.2
	March	3,846.0	101.6	106.2	107.5
	April	3,892.0	101.2	105.3	106.9
	May	3,973.0	102.1	104.6	106.5
	June	3,988.0	100.4	107.2	106.6
	July	3,981.0	99.8	106.0	106.5
	August	3,915.0	98.4	104.7	106.3
	September	3,899.0	99.6	106.1	106.3
	October	3,996.0	102.5	106.1	106.3
	November	4,054.0	101.5	103.5	106.0
	December	4,045.0	99.8	105.4	105.9

Source: Central Bureau of Statistics.

