

CROATIAN NATIONAL BANK



ANNUAL REPORT 2006

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PUBLISHER

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

WEBSITE

<http://www.hnb.hr>

Those using data from this publication are requested to cite the source.
Any additional corrections that may be required will be made in the website version.
Printed in 600 copies

ISSN 1331-6567



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ZAGREB, 2007

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Summary

Strong economic growth, low inflation, stable exchange rate and continued budget deficit reduction were the key positive features of macroeconomic developments in 2006. However, other important macroeconomic features, unsustainable in the long term, included a further sharp increase in the balance of payments current account deficit, generated by an upsurge in the already strong bank lending growth, and a consequent continued deterioration in external debt indicators. These features basically signal a less than effective use of capital inflows, which failed to produce a negative effect on inflation only because of the country's openness and strong growth of goods imports, showing, in other words, that the relatively high economic growth rates have to be accompanied by considerably lower growth rates of bank placements and, in this connection, a lower negative current account balance and stable external debt to GDP ratio. For that reason, the Croatian National Bank in 2006 continued to implement measures to alleviate external imbalances. In addition to maintaining low inflation and exchange rate stability, monetary policy in 2006, as in the previous years, continued to focus on stabilising the external debt to GDP ratio through tightening measures to discourage new bank external borrowing. Furthermore, amendments were made to a set of prudential regulations which, in an environment of excessive credit growth, were conducive to actions aimed at reducing and maintaining risks at acceptable levels, the most significant being large recapitalisations of banks. Despite these measures, the growth of bank placements accelerated in 2006. This prompted the CNB, which had primarily affected bank liabilities by raising the cost of foreign funding and thus discouraging its use, to implement a measure focusing on bank assets, i.e. to oblige banks whose credit growth rate in 2007 exceeded 12%, the rate estimated to be sufficient for achieving economic growth, to purchase CNB bills. The trends in the relative indicators of total external debt will in 2007 also strongly depend on the pace of budget deficit reduction.

The favourable developments in the real sector in 2006 were reflected in the indicators suggesting acceleration of real growth: according to the quarterly GDP estimate, economic growth accelerated from 4.3% in 2005 to 4.8% in 2006. The economic upturn was driven both by buoyant investments and a recovery in final consumption, with the latter being influenced by a significant increase in government consumption. The changes in net foreign demand had an opposite effect on these developments.

In 2006, gross fixed capital formation increased annually by 10.9%, adding 3.2 percentage points to overall GDP growth, which was in consequence of an increase in capital investments in the private sector, mainly related to the expansion of construction works.

Personal consumption contributed 2.1 percentage points to overall GDP growth. The annual increase in this category of aggregate demand was enabled by favourable labour market

developments which resulted in an increase in the wage bill. The average real net wage rose by almost 2.0% in 2006 and was outstripped by employment, growing by 3.3% according to final CBS data. Additionally, an upturn in government transfers to households, enhanced by the payment of the first two instalments of debt to pensioners, totalling HRK 2.4bn, had a positive effect on household consumption. The rise in consumer optimism in 2006 was accompanied by a growth of 16.5% in consumer loans.

Final consumption dynamics recovered due to an accelerated growth of government consumption, up at the highest rate in 2006 in the previous four-year period, which was mostly caused by rising expenditures on the use of goods and services in late 2006. Similar as in 2005, compensation of employees, including severance payments in public administration, provided a weaker impetus to overall government consumption growth.

As these developments in domestic aggregate demand affected the dynamics of goods and services imports, net foreign demand gave a mild negative contribution to overall economic growth.

The accelerated economic growth led to favourable developments on the labour market. Registered unemployment stood at 293,153 at end-2006, a decrease of 4.8% compared with end-2005. The average registered unemployment rate dropped from 17.9% in 2005 to 16.6% in 2006, whereas the latest Labour Force Survey data show an unemployment rate of 11.8% in the first half of 2006, in contrast with 13.1% and 12.3% respectively in the first and second half of 2005.

In 2006, total employment rose by an average 3.3% over 2005, at the highest rate since 1998. Real net wages grew by a moderate 1.7% and real gross wages increased annually by 2.7%.

It is important to point out that the strong economic growth was achieved in low inflation environment, which proves that the central bank's legislative goal was achieved again in 2006. By maintaining price stability, the CNB has provided the necessary foundation for continued dynamic economic growth as an inflationary environment distorts relative prices, nullifies the role of the price mechanism as a relevant information source and thus prevents the efficient functioning and intermediation of the financial and labour markets.

Also important in this regard was that consumer prices slowed down by 1.6 percentage points in 2006, from 3.6% in December 2005 to 2.0% in December 2006. The inflation slowdown was primarily brought about by a drop in the growth rate of administrative prices (to the largest extent due to a decrease in domestic refined petroleum products prices) and a price decrease in agricultural products and meat and meat products. Also contributing to the creation of an environment conducive to low inflation was a stable kuna/euro exchange rate, which anchored inflation expectations and had an impact on price trends of imports coming from the eurozone, as well as a strong appreciation of the kuna exchange rate against the US dollar, which offset the impact of the world market price increase in crude oil and other raw materials on domestic price trends. In addition to the exchange rates, inflationary pressures in the domestic economy were also weakened by the already mentioned modest wage growth and sharp competition in domestic retail trade. Core inflation also decreased, down from 3.0% in December 2005 to 2.3% in December 2006. Favourable inflation trends persisted in the first quarter of 2007, with the year-on-year consumer price inflation rate dropping to 1.8% in March 2007.

In line with the CNB's policy of maintaining a stable nominal exchange rate, the exchange rate of the kuna slightly appreciated by 0.4% in 2006. The nominal effective exchange rate of the kuna appreciated by 3.4% against the basket of currencies, primarily due to a strong nominal appreciation of the kuna/US dollar exchange rate. The real effective exchange rate of the kuna, deflated by producer prices, appreciated by 1.9%, signalling that foreign producer prices (primarily those in the eurozone) rose at a faster price than domestic producer prices in the observed period. The real effective exchange rate of the kuna, deflated by consumer prices, appreciated by 3.3%, indicating that domestic consumer price growth fell only slightly behind the growth of foreign prices (in the US, Slovenia, Great Britain).

Appreciation pressures on the kuna/euro exchange rate in the most part of 2006 mainly arose from sustained inflows of capital from abroad. In addition to increased external borrowing, these inflows were also generated by growing direct investments in Croatia, including in 2006, more than in the previous years, bank recapitalisations. In an effort to alleviate these pressures, the central bank purchased a net amount of EUR 995m from banks at foreign exchange auctions in 2006. An additional EUR 208.9m, purchased from Zagrebačka banka, was used in the transactions related to the Pliva d.d. takeover. The exchange rate of the kuna slightly depreciated against the euro in the first four months in 2007 on account of a rising corporate demand for foreign exchange.

In addition to achieving its main goal – price stability, the central bank in 2006 continued to implement measures to alleviate external imbalances of the Croatian economy, contributing to the stabilisation of the external debt to GDP ratio and preventing the widening of the current account deficit. In this connection, the central bank amended existing and introduced new monetary policy instruments in order to further increase the price of external borrowing and thus curb excessive credit growth. The key monetary policy instruments used by the CNB in 2006 included the reserve requirements, marginal reserve requirements and minimum foreign exchange liquidity requirements. Also in 2006, amendments were made to a set of prudential regulations, the main reason being the need to monitor currency induced credit risk and harmonise it with relevant international standards.

In early 2006, in an aim to provide banks with sufficient funds to ensure a moderate growth of their placements without recourse to external borrowing, the central bank reduced the reserve requirement rate from 18% to 17%. The amended CNB Decision on the marginal reserve requirement took effect in the same period, increasing the marginal reserve requirement rate for the third time since its introduction, this time from 40% to 55%, and broadening its calculation base. The 55% rate was set based on an assessment that it would make it unprofitable for banks to borrow abroad, while a lower rate would reduce their profits only to some extent. February saw the introduction of a special reserve requirement, to be allocated at a rate of 55% against bank liabilities arising from issued securities, which was aimed at preventing residents from indirectly borrowing abroad by selling the securities to non-residents in the secondary market.

Confronted with CNB's measures while aiming to further accelerate their placement growth and retain or expand their market shares, banks took additional action to ensure financing for their placements. First they strengthened the marketing campaign for attracting more domestic savings and then started to restructure their liabilities. Specifically, banks released additional funds by replacing a considerable portion of their foreign currency liabilities with foreign currency indexed kuna liabilities, which required no coverage by foreign currency claims. This prompted the central bank to amend the Decision on the minimum required amount of foreign currency claims in September 2006, providing for the inclusion of foreign currency indexed kuna liabilities into total foreign currency liabilities.

In 2006, amendments were made to a number of prudential regulations, which contributed to improving financial stability of the banking sector in the context of excessive credit growth, as was primarily proved by large bank recapitalisations in 2006. First and most importantly, currency induced credit risk was integrated into prudential regulations. Pursuant to the provisions of the Decision on the classification of placements and contingent liabilities of banks, banks are obliged to monitor, analyse and assess the adjustment of debtors' foreign exchange positions and adaptability of their cash flows to any variability in their liability levels which might occur as a result of exchange rate changes. Second, under the amendments to the Decision on the classification of placements and contingent liabilities of banks, the configuration of the available-for-sale portfolio was changed, as all debt securities available for sale become subject to risk assessment and classification into risk categories. The amendments also provided for making collective provisions for identified losses and changed the conditions of forming provisions for general bank risks. Third, amendments were also made to the provisions of the Decision on the capital adequacy of banks related to the calculation of credit risk weighted assets, introducing risk weights on foreign currency or foreign currency indexed claims of debtors with unadjusted foreign exchange positions. Additionally, the CNB, aiming to further develop risk-focused supervision, released a set of guidelines for banks with general principles and recommendations

on risk assessment procedures and actions to be taken in order to reduce and maintain risks at acceptable levels.

Despite the tightening of CNB measures aimed at stabilising relative external debt indicators, large amounts of bank recapitalisations and retained earnings, coupled with a sharper increase in domestic sources of funds, were sufficient for banks to continue with strong lending. Bank placements rose annually from 17.2% (20.1% excluding the exchange rate effect) at end-2005 to 22.9% (24.7% excluding the exchange rate effect) at end-2006. These developments were influenced by banks' considerable new lending to households, but also by a rise in corporate lending. It should be pointed out that the annual growth rate of corporate lending reached 24% in 2006, exceeding the annual growth rate of household lending (21.8%) for the first time in ten years. However, despite the accelerated corporate lending growth, a larger share of the overall loan increase in absolute terms was still accounted for by household loans (HRK 17.1bn of the total of HRK 33.8bn), especially housing loans, whose annual growth rate stood at 34.0%.

In an effort to slow down the placement growth and improve the effect of existing measures, the central bank in December 2006 enacted the Decision on the purchase of compulsory CNB bills. This Decision obliges banks whose placement growth exceeds 12% to purchase CNB bills at a rate of 50%. It was anticipated that banks would try to alleviate the impact of this measure by directing some of their clients to direct foreign borrowing within the same banking group. As enterprises can directly borrow abroad more easily than households, this measure was expected to have the largest effect on personal consumption, rather than on investments. However, the growth of corporate loans in bank portfolios will probably slow down more considerably than that of household loans.

In response to central bank measures which in 2006 further increased the cost of external financing sources, banks actively campaigned to attract domestic savings. This resulted in an accelerated growth of almost all monetary and credit aggregates.

Reserve money (M0) grew by HRK 5.9bn or 14.7% in 2006. The somewhat slower growth of M0 relative to 2005 was in consequence of the structural changes in monetary policy instruments made in the last two years, above all the reduction of the reserve requirement rate from 18% to 17% in January 2006. M0 growth in 2006 was spurred by an autonomous increase in kuna reserve requirements and a seasonal growth in demand for currency in the main tourist season and during Christmas holidays. In the last quarter of 2006, M0 growth was also driven by the large amounts of kuna liquidity created by the central bank to ensure the smooth sale of Pliva d.d. and alleviate appreciation pressures arising during the privatisation of a part of Ina.

Except by foreign exchange interventions and transactions, reserve money was created and withdrawn through open market operations, primarily regular weekly reverse repo auctions. Due to intensified creation of reserve money by foreign exchange interventions, the average amount of weekly repo placements was at HRK 1.2bn more than half lower compared with the previous year.

The money supply (M1) grew at an annual rate of 25.0% in 2006, more than twice as fast as in 2005, with currency rising by 20.1% and demand deposits by 27.2%. The broadest monetary aggregate, total liquid assets (M4), increased by 18.0% in 2006, accelerating sharply from 10.5% annually in 2005. The sharp increase in M4 was primarily made up by kuna deposits, whose rate of increase almost tripled from 24.5% in 2005 to 60.2% in 2006. Kuna deposits rose at an especially rapid pace in the first nine months of 2006, due to a strong growth of kuna time deposits indexed to foreign currency. In contrast to kuna deposits, foreign currency deposits increased at an annual rate of 1.7% in 2006, which was 4.4 percentage points lower than in 2005.

Kuna liquidity remained strong throughout 2006 despite several new kuna government and corporate bond issues and the Ina IPO, among other things due to a good timing of central bank foreign exchange interventions. This was also the reason why average money market interest rates were considerably lower in 2006 than in the previous two years. However, from the

point of view of financial stability even more important was a drop in their daily fluctuations, primarily brought about by an enhanced method of calculation, allocation and maintenance of banks' reserve requirements, implemented by the central bank in late 2005.

Almost all interest rates on household loans continued to decline in 2006, whereas interest rates on corporate loans mostly rose. Interest rates on foreign currency time deposits increased more in 2006 than in the previous years, while the decrease in kuna time deposits rates was coupled by a drop in their volatility, as these rates mostly follow money market interest rate trends.

Early 2007 saw a continuously stable monetary environment, ample kuna liquidity and no significant pressures on the domestic currency. In the absence of central bank foreign exchange interventions reserve money was in the first four months of 2006 created through regular weekly reverse repo auctions. Liquidity was good in January 2007, while a rising demand for the kuna in the following months was met by larger amounts of liquidity created at reverse repo auctions.

As a result of the central bank's decision limiting the growth of placements and a seasonal drop in demand, placements rose at a slower rate in early 2007 as compared with 2006. Following the amendments made to the Decision on the purchase of compulsory CNB bills, bank lending revived in March, driven mainly by an upsurge in corporate lending and especially in shipyard restructuring loans.

Strong bank lending continued to drive up domestic demand in 2006 which resulted, in turn, in an increase in imports and current account deficit, up from 6.3% of GDP in 2005 to 7.6% of GDP in 2006. The deficit increase was principally due to the foreign trade balance, which worsened despite exports rising at a higher annual rate than imports. Furthermore, the factor income account balance also deteriorated, primarily because of rising expenditures for direct equity investments (dividends and reinvested earnings paid-out to foreign owners of enterprises operating in Croatia). In addition, the positive balance in the current transfers account fell in the same period, while the only improvement was recorded in international services trade. The increase in net revenues in the services account was for the most part due to tourism revenues, despite their annual slowdown relative to the previous year.

Croatia's goods exports growth rate was twice higher in 2006 than in 2005, standing at 17.3% and 9.6% respectively, expressed at the constant exchange rate. This was primarily a result of an increase in the exports of ships, natural and manufactured gas, oil and refined petroleum products and, to a smaller degree, of manufactures of metals (n.e.c.) and electrical machinery, apparatus and appliances, while the exports of clothes, accessories and related parts of motor vehicles and tobacco and tobacco manufactures dropped from 2005.

Goods imports accelerated from 12.7% in 2005 to 15.5% in 2006, primarily due to a rise in the imports of oil and refined petroleum products. Car imports, having slumped in 2004 and drifted up annually in 2005, sharply rebounded. The imports of iron and steel, manufactures of metals (n.e.c.) and non-ferrous metals rose considerably, with some of the increase in the value of imported iron and steel, and especially of non-ferrous metals, resulting from their price growth in the world market. Despite some positive trends, as was, for example, the increase in capital goods imports from 9.1% in 2005 to 11.5% in 2006, which should eventually provide for continued dynamic economic growth, the volume and growth of total goods imports and, consequently, trends in the foreign trade deficit, are unsustainable in the long term.

Having increased sharply in 2006, total goods exports and imports slowed on an annual basis in early 2007. Expressed at the constant exchange rate, exports rose by 4.5% in the first three months of 2007, which is a several times lower rate than in the same period in 2006 (28.7%), while imports were up 10.6% over 25.9% in the first quarter of 2006. With the growth of goods imports exceeding that of goods exports, the foreign trade deficit widened further.

External debt stood at EUR 29bn at end-2006, increasing annually by EUR 3.5bn or 13.7%. The increase in the growth of external debt in 2006 could be mostly attributed to an accelerated increase in corporate debt and direct investments in enterprises, which are, it should be

emphasised, outside the scope of influence of monetary policy. On the other hand, CNB's monetary policy measures implemented in 2006 slowed down external borrowing of banks, with the result that the increase in their debt, inclusive of hybrid and subordinated instruments, slightly dropped. Due to the government's reliance on domestic financing, external debt of the government sector declined further. However, these trends are to reduce total external debt to a major degree only on the condition that the budget deficit continues to decrease.

The relative indicators of external debt worsened: the external debt to GDP ratio increased by 3.1 percentage points to 84.8% at end-2006. This ratio still puts Croatia among highly indebted countries and exposes it to potential risks arising from an uncontrolled growth of external debt. The ratio of external debt to goods and services exports also increased, from 167.3% to 171.1%. The ratio of principal and interest payments to exports of goods and services also considerably worsened, increasing from 24.1% in 2005 to 34.1% in 2006, mostly on account of large bank payments. The relative indicators of net external debt also deteriorated, although less markedly. The net external debt to GDP ratio was 39.2% and the ratio of net external debt to exports of goods and services was 79.0% at end-2006, a respective increase of 1.7 and 2.3 percentage points compared with end-2005. The increase in net external debt was lower than the increase in gross external debt, mainly due to a strong growth in foreign assets, above all international reserves.

In addition to an increase in net inflows to the account of other investment, the balance in the capital and financial account in 2006 was also affected by an excessive growth in net foreign direct investments, whose amount completely "covered" the current account deficit. A large portion of direct investments in Croatia related to recapitalisations of some foreign-owned banks, carried out as a measure to avoid the costs of marginal reserve requirements on external borrowing, and to the takeover of Pliva d.d. Accompanying the increase in equity investments was the growth in other liabilities of domestic enterprises to affiliated foreign enterprises and reinvested earnings.

The rise in capital inflows from abroad led to a further increase in international reserves. According to the balance of payments data, these reserves went up EUR 1.4bn, and according to the monetary statistics data, reached EUR 8.7bn at end-2006, rising at an exceptionally high rate of 17.3%. The rise was predominantly driven by central bank interventions and to some extent by an increase in the allocated foreign currency reserve requirement of banks, including marginal reserve requirement.

The fiscal adjustment started as early as in 2004 continued in 2006, resulting in a faster growth of consolidated general government revenues than expenditures in 2006, while government investments remained at the previous year's level. The general government deficit, on a modified accrual basis, was at 3% of GDP in 2006 lower by 1.1 percentage points than in 2005.

Consolidated general government revenues stood at HRK 112.3bn in 2006, exceeding the revenues projected under the revised budget for 2006 by HRK 1bn. As in the previous years, VAT was the main source of revenues, accounting for 31.1% of the total, while the second largest share was made up by revenues from social security contributions (30.2%). Expenditures reached HRK 107.7bn in the same period, exceeding the revised budget projection by HRK 0.1bn. Expenditures on social benefits continued to prevail, with a share of 41.6%, and were followed by expenditures on compensation of employees whose share was 26.2%.

A major event in 2006 was the payment of the first instalment of debt to pensioners pursuant to the Constitutional Court decision to annul Government decrees lowering the pension increase in the period from the end of 1993 to the end of 1998. HRK 2.4bn was in 2006 paid to pensioners who opted for the so-called accelerated debt repayment at a 50% discount. The payment was financed by the sale of Pliva d.d. shares.

It should be noted that the stand-by arrangement concluded with the IMF at mid-August 2004 was successfully completed at mid-November 2006. The most progress under the arrangement was made in the area of public finances, while the privatisation of government-owned enterprises and shipyard restructuring plans were behind schedule.

In the last quarter of 2006 there were several other significant events in government finance area, especially important being the sale of Pliva d.d. (including the government shareholding of 16.8%) to Barr Laboratories Europe B.V., a European branch of the American pharmaceutical company Barr Pharmaceuticals Inc., sale of the government shareholding of 17% in Ina and making amendments to the Act on the Financing of Local and Regional Self-Government Units, providing that profit tax should be allocated exclusively to the budgetary central government and income tax distributed among government, municipal, city and county budgets.

The privatisation of enterprises in the government portfolio considerably revived the domestic capital market in 2006, primarily the further privatisation of Ina through an IPO, which attracted considerable interest among Croatian citizens, most of whom were first-time participants in capital market transactions. Given the positive signal sent by the successful initial public offering and strong domestic and foreign demand, other Croatian enterprises would do well to consider raising development capital in a similar way. This would contribute to price stability on the equity securities market, since the growth rate of the main stock exchange index in 2006 is unsustainable in the long term, as is confirmed by the estimates suggesting that the price to earnings ratio of the shares included in this index almost doubled in 2006. Such growth of domestic share prices resulted primarily from an increased liquidity of institutional investors, coupled by an insufficient quantity of new quality share issues, rather than from improved business performance of enterprises whose shares are freely traded on the domestic capital market.



01 Macroeconomic
Developments

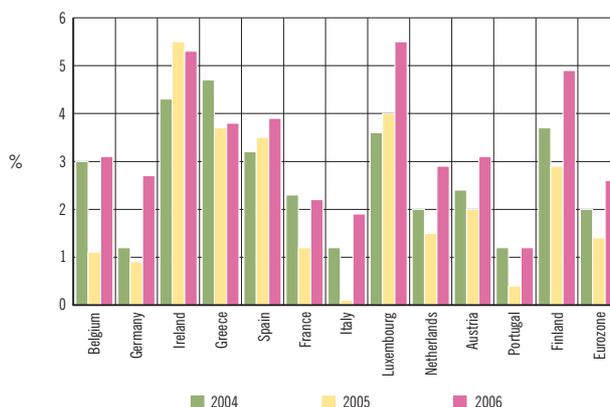
1.1 International Environment

The stable and relatively fast growth of the world economy continued into 2006: the real growth of the world's gross domestic product accelerated from 4.8% in 2005 to 5.3% in 2006. Unlike the preceding year, the main accelerators of growth of the world economy were developed countries, mainly countries of the eurozone and developed Asian economies. Though slower compared with developed countries, economic growth of developing countries, which continues to be much faster than that in developed economies, also accelerated in 2006. Many of the developing countries are oil exporters whose growth has benefited from further increase in the prices of energy products in the world market, despite the fact that it was less pronounced than in 2005. Oil prices grew fast throughout most of 2006, raising exporting countries' income, however, in the last quarter of the year, their annual growth slowed down visibly, making a positive contribution to economic growth of developed countries, large oil consumers. Slower growth of oil prices, as well as some other raw materials such as iron and steel, was the main factor which contributed to keeping a reasonably low level of inflation globally. However, due to price pressures, the central banks of many countries continued to pursue restrictive monetary policy.

1.1.1 European Union and the Eurozone

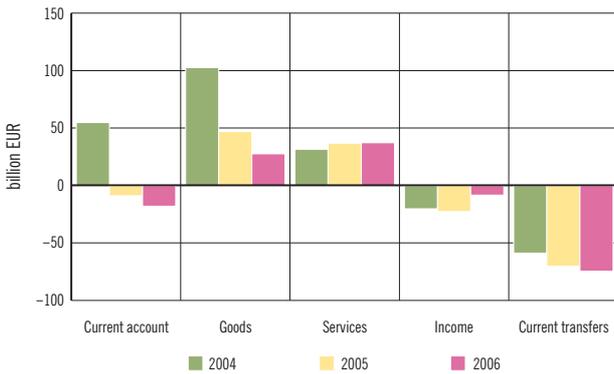
A considerable contribution to faster economic growth of the eurozone countries in 2006 (real GDP growth was up from 1.4% in 2005 to 2.6% in 2006) was provided by improved economic dynamics in Germany. Economic growth also picked up considerably in Belgium, Finland, and following stagnation in 2005, in Italy as well. In addition to a large increase in net exports of goods and services, somewhat stronger domestic demand with heightened investment activity also contributed to accelerated growth of GDP in the eurozone. In accordance with positive economic trends in the eurozone, the unemployment rate fell to 7.8%, its lowest rate since 2001. It fell the most in Germany, the Netherlands and Finland. Such positive developments notwithstanding, unemployment in the eurozone remains relatively high compared with the other two strongest world economies, Japan and the USA, whose unemployment rates do not exceed 5%.

1.1 Real GDP Growth in Eurozone Countries



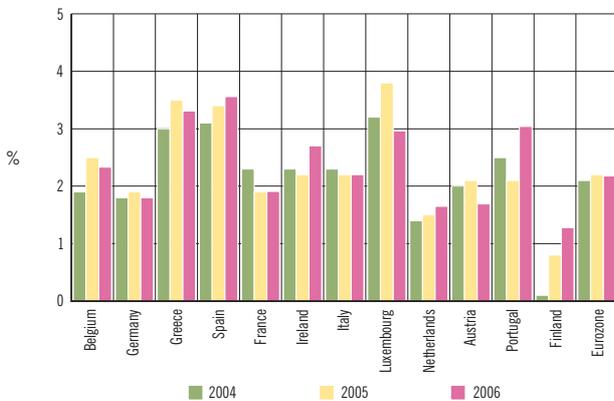
Source: Eurostat.

1.2 Current Account Balance in the Eurozone



Source: Eurostat.

1.3 HICP Rates of Change in Eurozone Countries



Source: Eurostat.

Despite relatively strong growth of goods exports in the countries of the eurozone in 2006, eurozone's current account deficit worsened compared with that in 2005, largely due to increased prices of energy products and other raw materials in the world markets. Observed together, the countries of the eurozone had boasted a current account surplus for several consecutive years until 2005 when their current account deteriorated in the wake of a very sharp increase in oil prices. With a steady increase in oil prices continuing into most of 2006, the deficit widened too, reaching EUR 18bn or 0.2% of GDP on an annual level. The fall in the goods trade surplus caused a widening of the deficit in the current transfers account, with only partial mitigation coming from positive developments in international services trade and factor income account.

As regards inflationary pressures, the European Central Bank proved relatively successful in 2006 in keeping inflation low and stable though its level exceeded its mid-term target value of 2%. Annual inflation, as measured by harmonised index of consumer prices, accelerated slightly in the first half of 2006, reaching its maximum level of 2.5%, but started trending downwards again in the second half of the year. Overall, in 2006 consumer price inflation remained unchanged compared with the previous year and stood at 2.2%. The largest contribution to inflation was provided by increased prices of housing, water, energy and transport with prices of telecommunication services alleviating general price level growth. Due to steady pressure of energy prices on other prices, the European Central Bank further tightened its monetary policy in 2006. It raised its Minimum Bid Refinance Rate on five occasions by a total of 1.25 percentage points; from 2.25% in December 2005 to 3.50% in December 2006.

Heightened economic activity in the eurozone led to increased tax revenues and improved fiscal positions of many countries in the eurozone. Nevertheless, several countries steadily ran general government deficit in excess of 3% of GDP, while few of them were close to reaching this threshold. Thus, the main fiscal policy challenge in most countries remains to be increased pressure on expenditures associated with the costs of aging population and ever increasing budget expenditures for pension and health insurance.

1.4 Real GDP Growth, Unemployment and Inflation Rates in Selected EU Countries in 2006



Source: Eurostat.

Real economic growth of most EU Member States from the penultimate wave of enlargement also accelerated (the 10 countries' average growth rate in 2006 was 6.2%, while in 2005 it was 5.8%). Solid growth was spurred by strong domestic demand and increased goods exports, triggered by past period foreign direct investment. The Baltic countries continued to generate the highest growth rates, with particular acceleration being witnessed in Poland too. By contrast, the other two largest economies in the observed group of countries, the Czech and the Hungarian, grew somewhat slower than in 2005. Positive trends continued on labour markets of most of these countries, with average unemployment rate falling from 9.3% in 2005 to 7.9% in 2006. Unemployment remains to be the highest in Poland (14.0%),

although it declined visibly with accelerated economic growth compared with the year 2005, and Slovakia (13.3%).

Accelerated economic growth caused inflation in most of the observed countries, and that mainly due to increased prices of energy products, and prices of some goods and services. Inflation was the highest in the Baltic countries, with somewhat more pronounced growth of consumer prices, following decline in 2005, also being seen in Slovakia. The combined average rate of inflation in all the observed countries was up from 3.0% in 2005 to 3.4% in 2006.

1.1.2 United States of America

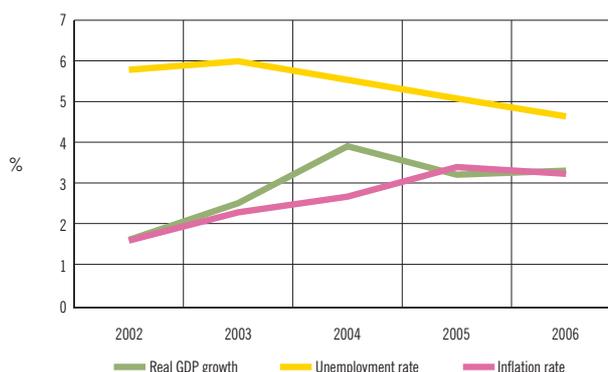
The slight strengthening of the American economy in 2006 (real growth was up from 3.2% in 2005 to 3.3% in 2006) was mainly the result of changes in inventories and good performance in goods and services exports. US goods exports thus, for the second year in a row grew faster than imports, mainly due to increased exports of capital and intermediate goods. Consumption and public sector investment increased additionally in 2006, in contrast with the growth of private investment and personal consumption which slowed down considerably compared with the year before. Poorer investment activity of the private sector was particularly evident in housing construction, but was partly offset by increased investment in commercial and production capacities. The slight strengthening of economic growth caused the unemployment rate to fall to 4.6%, its lowest rate since 2001.

Stable economic growth was accompanied by a slight inflation fall (from 3.4% in 2005 to 3.1% in 2006) which was partly due to smaller inflationary pressures associated with oil prices. The American Federal Reserve continued to pursue a restrictive monetary policy, raising on four occasions its US Federal Funds Target Rate by a total of one percentage point (from 4.25% in December 2005 to 5.25% in December 2006) thus successfully curbing inflationary pressures.

US current account deficit continued to widen in 2006, reaching USD 856bn (6.5% of GDP). The worsening of current account imbalance of the US economy is caused mainly by high growth of goods imports, most notably oil and petroleum products and capital goods, with contribution to deficit growth also being provided by ever increasing expenditures associated with income from foreign direct and other investment. Extremely large current account deficit of the world's largest economy is one of the key issues of the world economy as American deficit absorbs a large share of the world's savings, and its each widening puts pressure on interest rates to increase and thus, by aggravating financing terms, potentially threatens global economic growth.

US budget deficit in the fiscal year 2006, ending at end-September, was 1.9% of GDP, narrowing by 0.7 percentage points compared with the previous year. This narrowing was due to hefty tax revenues, particularly corporate tax. Despite the narrowing, fiscal deficit remains to be the focal point of American economic policy, particularly in the context of the accompanying current account imbalance (the issue of the so called twin deficit) where its financing might worsen the conditions for private sector borrowing.

1.5 Real GDP Growth and Inflation and Unemployment Rates



Sources: Bureau of Economic Analysis and IMF.

1.6 Current Account Balance in the USA

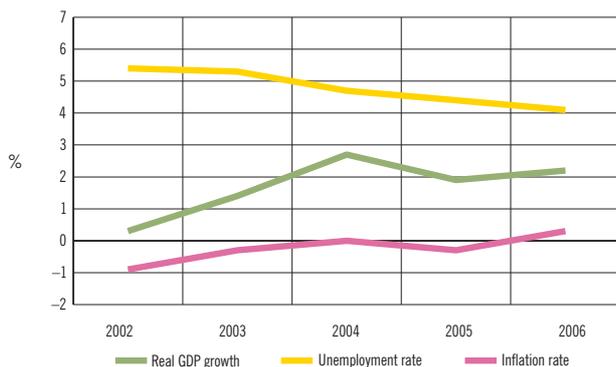


Sources: Bureau of Economic Analysis and IMF.

1.1.3 Japan

Japanese economy continued to grow moderately in 2006, though somewhat faster than in the previous year (up to 2.2% from 1.9%). The acceleration was more evident in the last quarter of 2006 with growing capital investment, most notably into new production capacities. Goods exports provided a positive contribution to growth throughout the year, and so did the growth of personal consumption. Rising production was accompanied by positive trends in the labour market present since 2003. The unemployment rate fell to 4.1% in 2006. As regards the country's external position, improved export results were, with ever growing income in the factor income account, the main factor which contributed to further growth of the current account surplus which reached almost EUR 140bn in 2006 (3.9% of GDP).

1.7 Real GDP Growth, Inflation and Unemployment Rates in Japan



Source: Statistics Bureau of Japan.

Following a long period of deflation, in 2006 Japan witnessed slight but positive changes in consumer price indices with annual inflation standing at 0.3%. Consumer price pressures came mainly from increased prices of energy products and associated transport services prices. Pending further economic growth and new price pressures, in July 2006 the Japanese central bank, for the first time after almost six years, raised its reference interest rate from zero level to 0.25%. Prompted by similar expectations in early 2007, it raised this interest rate by further one quarter of a percentage point.

1.1.4 Developing Countries

As in the previous years, China's economy again grew the fastest of all developing countries in 2006. Its real GDP growth was 10.7%, which is an increase of 0.3 percentage points compared with 2005. In addition to strong domestic demand, Chinese economy received a big boost from goods exports, despite their slight slowdown compared with 2005. Accordingly, the growth of goods imports also declined slightly, most notably that of intermediate and capital goods, affecting negatively countries largely dependent on exports to China. Slowdown in goods exports notwithstanding, Chinese surplus in goods trade with the rest of the world continued to grow, reaching a high USD 178bn (6.8% GDP).

Large international trade surplus and large inflow of capital from foreign direct investment boosted the strengthening of the Chinese currency. Thus the yuan, after the Chinese central bank decided in mid-2005 to permit its fluctuation within certain limits, strengthened against the American dollar by 2.7% in 2007, only slightly affecting price competitiveness of China's exports in the world markets. Strong appreciation pressures prompted a series of several central bank interventions, with international reserves continuing their rapid growth, exceeding USD 1,000bn at the end of 2006. In addition, the appreciation of the domestic currency lessened inflationary pressures from abroad with the result that inflation in China, despite fast economic activity and high prices of energy products and other raw materials in the world markets, held steady at a relatively low level of 1.5%, which is a fall of 0.3 percentage points compared with the previous year.

As regards developing countries, in addition to China, India also boasts extremely high economic growth. Boosted by personal consumption and investment, Indian economy grew by 9.2% in real terms in 2006, a growth rate similar to that this country achieved in 2005. Large domestic demand, accompanied by strong credit activity of banks caused inflationary pressures with the growth of consumer prices accelerating from 4.2% in 2005 to 6.1% in 2006. In such circumstances, the central bank resorted to restrictive monetary policy measures to slow down further price growth. In terms of the country's external position, India, unlike most Asian developing countries, recorded negative current account balance, which mainly due to rising

imports and high prices of energy products in the world market, rose from 0.9% of GDP in 2005 to 2.2% of GDP in 2006.

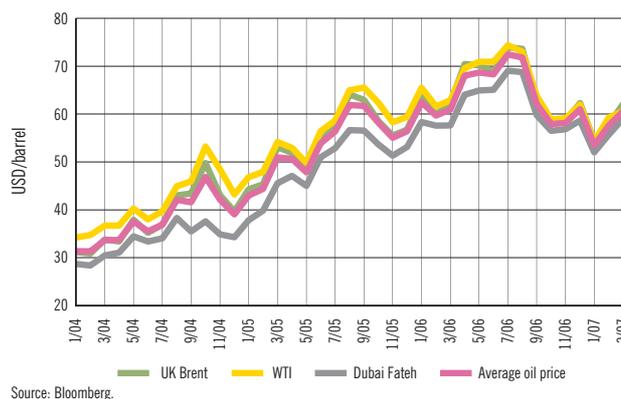
The economy of the Russian Federation continued its relatively fast growth: from 6.4% in 2005, real GDP growth was up to 6.8% in 2006, fuelled by strong personal consumption, private sector investment and public sector spending. Increased government spending was based on government budget surplus resulting from high corporate tax revenues from activities such as oil production and production of other energy products. At the same time, public spending control remains crucial for curbing inflation which is still relatively high (almost 10%), despite efforts to reduce it. Russian Federation has witnessed an ever increasing positive balance in its international goods and services trade owing to high income from oil, gas and other energy products exports, which account for almost two thirds of total Russian exports.

Most of the economies of Latin America have also been growing dynamically. Of the larger economies, the Argentine economy has been growing the fastest, though unemployment and inflation remain relatively high in that country. By contrast, the region's other two largest economies, those of Brazil and Mexico, have been growing solidly and have seen relative price stability. These countries' GDP growth and their improved balance of payments positions were fuelled to a large extent by price growth of primary agricultural products and industrial raw materials in the world market, which account for a large share of their production and exports.

1.1.5 Crude Oil Price Movements

The global growth of crude oil prices marked a major share of 2006. The average price of crude oil per barrel rose by 20.5% in 2006; from USD 53.4 in 2005 to USD 64.3 in 2006. This growth, however, was twice slower than that in 2005, when the average price of crude oil per barrel rose by 41.7%. Crude oil prices grew the fastest in the first eight months of the year, exceeding on individual days USD 78 per barrel. The main factors leading to global crude oil price growth in 2006, as in the several past years, lay in the growing world economy which boosts demand for crude oil and geopolitical tensions, which inhibit oil supply.

1.8 Crude Oil Price in the World Market



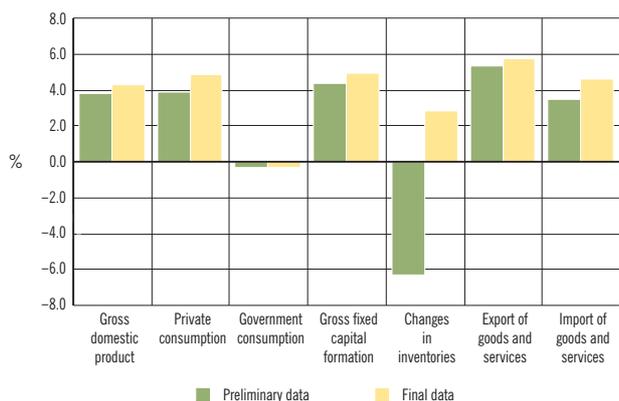
1.2 Economic Activity

GDP Data Revision

Final gross domestic product data for 2004 were published in March 2007. As a result of the reconciliation of annual and quarterly GDP calculations, nominal GDP for 2004 was revised upwards by HRK 2.2bn. According to the final CBS data, GDP at current prices totalled HRK 215.0bn in this period.

As a result of the final calculation for 2004, real GDP growth rate was revised from 3.8% to 4.3%. This shows that the economic slowdown recorded in this period (compared with the GDP growth in 2003) was milder than suggested by preliminary data. Broken down by aggregate demand components, the largest revisions were made to the real rates of change in personal consumption and goods and services imports. Thus, personal consumption growth was revised upwards by almost one percentage point, from 3.9% to 4.8%, while total imports rose by 4.6%

1.9 Real Rates of Change of Aggregate Demand Components in 2004



Source: CBS.

in real terms relative to 2003 (and not by 3.5%, as suggested by preliminary data). Government consumption in real terms remained unchanged, compared with the quarterly GDP estimate (-0.3%). The contributions of other aggregate demand categories to real GDP growth were adjusted upwards by 0.2 percentage points. The growth rate of gross fixed capital formation was revised upwards by 0.6 percentage points (from 4.4% to 5.0%) and the growth of goods and services exports by only 0.3 percentage points (according to the final data, they grew at a rate of 5.7% in 2004). The change in inventories was the only category in which the final and preliminary data had opposite signs,¹ and its growth was revised from -6.3% to 2.8%. It should be noted, however, that this aggregate demand category accounts for less than 3.0% of GDP and includes the statistical discrepancy.² Therefore, the stated revision partly reflects the effects of already mentioned revisions to other GDP categories.

already mentioned revisions to other GDP categories.

A slightly more substantial, but less uniform revision was made to implicit deflators for certain GDP components. According to the final data, implicit deflators for government consumption and total exports were revised upwards, while implicit deflators of all other GDP components were revised downwards. The differential between import and export prices was revised upwards by almost 1.5 percentage points, which, together with the revision of the government consumption deflator from 3.8% to 5.2%, resulted in an adjustment of the rate of change in the general price level, measured by implicit GDP deflator, from 3.3% to 3.9%, the same inflation rate as in 2003.

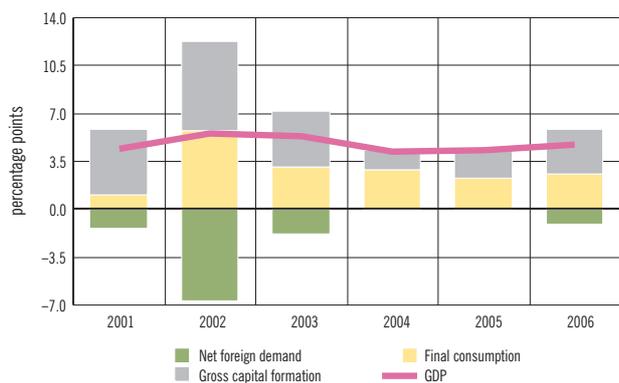
1.2.1 Demand

According to the quarterly GDP estimate,³ economic growth, fuelled by strengthening domestic and foreign demand, accelerated from 4.3% in 2005 to 4.8% in 2006.⁴ Such developments were mainly driven by stronger investment activity, which accounted for more than two thirds of total GDP growth achieved during 2006. The real GDP growth was also stimulated by a recovery of final consumption dynamics, paralleled with a sharp acceleration in government consumption.

The changes in net foreign demand produced opposite effects. A pick-up in foreign trade in 2006 was paralleled with somewhat stronger growth in goods and services imports relative to their exports. Given only a small gap between exports and imports growth, external imbalance did not widen significantly, and the total nominal imports/exports coverage rate was about 85.0% in this period.

In 2006, the economy grew in an environment of low inflation. The annual rate of change in implicit GDP deflator was 3.4%, suggesting an only slight rise in overall price level relative to 2005. In the observed period, GDP

1.10 Contributions of Domestic and Foreign Demand to GDP Growth



Source: CBS.

1 Moreover, as a result of the revision of total imports and exports data, based on the annual calculation, the contribution of net foreign demand to real GDP growth in 2004 was mildly negative.
 2 The statistical discrepancy arises from measurement differences between aggregate demand and output, i.e. the differences caused by the use of different GDP estimation methods.
 3 The Central Bureau of Statistics data on GDP for 2005 and 2006 are preliminary and are based on quarterly GDP estimates, without being reconciled with annual GDP calculations.
 4 In the period from 1998 to 2006, economic activity grew at an average rate of 3.7%, compared with its average growth rate of 4.5% in the period from 2000 to 2006.

at current prices was estimated at approximately HRK 251.0bn, up HRK 19.2bn or 8.3% on 2005.

Personal consumption grew at a rate of 3.5% in 2006, slightly faster than in the previous year. However, given the size of this aggregate demand component, it was a strong generator of overall economic growth and its contribution to GDP formation maintained its high level of 2.1 percentage points, the same as in 2005. Broken down by quarter, personal consumption grew continuously at the rates of 4.0%, 2.1% 3.9% and 4.1% in the first, second, third and fourth quarters of 2006 respectively. However, the annual slowdown in its growth, recorded in the second quarter of 2006, was entirely due to the base period effects. The personal consumption dynamics in 2006 were in line with the movements of the main sources of its financing. Favourable labour market trends accelerated the wage bill growth. The average real net wage rose by almost 2.0% in 2006, with employment growing at an even higher rate (3.3%), according to the final CBS data. The CPIA data on the number of insured persons also point to a noticeable strengthening of employment in 2006, which is likely to be confirmed by the Labour Force Survey Results expected in May 2007. Moreover, accelerated growth of government transfers to households,⁵ together with the payment of the first two instalments of the debt to pensioners, amounting to HRK 2.4bn stimulated the growth of household consumption during 2006.⁶ The upward trend in consumer optimism, observed during 2006, was in line with strong demand for consumer credits, growing at a nominal rate of 16.5% (according to the average credit balance in the period). Simultaneously, housing loans (i.e. financing of investments in the housing stock) grew twice as fast as other credits used for personal consumption financing.

Fiscal consolidation initiated in 2004, was followed by continuous growth of government consumption. After its modest growth of 0.8% 2005, the real dynamics of this minor category of final consumption accelerated by 1.3 percentage points in 2006, reaching a four-year high. This was mainly on account of expenditures for goods and services at end-2006, probably connected with the utilisation of pre-accession funds. Like in the previous year, compensation of public administration employees, including severance payments, made a smaller contribution to total government consumption growth in 2006. As suggested by the original MoF data on the consolidated general government expenditure, the accelerated growth of implicit deflator for government consumption in 2006 was mainly due to fiscal developments over the first half of the year, resulting from the dynamics of expenditures for both wages and intermediate consumption financing. For the entire 2006, implicit deflator for government consumption grew at an above-average rate of 4.3%, supporting the growth of implicit GDP deflator, which exceeded the percentage change in consumer prices.

Gross fixed capital formation was the strongest economic growth generator in 2006, rising at a rate of 10.9%. Its contribution to total GDP formation was 3.2 percentage points. This represents the strongest investment dynamics since 2003, when investment grew at an exceptionally high rate (of almost 25.0%), owing to the peak of the investment cycle in road construction. Over 2004 and 2005, investment activity slowed down considerably, but this trend was reversed in 2006, exclusively due to a sharp rise in capital investment in the private sector. These movements can be partly accounted for by the expansion of works on buildings during the period. Similar trends in gross fixed capital formation and gross value added in construction underline the importance of investment in construction projects, which accounts for the largest share of total investment in capital assets.

On account of last year's strengthening of domestic demand, particularly investment consumption, goods imports grew at a much faster pace compared with 2005. According to the CBS data on goods trade, the accelerated growth of industrial product imports was mainly attributable to a sharp rise in demand for capital and intermediate goods, accounting for almost two thirds of goods imports. Owing to a recovery of goods exports, which outpaced the growth

5 The semi-annual pension indexing carried out, pursuant to the new Act on Amendments to the Pension Insurance Act (OG 92/2005), on the basis of the average semi-annual rate of change in the consumer price index and in the average real gross wage, was slightly more generous in 2006 compared with that in 2005.

6 The CBS Household Consumption Survey to be published in July 2007 (complete data are expected to be published in January 2008), will provide more information on the sources and spending of household income in 2006.

of goods imports, the goods trade imbalance fell in the observed period. However, while the levels of goods and services exports were almost equal, imported goods predominated over imported services. Such trade structure resulted in a slightly slower nominal growth of total exports compared with the imports during 2006, even though the exports of services exceeded their imports.

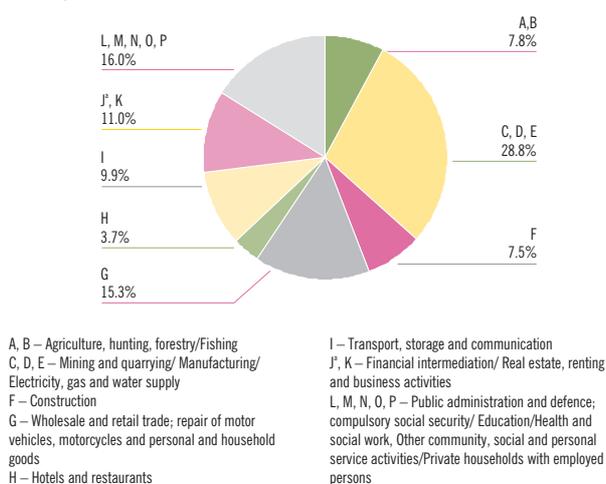
The 2006 developments in international trade are also reflected in goods and services imports and exports at constant prices. According to the quarterly GDP calculation, the real growth of goods and services exports went up 6.9% in 2006, compared with 2005, when they rose at a rate of 4.6%. As a result, the contribution of the foreign component of aggregate demand to total GDP formation increased by over one percentage point. Stimulated by these domestic market trends, the real growth of goods and services imports (7.3%) outpaced the growth of their exports, resulting in a negative contribution of net foreign demand to total GDP of 1.1 percentage points.

Over 2006, a slowdown in real terms was only recorded in the change in inventories, which, unlike in the previous years, made the least contribution to real GDP growth. Owing to the statistical discrepancy involved in this category, it is difficult to assess its real trend. However, the other available indicators of the change in inventories in the economy (inventories of finished industrial products and inventories in wholesale and retail trade)⁷ generally corroborate the trends observed in GDP calculation. The growth in the change in inventories is also an indication of increased business optimism and of the current production and investment needs. Therefore, the sharp slowdown in the change in inventories over the period might still be a sign of a relative balance between total demand and supply.

1.2.2 Output

As shown by quarterly GDP estimate according to production method, gross value added rose by 4.8% in 2006 relative to 2005, when it grew at a somewhat lower rate, 4.1%. The largest contributions to GVA growth in 2006 came from the services and production sectors (2.6 and 2.2 percentage points respectively), particularly industry, financial intermediation, transport and communications and construction. Turning to the changes in aggregate output, the structure of the sources of economic growth was similar to that in 2005, although GVA in production activities, notably construction, grew faster than in the services sector in 2006.

1.11 Gross Value Added by NCEA Categories in 2006
current prices



⁷ FISIM excluded.
Source: CBS.

According to original MoF data and the CBS's GDP calculation at current prices, favourable trends in the real sector over 2006, were paralleled with faster growth in net indirect taxes compared with the previous year. Such developments can be accounted for by the anticipated tax system effects in the period of intense economic activity. As shown by GDP calculation at constant prices for 2006, the developments in taxes on products less subsidies⁸ were similar to those in total gross value added. As a result, last year's GDP growth was almost as strong as the growth of GVA.⁹ According to the same data source, however, real net indirect taxes rose at a somewhat slower pace than in 2005, which can be accounted for by the preliminary character of GDP data for the last two years and the trends in relevant deflators.

7 These products account for more than a half of total inventories in the economy, the rest relating to inventories of raw materials and production materials.
8 The MoF data on general government expenditures for 2006 point to a sharp rise in subsidies to private enterprises, and a decline in subsidies to public sector enterprises relative to 2005.

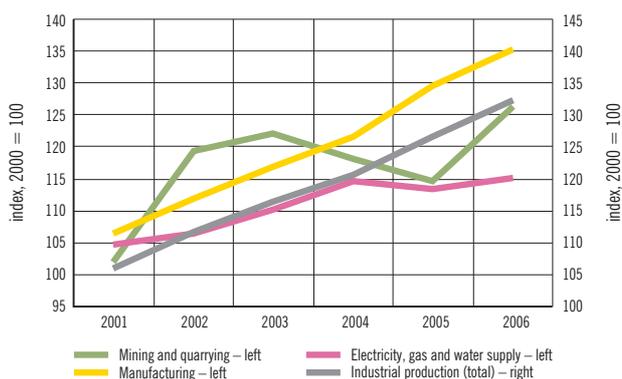
Industry

For the entire 2006, GVA in industry rose by 4.7% in real terms compared with 2005, when it grew at somewhat higher rates (over 5.0%), the same as in the previous years. A slowdown in GVA in this activity may be partly attributed to the base effects of exceptionally strong production recorded in the second quarter of 2005, but it is also likely to be the result of a statistical measurement error (outlier), partly owing to the difference in the number of working days (2006 had one working day less than 2005). The 2006 movements were in keeping with the trend in total volume of industrial production, which was up 4.5% on a year before, its annual fluctuations generally following the GVA dynamics.

Apparently, the recovery of domestic and foreign demand in 2006 was strong enough to reduce the inventories of finished industrial products, following their strong accumulation over 2004 and 2005. This is corroborated by the CBS data on the changes in domestic output and goods trade. Broken down by the Main Industrial Groupings (MIGs),¹⁰ stronger demand for industrial products was observed in both consumer goods and investment goods.

According to the National Classification of Economic Activities (NCEA), manufacturing, which makes the bulk of total industrial production, grew at a rate of 4.5% in 2006. The strongest production growth was recorded in mining and quarrying (10.3%), probably on account of an increase in the volume of construction works. Energy supply remained stagnant.

1.12 Total Volume of Industrial Production



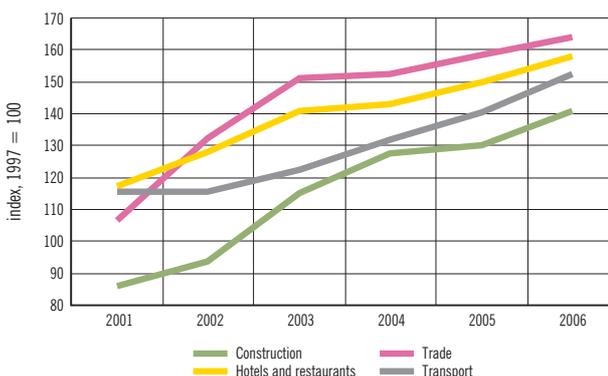
Source: CBS.

Construction

A slowdown in GVA in construction during 2005 marked the end of accelerated construction activity stimulated mainly by government investment in road infrastructure. However, construction works started to expand again in 2006, leading to an 8.2% (6.0 percentage points) rise in GVA in this activity at the annual level compared with 2005.

Interestingly, strong growth was recorded in both construction of buildings and road construction during this period, particularly in the second half of the year. Last year was also marked by housing loan expansion, at a rate over 30.0% in nominal terms. Such strong demand for housing loans was last recorded in 2003, when the rate of change in GVA in construction exceeded 20.0%. Positive movements in construction during 2006 were certainly stimulated by favourable weather conditions.

1.13 Gross Value Added in Selected Economic Activities constant prices



Source: CBS.

9 Income from the sale of goods and services, excluding the income from taxes on goods and including the amount of received subsidies, is expressed at the so-called basic prices. GDP calculated according to production method is the total value added realised in all economic activities, increased by taxes on products and reduced by subsidies. However, the category 'taxes on goods less subsidies' is not included in CBS's GDP calculation at constant prices, so that this value can be obtained as a GDP and GVA residual expressed at 1997 constant prices.

10 Since 2006, the CBS has applied new definitions of MIGs aggregates for the purpose of harmonisation with EU statistical standards (MIGs 2001). Recalculated historical data series for the index of total volume of industrial production for individual MIGs aggregates are available for the period from January 1997 on.

Despite its strong growth over the past medium-term period, GVA in construction still lagged behind gross value added in most service activities.

Trade

Over 2006, GVA in trade rose at a rate of 3.4%, approximately the same as personal consumption, contributing 0.5 percentage points to total GVA. A mild recovery of personal consumption dynamics, accompanied by a pick-up in foreign demand for consumer goods, was not enough to accelerate the growth of gross value added in this activity.

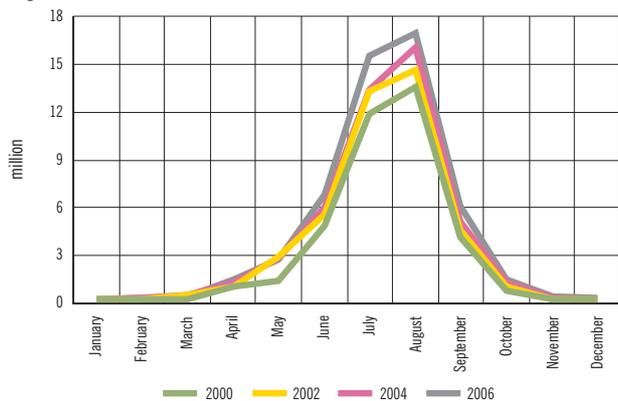
Broken down by quarter, personal consumption rose at annual rates of 4.0%, 2.1% 3.9% and 4.1% in the first, second, third and fourth quarters of 2006. Its slowdown at the annual level, recorded in the second quarter, compared with the strong growth of personal consumption (4.4%) in the same period of 2005, was due to the base period effects. However, seasonally adjusted data point to a continuous upturn in this aggregate demand component during 2006.

Hotels and Restaurants

According to quarterly GDP estimate, GVA growth in hotels and restaurants accelerated mildly in 2006 relative to 2005, standing at 5.2%. As a result, the contribution of this activity to total GVA growth in 2006 remained unchanged from 2005, 0.2 percentage points.

1.14 Tourist Nights

original data



These results only partly reflect the trends in hotels and restaurants, because the direct and indirect impacts of this industry on overall economic activity outdo the aforementioned modest contribution of hotels and restaurants to overall GDP formation. Similar trend was observed in revenues from hotels and restaurants, recorded in the 2006 balance of payments. However, the trend in volume indicators of performance in hotels and restaurants, e.g. tourist arrivals and overnight stays, was more moderate compared with 2005. In 2006, tourist arrivals and overnight stays increased by 3.1% and 3.9% respectively.

The number of individual arrivals and overnight stays of (mainly foreign) tourists grew much faster in 2006 compared with 2005, while the number of tourist nights per tourist arrival remained the same as in the year before (5.1). It is noteworthy that the tendency to extend the tourist season continued last year, which may be a sign of the change in domestic and foreign tourist preferences, as much as of the changes in the quality of tourist supply.

For the entire 2006, like in the previous years, tourists from Germany accounted for the largest number of tourist nights (23.4%), followed by tourists from Italy (11.6%), Slovenia (11.2%), Austria (8.7%) and the Czech Republic (8.3%). The share of overnight stays of tourists from other countries in total tourist nights continued upwards (this trend was particularly strong in 2005). However, the decline in overnight stays of tourists from Austria and Slovenia was arrested last year. The number of arrivals and overnight stays of tourists from Eastern Europe and non-European countries rose sharply during 2006.

Transport and Communications

GVA in transport, storage and communications accelerated sharply in 2006, by 8.5% compared with the previous year, when GVA was 2 percentage points lower. The contribution of

this activity to overall real GVA growth was 0.8 percentage points in 2006, the third largest contribution after industry and financial intermediation.

According to the CBS data on transport and communications, the number of transported passengers and volume of transported goods went up for the second consecutive year in 2006. Positive movements in this activity are also confirmed by standard indicators (passenger-kilometres and ton-kilometres). In the last few years, postal and telecommunications services strengthened markedly, particularly as concerns mobile telecommunications. The number of minutes spent in mobile network went up 46.3% in 2006 compared with the previous year, while the number of minutes spent in fixed network increased by almost 14.0%. Such trends resulted from a gradual substitution of fixed network by mobile communication, fuelled by increasingly strong competition in the mobile telecommunications market.

Economic Activity in the First Quarter of 2007

According to the available monthly indicators of economic activity, positive movements in the real sector continued in 2007.

Seasonally and calendar adjusted data point to strong growth in the total volume of industrial production, at a rate of 8.0%, in the first quarter of 2007, with the largest growth rate recorded in March (11.0%). These developments were mostly stimulated by strong domestic demand for investment and consumer goods which induced a rise in imports and production of these goods. Weakening foreign demand for domestic industrial products resulted in the accumulation of surplus consumer goods and energy products. Therefore, the accumulation of inventories of finished industrial products, observed since the second half of 2006, continued into the first quarter of 2007.

According to the NCEA, strong industrial production dynamics were largely the result of favourable trends in manufacturing. As suggested by seasonally adjusted data, production in total manufacturing grew at an annual rate above 10.0% in the first quarter of 2007, with negative trends recorded only in chemical industry, probably because the demand for these goods was satisfied by the existing stocks. The decline in energy supply (electricity, gas, water), observed throughout 2006, continued in this period. The negative trends perceived in this industry segment are partly accounted for by unexpectedly warm winter weather, but its production is expected to recover soon. However, the strongest growth was recorded in mining and quarrying in the observed period, with production increasing by 13.3% compared with the same period last year. Consequently, the continuing upward trend, observed in this industry since mid-2005, continued into 2007, stimulated by strong investment activity at the beginning of the year and continued favourable trends in construction.

Construction activity, measured by the number of hours worked at building sites intensified markedly in the first two months of 2007. Strong growth was recorded in both the construction of buildings and civil engineering, with annual growth rates as high as 12.3% and 8.6% respectively. Positive trends in construction are expected to continue in the coming period, particularly in housing construction, as suggested by a sharp rise in the value of net housing project orders late in 2006 and a boost in housing loans at end-2006 and early this year.

Real retail trade turnover rose at an average annual rate of 6.3% in the first two months of 2007, continuing the upward trend in retail trade observed since mid-2006. This is confirmed by the data on increased VAT revenues and favourable movements in the disposable household income early in 2007. The accelerated retail sales growth compared with the last quarter of 2006 might be partly accounted for by the change of the sample for the statistical monitoring of retail trade turnover.¹¹ Excluding the sale of motor vehicles, retail trade grew at a somewhat slower annual rate of 5.4% in the observed period.

¹¹ In January 2007, a new methodology of statistical monitoring and calculation of real retail trade turnover index was introduced, changing the sample framework and its stratification, as well as the mode of nominal retail trade turnover deflation. Therefore the historical data series from 2000 was revised. However, the adjustments in the historical data series caused by this revision had no significant impact on its annual dynamics.

The available volume data suggest a very good tourist performance in early 2007. The growth in the number of tourist nights over the first quarter of 2007 slowed down only slightly compared with end-2006, while the number of tourist arrivals went up. In the observed period, domestic and foreign tourist nights and arrivals rose by 72% and 14.4% respectively compared with the same period in 2006. Interestingly, the number of arrivals and nights stayed by foreign tourists grew strongly, irrespective of the type of arrival (individual or organised). As concerns domestic tourists, the growth was only recorded in individual arrivals. According to the country of residence, tourists from Austria, Italy, Germany, Slovenia and Bosnia and Herzegovina accounted for the largest shares in the total number of tourist nights.

1.2.3 Labour Market

According to the original and seasonally adjusted data, registered unemployment declined in 2006. The number of unemployed persons registered with the CES stood at 293,153 at the end of 2006, 14,698 (4.8%) less relative to end-2005. The average registered unemployment rate was 16.6% in 2006, 1.3 percentage points below the average rate in 2005.

According to CBS data, the average employment stood at 1,467,876 in 2006, up 47,302 (3.3%) on 2005, representing the strongest total employment growth since 1998. Real gross and net wages increased last year, so that the average real net wage paid in 2006 and the average real gross wage rose at annual rates of 1.7% and 2.7% respectively.

Employment and Unemployment

Seasonally adjusted data point to a decline in registered unemployment in 2006, by 17,200 or 5.6% on average compared with 2005. This was mostly the result of a sharp fall in the number of unemployed persons during the second and third quarters. In line with the movements in unemployment, the average registered unemployment rate stood at 16.6% in 2006. The registered unemployment rate fell by 1.1 percentage points at end-2006 compared with end-2005, standing at 16.7%.

1.15 Unemployed Persons Registered with the Croatian Employment Service



Source: CES.

A closer look at the structure of inflows into and outflows from the CES register of unemployed persons shows that the annual fall in registered unemployment in 2006 was due to increased outflows, i.e. a rise in the number of persons employed from the CES register. At the monthly level, employment from the register stood at an average of 12,500 in 2006, up 714 or 6.1% on the year before. Apart from employment from the CES register, the outflows also include clearings from the records for reasons other than employment, e.g. failure to report regularly to the CES, non-compliance with regulations, unregistration, military service, retirement, change of status, etc. The number of clearings from the records remained at a low level recorded since 2004.

Following a decline in inflows into the CES register (by 5.4% annually) in 2005, the number of newly registered persons stood at a monthly average of 19,400 in 2006, 92 or 0.5% more than in 2005. Of the total number of the newly registered, 74.6% were persons with work experience. The largest inflows came from hotels and restaurants, wholesale and retail trade and manufacturing. Low inflows into the register in the second quarter of 2006, the lowest since 2003, were followed by their rise during the second half of the year, resulting in an increase in the number of the newly registered with the CES during 2006 relative to 2005.

In keeping with the data on employment from the CES register, CBS data on the number of employed persons and data on the number of persons insured with the CPIA also point to

Table 1.1 Inflows into and Outflows from the CES Register

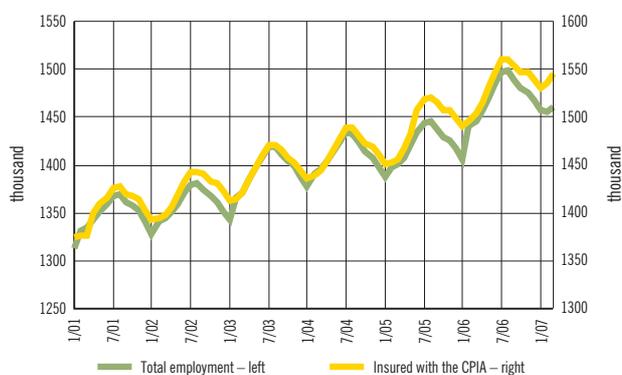
rate of change over the same period last year, in %

	1 – 6/2006	7 – 12/2006	2006	Share in total flow		
	1 – 6/2005	7 – 12/2005	2005	1 – 6/2006	7 – 12/2006	2006
1. Newly registered						
1.1. By type of inflow:	-9.2	8.9	0.5	100.0	100.0	100.0
– directly from employment	-6.1	7.0	1.0	59.9	58.7	59.2
– from private agriculture or similar works	-7.5	5.5	-0.9	0.9	0.8	0.8
– directly from school	-8.8	15.3	10.1	4.6	15.4	10.9
– from inactivity	-14.3	9.8	-3.7	34.6	25.1	29.1
1.2. By previous work experience:	-9.2	8.9	0.5	100.0	100.0	100.0
– first-time job seekers	-15.4	12.5	0.6	21.7	28.0	25.4
– previously employed	-7.3	7.5	0.4	78.3	72.0	74.6
2. Outflow from the CES register	2.7	2.3	2.5	100.0	100.0	100.0
– outflow from the register to employment	3.9	8.9	6.1	63.3	56.9	60.3
– cleared for other reasons	0.7	-5.4	-2.5	36.7	43.1	39.7

Source: CES.

strong growth of total employment in 2006. The number of the insured with the CPIA, being a reliable short-term indicator of employment, rose at a rate of 2.8% in 2006, 1 percentage point faster than in the previous year. According to the final CBS data, employment stood at 1,467,900 on average in 2006, 47,300 or 3.3% more than in 2005. This represents the strongest total employment growth since 1998. The rise in total employment during 2006 was fuelled by employment in legal entities, going up from 0.9% in 2005 to 4.2% in 2006. By contrast, employment in crafts and trades and free lances declined from 2.5% in 2005 to 1.7% in 2006. The number of private farmers declined at a rate of 8.5% in 2006, slower than in 2005 (9.9%), thus contributing to total employment growth. Looking at total employment by economic activity, electricity, gas and water supply was the only category recording a negative annual rate of change in employment during 2006. By contrast, industry reported positive annual employment growth of 1.7%, the same as public administration (including education, health care and social welfare). The largest contributors to total employment growth were real estate, rental and business services (9,100 or 10.1%), construction (10,100 or 8.4%) and hotels and restaurants (5,300 or 6.5%).

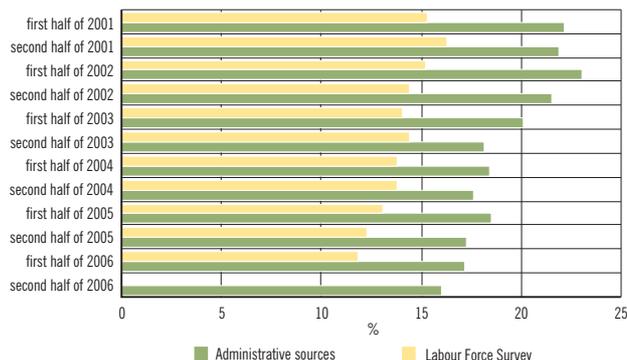
1.16 Total Employment According to Administrative Sources and the CPIA



Source: CBS.

According to the available Labour Force Survey employment and unemployment data for the first half of 2006, the number of unemployed persons declined to 206,000, a record low since 1996, when the Survey was first administered. However, the fall in unemployment was paralleled with a decline in the number of employed persons, reducing the active population. In the first half of 2006, the number of employed persons stood at 1,548,000 (down 18,000 or 1.1% from the same period in 2005). The decline in employment over the first half of 2006 was mainly the result of a fall in employment in agriculture, and, to a lesser extent, in public administration. The Labour Force Survey employment rate also fell to 42.6% (from 43.3% in 2005). As a result of a continuing downward trend, perceived since 2001, the Labour Force survey unemployment rate stood at 11.8% in the first half of 2006, 0.9 percentage points below the rate in the previous year. The Survey indicators for the second half of 2006 are not yet available and are expected to be published in May 2007. It is realistic to assume

1.17 Administrative and Labour Force Survey Unemployment Rates



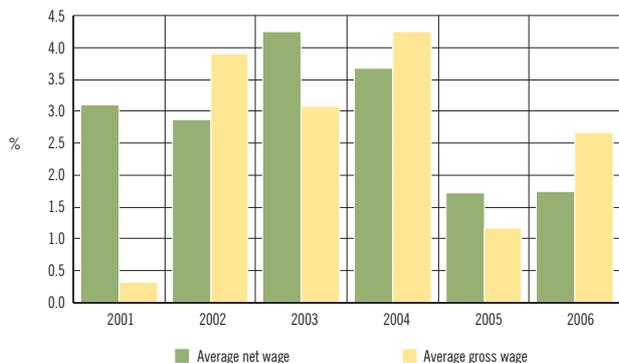
Source: CBS.

that the Labour Force Survey indicators of employment and unemployment for the second half of 2006 will confirm the downward unemployment trend, upward trend in employment and downward trend in Labour Force Survey unemployment rate, suggested by the administrative sources (CES and CBS).

Wages and Labour Costs

1.18 Average Real Wage

year-on-year rate of change



Source: CBS.

1.19 Gross Wage and GVA per Employed

year-on-year rate of change



Source: Calculation based on CBS data.

The annual growth rate of the average real gross wage paid in 2006 was 2.7%, twice as high as in 2005. However, owing to the tax progression effects, the average real net wage rose at a lower annual rate, 1.7%, the same as in 2005. The dynamics of average real gross and net wages paid in 2006 were determined by the average nominal gross and net wage dynamics, and, to a lesser extent, by the annual increase in consumer price index in this period.

The largest positive contribution to the average real gross wage growth in 2006 came from manufacturing (0.9%), given its large share in overall industry. Higher annual wage growth rates were recorded in agriculture (7.7%), real estate, rental and other business services, mining and quarrying (5.0%), and in manufacturing (4.1%). Wages in public administration and industry followed the general trend in real wages, so that the average real growth of gross wage in public administration (including education, health care and social welfare) accelerated from 0.03% in 2005 to 1.5% in 2006. The annual growth of real gross wage in industry speeded up from 2.0% in 2005 to 3.8% in 2006. Labour productivity in industry, measured by the GVA dynamics in industry, at constant prices, per employee, decreased from 6.1% in 2005 to 3.0% in 2006, at the annual level. Such an annual growth rate of labour productivity in industry was mainly the result of a sharp increase in employment in 2006. The real wage and labour productivity dynamics show that the price pressures from the labour market were not strong in 2006.

Labour Market in the First Quarter of 2007

Registered unemployment declined in February, and again in March 2007. The number of unemployed persons registered with the CES stood at 291,642 at end-March. Seasonally adjusted data also point to a fall in registered unemployment, by 18,931 (6.4%) at end-March 2007 relative to end-March 2006. This was due to a decline in the number of the newly registered with the CES, but also due to stronger employment from the register. The registered unemployment rate stood at 16.6% in March, 1.1 percentage points less than in the same month in 2006.

By contrast, employment rose at an annual rate of 3.6% in January 2007, according to the final CBS data. A break in the total employment series recorded since February 2007 owing to the preliminary character of the CBS data, makes it more difficult to account for employment dynamics in early 2007. The data on the number of insured persons with the CPIA point to continued employment growth.

The annual growth of the average real gross and net wage paid in March was influenced by a downturn in nominal gross and net wages and a mild rise in consumer prices over the period.

The average real gross wage paid in March rose at an annual rate of 4.7%, while the average real net wage grew at a lower annual rate of 3.7%, due to the tax progression effect.

1.2.4 Prices and the Exchange Rate

Prices

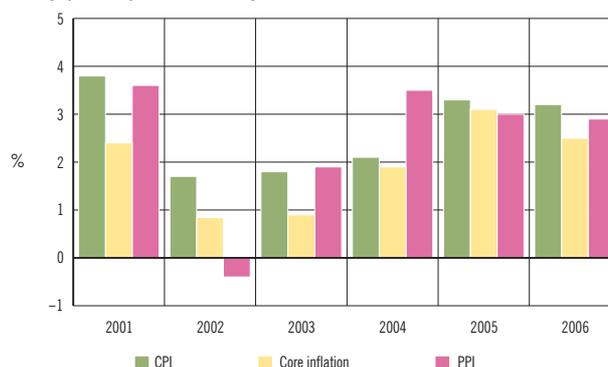
All basic price indicators point to a slowdown in price growth in Croatia in 2006. The average year-on-year rate of change in the CPI dropped by 0.1 percentage point, from 3.3% in 2005 to 3.2% in 2006. Core inflation, which excludes agricultural product prices and administrative prices, remained lower than overall consumer price inflation, with its average year-on-year rate of change down from 3.1% in 2005 to 2.5% in 2006. Producer prices also decreased and the average year-on-year rate of change in the PPI dropped from 3.0% in 2005 to 2.9% in 2006.

The year-on-year rate of change in the CPI at the end of period decreased by 1.6 percentage points, from 3.6% in December 2005 to 2.0% in December 2006. The slowdown in consumer price inflation in 2006 was predominantly influenced by a drop in the year-on-year rate of change in administrative prices (primarily domestic refined petroleum product prices) and slowdown in the year-on-year rate of change in food prices (meat and meat products). The year-on-year inflation rate at the end of 2006 may be considered relatively low as it exceeded the 1.9% inflation rate in the eurozone from December 2006 by only 0.1 percentage point. The key factors contributing to low and stable inflation in the domestic economy include a relatively stable kuna/euro exchange rate¹² (which anchored domestic inflation expectations and stabilises the prices of raw materials and final goods imports from the eurozone) and strong appreciation of the kuna/US dollar exchange rate,¹³ which offset the impact of the world market price increase in crude oil and other raw materials on domestic price trends. In addition to the exchange rate, domestic inflationary pressures were also contained by a moderate growth of the average monthly net wage of 5.0% in 2006 relative to 2005 and brisk competition in domestic retail trade brought about by new retail chains.

The slowdown in the year-on-year consumer price inflation rate in 2006 was primarily due to the year-on-year rate of change in administrative prices dropping from 6.1% in December 2005 to 2.0% in December 2006 and reducing their contribution to overall consumer price inflation by 0.9 percentage points in the observed period. It should be stated that, being assigned a sizeable 23.8% weight in the overall CPI basket, administrative prices have a major impact on overall consumer price inflation trends. Administrative price growth decelerated in 2006, primarily in consequence of the decline in the year-on-year rate of change in domestic refined petroleum product prices from 15.7% in December 2005 to -1.9% in December 2006. As a result of a favourable

1.20 CPI, Core Inflation and PPI

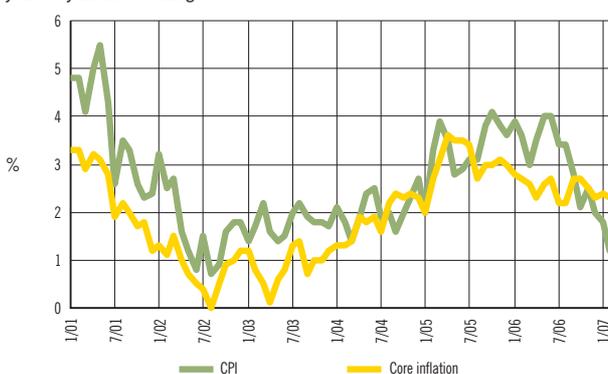
average year-on-year rate of change



Source: CBS.

1.21 CPI and Core Inflation*

year-on-year rate of change



* Core inflation is calculated in the manner that agricultural products prices and administrative prices (which, among others, include the prices of electricity and refined petroleum products) are excluded from the basket of goods and services used in the calculation of the consumer price index.

Source: CBS.

12 The nominal kuna/euro exchange rate slightly appreciated by 0.5% from December 2005 to December 2006.

13 The average daily exchange rate of the kuna versus the US dollar rose by 10.7% in December 2006 over December 2005.

Table 1.2 Consumer Price Index

year-on-year rate of change

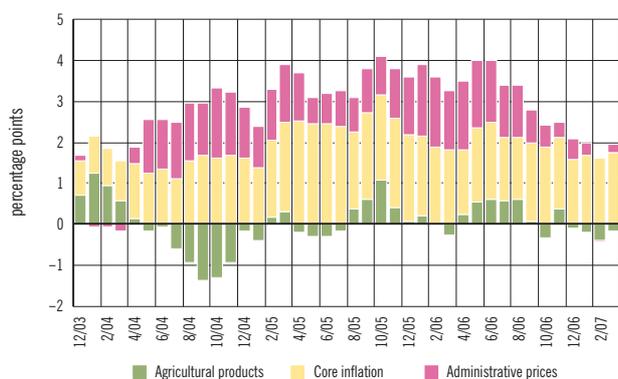
	Weight 2006	12/2005	3/2006	6/2006	9/2006	12/2006	3/2007
Total	100.0	3.6	3.0	4.0	2.8	2.0	1.8
Food and non-alcoholic beverages	32.9	3.7	0.9	3.7	2.0	0.8	0.2
Alcoholic drinks and tobacco	5.6	1.1	1.3	2.0	1.8	1.9	1.3
Clothing and footwear	8.0	3.6	2.9	2.6	3.8	3.2	5.2
Housing, water, energy, gas and other fuels	15.1	5.4	9.1	9.0	6.9	5.4	3.0
Furniture, equipment and maintenance	4.7	2.9	2.4	2.5	2.1	2.5	2.0
Health	2.9	8.6	9.4	7.7	9.0	1.9	1.9
Transport	11.3	3.8	2.8	4.4	0.5	1.1	2.1
Communication	4.2	0.2	0.1	0.0	0.0	-0.1	-0.3
Recreation and culture	5.5	2.6	0.9	0.9	1.0	0.9	2.5
Education	0.9	6.2	5.8	5.8	0.3	0.2	0.0
Catering services	3.2	3.3	3.3	3.7	3.2	2.3	2.4
Miscellaneous goods and services	5.8	2.0	2.5	2.2	3.5	2.9	3.4
Goods	76.9	3.5	2.1	3.6	1.8	1.4	1.1
Services	23.1	4.1	6.1	5.6	6.3	4.2	3.7

Source: CBS.

base effect,¹⁴ the year-on-year rate of change in the prices of electricity, health services and rents decreased considerably, sharply reducing their contribution to overall consumer price inflation in the observed period.

Trends in core inflation were also favourable, with its year-on-year rate of change, down from 3.0% in December 2005 to 2.3% in December 2006, reducing the contribution of core inflation to overall year-on-year consumer price inflation by 0.5 percentage points in 2006. The core inflation developments were primarily due to a decrease in the year-on-year rate of change of meat prices from 6.1% in December 2005 to -0.5% in December 2006. Due to the large weight (14.2%) assigned to this product group in the core inflation basket, its contribution to core inflation reduced from 0.8 percentage points in December 2005 to -0.1 percentage point in December 2006. In contrast, with the year-on-year rate of change up from -7.9% in December 2005 to 3.2% in December 2006, car prices' contribution to core inflation increased considerably. Based on the recommendation of the Eurostat, the CPI basket of cars was revised in early 2006. The basket used to contain a few best-selling car models, while it now includes one model of each class. The year-on-year rate of change in agricultural product prices dropped from 1.2% in December 2005 to -1.3% in December 2006, reducing its contribution to overall year-on-year consumer price inflation by 0.2 percentage points

1.22 Contribution^a of CPI Components to Year-on-Year Inflation Rate



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

Sources: CBS and CNB calculations.

Imported inflationary pressures on domestic prices, especially pronounced in the first half of 2006, primarily stemmed from the price growth of crude oil and other raw materials in the world market. The economic upsurge in China, India and other developing countries in 2006 pushed up demand for energy products, which resulted in a price increase in crude oil and other energy products and raw materials. The global market price increase in crude oil was also to a great extent in consequence of geopolitical tensions between the US/EU and Iran over the uranium enrichment programme and the escalation of the Middle East crisis. The political turmoil in Venezuela and unrest in Nigeria were also limiting oil supply. Additionally, owing to short-term disturbances, as was the shutdown of an Alaskan oil field owing to technical deficiencies, and to expectations of recurring adverse weather conditions in the Mexican Gulf during summer months, crude oil prices per barrel surged to a

¹⁴ Electricity prices rose in September 2005, health care service prices in October 2005 and rent prices in November and December 2005 (in relation to the previous month respectively).

monthly average of USD 72.5 in July. Oil prices continued to increase in August, with the daily price of crude oil up to a record high of USD 78.6 per barrel.

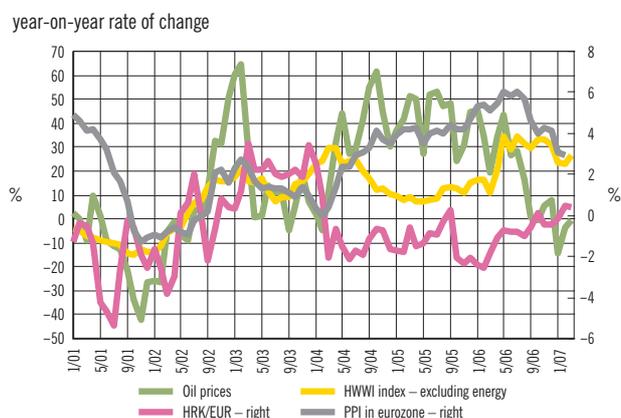
Due to the easing of Middle East tensions and favourable weather conditions, crude oil prices dropped to an average USD 62.1 per barrel in September and USD 57.9 in October. This prompted the OPEC to cut the daily crude oil output by 1.2 million barrels. In consequence, crude oil prices rebounded in December, standing on average at USD 61.0 per barrel. The common assumption is that the depreciation of the dollar against the euro contributed to maintaining high oil prices, as oil exporting countries tried to sustain their purchasing power. Specifically, at a meeting on 14 December 2006, the OPEC decided to lower its daily output by another 500 thousand barrels as of 1 February 2007.

The average price of crude oil rose by 20.5% in 2006, from USD 53.4 per barrel in 2005 to USD 64.3 per barrel in 2006. However, this growth was half the average growth of 41.7% in 2005. Due to the appreciation of the kuna/US dollar exchange rate, crude oil prices in kuna terms increased at a slightly lower rate of 17.8% in 2006. The moderation of crude oil prices in the world market in the last four months of 2006 had a favourable effect on domestic refined petroleum product price trends. With the year-on-year rate of change negative since September 2006, domestic refined petroleum product prices reduced their contribution to overall consumer price inflation from 0.8 percentage points in December 2005 to -0.1 percentage point in December 2006.

The world market increase in other raw material prices was putting upward pressures on domestic prices in 2006. As shown by the HWWI¹⁵ index (excluding energy, in US dollar terms), raw material prices rose by 30.6%¹⁶ from December 2005 to December 2006. Non-ferrous metal prices rose especially sharply (52.5%) in 2006 due to a general rise in demand and in particular to a surge in demand from China. The year-on-year rate of change in eurozone producer prices dropped from 4.7% in December 2005 to 4.1% in December 2006, mostly due to a slowdown in the year-on-year rate of change in energy prices. The year-on-year rate of change in producer prices of final goods in the eurozone remained relatively low, standing at 1.7% for durable and at 1.4% for non-durable consumer goods in December 2006. Thus, there are no indications that the price rise in oil and other raw materials had a major effect on final producer prices.

The slowdown in prices in 2006 is confirmed by changes in the PPI. The year-on-year rate of change in producer prices fell by 0.8 percentage points, from 2.7% in December 2005 to 1.9% in December 2006. This was primarily as a result of the rate of change in energy prices plunging from 9.8% to 1.9% in the same period, due to a sharp drop in producer prices of refined petroleum products, whose year-on-year rate of change fell from 31.5% in December 2005 to -5.7% in December 2006. The year-on-year rate of change in producer prices of non-durable consumer goods was 2.0% in December 2006, while that of durable consumer goods amounted to -0.2%. This leads to the conclusion that the energy price rise did not to spill over to final goods prices to a large extent in 2006.

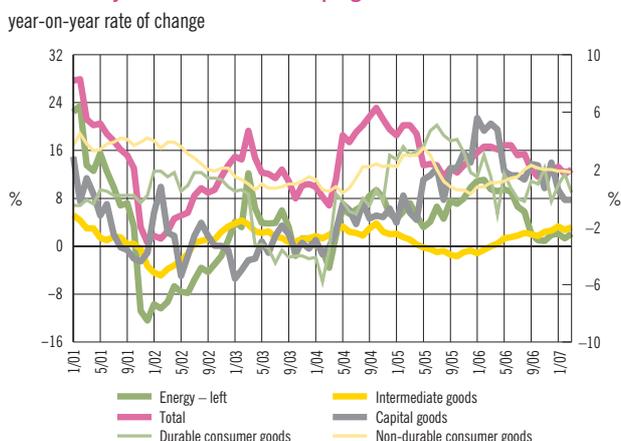
1.23 Imported Inflation: Oil Prices, HWWI Index¹⁵, Average Kuna/Euro Exchange Rate and PPI in Eurozone



¹⁵ The Hamburg Institute of International Economics (HWWI) constructed the aggregate index of raw materials prices in the world market, the so-called HWWI index. The HWWI index is the indicator of movements in costs for imported raw materials (it includes a total of 29 raw materials or 27 excluding energy) and it is used in analysing the influence of changes in the prices of raw materials in the world market on the changes in prices in industrial countries. The index is calculated on the basis of raw materials prices expressed in US dollars.

Sources: Bloomberg, HWWI, Eurostat and CNB.

1.24 PPI by Main Industrial Groupings



Source: CBS.

15 The HWWI has published the raw material price index since the end of 2006.

16 The HWWI index based on prices in euros shows a much lower rise of 17.2%.

Price Developments in the First Quarter of 2007

The consumer price inflation rate dropped from 2.0% year-on-year in December 2006 to 1.8% in March 2007. The slowdown was primarily caused by administrative prices, whose contribution to overall inflation reduced by 0.3 percentage points, while that of agricultural product prices dropped by 0.1 percentage points. In contrast, core inflation rose, increasing its contribution to overall consumer price inflation by 0.2 percentage points in the observed period.

The year-on-year rate of change in administrative prices decreased from 2.0% in December 2006 to 0.8% in March 2007. The decrease was primarily accounted for by a decline in the year-on-year rate of change in the prices of water and utility services, down from 16.6% in December 2006 to 5.7% in March 2007, which was, in turn, brought about by a favourable base effect resulting from a lower monthly increase in these prices in the first three months of 2007 than in the same period in 2006. Agricultural product prices rose at a slower pace in the first three months of 2007 than in the same period in 2006, with the result that their year-on-year rate of change dropped from -1.3% in December 2006 to -2.6% in March 2007. These price trends were favourably affected by mild weather.

The year-on-year core inflation rate drifted up from 2.3% in December 2006 to 2.5% in March 2007. The largest contribution to the rise was made by the year-on-year growth rate of clothes and footwear prices, up from 3.2% in December 2006 to 5.2% in March 2007. Another contribution to the increase in core inflation in the observed three-month period, although smaller, came from the rise in the year-on-year rate of change in the prices of package holidays and cars. The year-on-year rate of change in package holidays prices was up from 0.2% in December 2006 to 41.1% in March 2007, due to an adverse base effect, which was because the common seasonal price drop in package holidays in March this year was not as sharp as in the same month in 2006. The year-on-year rate of change in car prices rose from 3.2% in December 2006 to 5.2% in March 2007, due to a monthly increase in car prices in January and an unfavourable base effect in February and March (a smaller monthly drop in car prices in February and March 2007 than in the same period in 2006).

The year-on-year rate of change in domestic industrial producer prices drifted upwards from 1.9% in December 2006 to 2.0% in March 2007. The prices of intermediate and durable consumer goods climbed the most in the said period, while the year-on-year rate of change in energy prices went up from 1.9% in December 2006 to 2.1% in March 2007. Producer prices of energy were in the first quarter of 2007 strongly pushed up by a monthly surge in water prices of 18.9% in January and an increase in producer prices of refined petroleum products of 4.3% in March. Capital goods prices dropped considerably, with their year-on-year rate of change down from 2.5% in December 2006 to -0.1% in March 2007.

The unusually warm weather in early 2007 lowered demand for crude oil, with the result that the average price of crude oil unexpectedly dropped by 12.3% per barrel in January 2007 relative to December 2006. Following this sharp drop, the price of crude oil rose in the following two months. The rise was somewhat more rapid in late March, among other things due to the UN Security Council decision to tighten the sanctions on Iran for failure to halt uranium enrichment and concerns that rising geopolitical tensions related to the dispute between the Great Britain and Iran over the fate of the captured troops in Iran might endanger oil supply from the Middle East.

Exchange Rate

The kuna/euro exchange rate slightly appreciated by 0.4% in 2006, with the euro dropping in value from HRK 7.38 in late 2005 to HRK 7.35 in late 2006. The appreciation pressures, present in most of 2006, were due to several major factors, including the continued external financing of banks' domestic lending, foreign exchange inflow from enterprises' foreign borrowing and a rise in demand for the kuna caused by the continued government borrowing in the domestic market. Appreciation pressures on the kuna/euro exchange rate in the second half of 2006 also resulted from foreign exchange inflows for the investment in the purchase of

Pliva d.d. shares, and from the recapitalisations of some subsidiary banks in Croatia undertaken by their foreign parent banks. Standing at HRK 7.32/EUR in 2006, the average daily exchange rate of the kuna was 1.0% higher compared with HRK 7.40/EUR in 2005. The daily exchange rate of the kuna ranged from HRK 7.24/EUR to HRK 7.43/EUR, oscillating within a relatively narrow range between -1.2% and 1.5% in relation to the average daily exchange rate in 2006.

In an effort to alleviate appreciation pressures on the kuna/euro exchange rate continuing for the most part of the year, the central bank held twelve foreign exchange auctions in 2006.¹⁷ At eleven of the twelve auctions, the central bank purchased a net amount of EUR 995.0m. With an additional EUR 208.9m, purchased by the CNB from Zagrebačka banka d.d. to streamline the transactions related to the Pliva d.d. takeover, the total amount issued by the central bank in 2006 reached HRK 8.8bn (net). The government, in order to settle its external liabilities, purchased a considerable amount of foreign currency directly from the CNB, thus alleviating foreign exchange demand. Specifically, the central bank sold a net amount of EUR 440.1m to the MoF, withdrawing from circulation HRK 3.2bn. In total, the CNB issued a net amount of HRK 5.6bn through foreign exchange market transactions in 2006, which is a considerable increase over HRK 3.1bn and HRK 2.4bn issued through transactions with banks and the MoF in 2004 and 2005 respectively.

The exchange rate of the kuna slightly appreciated by 0.7% against the euro in the first quarter of 2006, rising from HRK 7.38/EUR on 31 December 2005 to HRK 7.32/EUR on 31 March 2006. This seasonally uncommon appreciation was predominantly due to a rising demand for the kuna, spurred by government domestic borrowing in February and continued banks' domestic lending financed by foreign funds. The central bank intervened twice in February at the time of increased appreciation pressures, purchasing EUR 118.6m from banks and creating HRK 0.9bn. EUR 35.5m was purchased on the foreign exchange auction on 2 February and EUR 83.1m on 16 February. The CNB did not sell any foreign exchange to the government in January, as the government settled its liabilities to the Paris and London Clubs falling due in that month by the funds received under a World Bank PAL. The CNB sold a total of EUR 10.1m to the MoF in February for external debt servicing, and made no major foreign exchange transactions with the government in March. The CNB issued a total of HRK 0.79bn (net) through foreign exchange market transactions in the first quarter 2006.

The nominal exchange rate of the kuna against the euro appreciated by 0.9% in the second quarter 2006, from HRK 7.32/EUR on 31 March to HRK 7.26/EUR on 30 June 2006. In order to relieve the appreciation pressures on the exchange rate, at their peak in May and June, the central bank purchased a total of EUR 288.9m from banks at foreign exchange auctions (EUR 184.6m in May and EUR 104.3m in June), releasing HRK 2.1bn. This amount was mostly sufficient to meet the demand for the kuna, driven up, among other things, by the start of the tourist season and continued external financing of banks' domestic lending. The CNB sold EUR 8.6m to the MoF in the second quarter 2006,

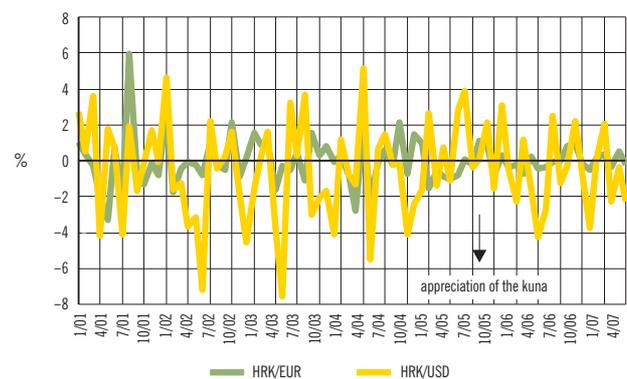
1.25 Daily Nominal Exchange Rate – HRK vs. EUR and USD



Source: CNB.

1.26 Rates of Change of the Nominal Exchange Rate – HRK vs. EUR and USD

month-on-month, CNB midpoint exchange rate



Source: CNB.

¹⁷ The thirteenth auction was held on 28 December 2006, with the value date of 2 January 2007, which produced a monetary effect (issue of the kuna) in January 2007. A total of EUR 177.0m was purchased from banks at the said auction.

withdrawing from circulation HRK 63.0m. The CNB issued a total of HRK 2.04bn (net) through foreign exchange market transactions in the second quarter 2006.

The kuna depreciated by 1.7% against the euro in the third quarter 2006. The depreciation was somewhat more pronounced in the second half of August and in the first twenty days in September, with the value of the euro rising from HRK 7.26 on 30 June to HRK 7.38 on 30 September, its level from end-2005. The nominal exchange rate of the kuna against the euro was stable in July and in the first half of August. Corporate demand for foreign exchange grew in that period, alleviating the appreciation pressures stemming from an increased demand for the kuna in the tourist season and a new HRK 2.5bn worth government bond issue in July. There was no need for CNB's foreign exchange auctions in July and August, and banks met their liquidity needs by means of regular reverse repo auctions. After the depreciation of the kuna in the second half of August, the kuna/euro exchange rate continued to depreciate in nominal terms due to a rising corporate demand for foreign exchange, as well as to an increase in foreign exchange demand from some banks. The rise in the banks' demand was in consequence of the central bank's increase in the minimum required coverage of foreign currency liabilities by foreign currency claims. In an effort to ease the depreciation pressures, the central bank sold a total of EUR 125.5m to banks at a foreign exchange auction on 19 September, withdrawing from circulation HRK 930.1m. In addition, in the week of the foreign exchange intervention the central bank did not hold a reverse repo auction, so that no additional kuna liquidity was issued through that instrument. There were no major foreign exchange transactions between the central bank and the government either in July or in August. In September, the CNB sold a net amount of EUR 2.4m to the MoF for the repayment of a World Bank PAL, with HRK 17.7m withdrawn from circulation as a result. The central bank issued a total of HRK 0.32bn (net) through foreign exchange market transactions with banks and the MoF in the third quarter 2006.¹⁸

The kuna/euro exchange rate appreciated nominally by 0.5% in the last quarter of 2006, rising from HRK 7.38/EUR on 30 September to HRK 7.35/EUR on 31 December. This period saw five central bank's foreign exchange interventions¹⁹ aimed at curbing strong appreciation pressures, with the resulting EUR 746.7m purchased from banks. Of this amount, EUR 537.8m²⁰ represented central bank purchases from banks at foreign exchange auctions, while with EUR 208.9m was purchased from Zagrebačka banka d.d. the CNB created HRK 1.5bn, helping a smooth execution of share purchase and sale transactions related to the Pliva d.d. takeover at the existing liquidity level. In the last quarter 2006, the CNB created a considerable HRK 5.5bn of kuna liquidity through foreign exchange transactions with banks, including the bilateral foreign exchange transaction with Zagrebačka banka d.d. Also in the last quarter, the CNB net sold EUR 417.1m worth of foreign exchange to the MoF. This amount was largely used to repay a syndicated bank loan, while a smaller portion was utilised for the repayments of World Bank loans granted to Croatia.²¹ The HRK 3.1bn withdrawn from circulation as a result significantly lowered kuna liquidity created by CNB's transactions with banks in the observed period. The central bank issued a total of HRK 2.42bn (net) through foreign exchange market transactions in the last quarter 2006.

The nominal exchange rate of the kuna against the US dollar stopped depreciating in 2006, having weakened by 10.6% in 2005. The kuna/US dollar exchange rate strengthened by a total of 10.5% in 2006, up from HRK 6.23/USD on 31 December 2005 to HRK 5.58/USD on 31

18 This includes a foreign exchange auction held on 30 June 2006, with value date of 4 July 2006, as it produced a monetary effect (issue of the kuna) in the third quarter. A total of EUR 175.3m was purchased from banks at the said auction.

19 This includes only the interventions which had a monetary effect in the last quarter 2006, so that the total foreign exchange amount purchased from banks in that period includes the amount of the foreign exchange intervention held on 29 September, value date 3 October, but does not include the amount of the foreign exchange intervention held on 28 December, value date 2 January 2007.

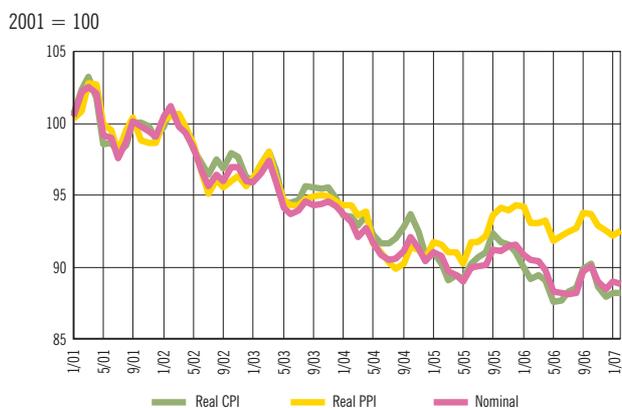
20 EUR 138.7m was purchased at a foreign exchange auction on 29 September, EUR 68.8m on 26 October, EUR 217.4m on 9 November and EUR 112.9m on 28 November.

21 SAL (Structural Adjustment Loan) and EFSAL (Enterprise and Financial Sector Adjustment Loan).

December 2006. The exchange rate strengthening was primarily due to the weakening of the US dollar against the euro on global foreign currency exchanges. The developments in the US dollar/euro exchange rate were primarily due to market expectations related to the monetary policy orientation in the US and eurozone. The said depreciation of the US dollar versus the euro was to a large degree in consequence of the narrowing of the interest rate spread between the US and eurozone. The ECB raised its benchmark rate five times in 2006, while the Fed increased its benchmark rate four times in the same period. The eurozone benchmark interest rate rose by 1.25 percentage points in 2006, from 2.25% to 3.50%, whereas the US benchmark rate rose by 1.0 percentage point, from 4.25% to 5.25% in the same period. The weakening of the US dollar in 2006 was also due to a growing market concern over the high US trade deficit and some central banks' announcements regarding the reduction of the US dollar share in their foreign exchange reserves. In addition to appreciating against the euro and US dollar, the kuna also appreciated against the Swiss franc (by 3.6%) and Slovene tolar (by 0.5%) in 2006, while it depreciated by 1.8% against the pound sterling. As a result, the index of the daily nominal effective exchange rate of the kuna appreciated by 3.3% from 31 December 2005 to 31 December 2006.

Data on the movements in the index of the real effective kuna exchange rate in 2006²² indicate a slight worsening of the indicators of exports price competitiveness. The index of the real effective kuna exchange rate deflated by producer prices appreciated by 1.9% in 2006. This was below the 3.4% appreciation of the average monthly index of the nominal effective kuna exchange rate, due to a much faster growth of producer prices abroad (primarily in the eurozone) than on the domestic market in the observed period. The nominal appreciation of the effective exchange rate of the kuna primarily resulted from a strong nominal appreciation of the average daily exchange rate of the kuna against the US dollar of 10.7% in December 2006 relative to December 2005. The index of the real effective kuna exchange rate deflated by consumer prices appreciated by 3.3% in 2006, in consequence of a slightly slower growth of domestic consumer prices relative to foreign prices (in the USA, Slovenia and Great Britain).

1.27 Indices³ of the Nominal and Real Effective Kuna Exchange Rate with Consumer and Producer Prices



³ The fall of index denotes appreciation of the kuna.

Source: CNB.

Exchange Rate Developments in the First Four Months of 2007

The kuna/euro exchange rate slightly weakened (0.4%) in the first four months of 2007, with the euro rising from HRK 7.35 at end-2006 to HRK 7.37 at end-April 2007. In addition to seasonal demand growth in January, the depreciation of the kuna/euro exchange rate was also caused by an increase in corporate demand for foreign exchange in March. Slight depreciation pressures in January 2007 stemmed from a growing demand for foreign exchange required to settle government external debt and enterprises' short-term external liabilities. The central bank purchased EUR 177.0m from banks at a foreign exchange auction held on 28 December 2006, realising a monetary effect (HRK 1.3bn issue) in January 2007. The kuna/euro exchange rate was relatively stable in February. Liquidity in the system remained good despite a new government bond issue of 8 February, worth HRK 2.5bn. Appreciation pressures were mild in February, while the exchange rate of the kuna strengthened by 0.4% against the euro, rising from HRK 7.37 on 31 January to HRK 7.35 on 28 February. Due to rising corporate demand for foreign exchange the kuna weakened against the euro by 0.5% in March,

²² December 2006 compared with December 2005.

strengthening only by 0.1% in nominal terms in April. As in the previous three months, the central bank did not hold any foreign exchange auctions in April, while banks meet their kuna liquidity needs at regular reverse repo auctions. CNB's foreign exchange transactions with the government in the first four months of 2007 resulted in EUR 152.4m net sold to the MoF and HRK 1.1bn withdrawn from circulation. The CNB issued a net amount of HRK 0.2bn through foreign exchange market transactions in the said period.

The kuna exchange rate continued to appreciate against the US dollar in the first four months in 2007 from the previous year. Due to the weakening of the US dollar against the euro on the world foreign exchange market, the kuna/US dollar exchange rate strengthened by 2.9% in the said period, from HRK 5.58/USD on 31 December 2006 to HRK 5.41/USD on 30 April 2007. The US dollar appreciated against the euro in January due to favourable economic indicators released in the US in that month, pointing, for example, to industrial production growth, unforeseen employment growth and a lower than expected trade deficit increase. The euro strengthened against the US dollar in February, which is attributable to good economic indicators in the eurozone in that period (e.g. higher than expected GDP growth in Germany, France and Italy in the last quarter 2006) and expectations of a continued rise in the eurozone benchmark interest rate. The US dollar also weakened against the euro in February on account of adverse economic indicators released in the US in that month (e.g. of a higher than expected trade deficit increase and the downward revision of the GDP growth rate for the last quarter 2006 from 3.5% to 2.2%). The US dollar weakened further against the euro in March and April, primarily due to the narrowing of the spread between interest rates in the US and eurozone, caused by an increase in the ECB's benchmark interest rate of 0.25 percentage points in March (to 3.75%), with the Fed's rate remaining unchanged at 5.25%. Additionally contributing to the weakening of the US dollar were market concerns over the US economic slowdown, driven, among other things, by unfavourable indicators in the mortgage loan market. In addition to the nominal depreciation against the euro and appreciation against the US dollar, the kuna appreciated by 1.3% against the pound of sterling and by 1.9% against the Swiss franc in the first four months of 2007. As a result, the index of the daily nominal effective kuna exchange rate slightly appreciated by 0.6% against the basket of currencies from 31 December 2006 to 30 April 2007.

The latest available data suggest that the indicators of export price competitiveness slightly improved in the first two months of 2007. The index of the real effective kuna exchange rate deflated by consumer prices depreciated by 0.2% from December 2006 to February 2007, while the same index deflated by producer prices depreciated by a minor 0.02%. The average monthly index of the nominal effective kuna exchange rate depreciated by 0.5% in the said period. Accordingly, the differences between the nominal and real effective depreciation of the kuna exchange rate reflect a somewhat faster growth of domestic prices over foreign prices.

1.2.5 Monetary Developments and International Reserves

The year 2006 was marked by accelerated growth of domestic economy as well as further worsening of the country's external position. The inflows of foreign capital into Croatia, partly achieved through direct investment, most notably in the form of bank recapitalisation, and partly through increasing borrowing and external debt growth, exceeded those in the previous years and generated stronger appreciation pressures on the exchange rate of the kuna. In response, the CNB intensified its foreign exchange purchase transactions with the banks, thus absorbing a share of the foreign capital inflow and alleviating strong appreciation pressures on the exchange rate of the kuna. CNB's foreign exchange operations, which took place in the conditions of falling inflation, also ensured high kuna liquidity. Average annual consumer price index growth in 2006 was 3.2%, while the annual rate of inflation at end-2006 was 2.0%.

In 2006, the CNB continued to take measures to mitigate external imbalances, relying primarily on those aimed at slowing down banks' external debt growth. In 2006, the central bank also made amendments to its existing and introduced new monetary policy instruments in an

effort to make foreign borrowing of banks more expensive and thus slow down strong credit growth.

The beginning of 2006 saw the entry into force of CNB Council decision on the marginal reserve requirement, under which the central bank in addition to widening the base for the calculation of marginal reserve requirement raised, for the third time since this instrument's introduction, the marginal reserve requirement rate from 40% to 55%. In February 2006, the central bank introduced a special reserve requirement, a measure aimed at slowing down banks' borrowing based on debt securities issued in the domestic market and discouraging their sale in the secondary market by residents to non-residents and foreign banks and their use as a new means of indirect borrowing abroad.²³

The adjustment of monetary policy instruments in 2006 also included amendments to prudential regulations, some of which were aimed at strengthening the efficacy of measures for slowing down credit growth and foreign borrowing. The amendments introduced included most notably those made to the Decision on the classification of placements and contingent liabilities of banks and Decision on the capital adequacy of banks. The most important feature of these amendments was identification of currency induced credit risk as a constituent part of credit risk. As provided by this Decision, the banks have to monitor, analyse and assess adjustment of debtors' foreign currency position and adaptability of their cash flows to any variability in their liabilities levels which might occur as a result of exchange rate changes. As creditors, the banks have to allocate additional capital to protect themselves from any unfavourable effects that such changes can bring. The central bank also issued Guidelines for Managing Credit Risk Arising from Placements to Households. Under June 2006 Decision on amendments to the Decision on the classification of placements and contingent liabilities of banks, it also tightened its risk criterion as regards the annual rate of growth of assets and off-balance sheet contingent liabilities of banks, imposing upon the banks the obligation to set up reserves for general bank risks for any growth exceeding 15% in the current year compared with the previous year balance. Until June 2006, the marginal exposure growth was 20%, and the specific reserves rate to be allocated stood at 0.25% of the value of assets and off-balance sheet items in the current year. The rate of specific reserves increases with any acceleration in the growth of assets and off-balance sheet items. In addition, the Decision on the capital adequacy of banks, in the part which defines the calculation of credit risk-weighted assets, provides risk weights for bank claims, either in foreign currency or indexed to foreign currency, on debtors with unmatched foreign currency position. These changes in prudential measures helped enhance financial stability of the banking system against the backdrop of fast credit growth as seen in increased recapitalisation of banks in 2006.

Faced with restrictive CNB measures and in an effort to further boost the growth of their placements and keep or increase their market shares, the banks took a number of new measures to ensure funds for domestic placements financing. Firstly, they put in stronger marketing efforts to attract additional domestic savings and then undertook to restructure their liabilities (mainly domestic liabilities) by replacing a major share of their foreign currency liabilities by kuna liabilities with a currency clause, given that such sources of funds were more favourable than foreign currency sources, given that they were not covered by the minimum required foreign currency claims obligation. The CNB responded by amending in September 2006 its Decision on the minimum required amount of foreign currency claims and including in total foreign currency liabilities kuna liabilities with a currency clause in an attempt to halt the described restructuring of banks' liabilities, ensure the system's minimum foreign currency liquidity and slow down the growth of placements.

Unlike increase in total external debt of other sectors, external debt of the general government shrank. In 2006, the government continued to borrow domestically through securities (bonds and T-bills of the Ministry of Finance) issues and through bank loans, supported by the central

²³ For more detailed description of the widening of the base for the calculation of the marginal reserve requirement and other changes in monetary policy instruments, see Chapter 2.1 Monetary Policy Instruments.

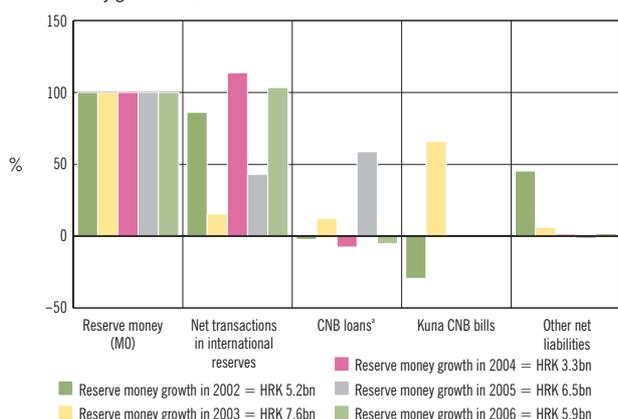
bank which ensured good kuna liquidity. The government thus managed to secure without difficulty funds needed to finance its current liabilities and payment of its due foreign liabilities.

Monetary Policy and Flows of Creating and Withdrawing Reserve Money

Good kuna liquidity marked the entire 2006 and the main flows of creating and withdrawing liquidity were foreign exchange transactions of the central bank. In an effort to prevent short-term volatility of the exchange rate of the domestic currency, the central bank intervened in the foreign exchange market 12 times in 2006, of which 11 foreign exchange interventions involved purchases of foreign currency from the banks. Foreign exchange interventions, which helped create kuna liquidity in the previous year, together with a bilateral purchase of foreign currency in the last quarter of 2006, ensured the level of liquidity needed for a smooth purchase/sale transaction of Pliva d.d. The only foreign exchange intervention at which the central bank sold foreign currency took place in September, in the wake of amendments to the Decision on the minimum required amount of foreign currency claims due to stronger demand for foreign currency which led to depreciation pressures on the exchange rate of the domestic currency.

1.28 Shares of Monetary Policy Instruments in Reserve Money Creation and Withdrawal

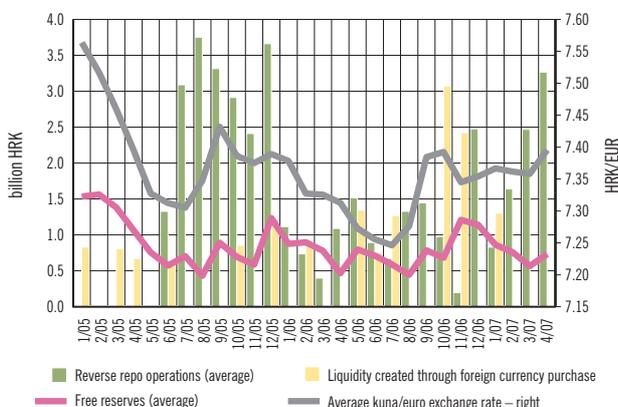
reserve money growth = 100%



* CNB loans in 2005 and 2006 include the reverse repo operations.

Source: CNB.

1.29 Kuna Liquidity Creation through Reverse Repo Operations and Foreign Currency Purchase from Banks



Source: CNB.

In its foreign exchange transactions with the banks in 2006, the central bank purchased net EUR 1.2bn, creating HRK 8.8bn, which is an increase of HRK 3.8bn compared with 2005. In addition to foreign exchange transactions with the banks, creation and withdrawal of liquidity are also affected by foreign currency purchase and sale transactions with the central government. In such transactions, the CNB sold to the central government in 2006 a net total of EUR 438m, withdrawing from the system a net HRK 3.2bn. The most significant transaction took place in December when the government purchased from the central bank, for the settlement of its due syndicated loan with seven domestic banks, EUR 411 m, which had a withdrawal effect of HRK 3bn.

Since the beginning of introduction of open market operations in the context of a new implementing monetary policy framework back in April 2005, and with the view to harmonising its instruments with those of the European Central Banks, the CNB improved its monetary system short-term kuna liquidity management. Thus the creation and withdrawal of reserve money in 2006, except through foreign exchange interventions, continued to take place through open market operations, most notably through regular weekly reverse repo auctions. The room for these operations largely depends on the intensity and size of liquidity created through foreign exchange transactions. Accordingly, rapid growth of reserve money created through foreign exchange interventions reduced the need for additional liquidity creation through open market operations in 2006.

The average amount of funds placed at regular weekly reverse repo auctions in 2006 more than halved compared with the year 2005. Of the total of 50 reverse repo auctions in 2006, there was turnover at 45 of them, averaging HRK 1.2bn, compared with the HRK 2.8bn a year before. Except at several auctions in January and February when due to the system's high liquidity some of the bids were rejected, and one auction in February when the marginal repo

rate was raised by 0.05 percentage points, the central bank fully accepted the received bids and created the needed liquidity at the marginal repo rate of 3.50%. A smaller amount of liquidity created at regular reverse repo auctions in 2006 does not belittle the contribution of this monetary policy instrument in improving short-term domestic liquidity management. This can best be seen in reduced interest rate volatility on the money market, which also benefited from changes in implementing monetary policy decisions which improved the process of reserve requirements calculation, allocation and maintenance.

Apart from regular reverse repo auctions, last year the CNB used fine tuning operations for the first time. Unlike regular operations, fine tuning operations do not have a standard maturity and offer greater flexibility in liquidity creation. In June 2006, Hrvatska poštanska banka d.d. ensured in a repo transaction with the CNB HRK 1.0bn worth of liquidity to finance the first instalment of due government debt to pensioners. In October, after the government repaid its loan using the receipts from the privatisation of Pliva, HPB repurchased its securities from the central bank, with the CNB thus closing its fine tuning bilateral operation.

As regards other forms of liquidity creation, in addition to the intra-day interest-free loan for increasing settlement account limit which the banks used throughout the year, in October 2006, one bank also used HRK 785m worth of the Lombard loan facility. The bank used the money provided under this facility for temporary reserve requirement maintenance during that calculation period. This being the only use of the Lombard loan in 2006 shows that the system's kuna liquidity was good enough not to necessitate more expensive sources of financing such as this loan (7.5% interest rate).

Reserve requirements were again the main instrument of kuna liquidity sterilisation in 2006. Following a decline in the total amount of reserve requirements of banks with the CNB in early 2006, due to January lowering of their calculation rate from 18% to 17%, the kuna reserve requirements steadily increased throughout the rest of the year. The total calculated kuna reserve requirements rose by HRK 4.0bn in 2006, with funds allocated in the account of kuna reserve requirement accounting for HRK 2.8bn of this increase while kuna reserve requirements which the banks are obliged to meet by maintaining an average balance of funds in their settlement accounts and in bank vaults accounted for the remaining HRK 1.2bn of the total (30% of total reserve requirements calculated). In December 2006, total kuna reserve requirements were HRK 29.2bn which is an increase of 16.0% compared with the year before.

Increased kuna reserve requirements in 2006 were due primarily to the restructuring of banks' liabilities, whereby the banks attempted to replace foreign currency deposits by "more favourable" kuna deposits with a currency clause, thus helping them reduce the base for the maintenance of minimum foreign currency liquidity and liberate funds for further credit growth. Following September amendments to the Decision on the minimum required amount of foreign currency claims, kuna reserve requirements continued to grow, mainly due to faster growth of kuna deposits without a currency clause.

As regards foreign currency reserve requirements, since recovery of foreign sources of funds in the last quarter of 2006 failed to offset their decline in the first nine months, foreign currency reserve requirements of banks fell by HRK 0.6bn or by 5.0% in 2006. In December 2006, the calculated foreign currency reserve requirements were HRK 11.8bn.

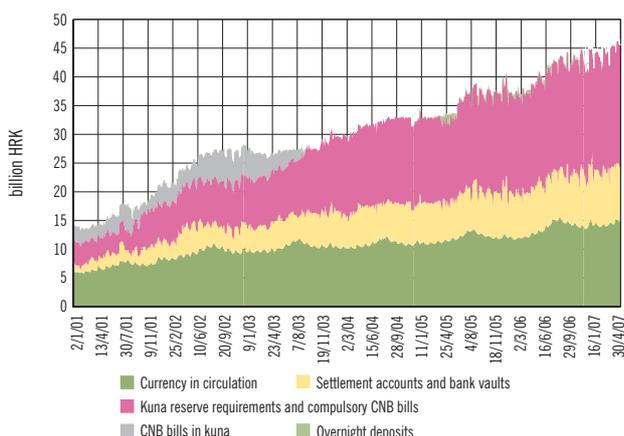
To finance their heightened credit activities in 2006, the banks partly continued to rely on foreign borrowing. As a result, the increase in foreign liabilities of banks, coupled with raised marginal reserve requirements rate of 55% led to an increase in marginal reserve requirements set aside with the central bank. The dynamics of foreign borrowing of banks and, in the same vein, of marginal reserve requirements throughout the year depended on developments in domestic sources of funds and seasonality of banks' credit activities. Following a strong increase in foreign liabilities of banks in early 2006, seasonal growth of domestic sources of funds during the summer months made it possible for the banks to reduce their foreign liabilities, although the last quarter of the year saw a resurgence of intensified foreign borrowing of banks. The marginal reserve requirements of banks rose by a total HRK 3.5bn last year, standing at HRK 7.8bn at the end of 2006.

Reserve Money and International Reserves

In 2006, reserve money (M0) rose by a total of HRK 5.9bn or by 14.7%. Compared with 2005, reserve money growth decelerated by 4.4 percentage points in 2006. Slower growth of M0 in 2006 was caused to a large extent by structural changes in monetary policy instruments involving a one percentage point reduction early in the year in the reserve requirement rate which was down to 17% from the previous year 18%, while its faster growth in 2005 was due to an increase from 42% to 50% in May that year in the foreign currency share of reserve requirements that is allocated in kuna. The annual growth rates of M0 in 2005 and 2006 are therefore not comparable.

Banks' demand for reserve money in 2006 was fuelled by autonomous growth of the base for the calculation of kuna reserve requirements due to strong growth of kuna sources of funds. In addition, the increase in reserve money was typically caused by seasonal factors such as heightened demand for currency in the main tourist season during the summer months and during increased holiday spending in December. Developments in M0 in the last quarter of 2006 were also influenced by developments in the capital market after the central bank engaged more actively in reserve money creation in the last quarter of the year to ensure a smooth transaction of the sale of Pliva d.d. and mitigate appreciation pressures emerged during the process of privatisation of a part of Ina. With an increase of HRK 4.0bn in the last quarter of 2006, reserve money reached HRK 46.3bn at the end of the year.

1.30 Structure and Daily Changes of Reserve Money and CNB Bills



Source: CNB.

As regards reserve money structure, all its main components grew fast in 2006. Bank deposits with the CNB rose by HRK 3.0bn (11.6%), currency outside banks by HRK 2.4bn (20.1%), and funds in bank vaults rose by HRK 0.5bn (22.0%).

The most significant item of bank deposits with the CNB is the allocated reserve requirement in kuna (including special reserve requirement), which rose by HRK 2.9bn in 2006. Given that 50% of foreign currency reserve requirements are allocated in kuna, the growth of foreign currency deposits also causes an increase in kuna reserve requirements. However, the increase in kuna reserve requirements in 2006 can fully be attributed to the growth of household kuna savings, i.e. to an increase in the base for the calculation of kuna reserve requirements. The reserve requirements allocated in kuna stood at HRK 20.5bn at end-2006, which is an increase

of 16.3% compared with the end of the previous year.

In addition to kuna reserve requirements allocated, bank deposits with the CNB also include settlement accounts and overnight bank deposits. Of all the components of reserve money, settlement accounts commonly fluctuate the most. With regular inflows and outflows across those accounts, a part of the reason for that lies in the fact that banks tend to accumulate surplus liquidity at the beginning of the reserve requirement maintenance period while at the end of that period, after they have met their reserve requirement obligation, they channel the surplus liquidity from the settlement account to overnight deposits with the central bank. The average settlement account balance was HRK 6.3bn in 2006, which is an increase of 11.5% compared with its average balance in 2005. The average balance of overnight deposits with the central bank was HRK 0.4bn in 2006, almost equalling that in the previous year. As in the year before, towards the end of 2006, banks' transaction accounts boasted great liquidity surpluses. At end-2006, total balance in the banks' settlement accounts with the CNB was HRK 8.5bn.

Total funds in banks' vaults rose by 22.0% or HRK 0.5bn in 2006. Developments in this component of reserve money are seasonally determined and depend on demand for currency, i.e. banks' currency needs. The average balance of funds in banks' vaults in 2006 was HRK 2.1bn, rising by 18.8% compared with the year before.

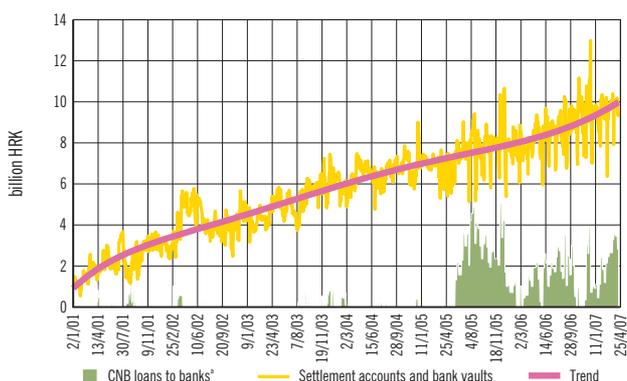
In addition to bank deposits with the CNB and funds in banks' vaults, currency outside banks also grew by a fast 20.1% in 2006. Developments in this monetary aggregate, except the usual seasonal factors, were also caused by June and December repayments of debt to pensioners. At end-2006, currency outside banks was HRK 14.6bn, while its average daily balance rose by 13.0% compared with its averaged daily balance in 2005.

Central government deposits with the CNB averaged HRK 355m in 2006, falling by almost one half compared with their average balance in the previous year (HRK 633m). Government deposits in the accounts with the central bank were also characterised by reduced volatility in 2006. The fall in their average balance is a development carried over from 2005 and is indicative of improved liquidity management of the central government. Temporary jumps in government deposits due to large payments or disbursements (such as those occurring on the day of government bond issuing or when temporary deposits are made prior to settlement of payment obligations) were also observed in 2006, but they involved much smaller amounts than in the previous year.

At the end of 2006, total government deposits with the central bank were HRK 188m. As regards their structure, kuna deposits accounted for their largest share (HRK 175m) while government deposits in foreign currency accounted for the remaining share (HRK 13m). With the exception of the beginning of the year when the central bank deposited over HRK 1.0bn worth of foreign currency funds received under the Programmatic Adjustment Loan 1 (PAL1) (EUR 150m), government deposits with the CNB did not undergo any considerable change during 2006.

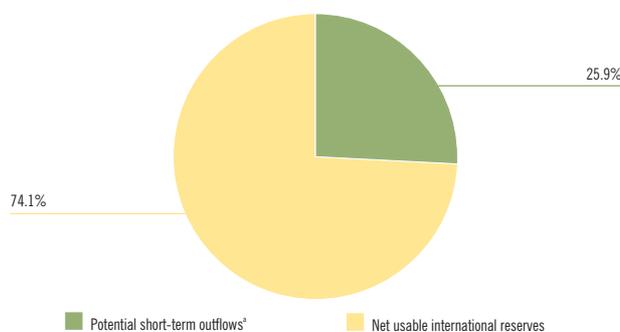
International reserves of the CNB rose by a record EUR 1,287m in 2006, largely due to the net purchase of EUR 1,204m worth of foreign currency from the banks. At the same time, the net sale of foreign currency to the central government amounting to EUR 438m caused an outflow. Apart from foreign currency transactions, changes in international reserves in 2006 were also brought about by a strong growth in marginal reserve requirements which rose by EUR 482m in that year. Other changes in international reserves in 2006 can be attributed to income from investment of international reserves and exchange rate differences. At end-2006, international reserves of the CNB were EUR 8,725m. Net usable international reserves, with potential foreign currency outflows excluded, rose by EUR 860m in 2006 and stood at EUR 6,464m at end-December.

1.31 Banks' Settlement Accounts with the CNB and Liquidity Loans



* CNB loans in 2005 include the reverse repo operations.
Source: CNB.

1.32 Structure of Total CNB International Reserves as at 31 December 2006



* Potential short-term outflows comprise CNB foreign liabilities, reserve requirements in f/c, government foreign currency deposits and CNB bills in f/c.
Source: CNB.

Monetary Policy in the First Four Months of 2007

Early 2007 was marked by the introduction of measures aimed at slowing down placements growth in 2007, indicating further CNB's commitment towards halting the negative trends in the country's external position, most notably external debt growth and widening of the current account deficit, fuelled by expansive credit policy of banks based on foreign sources.

The instrument of marginal reserve requirement which was first introduced in mid-2004, and further tightened in 2005 and 2006, made foreign borrowing of banks more expensive. Also, since September 2006, the central bank has included in the base for the calculation of the minimum required amount of foreign currency claims of banks kuna liabilities with a currency

clause, in an effort to strengthen the system’s minimum foreign exchange liquidity and slow down the growth of placements. All these measures notwithstanding, the growth of bank loans in 2006 was still very fast and stood at 22.9%, prompting the central bank to issue in December 2006 its Decision on the subscription of compulsory CNB bills, whereby the “non-taxable” growth of bank placements in 2007 was to be restricted to 12%.

The initially permissible monthly growth rate of placements was 1%, or 12% annually. Under the February 2007 amendments to the Decision, the permissible growth of placements was set at 12% for all the calculation periods. This provided greater flexibility to banks in planning their credit growth dynamics and allowing for seasonal developments in placements during the year. The base for the subscription of compulsory CNB bills is the positive difference between the balance of placements at the end of the calculation period, or the last day of the month, and the balance of placements as at 31 December 2006, reduced by the amount arrived at by applying the 12% permissible growth rate of placements for an individual calculation period. In other words, the base consists of any increase in placements above the permissible level, while the rate of subscription of compulsory CNB bills stands at 50%.

Monetary environment in early 2007 was very stable and marked by good kuna liquidity and absence of any distinct pressure on the exchange rate of the domestic currency. In the first four months of the year, the central bank did not intervene in the foreign exchange market, so that reserve money creation took place at regular weekly reverse repo auctions. January was characterised by lower amounts of funds placed at regular reverse repo auctions, while stronger demand for kuna in the next period was met by larger amounts of liquidity created at reverse repo auctions. At the total of 17 auctions in the first four months of 2007, the average amount of liquidity created was HRK 2.0bn. During that period, the CNB accepted all the bids received from the banks and created liquidity at an unchanged marginal repo rate of 3.5%.

March 2007 saw a formal conclusion of the period allowed for banks’ adjustment to the amended decision on the minimum required amount of foreign currency claims. Despite a fall in their foreign assets, the banks on the whole met the prescribed 32% minimum foreign currency liquidity already towards the end of 2006, by replacing their kuna liabilities with a currency clause with those without a currency clause. According to March data, the system’s liquid foreign currency claims covered 33.0% of the system’s foreign currency liabilities, kuna liabilities with a currency clause included.

Developments in Monetary and Credit Aggregates

Monetary developments in 2006 were marked by a rapid growth of bank placements generated by foreign borrowing of banks and funds obtained for bank recapitalisation purposes and, most importantly, household and corporate deposits. As a result of central bank measures which made foreign financing in 2006 even more expensive than it had been before, the banks actively encouraged domestic sector savings. This resulted in accelerated growth of almost all monetary and credit aggregates.

1.33 Monetary Aggregates

year-on-year rate of change



Source: CNB.

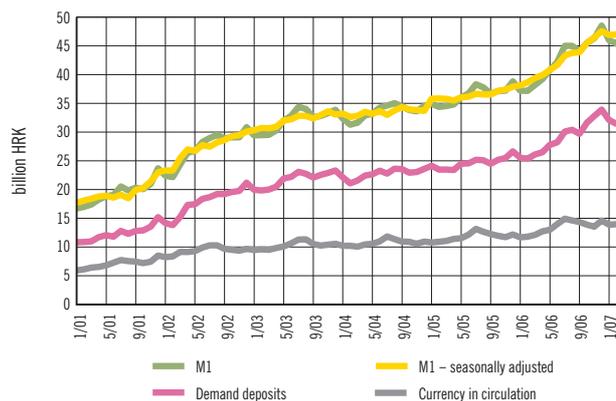
Total liquid assets (M4) rose by 18.0% in 2006, which is a strong acceleration compared with the previous year when their growth rate stood at 10.5%. If we exclude the effect of the slight appreciation of the exchange rate of the kuna which caused a decline in the kuna amount of all foreign and foreign currency indexed kuna items, the annual growth rate of this monetary aggregate was somewhat faster (18.6%). The acceleration in the growth of M4 can primarily be attributed to money (M1) and kuna non-monetary deposits, while the growth of foreign currency deposits in 2006 slowed down considerably in 2006. With a nominal increase of HRK 27.8bn, total liquid assets reached HRK 182.5bn at the end of the year.

As regards money (M1), following a decline common for the beginning of the year, the remaining part of the year witnessed its steady accelerated growth until year-end resulting in a more than twice faster annual growth rate of M1 compared with the previous year (25.0%). At end-2006, money reached HRK 48.5bn which is an increase of HRK 9.7bn compared with the end of 2005.

Demand deposits were the main generator of M1's robust growth in 2006, accounting for a little over two thirds of total money. In absolute terms, demand deposits rose by as much as HRK 7.3bn, of which over one half (HRK 4.2bn) of the increase can be attributed to the last quarter. The robust growth of this monetary aggregate was due to increased funds in current and giro accounts of the household and the corporate sectors as the two most significant sectors, coinciding with fast growth of bank loans granted to these sectors. In 2006, household and corporate demand deposits increased by HRK 3.5bn (32.9%) and HRK 3.3bn (25.1%), respectively. Total demand deposits reached HRK 33.9bn at end-2006, growing annually by 27.2%, which is an increase of 14.3 percentage points compared with the year before.

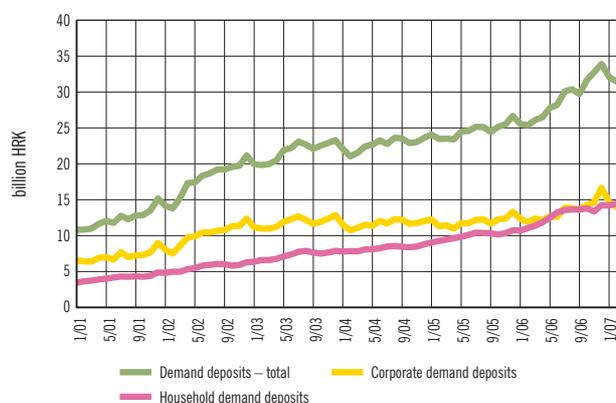
The other component of money, currency outside banks, also grew much faster than in 2005, its growth rate standing at 20.1% in 2006, which is an increase of 9.1 percentage points compared with the year before. A large contribution to currency's faster growth was provided by payment of two instalments of the debt to pensioners, one at the end of June and one in December. On account of the usual seasonal demand, currency outside banks reached its highest level in the second half of December. At the end of the year, currency outside banks was HRK 14.6bn, its average balance in 2006 higher by HRK 1.6bn compared with the previous year.

1.34 Money (M1)



Source: CNB.

1.35 Demand Deposits



Source: CNB.

Kuna and Foreign Currency Non-Monetary Deposits

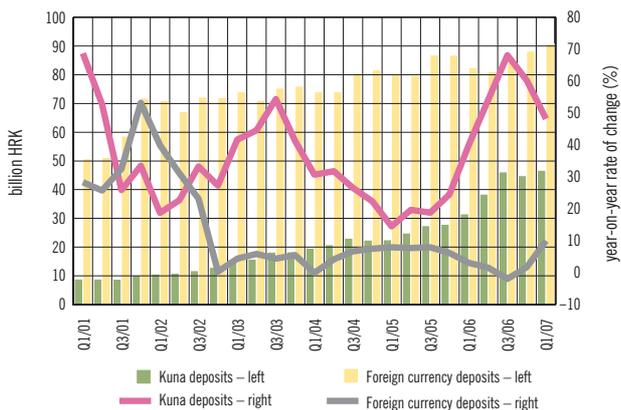
Fast growth of kuna non-monetary deposits was one of the most important features of monetary developments in 2006. Kuna deposits rose by HRK 16.8bn, their annual growth rate having almost tripled (up from 24.5% in 2005 to 60.2% in 2006). The growth of kuna deposits was particularly pronounced in the first nine months of 2006 due to strong growth of kuna time deposits with a currency clause which rose by a high HRK 11.4bn during that period. Since the beginning of 2006, the banks made efforts to attract kuna savings with a currency clause by offering more favourable conditions for this type of savings which were until September last year exempted from the minimum required foreign currency claims obligation. They also encouraged banks to replace their existing foreign currency deposits with kuna deposits with a currency clause, thus freeing some of the funds that had previously been placed abroad to maintain the minimum foreign currency liquidity.

The September amendments to the Decision on the minimum required amount of foreign currency claims which provided for the inclusion of kuna liabilities with a currency clause into foreign currency liabilities, put a stop to the rapid kuna deposits growth trend in the fourth quarter of 2006. In adjusting to the amended decision, the banks replaced a large share of their "indexed" kuna savings by kuna savings without foreign currency indexation, with the share of "indexed" kuna deposits in total kuna deposits falling from 49.7% at end-September (their maximum share in 2006) to 36.2% at end-December. With some of the "indexed"

kuna deposits being replaced by foreign currency deposits, total kuna non-monetary deposits declined by HRK 1.3bn in the last quarter of the year and stood at HRK 44.8bn at the end of the year.

Looking by sectors, the largest contribution to kuna deposits growth was provided by household kuna savings which rose by HRK 7.9bn in 2006. At end-December 2006, household kuna deposits were HRK 23.5bn, growing annually by 50.5%. Corporate kuna deposits also grew sharply (81.4%). Their increase was partly caused by a large inflow of funds from direct corporate borrowing abroad. At end-2006, corporate kuna deposits were HRK 14.8bn, increasing by HRK 6.5bn compared with end-2005.

1.36 Kuna and Foreign Currency Deposits



Source: CNB.

The growth of foreign currency deposits slowed down considerably in 2006. Their annual growth rate shrank by 4.4 percentage points compared with the year before and stood at 1.7% at the end of 2006. Following steep fall in the first two quarters, mainly due to the restructuring of bank liabilities, the growth of foreign currency deposits recovered in the remaining part of the year. Recovery in the second half of 2006 was due to foreign currency inflows during the main tourist season and September amendments to the central bank decision on the minimum foreign currency liquidity. Increasing by HRK 1.5bn, total foreign currency deposits reached HRK 88.3bn at the end of 2006, with their share in total liquid assets falling below 50% for the first time in the past ten years.

A slowdown in the growth of foreign currency deposits was mostly due to a HRK 0.9bn (7.0%) fall in corporate foreign currency deposits in 2006. Their developments during the year were largely due to banks' efforts first to encourage kuna savings with a currency clause, and then towards the end of the year, kuna savings without a currency clause. At end-2006, corporate foreign currency deposits were HRK 11.6bn. Household foreign currency deposits rose by HRK 1.9bn in 2006. Compared with the year before, their growth slowed down considerably, with their annual growth rate falling from 6.8% in 2005 to 2.5% in 2006. At end-2006, household foreign currency deposits were HRK 74.8bn.

Developments in kuna and foreign currency deposits in 2006 led to a change in the currency structure of total non-monetary deposits. The share of foreign currency deposits, with kuna deposits with a currency clause added, in total non-monetary deposits fell from 85.5% at end-2005 to 78.5% at end-2006.

Banks' Placements

The growth of bank placements to the non-banking sector intensified in 2006. The annual growth rate of placements was up from 17.2% at end-2005 to 22.9% at end 2006 (24.7%, exchange rate effects excluded). Such developments were caused by increased bank financing of the corporate sector and still strong household demand for loans. A contribution to the accelerated growth of placements was provided by more favourable lending conditions for the domestic sector, made possible by expansive credit policies of banks. Placements' growth was particularly strong in December 2006, reflecting efforts of a number of banks to realise in advance some of their placements planned for early 2007, in anticipation of CNB decision "restricting" the growth of placements to 12% in 2007 and to raise their base for the calculation of permissible placements growth in 2007. With total annual increase of HRK 34.2bn, bank placements to the non-banking sector reached HRK 183.4bn at end-2006.

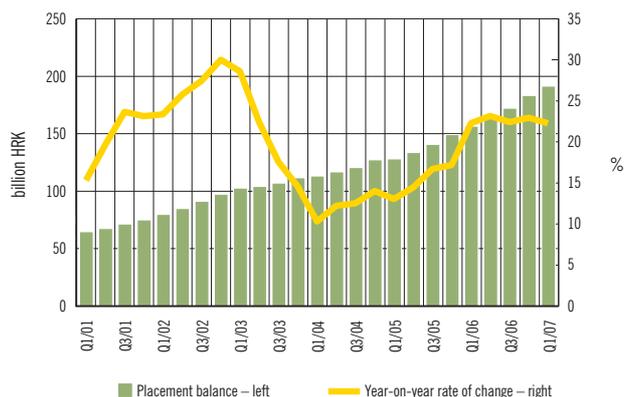
In terms of bank placements structure, loans granted account for the largest share (over 95%) of bank placements. In 2006, bank loans granted to the non-banking sector rose by HRK

33.8bn or 23.6% which is an increase of HRK 11.7bn compared with their increase in 2005.

Unlike previous years when banks used to channel almost their entire loan supply to the household sector, the year 2006 saw acceleration in the growth of loans to the corporate sectors. In that year, bank loans to the corporate sector rose by HRK 16.2bn, which is more than their cumulative increase in the previous three years. Their annual growth rate reached 26.1% in 2006, for the first time in the past ten years exceeding the growth rate of loans to the household sector. At end-2006, loans to the corporate sector reached HRK 78.3bn.

Accelerated corporate lending notwithstanding, the largest share of the total loan increase in absolute terms in 2006 went to household loans. In 2006, they rose by HRK 17.1bn which is an increase of HRK 3.9bn compared with the year before. At end-2006, loans to the household sector were HRK 95.7bn, growing annually by 21.8%. Looking by loan types, household loans were their fastest growing segment, having increased by HRK 9.4bn in 2006 alone. Their annual growth rate steadily held above 30% throughout the year, with their accelerated growth being partly attributable to fast real estate price growth. Total housing loans granted at end-2006 were HRK 36.9bn and accounted for 39% of total household loans. Other loans, including all purpose loans and current account overdraft facilities accounted for the largest share of the remaining loans. In 2006, other household loans rose by HRK 6.5bn, standing at HRK 42.4bn at the end of the year, with their annual growth rate standing at 18.0%.

1.37 Banks' Placements to Non-Banking Sector



Source: CNB.

1.38 Banks' Loans

year-on-year rate of change



Source: CNB.

Banks' Net Claims on the Central Government

The central government improved its position towards the banks in 2006. This can be explained by further fiscal consolidation and development of other financial institutions in Croatia, making it possible for the government to continue to finance its needs on the domestic market while at the same time reducing its liabilities towards domestic banks.

Following strong government financing in the first two quarters, the second part of 2006 saw a considerable fall in banks' claims on the central government, mainly due to privatisation receipts partly used by the government for the settlement of its due obligations towards domestic banks. The largest share of the fall in banks' claims in the second half of the year could be attributed to the December repayment of the syndicated foreign currency loan (EUR 400m) granted in the first half of the year. Total bank claims on the central government fell by HRK 0.9bn in 2006, standing at HRK 27.9bn at the end of the year, a 3.3% decline compared with the end of previous year.

In addition, central government deposits with the banks rose by HRK 1.4bn in 2006, so that, together with the HRK 0.9bn fall in banks' claims on the central government, net banks' claims on the central government declined by HRK 2.3bn or 12% in 2006, standing at HRK 16.9bn at the end of the year.

Developments in Foreign Assets and Liabilities

Accelerated growth of placements in 2006 was partly financed by foreign sources. Foreign liabilities of banks rose by almost HRK 9.0bn in 2006 which is an increase of HRK 3.0bn compared with their increase in 2005. Developments in foreign liabilities during 2006 were due to developments in domestic sources of funds and credit activities of banks. After increased foreign borrowing in the first half of the year, the summer months saw a fall in foreign liabilities of banks due to the seasonal growth of domestic sources of funds, but towards the end of the year, foreign bank borrowing of banks intensified again. At end-2006, foreign liabilities of banks reached HRK 76.1bn, having increased 13.4% compared with the end of 2005.

By contrast, developments in foreign assets of banks were different from those in foreign liabilities of banks. After falling in the first half of 2006, and growing seasonally in the third quarter, foreign assets of banks rose steadily in the remaining part of the year reflecting banks' efforts to adjust to the September amendments to the decision on the minimum foreign currency liquidity. Foreign assets of banks increased by a total HRK 4.0bn or 11.4% in 2006, standing at HRK 39.6bn at the end of the year.

Monetary Developments in the First Quarter of 2007

The first quarter of 2007 saw a seasonal fall in money and further growth of non-monetary deposits. The implementation of central bank decision restricting the permissible placements growth in 2007 to 12% caused a slight deceleration of credit activities of banks.

In the first three months of 2007, total liquid assets rose by HRK 2.6bn. As regards the structure of M4, money declined by HRK 1.8bn during that period in contrast with a sharp growth in non-monetary deposits. Non-monetary deposits rose as a result of increase in corporate kuna savings, while the increase in foreign currency deposits mainly involved household deposits. Total liquid assets at end-March 2007 were HRK 185.0bn, growing annually by 20.5%.

As a result of central bank decision on placements growth restriction and smaller seasonal demand, the growth of bank placements in early 2007 slowed down compared with 2006. February amendments to the decision provided for the banks greater flexibility in planning their placements growth during the year, so that March again saw heightened credit activities of banks, largely due to rapid growth of bank placements to the corporate sector, most notably in the form of loans granted for the restructuring of the shipyards. In the first three months of 2007, bank placements to the non-banking sectors increased by HRK 8.2bn, or 4.5%, reaching HRK 191.6bn at end-March, which is an increase of 22.4% compared with the same month previous year.

The first quarter of 2007 also saw an increase of HRK 1.0bn in foreign liabilities of banks. At the same time foreign assets of banks fell by HRK 3.7bn so net foreign assets of banks fell by a total of HRK 4.7bn in the first quarter and stood at HRK -41.1bn. The anticipated growth of domestic sources of funds coupled with a slowdown in credit activities of banks are expected to lead to moderate foreign borrowing of banks in the remaining part of 2007.

1.2.6 Money Market

The high liquidity in the Croatian money market was in 2006 further improved by a large number of central bank foreign exchange transactions aimed at sterilising a relatively strong foreign exchange inflow, generated through the borrowing by economic entities and financial institutions, recapitalisations of domestic banks and takeover of Pliva d.d. The liquidity remained unaffected in 2006 either by several new kuna government and corporate bond issues or the IPO of Ina, partly due to the central bank promptly responding to market liquidity needs by foreign exchange interventions. The comfortable liquidity was also maintained by 51 CNB's reverse repo auctions, each channelling into the market slightly over HRK 1bn on average, with the marginal repo rate remaining unchanged at 3.50%. Money market interest rates were for

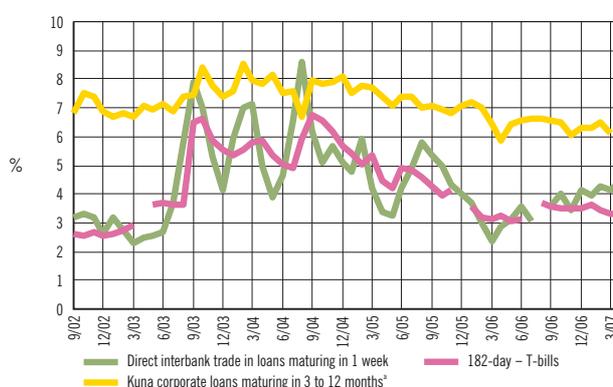
that reason much more stable than in the previous years, but also because of the improvements of the reserve requirement calculation, allocation and maintenance procedure, implemented by the central bank at end-2005.

Despite the very good liquidity of financial intermediaries, the stock of subscribed MoF T-bills was close to HRK 12bn throughout 2006, standing at HRK 12.33bn at end-December, a slight increase of HRK 0.61bn from end-2005. This was to some extent due to the reduced T-bill yield, demonstrating that the government was not required to significantly finance short-term liquidity needs in the said period. In support of this is the fact that, on average, only slightly over a half of investor bids were accepted at T-bill auctions in 2006. This prompted the investors in fixed yield instruments to partially reallocate their funds from T-bills to new kuna government bond issues, worth a total of HRK 6bn, and to as many as eight kuna corporate bonds, totalling HRK 2.74bn. Interest rates on T-bill auctions continued to follow the trends in money market interest rates for the same maturities in 2006.

Due to the good money market liquidity almost all bank lending interest rates continued to drop in 2006, with the exception of interest rates on long-term corporate loans indexed to foreign currency, which grew throughout the year, probably in consequence of the global long-term interest rate increase. This increase failed to push up domestic interest rates on household loans indexed to foreign currency, which was possibly because these loans remained the safest and most stable source of bank earnings.

Interest rates on foreign currency time deposits grew at an even faster rate in 2006 than in the previous years. This was because these deposits remained a cheaper financing source for banks than foreign assets, which were subject to restrictive monetary policy measures aimed at curbing bank external borrowing. Interest rates on kuna time deposits were lower in 2006 than at end-2005, and much less volatile, trending in line with money market interest rates whose volatility decreased sharply over the year.

1.39 Main Short-Term Interest Rates



* Without a currency clause.

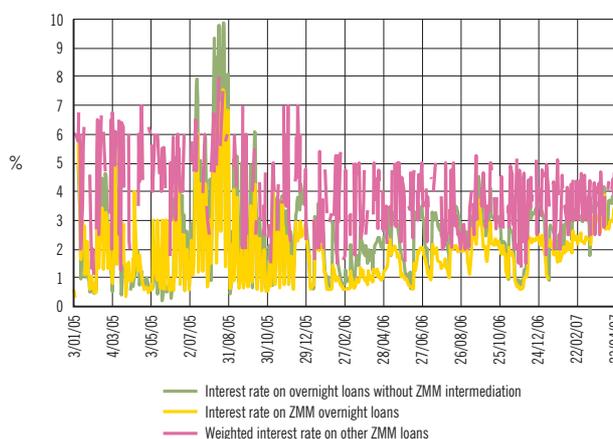
Source: CNB.

Money Market Interest Rates

The high liquidity prevailing in the banking sector throughout 2006 resulted in relatively low money market interest rates, despite an increase in kuna demand and money market turnover compared with 2005. Kuna liquid assets were in great demand from the investors investing in government and corporate bonds and the IPO of Ina. Sufficient liquidity levels were maintained, and seasonal drops offset, primarily by central bank's foreign exchange transactions with banks, injecting a net of HRK 8.8bn into the market over the year.

According to ZMM data, the weighted interest rate on overnight loans intermediated by the ZMM remained relatively low in 2006, up from 0.88% in February to 2.34% in September. The September increase resulted from the amendments to the Decision on the minimum required amount of foreign currency claims, which led to an increase in foreign exchange demand, inducing the central bank to intervene by selling foreign exchange and not holding one regular reverse repo auction. Ranging between 0.73% and 5.55% in 2005, the interest rate on overnight loans intermediated by the ZMM oscillated within a much narrower range from 0.88% to 2.34% in

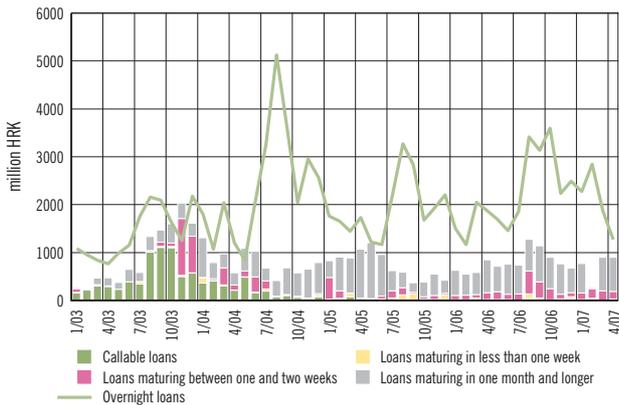
1.40 Money Market Interest Rates



Sources: ZMM and CNB.

1.41 Zagreb Money Market Turnover

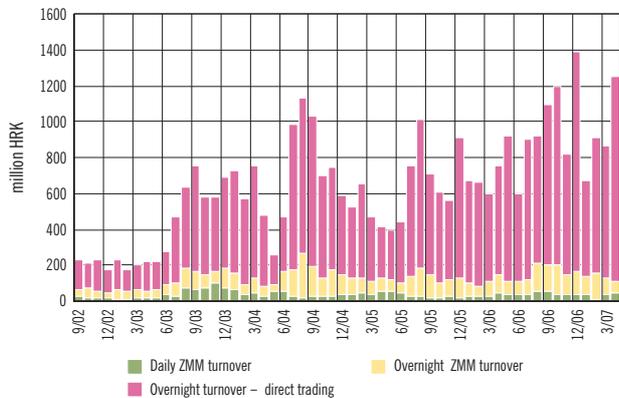
by loan maturity, monthly data



Source: ZMM.

1.42 Money Market Turnover

daily average, monthly data



Sources: ZMM and CNB.

2006, standing at 2.02% in December, slightly below 2.29% in December 2005.

Although remaining almost unchanged, close to an annual average of 3.3%, the weighted interest rate on other loans intermediated by the ZMM was nevertheless lower in 2006 than in 2005. This rate hit a record low of 3.06% in August 2006, drifting up to 3.52% in December, which represents a slight decrease from 3.61% in December 2005.

Total turnover on the ZMM (daily and overnight) stood at HRK 36.1bn in 2006, an increase of HRK 4.2bn over 2005. Overnight loans intermediated by the ZMM had a total turnover of HRK 26.5bn in 2006 (73% of total turnover in loans of all maturities in 2006), a slight increase from HRK 23.1bn in 2005 (72% of total turnover in loans of all maturities in 2005). One-month loans prevailed among other loans, accounting for a share of over 70%. The average daily turnover of overnight loans ranged about HRK 75m in the first half of 2006, almost doubling to about HRK 135m in the second half of the year. The average daily turnover of other loans stood at about HRK 40m throughout 2006.

Direct interbank overnight loans generated a total turnover of HRK 183.4bn in 2006, which was 48.4% higher than that in 2005. Rising gradually over 2006, the average daily turnover of overnight loans not intermediated by the ZMM peaked at HRK 1.23bn in December, exceeding HRK 1bn for the first time ever. The weighted interest rate on overnight loans was relatively stable in 2006, with an annual average of 2.4%. This rate drifted up in late 2006, peaking at 3.18% in December, a minor increase over 3.14% in December 2005.

Interest Rates on the Short-Term Securities Market

Having halted their downward trend, T-bill interest rates mainly stagnated in 2006, among other things due to waning investor interest. Specifically, auctioned MoF T-bill interest rates are determined in accordance with the yield on these bills which is set based on the bids submitted by potential investors, comprising the nominal subscription amount and required yields. Based on the highest acceptable yield, a single yield is determined for the whole T-bill series

1.43 Interest Rates on T-Bills

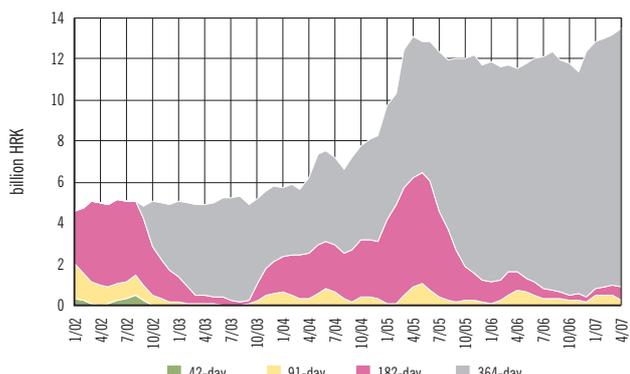
maturity structure



Sources: CNB and MoF.

1.44 T-Bills Stock

end of period



Source: MoF.

and investors whose bids are accepted are invited to make their subscriptions. Accordingly, weighted interest rates on 91, 182 and 364-day bills were 3.41%, 3.55% and 3.78% in January 2006 respectively, compared with 3.00%, 3.50% and 3.90% in December 2005.

Similar as in 2005, with a share ranging from 85% to 97% one-year bills prevailed in the structure of subscribed T-bills. They were followed by 182-day T-bills, while T-bills with the shortest maturities mainly accounted for less than 3%. Total subscribed T-bills amounted to HRK 12.33bn at end-2006. Of this amount, HRK 11.88bn (96.4%) was made up by one-year bills, HRK 0.26bn (2.1%) by 182-day bills and HRK 0.18bn (1.5%) by 91-day bills.

Banks' Interest Rates

Bank lending rates showed disparate trends in 2006. The weighted interest rate on short-term household loans not indexed to foreign currency drifted up from 11.26% in December 2005 to 11.84% in December 2006, whereas the weighted interest rate on short-term corporate loans not indexed to foreign currency dropped from 7.71% in December 2005 to 6.75% in December 2006, the lowest level reached in that month in the last five years.

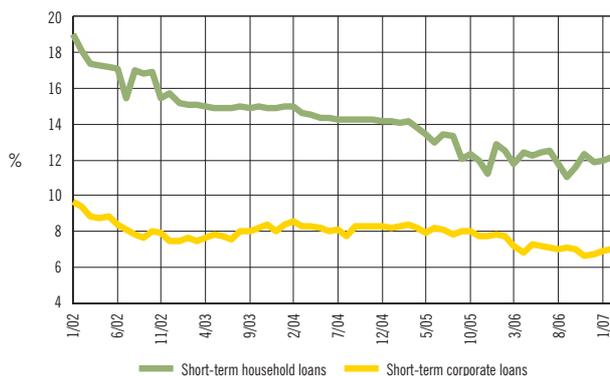
Interest rates on long-term household loans indexed to foreign currency continued to drop in 2006. The weighted interest rate on long-term household loans indexed to foreign currency declined from 6.98% in December 2005 to a record low of 6.22% in December 2006. This was mainly due to a drop in interest rates on housing loans, which were also down to historical lows in 2006, as they accounted for almost a half of total newly granted household loans.

After declining for several years, interest rates on long-term corporate loans indexed to foreign currency rose considerably in 2006, with the weighted interest rate on these loans up from 5.18% in December 2005 to 6.21% in December 2006, a record high since June 2004.

Having fluctuated sharply in the previous few years owing to money market developments, the weighted interest rate on kuna time deposits moved within a relatively stable range between 3% and 3.5% in 2006. This rate was down from 3.36% in December 2005 to 2.98% in December 2006, the lowest level in that year and its all-time low. The weighted interest rate on kuna sight deposits also hit a record low in 2006, dropping to 0.27% in May and June. This interest rate was 0.41% in December 2006, down by nine basis points compared with December 2005.

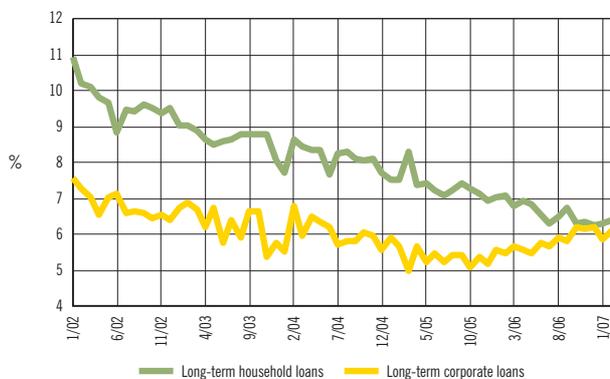
Interest rates on foreign currency time deposits continued to grow in 2006, at a slightly sharper rate, from early 2004. The weighted interest rate on foreign currency time deposits rose from 3.07% in December 2005 to 3.82% in December 2006, a record high since September 2001. In contrast, interest rates on foreign currency sight deposits ranged around an average of 0.25%, with minor oscillations, throughout 2006. For example, the weighted interest rate on foreign currency deposits, standing at 0.27%

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



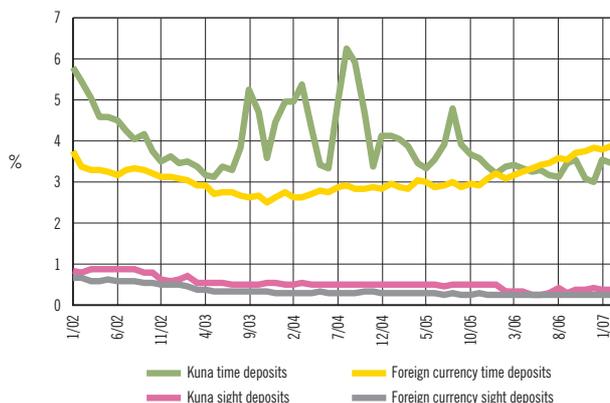
Source: CNB.

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



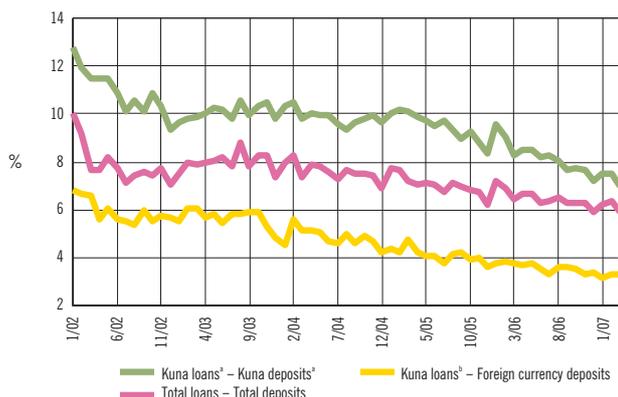
Source: CNB.

1.47 Banks' Average Deposit Interest Rates



Source: CNB.

1.48 Spread between Banks' Average Interest Rates on Loans and Deposits



* Without a currency clause. ^a With a currency clause.
Source: CNB.

in December 2005, dropped to an all-time low of 0.25% in December 2006.

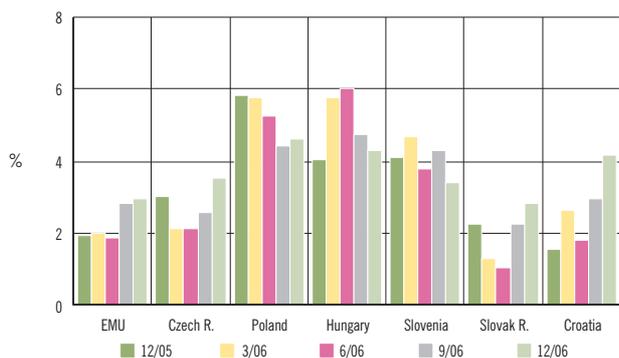
In consequence of these lending and deposit interest rate trends, the spread between the interest rate on total loans and that on total deposits reduced from 6.17 percentage points in December 2005 to an all time-low of 5.89 percentage points in December 2006. The spread between the interest rate on kuna loans not indexed to foreign currency and the interest rate on kuna deposits also decreased to its record low in that period, narrowing sharply from 8.33 percentage points in December 2005 to 7.16 percentage points. The spread between the interest rate on kuna loans indexed to foreign currency and the interest rate on foreign currency deposits also narrowed in 2006, down

from 3.57 percentage points in December 2005 to 3.36 percentage points in December 2006.

Bank nominal lending interest rates mostly increased in all the Central and East European countries observed and in EMU members in 2006. Nominal interest rates on long-term corporate loans dropped only in Poland and mainly held stagnant in Slovenia. Real interest rates on long-term corporate loans dropped from end-2005 to end-2006 in Poland and Slovenia, increasing in other countries observed.

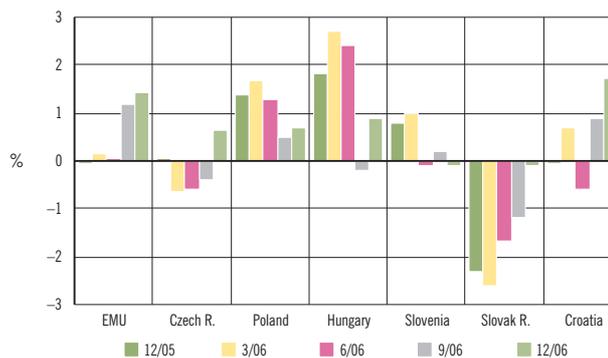
Down only in Slovenia in 2006 from end-2005, nominal interest rates on short-term household deposits held steady only in Poland, rising in all the other countries observed. Real interest rates on short-term household deposits increased in all the countries observed, except in Slovenia, Poland and Hungary. These developments were mainly due to the inflation rate increase in Slovenia, Poland and Hungary, whereas all the other countries observed saw the inflation rate drop.

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



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

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



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

Developments in the First Four Months of 2007

The banking sector kuna liquidity remained comfortable in the first four months in 2007, despite an increase in money market interest rates caused by rising demand for the kuna. Contributing to the rise in demand in that period was a new kuna government bond issue, worth HRK 2.5bn, and a kuna corporate bond, as well as the payments of loans to shipyards and foreign exchange transactions between the central bank and the government. In addition, pressures on kuna liquidity in April were produced by currency in circulation rising as usual at

Easter holidays and by the first foreign exchange inflow this year at the beginning of the tourist season. In an effort to improve the financial system liquidity, the central bank to some extent increased reverse repo placements in that period. The weighted interest rate on overnight loans in direct interbank trading stood at a relatively high level of 3.68% in April, while the average daily turnover in these loans was HRK 1,165.4m in that month.

Interest rates on auctioned three-month T-bills rose in January 2007 and fell back by April, almost to the level at end-2006. Interest rates on half-year and one-year T-bills dropped in the observed period from end-2006. The weighted monthly interest rate on 91, 182 and 364-day T-bills stood at 3.04%, 3.33% and 3.50% respectively in April, while the stock of subscribed T-bills amounted to HRK 13.47bn at the end of the month.

Bank interest rates on household loans drifted up in the first quarter 2007 from end-2006, while interest rates on corporate loans drifted down. Bank deposit rates grew slightly in the same period. The weighted interest rate on kuna time deposits not indexed to foreign currency was the only rate to record a sharp increase.

1.2.7 Capital Market

Bond turnover rose by almost 20% in 2006 over 2005, share turnover more than doubled on both Croatian stock exchanges, and stock exchange indices, on the rise throughout the year, reached their all time highs. These developments indicate a rapid Croatian capital market growth in 2006 and general rise in investor optimism, triggered by a continued economic upturn and implementation of reforms within Croatia's EU accession process. The capital market was in 2006 dominated by a large number of new kuna government and corporate bond issues, as well as by the completion of the Pliva d.d. takeover and the Ina IPO, which have considerably raised the general public's interest in share trading on the domestic market.

Despite these developments, the ratio of the ZSE bond market capitalisation to GDP remained below the same ratios on the two major stock exchanges in comparable Central and East European countries, while the bond turnover to GDP ratios were higher only on the Bratislava and Prague Stock Exchanges, which proves the Croatian market's readiness to absorb new bond issues. In contrast with bond turnover, the ZSE share turnover was very low, as was on the Bratislava and Ljubljana Stock Exchanges, while the other stock exchanges had considerably higher turnovers. The ZSE had the largest share market capitalisation of all the other observed stock exchanges in the region.

The average daily share turnover rose from December 2005 to December 2006 on all the major Central and East European stock exchanges, except on the one in Ljubljana, where it held steady, and Warsaw, where it declined. Both share market capitalisation and bond market capitalisation increased on all the stock exchanges observed at end-December 2006 over end-December 2005.

Table 1.3 Comparison of Capital Market Indicators

December 2006	Bratislava	Budapest	Ljubljana	Prague	Warsaw	Zagreb
Average daily turnover, shares (million EUR)	0.7	109.0	4.5	112.8	461.2	7.9
Average daily turnover, bonds (million EUR)	193.3	5.4	0.5	102.4	13.0	26.7
Share turnover/GDP ^a , annual level (%)	0.4	28.3	3.7	26.1	43.7	5.8
Bond turnover/GDP ^a , annual level (%)	99.5	1.4	0.4	23.7	1.2	19.8
Turnover velocity ^b	2.9	76.3	9.4	....	....	8.1
Market capitalisation of shares (million EUR), end month	4,441	32,570	10,805	57,918	....	21,996
Market capitalisation of bonds (million EUR), end month	12,444	41,910	6,632	....	....	5,443
Market capitalisation of shares/GDP ^a , end month (%)	11.9	37.1	39.5	58.8	....	71.4
Market capitalisation of bonds/GDP ^a , end month (%)	33.4	47.7	24.2	....	....	17.7
Share index movement from the beginning of the year (%)	0.6	19.5	37.9	7.9	41.6	60.7
Bond index movement from the beginning of the month (%)	0.7	8.6	5.2	1.2	0.4	-1.4

^a2005. ^bAnnualised monthly share turnover x 100/ market capitalisation of shares.
Sources: Bloomberg and reports from BSSE, BSE, PSE, LJSE, WSE and ZSE.

The domestic debt securities market saw eleven new bond issues, totalling about EUR 1.21bn in nominal terms. This was slightly less than a nominal EUR 1.25bn generated by five bond issues in 2005. Thirty-one bonds were listed on the domestic capital market at end-2006, eleven more than at end-2005. The market continued to be dominated by government bonds, despite their share in the total nominal value of newly issued bonds on the domestic market dropping sharply from about 98% in 2005 to about 68% in 2006. Although the share of corporate bonds in the total nominal value of newly issued bonds on the domestic market was pushed up from about 2% in 2005 to about 32% in 2006 by eight new corporate bonds issues, their share in the total turnover and market capitalisation remained low. Despite a large number of new corporate bond issues, the capital market continued to play a lesser role in corporate financing than banks, as shown by the facts that there were no issue of shares through an IPO in 2006 and that the liquidity of Croatian shares, measured by the share turnover to GDP ratio, remained among the lowest in the region.

Table 1.4 Initial Public Offering of Shares

in million HRK

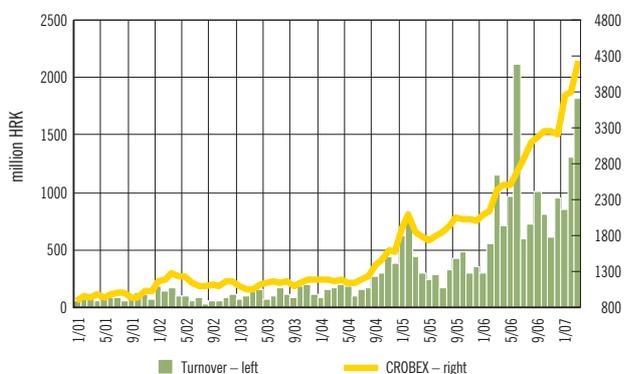
Year	Number of successful issues	Total value of issues
1997	17	839.4
1998	6	247.1
1999	3	29.0
2000	1	20.0
2001	1	13.0
2002	1	11.8
2003	1	1.2
2004	2	11.0
2005	4	231.0
2006	0	0.0

Source: Hanfa (former CROSEC).

As Croatia’s rating in the international capital market was at end-2006 similar to that in 2005, the yield spread between Croatian eurobonds and benchmark German bonds held almost steady until end-2006. In contrast, the yield spreads between Bulgarian and Romanian eurobonds and benchmark German bonds increasingly tightened as EU accession approached for these two countries. Bulgaria’s eurobond spreads relative to benchmark German bonds were thus narrower than Croatia’s spreads ever since September 2006, while Romania’s spreads narrowed as late as in January 2007.

Equity Securities Market

1.51 ZSE Monthly Share Turnover and End-Month CROBEX



Source: ZSE.

The share turnover on the ZSE totalled HRK 10,459.1m in 2006, an increase of 121.13% over that in 2005, while the number of listed shares rose from 194 to 202 over the year. Pliva d.d. share had the largest turnover of HRK 3.764.9m (36.0% of the total share turnover), outperforming the shares of Adris grupa d.d. (10.3%), Podravka d.d. (6.4%), Ina (4.0%) and Atlantska plovidba d.d. (2.9%).

Shares continued to be traded on three ZSE markets in 2006: the Official Market (formerly the First Quotation), JDD Market and Parallel Market. Croatia osiguranje d.d. common and preferred shares and the shares of Ina and Viro tvornica šećera d.d. got listed on the Official Market this year, joining the already listed common shares of Pliva d.d., Podravka d.d., Istraturist d.d., and Medika d.d.

The market capitalisation of shares traded on the ZSE amounted to HRK 161.69bn at end-December 2006 (64.5% of GDP for 2006), increasing by HRK 81bn (100.3%) over end-

December 2005, which was in consequence of a rise in both share prices and share liquidity.²⁴ The highest market capitalisation among liquid shares at end-December 2006 was recorded by Ina share (HRK 22.9bn or 14.2% of the total share market capitalisation) and Privredna banka Zagreb d.d. share (HRK 21.4bn or 13.2% of the total share market capitalisation).

The ZSE share index, CROBEX, stood at 3,209.5 points at end-December 2006, a sharp rise of 60.7% over end-December 2005.

Since its regular revision in September 2006, the CROBEX has comprised the shares of the following joint stock companies: Adris grupa, Arenaturist, Atlantska plovidba, Belišće, Dalekovod, Franck, Instituta građevinarstva Hrvatske, HUP Zagreb, Istraturist, Jadranska banka, Jadroplov, Kraš, Končar elektroindustrija, Luka Ploče, Petrokemija, Plava laguna, Pliva, Podravka, Riviera holding, Privredna banka Zagreb, Sunčani Hvar, Tankerska plovidba, Tehnika, Tisak and Uljanik plovidba. The highest market capitalisation shares, those of Privredna banka Zagreb d.d. and Pliva d.d., have had the largest influence on the CROBEX value.

The VSE also saw positive share trading trends in 2006, with the share turnover reaching HRK 3,545.4m, up by 69% from 2005.

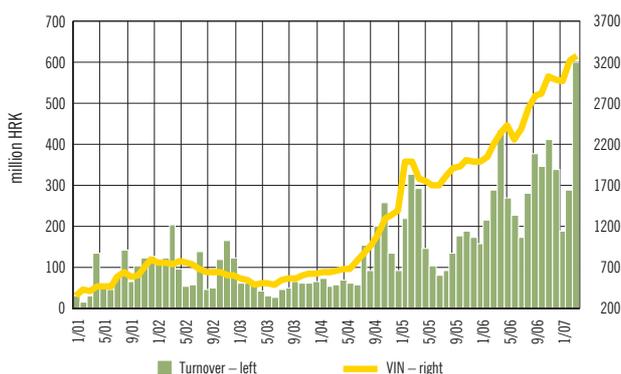
Shares were traded in four VSE segments: the First Quotation, Second Quotation, JDD Quotation and Free Market. The fifth segment, the Quotation of Rights, involved trading in the rights of the Ministry of Finance and former Ministry of Public Works, Reconstruction and Construction.

The JDD Quotation generated more than half of the VSE turnover in 2006, in contrast with 2005, when the Free Market dominated. In addition to Republic of Croatia bonds and Koprivnica and Rijeka municipal bonds, the only share traded in the First Quotation was that of Varteks, while the share of the Breza d.d. closed-end investment fund was the only one listed in the Second Quotation

Increasing by 18% over end-December 2005, the VSE share market capitalisation stood at HRK 54.14bn at end-December 2006. The VSE index, VIN, amounted to 2,963.5 points at end-December 2006, a growth of 48.7% over end-2005.

The VIN underwent two regular and three extraordinary revisions in 2006. In the first regular revision, carried out in May, Lucidus Zagreb was removed from the index, and Saponia Osijek, Slatinska banka (common share), Transadria Rijeka and Zvijezda Zagreb joint stock companies were included. The first extraordinary revision was carried out in September, involving a change in the number of constituent shares due to the conversion of Podravska banka preferred shares into common shares. In the next extraordinary revision, also carried out in September, Slatinska banka d.d. share was excluded from the index. Already in the following regular VIN revision, conducted in November, the common share of Slatinska banka d.d. was reincorporated into the index, in addition to Dioki Zagreb and Liburnia Riviera Opatija shares, while the shares of Chromos Agro Zagreb and

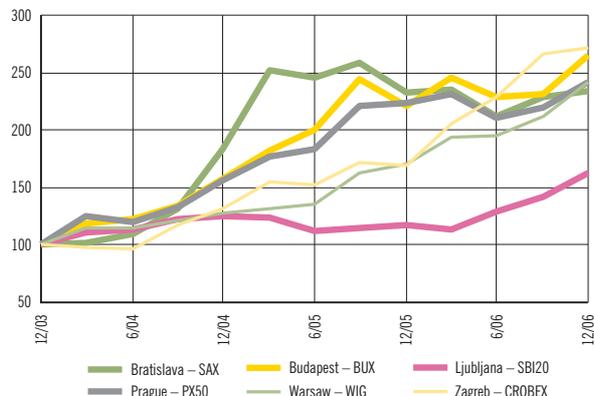
1.52 VSE Monthly Share Turnover and End-Month VIN



Source: VSE.

1.53 Selected Stock Exchange Indices

December 2003 = 100



Sources: Bloomberg and reports from BSSE, BSE, PSE, LISE, WSE and ZSE.

²⁴ The ZSE share market capitalisation is calculated by multiplying each share's latest price by the number of shares issued. However, as share liquidity is also accounted for, the overall calculation includes half of the market capitalisation of shares not traded in the previous month and only one fourth of the market capitalisation of shares not traded in the previous three months.

Jadranka Mali Lošinj were removed from the index. The extraordinary VIN revision in December, the last in 2006, involved a change in the number of constituent shares due to the reduction in the share capital of SN Holding. Since this revision, the VIN has been comprised of twenty-one joint stock companies' shares, with the largest weight assigned to the shares of Maistra Rovinj, Ericsson Nikola Tesla, Belje and Jadranka Mali Lošinj.

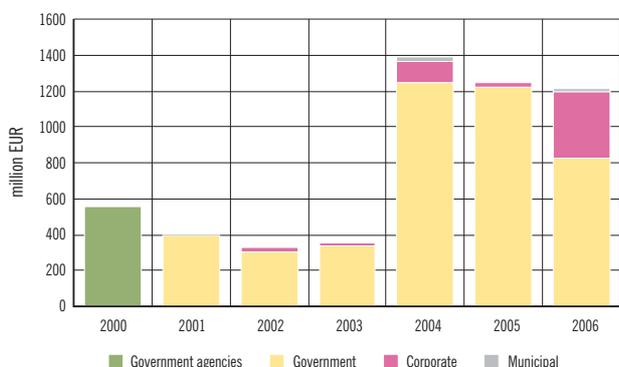
Having slowed down or reduced in value late in 2005, share indices on the major Central European stock exchanges also grew further in 2006. The CROBEX increased the most (by 60.7%) at end-December 2006 over end-December 2005, while the SAX went up the least (by 0.6%). The other indices rose between 8% and 42% in that period.

Debt Securities Market

Eleven new bonds were issued on the domestic market in 2006, including one government bond, two municipal bonds and eight corporate bonds.

July 2006 saw the first tranche of a kuna government bond, worth a nominal HRK 2.5bn, issued with a coupon rate of 4.25% and maturing in 2013. With this bond's second tranche, nominally worth HRK 1.5bn, issued in November 2006, the bond's total nominal value came up to HRK 4bn. In addition, in February the MoF issued the second tranche of a kuna bond issued in December 2005, worth HRK 2bn. The bond's total nominal value was thus increased to HRK 5.5bn, the largest value of a government bond issue in the domestic market. This issue's coupon rate was 5.25%. As these bond issues were coordinated with the maturities of government eurobonds, part of the revenues generated was used for the repayments of outstanding debt.

1.54 Bond Issues in the Domestic Market



Source: ZSE.

The year 2006 saw eight new corporate bond issues on the domestic market, all kuna denominated. The bonds were issued by Raiffeisenbank Austria d.d., Podravka d.d., Nexe grupa d.d., Metronet telekomunikacije d.d., Hospitalija trgovina d.o.o., Hrvatska elektroprivreda d.d., Atlantic grupa d.d. and Ingra d.d. One of the eight bonds is a seven-year bond, with a coupon rate of 5.000%, five are five-year bonds, with coupon rates ranging between 4.125% and 6.125%, and two are three-year bonds, with the respective coupon rates of 8.125% and 8.500%. The total nominal value of the eight bond issues was HRK 2.74bn.

Also issued in 2006 were two new municipal bonds. At mid-July the City of Rijeka issued a ten-year eurobond, worth nominally EUR 8.2m, with a coupon rate of 4.125%. A few days later, in late July, the City of Split issued the first tranche of its seven-year eurobond, worth a nominal EUR 4m, with a coupon rate of 4.563%. This bond's second tranche, also worth EUR 4m, issued in December 2006, increased the issue's total nominal value to EUR 8m.

There were 31 bond issues listed on the domestic debt securities market at end-December 2006: ten government bonds, one CBRD bonds, four municipal bonds and sixteen corporate bonds, compared with twenty bond issues listed at end-December 2005, including nine government bonds, one CBRD bond, two municipal and eight corporate bonds.

Bond turnover came to HRK 34.9bn in 2006, increasing by almost 20% compared with 2005. By far the most liquid was a ten-year Republic of Croatia kuna bond due in 2015, which accounted for 30% of the total turnover (HRK 10.33bn). Also considerable was the turnover from Republic of Croatia bonds due in 2014 (HRK 5.06bn), 2010 (HRK 4.14bn), 2012 (HRK 3.24bn) and 2015 (HRK 2.48bn). Although doubling in number in 2006, corporate bond issues were still not very liquid due to their relatively low values, so that the turnover generated was only HRK 1.81bn (5.19% of the ZSE total bond turnover).

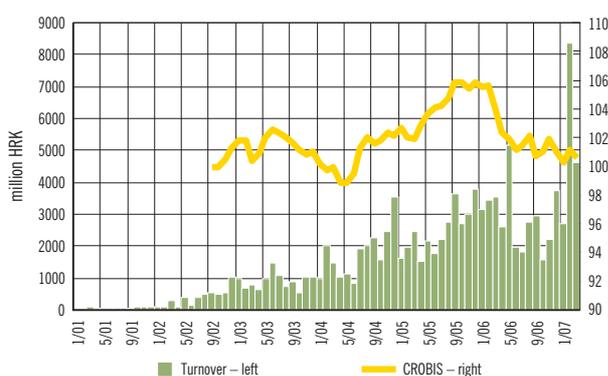
Table 1.5 Bond Issues in the Domestic Market, stock as at end February 2007

Series	Issuer	Issue date	Maturity	Currency	Issue nominal value	Nominal interest rate	Last price ^a	Current yield 28/2/2007
RHMF-0-08CA	Republic of Croatia	14/12/2001	14/12/2008	EUR	200,000,000	6.875%	103.10	6.668%
RHMF-0-125A	Republic of Croatia	23/5/2002	23/5/2012	EUR	500,000,000	6.875%	110.50	6.222%
RHMF-0-085A	Republic of Croatia	28/05/2003	28/5/2008	HRK	1,000,000,000	6.125%	102.65	5.967%
RHMF-0-142A	Republic of Croatia	10/2/2004	10/2/2014	EUR	650,000,000	5.500%	104.80	5.248%
RHMF-0-077A	Republic of Croatia	7/7/2004	7/7/2007	EUR	400,000,000	3.875%	99.25	3.904%
RHMF-0-19BA	Republic of Croatia	29/11/2004	29/11/2019	EUR	200,000,000	5.375%	110.45	4.866%
RHMF-0-103A	Republic of Croatia	8/3/2005	8/3/2010	HRK	3,000,000,000	6.750%	107.45	6.282%
RHMF-0-157A	Republic of Croatia	14/7/2005	14/7/2015	EUR	350,000,000	4.250%	98.75	4.304%
RHMF-0-15CA	Republic of Croatia	15/12/2005	15/12/2015	HRK	5,500,000,000	5.250%	104.70	5.014%
RHMF-0-137A	Republic of Croatia	11/7/2006	11/7/2013	HRK	4,000,000,000	4.250%	99.60	4.267%
RHMF-0-172A	Republic of Croatia	8/2/2007	8/2/2017	HRK	2,500,000,000	4.750%	100.60	4.722%
GDKC-0-116A	City of Koprivnica	29/6/2004	29/6/2011	HRK	60,000,000	6.500%	101.70	6.391%
GDZD-0-119A	City of Zadar	1/9/2004	1/9/2011	EUR	18,500,000	5.500%	102.55	5.363%
GDRI-0-167A	City of Rijeka	18/7/2006	18/7/2016	EUR	8,191,504	4.125%	-	-
GDST-0-137A	City of Split	24/7/2006	24/7/2013	EUR	8,000,000	4.563%	-	-
HBOR-0-112A	CBRD	11/2/2004	11/2/2011	EUR	300,000,000	4.875%	-	-
BLSC-0-091A	Belišće d.d.	14/1/2005	14/1/2009	EUR	8,000,000	5.500%	101.60	5.413%
HYBA-0-086A	Hypo Alpe-Adria-Bank d.d.	6/6/2003	6/6/2008	HRK	150,000,000	6.500%	102.60	6.335%
BNAI-0-22CA	Bina Istra d.d.	15/12/2002	15/12/2022	EUR	210,000,000	8.000%	-	-
PODR-0-072A	Podravka d.d.	20/2/2004	20/2/2007	EUR	27,000,000	5.000%	-	-
AGKR-0-074A	Agrokor d.d.	3/4/2002	3/4/2007	EUR	230,000,000	11.000%	104.45	10.531%
PLVA-0-115A	Pliva d.d.	12/5/2004	12/5/2011	EUR	75,000,000	5.750%	101.70	5.654%
ATGR-0-077A	Atlantic Grupa d.o.o.	15/7/2004	15/7/2007	EUR	15,000,000	5.750%	100.80	5.704%
MDKA-0-087A	Medika d.d.	11/7/2005	11/7/2008	EUR	16,500,000	4.500%	99.10	4.541%
RBA-0-112A	Raiffeisenbank Austria d.d.	10/2/2006	10/2/2011	HRK	600,000,000	4.125%	97.50	4.231%
PODR-0-115A	Podravka d.d.	17/5/2006	17/5/2011	HRK	375,000,000	5.125%	97.35	5.265%
NEXE-0-116A	Nexe grupa d.d.	14/6/2006	14/6/2011	HRK	750,000,000	5.500%	-	-
MTEL-0-097A	Metronet telekomunikacije d.d.	28/7/2006	28/7/2009	HRK	120,000,000	8.500%	102.50	8.293%
HOTR-0-941A	Hospitalija trgovina d.o.o.	5/10/2006	5/10/2009	HRK	75,000,000	8.250%	-	-
HEP-0-13BA	Hrvatska elektroprivreda d.d.	29/11/2006	29/11/2013	HRK	500,000,000	5.000%	-	-
ATGR-0-11CA	Atlantic grupa d.d.	6/12/2006	6/12/2011	HRK	115,000,000	5.750%	-	-
INGR-0-11CA	Ingra d.d.	6/12/2006	6/12/2011	HRK	200,000,000	6.125%	99.70	6.143%
OPTE-0-142A	OT - Optima telekom d.o.o.	1/2/2007	1/2/2014	HRK	250,000,000	9.125%	99.20	9.199%

^a Regularly traded.
Source: ZSE, monthly report, February 2007.

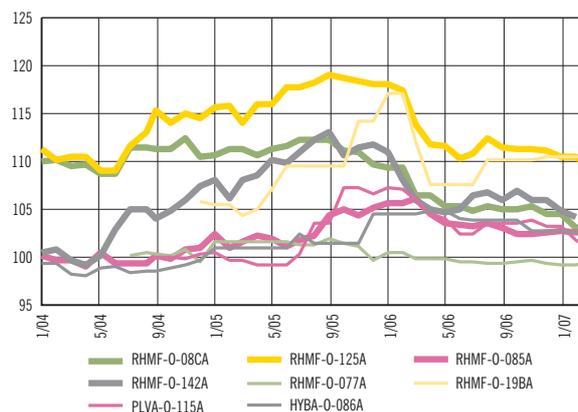
The market capitalisation of all the bonds on the domestic market was HRK 39.3bn (EUR 5.4bn) at end-December 2006, or 15.7% of the GDP for 2006. The market capitalisation of corporate bonds was estimated at HRK 7.2bn (EUR 0.98bn) at end-December 2006, making up 2.9% of GDP for 2006.

1.55 ZSE Monthly Bond Turnover and End-Month CROBIS



Source: ZSE.

1.56 Croatian Bonds' Prices in the Domestic Market



Source: ZSE.

The rise in key interest rates in the eurozone and US, i.e. the increase in the required investment yield, pushed down bond prices on the domestic market in 2006, which was reflected in the value of the ZSE bond index, CROBIS.²⁵ At end-December 2006, the CROBIS was composed of ten Republic of Croatia bonds, two due in 2008, two in 2015 and the other six due in 2010, 2012, 2013, 2014, 2017 and 2019 respectively. The CROBIS trended steadily downwards in 2006, standing at 101.06 points at the year-end, a drop of 4.76 percentage points from end-December 2005.

There were eight Croatian government bonds listed on foreign capital markets at end-December 2006, three less than at end-December 2005. The Republic of Croatia issued no new bonds on foreign markets in 2006. A Samurai bond from 2001, worth JPY 25bn, fell due in February 2006, a EUR 300m eurobond from 1999 matured in March and a USD 604.4m London Club bond from 1996 at end-July. The nominal value of the remaining eight Croatian bond issues on foreign markets was HRK 25.68bn (EUR 3.48bn) at end-December 2006, a drop compared to HRK 33.63bn (EUR 4.57bn) at end-December 2005.

Table 1.6 Republic of Croatia International Bond Issues, stock as at end-2006

Bond	Issue date	Currency	Amount	Nominal interest rate	Yield on issue day	Spread on issue day	Spread ^a 31/3/2006	Spread ^a 30/6/2006	Spread ^a 30/9/2006	Spread ^a 31/12/2006
London Club Series A, 2010	31/7/1996	USD	857,796,000	6-month LIBOR + 81.25 b.p.			99	89	100	86
Eurobonds, 2011	14/3/2001	EUR	750,000,000	6.75%	6.90%	215	39	65	53	40
Eurobonds, 2009	11/2/2002	EUR	500,000,000	6.25%	6.45%	158	38	58	52	39
Eurobonds, 2010	14/2/2003	EUR	500,000,000	4.625%	4.65%	102	38	58	50	39
Eurobonds, 2014	15/4/2004	EUR	500,000,000	5.00%	5.11%	101	36	58	54	42
Samurai bonds, 2007	11/7/2000	JPY	40,000,000,000	3.00%	3.00%	135	37	31	59	46
Samurai bonds, 2008	26/6/2002	JPY	25,000,000,000	2.15%	2.15%	144	51	46	48	40
Samurai bonds, 2009	26/6/2003	JPY	25,000,000,000	1.23%	1.23%	99	62	59	50	46

^a In relation to benchmark bond.
Source: Bloomberg.

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



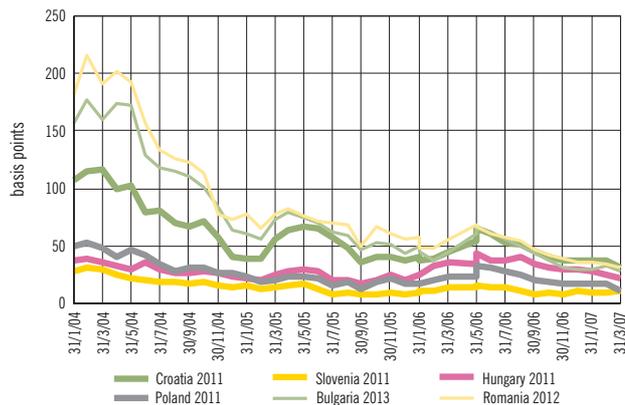
Source: Bloomberg.

The yield spreads between Croatian eurobonds and benchmark German bonds were in 2006 strongly influenced by the rise in key interest rates in the eurozone and US. Specifically, these interest rates' rise in the first half of the year resulted in a faster growth of the required yields on domestic bonds relative to those on developed countries' bonds, with the result that these bonds' yield spreads expanded. This was followed by a decrease in required bond yields, and since this decrease was faster for domestic bonds than for benchmark German bonds, their yield spreads also narrowed. This trend continued after the ECB lifted the key interest rate in October, which resulted in a slight increase in benchmark German bond yields, whereas Croatian bond yields held steady. The yield spreads for Croatian eurobonds due in 2009, 2011 and 2014 tightened to 39, 40 and 42 basis points respectively until end-December 2006, increasing from 34, 37 and 33 basis points for the same maturities at end-December 2005.

²⁵ Compiled from end-September 2002, the CROBIS is comprised of all the government and government agencies' bonds listed on the ZSE, providing that their nominal issue values exceed or equal EUR 75m, that their maturities exceed 18 months and that they were issued at a fixed rate. In addition to changes in market interest rates, the CROBIS value is also affected by the portfolio duration of the constituent bonds.

In comparison with the yield spreads of new EU members, the yield spread between Croatian eurobonds and benchmark German bonds was relatively high in 2006, especially at mid-year when it expanded faster than the yield spread of new EU members due to the increase in key eurozone and US interest rates. However, Croatian euobonds' yield spread narrowed towards the end of the year, approaching the comparable yield spread of new EU members' bonds. The eurobond yield spreads of Romania and Bulgaria, which became full EU members on 1 January 2007, showed similar trends. However, the yield spread of these countries' bonds narrowed considerably while their full membership was expected in late 2006. Consequently, Bulgarian bonds' yield spreads were lower than Croatian at end-December 2006, while the yield spreads of Romanian bonds fell below those of Croatia as late as at end-January 2007.

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



Source: Bloomberg.

Developments in the First Quarter of 2007

Although market participants expected the capital inflows from the sale of Pliva d.d. to influence other share prices already at the end of 2006, this happened as late as in early 2007. This was probably due to investment funds and the general public preparing for the long announced IPO of Ina, taking place from 13 to 23 November, as well as to the fact that investment funds, mostly satisfied with high returns in 2006, decided to resume investing no sooner than in early 2007. As a result, following a somewhat slower growth in late 2006, both Croatian share indices reached their record highs in the first quarter of 2007.

The ZSE share turnover reached HRK 2.15bn in the first two months in 2007, which was 21% of the total share turnover in 2006. The CROBEX stood at 3,797.1 points at end-February, a rise of 18.3% over end-December 2006. The market capitalisation of shares on the ZSE was HRK 205.2bn at end-February, which was an increase of HRK 43.5bn over end-December 2006. The VSE share trading generated a turnover of HRK 889.3m in January and February, while the VIN amounted to 3,278.7 points at end-February, a rise of 10.6% compared with end-December 2006.

Developments on the debt securities market were also positive in early 2007, among other things due to a new HRK 2.5bn ten-year bond issued by the MoF, with a coupon rate of 4.75%. In addition to this government bond, February 2007 saw the issue of Optima telekom d.o.o. seven-year kuna bond, valued at HRK 250m, with a coupon rate of 9.125%. Bond turnover totalled HRK 11.1bn in the first two months in 2007 (with a record high turnover of HRK 8.4bn generated in February), accounting for one third of the total turnover in 2006.

Due to a somewhat faster rise in required yields on Croatian eurobonds relative to those on benchmark German bonds, which was in consequence of market expectations related to a further increase in the ECB's main interest rate, their yield spreads slightly widened in the first two months in 2007.

The two Croatian stock exchanges merged in March 2007 into the Zagreb Stock Exchange. This resulted in a one-off increase in the ZSE market capitalisation and CROBEX revision. The CROBEX stood at 4,237.7 points at end-March 2007, the market capitalisation of shares on the domestic capital market was HRK 264.3bn and the bond market capitalisation amounted to HRK 42.8bn.

1.2.8 Balance of Payments

According to the preliminary data, the current account deficit reached 2.6bn or 7.6% of GDP in 2006, increasing by EUR 0.6bn or 1.3 percentage points of GDP over the end of 2005. The deterioration of foreign trade balance played the major role in increasing current account deficit, with a substantial rise in exports only partly offsetting strong import growth. Moreover, the balance on factor income and current transfers deteriorated further in the reference period, and only trade in international services improved.

External debt continued to grow at a relatively strong rate in 2006, reaching EUR 29bn or 84.8% of GDP. Compared with end-2005, external debt went up by EUR 3.5bn or 13.5%. Major contributors to external debt growth in 2006 were other domestic sectors (mostly enterprises) and to a small extent banks, while the government sector contribution to total external debt growth was negative. Although the external imbalance widened further in 2006, domestic sectors encountered no difficulties in servicing their external liabilities, as seen in IEMP developments.

Current Account

The current account was to a large extent determined by negative developments in the account of goods. The foreign trade deficit stood at EUR 8.4bn in 2006, up 11.2% over that in 2005. Specifically, goods exports accelerated more than imports, while growth in imports exceeded that of exports in absolute terms. The good export performance was mainly driven by a rise in exports of other transport equipment (predominantly ships). In addition, higher exports of natural and manufactured gas, partly due to an upsurge in their prices in the world market, contributed substantially to total export growth. Aided by rising prices, oil and refined petroleum products also made a significant contribution to overall export growth. The same energy products contributed largely to total import growth, with road vehicles, iron and steel, manufactures of metals (n.e.c.), and non-ferrous metals being other important contributors.

Table 1.7 Current Account

in million EUR and %

	2004	2005 ^b	2006 ^a	Rate of change 2006/2005
A. CURRENT ACCOUNT	-1,404	-1,985	-2,617	31.9
1. Goods	-6,728	-7,522	-8,364	11.2
1.1. Credit	6,603	7,217	8,434	16.9
1.2. Debit	-13,331	-14,738	-16,798	14.0
2. Services	4,769	5,318	5,713	7.4
2.1. Credit	7,637	8,053	8,533	6.0
2.2. Debit	-2,868	-2,735	-2,820	3.1
3. Income	-637	-965	-1,070	10.9
3.1. Credit	657	671	909	35.4
3.2. Debit	-1,294	-1,636	-1,979	21.0
4. Current transfers	1,192	1,184	1,104	-6.8
4.1. Credit	1,585	1,628	1,633	0.3
4.2. Debit	-393	-445	-529	18.9

^a Preliminary data. ^b Revised data.

Source: CNB.

In contrast, international services trade continued the positive trends from the previous year, reaching EUR 5.7bn at end-2006 or 7.4% more than at end-2005. Within this, net revenues from travel services grew the most, accompanied by a somewhat smaller increase in revenues from transportation services and a decrease in net imports of other services. Although at a slower pace than in the previous year, revenues from foreign tourist consumption continued to trend upwards, reaching EUR 6.3bn at year-end. Concurrently, expenditures of Croatian tourists abroad continued to trend downwards.

The slowdown in tourism revenues was further corroborated by CBS indicators on the number of foreign tourist arrivals and nights stayed. Both the nights stayed and the arrivals of foreign tourists in commercial accommodation facilities grew at a rate of 2.3% in 2006, compared with 8.2% for nights and 7.0% for arrivals in 2005. Slower growth in the total number of nights stayed is attributed to a decrease in the number of nights stayed by tourist from several old EU Member States, especially Italy and France. In contrast, the number of nights stayed by tourists from most EU Member States from the penultimate wave of enlargement continued to trend upwards, although at a slower pace than in 2005. The number of nights stayed by tourists from Poland, the Slovak R. and Slovenia rose significantly, especially in the off-season period, while the number of nights stayed by tourist from Hungary and the Czech R. went downwards.

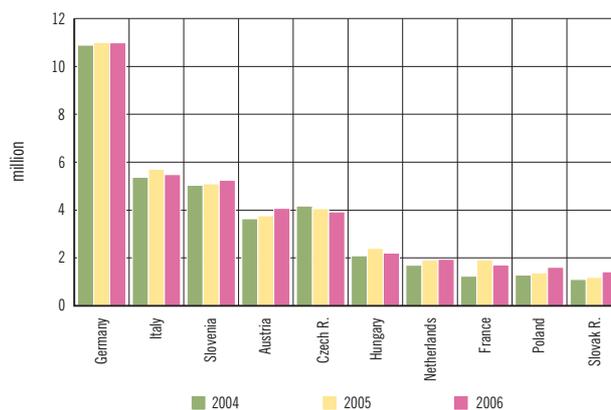
The increase in net revenues from transportation services was primarily the result of faster growth in revenues than in expenditures in 2006. The largest increase was seen in revenues from services rendered in road transport of goods and in air transport of passengers. In addition, there was also a significant increase in imports of services rendered in road transport of goods. After increasing for several years, the deficit on the account of other services narrowed in 2006, mostly due to lower imports of merchanting and other trade-related services and higher exports of telecommunications and construction services.

Overall, international trade in goods and services ran a deficit of EUR 2.7bn in 2006, up annually from 12.5% in 2005 to 20.3% in 2006. The widening of the deficit on trade in goods and services is attributed to somewhat slower annual growth in revenues from tourism in 2006 and higher absolute growth in goods imports than in goods exports. The ratio of imports to exports deteriorated slightly in the reference period, decreasing from 87.4% in 2005 to 86.5% in 2006.

The deficit on the account of factor income also expanded in 2006, although at a considerably lower rate than in the previous year, standing at 10.9% (51.4% in 2005). The key contributor to this was the increase in revenues from compensation of employees. On the other hand, expenditures on direct equity investment went up by EUR 0.2bn. Like in the previous year, retained earnings accounted for two-thirds of expenditures, while the remaining portion of expenditures was accounted for by dividends attributed to foreign owners of domestic enterprises. The methodological changes which have contributed to the redistribution of revenues by individual quarters also have to be taken into account when commenting on dividends paid out in 2006. Specifically, since early 2006 dividends are reported in the period when the decision on their payment is made and not, which was the case before, in the period when they are actually paid out. Apart from higher expenditures on dividend payments, 2006 was also marked by an increase in expenditures on foreign interest payments by domestic sectors. This increase, standing at EUR 1.0bn at year-end, was the result of further growth in domestic sectors' foreign borrowings. Concurrently, revenues from other investment grew on account of higher external inflows from international reserves investment.

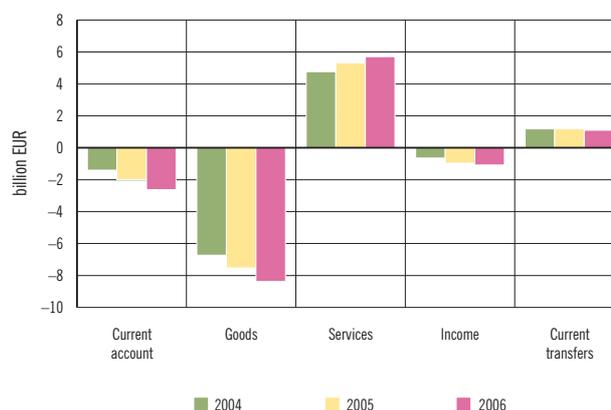
The positive balance in the account of current transfers contracted further in 2006, due mostly to an increase in expenditures of the government sector and other sectors. Revenues, on the other hand, were almost stagnant over 2006, with lower revenues from workers' remittances being largely offset by the growth in other revenues.

1.59 Foreign Tourist Nights in Commercial Accommodation Facilities by Country of Residence



Source: CBS.

1.60 Current Account Balance



Source: CNB.

Goods Trade

According to the balance of payments data (in euro terms), the deficit on foreign trade in goods went up by 11.2%, a similar rate of growth to the previous year. However, in contrast with 2005, the deficit in 2006 was marked by faster growth in goods exports than in goods imports. However, as the value of imports was two times higher than that of exports, the foreign trade deficit failed to improve significantly in 2006. Broken down by quarters, the foreign trade deficit shrank only in the last quarter of the year, due mostly to increased exports of ships and slower growth in oil prices in the world market which in turn contributed to the reduction in the value of imports.

According to the CBS data, total value of exported goods amounted to USD 10.4bn (f.o.b.) and goods worth USD 21.5bn (c.i.f.) were imported in 2006. Owing to faster growth in goods exports than in goods imports, the deficit on foreign trade in goods narrowed from 14.3% in 2005 (measured in current exchange rate terms) to 13.5% in 2006, contributing to a slight improvement in the imports/exports coverage rate (from 47.3% to 48.3%).

Due to the US dollar weakening only slightly against the euro in 2006, the foreign trade developments measured in constant 2002 exchange rate terms were similar in their dynamics to those measured in current exchange rate terms. Hence, the deficit on foreign trade in goods (measured in constant exchange rate terms) went up by 13.9% in 2006, while its growth in 2005 stood at 15.7%.

Export growth was twice as fast in 2006 as in 2005 (17.3%, measured in constant exchange rate terms, vs. 9.6%). The key factor behind this rise was the annual acceleration in exports of other transport equipment (predominantly ships) of 30.2%. In addition, strong export growth in 2006 can also be attributed to the low-base effects, i.e. the fall in exports of ships of 15.9% in 2005. Energy products, predominately natural and manufactured gas and, to a small extent, oil and refined petroleum products were other significant contributors to total export growth. Oil and refined petroleum products started to contribute strongly to total export growth as early as in 2003 which also marked the beginning of the upward trend in crude oil prices in the world market. However, due to crude oil prices calming down in 2006 and especially in the last quarter of 2006, the contribution of oil and refined petroleum products to total export growth began to weaken and was offset by a growing contribution of natural and manufactured gas.

1.61 Goods Exports (f.o.b.) and Goods Imports (c.i.f.)
other transport equipment and oil and refined petroleum products excluded,
at constant 2002 exchange rate



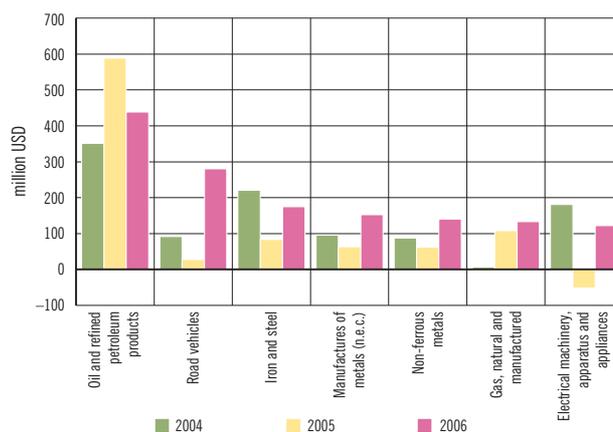
Sources: CBS and CNB.

In view of high volatility in ship exports and in exports of oil and refined petroleum products, a clearer picture on trends related to exports of goods is obtained after we exclude these two categories of exports. This narrowly defined aggregate shows significantly lower acceleration of exports, from 13.2% in 2005 to 14.6% in 2006, with the most dynamic growth in exports being recorded in exports of natural and manufactured gas (see above), exports of manufactures of metals (n.e.c.), electrical machinery, apparatus and appliances, and exports of coffee, tea, cocoa and spices. On the other hand, 2006, compared with 2005, was marked by considerably smaller exports of wearing apparel, road vehicles (accessories and related parts), and tobacco and tobacco manufactures.

Imports of goods also accelerated in 2006, although at a lower annual rate than exports of goods. Total imports of goods, after reaching 12.7% in 2005, grew by 15.5% in 2006 (measured in constant exchange rate terms). For the most part, this rise was the result of larger imports of oil and refined petroleum products and was not affected by a decrease in their annual growth (from 41.4% in 2005 to 21.3% in 2006). With the volume of imported oil and refined petroleum products increasing only slightly in 2006, the slowdown in the value of imported oil and refined petroleum products may to a large extent be attributed to slower growth in their prices in the world market in 2006 and notably in the last quarter of 2006.

Looking beyond these two components, which made up 15.2% of total imports in 2006, imports of other SITC divisions, taken together, accelerated from 9.3% in 2005 to 14.1% in 2006 (measured in constant exchange rate terms). As for individual SITC divisions, imports of road vehicles, after contracting by -1.6% in 2004 and growing by a slight 2.0% in 2005, went up by a significant 16.6% year-on-year in 2006. In addition to these imports, which made the strongest contribution to overall import growth, high rates of growth were also observed in imports of iron and steel and in imports of manufactures of metals (n.e.c.) and non-ferrous metals which are to a great extent used in industrial production, shipbuilding and construction. The increase in the value of imported iron and steel and especially non-ferrous metals was, in part, accounted for by the rise in their prices in the world market. Among the positive developments, the one worth mentioning was the acceleration of imports of capital goods (machinery and transport equipment excluding other transport equipment and road vehicles) from 9.1% in 2005 to 11.5% in 2006, which should eventually provide for continued dynamic economic growth. SITC divisions with lower imports in 2006 than in 2005 included hides, skins and fur skins, meat and meat preparations, and coal, coke and briquettes.

1.62 Contributions of Selected SITC Divisions to Total Growth of Goods Imports



Source: CBS.

Exports to developing countries, after being on a downward trend in the previous two years, rose in 2006 on account of high exports of natural and manufactured gas and ships to old EU Member States (predominately Italy and Sweden). Significant exports to Germany, especially in the last quarter of 2006, are in part attributed to an increase in the VAT rate in early 2007, which prompted Croatian importers to purchase the German goods before the new rate comes into effect. Trade in goods with new EU Member States from Central and East Europe was marked by high rates of exports to Slovenia, Poland and the Czech R., and comprised metalliferous ores and metal scrap, manufactures of metals (n.e.c.), and electrical machinery, apparatus and appliances.

Two times lower in 2006 than in the previous year, exports to Bosnia and Herzegovina (Croatia's most important exporting market after Italy), comprising oil and refined petroleum products, tobacco and tobacco manufactures, and non-metallic mineral manufactures which are largely used in construction industry, were the key factor behind the fall of exports to developing countries. Other factors included lower exports to Syria (machinery and construction equipment) and Liberia (ships). In contrast, exports to Serbia and Montenegro (oil and refined petroleum products, office machines and equipment), the United Arab Emirates (oil and refined petroleum products), and Panama (ships) remained healthy.

Larger imports of energy products, mostly from developing countries, were the major contributor to the increase in Croatia's imports of goods. To be precise, imports from Russia accounted for more than two-thirds of total imports of oil and refined petroleum products and natural and manufactured gas, while imports from Bulgaria, Serbia and Montenegro accounted for only small volume of these products. Moreover, rising at an unabated pace, imports from China continued to contribute to the total growth of imports from developing countries (electrical machinery, apparatus and equipment, office machines and equipment, and wearing apparel and footwear). Imports from China grew on average by one-half of their annual value in the years from 2000 to 2006. Worth noting are also higher imports from Bosnia and Herzegovina, which mostly comprised aluminium, iron and steel and non-ferrous metals. The growth in the value of imports from this developing country is attributed to the increase in world market prices.

Notwithstanding its continued strong growth, the share of imports from developed countries went downwards in 2006 due to significantly faster growth of imports from developing countries. As for old EU Member States, imports from Italy (higher imports of ships), Germany (road vehicles) and Austria (iron and steel), which are also Croatia's most important trading

Table 1.8 Imports and Exports by Economic Classification of Countries

in %

Exports			Economic classification of countries	Imports		
2004	2005	2006*		2004	2005	2006*
71.7	69.3	71.7	Developed countries	77.4	73.8	72.6
64.6	62.0	63.3	EU-25	69.5	65.6	65.0
7.5	8.1	8.2	Slovenia	7.1	6.8	6.3
1.3	1.6	1.7	Hungary	3.1	3.1	3.0
51.4	48.1	48.9	EU-15	54.2	50.6	50.1
9.4	7.2	6.0	Austria	6.8	5.8	5.4
22.9	21.2	23.1	Italy	17.0	16.0	16.7
11.2	10.7	10.4	Germany	15.5	14.8	14.5
1.0	1.1	1.5	EFTA	1.6	1.7	1.7
28.3	30.7	28.3	Developing countries	22.6	26.2	27.4
14.4	14.3	12.6	Bosnia and Herzegovina	2.1	2.4	2.8
3.7	4.5	5.4	Serbia, Montenegro	0.8	0.9	1.1
1.4	1.3	1.2	Russia	7.3	9.2	10.1
0.1	0.1	0.2	China	3.8	4.7	5.3

* Preliminary data.
Source: CBS.

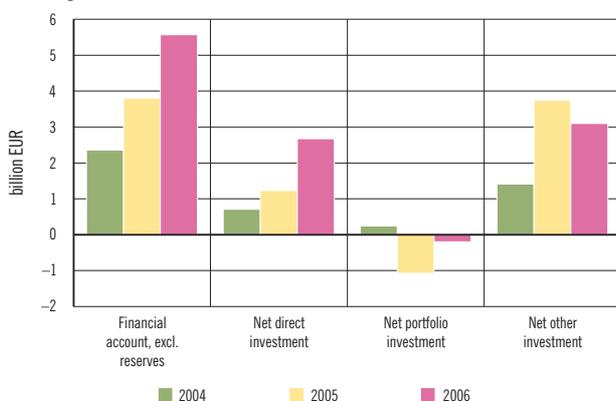
partners from this group of countries, grew strongly in the reference period. On the other hand, imports from the Slovak R. (largely due to higher imports of energy products) and Slovenia (due to higher imports of manufactures of metals (n.e.c.) and non-ferrous metals) accounted for the largest share of imports from new Member States from Central and East Europe.

Capital and Financial Account

According to the data on capital and financial transactions, inward FDI were two times higher in 2006 than in 2005, while outward FDI by residents trended downwards. Net outflows from the portfolio investment account were substantially lower, with the fall in liabilities and the growth in assets invested abroad being less pronounced in 2006 than in 2005. Other investments were marked by a considerable increase in other domestic sectors' liabilities and by a concurrent increase in their foreign assets. Larger inflows of foreign financial assets resulted in an additional growth of international reserves, which intensified further in 2006.

1.63 Financial Account

excluding reserves



Source: CNB.

Net FDI were EUR 2.7bn in 2006, up by EUR 1.4bn over the previous year. This rise is attributed to a EUR 2.8bn growth in inward FDI and, to a small extent, to a decrease in outward FDI by residents. Specifically, the increase in inward FDI, twice as fast in 2006 as in 2005, is mostly attributed to an increase in equity investment and in part to an increase in other liabilities of domestic enterprises towards their affiliated enterprises abroad, as well as to an increase in retained earnings.

Other monetary intermediation, in which predominated the recapitalisation of banks in foreign ownership, made up more than one-third of all inward investment in 2006. The funds invested in the recapitalisation of several domestic banks amounted to EUR 0.7bn, while Sonic banka d.d. and Gospodarsko-kreditna banka d.d. were taken over by other commercial banks. Investments in the manufacture of pharmaceutical preparations, i.e.

the takeover of Pliva d.d. by Barr Pharmaceuticals Inc. accounted for the second largest share in the overall inward investment. Investments in the operation of dairies and cheese making were also substantial in the reference period but they were largely related to the change in the

residence of the owner of Lura d.d. Taking into account the amount of investment made in Pliva, the Netherlands accounted for the largest share in the structure of FDI in Croatia in 2006, and was followed by France (reclassification of direct investment from Austria to France related to the sale of HVB Splitska banka d.d. to Société Générale S.A.) and Luxembourg (recapitalisation of Privredna banka Zagreb d.d. via the Luxembourg branch of the Italian owner).

The account of portfolio investment saw a net outflow of EUR 0.2bn in 2006. Compared with 2005, the registered outflow was fivefold lower and mostly accounted for by considerably lower decrease in liabilities, especially those from debt investment activities. Specifically, both in 2005 and 2006 the government repaid the same amount of bonds outstanding, while, unlike in 2005, the CBRD, which is included in the government sector, issued new bonds in the foreign market in 2006. In addition, domestic sectors' liabilities from equity investment activities trended upwards, mostly comprising the EBRD's investment in the share capital of Agrokora d.d. and non-residents' investment in Ina. As for outstanding government bond repayments, in 2006 the most noteworthy were the repayment of eurobonds, worth EUR 300m, and the repayment of a Samurai bond, worth JPY 25bn. In contrast, 2006 saw the issue of CBRD foreign bonds, valued at EUR 150m. Lower portfolio investment outflows in 2006 were also the result of slower growth in foreign assets of domestic sectors. The great bulk of that increase came from increased bank investment in money market instruments, which helped them to offset weaker investment in foreign bonds.

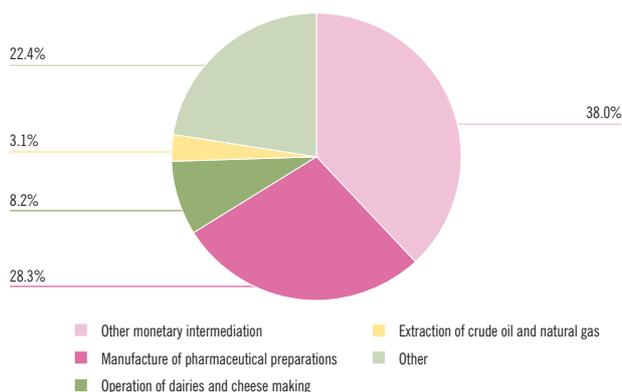
The account of other investment showed a net inflow of EUR 3.1bn during 2006 (credits, trade credits, currency and deposits included). Within this, the liabilities of domestic sectors grew by EUR 3.7bn, which is EUR 1.0bn more than in 2005. On the other hand, foreign assets of domestic sectors, arising from other investment, grew by EUR 0.6bn in 2006, after decreasing substantially in 2005 on account of the withdrawal of banks' currency and deposits. Strong growth in liabilities in 2006, mostly comprising net increase in long-term loans, was generated by domestic enterprises and in part by banks. In addition, there was a strong increase in banks' currency and deposits liabilities (for more details, see section on External Debt).

According to the balance of payments data (cross-currency changes excluded), international reserves rose by a considerable EUR 1.4bn in 2006 (EUR 0.8bn in 2005). This was due to substantially larger CNB interventions in 2006 (EUR 1.2bn) than in 2005 (EUR 0.6bn). Other positive contributors to reserves growth were larger allocations of foreign currency reserve requirements (marginal reserve requirements included) of EUR 0.4bn which are attributed to the increase in foreign liabilities of banks. The net sale of foreign exchange to the government had an opposite effect on international reserves. According to the monetary statistics data (cross-currency changes included), international reserves stood at EUR 8.7bn at the end of 2006, rising by 17.3% over the end of 2005.

Debt securities predominated in the structure of international reserves at the end of 2006, accounting for a share of 48.1%. The remaining reserves, comprising currency and deposits, were to a large extent held with commercial banks and to a small extent with central banks, BIS and IMF. After trending lower in 2005, the shares of repos and reverse repos rose in 2006.

Owing to the described developments in capital and financial transactions in 2006, net liabilities from international investment in the Republic of Croatia (International Investment Position, IIP) rose from EUR 20.4bn to EUR 30.2bn (88.4% of GDP). Strong growth in net international investment is attributed, to a large extent, to the rise in domestic sectors' liabilities from equity investment activities, and, to a small extent, to the rise in domestic sectors' liabilities from debt investment activities. Both the growth in new investment in the Republic of Croatia and the change in the balance of total investment were key factors behind strong

1.64 Structure of Direct Equity Investment in the Republic of Croatia in 2006



Source: CNB.

Table 1.9 Composition of CNB Reserve Assets

end of period, in million EUR and %

	2004	2005	2006
Balance	6,436	7,438	8,725
Share			
1. Foreign currency reserves	96.9	98.6	93.6
1.1. Securities	50.7	48.4	48.1
1.2. Total currency and deposits with:	46.2	50.2	45.4
– other national central banks, BIS and IMF	3.6	5.5	2.3
– banks headquartered outside Croatia	42.6	44.7	43.2
2. IMF reserve position	0.0	0.0	0.0
3. SDRs	0.0	0.0	0.0
4. Gold	0.0	0.0	0.0
5. Reverse repo	3.1	1.3	6.4

Note: Expressed at the approximate market value.

Source: CNB.

growth in inward equity investment in 2006. Specifically, the balance of equity investment is estimated at market value, with the share capital of joint stock companies being adjusted to the changes in the CROBEX value. With the CROBEX value rising strongly in 2006, both the market value of joint stock companies and the balance in net equity investment grew largely in the reference period.

External Debt

External debt grew at a stronger pace in 2006 than in 2005, contributing on the one hand to the generation of domestic demand and on the other to higher imports and larger current account deficit. External debt grew by EUR 3.5bn (13.7%) in 2006, reaching EUR 29bn at year-end or 84.8% of GDP. In 2005, external debt rose by 12.1%, while its absolute growth (borrowing of foreign savings) amounted to EUR 2.8bn.

External debt growth in 2006 was mainly accounted for by a faster increase in enterprises' debt (direct debt investment included). It should be emphasised that these debt creation flows are outside the scope of influence of monetary policy. In contrast, the measures taken by the CNB in 2006 slowed down foreign borrowings of banks, contributing to a slight slowdown in banks' external debt growth (hybrid and subordinated instruments included). However, high recapitalisations, retained earnings and stronger growth in domestic sources of financing facilitated further acceleration of bank lending activities which contributed to further strengthening of the domestic demand and deepening of the foreign trade deficit. The government sector debt fell additionally in the reference period, in proof of government's intention to finance its borrowing needs in the domestic money market and capital market.

Table 1.10 Gross External Debt by Domestic Sectors

end of period, in million EUR and %

	2004	2005	2006	Structure		Indices	
				2005	2006	2005/2004	2006/2005
1. Government	7,252	7,047	6,659	27.6	22.9	97.2	94.5
2. Central bank (CNB)	2	3	3	0.0	0.0	111.8	97.6
3. Banks	7,702	8,993	10,182	35.2	35.1	116.8	113.2
4. Other sectors	5,809	7,156	9,362	28.0	32.2	123.2	130.8
5. Direct investment	2,016	2,341	2,826	9.2	9.7	116.1	120.7
o/w: Subordinated and hybrid instruments	314	214	167	0.8	0.6	68.1	78.1
Total (1+2+3+4+5)	22,781	25,541	29,032	100.0	100.0	112.1	113.7

Source: CNB.

External debt of enterprises (direct debt investment included) stood at EUR 12bn at end-2006, making up 41.4% of total external debt. It grew from EUR 1.8bn in 2005 to EUR 2.7bn in

2006 or from 23.6% to 29.5%. This substantial growth in the external debt of enterprises may in part be attributed to heightened operations of leasing companies, contributing to strong growth of imports of road vehicles. External debt of leasing companies surged by EUR 1.1bn in 2006, whereas in previous years that growth was three times slower. In addition, other enterprises continued to borrow higher amounts on foreign markets directly or via commercial banks which instructed their clients (legal entities) to borrow directly from their parent banks abroad.

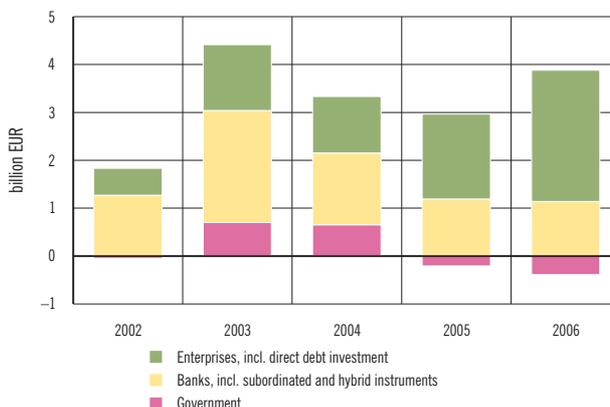
In contrast, external debt of banks (hybrid and subordinated instruments included) went down from 14.9% in 2005 to 12.4% in 2006, accompanied by a slight fall in its rate of accumulation. Hence, external debt of banks made up EUR 10.3bn or 35.6% of total external debt at the end of 2006. The pronounced intra-year variability of banks' external debt should also be mentioned: it grew by as much as EUR 1.4bn in the first five months of 2006, and then fell by the same amount due to the change in its seasonal dynamics and grew again in the last quarter of 2006. The annual growth in banks' external debt was to a large extent accounted for by an increase in short-term currency and deposits liabilities and in part by an increase in long-term loans liabilities.

External debt of the government sector (central government, central government funds, CBRD and local government included) continued to trend downwards in 2006, due to government institutions' greater reliance on domestic market sources for deficit financing. The government sector external debt stood at EUR 6.7bn at the end of 2006, down by EUR 0.4bn over the same period last year, primarily due to a Samurai bond repayment of JPY 25bn, a eurobond repayment of EUR 300m, and two regular repayments of bonds due to the London Club. In contrast, the government withdrew EUR 150m under PAL1, granted by the World Bank to Croatia early in the year, and the CBRD issued EUR 150m worth of bonds in July 2006. With the government sector debt trending downwards and the debt of mixed enterprises and public corporations trending upwards, the fall in public sector debt was less pronounced, standing at EUR 0.2bn. In addition, the contingent debt of the government sector (i.e. the publicly guaranteed private sector debt) continued to decrease in the reference period.

The euro share in the currency structure of external debt dipped from 75.5% at the end of 2005 to 74.5% at the end of 2006, due to a decrease in the share of banks' euro-denominated debt and an increase in their borrowings denominated in Swiss francs and kuna. In addition, the Swiss franc share exceeded that of the US dollar which until recently was the second most important currency in the overall structure of external debt. The fall in the US dollar and yen shares is largely attributed to the repayment of government bonds denominated in these two currencies (London Club and Samurai bonds).

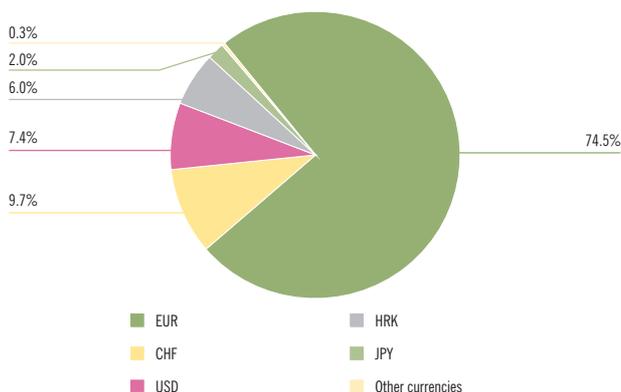
Indicators of relative indebtedness worsened in 2006 due to the growth in gross external debt. The external debt to GDP ratio reached 84.8% in 2006, increasing by 3.1 percentage points over the end of 2005. The ratio of external debt to exports

1.65 Contributions of Domestic Sectors to External Debt Growth
year-on-year



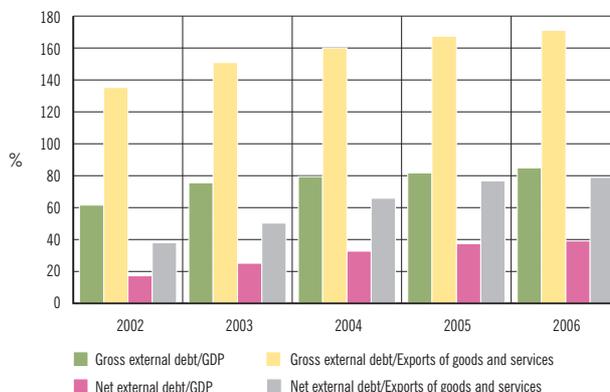
Source: CNB.

1.66 Currency Structure of External Debt
as at 31 December 2006



Source: CNB.

1.67 External Debt Indicators



Source: CNB.

of goods and services also climbed, from 167.3% to 171.1%. However, relative indicators of net external debt²⁶ worsened less during the same period. Net external debt grew at a lower rate than gross external debt due to a steep growth in foreign assets (predominately international reserves). The ratio of net external debt to GDP was 39.2% (up 1.7 percentage points) and the ratio of net external debt to exports of goods and services was 79.0% (up 2.5 percentage points) at the end of 2006 compared with the end of the previous year.

1.68 Index of Exchange Market Pressure



Source: CNB.

International Liquidity

The IEMP²⁷ values for 2006 show that domestic sectors encountered no difficulties in servicing their external liabilities. Contributors to the good index performance included fast growth in international reserves (17.3%) and modest appreciation of the kuna/euro exchange rate (0.4%). Appreciation pressures on the domestic currency were mainly driven by high borrowings of domestic sectors abroad and a rise in demand for kuna due to the issuance of new government bonds in the domestic market. In addition, the second half of the year saw strong FDI capital inflows, among which the takeover of Pliva d.d. and the recapitalisation of several domestic banks by their foreign parent banks were the most important.

Developments in the First Quarter of 2007

Having increased sharply in 2006, total goods exports and imports slowed on an annual basis in early 2007. Expressed at the constant exchange rate, exports rose by 4.5% in the first three months of 2007, which is a several times lower rate than in the same period in 2005 (28.7%), while imports were up 10.6% over 25.9% in the first quarter of 2006. With the growth of goods imports exceeding that of goods exports, the foreign trade deficit widened further, and the import/export coverage rate fell from 49.9% in the January-March period of 2006 to 47.1% January-March period of 2007.

To a large extent, the slowdown in the annual growth of total goods exports in the first three months of 2007 was accounted for by a decrease in the value of exported other transport equipment (predominantly ships) and a decrease in the value of exported oil and refined petroleum products which was brought about by a fall in their export volume. On the other hand, positive contributors to total export growth were exports of electrical machinery, apparatus and equipment, and power generating machinery and equipment, as well as exports of cork and wood. Oil and refined petroleum products also contributed to the slowdown in the annual growth of total goods imports, which however was largely offset by higher imports of road vehicles and imports of iron and steel, present in both 2006 and early 2007. Imports of capital goods also continued to grow at high rates.

External debt growth dynamics in early 2007 was similar to that seen in 2006. Gross external debt grew by an additional EUR 0.6bn in the first two months of 2007, reaching a total of EUR 29.6bn. Broken down by debtors, external debt of domestic enterprises (direct debt investment included), mostly comprising long-term loans, rose by EUR 0.4bn in the reference period and thus made the largest contribution to the overall debt increase. External debt of banks (hybrid and subordinate instruments included) grew by another EUR 0.3bn in the first two months of 2007, mostly on account of short-term and long-term currency and deposits. In contrast, external debt of the government sector went down by EUR 0.1bn.

²⁶ In accordance with IIP data, net external debt represents the balance in net domestic sectors' liabilities on direct debt investment, portfolio investment and other investment net of gross international reserves of the Republic of Croatia.

²⁷ IEMP is calculated as a weighted average of the monthly growth rate of the kuna/euro exchange rate (at end-period) and the monthly growth rate of gross international reserves (in euro terms), using standard deviations as weights.

The IEMP remained favourable in the first quarter of 2007. This was due to strong growth in international reserves (up by EUR 0.8bn) which alleviated the effects of modest kuna depreciation. In addition, the pronounced growth in reserves was accounted for by larger allocations of foreign currency reserve requirements (marginal reserve requirements included) and CNB interventions at the end of December 2006, producing a monetary effect as late as in January 2007.

1.2.9 Government Finance

Budget Outturn

The fiscal adjustment, which was started in 2004, continued through 2005 and 2006. Consequently, the rise in consolidated general government revenues outpaced the rise in expenditures in 2006, whereas government investment remained at the previous year's level. As a result, the general government deficit, on a modified accrual basis, declined from 4% of GDP in 2005 to 3% of GDP in 2006. With borrowing requirements lowered due to the deficit reduction and its partial financing by privatisation receipts, general government debt increased at a much slower pace than in the previous year. Additionally, as the government largely obtained the required funds by borrowing on the domestic market, the ratio of general government domestic debt to total government debt dropped further, while the external debt to total government debt ratio proportionally decreased. However, the deficit reduction in 2006 was also linked to a strong economic upturn, which was reflected in an upsurge in tax revenues. The fiscal adjustment in the forthcoming years should therefore be aimed at achieving permanent cuts on the expenditure side of the budget, which will crucially affect the long-term sustainability of public finances.

The first half of 2006 was marked by the payment of the first instalment of debt to pensioners, generated in the period between end-1993 and end-1998. In June 2006, pursuant to the Act on the Implementation of the Constitutional Court Ruling of 12 May 1998²⁸ and the Pensioners' Fund Act,²⁹ the first debt instalment (HRK 1.2bn) was paid to the pensioners who opted for an accelerated debt repayment with a discount of 50%. The required funds were raised through a short-term loan extended by Hrvatska poštanska banka d.d. As the debt repayment is not treated as budget expenditure, the financial transaction from June 2006 was not recorded in the budget. Specifically, as the debt repayment settles a commitment generated in the nineties, it should be reported as part of the budget deficit from that period, rather than from the current period in which it is made.

In July, the Croatian Parliament adopted the proposal of the Government of the Republic of Croatia on the amendments to the government budget for 2006. The amendments were primarily motivated by a surge in revenues due to strong economic activity in early 2006 and a required change in the amount and structure of expenditures. In addition these amendments, the Parliament also adopted the revised financial plans of extrabudgetary users. The budget revision included a revenue increase which was sharper than expenditure increase, a cut in the planned acquisition of non-financial assets for 2006 and a reduction in the planned consolidated general government deficit (GFS 1986) to 3.0% of GDP. Also in July, the Government of the Republic of Croatia adopted the Economic and Fiscal Policy Guidelines 2007-2009, defining its economic and fiscal policy goals for the next three-year period.

The stand-by arrangement concluded by Croatian authorities with the IMF in August 2004, expired around mid-November 2006. The main objective of the arrangement was to limit the country's external vulnerability arising from a relatively high current account deficit and a high external debt to GDP ratio, and prepare Croatia for EU accession. The achievement of these objectives necessitated a considerable fiscal adjustment and structural reforms to reduce the role of the government in the economy and its borrowing requirements. The most progress under the arrangement was made in public finances, whereas privatisation and shipyard restructuring plans were behind schedule.

28 OG 105/2004

29 OG 93/2005

The fiscal year end was marked by the sale of Pliva d.d. to Barr Laboratories Europe B.V., Ina IPO and amendments to the Act on the Financing of Local and Regional Self-Government Units. The government transferred its shareholding of 16.77% to the Pensioners' Funds early in the fourth quarter. The HRK 2.5bn generated by the sale of these shares was partially used to repay the loan used to finance the first instalment of the pensioners' debt repayment. The remaining funds were to a large extent used to pay the second instalment of the debt to pensioners in December 2006.³⁰ In addition to selling its share in Pliva d.d., the government reduced its shareholding in Ina, selling about 17% of the total number of shares through an IPO in November. HRK 2.7bn was collected and used to repay a short-term foreign exchange loan granted to the government by a syndicate of four domestic banks in March. Finally, the Act on Amendments to the Act on the Financing of Local and Regional Self-Government Units, providing that profit tax should be allocated exclusively to the budgetary central government and income tax distributed among government, municipal, city and county budgets, was passed in late November. The aim of this Act, whose effects are expected to be seen in 2007, is to achieve as equal and balanced tax distribution on the RC territory as possible.

Consolidated General Government Revenues

According to preliminary MoF data, consolidated general government revenues stood at HRK 112.3bn in 2006, exceeding the revised budget expenditure plan by HRK 1bn. The revenues rose by 8.9% over the previous year, which is a 2 percentage points higher rate than that seen in 2005. With nominal GDP growing at a slower rate (8.3%) than consolidated general government revenues, the revenue to GDP ratio moved up slightly from 44.6% in 2005 to 44.8% in 2006. The revenue structure remained essentially unchanged in relation to the previous two years: the share of tax revenues in total revenues was steady at 60%, that of social contributions remained at about 30%, while other revenues and grants accounted for about 10% of total revenues.

Tax revenues amounted to HRK 66.8bn in 2006, accelerating annual growth from 7.3% in 2005 to as high as 10.3% in 2006. This was primarily due to the increase in VAT, profit tax, income tax and excise revenues. Accounting for almost a third of total government revenues at the observed government level, VAT revenues stood at HRK 34.9bn in 2006, an increase of 8.3% over the previous year and of HRK 101.5m over the amount planned. VAT revenues grew at an exceptionally high rate of 21.8% in the first quarter due to the base effect³¹ and a relatively strong retail trade turnover growth, but their growth rate slowed considerably in the remaining three quarters, averaging at 5.1%.

Table 1.11 Main Revenue Sources of Consolidated General Government

in million HRK and %

Revenue sources	2004	2005	2006	Structure			Indices	
				2004	2005	2006	2005/2004	2006/2005
1. Taxes	56.426	60.521	66.768	58,5	58,7	59,5	107,3	110,3
1.1. VAT	29.865	32.243	34.932	31,0	31,3	31,1	108,0	108,3
1.2. Excises	10.625	10.939	11.565	11,0	10,6	10,3	103,0	105,7
1.3. Income tax	7.765	7.825	8.813	8,1	7,6	7,8	100,8	112,6
1.4. Profit tax	4.396	5.572	7.159	4,6	5,4	6,4	126,8	128,5
2. Social security contributions	29.478	31.301	33.877	30,6	30,4	30,2	106,2	108,2
3. Grants	14	28	197	0,0	0,0	0,2	201,2	699,8
4. Other revenues	10.510	11.250	11.439	10,9	10,9	10,2	107,0	101,7
4.1. Administrative fees	3.476	4.075	5.160	3,6	4,0	4,6	117,2	126,6
4.2. Dividends	1.994	1.200	176	2,1	1,2	0,2	60,2	14,6
Total revenues	96.427	103.101	112.282	100,0	100,0	100,0	106,9	108,9

Source: MoF.

³⁰ The pensioners who had opted for the so-called accelerated debt repayment over two years.

³¹ VAT revenues dropped by 1.3% in the first quarter 2005.

Excise revenues stood at HRK 11.6bn in 2006, a rise of 5.7% over the year before. This was primarily accounted for by the revenues from excises on refined petroleum products reaching HRK 6.3bn in 2006, 3.6% more than in 2005. To ensure comparability of data with the previous periods, excise revenues on refined petroleum products were reported inclusive of the revenues from a levy on the construction and maintenance of public roads.³² These revenues, totalling HRK 2.9bn in the observed period, were distributed between the Croatian Roads and Croatian Motorways. In addition to excise revenues on refined petroleum products, excises on tobacco products and excises on cars also contributed significantly to the overall growth in excise revenues. The revenues from excises on tobacco products were HRK 2.7bn in 2006, while their annual growth rate was at 7.6% more than twice higher than in 2005. These developments were probably due to MoF's taking additional action to combat illegal trade in cigarettes, given a slowdown in retail trade in tobacco products in 2006. The revenues from excises on cars stood at HRK 1.3bn in 2006, a growth of as much as 17.5% compared with the previous year, resulting from a sharp increase in road vehicle imports. The revenues generated by other excises (excises on alcohol, beer, non-alcoholic beverages, coffee and luxuries) totalled HRK 1.3bn, slightly more than in 2005.

Income tax revenues were HRK 8.8bn in 2006, a rise of 12.6% over 2005. The sharp rise could partly be explained by the effects of the Income Tax Act, effective since January 2005. This Act, inter alia, considerably reduced the cumulative tax relief, which had no effect on income tax revenues in 2005, but produced a base effect contributing to a rise in these revenues in 2006. On the other hand, the Act also provided for an increase in personal tax allowance and tax deductions for dependent family members, which slowed down revenue growth in 2005, while having no effect on revenue trends in 2006. The sharp rise in income tax revenues was, in addition to legislative changes, also affected by a growth of 5.9% in the average monthly gross wage and an increase of 2.8% in the number of persons insured with the CPIA in 2006.

Profit tax revenues amounted to HRK 7.2bn in 2006, an increase of a high 28.5% relative to the previous year. Continued strong growth in these revenues, started in 2005, resulted from a steady rise in pretax profit reported by Croatian enterprises.

Revenues from social contributions, comprising pension insurance contributions, health care contributions and employment contributions amounted to HRK 33.9bn in 2006. Employee contributions (pension insurance contributions) accounted for almost 45% of the total, while 53% was accounted for by employer contributions (health care contribution, special contribution for the insurance against work injuries and occupational diseases and contribution for unemployment insurance, i.e. employment contribution), while the remainder was made up by the contributions of self-employed or unemployed persons registered with the CEA. Revenues from social contributions increased by 8.2% over the previous year as a result of the mentioned increase in the average monthly gross wage and growth in the number of insured with the CPIA.

Other revenues, which include property income and income from the sale of goods and services, stood at HRK 11.4bn in 2007, rising by a slight 1.7% over the previous year. Of this amount, almost 50% went to the revenues from administrative fees, up annually by a high 26.6% compared with the previous year. The revenues from rents amounted to HRK 1.1bn, decreasing annually by 22.8%. Dividend revenues fell short of the plan by the largest margin (69.8%), standing at HRK 0.2bn in 2006, down by a sharp 85.4% relative to 2005. The decrease was because the T-HT dividend, disbursed in the amount of HRK 1bn in 2005, was not paid out in 2006.

³² Pursuant to the Public Roads Act (OG 180/2004) a levy for the construction and maintenance of public roads is paid by the producers and importers of refined petroleum products, with 60 lipa a litre allocated to the CR and the same amount to the CM.

Consolidated General Government Expenditures

Consolidated general government expenditures were at HRK 107.7bn in 2006 lower by HRK 0.1bn than envisaged by the revised budget from July 2006. The expenditures annual growth rate of 7.2% was lower than that of nominal GDP, which caused the general government expenditures to GDP ratio to fall further from 43.4% in 2005 to 43% in 2006. The largest contribution to the annual increase in expenditures came from the expenditures on the use of goods and services, social benefits and compensation of employees.

Table 1.12 Main Expenditure Sources of Consolidated General Government

in million HRK and %

Expenditure sources	2004	2005	2006	Structure			Indices	
				2004	2005	2006	2005/2004	2006/2005
1. Social benefits	41,022	42,469	44,824	43.5	42.3	41.6	103.5	105.5
2. Compensation of employees	25,505	26,680	28,210	27.1	26.5	26.2	104.6	105.7
3. Use of goods and services	9,679	10,876	13,302	10.3	10.8	12.3	112.4	122.3
4. Subsidies	5,694	6,000	6,562	6.0	6.0	6.1	105.4	109.4
5. Interest	4,423	5,103	5,470	4.7	5.1	5.1	115.4	107.2
6. Other	7,963	9,383	9,340	8.4	9.3	8.7	117.8	99.5
Total expenditures	94,287	100,511	107,708	100.0	100.0	100.0	106.6	107.2

Source: MoF.

With a share of over 40% in total general government expenditures, expenditures on social benefits stood at HRK 44.8bn in 2006, rising at a much faster annual rate in 2006 (5.5%) than in 2005 (3.5%). Within these expenditures, HRK 31.3bn was made up by social security benefits, which comprise most pensions and health care expenditures. Social security benefits increased at an annual rate of 4.7%, partly on account of a 1.6% increase in the average number of pension beneficiaries and a rise of 2.9% in the average pension, and partly because health care expenditures grew by 7.5%. Expenditures on social assistance benefits, including maternity allowances, Croatian war veterans' permanent rights and some pensions, amounted to HRK 13.4bn in the observed period, 8.8% more than in the previous year.

Expenditures on the compensation of employees stood at HRK 28.2bn in 2006, increasing by 5.7% over the year before. The increase resulted from a 0.7% annual rise in the average number of public sector employees and a 4.7% rise in the average gross wage in public administration. Employment grew the most in education (by an annual 2.1%), while the highest rise in the average monthly gross wage was in public administration and defence and compulsory social security (5.3%).

Expenditures on the use of goods and services (including the use of telephone, postal services, transport and energy, as well as intellectual and personal services) were at HRK 13.3bn in 2006 up by a sharp 22.3% over the year before. For the sake of comparison, these expenditures increased at almost half the rate (12.4%) in 2005.

Amounting to HRK 6.6bn in 2006, expenditures on subsidies exceeded the plan by HRK 0.3bn. These expenditures were up by 9.4% compared with the year before, significantly outstripping the growth rate of 5.4% in 2005. The accelerated growth was due to a rise in subsidies to private enterprises (up at an annual rate of 23.2%), which include subsidies to farmers and SMEs. In contrast, subsidies to public corporations dropped by 0.9% because of a decrease in subsidies to Croatian Railways. However, these subsidies remained relatively high at HRK 1.6bn.

Interest expense reached HRK 5.5bn in 2006, growing at a half lower rate in 2006 than in 2005 (7.2% and 15.4% respectively). Foreign interest amounted to HRK 2.4bn, a drop of 0.5% caused by a decline in general government external debt. Domestic interest reached HRK 3.1bn, slowing down annually from 21.6% in 2005 to 14.1% in 2006.

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

The net operating balance, representing the difference between revenues and expenditures at the consolidated general government level, stood at HRK 4.6bn in 2006, a rise of HRK 2bn over 2005. At the same time, with the investment activity of general government units remaining at the level from 2005, non-financial assets rose by HRK 9.1bn. The government investment activity was partly financed by the surplus of revenues over expenditures, while additional funding requirements were met by net borrowing in the amount of HRK 4.5bn. HRK 2bn lower than in 2005, this amount was secured by the disposal of non-financial assets (privatisation) and by domestic borrowing.

The acquisition of non-financial assets at the consolidated general government level was HRK 10.3bn in 2006, a growth of 4.3% over the year before. This resulted from an increase in the acquisition of non-financial assets by local and regional self-government units (HRK 0.6bn), the CR (HRK 0.4bn) and the budgetary central government (HRK 0.1bn). In contrast, the acquisition of non-financial assets by the CM, accounting for a third of the total acquisition of non-financial assets by the consolidated general government, continued to decrease in 2006, down by HRK 0.7bn, primarily due to a slowdown in government road building activity following the completion of the Zagreb – Split highway. However, the level of investment in road construction remained high, with HRK 4.2bn invested into the acquisition of buildings and structures by the CM and CR (according to GFS 2001 methodology, this item includes residential buildings, office buildings, schools, hospitals, motorways, roads, bridges, ports, etc.) and HRK 0.3bn invested in land acquisition as part of the preparations for upcoming construction projects. The disposal of general government non-financial assets was HRK 1.3bn in 2006, rising by almost 50% over the year before, mostly due to an increase of HRK 300m in the disposal of building and structures by CM.

Table 1.13 Operating Balance and Transactions in Non-Financial and Financial Assets and Liabilities
GFS 2001, in million HRK

	Consolidated general government		
	2005	2006	2006/ 2005
1. Change in net worth (net operating balance)	2,590	4,574	
1.1. Revenue	103,101	112,282	108.9
1.2. Expense	100,511	107,708	107.2
2. Change in net non-financial assets	9,060	9,075	
2.1. Acquisition of non-financial assets	9,924	10,347	104.3
2.2. Disposal of non-financial assets	865	1,272	147.1
3. Net lending (+) / borrowing (-) (1-2)	-6,470	-4,501	
3. Financing (5-4)	6,470	4,501	
(as % of GDP)	(2.80%)	(1.80%)	
4. Change in financial assets	1,306	-2,620	
4.1. Domestic	1,311	-2,637	
4.2. Foreign	-5	17	
5. Change in liabilities	7,775	1,881	
5.1. Domestic	11,911	5,364	
5.2. Foreign	-4,136	-3,483	

Note: On a cash basis.
Source: MoF.

Consolidated general government financial assets dropped by HRK 2.6bn in 2006. This was completely due to domestic financial assets, while foreign financial assets rose slightly. The decrease in domestic financial assets resulted from the sale of 17% of Ina shares through an initial public offering, generating HRK 2.7bn, and a drop of HRK 1bn in currency and deposits. Currency and deposits at the budgetary central government level reduced by HRK 1.4bn, while currency and deposits of extrabudgetary users increased by HRK 0.5bn. In contrast,

financial assets in the form of loans given to public corporations, SMEs and craftsmen rose by HRK 0.9bn.

Due to an increase in the positive net operating balance and to partial financing of the increase in non-financial assets by the sale of shares and reduction in account balances in 2006, the government much less relied on borrowing than in the previous years. Consolidated general government liabilities increased by a high HRK 1.9bn, which is as much as HRK 5.9bn less than in 2005. Domestic liabilities grew by HRK 5.4bn because of the increase in liabilities on new bond issues and MoF T-bills. External liabilities reduced by HRK 3.5bn in the same period, as new external borrowings were lower than repayments due.

Balance of the Consolidated General Government on a Cash Basis and Modified Accrual Basis

According to the latest MoF data, the consolidated general government deficit, exclusive of capital revenues (GFS 1986), on a cash basis, stood at HRK 7bn (2.8% of GDP for 2006) in 2006. Of this amount, HRK 3.7bn (1.5% of GDP) was the budgetary central government deficit, HRK 2.7bn (1.1% of GDP) the deficit of extrabudgetary users (primarily the CM and CR), while the remainder was the deficit of local and regional self-government units.

The total deficit of the consolidated general government fell by HRK 1.7bn in 2006 over the previous year. The fiscal adjustment at the budgetary central government level was primarily reflected in a faster growth of revenues than expenditures, while the local government deficit reduced as well. In contrast, the deficit of extrabudgetary users rose slightly in 2006, primarily due to the increase in the CR and CPF deficits.

For the purposes of the stand-by arrangement concluded by the government with the IMF in August 2004 and finalised in November 2006, the consolidated general government deficit was defined on a modified accrual basis. This deficit definition was intended to better represent the character of fiscal policy, as cash data have been adjusted for data on expenditures on an accrual basis, that is, contracted CM and CR liabilities and changes in central and local government arrears. According to the preliminary MoF data, the consolidated general government deficit on a modified accrual basis stood at HRK 7.4bn (3% of GDP) in 2006, which was a decrease of HRK 1.9bn compared with 2005. This decrease exceeded the decrease in the deficit on a cash basis primarily because HRK 197m in cash revenues from the third mobile network concession had been excluded from the calculation of the deficit on a modified accrual basis for 2005. Arrears rose by HRK 482m in 2006, HRK 26m more than in 2005.

Table 1.14 Consolidated General Government Balance

on a modified accrual basis, in million HRK

	2005		2006	
	Amount	As % of GDP	Amount	As % of GDP
1. Net lending (+) / borrowing (-) GFS 2001	-6,470	-2.80	-4,501	-1.80
2. Disposal of non-financial assets	865	0.37	1,272	0.51
3. Lending minus repayments ^a	1,078	0.47	1,182	0.47
4. Balance without capital revenues, on a cash basis (1-2-3)	-8,412	-3.64	-6,955	-2.78
5. Balance without capital revenues, on a cash basis (CM and CR reported on an accrual basis)	-8,649	-3.74	-6,947	-2.77
6. Concession fee on the provision of telecommunication services – included in revenues for 2004	-197	-0.09	-	-
7. Change in non-paid and non-recorded liabilities (negative change denotes increase)	-456	-0.20	-482	-0.19
8. Balance without capital revenues, on a modified accrual basis (5+6+7)	-9,302	-4.02	-7,429	-2.96
Note: Gross domestic product	231,349		250,590	

^a GFS 1986 category; calculated based on GFS 2001 data.

Source: MoF.

Government Debt

As shown by CNB data, general government debt, inclusive of CBRD debt, expanded further in 2006, although at a considerably lower rate than in the previous few years, standing at HRK 110.2bn (44% of nominal GDP for 2006) at end-December 2006. With HRK 14.1bn worth of government guarantees issued, the total amount of debt reaches HRK 124.3bn or 49.6% of GDP for 2006.

The increase in general government debt in 2006 was completely accounted for by domestic borrowing, in proof of government's intended reliance on domestic financing sources to limit external vulnerability and currency risk and indirectly contribute to the development of the domestic capital market. General government domestic debt rose by HRK 5bn and external debt dropped by HRK 3.82bn in the observed period. In contrast, CBRD prevailing reliance on foreign borrowing due to lower interest rates pushed up its external debt by HRK 0.8bn, while its domestic debt dropped by HRK 0.2bn in the same period. The share of domestic debt in general government debt, inclusive of CBRD debt, went up by an overall 3.5 percentage points, from 52.1% of GDP at end-2005 to 55.6% of GDP at end-2006, while external debt decreased proportionally.

Table 1.15 General Government Debt

end of period, in million HRK and %

	2005		2006		2006/2005
	Amount	As % of GDP	Amount	As % of GDP	
A. Total general government debt (1 + 2)	101,424	43.8	102,579	40.9	1.1
1. General government domestic debt	56,046	24.2	61,026	24.4	8.9
1.1. Domestic debt of the Republic of Croatia	50,560	21.9	54,217	21.6	7.2
1.2. Domestic debt of central government funds	3,935	1.7	5,168	2.1	31.3
1.3. Domestic debt of local government	1,552	0.7	1,641	0.7	5.8
2. General government external debt	45,378	19.6	41,553	16.6	-8.4
2.1. External debt of the Republic of Croatia	36,434	15.7	32,506	13.0	-10.8
2.2. External debt of central government funds	8,726	3.8	8,895	3.5	1.9
2.3. External debt of local government	218	0.1	152	0.1	-30.5
B. Total CBRD debt (1 + 2)	7,135	3.1	7,654	3.1	7.3
1. CBRD domestic debt	534	0.2	293	0.1	-45.1
2. CBRD external debt	6,601	2.9	7,361	2.9	11.5
Supplement:					
C. Total guarantees issued by the Republic of Croatia	12,384	5.4	14,090	5.6	13.8
1. Domestic	5,268	2.3	7,252	2.9	37.7
2. Foreign	7,115	3.1	6,838	2.7	-3.9

Source: CNB.

General Government Domestic Debt

General government domestic debt stood at HRK 61bn at end-2006, rising by 8.9% over end-2005. While most of the increase came from debt of the Republic of Croatia (HRK 3.7bn), a considerable contribution, unlike in the previous years, was made by the debt of central government funds, which stood at HRK 5.2bn at end-2006, exceeding the end-2005 debt by HRK 1.23bn.

The rise in domestic debt of the Republic of Croatia was completely due to an increase of HRK 4.1bn in debt from bonds issued. There were three government bond issues on the domestic market in 2006, including the second tranche of a ten-year bond, worth HRK 2bn, in February³³ and two tranches of a seven-year government bond, totalling HRK 4bn, in July and

33 The first tranche of ten-year government bonds, worth HRK 3.5bn, was issued in December 2005.

November. Given that bank claims on the government arising from bonds issued reduced in the observed period, most of the issues were probably bought by pension funds and other domestic capital market participants. Domestic debt from loans received by the Republic of Croatia dropped in the same period, which was because loan repayments exceeded new borrowings. The largest single loan at the Republic of Croatia level in 2006 was a short-term foreign currency loan, worth EUR 400m, granted by a domestic bank syndicate in March, which was prevalently used for the repayment of matured eurobonds. In support of government efforts to rely on short-term borrowing on the domestic market, the CNB has issued a one-off amendment to the Decision on the minimum required amount of foreign currency claims, enabling banks to include their participations in the said loan into their minimum required foreign currency claims. The loan was repaid by the revenues from the sale of Ina shares in December 2006.

Domestic debt of central government funds widened by HRK 1.2bn, entirely due to CM, CR and Croatian Waters' borrowings from domestic banks. CBRD domestic debt was at HRK 0.3bn at end-2006 almost half lower than at end-2005. Such sharp decrease in CBRD domestic debt, making up a mere 3.8% in the overall CBRD debt, resulted from the repayments of loan commitments due.

General Government External Debt

According to CNB data, general government external debt amounted to HRK 41.6bn at end-2006, down by 8.4% relative to end-2005. The decrease was due to a respective drop of HRK 3.9bn and HRK 0.1bn in external debt of the Republic of Croatia and local government units, while the external debt of central government funds increased slightly. The statistical decrease in the debt was also partly due to the strengthening of the kuna against the currencies most of the debt is denominated in or indexed to (the euro, US dollar, yen).

External debt declined by HRK 3.9bn in the observed period, down to HRK 32.5bn at end-2006. The decline was mostly due to a Samurai bond repayment of JPY 25bn in February and a eurobond repayment of EUR 300m in March 2006. Additionally, two regular repayments of series A and series B bonds due to the London Club were made in January and July. These bonds were issued in 1996 as a substitute for a part of former SFRY debt assumed by the Republic of Croatia under the New Financing Agreement and Trade and Deposit Facility Agreement from 1988.³⁴ The revenues from the series A bond issue were used to repay 29.5% of outstanding principal under the New Financing Agreement, whereas the series B bond was issued to repay 29.5% of overdue principal and interest under the New Financial Agreement and up to 19.7% of the remaining portion of debt under the Trade and Deposit Facility Agreement. Series B bond worth USD 604.4m was fully repaid in July 2006, while the repayment of series A bond (totalling USD 857.8m at issue) will continue to be effected in semi-annual tranches until July 2010. In contrast, debt from foreign loans grew in the observed period, the single most important instance of which being the withdrawal EUR 150m under a ten-year PAL, granted by the World Bank to Croatia in September 2005.

External debt of central government funds rose by HRK 0.2bn due to new CM and CR borrowings, whereas local government external debt declined by HRK 0.1bn, standing at HRK 0.2bn at end-December 2006. CBRD external debt rose by 11.5% in 2006, reaching HRK 7.36bn at end-December, in consequence of a EUR 150m worth new bond issue in July 2006.

³⁴ The New Financial Agreement was concluded on 20 September 1988 by the National Bank of Yugoslavia, some other Yugoslav banks, former Socialist Federative Republic of Yugoslavia, as guarantor, creditors specified in the Agreement and Chemical Investment Bank Limited acting as agent bank. The Trade and Deposit Facility Agreement was also concluded on 20 September 1988 by the National Bank of Yugoslavia, some Yugoslav banks, creditors specified in the Agreement and Chemical Investment Bank Limited acting as agent bank.

Developments in 2007³⁵

The latest official data from the MoF show that the revenues of the consolidated central government stood at HRK 16.7bn in the first two months of 2007, recording a high annual increase of 15.6%. This surge in revenues was to a large extent due to the revenues from VAT, up annually by 17.6%, and social contributions and administrative fees, rising annually by 10.7% and 88.8% respectively. Due to the amendment to the Act on Financing of Local and Regional Self-Government Units, the most significant change was observed in income tax and profit tax revenues. Income tax revenues (now for the most part allocated to local and regional self-government units) dropped annually by 42.2% in January 2007, while profit tax revenues (allocated fully to the budgetary central government) rose by 100.8%.

Consolidated central government expenditures totalled HRK 16.5bn in the January to February period 2007, up by 7.2% over the same period in the previous year. The largest contribution to the annual growth in total expenditures came from expenditures on social benefits, up at an annual rate of 7.2%, expenditures on compensation of employees, rising by 6.0%, and expenditures on the use of goods and services, which were up by 19.0%.

Consolidated central government non-financial assets increased by HRK 0.5bn in the first two months of 2007. The acquisition of non-financial assets stood at HRK 0.7bn (an annual rise of 32.2%), primarily in consequence of the acquisition of fixed assets (mostly buildings and structures) by the budgetary central government and CM. The disposal of non-financial assets of HRK 0.2bn (almost a fivefold increase) to the greatest extent resulted from the disposal of strategic stocks.

The consolidated central government deficit (on a cash basis, GFS 1986) was HRK 0.8bn in the first two months of 2007, down by HRK 1.1bn relative to the same period in 2006. The deficit was mostly financed by domestic borrowing and to a smaller extent by the disposal of financial and non-financial assets.

According to CNB data, central government debt (including CBRD debt) stood at HRK 109.4bn at end-February, a rise of HRK 1bn over end-2006. Taking into account guarantees issued, central government debt amounts to a total of HRK 123.7bn.

Table 1.16 Recent Developments in Central Government Debt

end of period, in million HRK

	Stock		Change	
	2/2006	2/2007	2/2006 – 12/2005	2/2007 – 12/2006
A. Total central government debt (1+2)	100,499	101,914	845	1,128
1. Central government domestic debt	56,488	61,185	1,994	1,800
2. Central government external debt	44,011	40,729	-1,149	-672
B. Total CBRD debt	6,797	7,507	-338	-147
Supplement:				
C. Total guarantees issued by the Republic of Croatia	12,246	14,254	-280	74

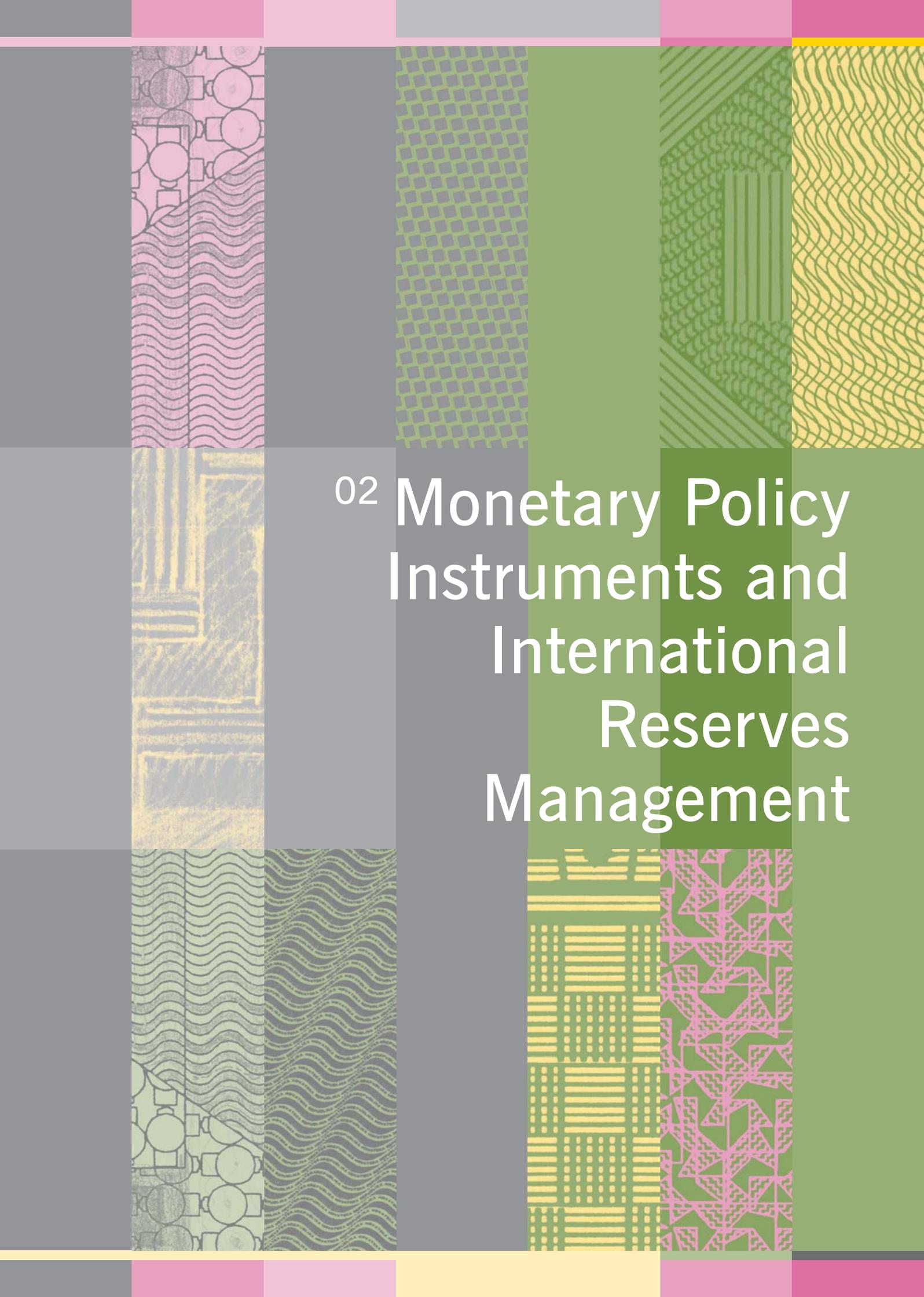
Source: CNB.

Central government domestic debt (inclusive of CBRD debt) continued to rise in January and February 2007, although at a slower pace than in the same period in the previous year. Domestic debt stood at HRK 61.5bn at end-February, a growth of HRK 1.8bn over end-2006. The increase resulted from a new kuna bond issue worth HRK 2.5bn and a growth in short-term liabilities on T-bills (HRK 0.7bn), while liabilities on loans received decreased sharply (HRK 1.3bn).

³⁵ As government finance data on the consolidated general government are available on the quarterly basis, the outrun for January 2007 is analysed at the consolidated central government level.

Central government external debt (inclusive of CBRD debt) continued the downward trend in the first two months of 2007, standing at HRK 47.9bn at end-February, a drop of HRK 0.9bn relative to end-2006.

Central government contingent debt rose to HRK 14.3bn in the January-February period, up by HRK 0.1bn over end-2006. Continuing the trend from 2006, domestic guarantees grew by HRK 0.23bn, while foreign guarantees declined by HRK 0.16bn in the same period.



⁰² Monetary Policy
Instruments and
International
Reserves
Management

2.1 Monetary Policy Instruments

In addition to its efforts towards keeping low inflation and stable exchange rate, the Croatian National Bank was also focused in 2006 on measures aimed at slowing down external debt growth and halting further widening of the current account deficit. As a result, the central bank pursued a more restrictive monetary policy with the aim of slowing down rapid growth of monetary aggregates. In that context, it tightened its measures for restricting external debt growth and introduced a new measure which can directly influence the growth of domestic bank placements.

The central bank continued to use marginal reserve requirements in 2006, though it decided under its June decision to widen the scope for the calculation of this instrument's base to funds received from non-residents and legal persons in a special relationship with the bank intended for financing other domestic sectors through syndicated loans and mandated operations. Early in 2006, the central bank introduced a new instrument to slow down external debt growth in the form of special reserve requirements calculated on liabilities arising under issued debt securities and later on towards the end of the year, it also introduced subscription of compulsory CNB bills on any increase in placements which exceeds 12% as a measure for restricting placements growth in 2007. In addition, in September 2006 the central bank issued a new decision on the minimum required foreign currency claims which provided for an equal treatment of kuna liabilities with a currency clause and foreign currency liabilities.

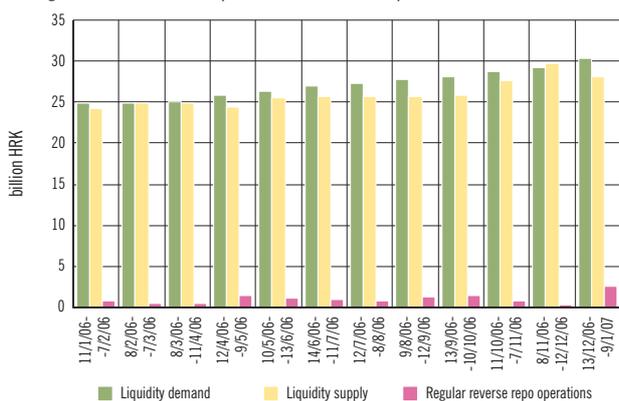
At the same time, the central bank kept conducting its open market operations throughout 2006 thus actively managing banking sector liquidity. With foreign exchange interventions, reverse repo operations carried out at regular weekly auctions were the main instrument of reserve money creation. Interest rate spread, as determined by interest rates on the standing facilities such as the Lombard loan and overnight deposits, limited the possibility for interest rate fluctuations on the money market, while regular reverse repo operations reduced overnight interest rate volatility, thus providing justification for the main rationale behind the introduction of open market operations.

2.1.1 Open Market Operations

Active liquidity management by means of open market operations implies regular central bank presence on the money market with a view to stabilising interest rates, most notably overnight interest rates, by conducting one or more types of open market operations.

2.1 Liquidity Demand and Supply

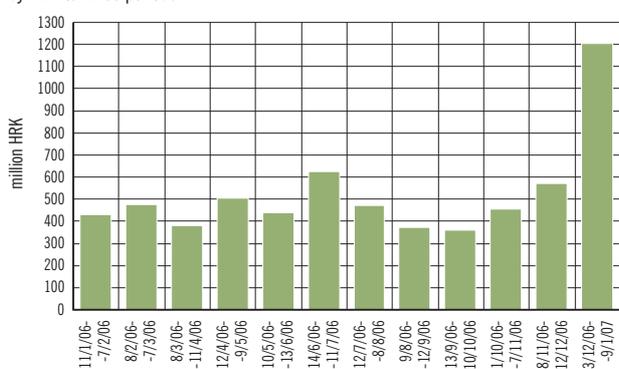
average balance in reserve requirements maintenance periods



Source: CNB.

2.2 Average Liquidity Surplus in Reserve Requirements Maintenance Periods

by maintenance periods

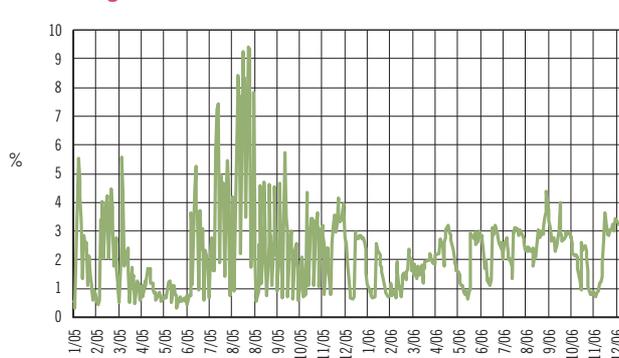


Source: CNB.

December when, just like in the previous year, the last maintenance period in the year was typically marked by higher surplus liquidity levels, and it stood at HRK 1,205.5m. Average balance of total demand for liquidity rose by 15.8% compared with 2005 and was mainly the result of an increase in the kuna component of reserve requirements.

With average demand exceeding average supply in 2006, open market operations improved liquidity in 2006 by a net HRK 1,011.2m on average.

2.3 Overnight Interest Rates



Source: CNB.

Given that overnight interest rate is determined by supply and demand for banks' reserves with the CNB, the basis for central bank liquidity management of the banking sector lies in forecasting the supply and demand for reserves. With open market operations, a balance is achieved, at a given interest rate level, between the supply of and demand for reserves.

Reserves supply comprises autonomous factors, i.e. CNB balance sheet items which affect banking sector liquidity, whose changes are not under direct central bank influence. The most significant autonomous factors include net foreign assets, currency outside banks and government kuna deposits.

Demand for reserves is determined by the total amount of the kuna component of reserve requirements and demand for surplus liquidity.

Autonomous factors were HRK 25,999.8m on average in 2006, an increase of 18.8% compared with 2005. Of the autonomous factors, net foreign asset rose the most (19.5%) on an annual level, while currency outside banks rose by 13.0%. The average level of government kuna deposits shrank by 51.5% in 2006 compared with the previous year, indicating that the government improved its asset management.

Total demand for reserves averaged HRK 27,011.0m in 2006. Of that amount, the kuna component of reserve requirements averaged HRK 26,516.7m with the average surplus liquidity standing at HRK 494.3m. Average surplus liquidity ranged from HRK 358.9m to HRK 626.0m during maintenance periods in 2006, except in

In view of the fact that open market operations were introduced to reduce overnight interest rate volatility, it is worth noting that the average level of overnight interest rate and its volatility on the money market in 2006 fell compared with 2005. CNB's position as the system's net creditor ensured better control over developments in the overnight interest rate.

The overnight interest rate ranged between 0.63% and 4.37% in 2006, in contrast with 0.30% and 9.40% in 2005. As a result, the variation coefficient in 2006 was 39.57%, almost half of that in 2005 (76.23%). Nevertheless, a relatively high interest rate variability and surplus liquidity indicate that bank liquidity management is still relatively inefficient compared with that in the EMU.

Regular Operations

The financial sector ensures the bulk of its funds through regular operations. They improve the system's liquidity and are conducted by means of reverse repo operations.

Regular reverse repo operations are conducted at regular weekly (Wednesday) auctions, with collateral maturing in one week. Participation is open to domestic banks and acceptable collateral includes kuna T-bills of the Ministry of Finance.

CNB's reverse repo operations were, together with foreign exchange interventions, the main instrument for liquidity creation in 2006, which boasted almost regular participation from the banks. Of the total of 51 reverse repo auctions held, banks did not participate in only 4 of them.

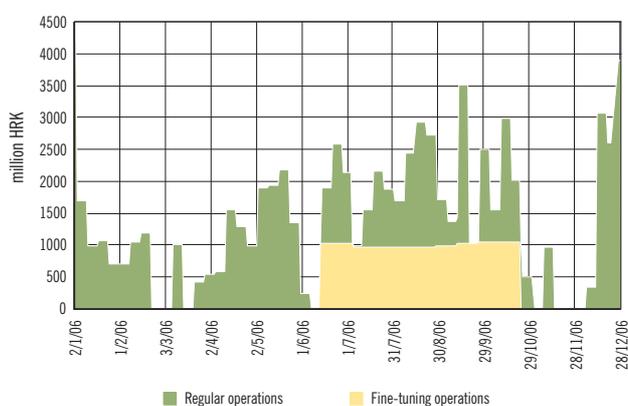
In contrast with regular bank participation in summer auctions in 2005, similar bank participation did not take place in 2006. Instead, liquidity from June to October 2006 was increased, except by means of regular operations, by means of fine-tuning operations, with the largest total amount of liquidity in 2006 being utilised during the summer months.

Liquidity creation at regular reverse repo auctions took place particularly in the first part of the reserve requirements maintenance period as banks tend to maintain a bulk of their reserve requirements already in that part of the maintenance period.

A total of HRK 53.4bn were placed to banks in this way, which represents 60% of the total amount placed in 2005. The amount of funds placed at auctions in 2006 ranged from the symbolic HRK 6.2m in November to HRK 3.9bn in December. The average daily balance of funds created at reverse repo auctions in 2006 was HRK 1.2bn. The largest average daily balance of funds created at reverse repo auctions (HRK 2.6bn) took place in the maintenance period which began on 13 December 2006. During that period, individual amounts of funds placed at the first three auctions ranged between HRK 2.6bn and HRK 3.9bn.

Repo rates offered at reverse repo auctions mostly equalled the marginal repo rate which, except on one occasion, stood at 3.5% throughout 2006. Characteristic of the first two reserve requirements maintenance periods was partial acceptance of bids at the marginal repo rate, with 50% of the bids received being accepted at four auctions and 40% of the bids being accepted at one auction. Of the total of 51 auctions held, banks made no bids at four auctions, while other auctions had between one to seven participants. Average participation per auction was three banks.

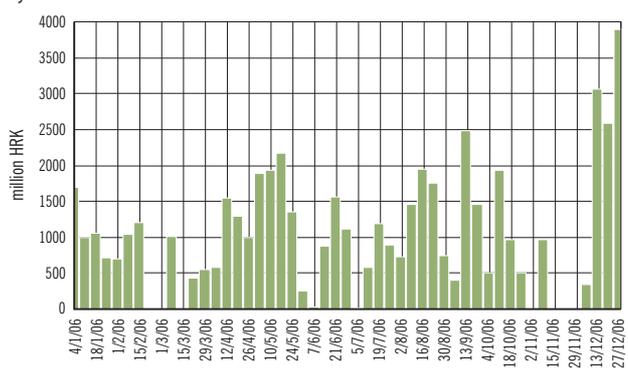
2.4 Regular and Fine-Tuning Operations Balance



Source: CNB.

2.5 Regular Operations

by auction dates



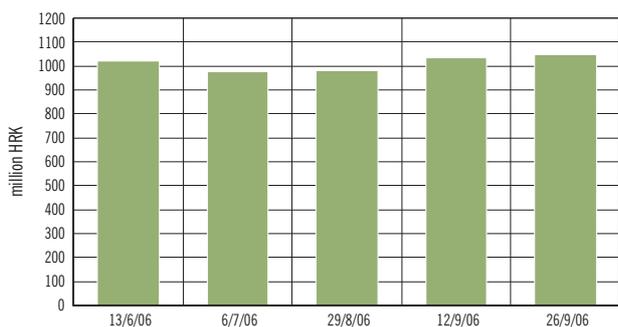
Source: CNB.

Fine-Tuning Operations

Unlike regular operations used exclusively to improve the system's liquidity, fine-tuning operations are also used for temporarily increasing or reducing the system's liquidity. They are executed on an *ad hoc* basis to manage the liquidity situation in the market and to steer interest rates and in particular to smooth the interest rate effects caused by unexpected market fluctuations. Operations of this type may be executed as repo and reverse repo operations, outright transactions and foreign exchange swaps. To be able to respond quickly in case of unexpected

2.6 Fine-Tuning Operations

by auction dates



Source: CNB.

market fluctuations, high degree of flexibility has been maintained, so frequency and maturity of fine-tuning operations are not standardised. Rather, the operations are executed through non-standard tenders or by means of bilateral procedures, with limited number of participants. Acceptable collateral includes kuna T-bills of the Ministry of Finance.

In the context of open market operations, the CNB executed its first fine-tuning operation in June 2006, creating HRK 1.0bn worth of liquidity, with a non-standard maturity of the reverse repo transaction. Fine-tuning operations were executed on four more occasions in 2006; in July, August and September. The amounts of these operations ranged between HRK 974.2m and HRK 1,046.0m.

Structural Operations

The third type of open market operations are structural operations which are carried out in case of need for a longer-term change in liquidity structure. Carried out through outright purchase and repo and reverse repo operations, they may be used to increase or reduce liquidity in the market. Their maturity and frequency are not standardised. They are carried out at auctions through standard tenders with banks' participation and include a wider range of acceptable collateral such as various government securities.

Structural operations were not used in 2006.

2.1.2 Standing Facilities

Standing facilities are instruments available to banks on their own initiative for an unlimited number of days in a month which serve to stabilise any unexpected changes in bank liquidity. Standing facilities have an overnight maturity and are available in the form of Lombard loans in case of deficit liquidity, or in the form of deposit facility, in case of surplus liquidity. These facilities provide an interest rate corridor on the money market, with the interest rate on the Lombard facility setting a ceiling and the interest rate on overnight deposit with the CNB setting a floor to that interest rate corridor. Interest rates on the money market should move within that corridor. In the situation of regular CNB presence on the market, standing facilities should be used only exceptionally.

Lombard Loan

Interest rate on the Lombard loan provides a ceiling to the interest rate corridor on the money market. In 2006, this interest rate was 7.5%. The facility is granted against a pledge and may be used on a daily basis up to an amount of 90% of the nominal value of the pledged T-bills of the Ministry of Finance. The Lombard loan is used on a bank's request or is granted automatically in the event of default on an intra-day loan, and that exclusively at the end of a business day. It is repayable on the next business day. The CNB may at its discretion deny the banks, either temporarily or permanently, the use of the Lombard facility.

A Lombard loan of HRK 785.3m granted in October 2006 was the first use of this instrument of monetary policy since August 2004. High liquidity in 2006, except on this one occasion, did not call for additional use of this source of liquidity.

Deposit Facility

The banks may deposit any surplus liquidity that they may have at the end of the day with the CNB. It is an overnight deposit that is repayable to the banks at the beginning of the next business day and is remunerated by the CNB at 0.5%, an interest rate that is also the floor of the interest rate corridor on the money market. Funds deposited by banks in the form of overnight deposit facility with the CNB are not included in reserve requirements maintenance. The CNB can at its discretion deny banks, either temporarily or permanently, the use of the deposit facility.

In 2006, the banks made intensive use of the overnight deposit facility with the CNB. The banks tend to make more intensive use of this facility in the second part of the maintenance period when it becomes clearer for banks that they will meet their reserve requirement maintenance obligation. Overnight deposits commonly increase immediately before a new cycle of reserve requirements maintenance when deposits on individual days exceed HRK 1.0bn.

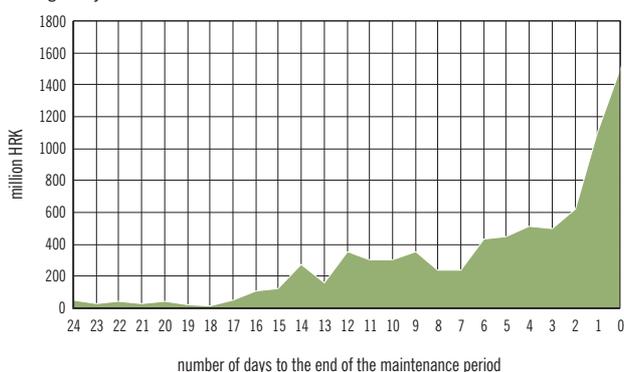
Funds deposited under the deposit facility averaged HRK 506.6m in 2006. The record overnight deposit facility of HRK 2,999.0m was recorded on 10 January 2006. The overnight deposit facility was used on a total of 185 days in 2006, with its maximum average amount taking place in November (HRK 992.9m), and its minimum average amount (HRK 181.5m) taking place in May 2006. The banks used the deposit facility between 10 and 20 working days each month, with the largest number of days of use of the overnight facility taking place in August 2006, when the banks deposited an average HRK 221.8m with the central bank for 20 days.

2.1.3 Reserve Requirements

Reserve requirements were again the main instrument for the system's surplus liquidity sterilisation. The reserve requirement rate remained at unchanged 17% throughout the year. The base for the calculation of reserve requirements consists of the kuna and the foreign currency component. Of the calculated foreign currency component of reserve requirements 50% is included in the calculated kuna component of reserve requirements and is executed in kuna. The calculation period covers the period from the first to the last day of a calendar month, and the maintenance period begins on the second Wednesday in a month and lasts until the day which precedes the second Wednesday of the following month. The kuna and foreign currency reserve requirement allocation percentage is 70% and 60%, respectively, of the calculated reserve requirements. However, the foreign currency component of reserve requirements calculated on the basis of non-residents' foreign currency funds and foreign currency funds received from legal persons in a special relationship with a bank is allocated at the rate of 100%. The remaining component of reserve requirements may be maintained by average daily liquid claims balance.

2.7 Changes in Overnight Deposit Balance in Reserve Requirements Maintenance Periods

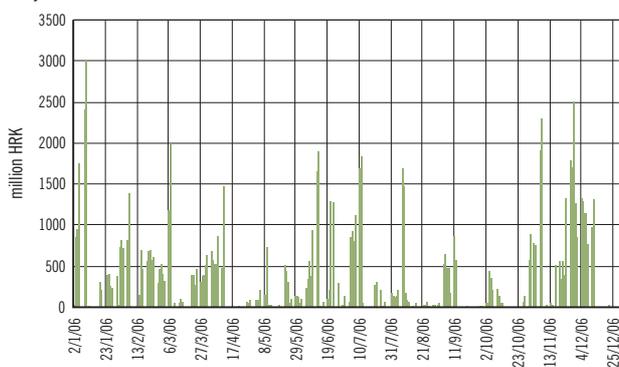
average daily balances



Source: CNB.

2.8 Overnight Deposits

daily balances



Source: CNB.

Kuna and Foreign Currency Component of Reserve Requirements

The kuna component of reserve requirements was growing steadily throughout 2006 as a result of an increase in the calculation base, most notably the kuna base. In contrast, the foreign currency component of the base was falling in the second and the third quarters.

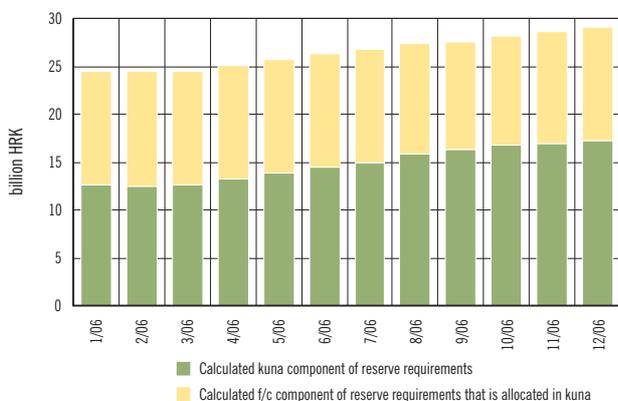
The kuna component of the base, after slight fall in January, grew steadily, reaching HRK 102.8m in December. The kuna component of the base thus increased by 39.5% in 2006.

The foreign currency component of the base fluctuated during 2006. After increasing slightly in the first two months of the year when it reached HRK 140.1bn, it declined in the next six months, falling to HRK 132.7bn at the end of that period. After that, the foreign currency component of reserve requirements increased steadily towards the end of the year, reaching HRK 142.3bn, growing annually by 1.6%.

Strong growth of the kuna component of reserve requirements, ranging between 3% and 6% a month, started in March and continued until August 2006, coinciding with the period of fall in the foreign currency component of the base. The reason for this is that the banks, until changes in the regulations on the minimum foreign currency liquidity were introduced, had encouraged conversion of foreign currency deposits and savings into kuna deposits and kuna savings with a currency clause to create room for further placements growth. However, changes in the regulations on the minimum foreign currency liquidity halted such practice as they provided for the inclusion of kuna liabilities with a currency clause into foreign currency liabilities, thus increasing demand for liquid foreign currency claims which resulted in a growth of the foreign currency component of the base.

2.9 Total Kuna Component of Reserve Requirements

balance in maintenance periods



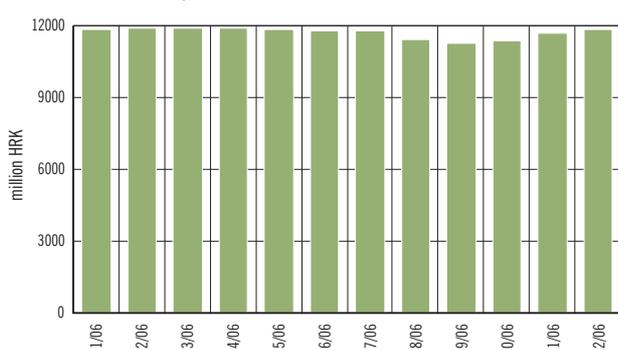
Source: CNB.

Strong growth of the kuna base in 2006 notwithstanding, the growth of the kuna component of reserve requirements slowed down to 19.3%, with the kuna base standing at HRK 29.1bn at the last reserve requirements calculation in 2006. The reason for the slower growth of the kuna component of reserve requirements compared with the kuna component of the base was stagnation in the foreign currency component of reserve requirements that is executed in kuna.

The share of the calculated foreign currency component of reserve requirements that is executed in kuna declined by 0.1% in the period from the maintenance period in January to the maintenance period in December, a development fully in line with developments in foreign currency base during that period and the fact that the percentage of this foreign currency component had not changed for years.

2.10 Total Foreign Currency Component of Reserve Requirements

balance in maintenance periods



Source: CNB.

Foreign currency reserve requirements held steady in 2006, and in accordance with developments in the foreign currency component of the base, following their initial increase, kept on decreasing until September when they resumed their upward trend, reaching beginning of year level (HRK 11.8bn).

Remuneration paid for the allocated kuna component of reserve requirements in 2006 was 0.75%. The remuneration paid on the foreign currency component of reserve requirements allocated in euro amounted to 50%

of the ECB Minimum Bid Refinance Rate and on those allocated in American dollars to 50% of the US Federal Funds Target Rate.

2.1.4 Measures for Restricting External Debt Growth

In 2006, the central bank additionally tightened its existing and introduced new instruments for slowing down and halting external debt growth and introduced a new measure for restricting bank placements growth, in effect as of 2007.

It changed several times its instrument of marginal reserve requirements in order to expand their scope and also introduced special reserve requirements on banks' liabilities arising from issued securities whose purpose is the same as that of marginal reserve requirements.

Towards the end of the year the central bank also introduced a new measure in the form of subscription of compulsory CNB bills, applicable as of 2007, to help restrict the growth of bank placements.

Marginal Reserve Requirements

Until January 2006, the base for the calculation of marginal reserve requirements was any positive difference between average daily balance of sources of funds from non-residents and legal persons in a special relationship with the bank in the calculation and the initial period, with the initial period being that from 1 June to 30 June 2004. The banks had to calculate marginal reserve requirements on any increase in their foreign liabilities at the rate of 40%.

Since January 2006, the base for the calculation of marginal reserve requirements has been widened and a new initial calculation period introduced. The new base now included guarantees and warranties for the account of foreign persons used as a basis for foreign borrowing of domestic persons and funds received from leasing companies not in a special relationship with a bank. As provided by these changes, the banks were now obligated to calculate marginal reserve requirements at the rate of 55% on any increase in the average daily balance of funds received from leasing companies not in a special relationship with a bank and contingent liabilities arising from guarantees and warranties on behalf of foreign persons in kuna and in foreign currency, used as a basis for foreign borrowing of domestic persons. The additional initial calculation period against which the increase in the average daily balance of such sources of funds and contingent liabilities was measured was 1 to 30 November 2005. At the same time, in addition to their regular marginal reserve requirements calculation obligation of 40%, the banks also had to calculate additional marginal reserve requirements at the rate of 15% on any increase in their average daily balance of the sources of funds from non-residents and legal persons in a special relationship with a bank compared with their average balance in the initial period from 1 to 30 November 2005.

The additional widening of the scope of marginal reserve requirements was applicable as of July 2006, after the central bank raised to 55% the rate of marginal reserve requirements calculation on any increase in funds received from non-residents and legal persons in a special relationship with a bank which are used for financing domestic legal and natural persons in the form of syndicated loans or for domestic banks' placements to domestic legal and natural persons in the name and for the account of the mandator (mandated operations), with the mandator's funds received or placed not being shown on the bank's balance sheet but on a separate balance sheet (balance sheet of mandated operations). The initial period against which the increase in the average daily balance of the said sources of funds was measured was 1 to 30 May 2006.

Marginal reserve requirements are in their entirety allocated in foreign currency to foreign currency accounts with the CNB and are not remunerated by the central bank.

Total sources of funds from non-residents and legal persons in a special relationship with a bank were HRK 70.5bn in January 2006 and kept growing steadily until June when they reached their maximum (HRK 77.7bn). After falling in the period that followed they resumed their growth in October, reaching HRK 75.0bn in December, an increase of 6.4% compared with the beginning of the year, as a result of a large increase in non-resident funds. The base for the calculation of marginal reserve requirements also rose, from HRK 15.6bn to HRK 19.8bn.

The sources of funds from persons engaging in financial leasing rose from HRK 100.9m in January 2006 to HRK 114.8m in December, while guarantees and warranties in favour of non-residents used for domestic persons' borrowing abroad shrank during the same period from HRK 4.6bn to HRK 4.2bn. The base for the calculation of marginal reserve requirements also declined accordingly, from HRK 109.6m in January to HRK 72.2m in December.

2.11 Marginal Reserve Requirements

balance on calculation days



Source: CNB.

Funds received from non-residents and legal persons in a special relationship with the bank for financing domestic persons in the form of syndicated loans and mandator funds (mandated operations) for placements to domestic persons totalled HRK 2.5bn in June, falling to HRK 2.4bn until December. At the same time, the base for the calculation of marginal reserve requirements on the basis of these funds rose from HRK 71.1m to HRK 277.8m.

Total marginal reserve requirements rose from HRK 7.1bn in January to 11.0bn in June. They fell to HRK 6.1bn in the quarter that followed, but resumed their growth again in the last quarter, reaching HRK 9.6bn in December, which is an increase of 35.2% compared with their beginning-of-year balance.

Table 2.1 Marginal Reserve Requirements

balance on calculation days, in million HRK

	Base				Total
	MMR I	MMR II	MMR III	MMR IV	Calculated MRR
1/2006	15,619.5	5,604.5	109.6	0.0	7,148.7
2/2006	17,710.4	7,657.1	121.0	0.0	8,299.3
3/2006	19,652.9	9,630.4	136.6	0.0	9,380.8
4/2006	20,999.4	11,209.5	70.1	0.0	10,119.8
5/2006	22,218.3	12,376.0	82.5	0.0	10,789.1
6/2006	22,611.9	12,855.7	45.5	71.1	11,037.3
7/2006	19,310.9	9,271.3	92.9	55.1	9,196.4
8/2006	14,190.1	3,731.0	116.4	106.4	6,358.2
9/2006	13,494.2	3,450.8	114.0	154.8	6,063.1
10/2006	14,603.2	5,245.6	86.0	243.9	6,809.6
11/2006	16,321.5	6,745.7	86.8	299.3	7,752.8
12/2006	19,828.8	10,081.4	72.2	277.8	9,636.2

Note: The base for the calculation of MRR I is any positive difference between the average daily balance of sources of funds from non-residents and legal persons in a special relation with a bank, in the current and initial calculation period from 1 to 30 June 2004. The base for the calculation of MRR II is any positive difference between the average daily balance of sources of funds from non-residents and legal persons in a special relation with a bank, in the current and initial calculation period from 1 to 30 November 2005. The base for the calculation of MRR III is any positive difference between the average daily balance of funds raised from persons engaged in financial leasing and individual off-balance sheet liabilities such as guarantees and warranties for the account of foreign persons in kuna and in foreign currency used as a basis for domestic persons' foreign borrowing, in the current and initial calculation period from 1 to 30 November 2005. The base for the calculation of MRR IV is any positive difference between the average daily balance of funds received from non-residents and legal persons in a special relation with a bank, which are used for financing domestic legal and natural persons in the form of syndicated loans or which are placed by domestic banks to domestic legal and natural persons in the name and for the account of mandator (mandated operations), with the received and placed funds not being shown on the bank's balance sheet but on a separate balance sheet (balance sheet of mandated operations), in the current and initial calculation period from 1 to 31 May 2006.

Source: CNB.

Special Reserve Requirements

In February 2006, the Council of the CNB issued a decision on special reserve requirements on liabilities of banks arising from issued securities with the aim of slowing down bank borrowing based on issued debt securities. In particular, the measure was intended to deal with the situations where residents purchase securities of domestic banks with the funds obtained from foreign banks, or where they sell securities to non-residents on the secondary market.

The base for the calculation of special reserve requirements is the positive difference between the average daily balance of issued debt securities in a certain calculation period and the average daily balance of funds of issued debt securities in the initial calculation period, with the initial calculation period being 1 to 31 January 2006. Separate calculation of the base is made for securities issued in kuna and those issued in foreign currency. The balance of issued securities which is included in the calculation of the average daily balance of the sources of funds for the calculation of the base of marginal reserve requirements is not included in the special reserve requirements calculation. Special reserve requirements are calculated every second Wednesday in a month, by applying a 55% rate to the prescribed base. The full amount of special reserve requirements is allocated to the accounts with the CNB, with the kuna component being allocated to the special reserve requirement account with the central bank and the foreign currency component in euro and American dollar to its foreign currency accounts. The CNB pays no remuneration on special reserve requirements.

Special reserve requirements for the first calculation period (February 2006) allocated in March, were HRK 178.9m. They rose to HRK 251.5m, their 2006 maximum in the next calculation period, but started falling afterwards, reaching HRK 88.1m for the December 2006 calculation period.

Subscription of Compulsory CNB Bills

Despite tightening of the measures aimed at slowing down external debt growth, credit policies of banks boosted the growth of demand for loans causing further fast credit growth which led to further widening of the current account deficit and external debt growth in 2006. In response to such developments, the central bank issued a decision towards the end of 2006 on the purchase of compulsory CNB bills, restricting the annual growth of bank placements in 2007 to 12%.

The subscription of compulsory CNB bills is to be done on the 20th day in a month by each bank which exceeds the rate of permissible growth of placements. The rate of subscription is 50% of the amount by which the bank has exceeded the permissible rate. The maturity term of subscribed compulsory CNB bills is 360 days. Compulsory CNB bills are remunerated by the CNB at the same rate that is payable on the allocated kuna component of reserve requirements.

2.1.5 Other Instruments

Minimum Required Foreign Currency Claims

The trend of change in the structure of banks' liabilities involving a fall in the level of foreign currency deposits and a simultaneous increase in savings and time kuna deposits with a currency clause contributed to accelerated growth of placements in the first part of 2006. The banks encouraged their clients to make kuna deposits with a currency clause instead of foreign currency deposits and to convert their existing foreign currency deposits into kuna deposits with a currency clause because these types of deposits were not covered by the definition of foreign currency liabilities which under the decision on the minimum required foreign currency claims had to be covered by a certain percentage of liquid foreign currency claims. This led to a decrease in the level of foreign currency liabilities and ensured for the banks surplus foreign

currency which could be channelled into further growth of placements, with additional appreciation pressures being created on the exchange rate of the kuna by the need to convert the foreign currency into the kuna.

The new decision on the minimum required foreign currency claims provided that, as of October 2006, kuna liabilities with a currency clause were to be treated in the same way as foreign currency liabilities. More specifically, in terms of this Decision, individual kuna liabilities with a currency clause were to be included in the definition of foreign currency liabilities. These include:

- liabilities arising from issued debt securities in kuna with a currency clause (one- or two-way currency clause),
- received kuna deposits with a currency clause (one- or two-way currency clause),
- received kuna loans with a currency clause (one- or two-way currency clause), and
- hybrid and subordinate instruments in kuna with a currency clause.

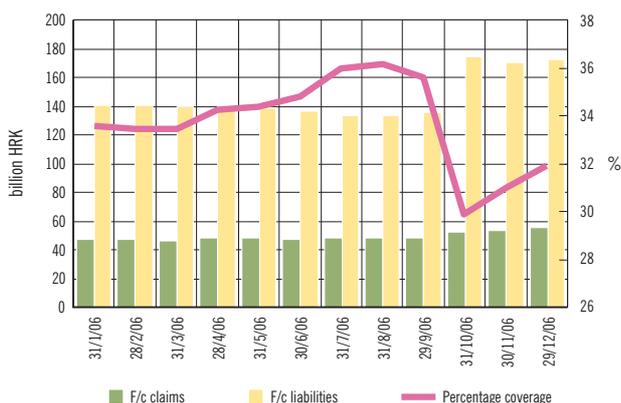
As it was estimated that a significant number of banks would not be able to meet the required minimum percentage of 32% as a result of inclusion of kuna liabilities with a currency clause under the definition of foreign currency liabilities, an adjustment period has been provided for, with the final deadline for adjustment being 31 March 2007.

Under this adjustment period, banks whose maintained percentage fell short of the prescribed 32% on the last day of September, were obliged to increase, started with October, their maintained percentage by two percentage points, with the banks whose maintained percentage on the last day of September was below 20% being obliged to meet the minimum 20% requirement on the first day of October. Under such a schedule, in the six months until 31 March 2007, all the banks were supposed to reach the prescribed 32% ratio.

In March 2006, the central bank exceptionally expanded the scope of foreign currency claims from 1 March 2006 to 31 October 2006, by including into foreign currency claims a short-term foreign currency loan amounting to EUR 400,000,000 granted by domestic banks to the Ministry of Finance. The inclusion of this short-term foreign currency loan was extended in September until 29 December 2006.

2.12 Minimum Foreign Currency Liquidity

end-month balance



Source: CNB.

In the first quarter of 2006, the coverage of foreign currency liabilities by foreign currency claims ranged between 33.57% on 31 January to 33.45% on 31 March. The coverage steadily improved later in the year, reaching 36.16% on 31 August and 35.59% on 29 September 2006. After including kuna liabilities with a currency clause in the base for the calculation of minimum required foreign currency claims, the percentage of coverage shrank considerably, standing at, in a simulation dated 29 September, which was also a benchmark for determining the period of adjustment, 27.51%. After that, the coverage improved throughout the rest of the year, reaching 31.89% on 29 December 2006. Banks completed their adjustment to the new Decision in March 2007 when their overall system coverage of foreign currency claims (which now also include kuna liabilities

with a currency clause) by liquid foreign currency claims averaged 33.0%.

Croatian National Bank Bills in Kuna

Dematerialised negotiable 35-day kuna CNB bills are sold at auctions at a discount and with the same day settlement. The CNB determines the date of the auction while access to the primary market is open to domestic banks, foreign bank branches and CBRD. The Central Depository Agency provides depository services for CNB bills.

Though they constitute a part of operative monetary policy framework, CNB bills were not used in 2006.

Short-Term Liquidity Loans

In 2006, the banks did not need short-term liquidity loans. The interest rate on this type of loans equals the rate charged on the Lombard loan increased by 0.5 percentage points if the loan is used for a period up to three months, or increased by 1 percentage point if the loan is used for a period of over three months.

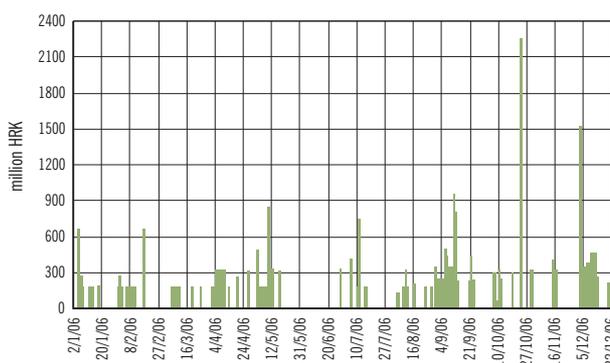
Intra-Day Loans

Intra-day loans are a payment system instrument which serves to improve the flow of payment transactions during business hours. The banks may use intra-day loans on a daily basis in the form of a settlement account limit, with the limit being the permissible negative settlement account balance. The loan is collateralised and may be used up to 90% of the nominal value of pledged T-bills of the Ministry of Finance.

Any unpaid intra-day loan at the end of a business day is automatically considered to be an application for a Lombard loan, to the amount of the negative settlement account balance. Refusal to grant such loans, or restrictions on the amounts that can be granted under Lombard loans, automatically implies identical restrictions on the use of intra-day loans. The CNB charges no interest on intra-day loans.

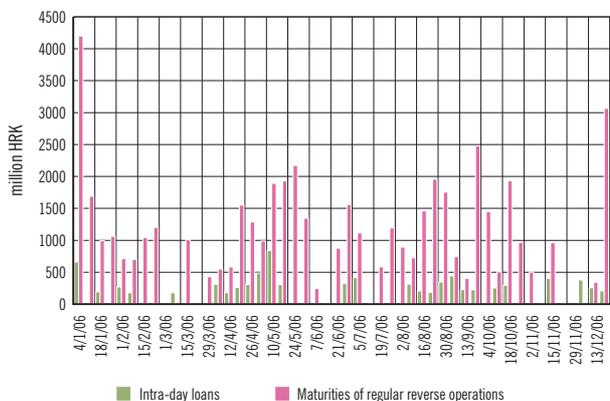
In 2006, intra-day loans were used for 90 days and their average amount was HRK 338.6m. Individual daily amounts granted ranged between HRK 63.0m and HRK 2.3bn. Compared with their 60 day use in 2005, and average amount of HRK 401.1m, this loan was used with higher frequency in 2006, though its average amounts were somewhat lower. As regards the use of intra-day loans on the days of regular operations, of the total of 51 reverse repo auctions held, the loan was used on 27 occasions, or at 52.9% of all regular operations in 2006. Average intra-day loans on these days were HRK 340.3m and individual daily amounts that were granted ranged between HRK 180.0m and HRK 841.5m.

2.13 Use of Intra-Day Loans



Source: CNB.

2.14 Use of Intra-Day Loans and Maturities of Regular Operations



Source: CNB.

Table 2.2 Use of Intra-Day Loans and Maturities of Regular Operations

in million HRK

	Intra-day loans	Maturities of regular reverse operations
4/1/06	661.5	4,201.1
11/1/06	0.0	1,690.0
18/1/06	193.5	995.8
25/1/06	0.0	1,061.0
1/2/06	270.0	710.6
8/2/06	180.0	700.0
15/2/06	0.0	1,040.7
22/2/06	0.0	1,199.5
1/3/06	0.0	0.0
8/3/06	180.0	0.0
15/3/06	0.0	1,007.0
22/3/06	0.0	0.0
29/3/06	0.0	429.4
5/4/06	315.0	549.6
12/4/06	180.0	585.2
19/4/06	262.2	1,551.6
26/4/06	307.2	1,288.3
3/5/06	485.4	989.4
10/5/06	841.5	1,891.7
17/5/06	306.0	1,930.6
24/5/06	0.0	2,172.4
31/5/06	0.0	1,346.0
7/6/06	0.0	247.5
14/6/06	0.0	24.5
21/6/06	0.0	876.2
28/6/06	328.5	1,563.1
5/7/06	416.4	1,118.0
12/7/06	0.0	14.7
19/7/06	0.0	584.7
26/7/06	0.0	1,192.7
2/8/06	0.0	892.7
9/8/06	315.0	724.7
16/8/06	204.8	1,459.9
23/8/06	182.7	1,955.0
30/8/06	348.0	1,755.0
6/9/06	442.8	741.0
13/9/06	225.0	400.0
20/9/06	225.0	2,481.0
4/10/06	0.0	1,450.7
11/10/06	252.0	504.7
18/10/06	297.2	1,933.8
25/10/06	0.0	967.7
2/11/06	0.0	501.7
8/11/06	0.0	6.2
15/11/06	405.0	960.9
22/11/06	0.0	6.2
29/11/06	0.0	0.0
6/12/06	378.0	0.0
13/12/06	255.6	344.0
20/12/06	210.6	3,065.1
27/12/06	744.7	2,594.0

Source: CNB.

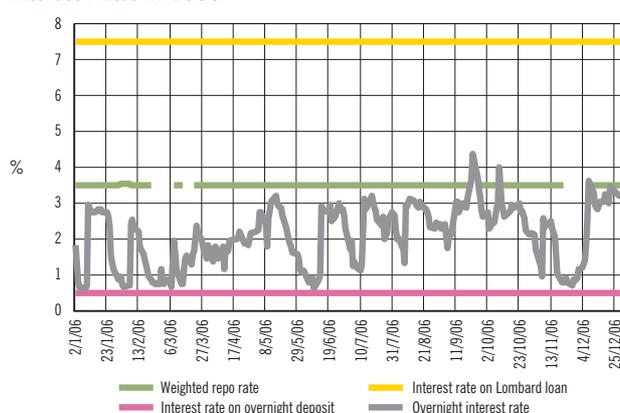
2.1.6 Croatian National Bank Interest Rates and Remuneration

There were no changes in interest rate policy of the central bank in 2006. Remuneration paid on the kuna component of reserve requirements was 0.75% while that paid on the allocated foreign currency component of reserve requirements allocated in American dollars amounted to 50% of the US Federal Funds Target Rate, and for funds allocated in euro, 50% of the ECB Minimum Bid Refinance Rate.

The repo rate, which is the rate at which the banks pay interest on funds borrowed at reverse repo auctions of the CNB, did not change much during 2006. Throughout the observed period, the repo bid rate ranged between 3.25% and 3.55%. The weighted repo rate was 3.5% throughout the year, with the exception of the last auction before the end of the maintenance period in January when it was 3.55%. The marginal repo rate, i.e. the lowest acceptable repo rate also never fell below 3.5% throughout the year, and only on one occasion, in January 2006, when the lowest bid rate stood at 3.55%, did the marginal repo rate also stand at 3.55%.

Interest rates on standing facilities move within a range which sets a limit to the corridor of movements in overnight interest rates on the money market. The ceiling on the interest rate spread is provided by the interest rate on the Lombard loan, which is 7.5% annually, and the floor is provided by the interest rate on overnight deposits with the CNB which is 0.5% annually. There were no changes in the interest rate spread or its ceiling and floor values in 2006.

2.15 Interest Rate Spread, Repo Rates and Overnight Interest Rates in 2006



Source: CNB.

2.2 International Reserves Management

Total international reserves of the Croatian National Bank, shown at cost, rose by EUR 1,279.8m or 17.3% in 2006. On the last day of December 2006, total international reserves of the CNB were EUR 8,697.9m, compared with EUR 7,418.1m at end-2005.

Table 2.3 Monthly Changes in Total CNB International Reserves

end of period, in million EUR

Year	Month	Total reserves	
		Market value	Cost
2005	December	7,438.16	7,418.08
2006	January	7,627.65	7,615.87
	February	7,933.79	7,923.66
	March	8,088.31	8,082.05
	April	8,204.78	8,202.08
	May	8,502.00	8,493.77
	June	8,743.37	8,738.12
	July	8,974.04	8,968.21
	August	8,671.91	8,650.90
	September	8,134.60	8,110.55
	October	8,516.14	8,494.28
	November	8,983.53	8,953.58
	December	8,725.14	8,697.89
Change Dec. 2006 – Dec. 2005		1,286.97	1,279.81

Source: CNB.

The main activities of the central bank and developments which led to a change in the level of total international reserves in 2006, shown at cost and at value date, on the inflow side were:

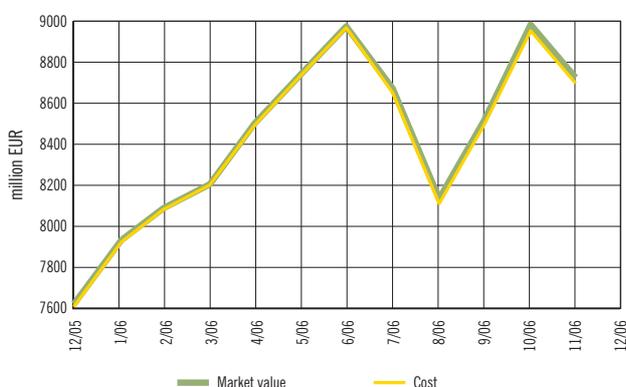
- 1) EUR 1,329.5m in foreign exchange interventions involving purchases of foreign currency from the banks,
- 2) EUR 481.6m increase in marginal reserve requirements set aside, and
- 3) EUR 214.5m in interest and income from international reserves investment,

and on the outflow side:

- 1) EUR 443.2m in foreign currency sale to the Ministry of Finance,
- 2) EUR 125.5m in foreign exchange intervention involving sales of foreign currency to the banks, and
- 3) EUR 122.5m in negative cross-currency changes arising from a 10.1% weakening of the exchange rate of the dollar against the euro in 2006.

2.16 CNB International Reserves

end of period



Source: CNB.

In 2006, the central bank engaged in foreign currency purchase and sales transactions with the banks, the Ministry of Finance and foreign banks, purchasing a total of HRK 0.5m worth EUR 70 thousand.

In its transactions on the foreign exchange market in 2006, the central bank purchased from domestic banks and the government a total of EUR 1,332.5m, compared with the last year's total sales volume of EUR 568.7m. Total turnover in transactions with domestic banks and the Ministry of Finance on the foreign exchange market in 2006, led to an increase in the international reserves of the CNB of EUR 763.8m, with HRK 5,560.9m being issued in a net amount.

Table 2.4 Total CNB Turnover in the Foreign Exchange Market, 1 January – 31 December 2006

at the exchange rate applicable on the intervention date, in million

	Purchase (1)		Sale (2)		Net (1 – 2)	
	EUR	HRK	EUR	HRK	EUR	HRK
Domestic banks	1,329.47	9,735.09	125.50	930.12	1,203.97	8,804.97
Ministry of Finance	3.07	22.55	443.17	3,266.08	-440.10	-3,243.53
Foreign banks	0.00	0.00	0.07	0.54	-0.07	-0.54
Total	1,332.54	9,757.64	568.74	4,196.74	763.80	5,560.90

Source: CNB.

In its foreign exchange transactions with domestic banks, in the twelve months of 2006, the central bank purchased net EUR 1.2bn, thus creating HRK 8.8bn.

In 2006, the CNB intervened in the foreign exchange market twelve times, and in the second half of September held for the first time in past two and a half years a foreign exchange auction at which the central bank sold foreign currency on the foreign exchange market (EUR 125.5m) to prevent the weakening of the kuna. The year 2006 was marked by a large inflow of capital from abroad and the associated appreciation pressures on the exchange rate of the kuna. Ample supply of foreign currency on the domestic market boosted demand for kuna, prompting the central bank to respond to exchange rate changes by purchasing foreign currency from domestic banks, thus successfully curbing excessive appreciation pressures.

The fourth quarter of 2006 was particularly marked by CNB interventions associated with a purchase/sale transaction of Pliva d.d. in October. The purchase/sale transaction of Pliva d.d. was successfully completed in only one day. One day before the takeover, the CNB created

through a bilateral purchase of EUR 208.9m worth of foreign currency, HRK 1.5bn, thus enabling a smooth purchase/sale transaction of shares at a given level of liquidity. The CNB remained active on the foreign exchange market after the completion of the intervention directly associated with the Pliva d.d. purchase/sale transaction. On 26 October it held an auction at which it purchased EUR 68.8m from domestic banks and until end-2006, the central bank, in an effort to mitigate appreciation pressures, intervened in the foreign exchange market on two more occasions, both in November, by purchasing a total of EUR 330.30m. The CNB intervened one more time in 2006 (28 December), purchasing from the banks EUR 177m, but the value date of this transaction was the following year's 2 January 2007.

Table 2.5 CNB Foreign Exchange Interventions with Domestic Banks, 1 January – 31 December 2006
at the exchange rate applicable on the intervention date, in million

Month (number of interventions)	Purchase (1)		Sale (2)		Net (1 – 2)	
	EUR	HRK	EUR	HRK	EUR	HRK
January	0.00	0.00	0.00	0.00	0.00	0.00
February (2)	118.55	867.98	0.00	0.00	118.55	867.98
March	0.00	0.00	0.00	0.00	0.00	0.00
April	0.00	0.00	0.00	0.00	0.00	0.00
May (3)	184.60	1,343.70	0.00	0.00	184.60	1,343.70
June (1)	104.30	757.03	0.00	0.00	104.30	757.03
July (1)	175.33	1,270.86	0.00	0.00	175.33	1,270.86
August	0.00	0.00	0.00	0.00	0.00	0.00
September (1)	0.00	0.00	125.50	930.12	-125.50	-930.12
October (3)	416.39	3,072.90	0.00	0.00	416.39	3,072.90
November (2)	330.30	2,422.62	0.00	0.00	330.30	2,422.62
December	0.00	0.00	0.00	0.00	0.00	0.00
Total	1,329.47	9,735.09	125.50	930.12	1,203.97	8,804.97

Source: CNB.

In its foreign exchange transactions with the Ministry of Finance in 2006, the CNB sold to the government EUR 443.2m, withdrawing from the system HRK 3,266.1m worth of liquid assets, and purchased from the MoF during the same period EUR 3.1m, creating HRK 22.6m.

As regards actively managed international reserves, average yield on CNB's net euro portfolio throughout 2006 was 2.42%, while the average yield on CNB's net dollar portfolio during the same period was 4.60%. Despite higher annual yields on the dollar and the euro portfolios in 2006 compared with 2005, and income earned on total portfolio actively managed in 2006, expressed in euro, was almost 50% higher than that in the previous year, it should be borne in mind that in international reserves management, the CNB continued to be governed more by key principles of safety (low risk exposure) and liquidity (investment in debt security portfolio which can be cashed easily and quickly) than by principles of profitability, or achievement of adequate yields. Such behaviour of the central bank reflects the role of international reserves which have to be readily available in case of emergency to defend stability of the exchange rate of the domestic currency or to bridge any mismatches in the country's international payments.

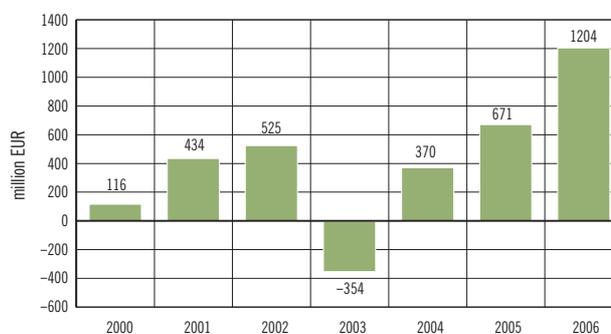
Table 2.6 Realised Income in 2006 and Average Yields on Net CNB Foreign Exchange Portfolios
at market value, in million EUR and USD and %

Portfolio	Realised income	Average amount invested	Annual yield rate						
	2006	2006	2000	2001	2002	2003	2004	2005	2006
EUR	119.08	4,919.49	4.38	4.63	3.79	2.58	2.66	2.15	2.42
USD	64.81	1,407.95	6.56	4.72	2.38	1.40	1.27	2.74	4.60

Source: CNB.

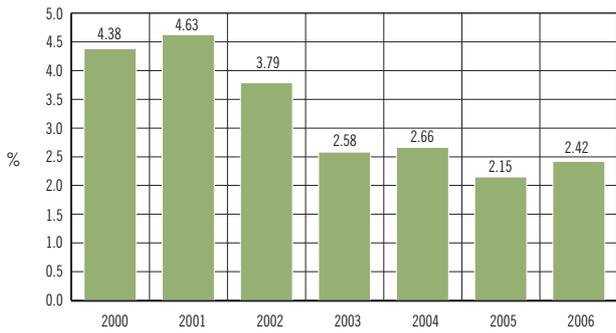
2.17 CNB Foreign Exchange Interventions with Domestic Banks

in net amounts



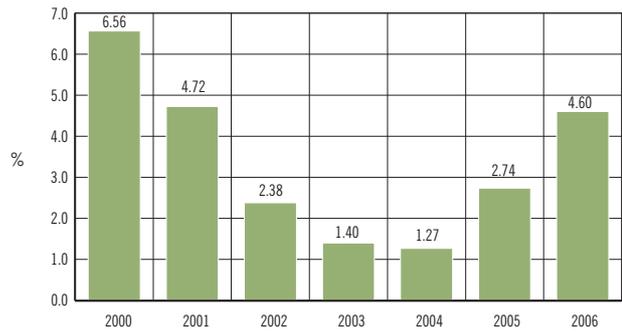
Source: CNB.

2.18 Yields on the CNB Dollar Portfolio



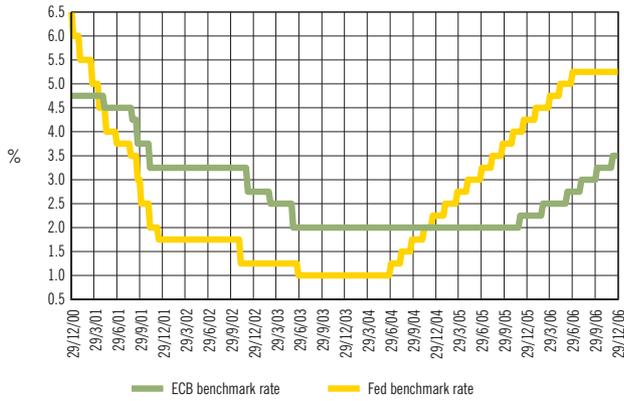
Source: CNB.

2.19 Yields on the CNB Euro Portfolio



Source: CNB.

2.20 Changes in ECB and Fed Benchmark Rates



Sources: ECB and Fed.

The average size of the net euro portfolio of the CNB actively managed in 2006 was EUR 4,919.5m, while the average size of net dollar portfolio was USD 1,408.0m.

The European central bank raised its benchmark repo rate on five occasions in 2006, each time by 0.25 percentage points. As a result, ECB benchmark interest rate rose from 2.25% to 3.50% in 2006. The Fed also raised its key overnight rates in 2006. It raised its benchmark rate on four occasions in that year, leading to its 1.00 percentage point growth in 2006, from 4.25% to 5.25%.

The background is a complex composition of various geometric and organic patterns. It features a central vertical band of solid green, flanked by vertical stripes of different shades of green and grey. The corners and sides are filled with intricate patterns: a top-left section with pink and grey circles and wavy lines; a top-middle section with a green and grey grid; a top-right section with green and yellow wavy lines; a middle-left section with a yellow and grey grid; a middle-right section with a green and yellow grid; a bottom-left section with green and grey wavy lines; a bottom-middle section with a yellow and grey grid; and a bottom-right section with a pink and grey geometric pattern. The overall aesthetic is modern and abstract.

03 Banking Sector

3.1 Banks' Business Operations

At the end of 2006, the banking sector of the Republic of Croatia comprised 33 banks. The share of banks' assets in the total assets of the banking sector was 98.0%, while housing savings banks' asset share was 2.0%. Notwithstanding the reduction in the number of banks and the increase in the number of housing savings banks at the end of the last year, the share of banks' assets in the total assets of the banking sector rose over its end-2005 level (97.7%) (Table 3.1). The reason for the reduction in the number of banks was the merger of two banks.¹

Table 3.1 Number of Banking Institutions

end of period

Banks	2004	2005	2006
Number of banks at the beginning of the year	41	37	34
Banks that merged with other banks	-3	-2	-1
Banks undergoing winding-up proceedings	-	-1	-
Banks whose license was revoked	-1	-	-
Number of banks at the end of the year	37	34	33
Housing savings banks	2004	2005	2006
Number of housing savings banks at the beginning of the year	4	4	4
Housing savings banks that were granted license	-	-	1
Number of housing savings banks (and savings banks) at the end of the year	4	4	5

Source: CNB.

In 2006, 6 large and 4 medium-sized banks were operating in Croatia.² The number of small banks fell from 24 at the beginning of the year to 23 at the end of the year (Table 3.2) as a result of the above-mentioned merger.

Table 3.2 Bank Peer Groups and Their Share in Total Bank Assets

end of period

	Number of banks			Share		
	2004	2005	2006	2004	2005	2006
Large banks	6	6	6	81.7	81.9	80.2
Medium-sized banks	4	4	4	9.9	10.4	12.0
Small banks	27	24	23	8.4	7.7	7.8
Total	37	34	33	100.0	100.0	100.0

Source: CNB.

¹ Požeška banka d.d. merged with Podravska banka d.d.

² Depending on the size of the relative share of the bank's assets in the total assets of all banks at the end of the reporting period, banks have been divided into three peer groups: large, medium-sized and small banks. Large banks are banks whose assets exceed 5% of the total assets of all banks, medium-sized banks are banks whose assets are greater than 1% and less than 5% of the total assets of all banks, and small banks are banks whose assets are less than 1% of the total assets of all banks.

The asset share of large banks in total bank assets remained the largest at the end of 2006, but fell over the end of 2005 due to a faster growth in the assets of medium-sized banks. Specifically, the assets of large banks grew by 14.8% while the assets of medium-sized banks went up by 35.4% compared with their balance at the end of 2005. In the same period, the assets of small banks and total bank assets grew at an almost equal rate (17.6% vs. 17.1%), which contributed to only a slight increase in the asset share of small banks in total bank assets.

The asset share of the two largest banks in total bank assets fell at the end of 2006, but remained at almost same level as at the end of last year, amounting to 41.4% (42.8% at end-2005).

In the third quarter of 2006, two small banks were taken over by foreign financial institutions,³ which contributed to the fall in the number of banks under majority domestic private ownership. Following these changes, the number of banks under majority foreign ownership still grew by one due to the above-mentioned merger between two banks in foreign ownership. The number of banks under domestic state ownership remained unchanged (Figure 3.1).

3.1 Number of Banks by Ownership Residence and Form of Ownership



Source: CNB.

The number of banks under domestic state ownership remained unchanged (Figure 3.1).

The asset share of banks under state ownership in total bank assets grew by 0.8 percentage points at the end of 2006, owing to higher growth in the assets of banks under majority domestic state ownership than in total bank assets (46.4% vs. 17.1%) (Table 3.3). Although the group of banks under the ownership of domestic shareholders accounted for the largest number of banks, its share of assets in total bank assets trended downwards in the reference period on account of slower growth in group's total assets (10.0%). In addition, the asset share of banks under foreign ownership in total bank assets also went downwards due to somewhat slower growth in their assets (16.5%).

Table 3.3 Banks' Assets by Ownership Residence and Form of Ownership

Banks by ownership residence and form of ownership	Bank peer groups' share of assets in total bank assets		
	2004	2005	2006
Banks in majority ownership of domestic shareholders	5.6	5.3	5.0
Banks in majority state ownership	3.1	3.4	4.2
Banks in majority ownership of foreign shareholders	91.3	91.3	90.8
Total	100.0	100.0	100.0

Source: CNB.

3.2 Banks' Assets by Shareholders' Domicile



Note: For the purpose of this overview the shareholder's domicile means the head office of a company or residence of the owner (a natural person).
Source: CNB.

Of the total number of banks under foreign ownership at the end of 2006, the largest number of banks (seven) was owned by shareholders from Italy, accounting for 43.6% of total bank assets. Five banks were owned by shareholders from Austria and their share in total bank assets went down by 8.2 percentage points (from 45.4% at end-2005 to 35.2% at end-2006). The key factors behind this were the change in majority ownership of one major bank and its subsequent takeover by shareholders from France (Figure 3.2).⁴

The number of banking groups, on whose business operations the subordinate banks reported to the Croatian National Bank in line with the Decision on consolidated

3 Banka Sonic d.d. and Gospodarsko-kreditna banka d.d.

4 Soci t -G n rale-Splitska banka d.d.

financial reports of a banking group,⁵ rose from five to eight at the end of 2006 compared with the end of 2005. The superordinate banks of these groups are as follows: Centar banka d.d., Hrvatska poštanska banka d.d., Hypo Alpe-Adria-Bank d.d., OTP banka Hrvatska d.d., Slatinska banka d.d., Privredna banka Zagreb d.d., Raiffeisenbank Austria d.d. and Zagrebačka banka d.d.

3.1.1 Regulatory Changes

In 2006, changes in primary and secondary legislation were prompted by the need to harmonise it with the *acquis communautaire* and new IAS and IFRS standards, as well as by the need to enhance monetary policy and prudential requirements.

The Act on Amendments to the Banking Act⁶ and the Credit Unions Act were adopted late in 2006,⁷ laying the groundwork for the inclusion of savings banks and credit unions in the banking sector of the Republic of Croatia. In addition, establishment, pursuit of the business and dissolution of credit unions and savings banks are the issues that have been set forth in the new acts, as well as the issue of supervision which will be carried out by the Croatian National Bank.

In line with the need to quantify and monitor the currency induced credit risk and harmonise its secondary legislation with the revised IAS and IFRS, the central bank amended several prudential regulations in 2006. As a result, the new provisions, defined as early as in late 2005, were included in the Decision on the classification of placements and contingent liabilities of banks⁸ and the Decision on the capital adequacy of banks,⁹ and applied by bank in the financial reports submitted to the Croatian National Bank for the period concluding with the balance as at 30 June 2006.

The most important novelty, set forth in the amended Decision on the classification of placements and contingent liabilities of banks, was the introduction of currency induced credit risk (CICR) in prudential regulations. The CICR is considered to be an integral part of credit risk and is related to the currency in which a loan is extended. It arises from the changes in the exchange rate of the kuna against the foreign currency in which a particular placement is denominated, and may result in a reduction of debtors' ability to settle their obligations towards banks. On the other hand, banks acting as creditors are obliged to protect themselves from such adverse influences by allocating additional capital, i.e. by calculating higher capital requirements. The Decision provides for that banks are required to monitor, analyse and assess whether the foreign currency positions of their debtors are matched as well as to oversee whether cash flows of debtors can be adjusted to the potential changes in the level of their overall obligations, with the primary reason for the mismatch between the foreign currency positions being the changes in the exchange rate. It is said that the mismatch is present even if debtors' expected foreign currency inflows cover less than 80% of their obligations denominated in foreign currency or indexed to foreign currency.

The second most important novelty, set forth in the amended Decision on the classification of placements and contingent liabilities of banks, comprised the implementation of the revised IAS 39, providing for the change in the manner of reporting of a portfolio of available for sale assets and the reallocation of debt securities available for sale into a portfolio subject to credit risk evaluation and allocation into risk groups. Moreover, the amended Decision provided for the allocation of collectively assessed impairment provisions and the change in the formation of reserves for general banking risks, while banks were allowed to recognise the realised interest

5 OG 17/2003 and 149/2005

6 OG 84/2002 and 141/2006

7 OG 141/2006

8 OG 17/2003, 149/2005 and 74/2006

9 OG 17/2003, 120/2003, 149/2005 and 130/2006

income from partially recoverable and irrecoverable placements (categories B and C) in the income statement.

The Decision on the capital adequacy of banks was amended in order to include the new method for calculating the credit risk weighted assets. As a result, the existing weights for claims denominated in foreign currency or with a currency clause on debtors with unmatched foreign currency positions were increased from 50% to 75% and from 100% to 125%. In addition, the provisions on internal models for the calculation of the value of the book of options were also amended, providing for new processes, procedures and conditions that banks have to fulfil in order to obtain the authorisation for their use from the CNB.

In 2006, the central bank also amended the Decision on the limitation of banks' exposure to foreign exchange risk.¹⁰ The amended Decision contains new provisions on the calculation of the open foreign exchange position of banks, and, in accordance with amendments to the Decision on the capital adequacy of banks, new conditions for the use of internal models for the calculation of the value of the book of options.

The amendments to the above-mentioned prudential regulations were also followed by the amendments to the Chart of Accounts for Banks¹¹ and the amendments to the Decision on supervisory reports of banks.¹²

The amendments to the existing regulations and the introduction of new regulations related to monetary policy significantly affected banks' business operations in 2006. In order to halt further growth in bank foreign liabilities, the central bank amended the Decision on the marginal reserve requirement¹³ and adopted the Decision on the special reserve requirement.¹⁴ As far as the measures for monitoring bank liquidity are concerned, the central bank adopted the amendments to the Decision on the minimum required amount of foreign currency claims,¹⁵ i.e. it broadened the 32% base for the calculation of the minimum required amount of foreign currency claims of banks. In an effort to limit the growth in bank placements to 12% annually, the central bank adopted the Decision on the purchase of compulsory CNB bills in December 2006.¹⁶

Additionally, the CNB, aiming to further develop risk-focused supervision, released a set of guidelines for banks with general principles and recommendations on risk assessment procedures and actions to be taken in order to reduce and maintain risks at acceptable levels. As a result, the CNB published the Guidelines for Managing IT Systems in March, the Guidelines for Managing Currency Induced Credit Risk in May, and, finally, the Guidelines for Managing Credit Risk Arising from Placements to Households in October 2006.

In 2006, the CNB continued efforts directed at establishing co-operation with supervisory authorities of foreign banks owning Croatian banks. In the first half of 2006, it signed the Memorandum of understanding and co-operation in banking supervision with authorities responsible for bank supervision in Italy, whereas in September 2006, the central bank and HANFA entered into the Memorandum of Understanding, defining their fields of competence and the objectives and the contents of their co-operation.

10 OG 17/2003, 39/2006 and 130/2006

11 OG 115/2003, 39/2004 and 29/2006

12 OG 115/2003, 29/2006, 46/2006 and 74/2006

13 OG 146/2005 and 69/2006

14 OG 18/2006

15 OG 104/2006

16 OG 142/2006 and 23/2007

3.1.2 Banks' Balance Sheet

Structure of Banks' Assets

The total assets of banks were HRK 304.8bn at the end of 2006, increasing by 17.1% over the previous year.¹⁷ Compared to the balance at the end of last year, all banks reported asset growth.

Medium-sized banks had the greatest relative influence on the annual rate of change in bank assets, with their assets increasing by 35.4%. The assets of large banks grew at a rate of 14.8%, while the assets of small banks grew at a rate of 17.6%.

In line with seasonal movements, more than a half of total increase in bank assets in 2006 was generated in the last quarter, when assets grew by HRK 19.9bn.

Table 3.4 Structure of Banks' Assets

end of period, in million HRK and %

	2004			2005			2006		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Money assets and deposits with the CNB	34,891.3	15.2	24.6	42,900.8	16.5	23.0	49,615.2	16.3	15.7
1.1. Money assets	3,062.1	1.3	3.6	3,347.1	1.3	9.3	3,931.0	1.3	17.4
1.2. Deposits with the CNB	31,829.2	13.9	27.1	39,553.7	15.2	24.3	45,684.2	15.0	15.5
2. Deposits with banking institutions	33,351.2	14.5	6.9	23,155.9	8.9	-30.6	26,005.6	8.5	12.3
3. MoF treasury bills and CNB bills	3,580.6	1.6	-54.2	7,007.2	2.7	95.7	8,077.2	2.6	15.3
4. Securities and other financial instruments held for trading	6,566.1	2.9	-15.7	8,285.5	3.2	26.2	7,715.9	2.5	-6.9
5. Securities and other financial instruments available for sale	9,918.6	4.3	-	11,820.8	4.5	19.2	12,689.2	4.2	7.3
6. Securities and other financial instruments held to maturity	6,557.3	2.9	-39.1	5,106.0	2.0	-22.1	3,311.5	1.1	-35.1
6.1. Securities and other financial instruments bought on issue directly from the issuer	994.3	0.4	-	-	-	-	-	-	-
7. Securities and other financial instruments not traded in active markets but carried at fair value	-	-	-	1,101.4	0.4	-	460.1	0.2	-58.2
8. Derivative financial assets	152.0	0.1	-	147.3	0.1	-3.1	280.9	0.1	90.7
9. Loans to financial institutions	3,289.5	1.4	7.6	3,867.3	1.5	17.6	4,035.4	1.3	4.3
10. Loans to other clients	121,912.6	53.2	14.2	148,092.5	56.9	21.5	183,750.1	60.3	24.1
11. Investments in subsidiaries and associates	1,687.5	0.7	-31.3	1,595.7	0.6	-5.4	1,676.3	0.5	5.1
12. Foreclosed and repossessed assets	358.1	0.2	0.7	356.3	0.1	-0.5	445.7	0.1	25.1
13. Tangible assets (net of depreciation)	3,786.9	1.7	-7.5	4,198.8	1.6	10.9	4,436.3	1.5	5.7
14. Interest, fees and other assets	4,255.4	1.9	18.1	4,905.3	1.9	15.3	5,044.6	1.7	2.8
15. Net of: Collectively assessed impairment provisions	1,996.1	0.9	14.0	2,263.1	0.9	13.4	2,669.9	0.9	18.0
Total assets	229,305.2	100.0	12.3	260,277.6	100.0	13.5	304,874.1	100.0	17.1

Note: The assets side of the banks' balance sheet is structured in accordance with the microeconomic criteria of liquidity and instrument types, and the liabilities side of the banks' balance is structured in accordance with maturity terms and instrument types (the sectoral structure by residence and activities is not taken into account). In contrast, the monetary survey shows the changes in credit and monetary aggregates within the framework of analysis of macroeconomic developments. The value of assets is expressed in gross amounts in the monetary survey and in net amounts (i.e. net of impaired assets) in the banks' balance sheet.

Source: CNB.

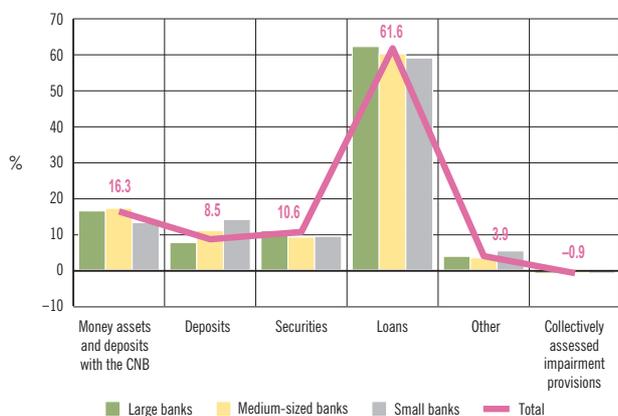
Total loans extended contributed the most to total bank assets growth in 2006, rising by HRK 35.8bn over the end of the previous year. As a result of higher growth rate in loans than in total assets, the share of loans in the structure of total assets rose to 61.6% in 2006. Loans accounted for approximately the same shares in assets of all bank groups, standing at 62.1% for large banks and 60.0% and 58.9% for medium-sized and small banks respectively.

¹⁷ All financial data for 2006 are based on the preliminary unaudited bank reports as at 31 December 2006, and all data for the previous years are based on audited bank reports.

Compared to their balance at end-2005, money assets and deposits with the CNB grew by HRK 6.7bn, due mostly to an increase in allocated reserve requirement deposits (HRK 6.1bn). In addition to boosting bank borrowings abroad, the amended CNB Decision on the marginal reserve requirement also resulted in a strong growth of marginal reserve requirement deposits (by 79.2%).

3.3 Structure of Bank Peer Groups' Assets

end-2006



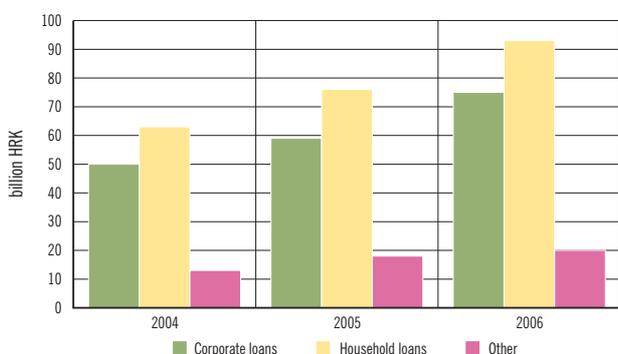
Source: CNB.

The amount of deposits with banking institutions grew substantially during the second half of 2006 on account of banks' preparation for and the beginning of implementation of the Decision the minimum required amount of foreign currency claims. Specifically, due to a decrease in the percentage of the allocation of minimally required foreign currency claims from 35% to 32%, deposits fell down in the first half of the year, while they grew again in the second half of the year on account of the amended Decision broadening the base for the calculation of the minimum required amount of foreign currency claims. At the end of 2006, deposits with other banking institutions went up by 12.3% over the end of 2005.

Banks' investment in securities rose by a modest 1.0%, decreasing their share in total assets from 12.8% at the end of 2005 to 10.6% at the end of 2006. However, the largest increases were seen in banks' portfolios of securities available for sale (by 4.2%) and investment in MoF T-bills (by 2.6%).

3.4 Net Loans by Type of User

end of period

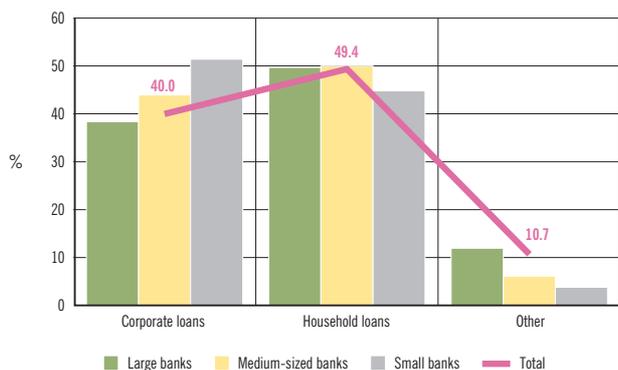


Source: CNB.

Although falling by 0.5 percentage points over the end of 2005, the share of loans to household remained the largest within the structure of total net bank loans, standing at 49.4%. Loans to households were HRK 17.0bn higher at the end of 2006 than at the end of the previous year, with housing loans accounting for more than a half of the increase. Compared with their balance at the end of 2005, housing loans made up 39.5% of total loans to households and 19.5% of total net bank loans. The share of corporate loans in total net bank loans rose from 38.6% at the end of 2005 to 40.0% at the end of 2006, on account of their annual growth of HRK 16.4bn or 27.9%.

3.5 Structure of Net Loans by Bank Peer Groups

end-2006



Source: CNB.

Loans in foreign currency or with a currency clause made up 71.7% of total net loans at the end of 2006. Notwithstanding a 8.8 percentage points fall in the share of loans indexed to euro in the currency structure of total net loans at the end of 2005, the majority of net loans in foreign currency or with a currency clause was linked to euro (74.9%) at the end of 2006. The reason for this was a 2.8% fall in loans indexed to euro. Concurrently, there was a strong increase in loans indexed to Swiss franc, which at the end of 2006 were 92.8% higher than at the end of 2005. As a result, the share of loans indexed to Swiss franc in total loans in foreign currency or with a currency clause rose from 11.8% at the end of 2005 to 21.0% at the end of 2006. At the end of 2006, more than a half of total net loans were accounted for by loans indexed to euro (53.7%), while the share of loans indexed to Swiss franc stood at 15.0%.

Structure of Banks' Liabilities

Received deposits were the largest item within total liabilities and capital at the end of 2006, accounting for 66.6% of total liabilities. Owing to deposits growing at faster rate (18.2%) than total liabilities, the share of deposit in total liabilities went up by 0.6 percentage points at the end of 2006. Despite an increase of 9.7% in 2006, the share of received loans fell from 19.2% to 18.0%, but still accounted for the second largest share in total liabilities at the end of 2006. Capital was the fastest growing item of banks' liabilities (up annually by 33.7%), rising its share in total liabilities from 9.0% at the end of 2005 to 10.3% at the end of 2006.

Table 3.5 Structure of Banks' Liabilities

end of period, in million HRK and %

	2004			2005			2006		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Loans from financial institutions	8,462.0	3.7	19.0	13,844.2	5.3	63.6	15,102.6	5.0	9.1
1.1. Short-term loans	3,592.1	1.6	-2.6	7,346.5	2.8	104.5	7,286.7	2.4	-0.8
1.2. Long-term loans	4,869.9	2.1	42.2	6,497.7	2.5	33.4	7,815.9	2.6	20.3
2. Deposits	155,277.5	67.7	8.1	171,742.0	66.0	10.6	202,949.1	66.6	18.2
2.1. Giro account and current account deposits	25,560.0	11.1	1.1	29,175.2	11.2	14.1	37,696.6	12.4	29.2
2.2. Savings deposits	25,223.3	11.0	1.8	26,124.5	10.0	3.6	26,601.5	8.7	1.8
2.3. Time deposits	104,493.4	45.6	11.6	116,442.2	44.7	11.4	138,651.0	45.5	19.1
3. Other loans	31,368.3	13.7	25.1	36,191.2	13.9	15.4	39,762.9	13.0	9.9
3.1. Short-term loans	5,265.3	2.3	53.6	8,213.9	3.2	56.0	10,028.1	3.3	22.1
3.2. Long-term loans	26,103.0	11.4	20.6	27,977.3	10.7	7.2	29,734.8	9.8	6.3
4. Derivative financial liabilities and other financial liabilities held for trading	238.8	0.1	-	223.7	0.1	-6.3	221.6	0.1	-0.9
5. Debt securities issued	3,535.1	1.5	3,543.9	3,396.9	1.3	-3.9	3,583.4	1.2	5.5
5.1. Short-term debt securities issued	0.0	0.0	-	0.0	0.0	-	0.0	0.0	-
5.2. Long-term debt securities issued	3,535.1	1.5	3,543.9	3,396.9	1.3	-3.9	3,583.4	1.2	5.5
6. Subordinated instruments issued	818.3	0.4	0.6	770.7	0.3	-5.8	758.1	0.2	-1.6
7. Hybrid instruments issued	1,642.8	0.7	-27.4	886.6	0.3	-46.0	552.4	0.2	-37.7
8. Interest, fees and other liabilities	8,280.3	3.6	20.0	9,778.8	3.8	18.1	10,588.2	3.5	8.3
Total liabilities	209,623.4	91.4	12.7	236,834.2	91.0	13.0	273,518.3	89.7	15.5
Total capital	19,681.8	8.6	8.4	23,443.5	9.0	19.1	31,355.8	10.3	33.8
Total liabilities and capital	229,305.2	100.0	12.3	260,277.6	100.0	13.5	304,874.1	100.0	17.1

Source: CNB.

Deposits made up the largest share in liabilities of small banks (75.5%), while their share in liabilities of large banks was somewhat smaller than the average for all banks and stood at 65.0%. Capital also accounted for the largest share in liabilities of small banks (12.6%), while its share was the smallest in liabilities of medium-sized banks (9.6%). As a source of financing, received loans were for the most part used by large banks, increasing their share in liabilities of large banks by 19.6%. In contrast, small banks used these loans only occasionally, so that they accounted for only 7.9% of their liabilities.

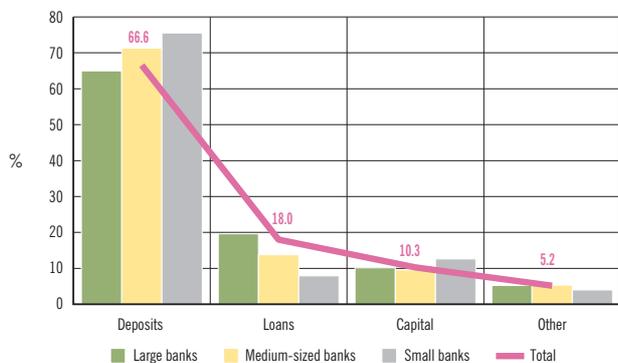
The maturity structure of received deposits changed only slightly at the end of 2006 over the end of 2005. At the end of 2006, time deposits made up the largest share of total deposits (68.3%), while their share in total deposits rose by 0.5 percentage points. Measured in terms of the size of their share in total deposits (18.6%), the share of giro and current account deposits in total deposits was the second largest, rising by 29.2% over the end of 2005, while their share in total deposits went up by 1.6 percentage points at the end of 2006. Savings deposits rose by only 1.8%, with their share in total deposits decreasing from 15.2% at the end of 2005 to 13.1% at the end of 2006.

Broken down by sectors, household deposits made up the largest share of total bank deposits at the end of 2006. Despite increasing by HRK 13.0bn over the end of 2005 and recording the largest nominal rate of change, household deposits grew at a lower rate (13.3%) than total deposits. As a result, their share in total deposits fell to 54.4% at the end of 2006 (56.7% at the end of 2005). Corporate deposit grew by HRK 8.9bn, due mostly to a 33.8% increase in time

deposits. A significant change, both in relative and nominal terms, was seen in deposits with financial institutions, which went up by 41.5% or HRK 3.3bn. Compared with their balance at the end of 2005, deposits of non-residents rose by HRK 5.4bn or 20.5% at the end of 2006, mostly due to an increase in deposits received from majority foreign owners (22.4%). The majority foreign owners of banks accounted for 11.1% of total deposits at the end of 2006.

3.6 Liability Structure by Bank Peer Groups

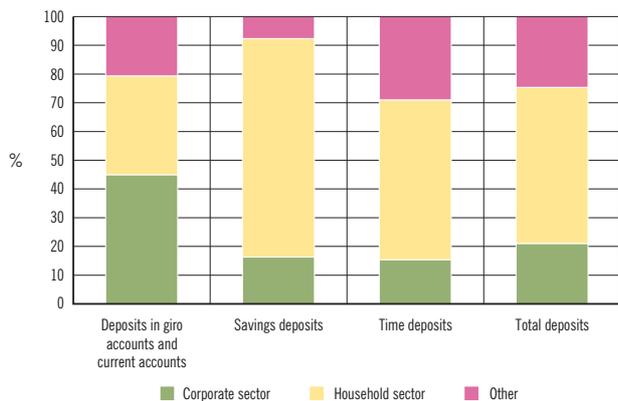
end-2006



Source: CNB.

3.7 Structure of Deposits by Type and Sector

end-2006



Source: CNB.

According to the data reported in required statistical reports, total household deposits insured with the DAB stood at HRK 61.8bn, which is an increase of 10.1% over the end of 2005. 56.0% or more than a half of household deposits were insured.

Like at the end of 2005, banks received the majority of loans from non-residents, with their share in total received loans standing at 72.0% at the end of 2006. Loans received from non-residents (predominately financial institutions) amounted to HRK 39.5bn at the end of 2006, increasing by 10.9% over the end of 2005. Loans received from majority foreign owners made up 58.1% of total loans from non-residents and 41.8% of total received loans. Loans from domestic financial institutions grew up by 9.1% due to, for the most part, an increase in liabilities towards CBRD (21.8%). Finally, the amount of total growth in received loans was set at the very end of 2006. In the last ten days of December 2006, banks' liabilities arising from received loans grew by 13.0%, whereas in the same period of 2005 banks' liabilities towards the CNB arising from reverse repo operations rose by 50.0%.

Compared with end-2005, banks have also changed the currency structure of their liabilities, increasing the share of their kuna liabilities from 23.2% at the end of 2005 to 33.1% at the end of 2006. With more than a half of total growth in loans to banks being accounted for by loans in domestic currency, foreign financial institutions also contributed significantly to the above change. The change in the currency structure of banks' liabilities became more evident after the amendments to the Decisions on the minimum required amount of foreign currency claims entered into force and after the

base for calculating the minimum required amount of foreign currency claims was broadened to include kuna liabilities with a currency clause.

3.1.3 Banks' Capital

The total capital of banks stood at HRK 31.4bn at the end of 2006, increasing by HRK 7.9bn or 33.8% over the end of the previous year (Table 3.6). The major contributor to this was a 43.9% increase in share capital, which at the same time accounted for the largest share in total capital (52.9%). The share of share capital in total capital of banks rose by 3.7 percentage points, halting its downward trend from 2001 when this share stood at 70.1%.

Table 3.6 Structure of Banks' Total Capital

end of period, in million HRK and %

	2004			2005			2006		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
Share capital	10,113.1	51.4	1.7	11,523.3	49.2	13.9	16,582.7	52.9	43.9
Current year profit/loss	3,036.8	15.4	29.1	3,247.8	13.9	6.9	3,480.9	11.1	7.2
Retained earnings (loss)	1,899.0	9.6	34.2	2,499.9	10.7	31.6	3,725.9	11.9	49.0
Legal reserves	718.1	3.6	1.0	798.4	3.4	11.2	882.4	2.8	10.5
Total reserves provided for by the articles of association and other capital reserves	3,918.2	19.9	2.5	5,350.4	22.8	36.6	6,666.4	21.3	24.6
Unrealised gains/losses on value adjustments of financial assets available for sale	-2.8	0.0	-	23.5	0.1	-	15.2	0.0	-35.4
Reserves arising from hedging transactions	0.0	0.0	-	0.0	0.0	-	8.3	0.0	100
Previous year profit/loss	-0.7	0.0	-99.2	0.2	0.0	-	-6.0	0.0	-
Total capital	19,681.8	100.0	8.4	23,443.5	100.0	19.1	31,355.8	100.0	33.8

Source: CNB.

Regulatory capital grew by 23.7%. Although somewhat lower than that of total capital, this growth was three times higher in 2006 than that in 2005 (7.2%). The key factors behind this were solid growth in core capital of 28.1%. In contrast, supplementary capital (including supplementary capital I and II, with supplementary capital I accounting for 99.9% of total supplementary capital) fell by 3.6% and items deducted from gross regulatory capital rose by 22.2%.

As result, the share of net core capital in gross regulatory capital rose from 89.0% to 92.2%, and the share of supplementary capital fell from 14.8% to 11.5%. Regulatory capital, calculated on the basis of banks' preliminary unaudited data, does not include the current year profit. The decision on the inclusion of the current year profit into capital is to be made by banks after the audit of their operations is carried out and after the final financial results for 2006 are obtained. It is therefore expected that following the transfer of a portion of banks' current year profit into the capital, the annual growth rate of regulatory capital is going to be higher than the one stated.

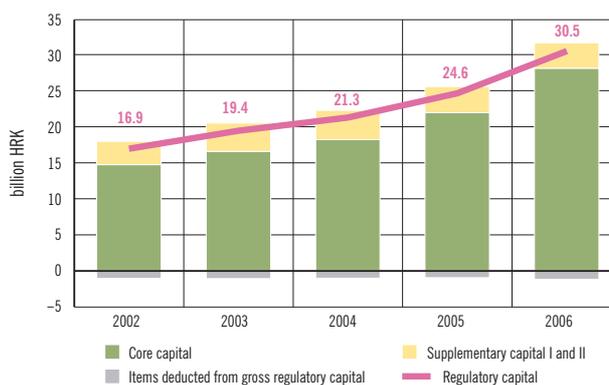
The capital adequacy ratio continued to trend downwards in 2006, reaching 13.2% at the end of 2006. Compared with the end of 2005, this ratio fell by 9.8% or 1.43 percentage points. Attributed to significantly slower growth in regulatory capital than in risk-weighted assets (42.2%), this decrease was the largest one-year decline in the last five-year period, in which the fall in the capital adequacy ratio ranged between 4.6% and 7.0% (i.e. between 0.7 and 1.2 percentage points). Total capital requirements, however, grew by 37.2%.

In contrast to 2005, when the capital adequacy ratio lower than 10% was reported by one bank, none of the banks reported the ratio below the prescribed average rate for all banks in 2006 (whereas, also in contrast to 2005, there were four banks with the capital adequacy ratios between 10% and 11%). All bank groups reported a fall in their capital adequacy ratios. As expected, the group of small banks had the highest capital adequacy ratio – 15.4% (up 2.2 percentage points compared with the ratio reported for the system as a whole). However, due to a significant 24.3% fall in its capital adequacy ratio, the group of medium sized banks was the group with the smallest ratio (12.6%). In contrast, the capital adequacy ratio of large banks, which has the largest influence on the total capital adequacy ratio, stood at 13.1% and was almost the same as that for the system as a whole (Figure 3.9).

Risk-weighted assets grew by a considerable 42.2% at the end of 2006 (Figure 3.10). The obligation to monitor and control the currency induced credit risk and the

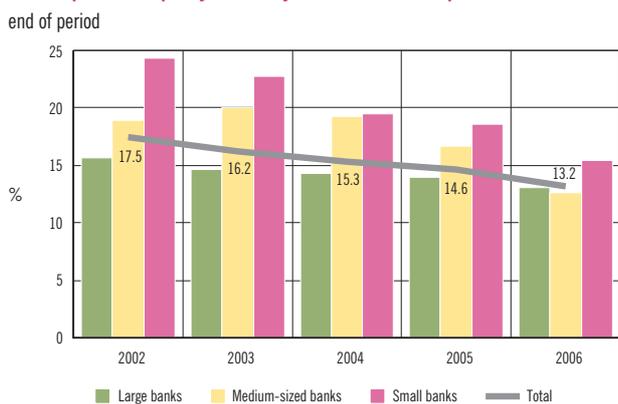
3.8 Structure of Banks' Regulatory Capital

end of period

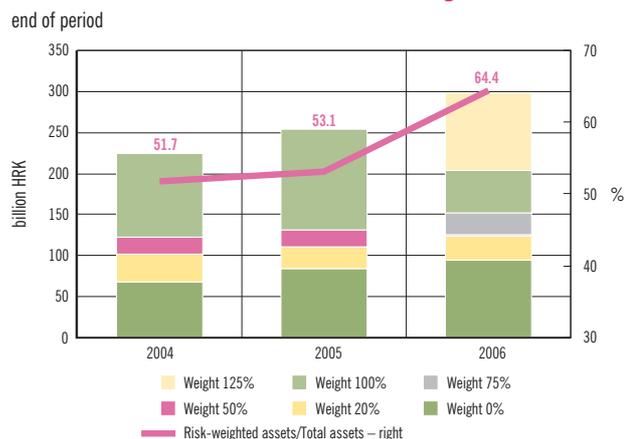


Source: CNB.

3.9 Capital Adequacy Ratio by Bank Peer Groups



3.10 Banks' Assets Included in Total Risk-Weighted Assets



introduction of new risk weights (75% and 125%) which affected the majority of total assets, were to a large extent the reason behind such strong growth in risk-weighted assets (including the structure of risk-weighted assets and the capital adequacy ratio).

Owing to growth in risk-weighted assets outstripping that in total assets (17.1%), the ratio between these two categories of assets also trended upwards, increasing from 53.1% at the end of 2005 to 64.4% at the end of 2006.

3.1.4 Quality of Banks' Assets

During 2006, total placements and contingent liabilities of banks grew by 25.5% and reached the amount of HRK 349.9bn. Compared with the end of 2005, the growth in gross loans (up annually by HRK 35.7bn) again had the greatest influence on the increase in total placements. Despite their nominal increase, the share of loans in the structure of placements fell by 1.3 percentage points over its balance at the end of 2005, reaching 55.3% at the end of 2006. Similar change was registered in deposits. Although increasing in nominal terms, the share of deposits in the structure of placements fell in relative terms, by 2.0 percentage points, standing at 20.3% at the end of 2006. The reason for this growth (in line with the revised IAS 39) was the reallocation of debt securities available for sale into a portfolio subject to credit risk evaluation and allocation into risk groups. At the end of 2006, the share of the said portfolio in total placements and contingent liabilities stood at 4.7%, contributing to a HRK 14.4bn increase in total placements.

According to bank estimates, the quality of their placements improved in 2006 compared with the previous year. The share fully recoverable placements (risk category A) in total placements increased by 96.8%, while the share of partly recoverable and irrecoverable placements (risk categories B and C) went down to 3.2% (Table 3.7).

Table 3.7 Classification of Banks' Placements and Contingent Liabilities by Risk Categories

end of period, in million HRK and %

Placements	2004		2005		2006	
	Amount	Share	Amount	Share	Amount	Share
Fully recoverable placements (category A)	231,225.3	95.4	267,835.4	96.0	338,632.6	96.8
Partly recoverable placements (category B)	6,722.6	2.8	6,801.6	2.4	7,093.4	2.0
Irrecoverable placements (category C)	4,386.2	1.8	4,238.5	1.5	4,171.9	1.2
Total	242,334.1	100.0	278,875.5	100.0	349,897.9	100.0

Source: CNB.

Strong growth in placements, classified by banks in risk group A, was the major contributor to these changes. Specifically, compared to their balance at the end of 2005, these placements grew by HRK 70.8bn or 26.4% in 2006, while placements which were classified into risk groups B and C underwent no significant changes (group B placement rose by 4.3%, and group C placements by 1.6%).

The decrease in the value adjustments of placements and provisions for identified losses on contingent liabilities (3.6%) and the increase in collectively assessed impairment provisions (18.5%) were the main factors behind better quality of placements in 2006. Owing to these changes, the share of value adjustments and provisions for identified losses in total placements and contingent liabilities continued to trend downwards in 2006, reaching 2.6% (Table 3.8).

Table 3.8 Banks' Value Adjustments and Provisions

end of period, in million HRK and %

	2004	2005	2006
Total value adjustments against placements and provisions for contingent liabilities	8,909.9	9,002.3	9,246.3
– Value adjustments against placements and provisions for contingent liabilities	6,672.6	6,427.8	6,195.2
– Collectively assessed impairment provisions	2,237.3	2,574.5	3,051.0
Total placements and contingent liabilities	242,334.1	278,875.5	349,897.9
Relative ratio: total value adjustments and provisions/total placements and contingent liabilities	3.7	3.2	2.6

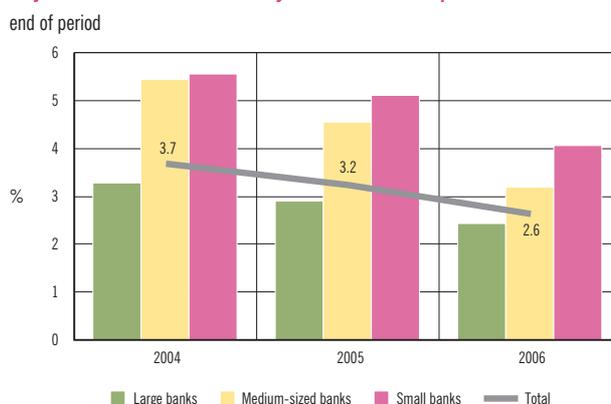
Source: CNB.

The ratio of total placements and contingent liabilities to total value adjustment of placements and provisions for contingent liabilities of small banks stood at 4.1%, outstripping the 2.6% average for the system as a whole. Compared with the end of 2005, the ratio of medium-sized banks fell most at the end of 2006 (3.2%), while the smallest ratio (2.4%) was reported by large banks.

In 2006, in line with changes introduced in prudential regulations, banks submit their reports on the estimated exposure of their net placements to currency induced credit risk. At the end of 2006, according to the reports, 61.2% of total net bank placements, worth HRK 210.2bn, were exposed to currency induced credit risk. Of this amount, 22.8% of placements were hedged, whereas the remaining 77.2% of placements were unhedged. Large banks had the largest share of placements exposed to currency induced credit risk in total net placements (63.8%). Small banks had a share of 47.0%, while the share of medium-sized banks stood at 51.6%. Small banks also declared the majority of their net placements exposed to currency induced credit risk as hedged, with their hedged and unhedged placements amounting to 27.3% and 72.7% respectively. The ratio between hedged and unhedged placements, standing at 19.6% and 80.4% respectively, was least favourable in medium-sized banks, while the ratio of large banks equalled to the average value for all banks, with hedged and unhedged placements amounting to 22.8% and 77.2% respectively.

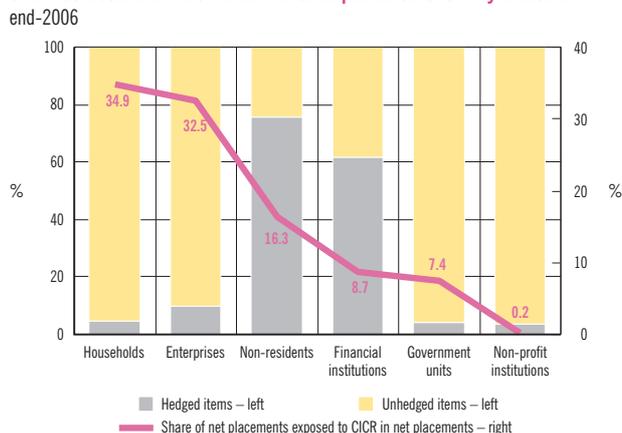
Broken down by sectors (Figure 3.12), the household sector, in addition to government units and non-profit institutions, had the least favourable ratio of hedged items to unhedged items in total net placements. In con-

3.11 Ratio of Placements and Contingent Liabilities to Value Adjustment and Provisions by Bank Peer Groups



Source: CNB.

3.12 Structure of Net Placements Exposed to CICR by Sectors



Source: CNB.

trast, non-residents and financial institutions declared the highest ratio between hedged items and unhedged items.

Owing to the amendments to prudential regulations, banks also submit their reports on the quality placement insurance instruments to the CNB in 2006. In line with these reports, 33.5% of total net placements were covered by quality insurance instruments at the end of 2006. The estimated value of quality placement insurance instruments accounted for 87.9% of total value of net bank placements. As far as the type of quality insurance instrument was concerned, property insurance was the most frequent, with residential property accounting for 34.8% of net placements and business property accounting for 26.6%. The category of other quality insurance instruments accounted for the remaining share of net placements.

3.1.5 Quality of Banks' Earnings

Banks reported HRK 4.3bn in income before taxes at the end of 2006, a rise of 5.5% over the end of 2005. As a result, for the second year in a row, the growth in income before taxes accounted for only a half of the growth registered in the previous year. Specifically, the growth in income before taxes stood at 10.9% at the end of 2005 and at 20.7% at the end of 2004. None of the banks operating in the system posted losses at the end of 2006 (Table 3.9).

Table 3.9 Banks' Income Statement

in million HRK and %

	2004		2005		2006	
	Amount	Change	Amount	Change	Amount	Change
Total interest income	11,802.5	6.4	12,915.2	9.4	14,892.9	15.3
Total interest expenses	5,364.3	12.1	5,910.0	10.2	7,196.7	21.8
Net interest income	6,438.2	2.0	7,005.2	8.8	7,696.2	9.9
Total income from fees and commissions	3,082.9	2.4	3,323.1	7.8	3,589.1	8.0
Total expenses on fees and commissions	1,438.1	-5.9	1,385.0	-3.7	1,368.9	-1.2
Net income from fees and commissions	1,644.8	11.0	1,938.1	17.8	2,220.2	14.6
Other non-interest income	1,846.0	23.5	1,760.9	-4.6	1,914.5	8.7
Other non-interest expenses	618.8	-21.5	719.0	16.2	908.1	26.3
Net other non-interest income	1,227.3	73.9	1,041.9	-15.1	1,006.3	-3.4
Net non-interest income	2,872.0	31.3	2,980.0	3.8	3,226.5	8.3
General administrative expenses and depreciation	5,057.7	4.7	5,430.1	7.4	5,995.1	10.4
Net operating income before loss provisions	4,252.6	16.0	4,555.1	7.1	4,927.6	8.2
Expenses on value adjustments and provisions for identified losses	402.1	-7.7	186.3	-53.7	197.3	5.9
Expenses on collectively assessed impairment provisions	216.2	-1.4	338.6	56.6	476.8	40.8
Total expenses on loss provisions	618.3	-5.6	524.9	-15.1	674.1	28.4
Income/loss before taxes	3,634.3	20.7	4,030.2	10.9	4,253.6	5.5
Income tax	597.5	18.5	782.4	31.0	772.7	-1.2
Current year profit/loss	3,036.8	21.1	3,247.8	6.9	3,480.9	7.2

Source: CNB.

Although net interest income, representing the largest item of total net income (70.2%), grew at a rate of 9.9%, the growth of general administrative expenses and depreciation (10.4%) and especially the growth of total expenses on loss provisions (28.4%; with a rise in expenses on collectively assessed impairment provisions amounting to as much as 40.8%) had the greatest influence on the reported income.

Due to a decrease in the share of interest income in the average interest-bearing assets and an increase in the share of interest expenses in the average interest-bearing liabilities, the difference between these two shares fell from 3.0% in 2005 to 2.8% in 2006. It continued to move downwards for the fifth consecutive year (in 2002, for example, it stood at 3.5%).

The share of interest income in the average interest-bearing assets dropped from 5.8% at the end of 2005 to 5.7% at the end of 2006, continuing the downward trend from the last five years. Although at a somewhat lower rate, the share of interest expenses in the average interest-bearing liabilities also trended downwards during the same period. In 2006, however, it grew for the first time in the past five years, from 2.8% to 2.9% (Figure 3.13).

3.13 Income from Interest-Bearing Assets and Expenses on Interest-Bearing Liabilities

end of period



Source: CNB.

The growth in income before taxes (5.5%) was more than three times lower than the growth in total bank assets (17.1%), contributing to a fall in ROAA from 1.6% to 1.5%. ROAE, the second indicator of profitability, fell to an even greater extent. Although the growth in income after taxes (7.2%) was higher than that in income before taxes, the strong growth of capital (33.8%) contributed to a 2.4 percentage points fall in ROAE, which, after falling for the second year in a row, reached 12.7% at the end of 2006. After achieving their peak values in 2004, both indicators trended downwards in the last two years (Figures 3.14 and 3.15).

The group of small banks was the only group which recorded both an increase in ROAA and in ROAE. In contrast, both ratios were the lowest in the group of medium-sized banks.

Assets per employee stood at HRK 16.0m at the end of 2006, which was an improvement in relation to the end of 2005 (HRK 14.0m). Large banks kept the position of the most efficient peer group of banks, with assets per employee amounting to HRK 18.0m. In addition, the ratio between operating expenses and net income of all banks grew slightly in 2006, from 54.2% to 54.9% (Figure 3.16).

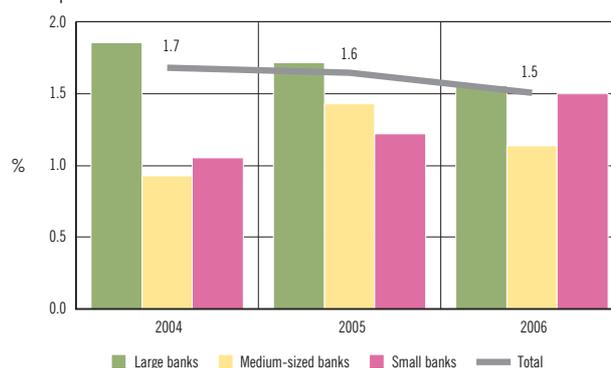
3.1.6 Banks' Liquidity

The banking system was liquid in 2006, and banks encountered no problems in servicing their due liabilities, which contributed to the stability of money market interest rates.

Deposits received by banks amounted to HRK 202.9bn at the end of 2006, increasing by 18.2% over the end of 2005. However, due to loans extended (23.6%) growing at a faster rate than deposits received, their ratio improved from 88.5% to 92.5%, continuing the upward trend from the last five years. As a result, loans extended to deposits received reached a ratio of 1 : 1, which basically means that one kuna of loan extended is matched by one kuna of deposit received.

3.14 Return on Average Assets by Bank Peer Groups

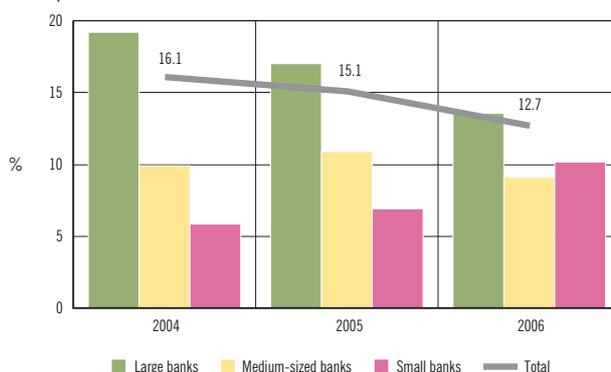
end of period



Source: CNB.

3.15 Return on Average Equity by Bank Peer Groups

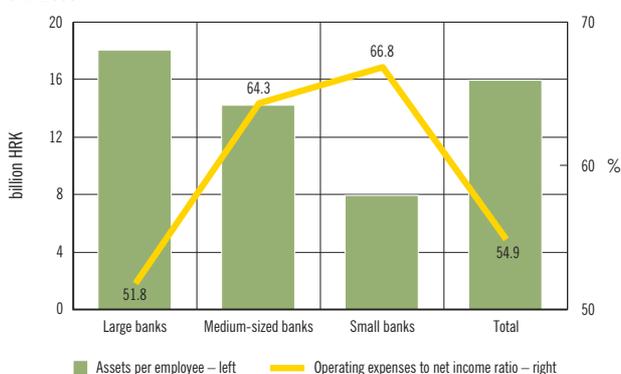
end of period



Source: CNB.

3.16 Operating Efficiency by Bank Peer Groups

end-2006



Source: CNB.

Net interbank position (representing the ratio between funds granted to financial institutions and funds received from financial institutions to total assets) fell modestly, reaching 3.3% at the end of 2006 (Table 3.10).

Table 3.10 Banks' Liquidity Ratios

end of period, in %

	2004	2005	2006
Loans extended/Deposits received	80.6	88.5	92.5
Loans received/Total assets	17.4	19.2	18.0
Net interbank position	110.8	3.7	3.3

Source: CNB.

Loans received by banks rose by 9.7% at the end of 2006, or two times less than deposits received and total bank assets respectively. As a result, their share in total assets, after increasing in 2005, fell from 19.2% to 18.0% in 2006. Loans from foreign financial institutions, which rose to 71.3% in 2006, accounted for the largest share in total loans received. This was, although at a smaller extent than in 2005, due to a 29.5% increase in loans from majority foreign owners, whose share in total loans received grew to 41.8% (Table 3.11).

Table 3.11 Structure of Loans Received by Banks

end of period, in million HRK and %

	2004			2005			2006		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
Loans from government units	679.2	1.7	-29.4	528.0	1.1	-22.3	272.9	0.5	-48.3
Loans from financial institutions	8,462.0	21.2	19.0	13,844.2	27.7	63.6	15,102.6	27.5	9.1
Loans from enterprises	40.3	0.1	-55.5	40.8	0.1	1.2	0.0	0.0	-99.9
Loans from foreign financial institutions	30,081.9	75.5	31.5	35,143.1	70.2	16.8	39,129.4	71.3	11.3
Loans from other non-residents	566.8	1.4	-51.1	479.3	1.0	-15.4	360.5	0.7	-24.8
Total loans received by banks	39,830.3	100.0	23.7	50,035.4	100.0	25.6	54,865.5	100.0	9.7
Loans from majority foreign owners	12,131.2	30.5	-	17,705.0	35.4	45.9	22,929.8	41.8	29.5

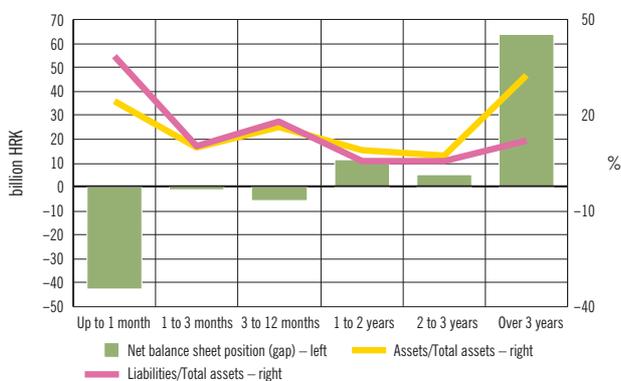
Source: CNB.

Maturity structure (mis)match represents the difference between net assets and liabilities (capital excluded) with the same period until maturity. Banks monitor this mismatch for liquidity management purposes and, when necessary, adjust assets and liabilities by maturity structure.

The largest negative mismatch, i.e. the deficiency of assets over liabilities (negative gap) of HRK 42.6bn was, at the end of 2006, observed in up to 1 month maturity (only 64% of liabilities were covered by the assets of the same maturity).

3.17 Banks' Assets/Liabilities by Remaining Maturity

end-2006



Source: CNB.

Lower mismatches (of HRK 1.0bn and HRK 5.4bn) were seen in 1 to 3 months and 3 to 12 months maturities. Total negative mismatch between short-term assets and short-term liabilities (up to 1 year maturity) stood at HRK 49.0bn, which means that 76.2% of liabilities were covered by assets maturing in up to one year. This represents the increase of mismatch, i.e. the fall in the coverage ratio which stood at 85.3% and 78.4% in 2004 and 2005 respectively.

Total negative mismatch reached its peak value in up to 1 year maturity (the same trend was observed in the previous two years), after which it is decreased, suggesting that banks held more of their assets than liabilities in longer maturity categories (Figure 3.17).

3.2 Housing Savings Banks' Business Operations

After one housing savings bank entered the banking sector in 2006, five housing savings banks operated on the territory of the Republic of Croatia.¹⁸ Total housing savings banks' assets were HRK 6.4bn at the end of 2006, increasing by 3.7% over the end of 2005. Compared with end-2005, the assets of two housing savings banks fell by 4.9% and 5.3% respectively.

The share of housing savings banks' assets in total banking sector assets stood at 2.0% at end-2006. Despite having a relatively small share in total banking sector assets, individual housing savings banks surpassed many banks from the group of small banks by the size of their assets.

99.5% of total housing savings banks' assets are in direct or indirect majority ownership of foreign shareholders, while the remaining 0.5% of their total assets is held by one (newly-established) housing savings bank which is in majority state ownership. More than a half of total housing savings banks assets are held by Italian shareholders (two housing savings banks with a share of 51.2% in total housing savings banks' assets). The share of 48.3% in total housing savings banks' assets is held by Austrian shareholders (2 housing savings banks).

3.2.1 Housing Savings Banks' Balance Sheet

At end-2006, securities and other financial instruments accounted for over 70% of total housing savings banks' assets, while their overall portfolio comprised only MoF T-bills, bonds of the Republic of Croatia and factoring and forfaiting operations with central government funds which are conducted by one housing savings bank.

Table 3.12 Structure of Housing Savings Banks' Assets
end of period, in million HRK and %

	2004			2005			2006		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Money assets and deposits with the CNB	0.0	0.0	–	0.0	0.0	–	0.0	0.0	–
1.1. Money assets	0.0	0.0	–	0.0	0.0	–	0.0	0.0	–
1.2. Deposits with the CNB	0.0	0.0	–	0.0	0.0	–	0.0	0.0	–
2. Deposits with banking institutions	332.3	6.2	1,185.2	720.5	11.7	116.8	111.5	1.8	–84.5
3. MoF treasury bills and CNB bills	780.8	14.6	4.3	782.0	12.7	0.2	347.7	5.5	–55.5
4. Securities and other financial instruments held for trading	250.2	4.7	–67.4	390.6	6.4	56.1	284.4	4.5	–27.2
5. Securities and other financial instruments available for sale	2,148.0	40.1	–	706.8	11.5	–67.1	1,368.7	21.5	93.6
6. Securities and other financial instruments held to maturity	548.2	10.2	–64.1	869.6	14.2	58.6	1,303.3	20.5	49.9
6.1. Securities and other financial instruments bought on issue directly from the issuer	74.9	1.4	–	–	–	–	–	–	–
7. Securities and other financial instruments not traded in active markets but carried at fair value	–	–	–	1,382.5	22.5	–	1,260.6	19.8	–8.8
8. Derivative financial assets	–	–	–	0.0	0.0	–	5.4	0.1	–
9. Loans to financial institutions	468.9	8.8	121.8	263.7	4.3	–43.8	69.9	1.1	–73.5
10. Loans to other clients	372.9	7.0	98.6	727.6	11.9	95.1	1,402.6	22.0	92.8
11. Investments in subsidiaries and associates	0.0	0.0	–	0.0	0.0	–	0.0	0.0	–
12. Foreclosed and repossessed assets	0.0	0.0	–	0.0	0.0	–	0.0	0.0	–
13. Tangible assets (net of depreciation)	8.7	0.2	–54.2	8.2	0.1	–6.1	7.0	0.1	–14.4
14. Interest, fees and other assets	389.3	7.3	895.6	323.8	5.3	–16.8	242.0	3.8	–25.2
15. Net of: Collectively assessed impairment provisions	23.1	0.4	268.7	36.9	0.6	59.9	40.6	0.6	10.0
Total assets	5,351.3	100.0	52.0	6,138.4	100.0	14.7	6,362.5	100.0	3.7

Source: CNB.

¹⁸ HPB-Stambena štedionica d.d. began operating in April 2006.

Table 3.13 Structure of Housing Savings Banks' Liabilities

end of period, in million HRK and %

	2004			2005			2006		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Loans from financial institutions	0.0	0.0	–	0.0	0.0	–	0.0	0.0	–
1.1. Short-term loans	0.0	0.0	–	0.0	0.0	–	0.0	0.0	–
1.2. Long-term loans	0.0	0.0	–	0.0	0.0	–	0.0	0.0	–
2. Deposits	4,728.2	88.3	44.8	5,514.7	89.8	16.6	5,803.6	91.2	5.2
2.1. Giro account and current account deposits	0.0	0.0	–	0.0	0.0	–	0.0	0.0	–
2.2. Savings deposits	0.0	0.0	–100.0	0.0	0.0	–	0.0	0.0	–
2.3. Time deposits	4,728.2	88.3	44.8	5,514.7	89.8	16.6	5,803.6	91.2	5.2
3. Other loans	0.0	0.0	–	0.0	0.0	–	0.0	0.0	–
3.1. Short-term loans	0.0	0.0	–	0.0	0.0	–	0.0	0.0	–
3.2. Long-term loans	0.0	0.0	–	0.0	0.0	–	0.0	0.0	–
4. Derivative financial liabilities and other financial liabilities held for trading	4.9	0.1	100.0	4.1	0.1	–15.8	0.0	0.0	–100.0
5. Debt securities issued	0.0	0.0	–	0.0	0.0	–	0.0	0.0	–
5.1. Short-term debt securities issued	0.0	0.0	–	0.0	0.0	–	0.0	0.0	–
5.2. Long-term debt securities issued	0.0	0.0	–	0.0	0.0	–	0.0	0.0	–
6. Subordinated instruments issued	0.0	0.0	–	0.0	0.0	–	0.0	0.0	–
7. Hybrid instruments issued	10.7	0.2	–0.1	10.3	0.2	–3.5	61.7	1.0	497.5
8. Interest, fees and other liabilities	452.6	8.4	406.3	389.0	6.3	–14.1	299.6	4.7	–23.0
Total liabilities	5,196.5	97.1	54.4	5,918.1	96.4	13.9	6,164.9	96.9	4.2
Total capital	154.8	2.9	–	220.2	3.6	42.3	197.6	3.1	–10.3
Total liabilities and capital	5,351.3	100.0	52.0	6,138.4	100.0	14.7	6,362.5	100.0	3.7

Source: CNB.

The portfolio of securities and other financial instruments available for sale made up the largest share of total assets (21.5%), followed by securities and other financial instruments held to maturity (20.5%) and securities and other financial instruments carried at fair value through profit and loss and not traded in active markets (19.8%). The held for trading portfolio accounted for the smallest share of total assets (4.5%). Housing savings banks directed any excess of liquid funds into the purchase of long-term government securities, which made up 85.6% of their total securities. The share of MoF T-bills in total securities stood at 7.6%, while factoring and forfaiting operations with central government funds accounted for the remaining share of 6.8%.

Net loans of housing savings banks extended to financial institutions and other clients rose to 48.6% at end-2006 over the previous year, making up 23.1% of total housing savings banks' assets. In 2006, saver increased their reliance on housing savings loans extended on the basis of their housing savings, thus affecting a rise in net loans of housing savings banks extended to households by 124.7% compared with the end of 2005.

The structure of financing sources for housing savings banks did not undergo major changes. Household time deposits still made up the bulk of sources (up by HRK 289m at end-2006), the share of which in total housing savings banks' liabilities, together with interest, fees and other liabilities, was 96.9%.

3.2.2 Housing Savings Banks' Capital

Total housing savings banks' capital amounted to HRK 197.6m at end-2006, a decrease of 10.3% over the same period last year. Several factors caused this reduction in total capital: large current year loss and reported unrealised losses on the basis of value adjustments of financial assets available for sale. The reported losses are to a large extent attributed to unfavourable developments in the prices of government bonds, which accounted for 85.6% of total securities portfolio and 61.4% of total housing savings banks' assets.

2006 saw an increase in the share capital of housing savings banks due to the recapitalisation of three housing savings banks and a rise in the initial capital of one housing savings bank.

Increases in legal reserves and retained earnings are attributed to the distribution of income from 2005. None of the housing savings banks reported reserves provided for by the articles of association and other capital reserves.

Table 3.14 Structure of Housing Savings Banks' Total Capital

end of period, in million HRK and %

	2004			2005			2006		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Share capital	203.4	131.4	5.2	203.4	92.3	0.0	287.5	145.5	41.4
2. Current year profit/loss	11.4	7.4	-222.2	52.3	23.7	358.6	-63.5	-32.1	-221.5
3. Retained earnings (loss)	-63.4	-41.0	23.2	-53.6	-24.4	-15.4	-24.2	-12.3	-54.8
4. Legal reserves	3.5	2.3	133.3	1.9	0.9	-44.5	2.3	1.2	19.6
5. Total reserves provided for by the articles of association and other capital reserves	-	-	-	-	-	-	-	-	-
6. Unrealised gains/losses on value adjustments of financial assets available for sale	-	-	-	29.9	13.6	100.0	-13.3	-6.7	-144.5
7. Reserves arising from hedging transactions	-	-	-	-	-	-	-	-	-
8. Previous year profit/loss	0.0	0.0	0.0	-13.6	-6.2	100.0	8.9	4.5	-165.3
Total capital	154.8	100.0	0.0	220.2	100.0	42.3	197.6	100.0	-10.3

Source: CNB.

Despite an 18.4% increase in the regulatory capital, the capital adequacy ratio of housing savings banks fell from 23.8% at the end of 2005 to 16.5% at the end of 2006. The key factor behind this was a 93.9% rise in total credit risk weighed assets. In addition, total capital requirements rose by 70.3% at the end of 2006 over the same period last year.

An increase in loans to households, in parallel with changes in regulations aimed at the introduction of higher risk weights for placements exposed to currency induced credit risk, was the main contributor to the growth in credit risk weighted assets. Specifically, out of total credit risk weighted assets (HRK 1.2bn), as much as HRK 1.1bn went to loans with unmatched foreign currency positions and weighted by risk weights (75% and 125%).

3.2.3 Quality of Housing Savings Banks' Assets

Table 3.15 Classification of Housing Savings Banks' Placements and Contingent Liabilities by Risk Categories

end of period, in million HRK and %

Placements	2004		2005		2006	
	Amount	Share	Amount	Share	Amount	Share
Fully recoverable placements (category A)	2,648.8	100.0	3,494.0	99.9	4,541.8	99.9
Partly recoverable placements (category B)	0.7	0.0	2.1	0.1	5.7	0.1
Irrecoverable placements (category C)	0.0	0.0	0.4	0.0	1.4	0.0
Total	2,649.6	100.0	3,496.5	100.0	4,548.9	100.0

Source: CNB.

Total placements and contingent liabilities of housing savings banks were 30.1% higher at end-2006 compared with end-2005. During the same period all types of placements that are classified into different risk groups increased in nominal terms. However, due to larger investments in securities of the government units and newly-extended loans to housing savers, the largest portion of this increase was accounted for by fully recoverable placements. As a result, total placements and contingent liabilities almost completely consisted of placements from risk category A, standing at 99.9% at the end of 2006. Partly recoverable and irrecoverable placements made up only a minor part of placements and contingent liabilities (to the total amount of HRK 7.1m and with a share in total placements and contingent liabilities of 0.1%).

Table 3.16 Housing Savings Banks' Value Adjustments and Provisions

end of period, in million HRK and %

	2004	2005	2006
Total value adjustments against placements and provisions for contingent liabilities	23.3	38.4	45.0
– Value adjustments against placements and provisions for contingent liabilities	0.2	0.9	3.6
– Collectively assessed impairment provisions	23.1	37.5	41.4
Total placements and contingent liabilities	2,649.6	3,496.5	4,548.9
Relative ratio: total value adjustments and provisions/total placements and contingent liabilities	0.9	1.1	1.0

Source: CNB.

The ratio of total value adjustments of placements and provisions for identified losses on contingent liabilities to total placements and contingent liabilities of housing savings banks stood at 1.0% at the end of 2006. Owing to credit risk exposure, the ratio of collectively assessed impairment provisions (which housing savings banks set aside at the average rate of 0.91%) to fully recoverable placements was roughly the same. The reason for this was a relatively small ratio of bad placements in total placements and thus of value of adjustments of placements in total value adjustments and provisions for contingent liabilities. As a result, the majority, that is 99.8%, of total value adjustments of placements and provisions for identified losses at the end of 2006 was accounted for by estimated unidentified losses.

3.2.4 Quality of Housing Savings Banks' Earnings

Housing savings banks had a loss before taxes to the amount of HRK 60.1m at the end of 2006. Two housing savings banks reported an income to the amount of HRK 15.1m, while three housing savings banks reported a loss to the amount of HRK 75.2m. If we exclude a loss of HRK 6.7m, which was reported by the newly established housing savings bank and which is usually generated in the first year of operations, total loss was almost entirely accounted for by the losses reported by two above-mentioned housing savings banks.

Table 3.17 Housing Savings Banks' Income Statement

in million HRK and %

	2004		2005		2006	
	Amount	Change	Amount	Change	Amount	Change
Total interest income	205.3	35.1	241.0	17.4	264.3	9.7
Total interest expenses	143.5	59.1	169.7	18.2	186.8	10.1
Net interest income	61.8	0.0	71.3	15.4	77.5	8.7
Total income from fees and commissions	90.2	6.5	75.9	-15.8	77.9	2.6
Total expenses on fees and commissions	7.6	-64.6	8.0	5.0	10.0	25.2
Net income from fees and commissions	82.6	30.6	67.9	-17.8	67.9	0.0
Other non-interest income	45.6	-	65.3	43.2	-51.0	-178.2
Other non-interest expenses	40.7	38.5	31.1	-23.7	34.3	10.3
Net other non-interest income	4.9	-	34.2	604.4	-85.3	-349.2
Net non-interest income	87.5	184.9	102.2	16.8	-17.4	-117.0
General administrative expenses and depreciation	118.1	22.1	108.8	-7.8	113.4	4.2
Net operating income before loss provisions	31.2	-	64.6	107.2	-53.3	-182.4
Expenses on value adjustments and provisions for identified losses	0.1	-35.3	0.7	645.6	2.9	338.5
Expenses on collectively assessed impairment provisions	16.9	255.3	14.2	-15.9	3.9	-72.5
Total expenses on loss provisions	17.0	246.6	14.9	-12.3	6.9	-53.9
Income/loss before taxes	14.2	-	49.7	250.2	-60.1	-220.9
Income tax	2.8	898.2	-2.6	-191.6	3.4	-233.5
Current year profit/loss	11.4	-222.2	52.3	358.6	-63.5	-221.5

Source: CNB.

Compared to the balance at the end of 2005, housing savings banks' net interest income rose by 8.7% at the end of 2006. In the structure of interest income, income from housing loans went

up the most, by HRK 24.6m or 90.8%. Another significant contribution to interest income growth came from higher investments in securities and loans extended to central government funds. Interest income from these two sources grew by HRK 18.0m and HRK 9.6m respectively in 2006.

The increase in liabilities arising from deposits received from savers influenced a rise interest expenses on deposits (by HRK 15.3m or 9.3%) and thus a rise in total interest expenses, by 10.1%. Housing savings banks' expenses on provisions for identified losses fell by 53.9%, mostly due to slower growth dynamics of balance sheet. A considerable reduction in net other non-interest income (due especially to loss from value adjustments of assets carried at fair value through profit and not traded in active markets to the amount of HRK 54.5m and loss from trading in securities to the amount of HRK 20.7m) influenced total operating loss of housing savings banks. This was due unfavourable price fluctuations of government bonds, which account for more than a half of total assets of all housing savings banks.

Two housing savings banks, whose income before taxes stood at HRK 15.1m at the end of 2006, reported HRK 18.4m in unrealised loss from value adjustments of assets available for sale as a capital loss and subsequently reduced by the same amount their gross core capital which is used in the calculation of regulatory capital.



04 Payment Operations

4.1 Interbank Payment Systems

In 2006, the clearing of interbank payment transactions through the Croatian Large Value Payment System (CLVPS) and the National Clearing System (NCS) continued to be conducted in accordance with the rules on settlement in bank accounts in interbank payment systems. Interbank payment systems operated without any larger deviations from the times prescribed by the payment execution schedule.

There were no major difficulties that could in any way compromise the stability and safety of interbank systems as the basic payment transaction infrastructure in the country. The CLVPS was accessible to payment system participants 99.8% of its operating time, i.e. in 251 work days it was inaccessible for only 342 minutes (5.7 hours) due to technical and technological problems.

Statistical indicators on domestic interbank payment operations suggest a rising trend in the number and value of payment transactions executed through both interbank payment systems in 2006 as compared with 2005.

Croatian Large Value Payment System

In 2006, 171,092 payment transactions were settled through the CLVPS, with the average transaction value totalling HRK 13m. As compared with 2005, the number of payment transactions settled through the CLVPS rose by 34%, while the value of transactions increased 22%.

The largest number of payment transactions was settled through the CLVPS in October, whereas the highest value of executed payment transactions was recorded in December.

As regards the structure of exchanged payment messages, as much as 46% of total messages exchanged were payment messages (MT103) that are mainly used by bank clients, 43.1% were payment messages used by banks for interbank payment transactions (MT202) and 10.9% were direct transfers. Direct transfers are messages that are mostly used by the central bank in order to perform its legal obligations and manage payment systems, as well as to execute payments in case banks run into program or communication difficulties.

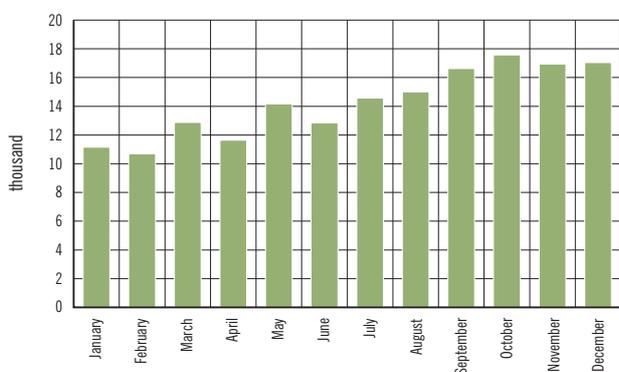
In 2006, 402,200 financial and non-financial messages were executed and exchanged among participants through the CLVPS.

Table 4.1 CLVPS – Payment Transactions Executed in 2006

Month	CLVPS	
	Transaction number	Transaction value (in million HRK)
January	11,145	157,086
February	10,691	147,580
March	12,870	150,613
April	11,644	145,993
May	14,167	181,754
June	12,839	158,428
July	14,564	202,926
August	15,002	184,641
September	16,627	196,543
October	17,571	233,577
November	16,936	226,855
December	17,036	238,744
Total	171,092	2,224,741

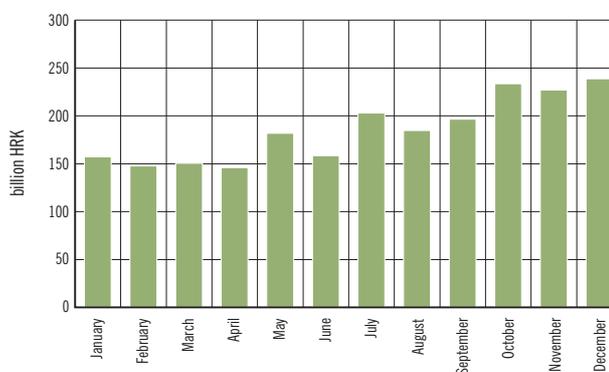
Source: CNB.

4.1 CLVPS – Number of Payment Transactions Executed in 2006



Source: CNB.

4.2 CLVPS – Value of Payment Transactions Executed in 2006



Source: CNB.

Table 4.2 CLVPS – Overview of Payment Transactions Executed

	2005	2006
Transaction number	127,688	171,092
Transaction value (in million HRK)	1,821,144	2,224,741
Transaction average value (in million HRK)	14.30	13.00

Source: CNB.

Table 4.3 CLVPS – Concentration Index

	Transaction number	Transaction value (in million HRK)
5 banks ^a	84,822	1,107,834
Share	49.58%	49.80%
Total	171,092	2,224,741

^a Banks accounting for the largest shares in terms of transaction number and value.

Source: CNB.

The concentration index shows that five banks accounted for almost 50% of the total number and value of payment transactions settled through the CLVPS.

National Clearing System

The number of payment transactions executed through the NCS in 2006 totalled 115.1 million, with the average transaction value standing at HRK 6,646. The number of payment transactions executed through the NCS rose by 5% and the value of transactions by 7% compared with 2005.

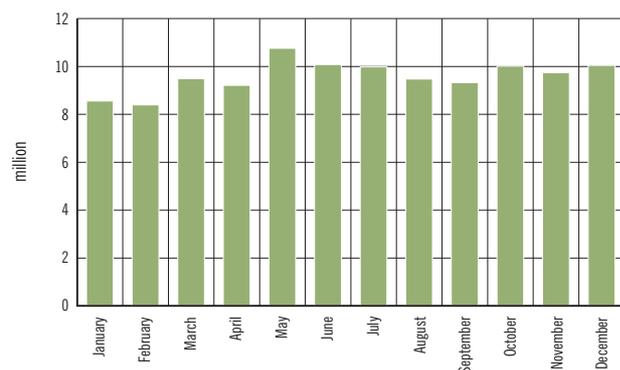
The largest number of payment transactions effected through the NCS was cleared in the second and third clearing cycle (76%), while the largest transaction value (50%) was cleared in the third cycle. The largest number of payment transactions effected through the NCS was cleared in May, and the largest value in December.

Table 4.4 NCS – Payment Transactions Executed in 2006

Month	NCS	
	Transaction number	Transaction value (in million HRK)
January	8,552,603	56,057
February	8,391,438	56,654
March	9,486,377	64,278
April	9,213,264	59,870
May	10,753,110	66,683
June	10,080,135	63,654
July	9,981,298	67,717
August	9,475,503	63,544
September	9,326,922	61,234
October	10,014,127	69,715
November	9,735,932	64,534
December	10,043,064	70,650
Total	115,053,773	764,591

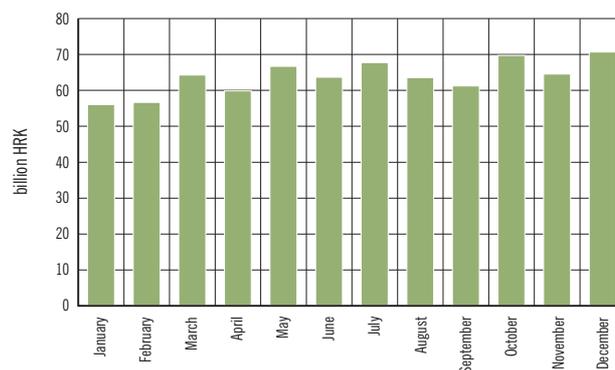
Source: Fina.

4.3 NCS – Number of Payment Transactions Executed in 2006



Source: Fina.

4.4 NCS – Value of Payment Transactions Executed in 2006



Source: Fina.

Table 4.5 NCS – Overview of Payment Transactions Executed

	2005	2006
Transaction number (in million)	109.3	115.0
Transaction value (in million HRK)	715,618	764,591
Transaction average value (in HRK)	6,547	6,646

Source: Fina.

Table 4.6 NCS – Total Value and Number of Payment Transactions by Clearing Cycles in 2006

	I clearing cycle	II clearing cycle	III clearing cycle	Total
Transaction number (in million)	27,582,475	43,017,215	44,454,083	115,053,773
Share	24%	37%	39%	100%
Transaction value (in HRK)	135,461	244,923	384,206	764,591
Share	18%	32%	50%	100%

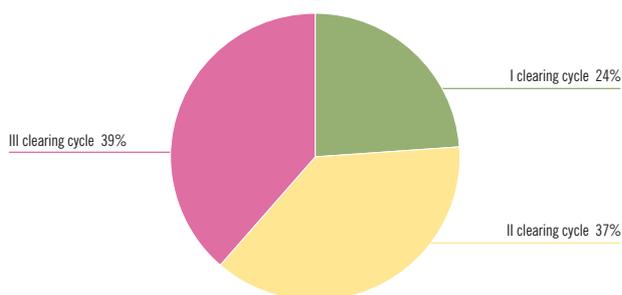
Note: I clearing cycle – from 18.15 T-1 to 8.30 TO

II clearing cycle – from 8.30 TO to 12.30 TO

III clearing cycle – from 12.30 TO to 18.15 TO

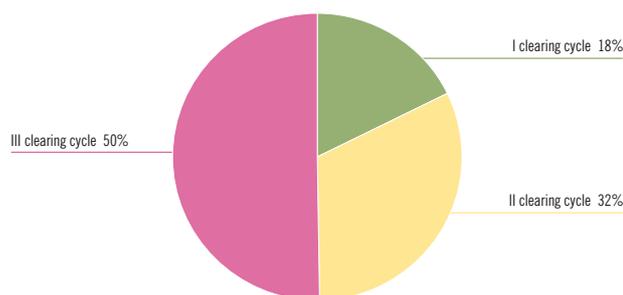
Source: Fina.

4.5 NCS – Number of Payment Transactions by Clearing Cycles in 2006



Source: Fina.

4.6 NCS – Value of Payment Transactions by Clearing Cycles in 2006



Source: Fina.

Table 4.7 NCS – Concentration Index

	Transaction number	Transaction value (in million HRK)
5 banks ^a	81,149,877	513,613
Share	70.53%	67.17%
Total	115,053,773	764,591

^a Banks accounting for the largest shares in terms of transaction number and value.
Source: Fina.

The concentration index shows that five banks accounted for 70% of the total number and 67% of the total value of payment transactions executed through the NCS.

4.2 Interbank/Interinstitutional Cooperation in the Area of Payment Operations

The Council of NCS Participants, consisting of representatives of the Croatian National Bank, banks and Fina, held two theme sessions and one annual session in 2006.

The topics discussed at the theme sessions were related to the preparatory activities for the redesign of NCS applications, functionality upgrades and projection of the dynamics relating to the migration of the development, test and presentation environment. The functionality upgrades will include an improved version of the user interface for clearing participants. The sessions also involved presentations on the development of payment systems (clearing houses) in the EU.

The annual session featured a presentation of the NCS operation report and operation indicators, as well as proposals for improving and upgrading the services and infrastructure in line with international standards in this area.

4.3 Reports on Payment Statistics

In accordance with the Decision on the obligation to submit the report on payment statistics, the CNB received payment statistics within the prescribed deadlines from the submitters (all banks and card issuers), processed them and made publicly available.

Shown below is a partial breakdown of payment statistics received from banks and card issuers.

Table 4.8 Number of Transaction Accounts as at 31 December 2006

Business entities' accounts	391,644
Business entities' regular operating accounts	363,040
Business entities' sub-accounts	28,604
Citizens' accounts	4,511,571
Giro accounts	806,481
Current accounts	3,607,570
Other citizens' accounts ^a	97,520
Total	4,903,215

^a Specific purpose citizens' accounts and accounts of non-residents – natural persons resident abroad.
Source: CNB.

Out of the total number of business entities accounts with banks, as much as 92.7% were accounts for regular operations, while only 7.3% were business entities sub-accounts.

Citizens had 4,511,571 accounts opened with banks, making up 92% of the total number of accounts of payment system participants. Of this, 79.96% were current accounts, 17.88% giro accounts and 2.16% "other accounts".

Table 4.9 Number of Bank Operating Units, ATMs by Function and POS (EFTPOS) Terminals as at 31 December 2006

	Total
1. Operating units	1,120
2. ATMs	2,641
2.1. ATMs owned by banks	2,153
– cash withdrawal	2,153
– cash deposit – cash withdrawal	215
– transaction ATMs	0
– e-money loading	0
– with CCTV cameras	507
– in secured area	804
2.2. ATMs owned by other legal persons	488
– cash withdrawal	488
– cash deposit – cash withdrawal	2
– transaction ATMs	0
– e-money loading	0
– with CCTV cameras	177
– in secured area	177
3. POS (EFTPOS) terminals	55,272
3.1. POS (EFTPOS) owned by banks	40,114
3.2. POS (EFTPOS) owned by other legal persons	15,158

Note: ATMs may have more than one function.
Source: CNB.

There were 2,641 ATMs in the Republic of Croatia in 2006, with only 8.2% of them accepting cash deposits.

In the Republic of Croatia there are as yet no registered ATMs to be used as transaction ATMs (enabling cashless payments) or having the function of e-money (crediting payment cards).

The first ATMs and POS (EFTPOS) terminals not owned by a bank were registered for the first time in 2006.

Table 4.10 Number of Users by Type of Service as at 31 December 2006

Citizens	
Internet	350,787
Telebanking	13,291
Mobile phones	71,750
Fixed line phones	236,059
Direct debit transfers	289,893
Permanent transfer order	701,600
POS (EFTPOS)	3,455,195
Other	15,591
Business entities	
Internet	106,088
Telebanking	5,644
Mobile phones	895
Fixed line phones	12,553
Direct debit transfers	3,255
Permanent transfer order	2,339
POS (EFTPOS)	156,813
Other	50,730

Source: CNB.

Table 4.11 Number of Users' Accounts by Type of Service as at 31 December 2006

Citizens	
Internet	385,502
Telebanking	20,638
Mobile phones	81,268
Fixed line phones	245,140
Direct debit transfers	288,707
Permanent transfer order	704,119
POS (EFTPOS)	3,732,841
Other	14,897
Business entities	
Internet	105,417
Telebanking	6,354
Mobile phones	902
Fixed line phones	14,338
Direct debit transfers	3,356
Permanent transfer order	2,715
POS (EFTPOS)	155,491
Other	74,978

Source: CNB.

The tables show available services by which banks enable their clients to use additional methods of payment against their transaction accounts with banks.

Compared with the previous year, a rising trend was observed in statistical indicators related to payments effected via electronic banking, using internet technology. The tables also illustrate that citizens used the offered services significantly more often than business entities.

Table 4.12 Payment Cards by Function as at 31 December 2006

	General		Business	
	Number of payment cards by function	Share of individual cards in total number of payment cards	Number of payment cards by function	Share of individual cards in total number of payment cards
Total number of payment cards in circulation	6,970,487		380,082	
Function				
Point-of-sale payments	6,970,487	100.00	380,082	100.00
Cash withdrawal	6,859,917	98.41	379,008	99.72
Checking guarantee	4,030,958	57.83	5,374	1.42
E-money	0	0	0	0
Chip	2,369,308	33.99	62,971	16.57
Co-branding	63,755	0.93	5,612	1.48
Affinity	32,525	0.81	0	0
International (accepted worldwide)	6,925,649	99.36	250,316	65.86
Other	77,939	3.29	727	0.29

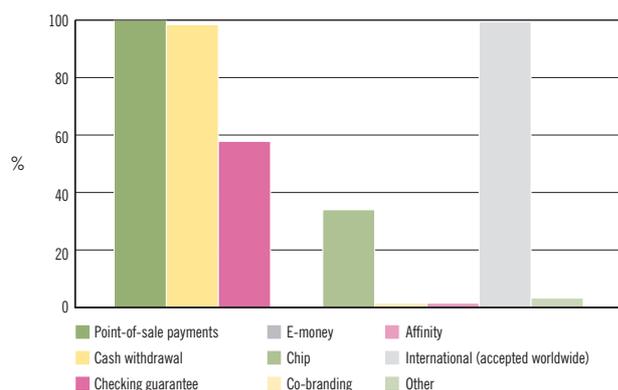
Note: Payment cards may have more than one function.

Source: CNB.

At the end of 2006, there were 6,970,487 general payment cards in circulation in the Republic of Croatia and they could all be used for point-of-sale payments for goods and services. In addition, 98.41% of all the payment cards enabled cash withdrawals and almost all were accepted internationally (99.36%).

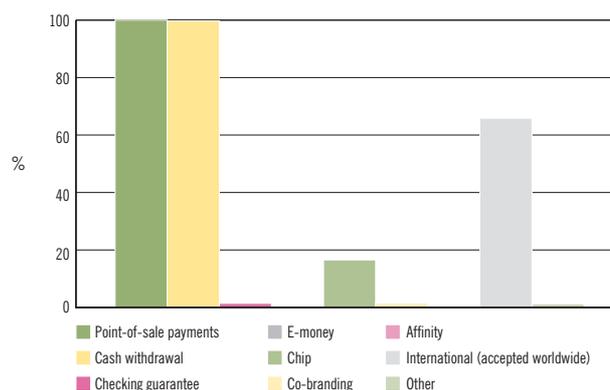
There were no payment cards in the Republic of Croatia with the function of e-money.

4.7 General Payment Card Functions



Source: CNB.

4.8 Business Payment Card Functions



Source: CNB.

Of the 380,082 business payment cards in circulation in the Republic of Croatia all enabled point-of-sale payments for purchased goods or services (100%) and nearly all business payment cards (99.72%) enabled cash withdrawals, while 65.86% were internationally accepted.

Harmonisation of Domestic Payment System Regulations with the *Acquis Communautaire*

A CNB project task force for the harmonisation of domestic payment system regulations with the *acquis communautaire* has been drafting a new payment system act which is to regulate kuna and foreign exchange payment operations. The participation in the work of the working groups for negotiations with the EU on Chapter 4: Free Movement of Capital and Chapter 9: Financial Services enabled the task force to make an analysis of EU regulations applicable to payment systems. The new payment system act will provide for the harmonisation of domestic regulations with the Directive on settlement finality in payment and securities settlement systems (98/26/EC). In drafting the act, consideration will also be taken of the harmonisation with the provisions of the Directive on payment services, which is undergoing the legislative procedure and is expected to be enacted by the middle of 2007. The harmonisation with this Directive is especially important as it contains and regulates in detail a very wide scope of payment system services. In addition, this Directive will supersede the Directive on cross-border credit transfers (97/5/EC) and integrate and expand the provisions of the Recommendation concerning payment systems, and in particular the relationship between cardholder and card issuer (88/590/EEC), Recommendation on a European Code of Conduct relating to electronic payment (87/598/EC) and Recommendation concerning transactions by electronic payment instruments and in particular the relationship between issuer and holder (97/489/EC). In view of the state of the legislative procedure regarding the said Directive, the final draft of the new act is planned for the fourth quarter 2008.

The background is a complex collage of patterns and colors. It features a central vertical band of solid green. To the left and right of this band are various patterned sections: a pink and white wavy pattern, a green and white grid pattern, a green and white geometric pattern, a yellow and white grid pattern, and a pink and white geometric pattern. The top and bottom edges of the page are decorated with horizontal bands of solid colors in shades of pink, purple, and yellow.

⁰⁵ Currency Department Operations

5.1 The Balance and Movements of Cash in Circulation

On 31 December 2006, the balance of cash in circulation totalled HRK 14.60bn, up 20.1% on the end-2005. The growth of cash in circulation by 20.1% in 2006 was 9.1 percentage points higher than the growth rate of 11.0% observed in 2005.

On 31 December 2006, there were 123.9 million banknotes, valued at HRK 13.9bn, outside the vaults of the CNB and cash supply centres.

Compared with late 2005, the quantity of banknotes outside the vault of the CNB rose by 12.8%, while the total value of banknotes outside the vaults of the CNB and cash supply centres went up by 20.8%.

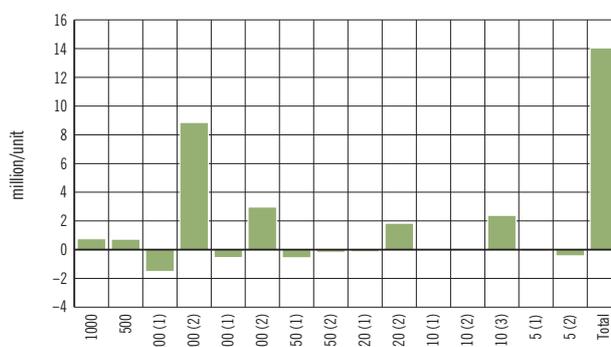
The total number of banknotes in circulation increased in 2006 by 14.0 million as compared to 2005, of which banknotes in denomination of 200 kuna accounted for 8.8 million or 62.8%. The real growth of the number of banknotes in circulation in denominations of 200, 100, 50, 20 and 10 kuna (the difference between the total rise of the number of banknotes of these denominations in circulation, the 2001 and 2002 issues, and the number of withdrawn worn out banknotes of the same denominations, the 1993 issue) totalled HRK 11.4 million banknotes or 81.4% of the total rise of the number of banknotes in circulation in 2006. As for banknotes in denominations of 1000 and 500 kuna, their number went up by 1.4 million or 20.4%. The total number of banknotes in circulation in denomination of 5 kuna reduced by 0.4 million because the need for banknotes of this particular denomination is primarily met by coins of the same denomination.

5.1 Cash in Circulation



Source: CNB.

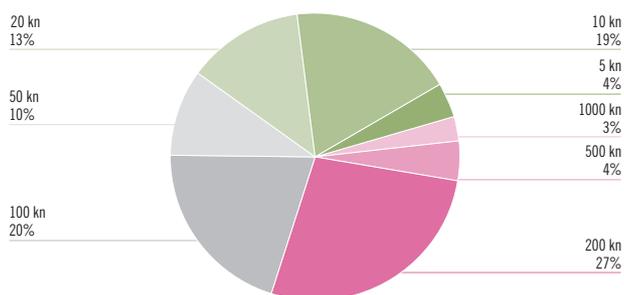
5.2 Change in the Number of Banknotes in Circulation in 2006 as Compared to 2005



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

Source: CNB.

5.3 Structure of Total Volume of Banknotes in Circulation by Denomination end-2006



Source: CNB.

Of banknotes in circulation, banknotes in denominations of 200 kuna, with a share of 27%, and of 100 kuna, with a share of 20%, were the most numerous and accounted for HRK 9.3bn or 67% of the total value of banknotes in circulation in 2006. The said two denominations are predominantly used by banks to effect ATM payments, which accounted for such a large number of banknotes of these denominations in the structure of banknotes in circulation.

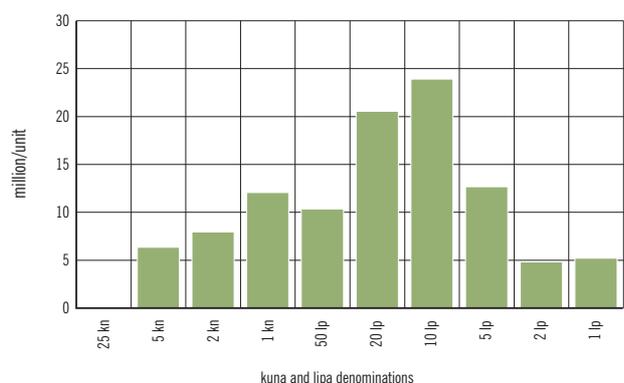
On 31 December 2006, there were 1.249 billion coins outside the central bank's vault, worth HRK 0.677bn.

In comparison with late 2005, the quantity of coins outside the central bank's vault increased by 9.1%, while their value increased by 12.2%.

The quantity of coins in circulation increased by 103 million in 2006, with the coin denomination of 10 lipa accounting for the largest share of the increase, up 23.9 million coins or 23.2% from the number of coins registered in 2005.

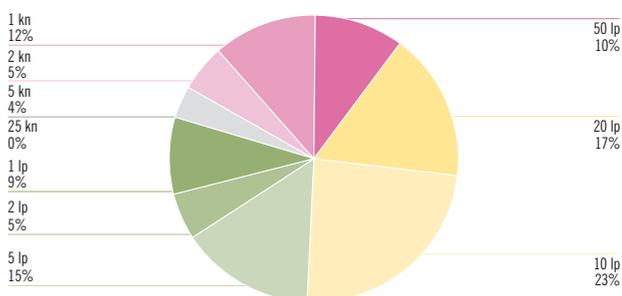
Of coins in circulation in 2006, the most numerous were coins in denomination of 10 lipa, with 301 million coins or 23% of the total number of coins in circulation, while from the point of view of total value coins in denomination of 5 kuna accounted for the largest share, HRK 228.5 million or 33.6% of the total value of coins in circulation.

5.4 Change in the Number of Coins in Circulation in 2006 as Compared to 2005



Source: CNB.

5.5 Structure of Total Volume of Coins in Circulation by Denomination end-2006



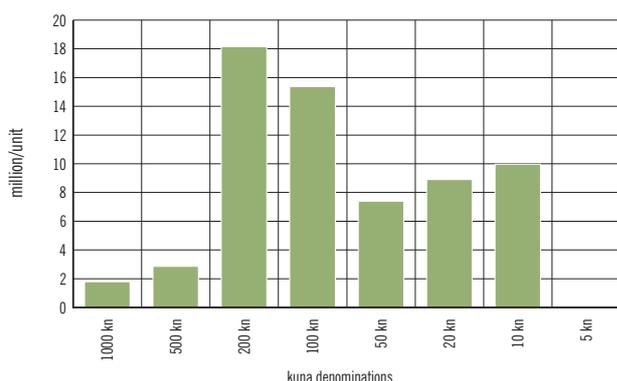
Source: CNB.

5.2 Supply with Cash

For the purpose of settling bank cash requirements in 2006, 64.4 million banknotes (worth HRK 9.0bn) and 108.6 million coins (worth HRK 0.051bn) were issued from the central bank's vault to cash supply centres. The total value of issued banknotes increased by 32.7% compared with 2005, while the increase in the number of banknotes totalled 18.6%. The total value of issued coins went down by 7.9%, while their number went up by 11.7%.

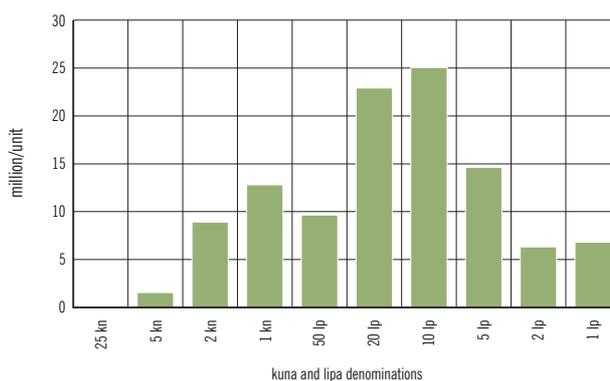
A substantial share of coin requirements of cash supply centres was covered by transfer of excess coin quantities from one cash supply centre to another. As a result, 20.9 million coins, worth HRK 0.061bn, were transferred among cash supply centres.

5.6 Banknotes Issued to Cash Supply Centres in 2006



Source: CNB.

5.7 Coins Issued to Cash Supply Centres in 2006

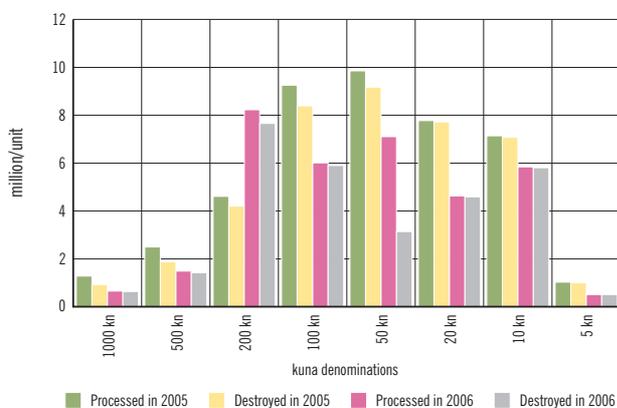


Source: CNB.

5.3 Withdrawing and Processing Worn Out Banknotes

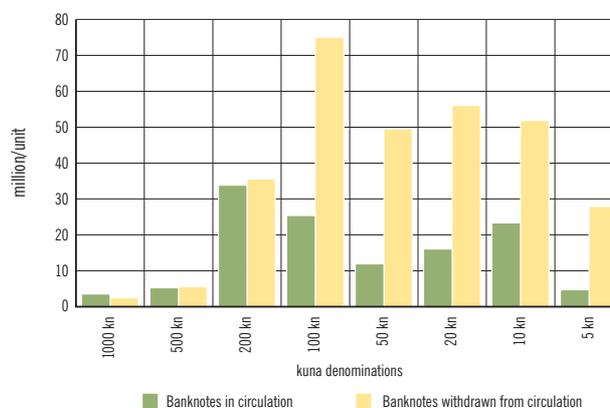
The central bank's Currency Department withdrew 50.0 million banknotes from cash supply centres over 2006, valued at HRK 5.6bn. The banknote sorting system processed 34.4 million banknotes, of which 86.1% or 29.6 million units, valued at HRK 3.7bn, were immediately destroyed as they failed to meet the quality standards set for banknotes in circulation.

5.8 Processed and Destroyed Banknotes



Source: CNB.

5.9 Ratio of Withdrawn Banknotes and Banknotes in Circulation in 2006



Source: CNB.

According to the latest data, the renewal index in 2006 was 24 (destroyed banknotes/circulation x 100), since the number of banknotes in circulation as per 31 December 2006 totalled 123.9 million and the number of destroyed banknotes 29.6 million.

5.4 Expert Evaluation of Banknotes

In 2006, the expert evaluation of banknotes identified 1,167 counterfeit banknotes valued at HRK 357,320. The number of identified counterfeits was three times lower in 2006 compared with 2005. The largest number of counterfeits, 383 or 32.8% of the total went to 200 kuna banknotes. Efforts to make the general public and banknote users (especially networks of retail outlets) acquainted with the security features of kuna banknotes were continued, aiming

at preventing the distribution of counterfeit banknotes. As shown by the relevant indicators, 9 counterfeits were discovered per 1 million banknotes in circulation in 2006. The analysis of received counterfeits showed that in 1% of cases they were made using the offset printing technique, primarily the counterfeit 1000 kuna banknotes. In the remaining 99% of cases they were produced mostly using computer technology and printed on colour printers.

Table 5.1 Identified Counterfeit Banknotes in 2006

Denominations	1000	500	200	100	50	20	10	5	Total
Units	127	251	383	207	126	49	24	0	1,167
Share	10.9	21.5	32.8	17.7	10.8	4.2	2.1	0.0	100.0

Source: CNB.

5.5 Issuing Commemorative Coins

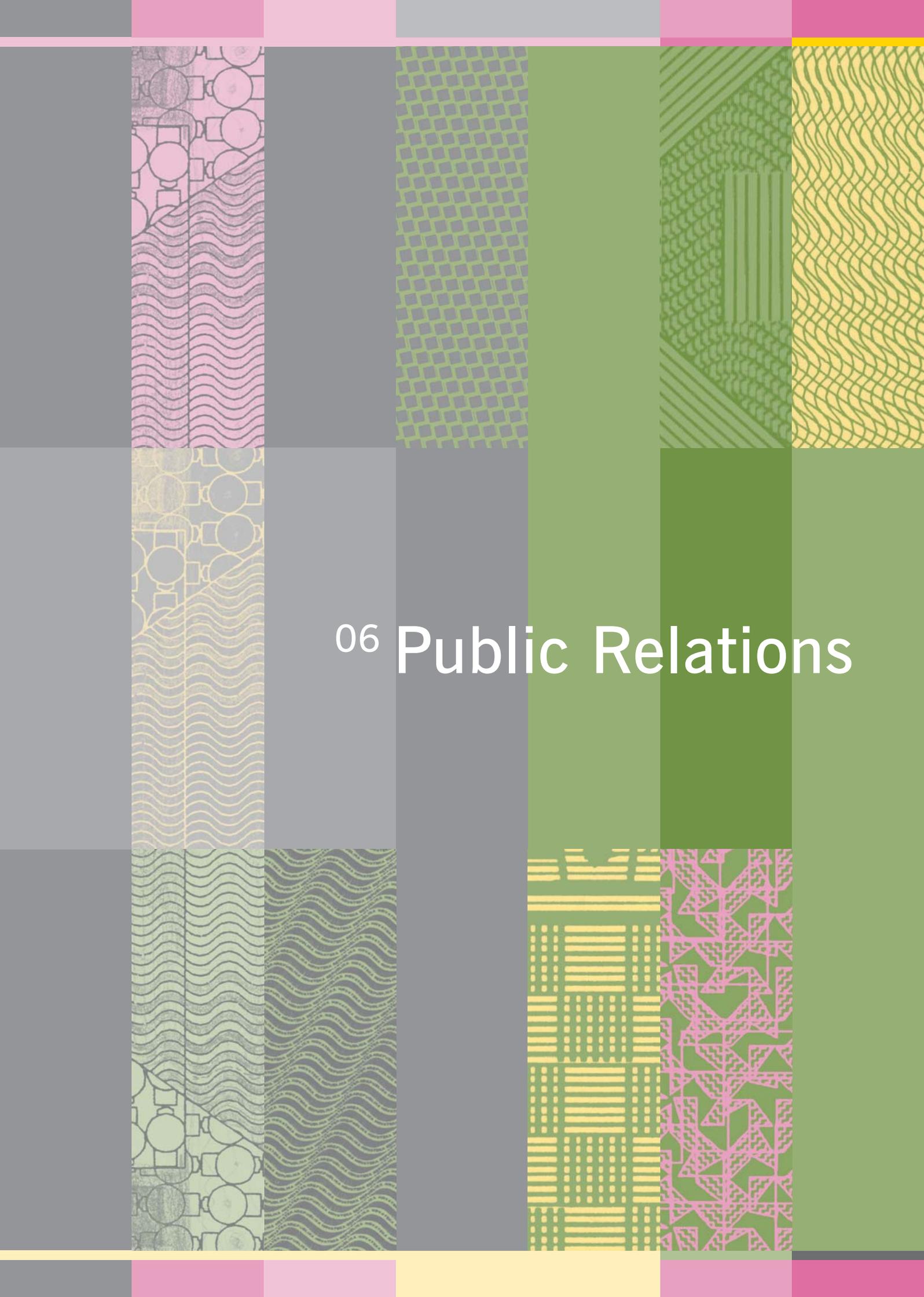
In 2006, the CNB issued 1,000 numismatic sets of kuna and lipa circulation coins, with “2006” marking the year of issue.

In cooperation with Croatian Monetary Institute, the Croatian National Bank also released two issues of the commemorative 150 kuna silver coin marking the 2006 Football World Cup held in Germany (issue II) and one issue of the commemorative 150 kuna silver coin dedicated to Nikola Tesla.

5.6 Cash Supply Centres

The decision on a gradual reduction in the number of cash supply centres (from 22 to 10 in the January-May period of 2007), aimed at the rationalisation of their network and total costs, was adopted by the CNB in October 2006.

This decision falls within the scope of CNB measures focused on the rationalisation and improvement of overall cash operations, as well as the reduction of costs and the use of up-to-date technologies in storage, distribution and processing of cash.



06 Public Relations

6.1 Public Relations

The Croatian National Bank gives special attention to informing the domestic and international public of its goals and the measures aimed at their achievement, as well as of the results of its activities. It thus contributes to promoting the awareness of the importance of the central bank, as an independent and accountable public institution, in a modern market economy and to maintaining macroeconomic stability as one of the prerequisites of the economy's healthy and sustainable development, as well as to better understanding, clarity and efficiency of monetary policy measures.

The public is regularly informed of the decisions of the CNB Council, the bank's governing body, by means of press releases published immediately upon their adoption, which are available in Croatian and English at the CNB's website: www.hnb.hr. The public is also immediately informed on all central bank's interventions in the foreign exchange market and the results of open market operations.

At the CNB's website visitors can find the most important laws and subordinate legislation relating to the central bank's operations and instructions and forms for implementation of relevant regulations. In addition, all regular and occasional publications issued by the CNB are available at the same address, from annual reports, monthly and quarterly bulletins, banks bulletins and statistical reports, papers and research by central bank's employees to an archive of exchange rate lists, etc.

The central bank's most important publications, also available in print, in Croatian and English language, are delivered to interested state institutions, political parties, banks and other financial and economic institutions, educational institutions, libraries and institutes, international organisations and scientists monitoring economic and monetary indicators and developments in Croatia.

Daily activities of the central bank's employees, not only of those immediately responsible for public relations but also of those working with different expert departments of the CNB, include responding to numerous inquiries by domestic and foreign institutions, banks, companies and citizens, and Croatian embassies abroad and foreign embassies in Croatia. In 2006, the CNB responded to over two thousand inquiries and requests for data falling within the scope of CNB's competence.

Cooperation with the media, as a particularly important segment of informing the public of monetary policy goals and measures, is fostered by press briefings or interviews with individual journalists covering monetary policy and other financial issues and providing them with latest

information, explanations and comments. Interviews, statements and lectures given at different domestic and international conferences and other public appearances by the CNB's officials and expert employees are also aimed at allowing the public even greater insight into the purpose and implementation of different CNB's activities and at promoting the understanding of financial developments and indicators.

Among the important activities aimed at making the public, and especially future young professionals, acquainted with the central bank's tasks and the manner in which they are completed, there are organised visits by secondary school and graduate students who wish to obtain first-hand information in direct communication with the central bank's employees. In 2006, such a visit was organised for students of the University of Dubrovnik and graduate and postgraduate students from seventeen European countries participating in the Summer School "International Environment and European Integration" of the University of Rijeka, Faculty of Economics, and the students of the Faculty of Political Science and of the Fachhochschul-Studiengänge Burgenland GmbH.

Successful organisation of the Dubrovnik Economic Conference, which in 2006 gathered renowned scientists from the world's top universities and international institutions as well as monetary and financial policy makers from a large number of countries for the twelfth year in a row, contributes to the enhancement of the Croatian National Bank's as well as Croatia's international reputation. In addition, the second meeting of the balance of payments compilers, attended by the ECB and Eurostat representatives and representatives of central banks of some dozen Central and East European countries, was also successfully organised in Dubrovnik.

The background is a complex composition of various geometric and organic patterns. At the top and bottom, there are horizontal bands of solid colors: grey, pink, and light blue. The main area is filled with vertical stripes of different patterns and colors. From left to right, these include: a pink stripe with a pattern of circles and wavy lines; a grey stripe with a grid of small squares; a solid green stripe; a green stripe with a pattern of overlapping circles and vertical lines; a yellow-green stripe with a wavy, scale-like pattern; a grey stripe with a pattern of vertical lines and horizontal bands; a grey stripe with a pattern of wavy lines; a grey stripe with a pattern of wavy lines and circles; a yellow-green stripe with a grid of horizontal and vertical lines; and a pink stripe with a complex geometric pattern of triangles and squares. The text '07 International Relations' is centered in the middle of the page, overlaid on the green and grey stripes.

07 International Relations

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

Considerable progress was made in 2006 in the process of EU accession negotiations of the Republic of Croatia. Following their formal opening on 3 October 2005, the first phase of negotiations, involving the process of screening and assessment of the degree of harmonisation of the national legislation with the *acquis communautaire*, was completed for all the negotiating chapters until end-2006. The Croatian National Bank takes part in the negotiations as a leading competent institution for three chapters: Free Movement of Capital, Financial Services and Economic and Monetary Policy. The Negotiator for these chapters, who also acts as Deputy Chief Negotiator is CNB Deputy Governor. Over 40 employees have been nominated into working groups for the preparation of negotiations, with other employees taking part too. As regards the three chapters mentioned above, the negotiations on Economic and Monetary Policy have made particular headway. According to the conclusions of the European Commission in the Screening Report (July 2006), Croatia has achieved a high level of harmonisation with the *acquis communautaire* in the area of Economic and Monetary Policy, though full legislative harmonisation of the CNB Act, particularly in the area of central bank independence, still remains to be done. In December 2006, the Council of the EU reached a Common Position on opening negotiations on this chapter. As regards the chapter Financial Services, after the screening process was completed in 2006, Croatia was invited in January 2007 to submit its negotiating position. A somewhat slower progress in the negotiating process was achieved in chapter Free Movement of Capital with further progress in this chapter being subject to fulfilment of two EU benchmarks. The European Commission concluded that Croatia had achieved considerable level of harmonisation and ability to implement the *acquis communautaire* in this area. However, further progress has to be made in several areas, most notably in the area of non-resident (EU citizens) purchase of domestic real estate and prevention of money laundering.

As regards the issue of harmonisation of the Croatian legislation with the *acquis communautaire*, the CNB fully met its obligations envisaged under the 2006 National Programme for the Integration of the Republic of Croatia into the European Union. Worth noting is the adoption of the Act on Amendments to the Croatian National Bank Act in December 2006, which provided for this Act's almost full harmonisation with the relevant *acquis communautaire*. CNB

experts also took part in the drafting of the 2007 National Programme for the Integration of the Republic of Croatia into the European Union, most notably in the part relating to economic criteria, free movement of capital, financial services and Economic and Monetary Union. As in the previous years, this programme outlines the activities associated with the process of accession in the forthcoming period, with special emphasis on efforts towards legislative harmonisation with the *acquis communautaire* in 2007. The Programme was adopted at the session of the Government on 18 January 2007 and at its session on 16 February 2007, the Croatian Parliament adopted an accompanying schedule for legislative harmonisation.

Confirmation of the progress achieved in the process of EU accession has been provided in the form of Progress Report for 2006 published by the European Commission in November 2006. This document reports favourably on macroeconomic indicators such as inflation, the exchange rate and economic growth, while at the same time it points to the worrying levels of current account deficit and external debt. As regards legal issues, this Report points out that in most areas considerable progress has been made towards harmonisation with the *acquis communautaire*, but also stresses that Croatia has to make additional efforts in certain areas in terms of harmonisation of the national legislation. As regards harmonisation efforts in the chapters which fall within the area of responsibility of the CNB, the Report states that certain progress has been made in all the three areas, but that additional efforts are needed in the area of the movement of capital and financial services and legislative adjustments in the area of economic and monetary union. As regards the latter conclusion, it should be borne in mind that the Report covers the period until end-September 2006 and so does not take into account developments such as the December adoption of the Act on Amendments to the Croatian National Bank Act.

The CNB took part in the drafting of the Pre-Accession Economic Programme for the period 2007-2009 (PEP) and that in the part which relates to current economic developments, macroeconomic programme and the financial sector. It is a document that each EU candidate country has to draft on an annual basis to prepare for participation in multilateral surveillance procedures and EU economic policy co-ordination.

The CNB also participated in the work of or in the preparation of materials for the bodies set up pursuant to the Stabilisation and Association Agreement. Its representatives took part in the meetings of the Subcommittee on Economic and Financial Matters and the Subcommittee on Internal Market where they gave an overview of current macroeconomic developments in the Republic of Croatia, with a particular emphasis on monetary and exchange rate policies and the external sector, as well as an overview of relations with international financial institutions. They also presented measures taken with a view to achieving further liberalisation of the movement of capital and headway made in the harmonisation of the Croatian national legislation with the *acquis communautaire* in the area of financial services. The existence of efficient market economy was confirmed at the April 2006 ministerial level meeting of the Stabilisation and Association Council.

To achieve as direct as possible a contact with EU institutions representatives, the CNB appointed its representative to the Mission of the Republic of Croatia to the European Communities in Bruxelles in early 2006 whose main task is to deal with issues related to the three negotiating positions where the CNB is a competent institution.

7.2 International Monetary Fund (IMF)

The quota of the Republic of Croatia in the IMF remained unchanged in 2006 (SDR 365.1m), and so did its voting rights (0.18% of total voting rights). The Republic of Croatia continued to realise its interests within the IMF through the Dutch Constituency, which in addition to Croatia includes, another 12 countries (Armenia, Bosnia and Herzegovina, Bulgaria, Cyprus,

Georgia, Israel, Macedonia, Moldova, Montenegro, the Netherlands, Romania and Ukraine)¹ and which is headed by a Dutch representative acting as Executive Director of the Constituency. The voting power of the Constituency is 4.77% of the total votes in the IMF, which makes it the seventh strongest constituency out of the total of 24 constituencies.

Cooperation with IMF experts in 2006 was successful and focused primarily on the implementation of the stand-by arrangement and Article IV consultations. The stand-by arrangement which was approved in 2004 by the Executive Board of the IMF in the amount of SDR 97m for a 20-month period, was, just like the previous two arrangements, and in view of the good financial position of the Republic of Croatia, concluded as “precautionary” and the Republic of Croatia did not withdraw the funds approved.

Following the first review of the stand-by arrangement in 2005, the second review was successfully completed on 29 March 2006. At the same time, the IMF Executive Board approved the extension of the arrangement until 15 November 2006 and augmented access under the arrangement to an amount equivalent to SDR 99m. The implementation of macroeconomic policy was again found to be good; the country achieved stable economic growth, low inflation and made progress in the implementation of structural reforms and successful fiscal adjustment. The issue of the establishment of the Croatian Financial Services Supervisory Agency was discussed and the need for its close cooperation with the CNB stressed. The CNB was found to be successful in maintaining price and exchange rate stability and was commended for its efforts to reduce with a range of measures the growth of external debt to GDP ratio. The Executive Board believes that further progress can be achieved through continued fiscal consolidation and key structural reforms, most notably in the health care system, further privatisation and reduction of subsidies and government grants and shipyard restructuring.

The third and final review of the stand-by arrangement was completed successfully on 29 September 2006 on a lapse of time basis.² The macroeconomic policy outlined in the IMF program proved successful: real GDP growth was higher than planned, inflation remained low, while improvement in public finances was underlined as the main success of the program. However, it was stressed in this review that these achievements would not remain stable as long as the results of the structural reform failed to boost economic growth, creating a balance to growth based on large capital inflows from abroad. As regards reforms, significant progress was achieved in the area of tax and government administration reform, government subsidies and grants and pension and health system, but it was agreed that in general very little headway was made in privatisation, particularly privatisation and restructuring of state shipyards and steelworks. CNB policy was found to be good, just like during the previous review, and the Executive Board welcomed the introduction of a new set of prudential measures, which were estimated to reduce currency induced and other credit risks and enhance financial stability and with the existing measures, discourage foreign borrowing of banks. It also found close cooperation of the CNB with the Croatian Financial Services Supervisory Agency to be a positive development and so was the planned adoption of the Leasing Act towards the end of the year.³

As the completion of the stand-by arrangement was coming to a close, work began on Article IV consultations between the Republic of Croatia and the IMF. In connection with that, the members of the IMF Mission visited Zagreb towards the end of 2006 and produced a report in early 2007 on its views of the economic situation in the country and the country's outlook for the future, which largely correspond to those given on the occasion of the third review of the stand-by arrangement. Based on this report and a discussion held, the Executive Board of the IMF concluded at its meeting on 16 February 2007 its regular Article IV consultations with the Republic of Croatia. Solid economic growth, low inflation and progress achieved in the context of the EU accession were found to improve the country's investment outlook. However, external vulnerability, as seen in the high external debt to GDP ratio and widening current account

1 Montenegro was admitted to IMF membership in January 2007, and shortly afterwards to the Dutch Constituency.

2 The Executive Board takes decisions under its lapse of time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.

3 Enacted in December 2006

deficit were said to be sources of concern. To reduce these vulnerabilities and make full use of economic growth, Directors stressed the need for additional efforts towards more ambitious fiscal reform and faster structural adjustment, and the need for significant improvement in the business environment which is crucial for attracting foreign direct investment. CNB's monetary policy and exchange rate stability achieved in the context of high level of euroisation and the openness of the economy were found to be appropriate. Directors commended the Croatian National Bank for its readiness to address risks associated with bank foreign borrowing and rapid credit growth.

The Croatian representatives continued to participate in the work of the IMF management bodies (Constituency, International Monetary and Financial Committee and Board of Governors) in 2006. This enabled the Croatian representatives to get acquainted more closely with a range of topics that the IMF deals with in an effort to adapt as successfully as possible to new circumstances in the global economy. IMF efforts in this regard in the past year were also focused on the issue of quota reform, adapting IMF member countries' quotas with their actual positions in the world economy, or the significance of individual countries for the IMF as regards program intensity and advice provided by this institution. These efforts resulted in the adoption of Resolution No. 61-5 on 18 September 2006 by the Board of Governors of the IMF. The Resolution involves a two-phased reform process with the first phase including an *ad hoc* quota augmentation for the four countries which depart from their quotas the most (China, Republic of Korea, Mexico and Turkey); and the second phase involving a range of changes such as adoption of a new quota calculation formula, the second *ad hoc* quota augmentation for a certain number of countries and member countries basic vote augmentation through appropriate amendment of the Articles of Agreement, thereby improving the status of small IMF member countries, particularly underdeveloped countries. Consensus on a new quota and voice reform should be reached until the 2008 Annual Meeting.

As the fiscal agent of the Republic of Croatia and a depository of the International Monetary Fund (as regulated by the Act on Accepting Membership of the Republic of Croatia in the International Monetary Fund and Other International Financial Organisations on the Basis of Succession), 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. The obligations due in 2006 related to the charges arising under the 2004 stand-by arrangement (SDR 0.15m). Also, as a member of the Special Drawing Rights Department of the IMF, in 2006 Croatia regularly serviced its succession-related obligations arising from the allocation of special drawing rights in the amount of SDR 1.55m.

7.3 Bank for International Settlements (BIS)

At its Annual General Meeting held on 26 June 2006, which was attended by the Governor, as the representative of the Croatian National Bank, BIS adopted its Annual Report and decided that dividends to be paid were to amount to SDR 245 per share.

Regular meetings of central bank governors from the BIS member countries, where topical issues in the area of international banking and finance are discussed, continue to provide a strong incentive to central bank cooperation in this area. In the context of promoting this cooperation, a number of committees and expert bodies have been set up within the BIS. The representatives of the CNB take part in the work of these committees and bodies, such as that of a regional group of supervisors from the Central and East European countries and they also cooperate in the area of technical assistance.

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

7.4 Cooperation with Other International Financial Institutions

The major part of CNB's cooperation with other international financial institutions refers to its cooperation with development banks of which the Republic of Croatia is a member: the World Bank Group, the European Bank for Reconstruction and Development (EBRD) and the Inter-American Development Bank (IDB). Membership of the Republic of Croatia in these banks is regulated by special acts, pursuant to which the Croatian Ministry of Finance is the competent authority for cooperation with the World Bank Group, EBRD and IDB, which is authorised to perform all operations and transactions in the name of the Republic of Croatia that are permissible under these institutions' articles of association. The CNB is the depository, i.e. it keeps all deposit accounts owned by these international financial institutions, in the name and on behalf of these financial institutions, and performs financial transactions with these organisations as the payment agent of the Republic of Croatia. It is also responsible for the execution of withdrawals and repayments of funds based on structural loans granted by the IBRD to the Republic of Croatia.

In addition to these legally prescribed tasks, in 2006 the CNB representatives exchanged information at meetings with the representatives of the World Bank and the EBRD on the macro-economic situation in the Republic of Croatia and on the planned strategy of these development banks for the Republic of Croatia in the forthcoming period.

7.5 Foreign Exchange System and Foreign Exchange Policy Measures of the Republic of Croatia

The legal basis for the foreign exchange system in the Republic of Croatia is provided by the Foreign Exchange Act.⁴ Relevant subordinate legislation defines the instruments and measures for the implementation of the foreign exchange policy.

Foreign exchange policy measures determine the degree of restrictions on capital movements between residents and non-residents and the terms and the manner of using foreign means of payment and kuna in relations between residents and between residents and non-residents.

7.5.1 Free Movement of Capital

The SAA, which entered into force on 1 February 2005, obliges the Republic of Croatia to abolish restrictions on payments and transfers of funds associated with current transactions and restrictions on payments and transfers of funds associated with capital transactions.

In the context of capital transaction liberalisation, in 2006 the CNB lifted capital restrictions from securities transactions.

⁴ OG 96/2003, 140/2005 and 132/2006

December 2006 saw the adoption of an Act on Amendments to the Foreign Exchange Act under which, as of 14 December 2006, securities transactions and transactions with stakes in investment funds are conducted in accordance with regulations governing the securities market and investment funds operations. As a result, resident natural persons may engage in securities purchase and sale transactions and investment funds stakes purchase and sale transactions directly through an authorised foreign company. However, the opening of a monetary account abroad for securities purchase and sale transactions is still restricted. The Amendments also provided for the liberalisation of investment of non-residents in domestic securities, including CNB bills and T-bills of the Ministry of Finance.

Liberalisation is also seen in the regulation which governs the taking in and out of the country of cash, checks and materialised securities by non-residents. Non-residents are still obliged to report to the authorised customs officer each cross-border transfer of cash and checks in foreign currency and in kuna in excess of the amount of HRK 40,000 prescribed by the anti-money laundering law.

In November 2006, the authorities removed the restriction on depositing of foreign cash on non-resident accounts of legal persons in domestic banks, thus enabling non-residents to withdraw from their accounts and deposit to their account foreign and kuna cash without restriction.

It should be noted that the remaining resident capital transaction restrictions involve the granting of short-term financial loans to non-residents, opening of accounts in foreign financial institutions, the taking in and out of the country of cash in cross-border transactions and payment and collection in cash in transactions with non-residents.

In 2006, 422 approvals were granted to residents for account opening and for keeping funds in accounts abroad, with the balance of foreign funds in these accounts standing at EUR 100m at end-December 2006. Sixteen approvals were granted for cash transactions across non-resident accounts of legal persons, while resident natural persons were granted 8 approvals for taking foreign cash out of the country. Six hundred and twenty one approvals were granted to banks for cross-border kuna cash transfer for the purpose of kuna cash purchase and sale transactions with foreign banks. Seventy nine approvals were granted to natural persons for cashless transfers of funds related to gifts and grants in 2006, while 32 approvals were granted in that year for cash payments and collections in transactions with non-residents and 18 for payments without restrictions to certain categories of residents.

The harmonisation of the regulations of the Republic of Croatia in this area is planned to be achieved until end-2008.

7.5.2 Exchange Transactions

The process of issuing authorisations for the conduct of currency exchange transactions started with the coming into force of the 2005 Act on Amendments to the Foreign Exchange Act.⁵ Until end-2006, 1,179 applications for authorisations were received. In that year, 629 authorisations were granted, 4 were revoked and 17 applications for authorisation were suspended or rejected. In terms of their legal status, 63% of applicants were limited liability companies, 25% were crafts, 9% were joint stock companies, and 3% were other legal persons.

December 2006 saw the adoption of a new Act on Amendments to the Foreign Exchange Act⁶ which provided for a change in the application of the “fit and proper” criteria to persons managing authorised exchange offices or qualified owners of authorised currency exchange offices. Under this change, the scope of criminal offences which disqualify any authorised cur-

5 OG 140/2005

6 OG 132/2006

currency exchange office from currency exchange operations has been expanded and so has the scope of persons which are checked for that purpose.

Authorised currency exchange offices have to use protected computer program certified by the CNB. One new certificate was issued in 2006, bringing the total number of certificates to 33. The use of certified computer programs was introduced for the purpose of strengthening fiscal and financial discipline and is directly related to the pursuit of anti-money laundering policy.

The CNB processes the information on foreign currency purchase and sale transactions and checks transactions received from the authorised currency exchange offices. According to the information collected, turnover in 2006 was HRK 29,537m. Of that amount, HRK 17,623m or 59.66% went to the purchase of foreign cash and checks denominated in foreign currency and HRK 11,914m or 40.34% of the total turnover went to foreign currency cash sale. Euro accounted for over 80%, or major share of the turnover.



08 Financial
Statements
of the Croatian
National
Bank

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the Croatian National Bank ('the Bank' or 'the CNB'), set out on pages 154 to 170, which comprise the balance sheet as at 31 December 2006, and the statement of income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

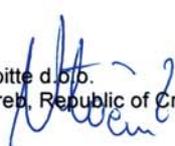
Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2006, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Deloitte
Prague, Czech Republic

12 March 2007



Deloitte d.o.o.
Zagreb, Republic of Croatia

12 March 2007

Statement of Income

Statement of Income

for the year ended 31 December 2006, in thousand HRK

	Notes	Year ended 31 December 2006	Year ended 31 December 2005
Interest and similar income	3	1,712,254	1,193,860
Interest expense and similar charges	4	(404,974)	(361,048)
Net interest income		1,307,280	832,812
Fee and commission income		6,082	5,744
Fee and commission expense		(3,284)	(3,157)
Net fee and commission income		2,798	2,587
Dividend income		5,022	4,740
Net result from financial operations	5	214,819	86,421
Net effect of revaluation of precious metals	5	623	724
		215,442	87,145
Net foreign exchange losses	6	(992,543)	(400,824)
Other income	7	9,937	7,458
Operating income		547,936	533,918
Operating expenses	8	(284,653)	(279,552)
Decrease in provisions	9	6,901	7,342
Operating surplus		270,184	261,708
– Allocated to general reserves		(165,413)	(52,342)
– Allocated to the State Budget		(104,771)	(209,366)

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

Balance Sheet

Balance Sheet

as at 31 December 2006, in thousand HRK

	Notes	As at 31 December 2006	As at 31 December 2005
Assets			
Cash and current accounts with other banks	10	8,253	8,716
Deposits with other banks	11	33,188,888	28,250,507
Trading securities	12	30,831,230	26,572,991
Loans	13	3,897,128	4,201,237
Placements with the International Monetary Fund	14	3,069,272	3,259,112
Equity investments	15	55,626	57,541
Accrued interest and other assets	16	184,108	156,545
Tangible and intangible assets	17	396,385	373,858
TOTAL ASSETS		71,630,890	62,880,507
Liabilities			
Banknotes and coins in circulation		17,307,271	14,374,538
Due to banks and other financial institutions	18	45,623,867	39,621,119
Due to the State and State institutions	19	234,357	294,126
Due to the International Monetary Fund	20	3,062,656	3,251,453
Accrued interest and other liabilities	21	217,466	316,942
Total liabilities		66,445,617	57,858,178
Equity			
Capital	22	2,500,000	2,500,000
Reserves	22	2,685,273	2,522,329
Total equity		5,185,273	5,022,329
TOTAL EQUITY AND LIABILITIES		71,630,890	62,880,507

The financial statements set out on pages 154 to 170 were approved on 12 March 2007 by:

Director of Accounting Department:

Ivan Branimir Jurković




Governor

Željko Rohatinski, D.Sc.



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

Statement of Changes in Equity

Statement of Changes in Equity

for the year ended 31 December 2006, in thousand HRK

	Capital	General reserves	Revaluation reserves	Unrealised gains/losses	Operating surplus	Total equity
Balance at 1 January 2005	2,500,000	2,211,451	252,077	–	–	4,963,528
Transferred to general reserve from revaluation reserves	–	5,102	(5,102)	–	–	–
Changes in the value of equity investments	–	–	–	5,113	–	5,113
Exchange differences on available-for-sale financial assets	–	–	–	1,346	–	1,346
Operating surplus	–	–	–	–	261,708	261,708
Operating surplus transferred to general reserves	–	52,342	–	–	(52,342)	–
Operating surplus allocated to the State Budget	–	–	–	–	(209,366)	(209,366)
Balance at 31 December 2005	2,500,000	2,268,895	246,975	6,459	0	5,022,329
Transferred to general reserves from revaluation reserves	–	5,102	(5,102)	–	–	–
Exchange differences on available-for-sale financial assets	–	–	–	(2,469)	–	(2,469)
Operating surplus	–	–	–	–	270,184	270,184
Operating surplus transferred to general reserves	–	165,413	–	–	(165,413)	–
Operating surplus allocated to the State Budget	–	–	–	–	(104,771)	(104,771)
Balance at 31 December 2006	2,500,000	2,439,410	241,873	3,990	0	5,185,273

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

Statement of Cash Flows

Statement of Cash Flows

for the year ended 31 December 2006, in thousand HRK

	2006	2005
Cash flows from operating activities		
Interest received	1,652,435	1,192,581
Interest paid	(413,217)	(382,916)
Commissions received	5,970	5,671
Commissions paid	(3,053)	(2,917)
Dividends received	5,024	4,741
Other receipts	16,861	10,163
Expenses paid	(221,464)	(216,613)
	1,042,556	610,710
Changes in operating assets and liabilities		
Increase in deposits with other banks	(5,273,761)	(4,140,498)
Decrease / (increase) in loans	313,450	(3,797,626)
Purchases of trading securities	(4,651,382)	(1,759,815)
Decrease / (increase) in other assets	3,025,273	(37,772)
Increase / (decrease) in other liabilities	1,148	(223,871)
Decrease in amounts due to the IMF	(1,329)	(1,428)
Increase of currency in circulation	2,933,267	1,548,933
Increase in amounts due to banks and other financial institutions	5,996,082	7,868,194
(Decrease) / increase in amounts due to the State	(3,113,537)	17,598
	(770,789)	(526,285)
Net cash from operating activities	271,767	84,425
Cash flows from investing activities		
Purchase of property and equipment	(41,501)	(33,149)
Acquisitions of equity investments	0	(18,256)
Net cash from investing activities	(41,501)	(51,405)
Cash flows from financing activities		
Payments to the Republic of Croatia	(209,367)	0
Net cash from financing activities	(209,367)	0
Effect of exchange differences	(22,325)	(29,942)
Net (decrease) / increase in cash	(1,426)	3,078
Cash at beginning of year	14,978	11,900
Cash at end of year (Note 24)	13,552	14,978

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

Notes to the Financial Statements for the Year Ended 31 December 2006

Note 1 – General Information and Accounting Standards

1.1 General information

The Croatian National Bank is the central bank of the Republic of Croatia, whose status has been defined by law. The owner of the Croatian National Bank is the Republic of Croatia, which guarantees for the liabilities of the Bank. It is headquartered in Zagreb, Trg hrvatskih velikana 3. Its area of competence comprises the responsibility for achieving and maintaining price stability. The Croatian National Bank is an independent organization, and reports to the Croatian Parliament. The Governor of the Croatian National Bank represents the Croatian National Bank.

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

- Determining and implementing monetary and foreign currency policy;
- Maintaining and managing international reserves of the Republic of Croatia;
- Issuing banknotes and coins;
- Issuing and withdrawing banking licenses, and supervising the operations of banks;
- Maintaining bank accounts and performing payment transactions on those accounts, issuing loans to other banks and receiving deposit funds from other banks;
- Regulating, improving and supervising payment operations;
- Performing other tasks on behalf of the Republic of Croatia as defined by law;
- Promulgating regulations from its area of competence; and
- Performing other tasks specified by law.

1.2 Accounting standards and conventions

These financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS') as published by the International Accounting Standards Board. The financial statements have been prepared under accrual method and the historical cost basis, except for certain financial instruments and properties that were carried at revalued amounts.

The financial statements are presented in thousands of Croatian kunas.

The preparation of financial reports in accordance with generally accepted accounting standards requires the use of estimates and judgments that influence the amounts of assets and liabilities at the reporting date and the amounts of income and expenditures for the reporting period. Although the estimates are based on the management's best estimate of current events and operations, they may differ from the actual results.

Note 2 – Summary of Significant Accounting Policies

2.1 Interest income and expense

Interest income and expense are recognized in the income statement on an accrual basis.

Interest income includes interest earned on coupons for fixed-yield financial instruments, as well as accrued discount on purchased securities.

2.2 Fee and commission income and expense

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

Fee and commission expense is included in the income statement when the services are received.

2.3 Dividend income

Dividend income on equity investments is recognized in the income statement when the right to receive dividends is established.

2.4 Foreign exchange gains and losses

Transactions in foreign currencies are translated into HRK at the rate of exchange ruling at the date of the transaction. All monetary assets and liabilities denominated in a foreign currency are retranslated at the balance sheet date at the rate effective on that date. Gains and losses on translation are included in the income statement for the period in which they occur. They are translated at the midpoint exchange rate of the Croatian National Bank, except for the Special Drawing Rights (XDRs), which are translated to Croatian kunas at the exchange rate provided by the International Monetary Fund.

Foreign exchange gains and losses arising from fluctuations in exchange rates are recorded in the income statement as unrealized gains or losses in the period when they occur.

Foreign exchange gains and losses arising from financial instruments available-for-sale are recognized directly in equity.

Gains and losses arising from trading in foreign currencies are included in realized income or expenditure in the period in which they occur.

The exchange rates of major foreign currencies at 31 December 2006 were as follows:

1 USD =	5.578401 HRK (2005: 6.233626 HRK)
1 EUR =	7.345081 HRK (2005: 7.375626 HRK)
1 XDR =	8.415317 HRK (2005: 8.912040 HRK).

2.5 Provisions for risks and charges

The Croatian National Bank recognizes a provision when it has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the obligation. No provision is recognised unless all of these conditions are met.

2.6 Financial instruments

2.6.1 Classification

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

a) Financial assets at fair value through profit or loss

This category comprises marketable debt securities in which the Croatian National Bank invests international reserve funds for the purpose of earning interest income or changes in the fair value of the underlying instrument.

b) Loans and receivables

This category comprises loans approved by the Croatian National Bank without the intention of short-term profit taking.

c) Financial assets available-for-sale

This category comprises the Croatian National Bank's investments in equity securities.

2.6.2 Recognition

The Croatian National Bank recognizes and derecognises financial assets on a settlement date basis. Any gains and losses arising from changes in the fair value of financial assets are recognized as of the last day of the reporting period.

2.6.3 Measurement

Financial instruments are measured initially at cost, which includes transaction costs.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, which corresponds to the quoted market price in an active financial market. Financial instruments with no quoted market price and with fixed maturities are stated at amortized cost, by applying the effective interest rate method.

Those that do not have a fixed maturity and no prices quoted in an active market, and whose fair value cannot be reliably measured, are measured at cost, less any impairment loss.

2.7 Impairment of financial assets

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, the asset's recoverable amount is estimated, and an impairment loss is recognised.

2.8 Repurchase and reverse repurchase agreements

The Croatian National Bank enters into securities purchase/sale agreements where it contracts to resell/repurchase the same instrument on a specific future date at a fixed price. Securities purchased under reverse repurchase agreements are not recognized in the balance sheet. Outflows arising from these agreements are recognized as due from banks or other financial institutions, and are collateralized by appropriate securities pledged under the repurchase agreement. Securities sold under repurchase agreements are not removed from the balance sheet but are reported in accordance with the accounting policy for such financial assets. Inflows from sales of securities are recognized as due to banks or other financial institutions. The difference between sale and repurchase price is treated as interest income or expense and accrued over the period of transaction.

2.9 Balances with the International Monetary Fund

Balances with the International Monetary Fund are denominated in Special Drawing Rights (XDR).

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 recognized in the income statement in the period when they occur.

2.11 Cash in circulation

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

2.12 Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents are defined as cash and current accounts with other banks, and balances with the International Monetary Fund.

2.13 Taxation

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

2.14 Tangible and intangible fixed assets

Tangible and intangible fixed assets are stated in the balance sheet at cost, except for buildings carried at revalued amounts, less accumulated depreciation. Depreciation is provided under the straight-line method.

Gains on revaluation are included as a separate component of equity. Losses on revaluation are recorded against revaluation reserves to the extent of previously recognized gains. Losses in excess of previously recorded gains are recognized as an impairment charge in the income statement.

The following annual rates are used:

in %

	2006	2005
Business buildings	2.5	2.5
Flats	5.0	5.0
Garages	2.5	2.5
Air-conditioning system	20.0	20.0
Fire alarm system	20.0	20.0
Mobile phones	50.0	50.0
Fixed telephony	25.0	25.0
Office equipment	25.0	25.0
Restaurant equipment	25.0	25.0
Machinery and other equipment	20.0	20.0
Furniture	20.0	20.0
Safes	10.0	10.0
Motor vehicles	25.0	25.0
Servers and other hardware	25.0	25.0
Software	33.33	33.33
Intangible assets	25.0	25.0
Security system and video surveillance equipment	25.0	25.0

2.15 Appropriations

The surplus of income over expenditures is transferred in accordance with Article 53 of the Act on the Croatian National Bank.

Note 3 – Interest and Similar Income

in thousand HRK

	2006	2005
Deposits	1,155,804	668,668
Trading securities	506,789	460,907
International Monetary Fund	46	36
Loans to domestic banks	49,338	59,068
Other	277	5,181
	1,712,254	1,193,860

Note 4 – Interest and Similar Expense

in thousand HRK

	2006	2005
Kuna reserve requirements	138,650	166,290
Foreign currency reserve requirements	125,484	125,497
International Monetary Fund	1,309	1,403
Repurchase arrangements	137,053	64,721
Other	2,478	3,137
	404,974	361,048

Note 5 – Net Financial Result and Precious Metal Revaluation

in thousand HRK

	2006	2005
Net result on purchase and sale, and changes in the fair value of trading securities	214,819	86,421
Net effect of precious metal revaluation	623	724
	215,442	87,145

Note 6 – Net Foreign Exchange Differences

Since the international reserves of the Republic of Croatia account for over 90% of the balance sheet of the Croatian National Bank, any changes in foreign exchange rates imminently affect both the balance sheet and the income statement.

The movements in net losses on remeasurement of the balance sheet items according to the fluctuations in foreign exchange rates over the past five years are presented below:

Year	Net loss
2002	1,240,948
2003	609,737
2004	379,155
2005	400,824
2006	992,543

Note 7 – Other Income

in thousand HRK

	2006	2005
Gains on sales of numismatics	1,197	1,194
Other income	8,740	6,264
	9,937	7,458

Note 8 – Operating Expenses

in thousand HRK

	2006	2005
Staff costs (Note 8.1)	136,556	133,706
Materials, services and administrative expenses	84,455	89,124
Costs of banknotes and coins in Croatian currency	39,211	34,217
Depreciation and amortization	24,431	22,505
	284,653	279,552

Note 8.1 – Staff Costs

in thousand HRK

	2006	2005
Net salaries	59,171	58,063
Contributions from and on salaries	34,820	34,206
Taxes and local taxes	16,761	16,614
Other staff costs	25,804	24,823
	136,556	133,706

The average number of employees during the year was 579 (2005: 561).

Note 9 – Decrease in Provisions

in thousand HRK

	2006	2005
a) Loans		
Amounts collected	(9,342)	(9,481)
b) Provisions for risks and charges		
New provisions made	7,736	7,444
Provisions released	(5,295)	(5,305)
	(6,901)	(7,342)

Note 10 – Cash and Current Accounts with Other Banks

in thousand HRK

	31/12/2006	31/12/2005
Cash on hand	4,481	5,157
Current accounts with foreign banks	3,772	3,559
	8,253	8,716

Note 11 – Deposits with Other Banks

in thousand HRK

	31/12/2006	31/12/2005
Deposits with foreign central banks	334,146	373,395
Deposits with foreign commercial banks	32,840,697	27,863,021
Deposits with domestic commercial banks	14,045	14,091
	33,188,888	28,250,507

Note 12 – Trading Securities

in thousand HRK

	31/12/2006	31/12/2005
Securities denominated in EUR	24,908,613	21,643,381
Securities denominated in USD	5,922,617	4,929,610
	30,831,230	26,572,991

Nominal value of the securities amounted to HRK 30,648,361 thousand as of 31 December 2006 (2005: HRK 26,197,726 thousand).

Note 13 – Loans

a) By type of loan

in thousand HRK

	31/12/2006	31/12/2005
Loans to domestic banks		
– Repo auctions	3,897,000	4,201,100
– Intervention loans	63,228	63,228
– Liquidity loans	–	9,342
Other loans	809	818
Gross loans and advances	3,961,037	4,274,488
Less: provision for loan impairment	(63,909)	(73,251)
	3,897,128	4,201,237

b) Movements in provision for loan impairment

in thousand HRK

	31/12/2006	31/12/2005
Balance at 1 January	73,251	82,732
Amounts collected	(9,342)	(9,481)
Balance at 31 December	63,909	73,251

Note 14 – Placements with the International Monetary Fund

in thousand HRK

	31/12/2006	31/12/2005
Membership quota	3,063,973	3,252,851
Special Drawing Rights (XDR) and deposits	5,299	6,261
	3,069,272	3,259,112

Note 15 – Equity Investments

in thousand HRK

	31/12/2006	31/12/2005
Membership in other international institutions	41,904	44,374
Domestic enterprises	13,722	13,167
	55,626	57,541

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). Domestic equity investments represent the share of the Croatian National Bank in the equity capital of the Croatian Monetary Institute.

Note 16 – Accrued Interest and Other Assets

in thousand HRK

	31/12/2006	31/12/2005
Accrued interest	96,702	70,975
Prepaid expenses	73,045	67,075
Numismatics	9,765	10,293
Gold and other precious metals	3,367	2,726
Other assets	79,117	83,364
	261,996	234,433
Impairment allowance	(77,888)	(77,888)
	184,108	156,545

in thousand HRK

	31/12/2006	31/12/2005
Movements in provisions for interest		
Balance at 1 January	(77,888)	(77,888)
Balance at 31 December	(77,888)	(77,888)

The major portion of prepaid expenses in the amount of HRK 70,069 thousand (2005: HRK 63,823 thousand) relates to the costs of printing banknotes and minting coins.

Note 17 – Tangible and Intangible Fixed Assets

in thousand HRK

	Land and buildings	Computers	Furniture and equipment	Motor vehicles	Other assets	Investments in course of construction	Software and licenses	Total
Balance at 31 December 2005								
Cost or revaluation	306,138	65,683	34,703	6,999	3,350	52,024	14,450	483,347
Accumulated depreciation	(30,065)	(44,136)	(23,533)	(5,421)	–	–	(6,334)	(109,489)
Net book value	276,073	21,547	11,170	1,578	3,350	52,024	8,116	373,858
Year ended 31 December 2006								
Opening net book amount	276,073	21,547	11,170	1,578	3,350	52,024	8,116	373,858
Additions	–	–	–	–	145	46,851	–	46,996
Assets brought into use	2,292	3,425	6,518	353	–	(15,297)	2,709	–
Revaluation	–	–	–	–	–	–	–	–
Net write-offs	–	(32)	(50)	–	–	42	–	(40)
Charge for the year	(5,978)	(9,988)	(3,909)	(697)	–	–	(3,859)	(24,431)
Closing net book amount	272,388	14,952	13,729	1,234	3,495	83,621	6,966	396,385
Balance at 31 December 2006								
Cost or revaluation	308,430	65,665	39,892	7,088	3,495	83,621	17,159	525,350
Accumulated depreciation	(36,042)	(50,713)	(26,163)	(5,854)	–	–	(10,193)	(128,965)
Net book value	272,388	14,952	13,729	1,234	3,495	83,621	6,966	396,385

Assets (land and buildings) were revalued by independent experts in 2000. The tangible fixed assets of the Bank are neither subject to a mortgage nor to a fiduciary relationship.

Note 18 – Due to Banks and Other Financial Institutions

in thousand HRK

	31/12/2006	31/12/2005
Kuna reserve requirements	20,478,212	17,605,236
Foreign currency reserve requirements	16,570,612	13,492,115
Other deposits of domestic banks	8,552,488	8,462,135
Foreign banks and other financial institutions	18,890	18,944
Court-mandated deposits	3,665	42,689
	45,623,867	39,621,119

Note 19 – Due to the State and State Institutions

in thousand HRK

	31/12/2006	31/12/2005
Domestic currency account balances	220,882	280,908
Foreign currency account balances	13,475	13,218
	234,357	294,126

Note 20 – Due to the International Monetary Fund

in thousand HRK

	31/12/2006	31/12/2005
Bills of exchange denominated in HRK	3,054,978	3,243,301
Other IMF's accounts	7,678	8,152
	3,062,656	3,251,453

The bills of exchange denominated in Croatian kuna relate to the membership of the Republic of Croatia in the International Monetary Fund.

Note 21 – Accrued Interest and Other Liabilities

in thousand HRK

	31/12/2006	31/12/2005
Accrued interest	19,157	15,251
Due to employees	5,305	5,064
Taxes and contributions	4,775	4,578
Due to the Ministry of Finance	110,573	215,418
Amounts due to suppliers	9,990	11,516
Other liabilities	67,666	65,115
	217,466	316,942

Other liabilities include long-term provisions for risks and charges, out of which HRK 15,310 thousand (2005: HRK 14,040 thousand) are in respect of legal actions and HRK 13,334 thousand (2005: HRK 12,163 thousand) in respect of provisions for employee benefits.

Note 22 – Capital and Reserves

The capital funds of the Croatian National Bank consist of the initial capital and reserves. The initial capital in the amount of HRK 2,500,000 thousand is held by the Republic of Croatia. The capital is non-transferable and cannot be encumbered by any guarantees.

The increase in the general reserves of the Croatian National Bank resulted from the transfer of operating surplus in the amount of HRK 165,413 thousand.

Note 23 – Contingencies and Commitments and Treasury Inventory System

Legal actions: As at 31 December 2006 there were several legal actions outstanding against the Bank. In the opinion of the management and internal legal advisors of the Croatian National Bank, there is a possibility that the Bank will lose certain cases, and, consequently, provisions for potential losses on such cases were made by the Bank in the amount of HRK 15,310 thousand (see Note 21).

Capital commitments: At 31 December 2006, the Croatian National Bank had capital commitments in the amount of HRK 39,318 thousand (2005: HRK 29,424 thousand).

Treasury inventory system:

in thousand HRK

	31/12/2006	31/12/2005
Non-issued banknotes and coins	85,105,450	82,666,032
Stamp duties and bills of exchange	244,310	250,429
	85,349,760	82,916,461

Note 24 – Cash

in thousand HRK

	31/12/2006	31/12/2005
Cash on hand	4,481	5,157
Current account balances with foreign banks	3,772	3,559
Special Drawing Rights (XDR) and deposits with the IMF	5,299	6,261
	13,552	14,977

Note 25 – Appropriations

in thousand HRK

	31/12/2006	31/12/2005
Operating surplus	270,184	261,708
Transfer of surplus to general reserves	(165,413)	(52,342)
Transfer of surplus to the State Budget	(104,771)	(209,366)
	-	-

Note 26 – Risk Management

The Bank maintains active trading positions in money market and capital market instruments that are appropriate for central banks. The Bank pays special attention to the monitoring of credit, foreign currency and interest rate risks, as well as other types of risks. The Bank's investment gain corresponds to assumed risks and reflects its basic investment principles – safety and liquidity.

Note 27 – Credit Risk

The Bank is subject to credit risk that may arise as a result of counterparties' default on their obligations to the Bank. Therefore, the Bank monitors the credit ratings of governments and financial institutions with which it places its international reserve funds on an ongoing basis.

The Croatian National Bank only deals with counterparties of the highest credit standing, by setting limits for placements with individual countries and financial institutions.

Geographical concentration of assets and liabilities:

in thousand HRK

	Total assets	Total liabilities
Balance at 31 December 2006		
Croatia	4,441,191	63,380,723
OECD countries	60,940,124	2,238
USA	6,249,178	3,062,656
Other countries	397	–
	71,630,890	66,445,617

in thousand HRK

	Total assets	Total liabilities
Balance at 31 December 2005		
Croatia	4,724,539	54,605,765
OECD countries	54,430,764	18
USA	3,725,192	3,252,395
Other countries	12	–
	62,880,507	57,858,178

Note 28 – Currency Risk

The majority of the Bank's assets is held in foreign currencies (international reserves). Therefore, the Bank has a large exposure to foreign currency risk. As a result, there are high fluctuations in the income statement, primarily because of the effects of exchange differences on the financial result of the Bank for the year.

The analysis of significant items of assets and liabilities by currency is provided below.

in thousand HRK

	EUR	USD	XDR	Other foreign currencies	HRK	Total
Balance at 31 December 2006						
Assets						
Cash and current accounts with other banks	3,467	1,971	–	2,793	22	8,253
Deposits with other banks	29,814,007	3,360,836	–	–	14,045	33,188,888
Trading securities	24,908,613	5,922,617	–	–	–	30,831,230
Loans	–	–	–	–	3,897,128	3,897,128
Placements with the IMF	–	–	3,069,272	–	–	3,069,272
Equity investments	77	–	41,827	–	13,722	55,626
Accrued interest and other assets	54,444	13,831	6	–	115,827	184,108
Tangible and intangible assets	–	–	–	–	396,385	396,385
Total assets	54,780,608	9,299,255	3,111,105	2,793	4,437,129	71,630,890
Liabilities						
Banknotes and coins in circulation	–	–	–	–	17,307,271	17,307,271
Due to banks and other financial institutions	16,437,439	133,173	–	–	29,053,255	45,623,867
Due to the State and State institutions	11,841	1	–	1,633	220,882	234,357
Due to the IMF	–	–	3,062,656	–	–	3,062,656
Accrued interest and other liabilities	1,919	–	–	319	215,228	217,466
Total liabilities	16,451,199	133,174	3,062,656	1,952	46,796,636	66,445,617
Net balance sheet position	38,329,409	9,166,081	48,448	841	(42,359,506)	5,185,273
Balance at 31 December 2005						
Total assets	46,708,396	8,146,861	3,303,416	2,510	4,719,324	62,880,507
Total liabilities	13,315,394	192,630	3,251,453	2,931	41,095,770	57,858,178
Net balance sheet position	33,393,002	7,954,231	51,963	(421)	(36,376,446)	5,022,329

Note 29 – Interest Rate Risk

The Croatian National Bank has an exposure to market interest rates on its financial position and cash flows. As a result of the application of clearly set guidelines, the Bank's exposure to interest rate risk is low and in compliance with its basic principle of international reserves investment – safety and liquidity.

in thousand HRK

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Non-interest bearing	Total
Balance at 31 December 2006						
Assets						
Cash and current accounts with other banks	–	–	–	–	8,253	8,253
Deposits with other banks	27,485,284	5,689,559	–	–	14,045	33,188,888
Trading securities	30,831,230	–	–	–	–	30,831,230
Loans	3,897,128	–	–	–	–	3,897,128
Placements with the IMF	930	–	–	–	3,068,342	3,069,272
Equity investments	–	–	–	–	55,626	55,626
Accrued interest and other assets	–	–	–	–	184,108	184,108
Tangible and intangible assets	–	–	–	–	396,385	396,385
Total assets	62,214,572	5,689,559	–	–	3,726,759	71,630,890
Liabilities						
Banknotes and coins in circulation	–	–	–	–	17,307,271	17,307,271
Due to banks and other financial institutions	37,048,824	–	–	–	8,575,043	45,623,867
Due to the State and State institutions	24,605	–	–	–	209,752	234,357
Due to the IMF	–	–	–	–	3,062,656	3,062,656
Accrued interest and other liabilities	–	–	–	–	217,466	217,466
Total liabilities	37,073,429	–	–	–	29,372,188	66,445,617
Net balance sheet position	25,141,143	5,689,559	–	–	(25,645,429)	5,185,273
Balance at 31 December 2005						
Total assets	53,947,670	5,064,608	–	–	3,868,229	62,880,507
Total liabilities	31,306,200	–	–	–	26,551,978	57,858,178
Net balance sheet position	22,641,470	5,064,608	–	–	(22,683,749)	5,022,329

The table below summarizes the average interest rate by major currencies for monetary financial instruments at 31 December 2006:

in %

Balance at 31 December 2006	EUR	USD	XDR	HRK
Assets				
Current accounts with other banks	–	–	–	–
Special Drawing Rights (XDR)	–	–	4.07	–
Deposits with other banks	3.55	5.22	–	–
Trading securities	3.82	4.96	–	–
Loans	–	–	–	3.5
Liabilities				
Due to domestic banks	1.75	2.63	–	0.75
Due to the IMF	–	–	–	–
Due to foreign banks	–	–	–	–

in %

Balance at 31 December 2005	EUR	USD	XDR	HRK
Assets				
Current accounts with other banks	1.25	3.44	–	–
Special Drawing Rights (XDR)	–	–	3.03	–
Deposits with other banks	2.31	4.31	–	–
Trading securities	2.76	4.40	–	–
Loans	–	–	–	3.5
Liabilities				
Due to domestic banks	1.13	2.13	–	0.75
Due to the IMF	–	–	–	–
Due to foreign banks	–	–	–	–

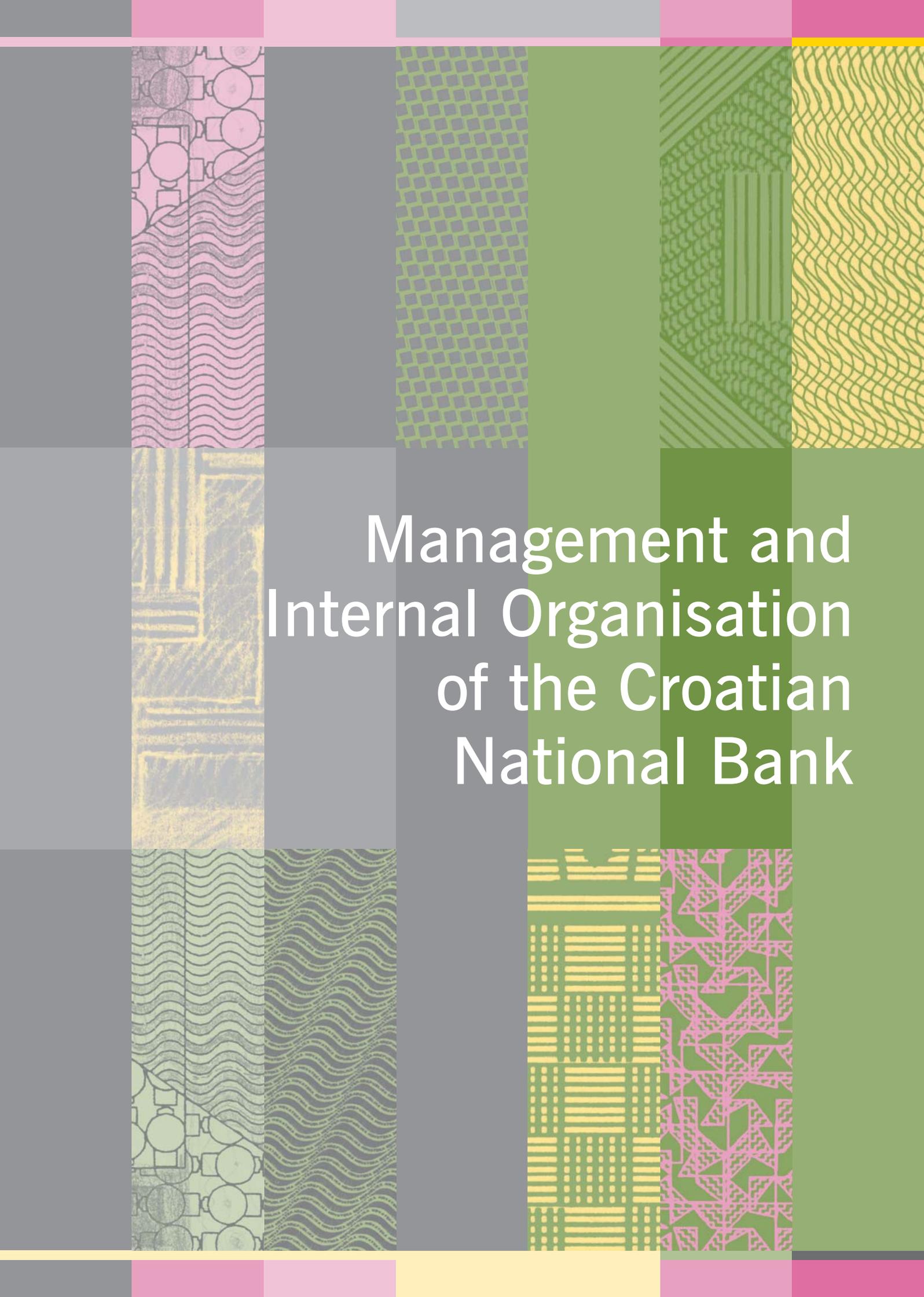
Note 30 – Liquidity Risk

Liquidity risk arises in the general funding of the liabilities due or of other activities of the Croatian National Bank. Therefore, the Croatian National Bank has to ensure sufficient funds available on a daily basis to meet all of its liabilities and contractual commitments.

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 months to 1 year	1 to 5 years	Over 5 years	Total
Balance at 31 December 2006						
Assets						
Cash and current accounts with other banks	8,253	–	–	–	–	8,253
Deposits with other banks	27,485,284	5,689,559	–	–	14,045	33,188,888
Trading securities	30,831,230	–	–	–	–	30,831,230
Loans	3,897,000	–	–	–	128	3,897,128
Placements with the IMF	930	–	–	–	3,068,342	3,069,272
Equity investments	–	–	–	–	55,626	55,626
Accrued interest and other assets	68,636	14,486	8,138	70,068	22,780	184,108
Tangible and intangible assets	–	9,239	–	–	387,146	396,385
Total assets	62,291,333	5,713,284	8,138	70,068	3,548,067	71,630,890
Liabilities						
Banknotes and coins in circulation	–	–	–	–	17,307,271	17,307,271
Due to banks and other financial institutions	45,604,977	–	–	–	18,890	45,623,867
Due to the State and State institutions	234,357	–	–	–	–	234,357
Due to the IMF	–	–	–	–	3,062,656	3,062,656
Accrued interest and other liabilities	40,122	110,573	28,645	38,126	–	217,466
Total liabilities	45,879,456	110,573	28,645	38,126	20,388,817	66,445,617
Net liquidity gap	16,411,877	5,602,711	(20,507)	31,942	(16,840,750)	5,185,273
Balance at 31 December 2005						
Total assets	53,995,279	5,076,322	34,941	63,823	3,710,142	62,880,507
Total liabilities	39,932,709	209,366	33,041	38,126	17,644,936	57,858,178
Net liquidity gap	14,062,570	4,866,956	1,900	25,697	(13,934,794)	5,022,329

The background is a complex composition of various geometric and organic patterns. It features a central vertical band of solid green, flanked by vertical stripes of different colors and patterns: pink with circles, grey with a grid, yellow with a grid, and green with a grid. The top and bottom edges are decorated with horizontal bands of pink, grey, and yellow. The overall aesthetic is modern and abstract.

Management and Internal Organisation of the Croatian National Bank

Members of the Council and Management of the Croatian National Bank

Members of the Council of the Croatian National Bank

Chairman of the Council
ŽELJKO ROHATINSKI

BORIS COTA
DAVOR HOLJEVAC
VLADO LEKO
BRANIMIR LOKIN
ŽELJKO LOVRINČEVIĆ
RELJA MARTIĆ
ADOLF MATEJKA
SILVIJE ORSAG
TOMISLAV PRESEČAN
JURE ŠIMOVIĆ
SANDRA ŠVALJEK
MLADEN VEDRIŠ
BORIS VUJČIĆ

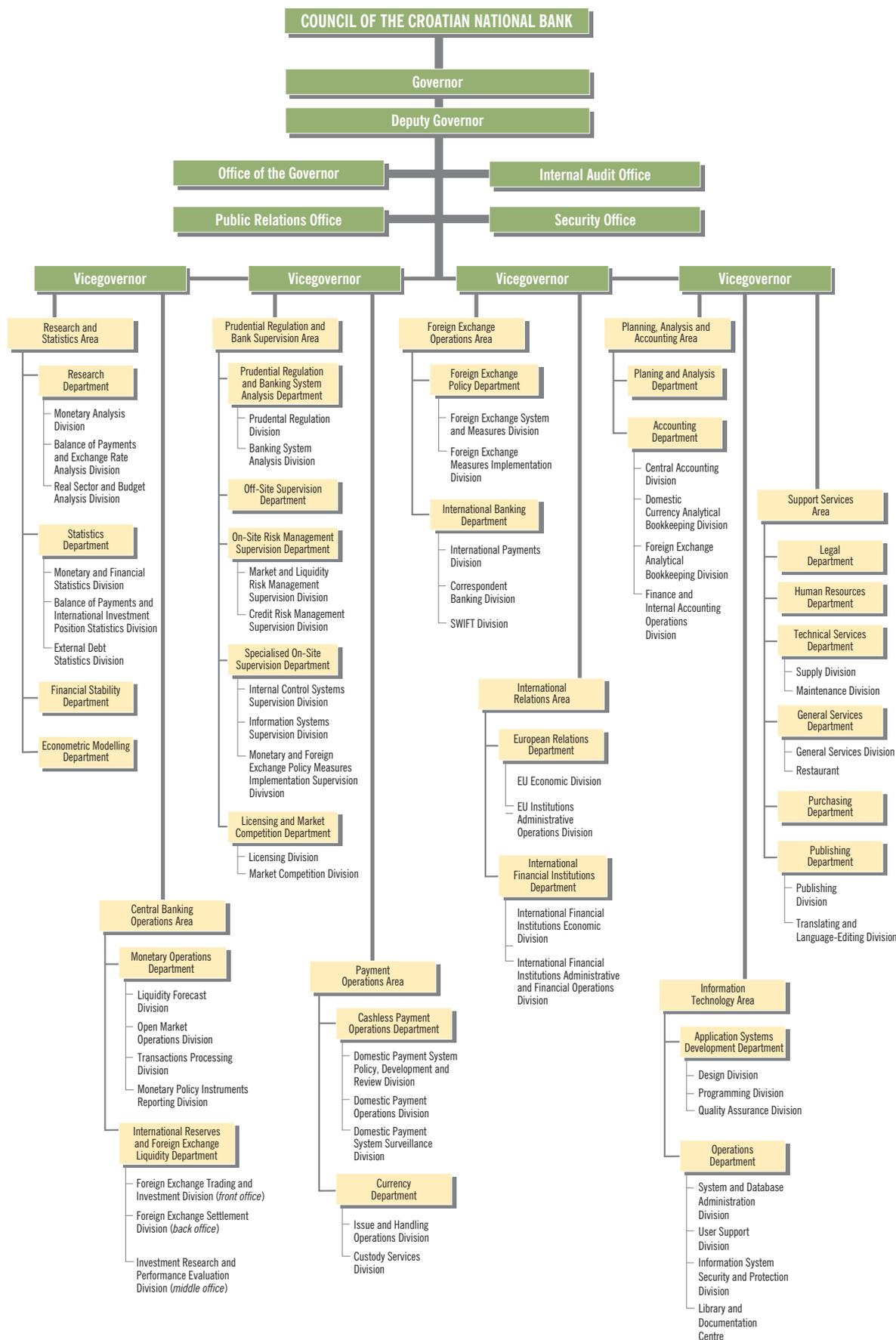
Management of the Croatian National Bank

ŽELJKO ROHATINSKI, Governor
BORIS VUJČIĆ, Deputy Governor
DAVOR HOLJEVAC, Vicegovernor
RELJA MARTIĆ, Vicegovernor
ADOLF MATEJKA, Vicegovernor
TOMISLAV PRESEČAN, Vicegovernor

Executive Directors

Research and Statistics Area – LJUBINKO JANKOV
Central Banking Operations Area – IRENA KOVAČEC
Foreign Exchange Operations Area –
Prudential Regulation and Bank Supervision Area – ŽELJKO JAKUŠ
Planing, Analysis and Accounting Area – DIANA JAKELIĆ
Payment Operations Area – NEVEN BARBAROŠA
Information Technology Area – MARIO ŽGELA
Support Services Area – BORIS NINIĆ
International Relations Area – MICHAEL FAULEND

Internal Organisation of the Croatian National Bank



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BANKA SONIC d.d.

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COMMERZBANK AKTIENGESELLSCHAFT, Zagreb

DEUTSCHE BANK AG, Zagreb

KOMERCIJALNA BANKA A.D., Zagreb

LHB INTERNATIONALE HANDELSBANK AG, Zagreb

SAN PAOLO IMI S.p.A., Zagreb

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Statistical Appendix

Classification and Presentation of Data on Claims and Liabilities

Data on financial institutions' claims and liabilities are classified according to institutional sectors and financial instruments. Institutional sectors are: financial institutions, central government and funds, other domestic sectors and foreign sector.

The financial institutions sector includes the following sub-sectors: monetary authorities (the central bank), banks, other banking institutions and non-banking financial institutions. The central bank is the Croatian National Bank (CNB). Banks are institutions to which the Croatian National Bank has issued a license to perform banking business services in accordance with the Banking Act, including savings banks during a transition period. Data on banks do not include claims and liabilities of banks undergoing bankruptcy proceedings, nor former branches of banks headquartered outside the Republic of Croatia. Other banking institutions comprise housing savings banks, savings and loan cooperatives and investment funds. Non-banking financial institutions are financial institutions not classified as banks or other banking institutions (for example insurance companies, pension funds).

The central government and funds consists of two sub-sectors, the Republic of Croatia and central government funds. Until December 2003, the sub-sector the Republic of Croatia included government authorities, including the Croatian Roads and the Croatian Motorways, 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 Administration, the Croatian Employment Service, the Croatian Privatisation Fund, the Croatian Waters and the Croatian Bank for Reconstruction and Development.

Since January 2004, the Croatian Roads, the Croatian Motorways, and the State Agency for Deposit Insurance and Bank Rehabilitation have been reclassified, from the 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
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	December	30,586.2	33,888.7	34,630.9	128,893.1	96,121.7	111,661.4	8.90	1.78	1.93	0.14	3.11	0.66
2004	December	33,924.4	34,562.1	35,186.5	139,947.7	108,205.1	127,308.6	8.69	2.86	2.68	0.23	2.15	1.99
2005	December	40,390.8	38,817.1	39,855.4	154,647.0	131,343.2	149,168.3	9.38	4.34	3.87	-0.02	1.84	1.94
2006	January	36,629.2	37,216.7	38,157.5	152,000.6	131,715.3	150,544.7	-9.31	-4.12	-4.26	-1.71	0.28	0.92
	February	36,484.1	37,169.6	38,104.0	151,719.7	134,057.4	152,635.8	-0.40	-0.13	-0.14	-0.18	1.78	1.39
	March	37,767.9	38,186.4	39,118.2	153,573.5	140,596.4	156,579.7	3.52	2.74	2.66	1.22	4.88	2.58
	April	38,079.2	39,222.7	40,055.6	155,073.1	143,428.3	159,083.2	0.82	2.71	2.40	0.98	2.01	1.60
	May	38,796.4	40,771.5	41,601.8	158,103.8	146,241.6	161,921.6	1.88	3.95	3.86	1.95	1.96	1.78
	June	41,644.9	42,226.5	42,853.9	163,106.8	149,113.2	164,644.0	7.34	3.57	3.01	3.16	1.96	1.68
	July	42,693.7	45,004.2	45,714.7	170,326.0	149,108.3	166,667.1	2.52	6.58	6.68	4.43	0.00	1.23
	August	42,209.3	44,993.8	45,802.5	174,210.4	148,688.1	168,830.8	-1.13	-0.02	0.19	2.28	-0.28	1.30
	September	42,368.1	44,047.0	44,822.7	176,751.9	151,194.8	172,299.2	0.38	-2.10	-2.14	1.46	1.69	2.05
	October	43,414.6	45,502.0	46,358.9	180,585.5	150,555.8	174,595.6	2.47	3.30	3.43	2.17	-0.42	1.33
	November	44,907.1	46,322.2	47,219.7	179,636.1	149,780.9	178,048.7	3.44	1.80	1.86	-0.53	-0.51	1.98
	December	46,331.2	48,521.0	49,141.7	182,458.6	154,844.1	183,379.5	3.17	4.75	4.07	1.57	3.38	2.99

* Domestic credit decreased by a one-off HRK 2,759.4m.

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

	2005	2006											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
ASSETS													
1. Foreign assets (net)	23,303.8	20,285.3	17,662.3	12,977.1	11,644.9	11,862.2	13,993.7	21,217.7	25,522.2	25,557.1	30,029.7	29,855.3	27,614.5
2. Domestic credit	168,427.7	169,161.7	171,790.0	178,596.6	180,793.7	183,671.9	188,399.2	188,521.9	189,902.8	193,614.0	193,687.2	197,259.8	200,328.9
2.1. Claims on central government and funds (net)	19,259.4	18,617.0	19,154.2	22,016.9	21,710.5	21,750.3	23,755.2	21,854.8	21,072.0	21,314.8	19,091.6	19,211.1	16,949.4
2.2. Claims on other domestic sectors	147,414.3	148,678.8	150,492.2	154,491.5	157,109.0	160,164.6	162,862.1	164,778.9	167,235.3	170,400.3	172,776.2	176,069.0	181,031.9
2.3. Claims on other banking institutions	592.2	587.9	574.8	493.7	519.5	461.0	442.3	529.2	437.9	434.7	676.8	820.6	1,029.5
2.4. Claims on non-banking financial institutions	1,161.8	1,278.0	1,568.7	1,594.5	1,454.7	1,296.0	1,339.5	1,359.0	1,157.6	1,464.2	1,142.6	1,159.0	1,318.1
Total (1+2)	191,731.5	189,447.0	189,452.2	191,573.8	192,438.5	195,534.1	202,392.9	209,739.6	215,425.1	219,171.1	223,716.9	227,115.1	227,943.3
LIABILITIES													
1. Money	38,817.1	37,216.7	37,169.6	38,186.4	39,222.7	40,771.5	42,226.5	45,004.2	44,993.8	44,047.0	45,502.0	46,322.2	48,521.0
2. Savings and time deposits	27,992.1	27,809.2	29,818.4	31,554.5	32,425.8	34,987.2	38,443.0	41,421.2	44,092.2	46,155.8	46,819.6	45,557.3	44,836.8
3. Foreign currency deposits	86,760.8	85,800.5	83,282.9	82,426.5	81,700.6	80,779.1	81,019.5	82,112.2	83,623.0	85,173.0	86,894.2	86,627.5	88,256.7
4. Bonds and money market instruments	1,077.0	1,174.2	1,448.8	1,406.1	1,724.0	1,566.1	1,417.9	1,788.4	1,501.4	1,376.0	1,369.7	1,129.2	844.1
5. Restricted and blocked deposits	2,092.3	2,192.1	2,392.5	2,379.2	2,283.9	2,032.8	2,292.7	2,326.5	2,477.5	2,603.8	2,608.7	4,847.2	2,504.5
6. Other items (net)	34,992.2	35,254.3	35,340.1	35,621.0	35,081.5	35,397.6	36,993.3	37,087.2	38,737.2	39,815.4	40,522.7	42,631.7	42,980.2
Total (1+2+3+4+5+6)	191,731.5	189,447.0	189,452.2	191,573.8	192,438.5	195,534.1	202,392.9	209,739.6	215,425.1	219,171.1	223,716.9	227,115.1	227,943.3

Table B1: Monetary Survey

The monetary survey shows consolidated data from the Monetary Authorities Accounts (Table C1) and Banks' Accounts (Table D1).

Foreign assets (net) are the difference between total foreign assets and total foreign liabilities of the CNB and banks.

Domestic credit is the sum of corresponding items from Monetary Authorities Accounts and Banks' Accounts. Claims on central government and funds are reported on a net basis, i.e. decreased by central government and funds' deposits with the CNB and banks.

Money is the sum of currency outside banks, deposits by other banking institutions with the CNB, deposits by other domestic sectors with the CNB and banks' demand deposits (item Demand deposits in Banks' Accounts, Table D1).

Items Savings and time deposits, Foreign currency deposits as well as Bonds and money market instruments are entirely taken over from the Banks' Accounts, while item Restricted and blocked deposits represents the sum of corresponding items from the Monetary Authorities Accounts (excluding banks' blocked deposits with the CNB) and Banks' Accounts. Other items (net) are unclassified liabilities decreased by unclassified assets.

Table B2: Number of Reporting Banks and Savings Banks and their Classification by Total Assets

Year	Month	Total number of reporting banks	Reporting banks classified according to their total assets						Total number of reporting savings banks	Savings banks classified according to their total assets		
			Less than 100 million kuna	100 million kuna to less than 500 million kuna	500 million kuna to less than 1 billion kuna	1 billion kuna to less than 2 billion kuna	2 billion kuna to less than 10 billion kuna	10 billion kuna and over		Less than 10 million kuna	10 million kuna to less than 100 million kuna	100 million kuna and over
1	2	3	4	5	6	7	8	9	10	11	12	13
1997	December	60	4	28	9	8	2		33	12	18	3
1998	December	60	3	26	8	11	10	2	33	4	25	4
1999	December	53	4	23	7	7	10	2	30	5	21	4
2000	December	45	3	15	9	6	10	2	29	5	19	5
2001	December	44	3	13	7	7	10	4	21	4	12	5
2002	December	46	4	13	7	9	8	5	10	3	5	2
2003	December	42	2	13	8	5	8	6	7	3	2	2
2004	December	39	1	12	9	6	5	6	6	3	3	–
2005	December	36	1	10	6	8	5	6	3	2	1	–
2006	January	36	1	10	8	6	5	6	3	2	1	–
	February	36	2	9	7	7	5	6	3	2	1	–
	March	36	2	9	8	6	5	6	3	2	1	–
	April	36	2	9	7	7	5	6	3	2	1	–
	May	36	2	9	8	6	5	6	3	2	1	–
	June	36	2	8	7	8	4	7	3	2	1	–
	July	35	2	7	5	9	5	7	3	2	1	–
	August	35	2	7	6	8	4	8	3	2	1	–
	September	35	2	7	7	7	4	8	3	2	1	–
	October	35	2	7	4	10	4	8	3	2	1	–
	November	35	2	7	5	9	4	8	3	2	1	–
	December	35	2	6	5	10	4	8	3	2	1	–

Table B2: Number of Reporting Banks and Savings Banks and their Classification by Total Assets

The table shows the total number of banks and savings banks during the transition period which report monthly to the CNB. Their operations are shown in the Banks' Accounts. Monetary statistics includes reporting institutions under liquidation and, until February 2005, institutions 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

	2005	2006											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
ASSETS													
1. Foreign assets	54,862.5	56,135.8	57,978.2	59,236.6	59,824.7	61,761.2	63,451.8	65,136.0	63,433.0	60,049.2	62,759.8	65,882.5	64,088.2
1.1. Gold	–	–	–	–	–	–	–	–	–	–	–	–	–
1.2. Holdings of SDRs	6.3	8.8	5.9	5.2	8.7	5.4	5.5	8.8	4.8	4.8	9.1	5.3	5.3
1.3. Reserve position in the IMF	1.4	1.4	1.4	1.4	1.4	1.3	1.4	1.4	1.4	1.4	1.4	1.3	1.3
1.4. Currency and demand deposits with foreign banks	7.7	8.2	9.6	8.3	8.4	8.8	9.2	9.3	8.1	7.8	8.5	7.6	7.2
1.5. Time deposits with foreign banks	28,274.1	29,480.1	30,903.6	32,260.2	33,440.1	34,264.7	35,296.1	35,954.3	34,061.7	30,723.0	31,738.6	33,270.4	33,243.0
1.6. Securities in f/c	26,573.0	26,637.3	27,057.6	26,961.5	26,366.1	27,480.9	28,139.6	29,162.2	29,357.1	29,312.1	31,002.2	32,597.8	30,831.2
1.7. Non-convertible foreign exchange	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Claims on central government and funds	1.4	0.2	0.6	–	0.0	–	–	–	–	–	–	–	0.9
2.1. Claims in kuna	1.4	0.2	0.6	–	0.0	–	–	–	–	–	–	–	0.9
2.2. Claims in f/c	–	–	–	–	–	–	–	–	–	–	–	–	–
3. Claims on other domestic sectors	73.4	73.4	73.4	73.4	73.4	73.4	73.4	73.4	73.4	73.4	73.4	73.4	64.0
4. Claims on banks	4,215.6	725.2	14.4	564.1	1,003.7	261.9	2,155.4	1,881.3	1,736.4	2,511.3	516.3	14.6	3,911.5
4.1. Credits to banks	4,215.6	725.2	14.4	564.1	1,003.7	261.9	2,155.4	1,881.3	1,736.4	2,511.3	516.3	14.6	3,911.5
Lombard credits	–	–	–	–	–	–	–	–	–	–	–	–	–
Short-term liquidity credits	–	–	–	–	–	–	–	–	–	–	–	–	–
Other credits	14.5	14.5	14.4	14.5	14.4	14.4	14.3	14.5	14.6	14.6	14.6	14.6	14.5
Reverse repo transactions	4,201.1	710.6	–	549.6	989.4	247.5	2,141.1	1,866.9	1,722.0	2,496.7	501.7	–	3,897.0
4.2. Overdue claims	–	–	–	–	–	–	–	–	–	–	–	–	–
5. Claims on other banking institutions	–												
Total (1+2+3+4+5)	59,153.0	56,934.6	58,066.6	59,874.1	60,901.9	62,096.4	65,680.6	67,090.7	65,242.8	62,633.9	63,349.5	65,970.4	68,064.6
LIABILITIES													
1. Reserve money	40,390.8	36,629.2	36,484.1	37,767.9	38,079.2	38,796.4	41,644.9	42,693.7	42,209.3	42,368.1	43,414.6	44,907.1	46,331.2
1.1. Currency outside banks	12,163.8	11,688.1	11,794.2	12,091.2	12,725.9	12,995.6	14,003.2	14,909.9	14,618.1	14,330.6	13,869.0	13,547.5	14,609.3
1.2. Banks' cash in vaults	2,210.7	1,835.4	1,971.3	1,942.0	2,059.2	1,874.9	2,685.5	2,448.0	2,240.0	2,244.4	2,107.4	2,138.9	2,698.0
1.3. Banks' deposits	26,016.3	23,105.7	22,718.6	23,734.7	23,294.1	23,925.8	24,956.2	25,335.8	25,351.2	25,793.1	27,438.2	29,220.7	29,023.9
Settlement accounts	8,411.1	5,983.4	5,153.3	5,740.0	5,357.8	5,591.9	6,223.4	6,291.8	6,039.5	6,315.2	6,767.3	7,807.0	8,535.7
Statutory reserves	17,605.2	17,081.3	17,103.3	17,354.7	17,854.4	18,222.9	18,595.8	18,874.0	19,274.1	19,457.9	19,783.9	20,147.7	20,478.2
CNB bills on obligatory basis	–	–	–	–	–	–	–	–	–	–	–	–	–
Overnight deposits	–	41.0	462.0	640.0	82.0	111.0	137.0	170.0	37.7	20.0	887.0	1,266.0	10.0
1.4. Deposits of other banking institutions	–	–	–	–	–	–	–	–	–	–	–	–	–
1.5. Deposits of other domestic sectors	–	–	–	–	–	–	–	–	–	–	–	–	–
2. Restricted and blocked deposits	13,551.8	14,697.8	16,127.7	17,366.6	18,346.5	19,131.5	19,831.8	20,136.8	17,996.5	14,890.2	14,504.3	15,544.2	16,633.5
2.1. Statutory reserve in f/c	13,495.9	14,634.9	16,052.6	17,306.0	18,326.7	19,108.0	19,808.7	20,107.6	17,951.5	14,833.3	14,445.8	15,485.9	16,576.7
2.2. Restricted deposits	55.9	62.9	75.1	60.6	19.8	23.4	23.1	29.1	45.0	56.9	58.5	58.3	56.9
2.3. Escrow deposits	–	–	–	–	–	–	–	–	–	–	–	–	–
3. Foreign liabilities	18.9	17.2	16.1	14.8	13.1	19.8	24.6	16.8	15.6	14.7	13.4	18.9	18.9
3.1. Use of IMF credit	–	–	–	–	–	–	–	–	–	–	–	–	–
3.2. Liabilities to international organisations	18.9	17.2	16.1	14.7	13.1	19.8	18.0	16.6	15.6	14.7	13.4	18.9	18.9
3.3. Liabilities to foreign banks	–	–	–	0.0	–	–	6.5	0.2	–	–	–	–	–
4. Central government and funds' deposits	332.2	926.7	852.4	162.7	538.7	444.2	249.8	221.4	560.7	245.8	302.3	758.9	188.0
4.1. Demand deposits	319.0	605.1	847.4	159.1	535.2	439.9	245.3	216.9	559.0	244.0	269.3	723.0	174.5
Central government demand deposits	246.3	579.3	743.8	117.2	475.7	323.0	183.6	170.1	457.6	218.5	146.6	693.7	138.6
Central government funds' demand deposits	72.7	25.8	103.5	41.8	59.5	116.9	61.7	46.9	101.4	25.5	122.7	29.3	35.9
4.2. Central government f/c deposits	13.2	321.6	5.0	3.6	3.5	4.3	4.5	4.5	1.8	1.8	33.0	36.0	13.5
4.3. CNB bills	–	–	–	–	–	–	–	–	–	–	–	–	–
5. CNB bills	–												
5.1. CNB bills in kuna	–	–	–	–	–	–	–	–	–	–	–	–	–
5.2. CNB bills in f/c	–	–	–	–	–	–	–	–	–	–	–	–	–
6. Capital accounts	5,357.4	5,158.9	5,084.9	5,060.0	4,436.2	4,216.0	4,447.6	4,539.9	4,977.3	5,629.3	5,631.7	5,258.0	5,408.8
7. Other items (net)	–498.2	–495.3	–498.7	–497.8	–511.9	–511.4	–518.1	–517.8	–516.6	–514.2	–516.8	–516.7	–515.8
Total (1+2+3+4+5+6+7)	59,153.0	56,934.6	58,066.6	59,874.1	60,901.9	62,096.4	65,680.6	67,090.7	65,242.8	62,633.9	63,349.5	65,970.4	68,064.6

Table C1: Monetary Authorities Accounts

The table reports data on claims and liabilities by monetary authorities.

Foreign assets include the following forms of foreign currency and kuna claims on foreign legal and natural persons: monetary gold, holdings of special drawing rights, foreign cash in vault, reserve position in the International Monetary Fund, current account balances with foreign banks, time deposits with foreign banks and accrued interest, foreign currency security investments and other claims.

Claims on central government and funds are loans and overdue claims on the budget of the Republic of Croatia. In accordance with the Croatian National Bank Act that entered into force in April 2001, the Croatian National Bank may not extend credit to the Republic of Croatia. Hence, this item comprises only overdue claims on the budget of the Republic of Croatia based on the payment system operations and the liabilities to the IMF and foreign banks.

Claims on other domestic sectors are loans and overdue claims on other domestic sectors, including banks in bankruptcy proceedings.

Claims on banks are credits to banks and overdue claims on banks. Credits to banks comprise Lombard credits, short-term liquidity credits, other credits and reverse repo transactions. Short-term liquidity credits, which have been granted since the beginning of 1999, also serve to bridge liquidity problems. Other credits include intervention credits, special credits for bridging liquidity problems granted in the past (initial credits, prerehabilitation credits), due but unpaid credits and banks' deposits with the CNB. From April 2005 on, reverse repo transactions are conducted on a weekly basis. Overdue claims comprise 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.

Reserve money consists of currency outside banks, cash in banks' vaults, banks' deposits with the CNB, other banking institutions' deposits and other domestic sectors' deposits with the CNB. Banks' deposits are: settlement account balances, statutory reserves deposited on a special account with the CNB (including, from March 2006, special reserve requirement on liabilities arising from issued securities), CNB bills on an obligatory basis and overnight deposits. Deposits by other domestic sectors are other domestic sectors' giro account balances which, on the basis of legal acts are deposited with the Croatian National Bank.

Restricted and blocked deposits include required foreign exchange reserves and accrued interest, restricted deposits and blocked foreign exchange deposits. Banks are required to set aside the reserve requirements against certain foreign exchange sources of funds and the marginal reserve requirements (from August 2004 on) in special accounts at the Croatian National Bank. Restricted deposits are kuna funds set aside on the basis of a court order or legal regulation. 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.

Table D1: Banks' Accounts

end of period, million kuna

	2005		2006											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	
ASSETS														
1. Reserves with the CNB	41,775.2	39,627.7	40,786.9	43,030.5	43,686.0	44,909.8	47,461.6	47,920.0	45,548.6	42,878.4	43,993.2	46,844.6	48,384.7	
1.1. In kuna	28,283.1	24,997.3	24,738.9	25,730.7	25,363.5	25,807.2	27,656.7	27,817.7	27,603.8	28,049.7	29,553.5	31,365.8	31,814.1	
1.2. In f/c	13,492.1	14,630.4	16,048.0	17,299.8	18,322.5	19,102.6	19,804.8	20,102.3	17,944.9	14,828.7	14,439.7	15,478.8	16,570.6	
2. Foreign assets	35,572.5	33,197.6	31,505.8	27,119.1	27,608.4	26,535.3	26,150.5	26,518.4	28,695.2	32,381.1	36,482.3	35,850.0	39,621.2	
3. Claims on central government and funds	28,877.2	28,401.1	28,851.8	31,084.2	31,048.8	31,116.1	33,198.1	31,154.5	31,173.4	31,326.9	29,361.3	30,266.5	27,936.8	
4. Claims on other domestic sectors	147,340.9	148,605.4	150,418.8	154,418.1	157,035.6	160,091.2	162,788.7	164,705.5	167,161.9	170,326.9	172,702.8	175,995.6	180,967.8	
4.1. Claims on local government	1,767.2	1,645.9	1,630.1	1,608.7	1,607.1	1,657.3	1,680.0	1,696.7	1,721.0	1,669.1	1,700.3	1,665.6	1,892.0	
4.2. Claims on enterprises	67,017.9	67,668.2	69,141.6	71,420.1	72,631.8	73,438.6	74,707.0	75,057.0	75,882.9	76,796.7	77,626.3	79,637.3	83,386.5	
4.3. Claims on households	78,555.7	79,291.4	79,647.1	81,389.3	82,796.6	84,995.4	86,401.7	87,951.8	89,558.0	91,861.1	93,376.1	94,692.7	95,689.3	
5. Claims on other banking institutions	592.2	587.9	574.8	493.7	519.5	461.0	442.3	529.2	437.9	434.7	676.8	820.6	1,029.5	
6. Claims on non-banking financial institutions	1,161.8	1,278.0	1,568.7	1,594.5	1,454.7	1,296.0	1,339.5	1,359.0	1,157.6	1,464.2	1,142.6	1,159.0	1,318.1	
Total (1+2+3+4+5+6)	255,319.8	251,697.7	253,706.9	257,740.1	261,352.9	264,409.4	271,380.7	272,186.6	274,174.6	278,812.1	284,359.0	290,936.4	299,258.1	
LIABILITIES														
1. Demand deposits	26,653.3	25,528.6	25,375.4	26,095.3	26,496.8	27,775.8	28,223.3	30,094.3	30,375.6	29,716.4	31,633.0	32,774.7	33,911.7	
2. Savings and time deposits	27,992.1	27,809.2	29,818.4	31,554.5	32,425.8	34,987.2	38,443.0	41,421.2	44,092.2	46,155.8	46,819.6	45,557.3	44,836.8	
3. Foreign currency deposits	86,760.8	85,800.5	83,282.9	82,426.5	81,700.6	80,779.1	81,019.5	82,112.2	83,623.0	85,173.0	86,894.2	86,627.5	88,256.7	
4. Bonds and money market instruments	1,077.0	1,174.2	1,448.8	1,406.1	1,724.0	1,566.1	1,417.9	1,788.4	1,501.4	1,376.0	1,369.7	1,129.2	844.1	
5. Foreign liabilities	67,112.3	69,030.8	71,805.7	73,363.8	75,775.2	76,414.4	75,584.1	70,420.0	66,590.4	66,858.5	69,198.9	71,858.3	76,076.0	
6. Central government and funds' deposits	9,287.0	8,857.7	8,845.7	8,904.6	8,799.6	8,921.6	9,193.1	9,078.2	9,540.6	9,766.3	9,967.4	10,296.5	10,800.4	
7. Credit from central bank	4,215.6	725.2	14.4	564.1	1,003.8	261.9	2,155.4	1,881.3	1,738.4	2,511.3	516.3	14.5	3,911.4	
8. Restricted and blocked deposits	2,036.4	2,129.2	2,317.4	2,318.6	2,264.1	2,009.3	2,269.6	2,297.4	2,432.5	2,546.9	2,550.2	4,789.0	2,447.6	
9. Capital accounts	32,665.7	32,994.5	33,220.9	33,276.9	33,692.9	34,273.6	35,475.1	35,856.1	36,982.1	37,553.3	37,978.3	40,157.7	40,805.1	
10. Other items (net)	-2,480.4	-2,352.2	-2,422.7	-2,170.2	-2,529.9	-2,579.6	-2,400.2	-2,762.4	-2,699.5	-2,845.5	-2,568.8	-2,268.1	-2,631.7	
Total (1+2+3+4+5+6+7+8+9+10)	255,319.8	251,697.7	253,706.9	257,740.1	261,352.9	264,409.4	271,380.7	272,186.6	274,174.6	278,812.1	284,359.0	290,936.4	299,258.1	

Table D1: Banks' Accounts

Banks' Accounts include data on banks' claims and liabilities. Banks' mutual claims and liabilities are consolidated.

Required reserves held at the central bank include kuna and foreign exchange reserves. Kuna reserves include vault cash and kuna funds held in accounts at the central bank. Foreign exchange reserves include foreign exchange held in accounts at the central bank.

Foreign assets are the following forms of kuna and foreign currency claims on foreign legal and natural persons: foreign cash in vaults, deposits with foreign banks (including loro letters of credit and other collateral), securities, loans, and equities.

Claims on central government and funds are the following forms of claims in kuna and foreign currency: securities and loans.

Claims on other domestic sectors include the following claims in kuna and foreign currency: money market instruments, bonds, loans (including acceptances), and equities.

The same forms of kuna and foreign currency claims are included in claims on other banking institutions and non-banking financial institutions, with one difference: Claims on other banking institutions also include deposits with those institutions.

Items Demand deposits, Savings and time deposits, Foreign currency deposits as well as Bonds and money market instruments comprise banks' liabilities to other domestic sectors, other banking institutions and non-banking financial institutions.

Demand deposits include giro and current accounts balances and banks' obligations arising from kuna payment instruments issued, minus currency in the payment system, i.e. checks in banks' vaults and checks in collection.

Savings and time deposits are kuna sight deposits as well as kuna time and notice deposits.

Foreign currency deposits are foreign currency sight deposits as well as foreign currency time and notice deposits.

Bonds and money market instruments are banks' liabilities for securities issued (net) and loans obtained. Issued subordinated and hybrid instruments, purchased by foreign investors, are excluded from this item.

Foreign liabilities comprise the following forms of kuna and foreign currency liabilities to foreign legal and natural persons: giro and current accounts, savings deposits (including loro letters of credit and other forms of collateral), time deposits, loans received and liabilities due. Issued 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, hedg-

ing reserves, unrealised gains (losses) from financial assets classified as available-for-sale assets, value adjustments and specific reserves for unidentified losses. Other items (net) are unclassified liabilities decreased by unclassified assets, including the fair value of derivative financial instruments.

Tables: D2 – D12

This group of tables (with the exception of Table D5) represents an elaborate presentation of appropriate items of claims and liabilities of Banks' Accounts (Table D1).

Table D2: Banks' Foreign Assets

end of period, million kuna

	2005	2006											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Foreign assets in t/c	35,457.9	33,106.0	31,413.4	26,999.3	27,188.9	26,266.3	25,693.2	26,132.1	28,289.1	32,196.7	36,317.9	35,691.3	39,454.5
1.1. Claims on foreign financial institutions	27,228.5	24,791.2	22,848.6	18,877.5	18,943.6	17,769.9	17,093.7	17,694.2	19,977.8	23,819.4	27,703.1	27,031.2	30,404.1
Foreign currencies	1,136.1	945.5	890.4	1,006.8	1,089.0	1,094.1	1,211.6	1,584.3	1,290.8	1,173.6	1,040.3	990.7	1,232.1
Demand deposits	860.2	890.1	916.5	761.9	865.1	819.4	1,109.1	1,483.7	1,066.0	1,004.9	758.5	780.1	870.1
Time and notice deposits	20,874.6	18,519.1	16,597.7	12,623.9	12,600.9	11,493.9	10,299.4	10,035.2	13,300.5	16,345.5	20,744.8	20,475.8	23,509.4
Securities	4,197.0	4,278.6	4,292.8	4,224.2	4,161.5	4,137.8	4,174.7	4,002.4	4,012.4	4,055.9	4,137.8	4,227.6	4,441.5
Loans and advances	152.9	150.1	143.4	253.0	219.4	217.0	287.4	576.9	296.3	1,227.6	1,009.9	545.2	339.2
Shares and participations	7.8	7.7	7.7	7.7	7.7	7.6	11.6	11.6	11.7	11.8	11.8	11.8	11.8
1.2. Claims on foreign non-banks	8,229.4	8,314.8	8,564.9	8,121.7	8,245.4	8,496.4	8,599.5	8,437.8	8,311.3	8,377.4	8,614.8	8,660.2	9,050.4
Claims on foreign governments	7,735.7	7,842.6	8,062.1	7,600.0	7,723.5	7,971.8	7,863.2	7,764.7	7,540.1	7,606.4	7,840.3	7,809.8	8,217.0
Claims on other non-residents	493.1	471.7	502.3	521.2	521.5	491.0	702.2	646.4	744.6	743.1	745.3	822.3	798.1
Securities	68.0	75.0	75.3	74.9	73.5	72.5	199.6	160.6	155.3	144.9	184.6	188.5	141.5
Loans and advances	425.2	396.6	427.1	446.3	448.1	418.5	502.6	485.8	589.3	598.2	560.7	633.8	656.6
Shares and participations	0.5	0.5	0.5	0.5	0.3	33.6	34.1	26.7	26.7	27.9	29.2	28.1	35.3
2. Foreign assets in kuna	114.6	91.5	92.4	119.9	419.4	269.0	457.2	386.3	406.1	184.3	164.4	158.7	166.7
2.1. Claims on foreign financial institutions	71.3	51.7	52.6	80.1	325.8	197.6	388.5	317.8	337.5	113.3	92.5	87.2	96.9
2.2. Claims on foreign non-banks	43.4	39.8	39.8	39.7	93.7	71.4	68.7	68.5	68.5	71.0	71.9	71.5	69.8
o/w: Loans and advances	42.6	39.0	38.9	38.8	92.9	70.8	68.1	67.9	67.9	70.4	71.3	70.9	69.2
Total (1+2)	35,572.5	33,197.6	31,505.8	27,119.1	27,608.4	26,535.3	26,150.5	26,518.4	28,695.2	32,381.1	36,482.3	35,850.0	39,621.2

Table D2: Banks' Foreign Assets

This table shows banks' claims on foreign legal and natural persons. Foreign assets of banks' comprise foreign assets in kuna and foreign currency.

Claims on foreign banks and Claims on foreign non-banks (total and by financial instruments) are shown separately within both foreign assets in kuna and in foreign currency.

Table D3: Banks' Claims on the Central Government and Funds

end of period, million kuna

	2005	2006											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. In kuna	20,532.7	20,174.8	20,704.3	20,324.0	20,473.6	20,790.3	23,239.2	22,549.4	22,562.0	22,706.1	20,713.9	22,183.8	22,703.0
1.1. Claims on central government	17,352.6	17,228.6	17,771.9	17,383.5	17,138.4	17,019.7	19,286.5	19,344.9	19,195.6	19,103.4	17,114.5	18,489.4	18,361.2
Securities	16,037.7	15,488.9	15,947.1	15,920.9	15,535.7	15,366.0	14,996.2	15,492.7	15,340.7	15,259.6	14,148.9	15,439.4	14,546.7
o/w: Bonds (c'part to f/c savings deposits)	20.6	22.1	21.5	21.3	21.8	21.1	5.8	7.9	7.6	6.9	7.1	9.3	8.3
Loans and advances	1,314.9	1,739.8	1,824.8	1,462.6	1,602.7	1,653.6	4,290.3	3,852.2	3,854.8	3,843.8	2,965.6	3,050.0	3,814.5
1.2. Claims on central government funds	3,180.1	2,946.2	2,932.5	2,940.5	3,335.2	3,770.6	3,952.8	3,204.5	3,366.5	3,602.6	3,599.4	3,694.5	4,341.9
Securities	–	–	–	–	–	–	3.6	5.5	–	–	–	–	–
Loans and advances	3,180.1	2,946.2	2,932.5	2,940.5	3,335.2	3,770.6	3,949.2	3,199.0	3,366.5	3,602.6	3,599.4	3,694.5	4,341.9
2. In f/c	8,344.5	8,226.3	8,147.4	10,760.2	10,575.1	10,325.8	9,958.9	8,605.1	8,611.3	8,620.8	8,647.4	8,082.7	5,233.8
2.1. Claims on central government	7,241.0	7,129.9	7,058.7	9,693.9	9,528.2	9,427.5	9,295.7	7,965.2	7,980.4	8,081.0	8,114.4	7,556.3	4,624.4
Securities	1,248.1	1,175.4	1,138.2	826.4	762.9	683.6	553.7	483.6	481.6	458.9	473.3	441.5	429.0
Loans and advances	5,992.8	5,954.5	5,920.5	8,867.5	8,765.3	8,743.9	8,742.0	7,481.5	7,498.8	7,622.1	7,641.0	7,114.8	4,195.4
2.2. Claims on central government funds	1,103.5	1,096.4	1,088.7	1,066.3	1,046.9	898.3	663.2	639.9	630.9	539.8	533.0	526.4	609.4
Securities	144.2	151.1	149.7	126.1	114.2	114.0	112.8	112.5	102.4	103.5	103.1	98.9	109.2
Loans and advances	959.3	945.3	939.0	940.2	932.7	784.2	550.4	527.4	528.5	436.3	429.9	427.5	500.2
Total (1+2)	28,877.2	28,401.1	28,851.8	31,084.2	31,048.8	31,116.1	33,198.1	31,154.5	31,173.4	31,326.9	29,361.3	30,266.5	27,936.8

Table D3: Banks' Claims on the Central Government and Funds

The table shows banks' kuna and foreign currency claims on the central government and funds. The item Securities, shown under Claims

in kuna on the Republic of Croatia, also comprises bonds arising from blocked foreign currency savings deposits issued in accordance with the Act on Converting Households' Foreign Exchange Deposits into the Public Debt of the Republic of Croatia.

Table D4: Banks' Claims on Other Domestic Sectors

end of period, million kuna

	2005	2006											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Claims in kuna	133,603.5	137,075.3	136,339.5	140,195.6	142,838.9	145,915.4	148,311.5	150,417.4	152,564.5	155,587.9	158,202.1	161,838.2	166,755.1
1.1. Money market instruments	2,329.9	2,313.6	2,347.5	2,513.3	2,544.4	2,547.6	1,724.2	1,777.0	1,706.7	1,685.6	1,728.6	1,772.1	1,980.7
1.2. Bonds	361.6	355.0	349.1	412.9	455.0	510.2	838.0	872.1	795.0	801.9	822.8	926.4	1,088.8
1.3. Loans and advances	128,882.3	132,398.6	131,588.4	135,172.6	137,701.1	140,780.8	143,505.0	145,681.1	147,981.8	151,017.7	153,685.4	157,142.6	161,694.2
1.4. Shares and participations	2,029.6	2,008.1	2,054.5	2,096.8	2,138.3	2,076.7	2,244.2	2,087.2	2,080.9	2,082.7	1,965.4	1,997.2	1,991.4
2. Claims in f/c	13,737.4	11,530.1	14,079.3	14,222.5	14,196.6	14,175.9	14,477.2	14,288.1	14,597.4	14,739.0	14,500.7	14,157.4	14,212.8
2.1. Securities	307.6	333.9	340.8	331.6	345.7	334.0	124.5	69.6	65.9	86.2	79.1	226.9	221.1
2.2. Loans and advances	13,429.8	11,196.2	13,738.6	13,890.9	13,850.9	13,841.9	14,352.7	14,218.6	14,531.5	14,652.8	14,421.6	13,930.5	13,991.6
Total (1+2)	147,340.9	148,605.4	150,418.8	154,418.1	157,035.6	160,091.2	162,788.7	164,705.5	167,161.9	170,326.9	172,702.8	175,995.6	180,967.8

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.

Table D5: Distribution of Banks' Loans by Domestic Institutional Sectors

end of period, million kuna

	2005	2006											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
LOANS IN KUNA													
1. Loans to central government and funds	4,495.0	4,686.0	4,757.3	4,403.1	4,937.9	5,424.2	8,239.4	7,051.2	7,221.3	7,446.4	6,565.0	6,744.4	8,156.4
1.1. Loans to central government	1,314.9	1,739.8	1,824.8	1,462.6	1,602.7	1,653.6	4,290.3	3,852.2	3,854.8	3,843.8	2,965.6	3,050.0	3,814.5
1.2. Loans to central government funds	3,180.1	2,946.2	2,932.5	2,940.5	3,335.2	3,770.6	3,949.2	3,199.0	3,366.5	3,602.6	3,599.4	3,694.5	4,341.9
2. Loans to local government	1,613.9	1,577.0	1,562.9	1,541.0	1,520.9	1,563.0	1,581.4	1,568.8	1,591.6	1,534.2	1,558.2	1,528.7	1,720.3
3. Loans to enterprises	49,105.9	51,856.6	50,780.4	52,667.1	53,769.9	54,616.7	55,911.1	56,551.2	57,226.0	58,014.4	59,122.0	61,291.4	64,666.3
4. Loans to households	78,162.4	78,965.0	79,245.1	80,964.6	82,410.3	84,601.1	86,012.5	87,561.2	89,164.2	91,469.1	93,005.1	94,322.5	95,307.6
o/w: Housing loans	27,571.1	28,119.3	28,514.0	29,498.7	30,214.0	31,157.8	31,925.4	32,771.0	33,734.6	34,709.0	35,584.7	36,216.8	36,927.3
5. Loans to other banking institutions	46.5	31.9	30.9	36.4	91.0	76.5	48.3	72.0	56.5	50.5	307.3	414.4	304.4
6. Loans to non-banking financial institutions	591.8	630.5	729.1	1,100.6	943.6	852.4	732.4	753.6	565.1	839.8	636.3	751.7	854.4
A. Total (1+2+3+4+5+6)	134,015.6	137,747.0	137,105.7	140,712.7	143,673.6	147,134.0	152,525.2	153,557.9	155,824.8	159,354.4	161,194.0	165,053.0	171,009.4
LOANS IN F/C													
1. Loans to central government and funds	6,952.1	6,899.8	6,859.5	9,807.8	9,698.0	9,528.2	9,292.4	8,008.9	8,027.3	8,058.4	8,070.9	7,542.3	4,695.6
1.1. Loans to central government	5,992.8	5,954.5	5,920.5	8,867.5	8,765.3	8,743.9	8,742.0	7,481.5	7,498.8	7,622.1	7,641.0	7,114.8	4,195.4
1.2. Loans to central government funds	959.3	945.3	939.0	940.2	932.7	784.2	550.4	527.4	528.5	436.3	429.9	427.5	500.2
2. Loans to local government	63.0	18.7	18.6	18.6	18.5	18.5	18.4	11.2	11.3	11.4	11.4	11.3	11.3
3. Loans to enterprises	12,973.5	10,851.1	13,318.0	13,447.6	13,446.1	13,429.2	13,945.0	13,816.7	14,126.4	14,249.5	14,039.3	13,549.0	13,598.5
4. Loans to households	393.3	326.4	402.0	424.7	386.3	394.3	389.3	390.7	393.8	391.9	371.0	370.2	381.8
5. Loans to other banking institutions	19.9	–	14.6	–	–	–	21.8	100.5	7.3	7.6	26.1	66.1	68.1
6. Loans to non-banking financial institutions	512.3	589.0	746.5	396.0	435.3	359.3	518.2	509.2	481.3	535.8	411.1	311.3	360.5
B. Total (1+2+3+4+5+6)	20,914.1	18,685.0	21,359.3	24,094.7	23,984.3	23,729.4	24,185.0	22,837.3	23,047.4	23,254.7	22,929.8	21,850.3	19,115.9
TOTAL (A+B)	154,929.7	156,432.0	158,465.0	164,807.5	167,657.8	170,863.4	176,710.2	176,395.2	178,872.1	182,609.1	184,123.7	186,903.3	190,125.3

Table D5: Distribution of Banks' Loans by Domestic Institutional Sectors

The table shows data on kuna and foreign currency loans granted by banks to domestic sectors, including acceptances, financial

leases, payments made on the basis of guarantees and similar instruments, purchased claims, and until December 2003 factoring and forfaiting.

Table D6: Demand Deposits with Banks

end of period, million kuna

	2005	2006											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Local government	1,688.7	1,507.7	1,408.7	1,300.2	1,561.3	1,596.6	1,446.1	1,417.0	1,726.2	1,508.4	1,649.1	1,847.2	1,803.8
2. Enterprises	13,344.2	12,365.7	11,880.8	12,381.7	12,199.8	12,670.2	12,642.9	13,898.4	13,824.6	13,616.7	14,287.4	14,600.9	16,668.6
3. Households	10,728.3	10,717.6	11,058.9	11,395.0	11,836.4	12,506.2	13,217.8	13,577.3	13,641.2	13,628.2	13,816.6	13,366.6	14,257.8
4. Other banking institutions	322.1	282.8	343.1	360.8	307.1	366.1	296.9	456.3	400.0	331.1	439.2	728.8	485.1
5. Non-banking financial institutions	571.3	656.0	685.2	658.5	593.5	637.8	621.3	746.6	785.2	633.3	1,441.8	2,232.4	697.6
6. Less: Checks of other banks and checks in collection	-1.3	-1.2	-1.3	-0.9	-1.2	-1.2	-1.8	-1.3	-1.6	-1.3	-1.1	-1.3	-1.2
Total (1+2+3+4+5+6)	26,653.3	25,528.6	25,375.4	26,095.3	26,496.8	27,775.8	28,223.3	30,094.3	30,375.6	29,716.4	31,633.0	32,774.7	33,911.7

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 bank-

ing 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.

Table D7: Time and Savings Deposits with Banks

end of period, million kuna

	2005	2006											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Savings deposits	2,493.6	2,524.0	2,576.5	2,580.3	2,584.8	2,559.5	2,685.8	2,891.3	2,979.0	2,877.0	2,765.4	2,678.5	2,905.6
1.1. Local government	2.7	3.3	3.1	4.1	3.8	3.4	3.4	3.4	3.6	3.5	3.6	3.7	2.8
1.2. Enterprises	101.6	114.3	110.5	120.4	125.4	111.2	115.4	170.5	179.6	193.1	77.8	75.8	110.3
1.3. Households	2,388.3	2,406.4	2,462.9	2,455.9	2,455.6	2,444.9	2,567.0	2,717.4	2,795.8	2,676.4	2,684.0	2,598.9	2,792.4
1.4. Other banking institutions	-	-	-	-	-	-	-	-	-	-	-	-	-
1.5. Non-banking financial institutions	1.0	0.0	-	-	-	-	-	-	0.0	4.1	0.0	0.0	0.0
2. Time and notice deposits	25,498.4	25,285.2	27,241.9	28,974.2	29,841.0	32,427.6	35,757.2	38,529.9	41,113.2	43,278.8	44,054.2	42,878.8	41,931.3
2.1. Local government	508.7	665.1	712.8	778.5	774.0	827.5	850.0	951.0	931.1	1,008.9	1,049.0	964.2	491.8
2.2. Enterprises	8,222.5	7,517.1	9,508.9	9,887.6	10,189.4	11,278.9	12,850.8	13,793.3	14,476.3	14,708.8	14,809.5	15,097.1	14,715.4
2.3. Households	13,254.9	13,739.6	14,033.3	14,507.4	14,898.3	15,835.6	17,037.6	18,854.9	20,609.4	22,049.9	21,679.2	21,140.8	20,755.0
2.4. Other banking institutions	931.9	1,058.4	597.7	935.9	758.4	1,056.0	1,233.9	1,246.3	1,289.6	1,581.1	1,957.2	1,685.5	2,697.9
2.5. Non-banking financial institutions	2,580.4	2,304.9	2,389.3	2,864.7	3,221.0	3,429.7	3,784.9	3,684.4	3,806.8	3,930.0	4,559.3	3,991.1	3,271.3
Total (1+2)	27,992.1	27,809.2	29,818.4	31,554.5	32,425.8	34,987.2	38,443.0	41,421.2	44,092.2	46,155.8	46,819.6	45,557.3	44,836.8

Table D7: Time and Savings Deposits with Banks

The table shows kuna savings and time deposits by other domestic sectors, other banking institutions and non-banking financial institutions with banks.

Table D8: Foreign Currency Deposits with Banks

end of period, million kuna

	2005	2006											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Savings deposits	22,641.0	22,376.0	22,084.2	21,770.9	21,336.6	21,534.0	21,866.3	22,807.4	23,506.1	23,790.7	23,718.7	22,743.6	22,698.6
1.1. Local government	11.9	10.6	11.3	10.7	10.5	10.6	18.0	16.6	16.7	16.8	17.0	17.0	30.8
1.2. Enterprises	4,408.3	4,274.5	4,282.1	4,083.8	3,720.3	3,998.1	4,378.8	4,879.8	4,945.2	4,861.9	4,991.3	4,477.5	4,589.7
1.3. Households	17,933.6	17,673.0	17,555.1	17,500.3	17,329.3	17,247.5	17,196.2	17,645.7	18,201.9	18,527.3	18,181.8	17,605.4	17,609.9
1.4. Other banking institutions	116.0	126.1	79.3	33.5	36.2	85.5	80.9	61.7	89.1	171.5	261.3	250.6	276.7
1.5. Non-banking financial institutions	171.3	291.9	156.4	142.5	240.3	192.2	192.4	203.7	253.2	213.2	267.4	393.1	191.4
2. Time deposits	64,119.7	63,424.5	61,198.7	60,655.7	60,364.0	59,245.1	59,153.1	59,304.7	60,116.9	61,382.4	63,175.5	63,883.9	65,558.1
2.1. Local government	3.2	3.1	2.1	2.0	2.0	1.9	2.0	1.9	1.9	2.0	2.0	1.9	1.9
2.2. Enterprises	8,154.2	7,725.7	5,916.9	5,807.5	5,772.2	5,201.7	5,316.5	5,522.5	5,919.3	6,336.5	6,904.7	7,038.1	7,086.2
2.3. Households	55,036.1	54,966.0	54,645.2	54,312.5	54,038.9	53,509.6	53,303.1	53,038.6	53,105.2	53,860.0	55,015.6	55,757.2	57,210.8
2.4. Other banking institutions	242.0	233.4	242.0	137.8	105.6	104.1	75.9	193.5	254.1	241.1	259.6	193.7	366.2
2.5. Non-banking financial institutions	684.2	496.3	392.5	395.7	445.4	427.8	455.7	548.2	836.4	942.7	993.7	893.0	892.9
Total (1+2)	86,760.8	85,800.5	83,282.9	82,426.5	81,700.6	80,779.1	81,019.5	82,112.2	83,623.0	85,173.0	86,894.2	86,627.5	88,256.7

Table D8: Foreign Currency Deposits with Banks

The table shows foreign currency savings and time deposits by other domestic sectors, other banking institutions and non-banking

financial institutions with banks. Foreign currency savings deposits are all foreign currency sight deposits and foreign currency payment instruments issued while foreign currency time deposits also include foreign currency notice deposits.

Table D9: Bonds and Money Market Instruments

end of period, million kuna

	2005	2006											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Money market instruments (net)	–	–	–	–	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
2. Bonds (net)	164.9	170.4	603.4	593.9	529.2	480.0	407.7	417.3	374.5	373.3	351.3	340.9	340.9
3. Other domestic borrowing	912.1	1,003.8	845.4	812.1	1,194.0	1,085.3	1,009.4	1,370.3	1,126.1	1,001.9	1,017.6	787.5	502.5
3.1. Local government	–	–	–	–	–	–	–	–	–	–	–	–	–
3.2. Enterprises	40.8	51.4	44.0	41.0	41.0	40.9	40.9	41.0	41.0	41.0	41.1	0.1	0.0
3.3. Other banking institutions	828.1	675.6	547.4	652.6	849.1	741.4	865.2	1,036.8	795.7	867.0	710.4	572.4	492.8
3.4. Non-banking financial institutions	43.2	276.8	254.0	118.6	303.9	303.0	103.2	292.5	289.4	94.0	266.0	215.0	9.6
Total (1+2+3)	1,077.0	1,174.2	1,448.8	1,406.1	1,724.0	1,566.1	1,417.9	1,788.4	1,501.4	1,376.0	1,369.7	1,129.2	844.1

Table D9: Bonds and Money Market Instruments

The table shows banks' liabilities for securities issued (net) and loans received from other domestic sectors, other banking institutions and non-banking financial institutions.

Money market instruments (net) comprise banks' net liabilities for CNB bills, bills of exchange (issued and accepted) and other securities issued.

Bonds (net) comprise banks' net liabilities for kuna and foreign currency bonds issued, as well as issued subordinated and hybrid instruments, excluding those purchased by foreign investors.

Other domestic borrowing comprises loans received, reported total and classified by institutional sectors.

Table D10: Banks' Foreign Liabilities

end of period, million kuna

	2005	2006											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Foreign liabilities in t/c	52,073.3	53,283.7	55,352.2	55,271.5	56,502.4	56,820.1	54,219.8	50,037.7	48,260.0	48,258.8	50,069.4	50,875.4	55,114.3
1.1. Liabilities to foreign financial institutions	45,747.7	47,018.3	49,027.6	48,921.5	50,229.2	50,577.8	47,896.6	43,721.7	41,952.4	41,894.4	43,483.4	44,551.6	48,561.3
Demand deposits	156.3	101.6	121.8	113.0	125.3	107.0	298.6	100.4	127.1	129.1	105.1	108.6	195.0
Time and notice deposits	12,523.1	12,139.7	12,472.9	13,456.2	14,052.7	14,778.0	14,326.6	12,242.0	11,794.2	11,927.9	12,989.1	14,661.1	12,174.1
Loans and advances	29,775.6	31,482.7	33,161.4	32,073.1	32,786.0	32,446.5	30,029.5	28,136.6	26,763.1	26,536.5	27,093.6	26,494.8	32,903.9
o/w: Subordinated and hybrid instruments	1,167.4	1,164.8	1,156.6	1,159.1	935.3	782.6	781.8	781.9	788.0	795.3	793.9	790.1	820.7
Bonds	3,292.6	3,294.3	3,271.5	3,279.2	3,265.2	3,246.3	3,241.9	3,242.7	3,268.1	3,300.9	3,295.6	3,287.2	3,288.3
1.2. Liabilities to foreign non-banks	6,325.6	6,265.4	6,324.7	6,350.0	6,273.2	6,242.3	6,323.2	6,316.0	6,307.6	6,364.4	6,585.9	6,323.7	6,553.0
Savings and time deposits	5,846.3	5,851.9	5,912.9	5,940.7	5,867.0	5,837.1	5,918.4	5,956.5	5,945.5	6,000.4	6,222.5	5,963.7	6,192.4
Sight deposits	1,172.9	1,158.2	1,209.8	1,246.6	1,217.2	1,231.1	1,311.4	1,343.5	1,311.9	1,352.1	1,549.3	1,374.8	1,635.8
Time and notice deposits	4,673.4	4,693.8	4,703.2	4,694.2	4,649.8	4,606.0	4,607.0	4,612.9	4,633.7	4,648.2	4,673.2	4,588.9	4,556.7
Loans and advances	479.3	413.5	411.7	409.3	406.2	405.2	404.8	359.5	362.0	364.0	363.5	360.0	360.5
o/w: Subordinated and hybrid instruments	–	–	–	–	–	–	–	–	–	–	–	–	–
2. Foreign liabilities in kuna	15,039.1	15,747.1	16,453.5	18,092.3	19,272.7	19,594.3	21,364.3	20,382.3	18,330.3	18,599.6	19,129.6	20,982.9	20,961.8
2.1. Liabilities to foreign financial institutions	14,099.6	14,802.8	15,495.0	17,265.4	18,394.3	18,678.3	20,387.0	19,312.6	17,485.8	17,697.4	18,101.2	20,035.7	20,087.0
Demand deposits	179.6	172.1	298.4	353.1	338.7	435.4	520.4	490.9	501.8	538.9	1,029.8	2,118.9	1,438.1
Time and notice deposits	6,979.5	7,557.4	8,176.2	8,788.0	8,879.2	9,089.3	9,122.2	8,629.4	8,110.7	8,223.7	8,143.9	9,021.0	11,198.8
Loans and advances	6,940.5	7,073.3	7,020.4	8,124.3	9,176.4	9,153.5	10,744.4	10,192.2	8,873.3	8,934.8	8,927.6	8,895.8	7,450.2
o/w: Subordinated and hybrid instruments	405.7	404.8	401.9	402.8	401.0	399.5	399.1	399.2	402.3	406.0	405.3	403.3	404.0
2.2. Liabilities to foreign non-banks	939.5	944.3	958.4	826.9	878.5	916.0	977.3	1,069.8	844.5	902.2	1,028.3	947.2	874.8
Demand deposits	180.3	185.9	212.5	221.7	252.9	254.1	311.6	382.5	146.4	192.5	281.9	324.1	170.1
Time and notice deposits	755.2	754.4	742.0	601.3	621.6	658.0	661.7	683.3	694.2	709.7	746.5	621.6	703.3
Loans and advances	4.0	4.0	3.9	4.0	3.9	3.9	3.9	3.9	3.9	–	–	1.4	1.4
o/w: Subordinated and hybrid instruments	4.0	4.0	3.9	4.0	3.9	3.9	3.9	3.9	3.9	–	–	1.4	1.4
Total (1+2)	67,112.3	69,030.8	71,805.7	73,363.8	75,775.2	76,414.4	75,584.1	70,420.0	66,590.4	66,858.5	69,198.9	71,858.3	76,076.0

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, liabilities to foreign banks are reported separately from liabilities to foreign non-banks (total and by financial instruments). Loans and advances also include issued subordinated and hybrid instruments purchased by foreign investors.

Table D11: Central Government and Funds' Deposits with Banks

end of period, million kuna

	2005	2006											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. In kuna	7,596.1	7,379.5	7,502.7	7,717.3	7,870.8	7,954.0	8,332.7	8,094.9	8,403.2	8,729.5	8,802.8	8,809.8	9,030.0
1.1. Central government deposits	605.0	565.4	508.0	549.3	496.1	470.1	433.5	444.1	468.8	461.7	526.4	566.3	497.5
Demand deposits	458.1	420.5	381.6	419.4	368.2	331.3	301.4	308.7	334.2	351.1	393.1	430.2	366.2
Savings deposits	1.8	1.3	1.3	1.3	1.6	1.5	1.4	1.9	1.9	1.9	1.6	2.3	2.1
Time and notice deposits	144.0	142.5	124.1	127.6	125.3	136.3	129.6	132.5	131.6	107.6	130.6	132.8	128.1
Loans and advances	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
1.2. Central government funds' deposits	6,991.1	6,814.1	6,994.7	7,168.0	7,374.6	7,483.9	7,899.2	7,650.7	7,934.4	8,267.8	8,276.4	8,243.6	8,532.6
Demand deposits	580.2	520.4	552.8	512.4	464.7	499.0	326.0	401.8	474.5	424.5	463.8	467.3	254.6
Savings deposits	1.9	1.9	12.0	10.2	10.2	10.2	10.2	10.2	10.2	10.2	20.2	24.6	14.6
Time and notice deposits	251.7	156.5	117.0	232.1	239.6	183.0	339.0	205.0	338.9	299.6	286.1	218.8	496.7
Loans and advances	6,157.3	6,135.3	6,312.8	6,413.3	6,660.1	6,791.6	7,224.0	7,033.7	7,110.9	7,533.5	7,506.3	7,532.9	7,766.7
2. In f/c	1,690.9	1,478.2	1,343.0	1,187.3	928.8	967.6	860.4	983.4	1,137.4	1,036.8	1,164.6	1,486.6	1,770.4
2.1. Central government deposits	906.2	656.5	706.4	768.7	695.3	634.7	680.0	532.0	512.6	641.2	625.1	777.3	811.7
Savings deposits	340.6	213.4	263.1	287.7	233.0	192.9	228.9	188.0	167.0	221.1	206.9	412.3	264.8
Time and notice deposits	38.7	37.1	32.6	77.0	75.3	65.3	65.3	65.3	67.6	136.1	135.9	93.3	275.0
Refinanced loans and advances	527.0	406.1	410.7	404.1	387.0	376.5	385.8	278.8	278.0	284.0	282.3	271.7	271.9
2.2. Central government funds' deposits	784.7	821.7	636.6	418.6	233.5	332.9	180.3	451.4	624.8	395.5	539.5	709.3	958.6
Savings deposits	139.4	107.8	104.6	126.4	138.7	125.0	144.1	106.6	110.6	107.7	201.2	220.2	93.4
Time and notice deposits	25.8	–	–	–	21.9	207.9	–	344.8	433.8	96.0	98.7	212.7	356.2
Loans and advances	619.6	713.9	532.0	292.2	72.9	–	36.3	–	80.5	191.9	239.5	276.5	509.0
Total (1+2)	9,287.0	8,857.7	8,845.7	8,904.6	8,799.6	8,921.6	9,193.1	9,078.2	9,540.6	9,766.3	9,967.4	10,296.5	10,800.4

Table D11: Central Government and Funds' Deposits with Banks

The table reports total banks' kuna and foreign currency liabilities to the central government and funds, with the exception of restricted (kuna and foreign currency) deposits by the central government and funds with banks.

Kuna and foreign currency deposits by the Republic of Croatia and central government funds are shown separately. Kuna deposits comprise demand deposits, savings deposits, time and notice deposits, and loans obtained from the central government and funds. Foreign currency deposits comprise savings deposits, time and notice deposits, and refinanced loans.

Table D12: Restricted and Blocked Deposits with Banks

end of period, million kuna

	2005	2006											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Restricted deposits	2,036.4	2,129.2	2,317.4	2,318.6	2,264.1	2,009.3	2,269.6	2,297.4	2,432.5	2,546.9	2,550.2	4,789.0	2,447.6
1.1. In Kuna	1,277.1	1,216.0	1,384.9	1,338.1	1,359.4	1,356.7	1,328.1	1,439.1	1,526.1	1,472.7	1,530.7	3,510.4	1,427.0
1.2. In f/c	759.3	913.2	932.5	980.5	904.7	652.7	941.6	858.3	906.4	1,074.3	1,019.5	1,278.5	1,020.5
2. Blocked f/c deposits of households	–												
Total (1+2)	2,036.4	2,129.2	2,317.4	2,318.6	2,264.1	2,009.3	2,269.6	2,297.4	2,432.5	2,546.9	2,550.2	4,789.0	2,447.6

Table D12: Restricted and Blocked Deposits with Banks

The table shows households' restricted deposits (kuna and foreign currency) and blocked deposits.

Blocked foreign currency deposits include households' foreign currency deposits regulated by the Act on Converting Households' Foreign Exchange Deposits into the Public Debt of the Republic of Croatia.

Table E1: Housing Savings Banks' Accounts

end of period, million kuna

	2005	2006											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
ASSETS													
1. Reserves with the CNB	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Claims on central government and funds	4,274.3	4,387.3	4,744.1	4,631.6	4,516.5	4,462.8	4,435.7	4,462.5	4,545.6	4,524.8	4,630.2	4,617.8	4,674.8
3. Claims on other domestic sectors	575.5	606.7	655.7	718.3	779.5	857.9	925.3	993.4	1,056.1	1,128.2	1,190.4	1,234.4	1,296.0
o/w: Claims on households	575.5	606.7	655.7	718.3	779.5	857.9	925.3	993.4	1,056.1	1,128.2	1,190.4	1,234.4	1,296.0
4. Claims on banks	994.4	827.3	247.1	187.3	139.1	114.6	130.4	94.6	96.3	91.2	106.9	96.8	181.4
5. Claims on other banking institutions	-	-	-	-	-	-	-	-	-	-	-	-	-
Total (1+2+3+4+5)	5,844.2	5,821.3	5,646.8	5,537.3	5,435.1	5,435.3	5,491.4	5,550.6	5,698.1	5,744.1	5,927.5	5,949.0	6,152.3
LIABILITIES													
1. Time deposits	5,514.7	5,521.4	5,372.6	5,326.5	5,287.9	5,239.5	5,239.5	5,242.0	5,306.8	5,387.0	5,580.2	5,560.5	5,803.6
2. Bonds and money market instruments	10.3	10.3	10.2	10.3	10.2	10.2	60.9	61.0	61.4	62.0	61.9	61.6	61.7
3. Capital accounts	258.0	252.0	247.4	202.0	159.0	176.1	168.3	211.8	248.7	240.1	241.0	267.0	244.7
4. Other items (net)	61.1	37.5	16.5	-1.4	-22.0	9.4	22.7	35.8	81.1	55.1	44.5	59.9	42.2
Total (1+2+3+4)	5,844.2	5,821.3	5,646.8	5,537.3	5,435.1	5,435.3	5,491.4	5,550.6	5,698.1	5,744.1	5,927.5	5,949.0	6,152.3

Table E1: Housing Savings Banks' Accounts

Housing savings banks' accounts include data on claims and liabilities of the Croatian housing savings banks. All housing savings banks' claims and liabilities refer exclusively to domestic sectors.

Housing savings banks' required reserves held at the central bank include funds in vaults. Until September 2003, they also included 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, accounts for regular operations with banks.

Claims on other banking institutions include investments in investment funds.

Item Time deposits includes local government and households' time deposits.

Bonds and money market instruments are housing savings banks' liabilities for securities issued (net) and loans 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	CNB repo rate ^a	Credit rates					
				On lombard credits ^b	On intervention credits	On intra-day refinance facility ^b	On short-term liquidity credits	On inaccurately calculated statutory reserves ^b	On arrears
1	2	3	4	5	6	7	8	9	10
1997	December	5.90	–	9.50	19.00	17.00	–	19.00	18.00
1998	December	5.90	–	12.00	19.00	7.00	14.00	19.00	18.00
1999	December	7.90	–	13.00	19.00	–	14.00	19.00	18.00
2000	December	5.90	–	12.00	18.00	–	13.00	18.00	18.00
2001	December	5.90	–	10.00	–	–	11.00	15.00	18.00
2002	December	4.50	–	9.50	–	–	10.50	15.00	15.00
2003	December	4.50	–	9.50	–	–	10.50	15.00	15.00
2004	December	4.50	–	9.50	–	–	10.50	15.00	15.00
2005	December	4.50	3.50	7.50 ^c	–	–	8.50 ^c	15.00	15.00
2006	January	4.50	3.50	7.50	–	–	8.50	15.00	15.00
	February	4.50	3.51	7.50	–	–	8.50	15.00	15.00
	March	4.50	3.50	7.50	–	–	8.50	15.00	15.00
	April	4.50	3.50	7.50	–	–	8.50	15.00	15.00
	May	4.50	3.50	7.50	–	–	8.50	15.00	15.00
	June	4.50	3.50	7.50	–	–	8.50	15.00	15.00
	July	4.50	3.50	7.50	–	–	8.50	15.00	15.00
	August	4.50	3.50	7.50	–	–	8.50	15.00	15.00
	September	4.50	3.50	7.50	–	–	8.50	15.00	15.00
	October	4.50	3.50	7.50	–	–	8.50	15.00	15.00
	November	4.50	3.50	7.50	–	–	8.50	15.00	15.00
	December	4.50	3.50	7.50	–	–	8.50	15.00	15.00

^a Weighted averages of weighted repo rates achieved at regular reverse repo auctions of the CNB in the reporting month.^b Breaks in the series of data are explained in notes on methodology.^c Since 14 December 2005.**Table F1: Credit Rates of the Croatian National Bank**

The table shows interest rates used by the CNB to calculate and charge interest on credits from the primary issue and on all other claims.

Credit rates of the CNB are set by decisions of the Council of the Croatian National Bank, on annual basis. Exceptionally, from June 1995 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 the weighted average interest rate on Lombard credits.

Time series presented in the table contain certain breaks, due to changes in the CNB's monetary policy instruments.

Data shown in column 4 refer to weighted interest rates of weighted repo rates achieved at regular reverse repo auctions of the CNB in the reporting month.

Data shown in column 7 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 8 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.

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 f/c CNB bills on a voluntary basis					Interest rates on overnight deposits
				Due in 7 days	Due in 35 days	Due in 70 days	Due in 105 days	Due in 35 days	Due in 63 days	Due in 91 days	Due in 182 days	Due in 364 days	
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1997	December	5.90	–	–	8.00	9.00	10.00	–	–	–	–	–	–
1998	December	5.90	–	–	9.50	10.50	11.00	–	4.60	3.12	3.08	–	–
1999	December	7.90	–	–	10.50	11.55	12.50	–	4.83	3.56	–	–	–
2000	December	5.90	–	–	6.65	7.00	7.70	–	5.51	4.83	–	–	–
2001	December	5.90	–	–	3.36	4.26	4.85	–	2.62	3.06	–	–	–
2002	December	4.50	–	–	2.08	–	–	2.30	2.68	–	–	–	–
2003	December	4.50	0.50	–	–	–	–	1.75	1.48	–	–	–	–
2004	December	4.50	–	–	–	–	–	–	–	–	–	–	–
2005	December	4.50	–	–	–	–	–	–	–	–	–	–	0.50
2006	January	4.50	–	–	–	–	–	–	–	–	–	–	0.50
	February	4.50	–	–	–	–	–	–	–	–	–	–	0.50
	March	4.50	–	–	–	–	–	–	–	–	–	–	0.50
	April	4.50	–	–	–	–	–	–	–	–	–	–	0.50
	May	4.50	–	–	–	–	–	–	–	–	–	–	0.50
	June	4.50	–	–	–	–	–	–	–	–	–	–	0.50
	July	4.50	–	–	–	–	–	–	–	–	–	–	0.50
	August	4.50	–	–	–	–	–	–	–	–	–	–	0.50
	September	4.50	–	–	–	–	–	–	–	–	–	–	0.50
	October	4.50	–	–	–	–	–	–	–	–	–	–	0.50
	November	4.50	–	–	–	–	–	–	–	–	–	–	0.50
	December	4.50	–	–	–	–	–	–	–	–	–	–	0.50

^a Breaks in the series of data are explained in notes on methodology.**Table F2: Deposit Rates of the Croatian National Bank**

The table shows interest rates used by the CNB to calculate and pay interest on funds deposited with the CNB and on issued securities.

Interest rates paid by the CNB for appropriated statutory reserve funds are set by a decision of the Council of the CNB. Until April 2005, the appropriated statutory reserve funds included the calculated statutory reserve funds that were deposit in a special statutory reserve account with the CNB, or maintained (in average) in banks' settlement accounts, or deposited in a special account with the CNB for the settlement of net positions in the NCS. From April 2005, they include the calculated statutory reserve funds allocated to a special statutory reserve account with the CNB (column 3).

Interest rates on CNB bills on an obligatory basis are set by a decision of the Council of the CNB. Interest rates on CNB bills on a voluntary

basis are set at CNB bills' auction sales. Congruently, columns 5, 6 and 7 report weighted average interest rates attained at auctions of CNB bills.

From November 1994 through January 2001, columns 7 and 8 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.

Column 14 reports the interest rate on overnight deposits with the CNB.

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 immobilised 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
1997	December	32.02	4,348.8	4,348.8	–	0.0	3,914.2	–	4.05	–
1998	December	29.57	13,112.7	3,967.2	9,145.4	57.4	3,469.8	1,467.6	5.28	....
1999	December	30.50	13,579.0	4,210.1	9,368.9	37.3	3,695.1	4,606.5	5.62	....
2000	December	23.22	16,245.8	4,646.8	11,599.0	5.0	4,191.6	5,544.6	4.05	....
2001	December	19.67	21,187.1	8,691.5	12,495.5	–	6,287.8	5,950.0	1.97	2.73
2002	December	19.00	25,985.1	11,447.1	14,538.0	–	8,156.7	7,139.9	1.72	2.16
2003	December	19.00	31,009.4	18,023.8	12,985.6	109.4	12,459.8	6,850.2	1.17	1.47
2004	December	18.00	33,615.7	20,040.9	13,574.8	430.1	14,664.1	10,171.3	1.22	1.36
2005	December	18.00	37,424.5	24,997.9	12,426.6	3,940.2	17,497.7	9,271.4	0.52	0.92
2006	January	17.32	36,676.0	24,644.6	12,031.4	5,047.4	17,250.3	8,988.8	0.52	0.74
	February	17.00	36,313.4	24,426.5	11,886.9	6,560.7	17,097.8	8,918.7	0.52	0.67
	March	17.00	36,422.3	24,514.4	11,907.9	7,993.3	17,159.5	8,990.3	0.52	0.61
	April	17.00	36,824.5	24,924.1	11,900.4	8,978.4	17,446.3	9,026.1	0.52	0.79
	May	17.00	37,413.7	25,548.1	11,865.6	9,983.6	17,883.1	9,026.2	0.52	0.54
	June	17.00	37,852.6	26,033.4	11,819.2	10,560.0	18,223.0	9,006.0	0.52	0.75
	July	17.00	38,354.9	26,580.6	11,774.3	11,102.4	18,606.1	8,985.3	0.52	0.63
	August	17.00	38,710.4	27,188.0	11,522.5	10,154.3	19,031.3	8,725.3	0.52	0.63
	September	17.00	38,846.4	27,505.8	11,340.6	8,182.6	19,253.8	8,510.9	0.52	0.91
	October	17.00	39,293.6	27,951.4	11,342.1	6,324.0	19,565.8	8,450.1	0.52	0.91
	November	17.00	40,131.9	28,519.5	11,612.4	6,583.8	19,963.5	8,654.2	0.52	0.85
	December	17.00	40,736.4	28,966.1	11,770.4	7,332.5	20,257.0	8,780.9	0.52	1.06

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 the CNB's foreign exchange accounts, 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, special reserve requirement on liabilities arising from issued securities from March 2006, statutory reserves on f/c deposits, f/c credits from foreign banks and guarantees for such credits and marginal reserve requirement (from August 2004).

Column 8 shows the portion of the kuna reserve requirement which banks deposit in a statutory reserve account with the CNB (until December 1994 this amount corresponded with the statutory reserve instrument, while since January 1995 a minimum percentage of the total reserve requirement banks are required to deposit in a special statutory reserve account with the CNB has been prescribed). In April 2005, this percentage was set at 70%.

Column 9 shows the portion of the foreign currency reserve requirement which banks deposit in the CNB's foreign exchange accounts. The percentage for allocating the foreign currency component of reserve requirements calculated on the basis of foreign exchange funds of non-residents and foreign exchange funds received from legal persons in a special relationship with a bank amounts to 100%, while the percentage for allocating the remaining portion of the foreign currency component of reserve requirements amounts to 60%.

Column 10 shows the weighted average remuneration rate on all forms of immobilised kuna funds which include reserve requirements and other obligatory deposits with the CNB.

Column 11 shows the weighted average remuneration rate on allocated funds in foreign currency, including the marginal reserve requirement funds (from August 2004 on). From June 2005 the CNB pays remuneration equalling 50% of the US Federal Funds Target Rate for the funds allocated in US dollars and 50% of the ECB Minimum Bid Refinance Rate for the funds allocated in euros. In both cases the rate in effect on the day of allocation is applied.

Table F4: Banks' Liquidity Indicators

daily averages and percentages, million kuna and %

Year	Month	Free reserves		Primary liquidity ratio	Secondary liquidity sources	Kuna CNB bills	F/c CNB bills	Kuna MoF treasury bills
		In kuna	In f/c					
1	2	3	4	5	6	7	8	9
1997	December	396.3	....	2.92	32.7	728.9	–	260.7
1998	December	221.9	....	1.65	445.5	850.4	1,377.4	141.3
1999	December	179.6	....	1.30	1,183.6	1,311.1	1,507.6	373.9
2000	December	638.8	10,721.4	3.32	80.1	2,485.3	1,692.7	2,006.5
2001	December	794.4	17,247.4	3.23	2.6	2,656.2	2,630.8	3,360.9
2002	December	1,225.0	10,398.0	3.53	0.6	4,965.5	1,273.9	4,279.5
2003	December	451.6	20,561.4	0.98	501.6	0.0	4,316.0	3,073.2
2004	December	1,495.5	26,126.1	2.64	0.0	0.0	0.0	4,581.7
2005	December	672.5	20,493.4	0.96	0.2	0.0	0.0	4,163.3
2006	January	579.6	18,833.0	0.80	0.1	0.0	0.0	5,954.5
	February	465.0	16,852.9	0.63	0.0	0.0	0.0	6,439.9
	March	375.8	13,813.2	0.51	0.0	0.0	0.0	6,927.0
	April	394.7	13,090.1	0.52	0.1	0.0	0.0	5,864.8
	May	423.1	12,282.9	0.53	0.0	0.0	0.0	5,417.2
	June	496.4	13,253.2	0.59	0.0	0.0	0.0	6,206.9
	July	496.9	12,721.5	0.57	0.0	0.0	0.0	5,560.5
	August	370.5	14,507.7	0.40	0.0	0.0	0.0	4,733.5
	September	308.9	17,278.4	0.32	0.0	0.0	0.0	5,322.3
	October	403.0	20,011.2	0.41	25.3	0.0	0.0	5,196.8
	November	483.8	20,020.1	0.49	0.0	0.0	0.0	6,912.6
	December	840.8	20,239.1	0.83	0.0	0.0	0.0	5,993.7

Table F4: Banks' Liquidity Indicators

The table reports monthly averages of day-to-day balances of some indicators of banks' liquidity. Savings banks are included beginning in July 1999.

Column 3 shows free reserves in kuna, defined as 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: Lombard credits (since December 1994), short-term liquidity credits (since February 1999), and overdue liabilities to the CNB.

Column 7 reports the monthly average of day-to-day balances of kuna CNB bills on a voluntary basis (until December 1994, this amount is decreased by the portion of voluntarily registered CNB bills used by banks to maintain the prescribed minimal liquidity).

Column 8 reports the monthly average of day-to-day balances of foreign currency CNB bills on a voluntary basis (EUR and USD).

Column 9 reports the monthly average of day-to-day balances of kuna MoF treasury bills. Until September 2002, it shows the discounted value of treasury bills, while starting from October 2002, it shows their nominal value.

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	
1997	December	8.46	9.49	14.06	14.12	13.17	19.26	19.34	18.11	13.24	12.98	13.75	
1998	December	10.00	15.91	16.06	16.22	14.89	20.77	20.80	19.92	11.73	11.48	13.16	
1999	December	9.92	12.78	13.54	13.52	10.55	20.83	20.84	20.39	15.14	15.31	14.16	
2000	December	2.39	4.45	10.45	10.45	6.81	20.30	20.33	19.05	9.90	9.64	12.97	
2001	December	2.49	2.18	9.51	9.49	5.43	18.81	18.85	14.88	11.42	10.06	13.14	
2002	December	1.58	1.89	10.91	11.24	7.44	15.16	15.28	9.84	7.32	6.48	7.88	
2003	December	5.47	7.02	11.45	11.80	8.02	14.89	15.01	12.38	8.51	6.14	10.69	
2004	December	3.55	6.02	11.44	11.71	8.33	14.19	14.27	12.29	9.31	6.90	11.16	
2005	December	2.29	3.61	9.91	9.99	7.71	11.26	13.18	5.35	8.75	6.48	10.35	
2006	January	1.60	3.30	11.16	11.23	7.86	12.84	13.51	6.59	10.01	7.14	10.91	
	February	0.88	3.15	10.62	10.81	7.76	12.48	13.31	6.01	8.67	5.94	10.66	
	March	0.91	3.23	9.83	9.98	7.16	11.75	13.68	5.29	8.62	6.21	10.04	
	April	1.09	3.37	10.10	10.26	6.85	12.37	13.64	5.71	8.72	5.77	10.12	
	May	1.69	3.36	10.17	10.34	7.27	12.20	13.68	4.41	9.20	6.46	10.29	
	June	1.50	3.46	9.88	10.13	7.18	12.37	13.36	4.54	8.51	6.05	9.93	
	July	1.51	3.41	9.98	10.25	7.08	12.47	13.60	4.18	8.43	5.96	9.98	
	August	1.96	3.06	9.83	10.01	7.05	11.78	13.21	4.25	8.69	6.16	10.04	
	September	2.34	3.26	9.45	9.62	7.14	11.00	13.44	4.59	8.52	5.97	9.91	
	October	2.13	3.43	9.61	9.86	6.94	11.60	13.54	4.58	8.12	6.09	9.75	
	November	1.23	3.32	9.50	9.78	6.69	12.28	13.51	4.63	8.05	6.32	9.43	
	December	2.02	3.52	9.07	9.37	6.75	11.84	13.21	4.67	7.53	5.86	9.44	
	Relative significance ^a	–	–	72.86	61.08	29.64	31.44	26.39	5.06	11.78	6.28	5.50	

^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 overnight credits and trading in other credits on the ZMM. In the period between May 1998 and January 2001, the repayment of credits granted on the interbank overnight market was guaranteed by banks' required reserves with the CNB. Columns 5 through 13 show weighted averages of banks' and savings banks' monthly interest rates classified by maturity and sectors. Interest rates on short-term credits to enterprises also include interest rates on callable loans.

Data on banks' and savings banks' interest rates on kuna credits not indexed to f/c are based on banks' and savings banks' periodic reports. The basis for calculation of weighted averages are amounts of credits bearing corresponding interest rates, which were disbursed during the reporting month, with the exception of interest rates on giro and current account credit lines, for which weighted averages were calculated based on the balance of these loans at the end of the reporting month.

Relative significance of particular interest rates (reported in the last line of the table) refers to data for the last period included in the table. It is calculated as a percentage of the corresponding credit category (to which exchange rates apply) in total credits included in the calculation of weighted averages for that period.

Table G2: Banks' Interest Rates on Kuna Credits Indexed to Foreign Currency and on Credits in Euros

weighted averages of monthly interest rates, in % on annual basis

Year	Month	Interest rates on kuna credits indexed to foreign currency									Interest rates on credits in euros		
		Total average	On short-term credits			On long-term credits			Total average	On short-term credits	On long-term credits		
			Total average	Enterprises	Households	Total average	Enterprises	Households					
								Total average				Housing credits	Other
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1997	December	14.40	16.92	17.00	14.02	12.25	13.00	11.02	....	....	13.61	14.95	9.71
1998	December	13.04	14.28	14.25	13.64	11.15	10.55	12.12	....	....	6.95	8.37	5.71
1999	December	12.53	13.66	13.54	17.21	10.81	10.46	11.65	....	....	6.75	7.43	6.07
2000	December	10.74	11.17	11.10	13.59	10.52	9.41	11.64	....	....	7.70	7.49	8.05
2001	December	9.29	9.45	9.45	11.30	9.20	7.52	10.79	....	....	5.94	5.70	7.27
2002	December	8.25	9.34	8.72	11.37	7.98	6.37	9.50	7.42	10.11	5.91	6.66	5.44
2003	December	7.07	7.21	7.00	8.66	7.03	5.76	8.04	6.02	9.70	5.62	6.22	5.18
2004	December	6.89	7.25	7.09	8.47	6.77	5.55	7.73	5.71	8.79	5.34	5.92	4.83
2005	December	6.18	6.52	6.34	7.91	6.07	5.18	6.98	4.95	8.10	5.29	5.28	5.30
2006	January	6.40	6.24	6.01	8.00	6.44	5.54	7.04	4.91	8.23	4.81	5.37	4.51
	February	6.41	6.32	6.29	6.45	6.43	5.47	7.07	4.89	8.18	5.27	5.80	5.00
	March	6.45	6.75	6.69	7.20	6.37	5.64	6.79	4.90	7.85	5.38	5.68	5.10
	April	6.38	6.37	6.21	7.41	6.38	5.55	6.94	4.84	8.09	5.61	5.62	5.60
	May	6.33	6.73	6.71	6.86	6.26	5.45	6.82	4.81	8.01	5.58	5.58	5.57
	June	6.23	6.50	6.32	7.56	6.16	5.74	6.52	4.73	7.78	5.19	5.38	5.09
	July	6.01	6.00	5.82	7.30	6.01	5.64	6.29	4.74	7.60	5.31	5.57	5.16
	August	6.31	6.34	6.20	7.04	6.31	5.91	6.52	4.76	7.89	5.42	5.45	5.40
	September	6.40	6.31	6.09	7.36	6.42	5.80	6.73	4.86	8.15	5.22	5.24	5.19
	October	6.38	6.79	6.33	7.98	6.26	6.18	6.31	4.84	7.81	5.52	5.24	5.75
	November	6.20	5.99	5.74	7.33	6.26	6.14	6.33	4.74	7.74	6.08	5.95	6.33
	December	6.30	6.56	6.29	8.33	6.22	6.21	6.22	4.75	7.57	5.65	6.19	5.34
	Relative significance^a	21.15	4.84	4.21	0.63	16.31	7.26	9.05	4.32	4.73	5.99	2.24	3.75

^a Relative significance is calculated as a percentage of corresponding credit category in total credits disbursed in the reporting month (according to data for the last period included in the table).

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 sa-

ving 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
1997	December	4.35	2.19	9.10	9.08	9.30	8.96	9.48	11.24	8.06
1998	December	4.11	2.31	7.73	7.63	9.47	7.15	10.19	10.72	9.56
1999	December	4.27	2.24	8.87	8.79	9.62	8.38	10.96	11.56	10.18
2000	December	3.40	1.64	7.20	7.13	7.44	7.03	8.89	9.19	8.63
2001	December	2.76	1.40	5.68	5.60	6.35	5.38	7.35	7.93	6.70
2002	December	1.55	0.94	3.64	3.53	4.39	2.86	6.05	7.24	3.23
2003	December	1.66	0.75	4.46	4.46	3.62	4.69	4.58	4.90	2.82
2004	December	1.83	0.74	4.11	4.11	3.93	4.13	4.10	4.65	3.30
2005	December	1.58	0.61	3.36	3.34	3.89	3.23	4.12	5.04	3.49
2006	January	1.56	0.61	3.20	3.17	4.00	2.98	4.35	5.09	3.50
	February	1.56	0.59	3.38	3.35	3.93	3.14	3.99	4.79	3.40
	March	1.60	0.58	3.43	3.41	4.07	3.12	3.80	4.77	3.09
	April	1.64	0.58	3.34	3.29	4.02	3.03	4.50	5.23	3.53
	May	1.64	0.56	3.23	3.19	4.05	2.92	4.38	5.08	2.79
	June	1.69	0.55	3.27	3.24	3.78	3.03	4.29	4.94	2.95
	July	1.70	0.57	3.16	3.12	3.96	2.82	4.46	4.91	3.00
	August	1.76	0.55	3.13	3.10	3.92	2.89	4.09	4.94	2.77
	September	1.79	0.54	3.45	3.43	4.05	3.27	4.04	4.82	2.60
	October	1.85	0.55	3.53	3.51	4.10	3.33	4.36	4.80	3.13
	November	1.88	0.55	3.10	2.92	3.99	2.55	3.92	4.79	3.82
	December	1.91	0.56	2.98	2.94	4.10	2.69	4.32	4.98	3.11
	Relative significance^a	55.01	34.58	17.04	16.57	2.88	13.69	0.47	0.31	0.17

^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 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
1997	December	7.63	7.24	11.77	4.77	1.75	1.89	2.43	0.83	1.40
1998	December	7.47	7.67	5.58	3.98	2.09	2.38	2.40	0.72	0.74
1999	December	6.62	6.91	1.10	4.23	1.80	1.95	2.04	0.78	1.30
2000	December	5.54	5.94	2.16	3.47	1.03	0.99	1.23	0.65	1.29
2001	December	4.58	4.92	2.56	2.60	0.71	0.71	0.81	0.82	0.40
2002	December	2.92	3.45	1.48	2.55	0.50	0.52	0.41	0.52	0.38
2003	December	3.48	3.74	5.55	2.22	0.31	0.35	0.23	0.23	0.15
2004	December	4.17	3.61	5.19	2.65	0.31	0.34	0.22	0.22	0.21
2005	December	3.99	3.63	4.77	2.61	0.27	0.27	0.17	0.27	0.76
2006	January	3.97	3.50	4.75	2.65	0.26	0.25	0.17	0.32	0.63
	February	4.23	3.55	4.97	2.59	0.25	0.25	0.17	0.28	0.58
	March	4.14	3.60	4.61	2.67	0.26	0.25	0.17	0.31	0.50
	April	3.93	3.72	4.67	2.69	0.26	0.25	0.17	0.32	0.63
	May	4.05	3.70	4.61	2.60	0.26	0.24	0.17	0.31	0.76
	June	4.43	3.96	4.77	2.72	0.25	0.24	0.17	0.30	0.72
	July	4.08	3.80	4.70	2.72	0.26	0.24	0.17	0.31	0.76
	August	4.37	3.86	4.77	2.72	0.25	0.23	0.16	0.30	0.58
	September	4.46	3.88	5.05	2.78	0.25	0.23	0.16	0.33	0.63
	October	4.21	3.50	5.66	2.87	0.26	0.23	0.17	0.36	0.69
	November	3.66	3.52	3.36	2.91	0.25	0.23	0.17	0.34	0.59
	December	3.67 ^a	3.30	4.07	2.94	0.25	0.23	0.17	0.32	0.44
	Relative significance ^a	1.62	1.44	0.17	43.36	24.15	16.94	2.38	4.24	0.59

^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).^b Of the total amount of deposits to which this interest rate refers, 15.71 percent refers to enterprises.**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 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

Table G4b: Banks' Interest Rates on Kuna Deposits Indexed to Foreign Currency and on Foreign Currency Deposits

weighted averages of monthly interest rates, in % on annual basis

Year	Month	Interest rates on foreign currency deposits										
		On time deposits										
		Total average	On short-term deposits						On long-term deposits			
			Total average	Households		Enterprises		Total average	Households		Enterprises	
EUR	USD	EUR		USD	EUR	USD	EUR		USD			
1	2	12	13	14	15	16	17	18	19	20	21	22
1997	December	6.36	6.07	6.03	6.42	5.09	7.10	7.32	7.87	8.71	5.09	6.76
1998	December	4.89	4.49	5.42	6.16	2.84	5.37	7.29	7.68	8.59	4.93	6.92
1999	December	5.43	5.17	4.93	6.39	3.97	6.00	6.59	6.64	8.09	3.66	6.77
2000	December	4.57	4.36	3.65	5.15	4.59	6.62	5.56	5.17	6.61	5.97	8.53
2001	December	3.54	3.35	3.42	3.23	3.60	2.44	4.59	4.72	4.42	4.58	0.23
2002	December	3.13	2.96	3.27	2.21	2.89	1.43	4.59	4.69	3.84	3.46	2.30
2003	December	2.64	2.46	2.83	1.65	2.29	1.08	3.69	4.71	3.13	2.85	1.64
2004	December	2.85	2.65	3.01	1.69	2.46	2.28	4.20	4.85	3.13	3.61	2.65
2005	December	3.07	2.94	2.99	1.76	2.63	4.34	3.69	4.25	0.48	4.39	–
2006	January	3.22	2.99	2.97	1.77	2.62	4.46	4.34	4.30	1.38	4.77	2.25
	February	3.08	2.98	3.05	1.82	2.69	4.62	3.92	4.26	2.24	1.83	–
	March	3.16	3.06	3.00	1.86	2.97	5.10	4.02	4.37	2.05	3.52	5.77
	April	3.25	3.21	3.02	1.85	3.17	5.12	3.59	4.33	1.16	2.21	5.06
	May	3.35	3.33	2.98	1.80	3.30	5.31	3.50	3.89	1.22	2.80	6.22
	June	3.40	3.31	2.95	1.86	3.44	5.58	4.15	4.35	2.58	4.59	3.37
	July	3.46	3.33	3.04	1.81	3.53	5.83	4.42	4.49	3.54	3.85	5.19
	August	3.59	3.49	3.06	1.81	3.62	5.57	4.38	4.43	3.77	3.98	6.30
	September	3.53	3.50	3.09	1.89	3.83	5.66	3.74	4.55	1.01	4.06	–
	October	3.71	3.63	3.19	2.02	3.99	5.68	4.25	4.58	2.07	4.37	6.86
	November	3.77	3.69	3.20	2.03	4.09	5.68	4.31	4.62	1.79	4.34	4.89
	December	3.82	3.76	3.16	2.05	4.24	5.84	4.25	4.47	2.26	4.79	4.61
	Relative significance ^a	19.22	17.07	8.55	0.74	6.10	1.69	2.14	1.85	0.22	0.07	0.00

^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 short-term foreign currency deposits (column 13) and on total 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

	2005	2006											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
A. Purchase of foreign exchange													
1. Legal persons	1,137.9	737.2	1,065.2	750.2	705.1	1,073.2	1,180.2	1,241.4	1,014.0	1,213.7	2,469.0	1,488.6	1,505.1
2. Natural persons	484.2	527.4	401.7	584.6	446.5	493.0	432.4	618.5	685.2	680.8	544.3	450.3	398.0
2.1. Residents	478.2	521.3	396.9	576.8	436.1	474.0	398.0	541.2	608.2	633.7	518.2	425.7	379.5
2.2. Non-residents	6.0	6.1	4.8	7.9	10.4	19.0	34.3	77.3	77.1	47.1	26.1	24.6	18.5
3. Domestic banks	1,122.5	616.9	1,024.7	1,131.8	997.5	734.5	1,133.1	1,243.2	1,206.3	1,724.8	1,533.2	1,503.5	1,530.6
4. Foreign banks	234.5	148.1	180.9	347.9	270.7	159.5	651.7	281.7	307.6	471.3	710.5	908.7	618.2
5. Croatian National Bank	-	-	-	-	-	-	-	-	-	125.5	-	-	-
Total (1+2+3+4)	2,979.1	2,029.6	2,672.5	2,814.5	2,419.8	2,460.2	3,397.3	3,384.9	3,384.9	4,216.0	5,257.1	4,351.0	4,051.8
B. Sale of foreign exchange													
1. Legal persons	1,239.9	1,075.3	1,164.8	1,213.3	1,119.5	1,318.2	1,489.8	1,823.2	1,521.6	1,700.8	1,427.3	1,700.6	1,960.8
2. Natural persons	317.2	286.1	244.9	404.8	229.4	305.1	260.7	334.8	389.8	507.9	421.1	393.1	331.1
2.1. Residents	315.1	283.3	243.8	400.8	227.5	300.8	257.8	331.1	384.8	500.9	414.3	383.5	327.9
2.2. Non-residents	2.1	2.8	1.1	4.1	1.9	4.3	3.0	3.7	5.0	7.1	6.9	9.6	3.2
3. Domestic banks	1,122.5	616.9	1,024.7	1,131.8	997.5	734.5	1,133.1	1,243.2	1,206.3	1,724.8	1,533.2	1,503.5	1,530.6
4. Foreign banks	238.0	163.6	117.3	114.8	135.3	174.7	437.6	353.6	398.6	287.3	577.9	498.1	267.2
5. Croatian National Bank	161.9	-	118.6	-	-	184.6	104.3	175.3	-	138.7	277.7	330.3	-
Total (1+2+3+4)	3,079.5	2,141.9	2,670.4	2,864.7	2,481.7	2,717.1	3,425.5	3,930.1	3,516.3	4,359.5	4,237.3	4,425.5	4,089.6
C. Net purchase (A-B)													
1. Legal persons	-102.1	-338.1	-99.7	-463.1	-414.4	-245.0	-309.7	-581.7	-507.6	-487.1	1,041.8	-212.0	-455.6
2. Natural persons	167.1	241.3	156.8	179.8	217.1	187.9	171.6	283.7	295.4	172.8	123.1	57.2	66.9
2.1. Residents	163.1	238.0	153.1	176.0	208.6	173.1	140.2	210.1	223.3	132.8	103.9	42.2	51.6
2.2. Non-residents	3.9	3.3	3.7	3.8	8.5	14.7	31.4	73.6	72.0	40.0	19.2	15.0	15.3
3. Foreign banks	-3.5	-15.5	63.5	233.1	135.3	-15.1	214.1	-71.9	-91.0	184.0	132.7	410.6	351.0
4. Croatian National Bank	-161.9	-	-118.6	-	-	-184.6	-104.3	-175.3	-	-13.2	-277.7	-330.3	-
Total (1+2+3)	-100.4	-112.3	2.1	-50.2	-62.0	-256.9	-28.3	-545.2	-303.3	-143.5	1,019.8	-74.5	-37.8
Memo items: Other Croatian National Bank transactions													
Purchase of foreign exchange	-	-	-	-	-	-	-	-	-	0.0	-	-	3.1
Sale of foreign exchange	-	-	10.1	-	3.8	-	4.8	-	-	2.3	4.3	-	415.9

Table G5: Banks' Trade with Foreign Exchange

Data on trade with foreign exchange between banks comprise spot transactions of the purchase and sale of foreign exchange in domestic foreign currency market. Spot transactions are contracted obligations to buy/sell foreign currency within maximally 48 hours. The transactions are classified by category of participants (legal and natural

persons, domestic and foreign banks and the CNB). Sources of data are banks' reports on trading with foreign exchange and statistical data on foreign payment operations.

Other Croatian National Bank transactions include foreign exchange sales and purchases on behalf of the Ministry of Finance.

Table H1: Balance of Payments – Summary

million euros

	2002	2003	2004	2005	2006*	2006			
						Q1	Q2	Q3	Q4*
A. CURRENT ACCOUNT (1+6)	-2,095.3	-1,865.7	-1,404.2	-1,984.9	-2,617.4	-2,053.3	-1,285.6	2,145.4	-1,424.0
1. Goods, services, and income (2+5)	-3,247.5	-3,110.2	-2,596.0	-3,168.7	-3,721.2	-2,343.7	-1,581.8	1,872.0	-1,667.8
1.1. Credit	11,585.7	13,588.3	14,897.2	15,940.6	17,875.5	2,829.7	4,199.5	7,156.5	3,689.9
1.2. Debit	-14,833.2	-16,698.5	-17,493.2	-19,109.3	-21,596.8	-5,173.4	-5,781.3	-5,284.4	-5,357.6
2. Goods and services (3+4)	-2,675.6	-2,041.2	-1,958.9	-2,204.0	-2,650.9	-1,903.6	-1,050.3	1,982.1	-1,679.1
2.1. Credit	11,125.4	13,137.6	14,239.8	15,269.2	16,966.8	2,668.0	3,991.4	6,902.9	3,404.4
2.2. Debit	-13,801.0	-15,178.7	-16,198.8	-17,473.2	-19,617.7	-4,571.6	-5,041.7	-4,920.8	-5,083.5
3. Goods	-5,960.3	-6,974.2	-6,727.8	-7,521.7	-8,363.9	-1,860.4	-2,348.0	-2,152.6	-2,002.9
3.1. Credit	5,293.1	5,571.7	6,603.1	7,216.6	8,433.6	2,004.8	1,972.4	2,086.7	2,369.7
3.2. Debit	-11,253.5	-12,545.9	-13,330.9	-14,738.3	-16,797.5	-3,865.2	-4,320.4	-4,239.2	-4,372.6
4. Services	3,284.8	4,933.0	4,768.9	5,317.7	5,713.1	-43.2	1,297.8	4,134.7	323.8
4.1. Credit	5,832.3	7,565.9	7,636.7	8,052.6	8,533.2	663.2	2,019.0	4,816.3	1,034.7
4.2. Debit	-2,547.5	-2,632.8	-2,867.8	-2,734.9	-2,820.2	-706.4	-721.3	-681.5	-710.9
5. Income	-571.9	-1,069.0	-637.0	-964.8	-1,070.4	-440.1	-531.5	-110.1	11.3
5.1. Credit	460.3	450.8	657.4	671.4	908.7	161.7	208.1	253.5	285.4
5.2. Debit	-1,032.2	-1,519.8	-1,294.4	-1,636.1	-1,979.1	-601.7	-739.6	-363.6	-274.1
6. Current transfers	1,152.2	1,244.5	1,191.8	1,183.8	1,103.8	290.4	296.2	273.4	243.8
6.1. Credit	1,453.2	1,538.7	1,584.6	1,628.4	1,632.5	401.0	439.5	406.0	386.0
6.2. Debit	-301.1	-294.2	-392.8	-444.6	-528.7	-110.6	-143.3	-132.6	-142.2
B. CAPITAL AND FINANCIAL ACCOUNT	2,739.4	2,977.3	2,341.7	3,037.9	4,010.9	1,702.5	1,412.8	-193.5	1,089.1
B1. Capital account	501.2	72.4	23.1	50.9	-147.0	-163.7	3.5	5.9	7.3
B2. Financial account, excl. reserves	2,980.0	4,140.3	2,361.7	3,808.8	5,570.2	2,538.8	2,106.5	-795.9	1,720.8
1. Direct investment	595.4	1,678.4	708.4	1,230.4	2,670.0	502.1	779.5	397.5	990.9
1.1. Abroad	-601.3	-106.1	-281.9	-194.5	-167.6	-25.5	-42.1	-48.3	-51.7
1.2. In Croatia	1,196.8	1,784.5	990.4	1,424.9	2,837.6	527.6	821.7	445.7	1,042.6
2. Portfolio investment	-440.2	868.8	244.5	-1,077.3	-193.2	-447.9	122.7	292.6	-160.6
2.1. Assets	-650.6	121.3	-752.5	-513.2	-175.6	-45.4	59.9	3.2	-193.3
2.2. Liabilities	210.4	747.5	997.1	-564.1	-17.6	-402.5	62.8	289.4	32.6
3. Financial derivatives	0.0	0.0	0.0	-88.4	0.0	0.0	0.0	0.0	0.0
4. Other investment	2,824.8	1,593.1	1,408.7	3,744.1	3,093.4	2,484.7	1,204.2	-1,486.0	890.4
4.1. Assets	461.0	-2,216.2	-420.9	987.0	-628.2	1,059.0	48.5	-907.1	-828.6
4.2. Liabilities	2,363.8	3,809.3	1,829.5	2,757.1	3,721.6	1,425.7	1,155.7	-578.9	1,719.0
B3. Reserve assets (CNB)	-741.9	-1,235.5	-43.0	-821.8	-1,412.2	-672.6	-697.2	596.4	-638.9
C. NET ERRORS AND OMISSIONS	-644.1	-1,111.6	-937.6	-1,053.0	-1,393.5	350.7	-127.2	-1,951.9	334.9

* Preliminary data.

Note: The item net errors and omissions also comprises the counter entry of a part of revenues from travel services which relates to such revenues not stated in the banks' records.

Table: H1 – H6: Balance of Payments

The balance of payments of the Republic of Croatia represents a systematic overview of the value of economic transactions performed by the Croatian residents with foreign countries within a particular period. It is compiled in accordance with the recommendations of the International Monetary Fund (Balance of Payments Manual, Fifth Edition, 1993). Data sources include: 1. reports of the government institutions (Central Bureau of Statistics and Croatian Institute for Health Insurance), 2. special reports of the Croatian National Bank (International Transaction Reporting System (ITRS), external debt relations, monetary statistics and reserve assets) and 3. estimates and statistical research carried out by the Croatian National Bank.

Balance of payments of the Republic of Croatia data are reported in three currencies: in euros (EUR), US dollars (USD) and domestic currency (HRK). In all cases, the same data sources are used and the same principles regarding the scope of transactions and the procedures for compiling particular items are applied. Since the original data are reported in different currencies, the transaction values are converted from the original currency into the reporting currency by applying the exchange rate from the CNB exchange rate list in one of

the following manners:

- by applying the midpoint exchange rate on the date of the transaction;
- by applying the average monthly or quarterly midpoint exchange rate in the case the transaction date is not available;
- by applying the end-of-period exchange rate for the calculation of a change in the transaction value between the two periods; the end-of-period balances reported in the original currency serve as a basis for calculating the change in the original currency value, which is converted, by applying the average midpoint exchange rate in the observed period, into the value of change in the reporting currency.

The Report of the Central Bureau of Statistics on merchandise foreign trade of the Republic of Croatia represents the basic data source for the balance of payments items related to exports and imports. These data are adjusted, in accordance with the recommended compilation method, for coverage and classification. Accordingly, goods exports and imports in the balance of payments are reported at f.o.b.

Table H2: Balance of Payments – Goods and Services

million euros

	2002	2003	2004	2005	2006 ^a	2006			
						Q1	Q2	Q3	Q4 ^a
Goods	-5,960.3	-6,974.2	-6,727.8	-7,521.7	-8,363.9	-1,860.4	-2,348.0	-2,152.6	-2,002.9
1. Credit	5,293.1	5,571.7	6,603.1	7,216.6	8,433.6	2,004.8	1,972.4	2,086.7	2,369.7
1.1. Exports (f.o.b.) in trade statistics	5,188.2	5,464.4	6,453.8	7,069.4	8,251.2	1,971.4	1,931.6	2,027.4	2,320.9
1.2. Adjustments for coverage	105.0	107.3	149.3	147.2	182.4	33.4	40.8	59.3	48.9
2. Debit	-11,253.5	-12,545.9	-13,330.9	-14,738.3	-16,797.5	-3,865.2	-4,320.4	-4,239.2	-4,372.6
2.1. Imports (c.i.f.) in trade statistics	-11,327.0	-12,538.0	-13,354.4	-14,949.5	-17,094.0	-3,956.3	-4,408.7	-4,271.9	-4,457.0
2.2. Adjustments for coverage	-348.9	-475.6	-474.7	-346.4	-341.1	-56.4	-76.1	-126.7	-81.9
2.3. Adjustments for classification	422.5	467.7	498.1	557.6	637.6	147.6	164.4	159.3	166.2
Services	3,284.8	4,933.0	4,768.9	5,317.7	5,713.1	-43.2	1,297.8	4,134.7	323.8
1. Transportation	172.0	252.2	299.3	376.1	424.8	79.4	116.1	153.0	76.4
1.1. Credit	622.8	696.3	791.3	880.3	987.9	196.7	260.9	306.2	224.1
1.2. Debit	-450.8	-444.1	-492.0	-504.2	-563.1	-117.3	-144.8	-153.3	-147.7
2. Travel	3,138.6	4,976.6	4,822.3	5,394.9	5,708.7	74.4	1,280.3	3,987.1	366.9
2.1. Credit	3,960.8	5,572.7	5,505.6	5,998.9	6,293.3	187.5	1,429.1	4,150.9	525.8
2.1.1. Business	341.2	260.9	328.2	504.0	388.4	47.9	156.1	100.9	83.5
2.1.2. Personal	3,619.7	5,311.8	5,177.4	5,494.9	5,904.9	139.5	1,272.9	4,050.1	442.3
2.2. Debit	-822.2	-596.1	-683.3	-604.1	-584.6	-113.0	-148.7	-163.9	-159.0
2.2.1. Business	-482.6	-292.3	-297.3	-267.4	-229.5	-50.0	-60.3	-47.7	-71.5
2.2.2. Personal	-339.6	-303.8	-386.0	-336.7	-355.1	-63.1	-88.4	-116.2	-87.4
3. Other services	-25.9	-295.8	-352.7	-453.3	-420.4	-197.0	-98.7	-5.3	-119.5
3.1. Credit	1,248.6	1,296.9	1,339.8	1,173.4	1,252.0	279.1	329.1	359.1	284.7
3.2. Debit	-1,274.5	-1,592.7	-1,692.5	-1,626.6	-1,672.4	-476.1	-427.7	-364.4	-404.2

^a Preliminary data.

parity. The value of exports at this parity is already contained in the previously mentioned CBS Report, whereas the value of imports f.o.b. is estimated on the basis of research studies of the CNB on the stratified sample of importers. The resulting value serves as a basis for the estimate of the share of transportation and insurance services by which the original value of imports c.i.f., stated in the CBS Report, is reduced. In the 1993-2001 period, this share stood at 7.10% (estimated only on the basis of the largest and large exporters), while from 2002 on it has amounted to 3.73%. In the period from 1993 to 1996, the value of imports was modified by estimates of imports in duty free zones, which have been included in the merchandise trade statistics since 1997. Starting from 1996, goods exports and imports have been modified by the data on repairs on goods and goods procured in ports by carriers. In addition, since 1999, based on the Survey on Consumption of Foreign Travellers in Croatia and Domestic Travellers Abroad, the item of goods exports has been modified by the estimated value of goods sold to foreign travellers and tourists and taken out of the Republic of Croatia. The item of goods imports is adjusted for the estimated value of goods imported personally by the Croatian citizens from the neighbouring countries (shopping expenditures).

Transportation, travel and other services are reported separately under service account. Income and expenditures on the basis of transportation, in the 1993-1998 period, were adopted from the ITRS. Starting from 1999, income and expenditures arising from transportation of goods and passengers, as well as the value of accompanying services, which together constitute the total value of these services, have been compiled on the basis of the results of the Research on transactions related to international transportation services, carried out by the CNB. Owing to an exceptionally large population of road carriers, income and expenditures on the basis of road transportation are not adopted from this research. They are compiled by using ITRS data. As regards transportation of goods, expenditures are supplemented by a portion of transportation and insurance costs related to imports of goods which belongs to non-residents and which is estimated by adjusting the value of imports at c.i.f. parity to the value of imports f.o.b.

Income from services rendered to foreign travellers and tourists, as well as expenditures incurred by domestic travellers and tourists abroad are shown under the position Travel. In the 1993-1998 period, this position was assessed by using various data sources which did not provide for a full coverage in accordance with the recommended methodology. Accordingly, in the second half of 1998, the Croatian National Bank started to carry out the Survey on Consumption of Foreign Travellers in Croatia and Domestic Travellers Abroad and use its results for compiling the Travel position. Since early 1999, the results of this Survey, based on carrying out a survey of travellers (stratified sample) at border crossings, have been combined with the Ministry of the Interior data on total number of foreign and domestic travellers, along with the data on distribution of foreign travellers by countries contained in the CBS Report on tourism, in order to assess the corresponding balance of payment items.

Other services position is compiled by using different data sources: apart from income and expenditures related to insurance and communication services, which have been determined by the CNB special statistical research since 2001, the values of all other services are adopted from the ITRS.

Transactions in the income account are classified into four main groups. Compensation of employees item is compiled on the basis of the ITRS. Income from direct investment, portfolio investment and other investment are reported separately. Data on reinvested earnings are reported separately, under direct investment income, calculated on the basis of the CNB Research on direct and other equity investment. In contrast to data on dividends, these data are not available for the 1993-1996 period, since at that time they were not reported separately. On the basis of statistical data on external debt relations, starting from 1997, income from direct investment includes data on interest arising from credit relations between residents and non-residents directly related through ownership. Income from equity portfolio investment is compiled on the basis of the same research, whereas data on debt portfolio investment income have been compiled since 1999, based on income reported in statistics on foreign credit re-

Table H3: Balance of Payments – Income and Current Transfers

million euros

	2002	2003	2004	2005	2006*	2006			
						Q1	Q2	Q3	Q4*
Income	-571.9	-1,069.0	-637.0	-964.8	-1,070.4	-440.1	-531.5	-110.1	11.3
1. Compensation of employees	167.6	183.9	233.9	259.7	373.2	67.3	78.5	109.7	117.6
1.1. Credit	187.2	217.3	268.3	289.2	404.3	76.5	86.3	116.1	125.4
1.2. Debit	-19.5	-33.4	-34.4	-29.5	-31.1	-9.2	-7.8	-6.4	-7.7
2. Direct investment income	-353.4	-839.5	-431.6	-723.6	-949.3	-269.8	-507.3	-158.6	-13.5
2.1. Credit	23.8	37.9	174.7	110.0	104.0	6.6	26.1	34.0	37.4
o/w: Reinvested earnings	7.4	34.8	165.8	63.9	86.7	3.9	15.3	32.9	34.6
2.2. Debit	-377.2	-877.4	-606.3	-833.6	-1,053.3	-276.4	-533.4	-192.6	-50.9
o/w: Reinvested earnings	-161.8	-588.9	-291.4	-570.5	-701.7	-95.0	-451.4	-127.5	-27.9
3. Portfolio investment income	-214.8	-239.6	-256.6	-306.4	-279.1	-183.2	-27.9	-40.9	-27.0
3.1. Credit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.2. Debit	-214.9	-239.6	-256.6	-306.4	-279.1	-183.2	-27.9	-40.9	-27.0
4. Other investment income	-171.3	-173.9	-182.8	-194.5	-215.2	-54.4	-74.9	-20.3	-65.7
4.1. Credit	249.3	195.5	214.3	272.2	400.4	78.6	95.6	103.5	122.7
4.2. Debit	-420.6	-369.4	-397.1	-466.7	-615.6	-132.9	-170.5	-123.8	-188.4
Current transfers	1,152.2	1,244.5	1,191.8	1,183.8	1,103.8	290.4	296.2	273.4	243.8
1. General government	32.2	70.5	2.6	9.7	-12.7	-1.1	-36.4	3.5	21.4
1.1. Credit	143.4	213.1	180.1	219.6	251.7	47.3	47.2	67.5	89.7
1.2. Debit	-111.2	-142.6	-177.5	-209.9	-264.4	-48.4	-83.6	-64.0	-68.4
2. Other sectors	1,120.0	1,174.0	1,189.2	1,174.1	1,116.5	291.5	332.6	269.9	222.4
2.1. Credit	1,309.8	1,325.6	1,404.5	1,408.8	1,380.8	353.8	392.3	338.5	296.3
2.2. Debit	-189.8	-151.6	-215.3	-234.6	-264.3	-62.3	-59.6	-68.6	-73.9

* Preliminary data.

lations, which also encompass payments related to debt securities owned by non-residents. Income from other investments includes all payments and collections of interest in accordance with the foreign credit relations statistics.

Current transfers are reported separately for the general government sector and other sectors. The ITRS is used as the main data source on current transfers for both sectors. In addition to taxes and excise duties, pensions, monetary support and donations, which are included in current transfers of both sectors, the government sector also encompasses data on multilateral co-operation, whereas other sectors include data on workers' remittances. Current transfers of the general government sector also include data on exports and imports of goods without a payment obligation, provided by the CBS. In the 1993-1998 period, current transfers of other sectors also encompassed an estimate of unregistered foreign currency remittances, which accounted for 15% of the positive difference between unclassified inflows and outflows of the household sector. From 1993 to the second quarter of 1996, the CNB also assessed a portion of the outflow based on current transfers. Since 2002, inflows and outflows based on current transfers of other sectors are supplemented by the data of the CNB special statistical research on international transactions related to insurance services.

Capital account is compiled on the basis of the ITRS, particularly on their part related to transfers of migrants. In addition, capital account includes transfers that cannot be classified into current transfers, such as allocation of gold of the former SFRY or investments in patents and rights.

Foreign direct investments include equity capital, reinvested earnings and debt relations between ownership-related residents and non-residents. Direct investments are investments whereby a foreign owner acquires a minimum of 10% interest in equity capital of a company, regardless of whether a resident invests abroad or a non-resident invests in Croatian residents. The CNB Research on foreign direct

investments started in 1997 when companies included in the survey also delivered data on direct investments for the 1993-1996 period. For the same period, no data are available on reinvested earnings and other capital under direct investment position, where all debt relations between related residents and non-residents are classified (excluding the banking sector). Such data actually became available only after the stated research has been launched. Since 1999 data on debt relations within direct investments have been collected on the basis of external debt relations statistics.

Data on equity portfolio investments are collected from the same data source as the data on direct investments. Debt portfolio investments include all investments in short-term and long-term debt securities that cannot be classified under direct investments. In the 1997-1998 period, these data were collected through the CNB Research on direct and portfolio investments, and since 1999 data on external debt relations and monetary statistics data for bank investment have been used. Starting from 2002 and 2004, this position has also been compiled for investment funds and pension funds, respectively.

Other investment encompasses all other debt investments that have not been mentioned, apart from investment constituting reserve assets. Other investments are classified by instruments, maturity and sectors. Trade credits, in the 1996-2002 period, included the CNB estimates of advance payment and deferred payments, made on the basis of the sample of the largest and large importers and exporters. Data on advance payments have been estimated since 1996, while data on short-term deferred payments (first up to 90 days, then up to 150 days, and today from 8 days to 1 year) have been collected since 1999. In 2003 this research was replaced by a new one, where the selected companies, regardless of their size (stratified sample), are obliged to submit data. Data on deferred payments with the original maturity of more than one year are adopted from the CNB foreign credit relations statistics. Credits granted by residents to non-residents, i.e. foreign loans utilised by residents and granted by non-residents, which cannot be classified into direct investments or trade

Table H4: Balance of Payments – Direct and Portfolio Investments

million euros

	2002	2003	2004	2005	2006 ^a	2006			
						Q1	Q2	Q3	Q4 ^a
Direct investment	595.4	1,678.4	708.4	1,230.4	2,670.0	502.1	779.5	397.5	990.9
1. Abroad	-601.3	-106.1	-281.9	-194.5	-167.6	-25.5	-42.1	-48.3	-51.7
1.1. Equity capital and reinvested earnings	-594.1	-101.9	-259.4	-121.1	-230.6	-58.7	-54.2	-39.4	-78.4
1.1.1. Claims	-597.0	-101.9	-259.7	-122.4	-230.6	-58.7	-54.2	-39.4	-78.4
1.1.2. Liabilities	2.9	0.0	0.4	1.3	0.0	0.0	0.0	0.0	0.0
1.2. Other capital	-7.2	-4.3	-22.6	-73.4	63.1	33.2	12.1	-8.9	26.7
1.2.1. Claims	-9.9	-16.5	-27.3	-63.0	45.2	21.9	9.9	-11.7	25.1
1.2.2. Liabilities	2.7	12.2	4.7	-10.4	17.8	11.3	2.2	2.8	1.6
2. In Croatia	1,196.8	1,784.5	990.4	1,424.9	2,837.6	527.6	821.7	445.7	1,042.6
2.1. Equity capital and reinvested earnings	873.8	1,345.1	605.1	1,363.5	2,486.7	375.3	689.6	258.3	1,163.5
2.1.1. Claims	0.0	-1.2	-25.0	0.0	-0.1	-0.1	0.0	0.0	0.0
2.1.2. Liabilities	873.8	1,346.4	630.1	1,363.5	2,486.8	375.3	689.6	258.3	1,163.6
2.2. Other capital	322.9	439.4	385.3	61.4	350.9	152.3	132.1	187.5	-120.9
2.2.1. Claims	-0.3	-1.5	-17.4	1.5	16.4	-1.0	17.5	-0.1	-0.1
2.2.2. Liabilities	323.3	440.9	402.7	59.9	334.5	153.3	114.6	187.5	-120.9
Portfolio investment	-440.2	868.8	244.5	-1,077.3	-193.2	-447.9	122.7	292.6	-160.6
1. Assets	-650.6	121.3	-752.5	-513.2	-175.6	-45.4	59.9	3.2	-193.3
1.1. Equity securities	-78.4	-58.0	-32.9	-178.2	-114.9	-54.3	38.5	-80.0	-19.2
1.1.1. General government	-2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.1.1. Banks	-2.8	0.3	0.0	0.0	2.6	0.0	0.0	2.6	0.0
1.1.2. Other sectors	-72.7	-58.3	-32.9	-178.2	-117.5	-54.3	38.5	-82.6	-19.2
1.2. Debt securities	-572.2	179.4	-719.6	-335.0	-60.7	8.9	21.4	83.2	-174.1
1.2.1. Bonds	-586.9	165.9	-585.0	-359.1	173.2	-14.3	280.9	87.2	-180.4
1.2.1.1. General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.2.1.2. Banks	-566.6	180.1	-592.9	-322.8	180.7	-9.2	268.5	64.0	-142.5
1.2.1.3. Other sectors	-20.3	-14.1	7.9	-36.3	-7.5	-5.1	12.4	23.2	-37.9
1.2.2. Money market instruments	14.7	13.5	-134.6	24.1	-233.9	23.2	-259.5	-4.0	6.3
1.2.2.1. General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.2.2.2. Banks	20.9	7.3	-134.7	24.1	-233.9	23.2	-259.5	-4.0	6.3
1.2.2.3. Other sectors	-6.2	6.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Liabilities	210.4	747.5	997.1	-564.1	-17.6	-402.5	62.8	289.4	32.6
2.1. Equity securities	44.2	13.5	141.6	89.2	303.4	30.8	8.9	382.8	-119.1
2.1.1. Banks	4.7	-2.1	-0.4	-12.8	37.3	1.4	-3.3	25.5	13.7
2.1.2. Other sectors	39.5	15.6	142.0	102.0	266.1	29.5	12.2	357.2	-132.7
2.2. Debt securities	166.2	734.0	855.5	-653.3	-321.0	-433.4	54.0	-93.3	151.7
2.2.1. Bonds	197.2	700.0	889.3	-653.3	-321.0	-433.4	54.0	-93.3	151.7
2.2.1.1. General government	67.2	527.3	417.8	-654.1	-293.0	-437.5	47.4	95.7	1.4
2.2.1.2. Banks	0.0	0.0	444.4	3.3	0.7	1.2	-1.2	0.3	0.4
2.2.1.3. Other sectors	130.0	172.6	27.2	-2.5	-28.7	3.0	7.7	-189.3	150.0
2.2.2. Money market instruments	-30.9	34.0	-33.8	0.0	0.0	0.0	0.0	0.0	0.0
2.2.2.1. General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.2.2. Banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.2.3. Other sectors	-30.9	34.0	-33.8	0.0	0.0	0.0	0.0	0.0	0.0

^a Preliminary data.

credits, are classified by the institutional sector and maturity under the corresponding positions of other investment. The CNB foreign credit relations statistics represent the data source for these positions. Currency and deposit position shows residents' claims on foreign countries for foreign cash and deposits with foreign banks, as well as obligations of the Croatian banks for deposits owned by non-residents. Monetary statistics represent a data source for the general government sector and banks sector. Data on balance and currency structure of foreign assets and liabilities, contained in monetary statistics, are used to assess transactions from which the exchange rate effect was eliminated. In the 1993-1998 period, data on other sectors' claims under this position were compiled on the basis of the CNB estimate of a portion of net foreign currency inflows of the household

sector which is not classified under current transfers. Since 1999 this position has included only the data based on the Bank for International Settlement quarterly data, while data in the fourth quarter of 2001 and in the first two quarters of 2002 relate to the effect of the EMU countries' currencies changeover to the euro.

In the period from 1993 to 1998, the estimate of reserve assets transactions was made by converting the changes in the original currencies into the US dollars by applying the average monthly exchange rate of the currencies contained in the reserves. Since 1999 the changes in reserve assets balance have been calculated on the basis of the CNB accounting data.

Table H5: Balance of Payments – Other Investment

million euros

	2002	2003	2004	2005	2006*	2006			
						Q1	Q2	Q3	Q4*
Other investment (net)	2,824.8	1,593.1	1,408.7	3,744.1	3,093.4	2,484.7	1,204.2	-1,486.0	890.4
1. Assets	461.0	-2,216.2	-420.9	987.0	-628.2	1,059.0	48.5	-907.1	-828.6
1.1. Trade credits	-79.2	-168.5	-188.7	-131.5	-32.7	-8.3	-46.0	-2.2	23.8
1.1.1. General government	0.0	0.0	0.0	-0.3	0.1	0.0	0.0	0.0	0.0
1.1.1.1. Long-term	0.0	0.0	0.0	-0.3	0.1	0.0	0.0	0.0	0.0
1.1.1.2. Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.1.2. Other sectors	-79.2	-168.5	-188.7	-131.3	-32.9	-8.4	-46.0	-2.3	23.8
1.1.2.1. Long-term	-6.5	-24.4	17.4	14.0	-4.1	-5.3	-1.6	3.0	-0.3
1.1.2.2. Short-term	-72.7	-144.1	-206.1	-145.3	-28.7	-3.1	-44.5	-5.2	24.1
1.2. Loans	-54.7	-85.6	43.9	-115.0	-141.1	-44.2	-43.7	-1.7	-51.4
1.2.1. General government	0.6	-1.0	-1.7	-1.5	1.0	0.4	0.2	0.3	0.1
1.2.1.1. Long-term	0.6	-1.0	-1.7	-1.5	1.0	0.4	0.2	0.3	0.1
1.2.1.2. Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.2.2. Banks	-21.8	3.6	3.8	-22.0	-69.5	-23.7	-29.2	-14.4	-2.3
1.2.2.1. Long-term	-20.3	4.4	-0.1	-14.0	-50.7	-11.4	-26.0	-12.4	-0.9
1.2.2.2. Short-term	-1.5	-0.8	3.9	-8.0	-18.8	-12.3	-3.2	-2.0	-1.4
1.2.3. Other sectors	-33.4	-88.2	41.9	-91.5	-72.6	-21.0	-14.7	12.3	-49.2
1.2.3.1. Long-term	-33.3	-88.2	43.2	-92.8	-72.8	-21.0	-15.0	12.3	-49.2
1.2.3.2. Short-term	-0.1	0.1	-1.3	1.2	0.3	0.0	0.2	0.0	0.0
1.3. Currency and deposits	594.9	-1,962.1	-276.1	1,233.5	-454.3	1,111.6	162.8	-796.4	-932.3
1.3.1. General government	-24.2	30.3	72.7	-44.4	26.5	13.9	-26.2	-39.3	78.1
1.3.2. Banks	1,516.5	-1,964.5	-368.7	1,313.5	-460.2	1,113.4	193.0	-756.3	-1,010.3
1.3.3. Other sectors	-897.4	-27.9	19.8	-35.6	-20.6	-15.8	-4.0	-0.8	0.0
1.4. Other assets	0.0	0.0	0.0	0.0	-0.2	0.0	-24.6	-106.8	131.3
2. Liabilities	2,363.8	3,809.3	1,829.5	2,757.1	3,721.6	1,425.7	1,155.7	-578.9	1,719.0
2.1. Trade credits	501.3	-226.9	-54.5	14.2	-86.2	20.7	207.4	-141.5	-172.7
2.1.1. General government	-0.1	1.5	-0.3	0.4	-0.7	-0.2	-0.1	-0.2	-0.2
2.1.1.1. Long-term	-0.1	1.5	-0.3	0.4	-0.7	-0.2	-0.1	-0.2	-0.2
2.1.1.2. Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.1.2. Other sectors	501.4	-228.4	-54.3	13.8	-85.5	20.9	207.5	-141.4	-172.6
2.1.2.1. Long-term	-1.2	-47.4	-16.7	26.5	-12.1	1.0	2.8	-5.0	-10.9
2.1.2.2. Short-term	502.6	-181.0	-37.5	-12.7	-73.4	19.8	204.8	-136.3	-161.7
2.2. Loans	653.8	2,896.1	1,636.5	2,372.6	2,976.6	965.1	655.0	105.6	1,250.8
2.2.1. Croatian National Bank	-177.2	354.2	-369.6	0.0	0.0	0.0	0.9	-0.9	0.0
2.2.1.1. o/w: IMF	-129.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.1.1.1. Drawings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.1.1.2. Repayments	-129.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.1.2. Short-term	-47.6	354.2	-369.6	0.0	0.0	0.0	0.9	-0.9	0.0
2.2.2. General government	433.9	502.9	411.7	241.8	124.0	149.7	-43.3	-22.2	39.8
2.2.2.1. Long-term	433.9	502.9	411.7	241.8	124.0	149.7	-43.3	-22.2	39.8
2.2.2.1.1. Drawings	598.2	697.8	706.8	484.5	420.6	218.6	30.3	44.6	127.1
2.2.2.1.2. Repayments	-164.3	-194.9	-295.1	-242.8	-296.6	-68.9	-73.6	-66.8	-87.3
2.2.2.2. Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.3. Banks	79.3	1,005.7	647.4	842.1	516.0	496.6	180.5	-810.7	649.5
2.2.3.1. Long-term	81.6	927.2	737.9	276.5	306.3	453.6	55.5	-307.5	104.7
2.2.3.1.1. Drawings	656.9	1,644.7	1,165.8	1,135.6	2,572.3	542.0	1,024.3	33.0	972.9
2.2.3.1.2. Repayments	-575.3	-717.5	-427.8	-859.1	-2,265.9	-88.4	-968.8	-340.6	-868.2
2.2.3.2. Short-term	-2.3	78.5	-90.6	565.7	209.6	43.0	124.9	-503.1	544.8
2.2.4. Other sectors	317.8	1,033.4	947.0	1,288.7	2,336.6	318.8	516.9	939.3	561.5
2.2.4.1. Long-term	335.4	983.0	909.0	1,082.6	1,996.9	231.8	368.6	763.1	633.5
2.2.4.1.1. Drawings	1,326.0	1,962.1	2,046.4	2,255.1	3,494.6	564.4	712.2	1,073.1	1,144.8
2.2.4.1.2. Repayments	-990.7	-979.1	-1,137.4	-1,172.5	-1,497.7	-332.7	-343.7	-310.0	-511.4
2.2.4.2. Short-term	-17.6	50.4	38.0	206.0	339.7	87.0	148.4	176.3	-72.0
2.3. Currency and deposits	1,209.5	1,140.8	244.5	367.6	828.7	439.3	292.7	-543.6	640.3
2.3.1. General government	0.1	0.1	0.0	0.0	0.1	6.4	21.5	-28.4	0.6
2.3.2. Banks	1,209.4	1,140.7	244.5	367.5	828.6	432.9	271.2	-515.1	639.6
2.4. Other liabilities	-0.9	-0.7	3.0	2.8	2.6	0.6	0.6	0.7	0.6

* Preliminary data.

Table H6: Balance of Payments – Summary

million kuna

	2002	2003	2004	2005	2006 ^a	2006			
						Q1	Q2	Q3	Q4 ^a
A. CURRENT ACCOUNT (1+6)	-15,740.3	-14,498.6	-10,975.1	-14,907.9	-19,333.1	-15,069.8	-9,367.0	15,600.0	-10,496.2
1. Goods, services, and income (2+5)	-24,271.6	-23,912.2	-19,901.8	-23,666.0	-27,415.8	-17,201.6	-11,522.9	13,600.7	-12,292.0
1.1. Credit	85,578.6	102,470.4	111,108.2	117,627.5	130,701.0	20,775.9	30,560.1	52,184.7	27,180.3
1.2. Debit	-109,850.2	-126,382.6	-131,010.1	-141,293.4	-158,116.8	-37,977.5	-42,083.0	-38,584.0	-39,472.3
2. Goods and services (3+4)	-20,004.4	-15,694.7	-15,110.6	-16,535.6	-19,603.1	-13,976.5	-7,658.4	14,395.8	-12,363.9
2.1. Credit	82,188.2	99,169.2	106,198.2	112,666.2	124,043.7	19,589.0	29,046.2	50,330.0	25,078.6
2.2. Debit	-102,192.6	-114,863.9	-121,308.8	-129,201.8	-143,646.8	-33,565.5	-36,704.6	-35,934.2	-37,442.5
3. Goods	-44,135.8	-52,782.7	-50,354.9	-55,595.6	-61,227.5	-13,657.8	-17,095.4	-15,719.0	-14,755.2
3.1. Credit	39,198.3	42,167.2	49,480.4	53,370.2	61,769.1	14,719.2	14,358.6	15,238.9	17,452.4
3.2. Debit	-83,334.1	-94,949.9	-99,835.3	-108,965.8	-122,996.6	-28,377.0	-31,454.1	-30,957.9	-32,207.6
4. Services	24,131.4	37,088.0	35,244.3	39,060.0	41,624.4	-318.8	9,437.0	30,114.8	2,391.3
4.1. Credit	42,989.9	57,002.0	56,717.8	59,296.0	62,274.6	4,869.8	14,687.6	35,091.1	7,626.2
4.2. Debit	-18,858.5	-19,914.0	-21,473.5	-20,236.0	-20,650.2	-5,188.5	-5,250.6	-4,976.3	-5,234.9
5. Income	-4,267.2	-8,217.6	-4,791.2	-7,130.3	-7,812.7	-3,225.1	-3,864.5	-795.1	72.0
5.1. Credit	3,390.4	3,301.2	4,910.0	4,961.3	6,657.3	1,186.9	1,513.9	1,854.7	2,101.7
5.2. Debit	-7,657.6	-11,518.7	-9,701.2	-12,091.6	-14,470.0	-4,412.0	-5,378.4	-2,649.8	-2,029.8
6. Current transfers	8,531.3	9,413.6	8,926.8	8,758.1	8,082.7	2,131.7	2,155.9	1,999.3	1,795.8
6.1. Credit	10,761.2	11,639.9	11,872.9	12,047.2	11,954.1	2,944.2	3,199.5	2,967.4	2,843.0
6.2. Debit	-2,229.9	-2,226.3	-2,946.1	-3,289.1	-3,871.4	-812.5	-1,043.7	-968.1	-1,047.2
B. CAPITAL AND FINANCIAL ACCOUNT	20,263.4	22,705.4	17,726.7	22,600.8	29,741.2	12,519.8	10,245.7	-1,408.2	8,383.9
B1. Capital account	3,695.6	546.9	172.8	375.8	-1,077.6	-1,200.1	25.5	43.5	53.5
B2. Financial account, excl. reserves	22,056.2	31,510.9	17,890.4	28,300.4	41,132.2	18,658.3	15,293.5	-5,858.4	13,038.8
1. Direct investment	4,421.2	12,699.3	5,335.0	9,064.1	19,603.4	3,682.6	5,680.7	2,889.9	7,350.2
1.1. Abroad	-4,444.0	-813.0	-2,099.1	-1,431.7	-1,229.9	-189.5	-307.2	-353.8	-379.4
1.2. In Croatia	8,865.1	13,512.3	7,434.1	10,495.8	20,833.3	3,872.1	5,987.8	3,243.7	7,729.6
2. Portfolio investment	-3,227.3	6,669.8	1,747.5	-7,926.8	-1,418.0	-3,261.3	897.6	2,137.6	-1,191.9
2.1. Assets	-4,839.8	936.8	-5,688.0	-3,760.7	-1,302.7	-335.0	437.7	18.5	-1,423.9
2.2. Liabilities	1,612.6	5,733.0	7,435.4	-4,166.1	-115.3	-2,926.3	459.9	2,119.1	232.0
3. Financial derivatives	0.0	0.0	0.0	-659.4	0.0	0.0	0.0	0.0	0.0
4. Other investment	20,862.4	12,141.7	10,807.9	27,822.5	22,946.8	18,237.0	8,715.2	-10,885.9	6,880.5
4.1. Assets	3,329.5	-16,852.3	-3,088.0	7,459.4	-4,648.8	7,777.7	348.0	-6,658.3	-6,116.3
4.2. Liabilities	17,532.9	28,994.0	13,895.9	20,363.1	27,595.6	10,459.3	8,367.1	-4,227.6	12,996.8
B3. Reserve assets (CNB)	-5,488.5	-9,352.4	-336.5	-6,075.4	-10,313.4	-4,938.5	-5,073.3	4,406.7	-4,708.4
C. NET ERRORS AND OMISSIONS	-4,523.0	-8,206.8	-6,751.6	-7,692.9	-10,408.1	2,550.1	-878.7	-14,191.8	2,112.3

^a Preliminary data.

Note: The item net errors and omissions also comprises the counter entry of a part of revenues from travel services which relates to such revenues not stated in the banks' records.

Table H7: International Reserves and Banks' Foreign Exchange Reserves^a

end of period, million euros

Year	Month	International reserves of the Croatian National Bank							Banks' foreign exchange reserves
		Total	Special drawing rights	Reserve position in the Fund	Gold	Foreign exchange			
						Total	Currency and deposits	Bonds and notes	
1997	December	2,303.7	133.4	0.1	–	2,170.2	1,825.2	345.0	2,078.9
1998	December	2,400.2	197.1	0.1	–	2,203.0	1,642.6	560.4	1,607.0
1999	December	3,012.7	188.7	0.2	–	2,823.7	2,449.8	373.9	1,344.7
2000	December	3,783.2	158.5	0.2	–	3,624.5	2,763.0	861.5	2,310.7
2001	December	5,333.6	122.9	0.2	–	5,210.5	3,469.7	1,740.7	4,056.0
2002	December	5,651.3	2.3	0.2	–	5,648.8	3,787.8	1,861.0	2,581.6
2003	December	6,554.1	0.7	0.2	–	6,553.2	3,346.0	3,207.2	3,927.1
2004	December	6,436.2	0.6	0.2	–	6,435.4	3,173.3	3,262.0	4,220.1
2005	December	7,438.4	0.9	0.2	–	7,437.3	3,834.5	3,602.8	2,938.4
2006	January	7,627.8	1.2	0.2	–	7,626.4	4,006.9	3,619.5	2,680.5
	February	7,934.0	0.8	0.2	–	7,933.0	4,230.3	3,702.7	2,446.1
	March	8,088.5	0.7	0.2	–	8,087.6	4,406.1	3,681.5	1,926.8
	April	8,205.0	1.2	0.2	–	8,203.6	4,587.5	3,616.1	1,941.6
	May	8,502.2	0.7	0.2	–	8,501.3	4,718.2	3,783.1	1,783.4
	June	8,743.6	0.8	0.2	–	8,742.6	4,865.0	3,877.6	1,706.0
	July	8,974.2	1.2	0.2	–	8,972.8	4,954.9	4,017.9	1,672.4
	August	8,672.1	0.7	0.2	–	8,671.3	4,657.8	4,013.5	1,985.5
	September	8,134.8	0.7	0.2	–	8,133.9	4,163.1	3,970.9	2,413.4
	October	8,516.3	1.2	0.2	–	8,514.9	4,308.0	4,206.9	2,953.5
	November	8,983.7	0.7	0.2	–	8,982.8	4,537.8	4,445.0	2,915.8
	December	8,725.3	0.7	0.2	–	8,724.4	4,526.9	4,197.5	3,315.0

^a International reserves of the Republic of Croatia consist only of the Croatian National Bank's foreign exchange reserves.**Table H7: International Reserves and Banks' Foreign Exchange Reserves**

The international reserves of the Croatian National Bank are shown according to the methodology contained in the Balance of Payments Manual (International Monetary Fund, 1993), and include those foreign claims of the Croatian National Bank that can be used to bridge imbalances in international payments. International reserves include

special drawing rights, reserve position in the International Monetary Fund, gold, foreign currency and deposits with foreign banks, as well as bonds and debt instruments.

The foreign exchange reserves of banks include foreign currency and domestic banks' deposits with foreign banks. These foreign exchange reserves represent an additional source of liquidity for bridging imbalances in international payments.

Table H8: International Reserves and Foreign Currency Liquidity

end of period, million euros

	2005	2006											
	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	7,438.4	7,627.8	7,934.0	8,088.5	8,205.0	8,502.2	8,743.6	8,974.2	8,672.1	8,134.8	8,516.3	8,983.7	8,725.3
(1) Foreign currency reserves (in convertible f/c)	7,337.3	7,126.5	7,520.7	7,487.6	7,502.2	7,701.3	7,942.6	8,223.2	7,981.3	7,434.1	7,814.9	8,182.8	8,162.8
(a) Securities	3,602.8	3,619.5	3,702.7	3,681.5	3,616.1	3,783.1	3,877.6	4,017.9	4,013.5	3,970.9	4,206.9	4,445.0	4,197.5
o/w: Issuer headquartered in reporting country but located abroad	-	-	-	-	-	-	-	-	-	-	-	-	-
(b) Total currency and deposits with:	3,734.5	3,506.9	3,818.0	3,806.1	3,886.1	3,918.2	4,065.0	4,205.3	3,967.8	3,463.2	3,608.0	3,737.8	3,965.3
(i) other national central banks, BIS and IMF	407.3	208.1	207.1	205.4	201.3	200.5	202.5	201.7	200.7	201.5	201.4	198.6	198.7
(ii) banks headquartered in the reporting country	-	-	-	-	-	-	-	-	-	-	-	-	-
o/w: Located abroad	-	-	-	-	-	-	-	-	-	-	-	-	-
(iii) banks headquartered outside the reporting country	3,327.2	3,298.9	3,610.9	3,600.7	3,684.9	3,717.7	3,862.5	4,003.7	3,767.1	3,261.6	3,406.6	3,539.1	3,766.6
o/w: Located in the reporting country	-	-	-	-	-	-	-	-	-	-	-	-	-
(2) IMF reserve position	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
(3) SDRs	0.9	1.2	0.8	0.7	1.2	0.7	0.8	1.2	0.7	0.7	1.2	0.7	0.7
(4) gold	-	-	-	-	-	-	-	-	-	-	-	-	-
(5) other reserve assets	100.0	500.0	412.3	600.0	701.3	800.0	800.0	749.6	690.0	699.9	700.0	800.0	561.6
- reverse repo	100.0	500.0	412.3	600.0	701.3	800.0	800.0	749.6	690.0	699.9	700.0	800.0	561.6
B. Other foreign currency assets (specify)	-												
- time deposits	-	-	-	-	-	-	-	-	-	-	-	-	-
C. Total (A + B)	7,438.4	7,627.8	7,934.0	8,088.5	8,205.0	8,502.2	8,743.6	8,974.2	8,672.1	8,134.8	8,516.3	8,983.7	8,725.3
II. Predetermined short-term net drains on f/c assets (nominal value)													
1. F/c loans, securities, and deposits (total net drains up to one year)													
(a) Croatian National Bank	-1.1	-1.1	-1.1	-1.6	-1.2	-1.6	-1.3	-1.4	-1.8	-1.4	-1.5	-1.9	-1.6
Up to 1 month	-	-	-	-	-	-	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest	-1.1	-1.1	-1.1	-1.6	-1.2	-1.6	-1.3	-1.4	-1.8	-1.4	-1.5	-1.9	-1.6
More than 1 and up to 3 months	-	-	-	-	-	-	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-	-	-	-	-
More than 3 months and up to 1 year	-	-	-	-	-	-	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-	-	-	-	-
(b) Central government (excl. central government funds)	-898.6	-858.6	-684.1	-413.5	-412.9	-412.1	-405.3	-336.9	-656.3	-661.5	-666.4	-655.2	-648.9
Up to 1 month	-77.9	-176.6	-263.6	-2.7	-1.6	-28.4	-74.8	-12.1	-9.7	-4.8	-4.6	-28.5	-48.3
Principal	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest	-77.9	-176.6	-263.6	-2.7	-1.6	-28.4	-74.8	-12.1	-9.7	-4.8	-4.6	-28.5	-48.3
More than 1 and up to 3 months	-603.0	-418.2	-114.7	-84.5	-144.6	-132.5	-63.5	-82.3	-88.0	-126.0	-185.4	-171.1	-138.4
Principal	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest	-603.0	-418.2	-114.7	-84.5	-144.6	-132.5	-63.5	-82.3	-88.0	-126.0	-185.4	-171.1	-138.4
More than 3 months and up to 1 year	-160.2	-203.2	-207.8	-186.5	-118.5	-118.6	-139.0	-133.3	-447.0	-429.0	-391.9	-387.5	-399.8
Principal	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest	-160.2	-203.2	-207.8	-186.5	-118.5	-118.6	-139.0	-133.3	-447.0	-429.0	-391.9	-387.5	-399.8
(c) Other	-57.5	-58.1	-98.1	-139.8	-148.2	-132.6	-128.0	-109.2	-111.5	-101.6	-84.5	-68.1	-62.3
Principal	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest	-57.5	-58.1	-98.1	-139.8	-148.2	-132.6	-128.0	-109.2	-111.5	-101.6	-84.5	-68.1	-62.3
2. Aggregate short and long positions in forwards and futures in f/c vis-a-vis the domestic currency (including the forward leg of currency swaps)	-												
(a) Short positions (-)	-	-	-	-	-	-	-	-	-	-	-	-	-
Up to 1 month	-	-	-	-	-	-	-	-	-	-	-	-	-
More than 1 and up to 3 months	-	-	-	-	-	-	-	-	-	-	-	-	-
More than 3 months and up to 1 year	-	-	-	-	-	-	-	-	-	-	-	-	-
(b) Long positions (+)	-	-	-	-	-	-	-	-	-	-	-	-	-
Up to 1 month	-	-	-	-	-	-	-	-	-	-	-	-	-
More than 1 and up to 3 months	-	-	-	-	-	-	-	-	-	-	-	-	-
More than 3 months and up to 1 year	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Other	-												
- outflows related to repos (-)	-	-	-	-	-	-	-	-	-	-	-	-	-
Up to 1 month	-	-	-	-	-	-	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-	-	-	-	-
More than 1 and up to 3 months	-	-	-	-	-	-	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-	-	-	-	-
More than 3 months and up to 1 year	-	-	-	-	-	-	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Total predetermined short-term net drains on f/c assets (1+2+3)	-899.7	-859.6	-685.2	-415.1	-414.1	-413.7	-406.6	-338.2	-658.0	-662.8	-667.8	-657.1	-650.5
III. Contingent short-term net drains on f/c assets (nominal value)													
1. Contingent liabilities in foreign currency													
(a) Collateral guarantees on debt falling due within 1 year	-443.8	-453.3	-456.6	-455.0	-448.6	-443.7	-453.5	-420.6	-468.7	-467.5	-477.9	-476.7	-478.9
- Croatian National Bank	-	-	-	-	-	-	-	-	-	-	-	-	-
- Central government (excl. extrabudgetary funds)	-443.8	-453.3	-456.6	-455.0	-448.6	-443.7	-453.5	-420.6	-468.7	-467.5	-477.9	-476.7	-478.9
Up to 1 month	-59.6	-13.2	-26.1	-41.4	-17.0	-38.0	-55.3	-28.7	-57.6	-70.9	-13.5	-47.3	-71.9
More than 1 and up to 3 months	-53.0	-80.4	-64.4	-67.1	-114.4	-91.7	-86.4	-91.4	-71.7	-92.6	-143.0	-113.6	-84.8
More than 3 months and up to 1 year	-331.2	-359.7	-366.1	-346.5	-317.2	-314.0	-311.8	-300.6	-339.4	-304.0	-321.4	-315.7	-322.2
(b) Other contingent liabilities	-1,829.3	-1,988.2	-2,196.1	-2,362.2	-2,512.9	-2,629.7	-2,729.1	-2,769.6	-2,453.3	-2,008.8	-1,959.4	-2,110.7	-2,256.0
- Croatian National Bank	-1,829.3	-1,988.2	-2,196.1	-2,362.2	-2,512.9	-2,629.7	-2,729.1	-2,769.6	-2,453.3	-2,008.8	-1,959.4	-2,110.7	-2,256.0
Up to 1 month	-	-	-	-	-	-	-	-	-	-	-	-	-
More than 1 and up to 3 months	-1,829.3	-1,988.2	-2,196.1	-2,362.2	-2,512.9	-2,629.7	-2,729.1	-2,769.6	-2,453.3	-2,008.8	-1,959.4	-2,110.7	-2,256.0
More than 3 months and up to 1 year	-	-	-	-	-	-	-	-	-	-	-	-	-
- Central government (excl. central government funds)	-	-	-	-	-	-	-	-	-	-	-	-	-

2. F/c securities issued with embedded options (puttable bonds)	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Undrawn, unconditional credit lines provided by:	-	-	-	-	-	-	-	-	-	-	-	-	-
– BIS (+)	-	-	-	-	-	-	-	-	-	-	-	-	-
– IMF (+)	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Aggregate short and long positions of options in f/c vis-a-vis the domestic currency	-	-	-	-	-	-	-	-	-	-	-	-	-
5. Total contingent short-term net drains on f/c assets (1+2+3+4)	-2,273.1	-2,441.4	-2,652.7	-2,817.2	-2,961.5	-3,073.4	-3,182.6	-3,190.2	-2,922.0	-2,476.4	-2,437.3	-2,587.4	-2,734.9
IV. Memo items													
(a) short-term domestic currency debt indexed to the exchange rate	-	-	-	-	-	-	-	-	-	-	-	-	-
o/w: Central government (excl. extrabudgetary funds)	-	-	-	-	-	-	-	-	-	-	-	-	-
(b) financial instruments denominated in foreign currency and settled by other means (e.g., in domestic currency)	-	-	-	-	-	-	-	-	-	-	-	-	-
(c) pledged assets	-	-	-	-	-	-	-	-	-	-	-	-	-
(d) securities lent and on repo	-	-	-	-	-	-	-	-	-	-	-	-	-
– lent or repaid and included in Section I	-	-	-	-	-	-3.2	-	-1.0	-2.6	-0.7	-	-0.8	-
– lent or repaid but not included in Section I	-	-	-	-	-	-	-	-	-	-	-	-	-
– borrowed or acquired and included in Section I	-	-	-	-	-	-	-	-	-	-	-	-	-
– borrowed or acquired but not included in Section I	88.5	488.4	394.4	576.8	694.2	781.9	780.5	740.6	667.7	685.1	661.2	774.3	559.5
(e) financial derivative assets (net, marked to market)	-	-	-	-	-	-	-	-	-	-	-	-	-
(f) currency composition of official reserves assets													
– currencies in SDR basket	7,438.1	7,627.5	7,933.7	8,088.2	8,204.7	8,501.9	8,743.3	8,973.9	8,671.8	8,134.5	8,516.0	8,983.4	8,725.0
– currencies not in SDR basket	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
– by individual currencies													
USD	1,104.5	1,151.1	1,178.9	1,160.9	1,118.6	1,081.8	1,147.1	1,163.3	1,144.9	1,152.2	1,215.7	1,262.3	1,266.0
EUR	6,332.5	6,475.0	6,753.7	6,926.3	7,084.7	7,419.1	7,595.2	7,809.2	7,526.0	6,981.4	7,298.9	7,720.2	7,458.0
Other	1.3	1.7	1.4	1.2	1.7	1.3	1.3	1.8	1.2	1.2	1.8	1.3	1.3

Table H8: International Reserves and Foreign Currency Liquidity

International reserves and foreign currency liquidity are shown in accordance with a Template on international reserves and foreign currency liquidity, drawn up by the IMF. A detailed explanation of the Template is given in “International Reserves and Foreign Currency Liquidity – Guidelines for a Data Template, 2001”.

The first part of the Template shows total assets of the Croatian National Bank in convertible foreign currency. Official reserve assets (I.A.) show those types of assets that are readily available to the CNB at any moment for bridging imbalances in international payments. Official international reserves include: short-term foreign negotiable debt securities, foreign cash, foreign currency sight deposits, foreign currency time deposits which can be withdrawn before maturity, foreign currency time deposits with a remaining maturity of up to 1 year, reserve position with the IMF, special drawing rights, gold, and reverse repos with foreign negotiable debt securities.

The second part of the Template shows fixed predetermined foreign currency net liabilities of the Croatian National Bank and the central government (excluding central government funds) that fall due in the next 12 months. Foreign currency loans, securities and deposits (II.1.) include future interest payments on banks' foreign currency reserve requirements with the CNB (only interest payments for the next month are included), payments of future maturities of foreign currency CNB bills, future principal and interest payments on loans from the IMF, and future principal and interest payments on the central government's foreign currency debts (excluding central government funds). Aggregate short and long positions in forwards and futures in foreign currencies (II.2.) include future collections (+) or payments (-) arising from currency swaps between the CNB and domestic banks (temporary sale or purchase of foreign currency). Item Other (II.3.) includes future payments arising from repo agreements with foreign negotiable debt securities.

The third part of the Template shows predetermined contingent foreign currency net liabilities of the Croatian National Bank and the central government (excluding central government funds), which fall due in the following 12 months. Contingent liabilities in foreign currency (III.1.) include future principal and interest payments on foreign loans guaranteed by the central government, and banks' foreign currency reserve requirements. (The inclusion of reserve requirements in foreign currency is based on the assumption that there will be no changes in ratios or in the base of foreign currency reserve requirements, which comprises foreign exchange sources of funds, including ordinary foreign exchange accounts, special foreign exchange accounts, sight foreign exchange accounts and savings deposits, received foreign exchange deposits and received foreign exchange loans, as well as obligations arising from securities issued in foreign exchange (excluding the bank's equity securities) and hybrid and subordinated instruments). Undrawn credit lines show potential inflows (+) or outflows (-) which would arise from drawdowns under these credits.

The fourth part of the Template lists memo items. Short-term, domestic currency debt indexed to foreign currency (IV.a) shows obligations arising from the Act on Converting Households' Foreign Exchange Deposits into the Public Debt of the Republic of Croatia, which fall due in the next 12 months. Pledged assets (IV.c) show time deposits in foreign currency with a maturity over 3 months listed in item I.B. which are also a pledge. Repo transactions with securities show the value of collateral that is the subject of repo agreements and reverse repo transactions with securities as well as how these transactions are registered in the Template. Until December 2000, the currency structure of international and other foreign currency reserves showed the currency structure of the total foreign currency assets of the CNB (section I.). From January 2001, the currency structure refers to official reserve assets (section I.A.).

Table H9: Midpoint Exchange Rates of the Croatian National Bank (period average)

Year	Month	HRK/EUR	HRK/ATS	HRK/FRF	HRK/100 ITL	HRK/CHF	HRK/GBP	HRK/USD	HRK/DEM
1997		6.960719	0.505335	1.056368	0.362049	4.248502	10.089408	6.161849	3.556098
1998		7.139159	0.514631	1.080018	0.366853	4.396452	10.537622	6.362284	3.620795
1999		7.581823	0.550993	1.155840	0.391568	4.739965	11.514804	7.122027	3.876528
2000		7.633852	0.554774	1.163773	0.394256	4.903244	12.530514	8.287369	3.903127
2001		7.471006	0.542939	1.138947	0.385845	4.946810	12.010936	8.339153	3.819865
2002		7.406976				5.049125	11.793108	7.872490	
2003		7.564248				4.978864	10.943126	6.704449	
2004		7.495680				4.854986	11.048755	6.031216	
2005		7.400047				4.780586	10.821781	5.949959	
2006		7.322849				4.656710	10.740292	5.839170	
2006	January	7.378070				4.761345	10.750120	6.099054	
	February	7.326746				4.705642	10.722253	6.128460	
	March	7.325951				4.671319	10.640575	6.100190	
	April	7.314826				4.644855	10.530527	5.975500	
	May	7.273472				4.671209	10.637740	5.699769	
	June	7.255173				4.651643	10.567474	5.722947	
	July	7.245768				4.620172	10.529897	5.714387	
	August	7.276358				4.614575	10.741034	5.679723	
	September	7.385597				4.665362	10.940363	5.795937	
	October	7.393049				4.649986	10.983203	5.861821	
	November	7.344346				4.612789	10.901289	5.710001	
	December	7.355022				4.608204	10.930893	5.565730	

Table H9: Midpoint Exchange Rates of the Croatian National Bank (period average)

The annual averages of CNB midpoint exchange rates are calculated based on the midpoint exchange rates effective on the working days in a year, using CNB exchange rate lists whose application dates pertain to the calculation period.

The monthly averages of CNB midpoint exchange rates are calculated based on the midpoint exchange rates effective on the working days in a month, using CNB exchange rate lists whose application dates pertain to the calculation period.

The data show the annual and monthly averages of CNB midpoint exchange rates for selected currencies from 1992 to date, in kuna terms. The averages related to the calculation periods from the beginning of 1992, when the legal tender in the Republic of Croatia was the Croatian dinar, until the introduction of the kuna on 30 May 1994, are shown in kuna equivalent, and are denominated by dividing their values by one thousand (1,000).

The annual and monthly averages of midpoint exchange rates for the euro from 1992 until end 1988 are the averages of midpoint exchange rates applied for the ECU.

Table H10: Midpoint Exchange Rates of the Croatian National Bank (end of period)

Year	Month	HRK/EUR	HRK/ATS	HRK/FRF	HRK/100 ITL	HRK/CHF	HRK/GBP	HRK/USD	HRK/DEM
1997		6.947200	0.499445	1.050510	0.357700	4.332003	10.475600	6.303100	3.514000
1998		7.329100	0.531546	1.114954	0.377700	4.567584	10.451000	6.247500	3.739700
1999		7.679009	0.558055	1.170657	0.396588	4.784268	12.340257	7.647654	3.926215
2000		7.598334	0.552192	1.158359	0.392421	4.989712	12.176817	8.155344	3.884966
2001		7.370030	0.535601	1.123554	0.380630	4.977396	12.101856	8.356043	3.768237
2002		7.442292				5.120256	11.451442	7.145744	
2003		7.646909				4.901551	10.860544	6.118506	
2004		7.671234				4.971314	10.824374	5.636883	
2005		7.375626				4.744388	10.753209	6.233626	
2006		7.345081				4.571248	10.943208	5.578401	
2006	January	7.359333				4.733603	10.752970	6.092667	
	February	7.307577				4.674157	10.725931	6.164651	
	March	7.323554				4.648695	10.548112	6.065055	
	April	7.291280				4.638514	10.498603	5.807934	
	May	7.264151				4.659494	10.601505	5.650837	
	June	7.256979				4.640012	10.500621	5.790297	
	July	7.258119				4.617124	10.648649	5.719107	
	August	7.314609				4.640955	10.842883	5.702954	
	September	7.381777				4.644380	10.897220	5.827105	
	October	7.369343				4.636848	11.003947	5.792143	
	November	7.333542				4.613451	10.861289	5.574718	
	December	7.345081				4.571248	10.943208	5.578401	

Table H10: Midpoint Exchange Rates of the Croatian National Bank (end of period)

The table shows CNB midpoint exchange rates applied on the last day of the observed period.

The data show CNB midpoint exchange rates for selected currencies from 1992 to date, in kuna terms. The end of period midpoint exchange rates related to the periods from the beginning of the time

series in 1992 until the introduction of the kuna on 30 May 1994 are shown in kuna equivalent and are denominated by dividing their values by one thousand (1,000).

The midpoint exchange rates for the euro applied on the last days of the observed periods from 1992 until end 1998 are the end of period midpoint exchange rates applied for the ECU.

Table H11: Indices of the Effective Exchange Rate of the Kuna

indices 2001 = 100

Year	Month	Nominal effective exchange rate of the kuna	Real effective exchange rate of the kuna; deflator	
			Producer price index	Consumer price index
1997	December	87.77	93.06	98.84
1998	December	91.09	95.99	95.39
1999	December	99.25	102.78	102.09
2000	December	101.63	100.07	101.91
2001	December	99.07	98.63	98.89
2002	December	95.99	95.65	96.26
2003	December	94.18	94.55	94.71
2004	December	90.42	90.61	90.85
2005	December	91.52	94.33	90.99
2006	January	90.87	94.18	89.96
	February	90.53	93.09	89.19
	March	90.39	93.06	89.43
	April	89.77	93.20	89.11
	May	88.28	91.79	87.61
	June	88.22	92.14	87.67
	July	88.09	92.48	88.26
	August	88.22	92.67	88.54
	September	89.68	93.75	89.88
	October	90.02	93.65	90.18
	November	88.95	92.91	88.59
	December	88.42	92.51	87.96

Note: From 1 January 2001, the eurozone related price series includes Greece as well.

Table H11: Indices of the Effective Exchange Rate of the Kuna

The index of the nominal effective exchange rate of the kuna is a weighted geometric average of the index of bilateral nominal exchange rates of the kuna against the euro, US dollar, Swiss franc, pound sterling and Slovenian tolar. The series of the indices of the effective exchange rate of the kuna, calculated in accordance with the modified CNB methodology for calculating the nominal and real effective kuna exchange rate (for the basic CNB methodology, see Bulletin No. 64, Box: 2, October 2001), were first published in the CNB Bulletin No. 94 (June 2004). The weights are determined based on the average share of a particular foreign currency in the structure of the current account – ITRS data between January 2000 and December 2003 (between July 1996 and January 2000 in the previous version of notes on methodology under Table H10). The new weights have been assigned to the euro (70.6%), US dollar (27.2%), Swiss franc (1.0%) and pound sterling (1.0%) and thus replaced the old weights: euro (66.2%), US dollar (30.7%), Swiss franc (1.6%) and pound sterling (1.2%). The weight assigned to the Slovenian tolar remained unchanged at 0.2%. The year 2001 is a base period for calculating the

indices of the effective exchange rate of the kuna (1995 in the previous version of notes on methodology under Table H10). The index of the nominal effective exchange rate is an aggregate indicator of the average value of the domestic currency against a basket of currencies. An increase in the index of the nominal effective exchange rate of the kuna in a certain period indicates that the kuna has depreciated against the basket of currencies, and vice versa. The index of the real effective exchange rate is a weighted geometric average of the index of bilateral exchange rates of the kuna adjusted for the relevant relative price indices (the ratio of price indices in partner countries and domestic prices). Producer price and consumer price indices, and the total harmonised consumer price index for the eurozone countries are used as deflators. The time series for consumer prices in Croatia is constructed in the following manner: retail price indices are used until December 1997 inclusive, and consumer price indices are used as of January 1998. 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 H12: Gross External Debt by Domestic Sectors

million euros

	2005	2006											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Government	7,047.4	7,062.0	6,915.1	6,632.1	6,551.6	6,559.3	6,601.6	6,612.4	6,608.6	6,660.4	6,680.2	6,636.3	6,659.4
Short-term	2.1	3.7	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.2
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	2.1	3.7	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.2
Principal arrears	1.7	3.7	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.2
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	7,045.3	7,058.3	6,915.0	6,632.1	6,551.5	6,559.3	6,601.6	6,612.4	6,608.5	6,660.3	6,680.1	6,636.1	6,659.2
Bonds	4,065.5	3,982.2	3,780.6	3,495.7	3,475.6	3,491.4	3,532.3	3,627.3	3,625.7	3,643.3	3,655.6	3,653.3	3,649.2
Credits	2,977.2	3,073.7	3,132.0	3,133.9	3,073.6	3,065.6	3,067.0	2,983.0	2,980.8	3,014.9	3,022.5	2,980.8	3,008.1
Trade credits	2.6	2.4	2.4	2.4	2.3	2.3	2.3	2.1	2.1	2.1	2.0	2.0	1.9
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Croatian National Bank	2.6	2.3	2.2	2.0	1.8	2.7	2.5	2.3	2.1	2.0	1.8	2.6	2.6
Short-term	2.6	2.3	2.2	2.0	1.8	2.7	2.5	2.3	2.1	2.0	1.8	2.6	2.6
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	2.6	2.3	2.2	2.0	1.8	2.7	2.5	2.3	2.1	2.0	1.8	2.6	2.6
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. Banks	8,993.5	9,190.7	9,653.3	9,847.4	10,257.7	10,410.5	10,298.1	9,567.0	8,977.0	8,926.5	9,256.7	9,667.4	10,182.3
Short-term	2,512.0	2,557.8	2,749.1	2,859.8	2,992.5	3,091.7	3,107.1	2,699.1	2,393.1	2,150.4	2,328.1	2,501.2	3,461.2
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	1,079.7	1,117.1	1,235.2	1,097.1	1,182.0	1,212.9	1,222.1	976.2	753.4	719.5	802.0	796.2	1,264.9
Currency and deposits	1,429.3	1,440.1	1,513.9	1,762.8	1,810.4	1,878.8	1,885.0	1,722.9	1,639.7	1,430.8	1,526.1	1,705.1	2,196.3
Other debt liabilities	3.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Principal arrears	3.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Interest arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	6,481.5	6,633.0	6,904.2	6,987.6	7,265.2	7,318.8	7,191.0	6,868.0	6,583.8	6,776.1	6,928.6	7,166.2	6,721.1
Bonds	456.7	459.5	461.0	462.7	464.3	464.9	466.3	448.5	450.2	452.1	453.7	456.3	458.0
Credits	3,844.8	3,977.0	4,134.1	4,263.1	4,478.0	4,443.3	4,316.0	4,217.7	4,038.3	3,999.3	3,995.4	3,939.7	4,093.0
Currency and deposits	2,180.0	2,196.5	2,309.1	2,261.8	2,322.9	2,410.6	2,408.8	2,201.7	2,095.3	2,324.7	2,479.5	2,770.2	2,170.1
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. Other sectors	7,156.4	7,192.9	7,309.4	7,514.8	7,560.7	7,712.8	8,002.5	8,417.7	8,608.7	8,749.7	9,083.7	9,310.2	9,361.7
Short-term	856.2	751.3	765.4	810.8	834.6	844.0	971.0	1,150.5	1,164.6	1,137.1	1,207.8	1,099.8	962.1
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	291.2	203.1	246.4	277.0	283.3	294.5	416.8	583.2	602.9	586.6	623.7	504.7	327.7
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	27.8	29.5	29.2	37.0	40.8	40.0	36.6	36.0	34.7	33.0	30.7	32.8	34.0
Other debt liabilities	537.2	518.8	489.9	496.8	510.5	509.5	517.7	531.3	527.0	517.4	553.4	562.4	600.3
Principal arrears	490.6	492.7	463.4	469.3	482.9	481.7	488.1	499.6	494.9	482.6	514.2	522.1	555.1
Interest arrears	46.6	26.1	26.5	27.5	27.6	27.8	29.5	31.8	32.2	34.8	39.3	40.3	45.3
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	6,300.1	6,441.5	6,544.0	6,703.9	6,726.1	6,868.7	7,031.5	7,267.2	7,444.1	7,612.6	7,875.9	8,210.4	8,399.6
Bonds	378.1	381.5	384.2	391.2	368.6	371.9	383.5	189.4	190.7	191.8	193.1	344.3	305.5
Credits	5,764.1	5,901.6	6,000.4	6,155.1	6,213.5	6,347.9	6,502.8	6,935.5	7,111.1	7,270.9	7,528.5	7,720.2	7,959.4
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	158.0	158.5	159.4	157.7	144.0	148.9	145.3	142.4	142.3	149.9	154.3	145.9	134.7
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5. Direct investment	2,340.9	2,443.8	2,474.3	2,536.1	2,576.5	2,631.6	2,666.7	2,756.9	2,820.5	2,856.5	2,722.9	2,763.6	2,826.3
Short-term	206.2	200.4	204.3	217.8	236.9	255.5	279.3	298.8	299.8	318.0	321.3	345.1	410.8
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	59.8	54.4	52.6	58.1	72.9	85.9	86.0	96.6	90.7	97.7	96.2	107.8	98.5
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	146.4	146.0	151.7	159.7	164.0	169.6	193.3	202.2	209.1	220.3	225.1	237.3	312.2
Principal arrears	132.6	133.9	139.4	147.0	150.9	156.1	178.9	187.6	194.0	204.0	208.4	220.0	291.1
Interest arrears	13.8	12.2	12.2	12.6	13.1	13.5	14.4	14.6	15.1	16.3	16.6	17.3	21.1
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	2,134.7	2,243.4	2,270.0	2,318.4	2,339.6	2,376.1	2,387.4	2,458.1	2,520.7	2,538.5	2,401.7	2,418.5	2,415.6
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	2,104.0	2,212.6	2,239.3	2,287.8	2,309.2	2,346.0	2,357.7	2,428.8	2,494.9	2,513.1	2,376.7	2,393.7	2,390.1
Trade credits	30.7	30.8	30.7	30.6	30.3	30.1	29.7	29.4	25.8	25.4	25.0	24.8	25.5
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total (1+2+3+4+5)	25,540.8	25,891.8	26,354.2	26,532.4	26,948.2	27,316.9	27,571.4	27,356.3	27,016.8	27,195.2	27,745.4	28,380.1	29,032.3

Table H12: Gross External Debt by Domestic Sectors

External debt is defined as the external debt liabilities of residents on the basis of debt securities issued in foreign markets (at face value), credits (repo agreements included) regardless of their contractual maturity, deposits of non-residents, and trade credits granted by non-residents with contractual maturity of more than 180 days (90 days up to 11 July 2001 and 150 days up to 31 December 2002).

External debt by domestic sectors is shown in the same manner as in the Capital and Financial Account of the BOP. Item Government shows external debt of the general government, which includes the Republic of Croatia, central government funds (including the Croatian Bank for Reconstruction and Development, the State Agency for Deposit Insurance and Bank Rehabilitation, the Croatian Roads and the Croatian Motorways), and local government. Item Croatian National Bank shows the central bank debts. Item Banks shows debts of banks. Item Other sectors shows debts of other banking institutions, non-banking financial institutions, enterprises, non-profit institutions

and households, including craftsmen. Item Direct investment shows borrower – lender transactions of other sectors that are interrelated by ownership (borrower or lender owns more than 10 percent of the other).

Each sector data are further shown by contractual maturity (short-term and long-term) and by debt instrument. From the beginning of 2004, instruments included in item Currency and deposits (3. Banks) are reported in accordance with their maturity. Data for the previous periods are reported only on a long-term basis.

Outstanding gross external debt includes principal and interest arrears, as well as accrual interest and future principal payments.

Outstanding debt data are shown at the CNB's midpoint exchange rate at the end of the period.

Data are considered preliminary until after publication of the final BOP data for the reporting quarter.

Table H13: Public Sector Gross External Debt, and Publicly Guaranteed and Non-Publicly Guaranteed Private Sector Gross External Debt

million euros

	2005	2006											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Public sector	8,428.2	8,462.4	8,322.0	8,098.4	7,985.8	7,996.5	8,028.1	8,020.5	8,029.1	8,164.7	8,221.0	8,213.7	8,229.9
Short-term	69.0	27.0	21.9	34.1	41.3	37.2	45.8	45.6	41.2	33.8	76.4	75.1	77.3
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	48.1	5.9	5.0	16.6	16.2	10.9	16.0	15.9	15.8	15.8	58.6	56.8	56.6
Currency and deposits	2.6	2.3	2.2	2.0	1.8	2.7	2.5	2.3	2.1	2.0	1.8	2.6	2.6
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	18.3	18.7	14.6	15.4	23.3	23.5	27.3	27.4	23.3	16.0	15.9	15.7	18.1
Principal arrears	16.9	18.7	14.6	15.3	23.2	23.5	27.2	27.3	23.2	15.8	15.7	15.4	17.7
Interest arrears	1.3	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.3	0.5
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	8,359.2	8,435.4	8,300.0	8,064.3	7,944.5	7,959.3	7,982.2	7,974.9	7,987.9	8,130.8	8,144.6	8,138.6	8,152.6
Bonds	4,065.5	3,982.2	3,780.6	3,495.7	3,475.6	3,491.4	3,532.3	3,627.3	3,625.7	3,643.3	3,655.6	3,653.3	3,649.2
Credits	4,188.7	4,348.2	4,413.2	4,455.2	4,373.5	4,370.0	4,325.9	4,255.3	4,268.5	4,388.3	4,385.8	4,391.0	4,424.7
Currency and deposits	0.0	0.0	0.0	7.0	0.0	0.0	28.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	105.1	104.9	106.2	106.4	95.5	97.9	96.0	92.3	93.7	99.2	103.2	94.3	78.7
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Direct investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Publicly guaranteed private sector	306.1	239.6	241.8	239.4	237.0	237.2	234.6	210.7	210.9	210.0	209.8	210.7	208.3
Short-term	39.9	17.0	17.2	17.9	16.8	16.4	16.2	17.2	17.1	17.2	16.6	16.3	17.3
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	39.9	17.0	17.2	17.9	16.8	16.4	16.2	17.2	17.1	17.2	16.6	16.3	17.3
Principal arrears	30.5	14.0	14.2	14.9	13.9	13.5	13.7	14.7	14.6	14.7	14.1	13.9	14.8
Interest arrears	9.4	3.0	3.0	3.0	2.9	2.9	2.5	2.5	2.5	2.5	2.5	2.4	2.5
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	266.2	222.6	224.5	221.6	220.1	220.8	218.4	193.5	193.8	192.8	193.2	194.4	191.0
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	264.4	220.9	222.9	220.1	218.8	218.6	216.2	191.4	191.8	190.8	191.2	190.5	187.1
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	1.8	1.6	1.6	1.5	1.3	2.2	2.2	2.1	2.0	2.0	2.0	3.9	3.9
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Direct investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. Non-publicly guaranteed private sector	16,806.5	17,189.9	17,790.5	18,194.5	18,725.4	19,083.3	19,308.7	19,125.1	18,776.9	18,820.5	19,314.6	19,955.6	20,594.0
Short-term	3,264.1	3,271.2	3,477.6	3,620.7	3,770.8	3,885.0	4,018.6	3,789.1	3,501.7	3,238.6	3,444.9	3,512.4	4,331.4
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	1,322.8	1,314.3	1,476.5	1,357.4	1,449.2	1,496.6	1,622.9	1,543.6	1,340.6	1,290.4	1,367.0	1,244.0	1,536.1
Currency and deposits	1,429.3	1,440.1	1,513.9	1,762.8	1,810.4	1,878.8	1,885.0	1,722.9	1,639.7	1,430.8	1,526.1	1,705.1	2,196.3
Trade credits	27.8	29.5	29.2	37.0	40.8	40.0	36.6	36.0	34.7	33.0	30.7	32.8	34.0
Other debt liabilities	484.2	487.2	458.0	463.5	470.5	469.6	474.1	486.7	486.7	484.4	521.0	530.6	565.1
Principal arrears	448.0	464.2	434.6	439.1	445.9	444.8	447.2	457.6	457.1	452.1	484.3	492.9	522.6
Interest arrears	36.3	23.0	23.4	24.4	24.6	24.9	26.9	29.2	29.6	32.2	36.7	37.7	42.5
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	11,201.5	11,474.9	11,838.6	12,037.7	12,378.1	12,566.7	12,623.5	12,579.2	12,454.8	12,725.4	13,146.8	13,679.6	13,436.3
Bonds	834.8	841.0	845.2	853.8	832.9	836.8	849.7	637.9	640.9	643.9	646.8	800.6	763.5
Credits	8,132.9	8,383.1	8,630.3	8,869.8	9,172.8	9,268.2	9,315.6	9,689.6	9,669.9	9,706.1	9,969.4	10,059.2	10,448.8
Currency and deposits	2,180.0	2,196.5	2,309.1	2,261.8	2,322.9	2,410.6	2,408.8	2,201.7	2,095.3	2,324.7	2,479.5	2,770.2	2,170.1
Trade credits	53.8	54.3	54.0	52.2	49.6	51.1	49.3	50.0	48.6	50.8	51.1	49.7	54.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Direct investment	2,340.9	2,443.8	2,474.3	2,536.1	2,576.4	2,631.6	2,666.7	2,756.9	2,820.5	2,856.5	2,722.9	2,763.6	2,826.3
Total (1+2+3)	25,540.8	25,891.8	26,354.2	26,532.4	26,948.2	27,316.9	27,571.4	27,356.3	27,016.8	27,195.2	27,745.4	28,380.1	29,032.3

Table H13: Public Sector Gross External Debt, and Publicly Guaranteed and Non-Publicly Guaranteed Private Sector Gross External Debt

The gross external debt position presented in this Table highlights the role of the public sector.

Public sector includes the general government (including the Republic of Croatia, central government funds and local government), the central bank, public enterprises and mixed ownership companies. Public enterprises are defined as enterprises in 100% ownership of business entities from the public sector. Mixed ownership companies are defined as companies in which business entities from the public

sector have a share larger than 50%.

Publicly guaranteed private sector gross external debt is defined as the external debt liabilities of business entities not covered by the definition of the public sector, the servicing of which is guaranteed by a business entity from the public sector.

Non-publicly guaranteed private sector gross external debt is defined as the external debt liabilities of business entities not covered by the definition of the public sector, the servicing of which is not guaranteed by the public sector.

Items are valued in the same manner as in Table H12.

Table H14: Gross External Debt by Domestic Sectors and Projected Future Payments

million euros

	Gross external debt 31/12/2006	Immediate	Projected future principal payments												
			Q1/07	Q2/07	Q3/07	Q4/07	2007	2008	2009	2010	2011	2012	2013	2014	Other
1. Government	6,659.4	0.2	244.2	104.2	349.8	108.6	806.8	713.5	1,054.8	843.7	1,437.8	257.5	210.6	676.9	657.6
Short-term	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	6,659.2	0.0	244.2	104.2	349.8	108.6	806.8	713.5	1,054.8	843.7	1,437.8	257.5	210.6	676.9	657.6
Bonds	3,649.2	0.0	155.9	0.0	281.1	0.0	437.0	225.4	723.3	562.0	1,052.6	45.0	28.0	519.9	56.0
Credits	3,008.1	0.0	88.2	104.0	68.6	108.4	369.2	487.6	331.4	281.7	385.1	212.5	182.5	156.9	601.4
Trade credits	1.9	0.0	0.2	0.2	0.2	0.2	0.7	0.5	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Croatian National Bank	2.6	0.0	2.6	0.0	0.0	0.0	2.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term	2.6	0.0	2.6	0.0	0.0	0.0	2.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	2.6	0.0	2.6	0.0	0.0	0.0	2.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. Banks	10,182.3	0.0	3,206.1	592.7	295.4	289.0	4,383.2	1,038.1	1,457.6	321.1	945.0	146.2	95.7	73.7	1,721.7
Short-term	3,461.2	0.0	3,022.6	179.7	129.7	129.2	3,461.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	1,264.9	0.0	1,214.9	50.0	0.0	0.0	1,264.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	2,196.3	0.0	1,807.7	129.7	129.7	129.2	2,196.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	6,721.1	0.0	183.6	413.0	165.7	159.8	922.0	1,038.1	1,457.6	321.1	945.0	146.2	95.7	73.7	1,721.7
Bonds	458.0	0.0	9.1	0.0	0.0	0.0	9.1	0.0	448.9	0.0	0.0	0.0	0.0	0.0	0.0
Credits	4,093.0	0.0	75.8	324.0	76.6	70.2	546.6	656.0	851.5	321.1	945.0	146.2	95.7	73.7	457.2
Currency and deposits	2,170.1	0.0	98.7	89.1	89.1	89.5	366.3	382.1	157.2	0.0	0.0	0.0	0.0	0.0	1,264.5
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. Other sectors	9,361.7	600.3	436.7	366.4	385.2	430.7	1,619.1	1,293.1	1,371.2	992.5	1,222.8	323.8	271.3	257.4	1,410.0
Short-term	962.1	600.3	120.3	78.9	102.8	59.7	361.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	327.7	0.0	120.3	78.9	68.8	59.7	327.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	34.0	0.0	0.0	0.0	34.0	0.0	34.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	600.3	600.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal arrears	555.1	555.1	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
Interest arrears	45.3	45.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	8,399.6	0.0	316.4	287.5	282.4	371.0	1,257.4	1,293.1	1,371.2	992.5	1,222.8	323.8	271.3	257.4	1,410.0
Bonds	305.5	0.0	0.6	0.0	0.0	0.0	0.6	5.8	5.8	6.6	145.3	8.3	8.3	10.0	114.6
Credits	7,959.4	0.0	298.9	269.4	271.7	358.2	1,198.2	1,246.7	1,340.0	977.1	1,076.7	315.4	262.9	247.3	1,295.2
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	134.7	0.0	16.8	18.2	10.8	12.8	58.6	40.6	25.5	8.8	0.8	0.1	0.1	0.1	0.1
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5. Direct investment	2,826.3	312.2	222.4	92.4	56.2	119.9	490.9	244.5	291.2	205.1	270.8	43.1	45.0	80.6	842.9
Short-term	410.8	312.2	65.6	22.7	5.0	5.3	98.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	98.5	0.0	65.6	22.7	5.0	5.3	98.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	312.2	312.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal arrears	291.1	291.1	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
Interest arrears	21.1	21.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	2,415.6	0.0	156.9	69.7	51.2	114.6	392.4	244.5	291.2	205.1	270.8	43.1	45.0	80.6	842.9
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	2,390.1	0.0	155.2	68.7	50.5	112.9	387.3	240.2	284.6	198.4	269.4	42.6	44.9	80.1	842.8
Trade credits	25.5	0.0	1.7	1.0	0.7	1.7	5.1	4.3	6.6	6.8	1.4	0.6	0.2	0.5	0.1
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total (1+2+3+4+5)	29,032.3	912.8	4,112.0	1,155.7	1,086.7	948.3	7,302.7	3,289.1	4,174.8	2,362.4	3,876.4				

Table H14: Gross External Debt by Domestic Sectors and Projected Future Payments

The Table shows outstanding gross external debt, projected principal payments and estimated interest payments according to the CNB's midpoint exchange rate at the end of the period. Principal payments on Currency and deposits of non-residents are projected according to the available monetary statistics data on original and remaining maturity.

Estimated interest payments do not include interest on deposits from non-residents, repo transactions and hybrid and subordinated instruments, as well as late interest on these instruments. Future interest payments are estimated at the interest rates at the contracting time and do not reflect changes of variable interest rates.

Projected payments of accrual interest, which are an integral part of the gross external debt, increase the projected principal payments in the first quarter period and, consequently, decrease the interest payments estimated for the same period.

Table H15: International Investment Position – Summary

million euros

	2002	2003	2004	2005	2006 ^a	2006			
						Q1	Q2	Q3	Q4 ^a
1. International investment position (net)	-7,225.7	-10,149.1	-15,369.1	-20,444.9	-30,235.5	-24,056.8	-26,645.3	-28,137.3	-30,235.5
2. Assets	12,417.0	14,802.9	14,877.3	15,589.5	17,418.6	15,196.9	15,732.6	16,162.0	17,418.6
2.1. Direct investment abroad	1,606.8	1,625.8	1,561.7	1,726.2	1,827.4	1,806.6	1,739.3	1,760.0	1,827.4
2.2. Portfolio investment	801.5	599.8	1,309.5	1,760.4	1,868.8	1,759.2	1,824.0	1,732.1	1,868.8
2.2.1. Equity securities	30.6	37.4	31.9	135.8	142.3	136.9	155.2	150.1	142.3
2.2.2. Debt securities	770.9	562.5	1,277.7	1,624.6	1,726.5	1,622.3	1,668.9	1,582.0	1,726.5
Bonds	761.0	560.0	1,142.5	1,508.4	1,356.2	1,528.5	1,291.7	1,207.2	1,356.2
Money market instruments	9.9	2.4	135.1	116.2	370.2	93.8	377.2	374.7	370.2
2.3. Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.4. Other investment	4,357.4	6,023.2	5,570.0	4,664.6	4,997.1	3,542.6	3,425.7	4,535.2	4,997.1
2.4.1. Trade credits	222.5	213.1	183.5	193.0	182.7	195.4	192.1	187.8	182.7
2.4.2. Loans	108.9	101.0	100.9	144.8	226.7	176.9	238.9	358.0	226.7
2.4.3. Currency and deposits	4,026.0	5,709.2	5,285.6	4,326.7	4,587.1	3,170.3	2,945.4	3,726.7	4,587.1
2.4.4. Other assets	0.0	0.0	0.0	0.0	0.7	0.1	49.3	262.5	0.7
2.5. Reserve assets (CNB)	5,651.3	6,554.1	6,436.1	7,438.4	8,725.3	8,088.5	8,743.6	8,134.8	8,725.3
3. Liabilities	19,642.7	24,952.0	30,246.5	36,034.3	47,654.1	39,253.7	42,377.9	44,299.2	47,654.1
3.1. Direct investment in Croatia	5,790.8	6,790.3	9,074.6	12,277.4	20,362.8	14,493.3	16,676.7	18,689.5	20,362.8
3.2. Portfolio investment	4,312.8	4,885.6	5,880.1	5,457.4	5,497.8	5,113.8	5,178.5	5,558.2	5,497.8
3.2.1. Equity securities	204.1	196.0	407.0	557.1	1,085.2	764.2	796.5	1,271.0	1,085.2
3.2.2. Debt securities	4,108.7	4,689.7	5,473.1	4,900.3	4,412.6	4,349.6	4,382.0	4,287.2	4,412.6
Bonds	4,108.7	4,656.2	5,473.1	4,900.3	4,412.6	4,349.6	4,382.0	4,287.2	4,412.6
Money market instruments	0.0	33.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.3. Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.4. Other investment	9,539.1	13,276.1	15,291.8	18,299.6	21,793.4	19,646.7	20,522.6	20,051.5	21,793.4
3.4.1. Trade credits	258.4	176.1	153.8	188.3	170.7	197.1	184.1	185.0	170.7
3.4.2. Loans	6,981.2	9,949.9	11,494.7	13,957.0	16,653.1	14,926.2	15,524.6	15,591.3	16,653.1
3.4.3. Currency and deposits	1,898.6	2,738.7	3,221.4	3,611.9	4,369.0	4,026.6	4,296.2	3,757.5	4,369.0
3.4.4. Other assets	400.9	411.3	421.9	542.4	600.6	496.8	517.7	517.6	600.6

^a Preliminary data.**Table H15: International Investment Position – Summary**

This table is made in accordance with the recommendations of the IMF (Balance of Payments Manual, Fifth Edition, 1993). Data sources include: reports from banks, enterprises, the Croatian National Bank, and the Zagreb Stock Exchange.

Data on international investments of the Republic of Croatia and international investments into the Republic of Croatia are recorded in euros (EUR) and US dollars (USD). Depending on the sources of data available, the conversion of values from the original currencies into the reporting currencies is performed:

- by applying the current rate of exchange or the average monthly midpoint exchange rate of the Croatian National Bank to transactions;

- by applying the midpoint exchange rate of the Croatian National Bank on the reporting date to balances.

The source of data on foreign direct and portfolio equity investment is the statistical research of the Croatian National Bank. The equity investments have been monitored since the beginning of 2001 and are corrected for changes in the official index of the Zagreb Stock Exchange (CROBEX).

Portfolio debt investment and other investment are classified according to the following institutional sectors: the Croatian National Bank, government, banks and other sectors. The government sector comprises central government and funds and local government authorities. The banking sector comprises banks.

Item Portfolio debt investment – Assets and liabilities comprises data on investments of residents into debt securities issued by non-resi-

dents (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

Table H16: International Investment Position – Direct Investment

million euros

	2002	2003	2004	2005	2006 ^a	2006			
						Q1	Q2	Q3	Q4 ^a
Direct investment (net)	-4,183.9	-5,164.5	-7,512.9	-10,551.2	-18,535.4	-12,686.7	-14,937.4	-16,929.6	-18,535.4
1. Abroad	1,606.8	1,625.8	1,561.7	1,726.2	1,827.4	1,806.6	1,739.3	1,760.0	1,827.4
1.1. Equity capital and reinvested earnings	1,569.1	1,587.0	1,502.3	1,610.4	1,725.0	1,711.4	1,644.3	1,646.3	1,725.0
1.1.1. Claims	1,569.1	1,587.0	1,502.3	1,610.4	1,725.0	1,711.4	1,644.3	1,646.3	1,725.0
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	37.7	38.8	59.5	115.7	102.5	95.2	95.0	113.7	102.5
1.1.1. Claims	49.9	62.3	87.4	133.9	138.6	124.5	126.4	147.9	138.6
1.2.2. Liabilities	12.2	23.5	28.0	18.2	36.1	29.3	31.4	34.2	36.1
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	5,790.8	6,790.3	9,074.6	12,277.4	20,362.8	14,493.3	16,676.7	18,689.5	20,362.8
2.1. Equity capital and reinvested earnings	4,400.6	4,972.7	7,116.4	9,920.6	17,606.4	12,029.9	14,064.6	15,895.2	17,606.4
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	4,400.6	4,972.7	7,116.4	9,920.6	17,606.4	12,029.9	14,064.6	15,895.2	17,606.4
2.2. Other capital	1,390.2	1,817.6	1,958.2	2,356.8	2,756.5	2,463.3	2,612.2	2,794.4	2,756.5
2.2.1. Claims	0.3	1.8	19.2	18.2	1.8	19.2	1.7	1.8	1.8
2.2.2. Liabilities	1,390.5	1,819.4	1,977.5	2,375.0	2,758.3	2,482.5	2,613.9	2,796.2	2,758.3
2.3. Financial derivatives (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

^a Preliminary data.

Table H17: International Investment Position – Portfolio Investment

million euros

	2002	2003	2004	2005	2006 ^a	2006			
						Q1	Q2	Q3	Q4 ^a
Portfolio investment (net)	-3,511.3	-4,285.8	-4,568.2	-3,697.0	-3,629.0	-3,354.6	-3,354.5	-3,826.1	-3,629.0
1. Assets	801.5	599.8	1,311.8	1,760.4	1,868.8	1,759.2	1,824.0	1,732.1	1,868.8
1.1. Equity securities	30.6	37.4	34.2	135.8	142.3	136.9	155.2	150.1	142.3
1.1.1. Banks	7.4	4.7	5.1	5.9	6.7	5.3	9.4	6.7	6.7
1.1.2. Other sectors	23.2	32.6	29.1	129.9	135.6	131.6	145.8	143.4	135.6
1.2. Debt securities	770.9	562.5	1,277.7	1,624.6	1,726.5	1,622.3	1,668.9	1,582.0	1,726.5
2. Liabilities	4,312.8	4,885.6	5,880.1	5,457.4	5,497.8	5,113.8	5,178.5	5,558.2	5,497.8
2.1. Equity securities	204.1	196.0	407.0	557.1	1,085.2	764.2	796.5	1,271.0	1,085.2
2.1.1. Banks	44.5	46.3	64.7	84.0	156.7	114.1	138.9	200.9	156.7
2.1.2. Other sectors	159.6	149.6	342.3	473.1	928.5	650.1	657.6	1,070.1	928.5
2.2. Debt securities	4,108.7	4,689.7	5,473.1	4,900.3	4,412.6	4,349.6	4,382.0	4,287.2	4,412.6
2.2.1. Bonds	4,108.7	4,656.2	5,473.1	4,900.3	4,412.6	4,349.6	4,382.0	4,287.2	4,412.6
2.2.1.1. General government	3,947.6	4,310.9	4,648.1	4,065.5	3,649.2	3,495.7	3,532.3	3,643.3	3,649.2
2.2.1.2. Banks	0.0	0.0	444.4	456.7	458.0	462.7	466.3	452.1	458.0
2.2.1.3. Other sectors	161.2	345.3	380.6	378.1	305.5	391.2	383.5	191.8	305.5
2.2.2. Money market instruments	0.0	33.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.2.1. Other sectors	0.0	33.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0

^a Preliminary data.

Table H18: International Investment Position – Other Investment

million euros

	2002	2003	2004	2005	2006 ^a	2006			
						Q1	Q2	Q3	Q4 ^a
Other investment (net)	-5,181.7	-7,252.9	-9,721.8	-13,635.0	-16,796.3	-16,104.0	-17,097.0	-15,516.3	-16,796.3
1. Assets	4,357.4	6,023.2	5,570.0	4,664.6	4,997.1	3,542.6	3,425.7	4,535.2	4,997.1
1.1. Trade credits	222.5	213.1	183.5	193.0	182.7	195.4	192.1	187.8	182.7
1.1.1. General government	0.0	0.0	0.0	0.3	0.1	0.3	0.2	0.2	0.1
Long-term	0.0	0.0	0.0	0.3	0.1	0.3	0.2	0.2	0.1
1.1.2. Other sectors	222.5	213.0	183.5	192.7	182.5	195.1	191.9	187.7	182.5
Long-term	216.3	208.4	179.1	187.9	178.0	190.3	187.2	183.0	178.0
Short-term	6.2	4.6	4.4	4.8	4.5	4.8	4.7	4.7	4.5
1.2. Loans	108.9	101.0	100.9	144.8	226.7	176.9	238.9	358.0	226.7
1.2.1. Croatian National Bank	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Long-term	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
1.2.2. General government	4.8	5.2	6.8	8.6	7.2	8.1	7.7	7.4	7.2
Long-term	4.8	5.2	6.8	8.6	7.2	8.1	7.7	7.4	7.2
1.2.3. Banks	97.5	86.6	81.0	112.2	177.9	135.1	188.3	308.5	177.9
Long-term	72.9	62.6	61.9	84.3	131.7	95.1	120.8	132.4	131.7
Short-term	24.6	23.9	19.0	27.9	46.2	40.1	67.5	176.0	46.2
1.2.4. Other sectors	5.9	8.6	12.5	23.3	41.0	33.0	42.2	41.6	41.0
Long-term	5.8	8.6	11.2	23.0	40.9	32.7	42.1	41.5	40.9
Short-term	0.1	0.0	1.3	0.3	0.1	0.3	0.1	0.1	0.1
1.3. Currency and deposits	4,026.0	5,709.2	5,285.6	4,326.7	4,587.1	3,170.3	2,945.4	3,726.7	4,587.1
1.3.2. General government	115.7	81.9	8.9	54.2	26.4	39.8	65.8	104.9	26.4
1.3.3. Banks	2,754.3	4,551.9	4,317.0	3,110.4	3,497.4	1,976.0	1,763.3	2,516.7	3,497.4
1.3.4. Other sectors	1,156.0	1,075.4	959.7	1,162.1	1,063.3	1,154.5	1,116.3	1,105.1	1,063.3
1.4. Other assets	0.0	0.0	0.0	0.0	0.7	0.1	49.3	262.5	0.7
2. Liabilities	9,539.1	13,276.1	15,291.8	18,299.6	21,793.4	19,646.7	20,522.6	20,051.5	21,793.4
2.1. Trade credits	258.4	176.1	153.8	188.3	170.7	197.1	184.1	185.0	170.7
2.1.1. General government	1.1	2.3	2.1	2.6	1.9	2.4	2.3	2.1	1.9
Long-term	1.1	2.3	2.1	2.6	1.9	2.4	2.3	2.1	1.9
Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.1.2. Other sectors	257.4	173.8	151.7	185.7	168.8	194.7	181.8	183.0	168.8
Long-term	209.9	151.7	128.5	158.0	134.7	157.7	145.3	149.9	134.7
Short-term	47.5	22.2	23.2	27.8	34.0	37.0	36.6	33.0	34.0
2.2. Loans	6,981.2	9,949.9	11,494.7	13,957.0	16,653.1	14,926.2	15,524.6	15,591.3	16,653.1
2.2.1. Croatian National Bank	21.5	363.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w: IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.2. General government	1,950.8	2,286.4	2,599.0	2,977.2	3,008.1	3,133.9	3,067.0	3,014.9	3,008.1
Long-term	1,950.8	2,286.4	2,599.0	2,977.2	3,008.1	3,133.9	3,067.0	3,014.9	3,008.1
Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.3. Banks	1,878.7	3,372.0	4,025.8	4,924.5	5,357.9	5,360.2	5,538.1	4,718.9	5,357.9
Long-term	1,878.4	2,767.7	3,512.3	3,844.8	4,093.0	4,263.1	4,316.0	3,999.3	4,093.0
Short-term	0.3	604.2	513.6	1,079.7	1,264.9	1,097.1	1,222.1	719.5	1,264.9
2.2.4. Other sectors	3,130.1	3,928.5	4,869.9	6,055.3	8,287.2	6,432.1	6,919.6	7,857.6	8,287.2
Long-term	3,103.0	3,858.3	4,769.7	5,764.1	7,959.4	6,155.1	6,502.8	7,270.9	7,959.4
Short-term	27.2	70.1	100.2	291.2	327.7	277.0	416.8	586.6	327.7
2.3. Currency and deposits	1,898.6	2,738.7	3,221.4	3,611.9	4,369.0	4,026.6	4,296.2	3,757.5	4,369.0
2.3.1. Croatian National Bank	1.7	2.6	2.4	2.6	2.6	2.0	2.5	2.0	2.6
2.3.2. Banks	1,896.9	2,736.2	3,219.0	3,609.2	4,366.4	4,024.5	4,293.7	3,755.5	4,366.4
2.4. Other liabilities	400.9	411.3	421.9	542.4	600.6	496.8	517.7	517.6	600.6

^a Preliminary data.

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.

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 I1: Consolidated Central Government According to Government Level

million kuna

	2005	2006											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec. ^a
1. REVENUE (A+B)	10,071.8	7,043.6	7,394.4	7,628.9	8,602.1	8,325.0	8,246.0	8,756.1	9,012.9	8,474.3	8,868.5	8,916.6	9,112.2
A) Budgetary central government	9,349.0	6,732.4	7,066.4	7,356.8	8,303.1	7,959.0	7,864.6	8,301.3	8,465.5	8,052.8	8,363.1	8,406.7	8,362.6
B) Extrabudgetary users	722.8	311.2	328.0	272.0	299.0	366.0	381.4	454.8	547.4	421.5	505.4	509.9	749.6
1. Croatian Pension Insurance Administration	5.0	35.2	4.5	0.0	0.9	4.6	8.4	1.1	0.8	0.3	54.4	1.3	174.5
2. Croatian Institute for Health Insurance	128.1	77.5	47.3	75.7	62.6	57.1	105.8	63.5	70.3	68.5	50.5	73.0	97.7
3. Croatian Employment Service	2.1	0.5	0.2	1.4	1.0	0.2	0.6	0.2	0.3	0.7	0.7	0.5	11.3
4. Croatian Waters	159.5	99.9	64.1	61.8	86.8	93.2	88.6	172.7	131.9	139.5	135.8	182.3	270.9
5. Fund for Environmental Protection and Energy Efficiency	16.6	17.2	24.0	53.0	33.3	46.0	39.8	41.9	85.2	51.4	84.1	100.5	83.5
6. Croatian Motorways Ltd.	257.1	62.8	79.7	71.2	88.8	97.2	118.2	157.1	176.4	126.5	113.4	87.4	86.8
7. Croatian Roads Ltd.	134.1	3.0	2.4	6.8	2.6	6.4	14.6	3.4	3.4	2.7	3.8	3.1	12.0
8. State Agency for Deposit Insurance and Bank Rehabilitation	14.3	8.4	102.2	1.5	21.9	59.3	2.8	10.4	72.7	4.3	60.3	58.4	7.4
9. Croatian Privatisation Fund	6.0	6.9	3.5	0.6	1.2	2.0	2.7	4.4	6.5	27.8	2.3	3.4	5.6
2. EXPENSE (A+B)	8,808.6	7,530.0	7,905.1	8,280.1	8,261.0	7,862.7	7,736.7	8,091.8	7,758.1	7,939.9	8,378.5	8,338.9	10,654.7
A) Budgetary central government	7,990.1	7,122.7	7,616.2	7,806.1	7,815.0	7,293.6	7,158.1	7,552.0	7,236.9	7,373.1	7,834.2	7,603.6	9,566.7
B) Extrabudgetary users	818.5	407.3	288.9	474.0	446.0	569.1	578.5	539.9	521.1	566.7	544.3	735.3	1,088.0
1. Croatian Pension Insurance Administration	48.5	27.9	33.2	33.7	30.9	33.9	39.9	36.3	31.1	32.1	32.0	33.2	194.2
2. Croatian Institute for Health Insurance	104.4	69.6	74.1	76.9	77.4	75.9	87.8	79.6	50.9	95.6	85.7	87.6	71.7
3. Croatian Employment Service	14.1	13.3	12.1	12.6	12.5	13.3	12.5	13.2	12.6	11.9	13.7	13.0	14.6
4. Croatian Waters	297.9	105.1	24.6	109.2	81.6	90.7	150.3	170.5	172.3	179.0	131.7	191.5	372.6
5. Fund for Environmental Protection and Energy Efficiency	25.6	11.0	4.0	58.0	70.1	50.2	59.8	54.2	74.2	78.8	70.2	101.9	102.5
6. Croatian Motorways Ltd.	160.1	75.9	70.9	85.6	103.3	146.6	115.7	88.9	80.5	57.3	87.1	179.2	178.7
7. Croatian Roads Ltd.	89.1	94.3	63.0	88.0	62.5	151.7	101.4	89.9	92.7	103.5	115.2	121.9	142.2
8. State Agency for Deposit Insurance and Bank Rehabilitation	71.0	5.5	1.7	3.3	1.3	1.6	1.1	2.1	1.8	1.6	2.7	1.9	2.9
9. Croatian Privatisation Fund	7.7	4.7	5.4	6.7	6.4	5.2	10.0	5.2	5.1	6.8	6.0	5.1	8.5
NET/GROSS OPERATING BALANCE (1-2)	1,263.2	-486.4	-510.7	-651.3	341.1	462.3	509.3	664.3	1,254.9	534.4	490.0	577.7	-1,542.5
3. CHANGE IN NET WORTH: TRANSACTIONS (3.1.+3.2.-3.3.)	1,263.2	-486.4	-510.7	-651.3	341.1	462.3	509.3	664.3	1,254.9	534.4	490.0	577.7	-1,542.5
3.1. CHANGE IN NET ACQUISITION OF NON-FINANCIAL ASSETS	1,050.4	222.6	289.6	281.2	604.6	682.9	412.4	473.7	592.4	459.2	442.1	586.1	1,054.1
Acquisition	1,078.8	252.2	306.3	351.6	644.7	722.3	456.2	505.5	616.2	491.0	471.4	611.0	1,405.0
A) Budgetary central government	363.9	58.6	83.5	93.5	146.2	106.5	97.9	185.4	137.9	74.7	166.5	201.2	556.7
B) Extrabudgetary users	714.8	193.6	222.8	258.1	498.5	615.8	358.4	320.1	478.3	416.3	304.9	409.9	848.3
Disposals	28.3	29.6	16.6	70.4	40.1	39.4	43.8	31.8	23.8	31.8	29.3	24.9	350.9
A) Budgetary central government	27.3	19.8	16.5	32.9	34.9	39.6	37.5	31.5	20.3	24.1	28.4	22.9	44.1
B) Extrabudgetary users	1.0	9.7	0.1	37.5	5.2	-0.2	6.3	0.3	3.4	7.7	0.9	2.0	306.8
NET LENDING/BORROWING (1-2-3.1)	212.7	-709.0	-800.3	-932.4	-263.5	-220.6	96.9	190.6	662.4	75.2	47.9	-8.4	-2,596.6
TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES (FINANCING) (3.3.-3.2.)	-212.7	709.0	800.3	932.4	263.5	220.6	-96.9	-190.6	-662.4	-75.2	-47.9	8.4	2,596.6
3.2. CHANGE IN NET ACQUISITION OF FINANCIAL ASSETS	-335.7	252.9	-341.4	-352.0	56.3	162.2	-307.8	6.7	628.9	-92.1	264.8	500.5	-3,346.1
3.2.1. Domestic	-335.7	252.9	-341.4	-352.0	56.3	162.2	-310.5	6.7	628.9	-92.1	264.8	493.5	-3,353.1
A) Budgetary central government	593.9	242.6	-451.1	-308.7	-52.3	190.0	-125.1	50.0	435.9	-218.0	80.8	645.8	-3,551.9
B) Extrabudgetary users	-929.5	10.3	109.7	-43.3	108.6	-27.8	-185.4	-43.3	193.0	125.9	184.0	-152.3	198.8
3.2.2. Foreign	0.0	0.0	0.0	0.0	0.0	0.0	2.7	0.0	0.0	0.0	0.0	7.0	7.0
A) Budgetary central government	0.0	0.0	0.0	0.0	0.0	0.0	2.7	0.0	0.0	0.0	0.0	7.0	7.0
B) Extrabudgetary users	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.2.3. Monetary gold and SDRs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.3. CHANGE IN NET INCURRENCE OF LIABILITIES	-548.4	961.9	459.0	580.5	319.7	382.8	-404.7	-183.9	-33.5	-167.3	216.9	508.9	-749.5
3.3.1. Domestic	-394.3	528.2	1,755.3	2,575.9	282.5	438.4	-276.1	497.6	-70.6	-345.3	94.2	605.7	-803.0
A) Budgetary central government	-6.3	528.7	1,757.8	2,597.4	-120.4	-0.5	-335.5	395.1	-213.9	-539.0	98.8	460.8	-1,463.0
B) Extrabudgetary users	-388.0	-0.5	-2.4	-21.5	402.8	438.8	59.5	102.6	143.3	193.7	-4.6	144.9	659.9
3.3.2. Foreign	-154.1	433.7	-1,296.4	-1,995.4	37.3	-55.6	-128.7	-681.6	37.1	178.0	122.7	-96.8	53.5
A) Budgetary central government	-195.1	398.7	-1,374.3	-2,154.5	-23.1	-62.1	-127.9	-601.8	3.8	59.3	-67.0	-42.5	48.2
B) Extrabudgetary users	41.1	35.0	77.9	159.1	60.4	6.5	-0.8	-79.8	33.3	118.6	189.8	-54.2	5.3

^a Preliminary data.

Note: On a cash basis.

The Notes on Methodology can be found in the Ministry of Finance Monthly Statistical Review.

Source: Ministry of Finance.

Table 12: Budgetary Central Government Operations

million kuna

	2005	2006											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec. ^a
1. REVENUE	9,349.0	6,732.4	7,066.4	7,356.8	8,303.1	7,959.0	7,864.6	8,301.3	8,465.5	8,054.3	8,363.1	8,406.7	8,362.6
1.1. Taxes	4,657.9	3,912.6	4,249.2	4,417.1	5,138.1	4,951.8	4,826.4	5,202.1	5,413.2	5,012.9	5,240.4	5,321.0	4,784.4
1.2. Social contributions	2,972.8	2,622.4	2,628.1	2,703.8	2,713.8	2,819.3	2,843.8	2,912.4	2,864.7	2,852.6	2,885.4	2,868.9	3,161.9
1.3. Grants	0.1	0.9	1.4	1.2	0.0	2.5	8.5	1.4	-0.1	2.4	1.4	20.7	152.5
1.4. Other revenue	1,718.2	196.6	187.6	234.7	451.1	185.4	185.9	185.3	187.7	186.4	235.9	196.2	263.9
2. EXPENSE	8,217.0	7,378.5	7,834.0	8,047.8	8,100.6	7,639.7	7,463.2	7,890.7	7,701.8	7,742.0	8,176.0	7,993.9	9,980.2
2.1. Compensation of employees	2,111.5	1,998.5	2,006.2	1,960.8	2,004.6	1,981.0	1,993.6	2,184.0	1,955.1	2,012.5	2,001.0	2,002.1	2,214.5
2.2. Use of goods and services	642.5	453.6	377.9	465.8	427.1	451.6	390.9	435.7	417.3	389.9	542.1	499.7	1,218.1
2.3. Consumption of fixed capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.4. Interest	217.6	352.3	668.4	803.5	347.5	290.2	361.1	362.7	273.6	319.2	203.1	319.0	413.1
2.5. Subsidies	545.6	336.4	637.6	659.5	607.7	436.9	334.1	388.7	304.8	382.9	462.5	441.0	678.6
2.6. Grants	597.5	534.0	335.8	371.5	501.1	507.1	435.0	577.3	635.3	574.0	612.2	645.3	922.2
2.7. Social benefits	3,503.1	3,446.7	3,501.4	3,497.5	3,794.7	3,639.9	3,545.3	3,586.2	3,598.5	3,653.5	3,644.3	3,607.9	3,928.7
2.8. Other expense	599.1	257.1	306.7	289.1	418.0	332.9	403.4	356.2	517.1	410.0	710.8	478.9	604.9
3. CHANGE IN NET WORTH: TRANSACTIONS	1,131.9	-646.1	-767.6	-690.9	202.5	319.3	401.4	410.6	763.6	312.3	187.1	412.9	-1,617.5
3.1. Change in net acquisition of non-financial assets	336.6	38.7	67.0	60.6	111.3	66.8	60.4	153.9	117.6	50.6	138.1	178.3	512.6
3.1.1. Fixed assets	322.0	38.6	72.8	62.5	118.2	82.4	70.7	162.2	114.2	50.8	139.4	173.4	510.0
3.1.2. Inventories	0.0	0.0	-8.0	-3.7	-12.1	-14.2	-11.1	-9.0	-0.8	-1.7	-0.8	-0.6	-18.1
3.1.3. Valuables	0.1	0.2	0.3	1.1	0.4	0.8	0.3	0.9	0.5	0.1	0.6	0.5	2.1
3.1.4. Non-produced assets	14.4	0.0	1.9	0.7	4.8	-2.2	0.5	-0.3	3.7	1.4	-1.1	5.0	18.6
3.2. Change in net acquisition of financial assets	593.9	242.6	-451.1	-308.7	-52.3	190.0	-122.4	50.0	435.9	-218.0	80.8	652.8	-3,544.9
3.2.1. Domestic	593.9	242.6	-451.1	-308.7	-52.3	190.0	-125.1	50.0	435.9	-218.0	80.8	645.8	-3,551.9
3.2.2. Foreign	0.0	0.0	0.0	0.0	0.0	0.0	2.7	0.0	0.0	0.0	0.0	7.0	7.0
3.2.3. Monetary gold and SDRs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.3. Change in net incurrence of liabilities	-201.5	927.4	383.5	442.8	-143.5	-62.5	-463.4	-206.7	-210.1	-479.7	31.8	418.3	-1,414.8
3.3.1. Domestic	-6.3	528.7	1,757.8	2,597.4	-120.4	-0.5	-335.5	395.1	-213.9	-539.0	98.8	460.8	-1,463.0
3.3.2. Foreign	-195.1	398.7	-1,374.3	-2,154.5	-23.1	-62.1	-127.9	-601.8	3.8	59.3	-67.0	-42.5	48.2

^a Preliminary data.

Note: On a cash basis.

The Notes on Methodology can be found in the Ministry of Finance Monthly Statistical Review.

Source: Ministry of Finance.

Table I3: Central Government Debt

end of period, million kuna

	2006												
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Domestic debt of central government	55,028.8	55,329.0	56,936.8	58,914.2	59,030.6	59,290.7	60,395.9	60,406.0	60,557.7	60,629.4	59,655.3	60,151.3	59,678.1
1.1 Domestic debt of the Republic of Croatia	50,559.5	50,941.7	52,572.7	54,563.3	54,306.1	54,280.4	55,440.1	56,221.8	56,217.5	56,083.8	55,121.1	55,455.4	54,216.7
Treasury bills	12,533.4	12,646.2	12,470.7	12,518.7	12,372.2	12,628.2	12,647.4	12,719.0	12,657.3	12,254.5	12,165.5	11,737.4	12,662.2
Money market instruments	0.9	1.0	–	–	–	–	–	–	–	–	–	–	–
Bonds	30,716.0	30,600.1	32,356.1	31,714.5	31,565.8	31,254.6	31,025.6	33,444.0	33,486.2	33,643.9	33,626.0	34,830.6	34,827.9
Credits from the CNB	1.4	0.2	0.6	–	0.0	–	–	–	–	–	–	–	0.9
Credits from banks	7,307.8	7,694.2	7,745.3	10,330.2	10,368.0	10,397.6	11,767.1	10,058.8	10,074.0	10,185.3	9,329.6	8,887.4	6,725.7
1.2. Domestic debt of central government funds	4,469.2	4,387.2	4,364.0	4,350.9	4,724.5	5,010.3	4,955.8	4,184.2	4,340.2	4,545.6	4,534.2	4,695.9	5,461.4
Money market instruments	–	–	–	–	–	–	–	–	–	–	–	–	–
Bonds	176.9	183.8	182.4	159.8	147.9	147.7	145.9	145.6	135.5	194.6	194.3	190.1	198.8
Credits from banks	4,292.3	4,203.4	4,181.7	4,191.1	4,576.6	4,862.6	4,809.9	4,038.6	4,204.7	4,351.0	4,339.9	4,505.9	5,262.6
2. External debt of central government	51,760.6	51,797.3	50,359.4	48,402.0	47,602.5	47,485.4	47,750.4	47,862.1	48,206.0	49,035.5	49,071.1	48,510.4	48,762.2
2.1 External debt of the Republic of Croatia	36,433.6	36,666.6	35,280.2	33,087.3	32,589.7	32,529.4	32,653.6	32,079.6	32,279.4	32,849.1	32,874.5	32,540.5	32,505.9
Money market instruments	–	–	–	–	–	–	–	–	–	–	–	–	–
Bonds	27,112.3	26,433.9	24,871.2	22,803.5	22,532.7	22,551.0	22,811.9	22,403.1	22,541.5	22,924.1	22,963.1	22,819.0	22,862.9
Credits	9,321.2	10,232.7	10,409.1	10,283.7	10,057.0	9,978.5	9,841.7	9,676.5	9,738.0	9,925.0	9,911.4	9,721.5	9,643.0
2.2 External debt of central government funds	15,327.0	15,130.7	15,079.1	15,314.8	15,012.8	14,955.9	15,096.8	15,782.5	15,926.5	16,186.4	16,196.6	15,969.9	16,256.3
Money market instruments	–	–	–	–	–	–	–	–	–	–	–	–	–
Bonds	2,873.3	2,872.5	2,755.7	2,797.6	2,808.8	2,810.8	2,822.0	3,924.2	3,978.8	3,970.0	3,976.3	3,972.7	3,940.6
Credits	12,453.7	12,258.2	12,323.4	12,517.1	12,203.9	12,145.2	12,274.9	11,858.3	11,947.7	12,216.4	12,220.3	11,997.3	12,315.7
3. Total (1 + 2)	106,789.4	107,126.2	107,296.1	107,316.2	106,633.1	106,776.1	108,146.4	108,268.1	108,763.7	109,664.9	108,726.4	108,661.7	108,440.4
Supplement: Central government guaranteed debt													
– guarantees for domestic debt	5,345.9	5,431.2	5,485.0	5,720.9	6,215.4	6,107.0	6,481.5	6,558.7	6,633.6	6,798.8	6,617.4	6,892.9	7,312.8
– guarantees for external debt	7,179.6	6,747.1	6,760.8	6,792.9	6,752.0	6,637.2	6,452.8	6,356.8	6,407.6	7,021.9	7,059.4	6,955.4	6,867.2

Table I3: Central Government Debt

Data on the central government debt are gathered from available data and are not reconciled with the Ministry of Finance of the Republic of Croatia. The central government debt consists of domestic and external debt. The sources of data on domestic debt of the central government are the following: the Ministry of Finance Monthly Statistical

Review, Monetary Authorities Accounts and Banks' Accounts. The source of data on the central government external debt is the external debt statistics collected by the CNB. The supplement provides data on the central government guaranteed debt. Banks are the source of data on guarantees for domestic debt, while the external debt statistics collected by the CNB are the source of data on guarantees for external debt.

Table J1: Consumer Price and Producer Price Indices

Year	Month	Basic indices, 2005 = 100			Chain indices				Monthly year-on-year indices			
		Consumer price indices			Consumer price indices ^a			Producer prices	Consumer price indices ^b			Producer prices
		Total	Goods	Services	Total	Goods	Services		Total	Goods	Services	
1997	December	....	....	....	100.7	100.3	102.3	99.9	103.8	102.7	108.2	101.6
1998	December	82.1	84.6	73.7	100.3	100.4	100.0	100.0	105.4	104.3	109.2	97.9
1999	December	85.3	87.2	78.5	100.6	100.8	100.0	100.3	103.9	103.1	106.5	105.9
2000	December	90.0	92.0	82.8	100.4	100.4	100.1	100.2	105.5	105.5	105.5	111.2
2001	December	92.1	93.2	88.5	100.4	100.4	100.5	99.0	102.4	101.3	106.8	96.9
2002	December	93.8	94.2	92.6	100.4	100.6	99.6	99.9	101.8	101.1	104.6	102.3
2003	December	95.4	95.7	94.6	100.3	100.2	100.5	100.0	101.7	101.6	102.2	101.0
2004	December	98.0	98.0	98.0	100.7	100.9	100.2	99.3	102.7	102.5	103.6	104.8
2005	December	101.6	101.4	102.0	100.5	100.5	100.5	99.7	103.6	103.5	104.1	102.7
2006	January	102.2	101.8	103.3	100.6	100.4	101.3	100.5	103.9	103.6	105.2	103.2
	February	103.0	102.5	104.6	100.8	100.7	101.3	100.7	103.6	102.8	106.2	103.6
	March	103.1	102.7	104.6	100.1	100.2	100.0	100.3	103.0	102.1	106.1	103.6
	April	103.4	103.0	104.6	100.2	100.3	99.9	100.1	103.5	102.8	105.6	103.4
	May	103.9	103.6	104.9	100.5	100.6	100.4	100.4	104.0	103.5	105.6	103.7
	June	103.8	103.3	105.5	99.9	99.7	100.6	99.8	104.0	103.6	105.6	103.7
	July	102.9	101.9	106.3	99.2	98.7	100.7	100.1	103.4	102.8	105.3	103.0
	August	103.0	101.8	107.1	100.1	99.9	100.7	100.2	103.4	102.7	105.9	103.1
	September	103.0	102.0	106.3	100.0	100.2	99.3	99.7	102.8	101.8	106.3	102.0
	October	102.9	102.1	105.9	100.0	100.1	99.6	100.0	102.1	101.2	105.1	101.5
	November	103.6	102.8	106.1	100.6	100.8	100.2	100.1	102.5	101.9	104.5	101.6
	December	103.7	102.8	106.4	100.0	100.0	100.2	100.0	102.0	101.4	104.2	101.9

^a Data from January 1992 to December 1997 relate to the retail price index.

^b Data from January 1992 to December 1998 relate to the retail price index.

Source: Central Bureau of Statistics.

Table J1: Consumer Price and Producer Price Indices

The Central Bureau of Statistics (CBS) introduced the consumer price index (CPI) in early 2004. This indicator of price movements was compiled in accordance with the methodological principles laid down by the ILO and Eurostat. In its First Release, issued on 17 February 2004, the CBS published the data on movements in the CPI in January 2004 and the time series for the CPI as of January 2001. The CBS subsequently constructed the time series for the consumer

price index encompassing the period from January 1998 to December 2000. As expected following the introduction of the new index, the CBS has stopped publishing the retail price index (RPI) and the cost of living index whose calculation methodologies have not been adequately harmonised with internationally accepted standards. The main characteristic of the CPI are discussed in Box 1 in the CNB Bulletin No. 91 (2004). The data on the average year-on-year consumer price inflation rate are shown in the Bulletin table on Economic Indicators.

Table J2: Core Consumer Price Indices

Year	Month	Basic indices, 2005 = 100			Chain indices			Monthly year-on-year indices		
		Total	Goods	Services	Total	Goods	Services	Total	Goods	Services
1998	December	87.3	88.6	80.0	99.9	99.9	100.0	....	....	....
1999	December	89.8	91.1	82.3	100.1	100.1	100.1	102.9	102.9	103.0
2000	December	92.8	93.9	86.5	100.4	100.4	100.2	103.3	103.0	105.0
2001	December	93.9	94.6	89.8	99.8	99.7	100.3	101.2	100.8	103.8
2002	December	95.0	95.6	91.9	100.0	100.1	99.4	101.2	101.0	102.4
2003	December	96.2	96.4	94.7	100.2	100.1	101.0	101.2	100.9	103.0
2004	December	98.4	98.5	97.4	100.1	100.1	100.4	102.3	102.2	102.9
2005	December	101.3	101.4	101.0	100.1	100.0	100.5	103.0	102.9	103.7
2006	January	100.8	100.7	101.3	99.5	99.3	100.3	102.8	102.7	103.8
	February	101.1	101.0	101.7	100.3	100.3	100.4	102.7	102.5	103.6
	March	101.5	101.5	101.0	100.3	100.5	99.3	102.6	102.4	103.4
	April	101.9	102.0	101.4	100.5	100.5	100.3	102.3	102.2	102.9
	May	102.5	102.6	102.2	100.6	100.6	100.8	102.6	102.5	102.9
	June	103.0	102.9	103.5	100.5	100.3	101.3	102.7	102.6	103.2
	July	102.6	102.1	105.3	99.6	99.2	101.7	102.2	102.1	102.6
	August	102.5	101.9	105.8	99.9	99.8	100.5	102.2	102.1	102.8
	September	103.2	103.1	104.1	100.7	101.1	98.4	102.7	102.6	103.5
	October	103.7	103.8	103.2	100.4	100.7	99.1	102.7	102.7	102.6
	November	103.8	103.9	103.2	100.1	100.1	100.1	102.5	102.5	102.7
	December	103.6	103.6	103.6	99.8	99.7	100.3	102.3	102.2	102.5

Source: Central Bureau of Statistics.

Table J2: Core Consumer Price Indices

The Central Bureau of Statistics calculates the core consumer price index in the manner that agricultural products prices and administrative prices (which among others include the prices of electricity and refined petroleum products) are excluded from the basket of goods

and services used in the calculation of the total consumer price index. A total of 111 goods and services are excluded and their share in the consumer price basket stood at 30.06% in 2005 (of which: agricultural products accounted for 6.93 percentage points, and administrative prices for 23.13 percentage points). The zero weighting method is used to exclude the prices of goods and services.

Table J3: Average Monthly Net Wages

in current prices, in kuna

Year	Month	Nominal amount in kuna	Chain indices	Monthly year-on-year indices	Cumulative year-on-year indices
1997	December	2,544.0	100.8	114.8	116.9
1998	December	2,935.0	104.6	115.4	112.8
1999	December	3,262.0	100.9	111.2	114.0
2000	December	3,499.0	99.9	107.3	108.9
2001	December	3,582.0	96.6	102.4	106.5
2002	December	3,839.0	98.0	107.2	105.0
2003	December	4,045.0	99.8	105.4	105.9
2004	December	4,312.0	99.1	106.6	105.9
2005	December	4,473.0	97.3	103.7	104.9
2006	January	4,458.0	99.7	105.2	105.2
	February	4,405.0	98.8	105.0	105.1
	March	4,602.0	104.5	104.8	105.0
	April	4,494.0	97.7	104.8	105.0
	May	4,686.0	104.3	105.6	105.1
	June	4,640.0	99.0	104.7	105.0
	July	4,557.0	98.2	104.7	105.0
	August	4,633.0	101.7	104.9	105.0
	September	4,542.0	98.0	104.4	104.9
	October	4,585.0	100.9	105.7	105.0
	November	4,883.0	106.5	106.3	105.1
	December	4,735.0	97.0	105.9	105.2

Source: Central Bureau of Statistics.

Table J4: Consumer Confidence Index, Consumer Expectations Index and Consumer Sentiment Index

index points, original data

Year	Month	Composite indices			Response indices (I)						
		Consumer confidence index	Consumer expectations index	Consumer sentiment index	I1	I2	I3	I4	I7	I8	I11
1999	October	-33.7	-14.9	-46.3	-38.4	-12.1	-49.9	-17.6	35.5	-50.7	-69.7
2000	October	-20.9	3.5	-32.2	-26.2	1.2	-22.0	5.7	26.9	-48.3	-63.6
2001	October	-27.0	-11.4	-35.6	-29.6	-10.0	-35.9	-12.7	22.9	-41.3	-62.3
2002	October	-25.2	-8.3	-29.3	-22.6	-5.1	-31.2	-11.5	20.1	-34.1	-64.0
2003	October	-22.2	-4.5	-25.0	-21.5	-2.6	-26.5	-6.4	14.7	-27.1	-65.2
2004	October	-23.9	-7.9	-22.0	-19.1	-4.1	-30.5	-11.6	22.5	-16.5	-57.3
2005	December	-26.4	-13.7	-25.6	-16.4	-5.9	-34.4	-21.5	27.6	-25.9	-50.6
2006	January	-23.7	-8.4	-23.6	-14.5	-3.7	-26.6	-13.0	19.7	-29.6	-58.2
	February	-26.4	-11.6	-25.3	-20.3	-6.7	-29.5	-16.5	24.8	-26.0	-57.4
	March	-25.3	-13.0	-25.4	-18.7	-5.9	-33.4	-20.0	22.1	-24.0	-53.3
	April	-23.8	-11.1	-26.6	-19.4	-7.1	-30.5	-15.0	20.3	-30.0	-52.7
	May	-23.7	-11.4	-25.3	-18.7	-6.1	-32.8	-16.7	18.9	-24.3	-52.9
	June	-20.2	-7.0	-20.8	-13.4	-1.3	-25.5	-12.6	14.8	-23.5	-51.9
	July	-19.4	-5.3	-20.3	-16.1	-0.9	-24.5	-9.6	17.4	-20.2	-49.7
	August	-23.1	-8.8	-19.4	-16.3	-5.2	-25.1	-12.4	21.1	-16.7	-53.5
	September	-20.9	-6.4	-19.3	-16.6	-2.6	-25.7	-10.2	20.2	-15.5	-50.7
	October	-19.2	-6.2	-18.8	-11.6	-3.2	-22.7	-9.1	15.0	-22.1	-49.3
	November	-20.0	-7.6	-18.1	-12.5	-2.3	-21.6	-12.9	15.7	-20.2	-49.0
	December	-18.9	-4.7	-15.4	-10.9	1.1	-22.4	-10.5	16.9	-12.9	-49.4

Table J4: Consumer Confidence Index, Consumer Expectations Index and Consumer Sentiment Index

The CNB Consumer Confidence Survey has been carried out regularly since April 1999 in accordance with the methodology of the European Commission, the Joint Harmonised EU Programme of Business and Consumer Surveys. Until April 2005 the CNB conducted the survey once a quarter (in January, April, July and October). As of May 2005 the CNB carries out the survey in monthly frequency in co-operation with the European Commission, using its technical and financial assistance. The Croatian National Bank bears sole responsibility for the creation and conduct of the survey.

The questionnaire contains 23 questions, examining consumer perception of the changes as regards every-day economic issues. The value of the response index is determined in line with the set methodology, based on the responses to the questions from the Consumer Confidence Survey. The movements of three composite indices, consumer confidence index (CCI), consumer sentiment index (CSI) and consumer expectations index (CEI), are calculated and monitored based on the value of the response indices. Each of the said composite indices is calculated as the arithmetic average of the response indices (I), i.e. as the average of previously quantified responses to individual questions from the survey:

$$I_i = \sum_z^k r_i \cdot w_i$$

where: r is the value of the response, w is the share of respondents opting for a particular response (weight), i question from the questionnaire, z is the offered/chosen response, k is the number of offered responses to a particular question.

The value of the said indices ranges $-100 < I_i < 100$. Higher index values than those recorded over the previous period point to an increase

in expectations (optimism) as regards the specific segment covered by the particular question.

The table shows the values of chosen response indices for the following questions:

I1: How has the financial situation of your household changed over the last 12 months?

I2: How do you expect the financial position of your household to change over the next 12 months?

I3: How do you think the general economic situation in Croatia has changed over the past 12 months?

I4: How do you expect the general economic situation in Croatia to develop over the next 12 months?

I7: How do you expect the number of people unemployed in Croatia to change over the next 12 months?

I8: In view of the general economic situation, do you think now is the right moment for people to make major purchases such as furniture, electrical/electronic devices, etc.?

I11: Over the next 12 months, how likely is it that you will save any money?

The components of composite indices are as follows:

CCI: I2, I4, I7 $\times (-1)$, I11

CEI: I2, I4

CSI: I1, I3, I8.

