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BULLETIN

Zagreb, 2004

General Information on Croatia

Economic Indicators

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Area (square km)	56,538	56,538	56,538	56,538	56,538	56,538	56,538	56,538	56,538
GDP ^a (million USD, current prices)	18,811	19,872	20,109	21,628	19,906	18,427	19,863	22,812	28,810
GDP – year-on-year rate of growth ^a (in %, constant prices)	6.8	5.9	6.8	2.5	-0.9	2.9	4.4	5.2	4.3
GDP per capita ^{a,b} (in USD)	4,029	4,422	4,398	4,805	4,371	4,206	4,477	5,134	6,486*
Average year-on-year inflation rate ^b	2.0	3.5	3.6	5.7	4.2	6.2	4.9	1.7	1.8
Population (million)	4.7	4.5	4.6	4.5	4.6	4.4	4.4	4.4	4.4*
Exports of goods and services (as % of GDP)	37.1	40.1	39.9	39.5	40.8	47.0	48.5	46.3	51.8
Imports of goods and services (as % of GDP)	48.7	49.7	56.6	48.7	49.2	52.1	54.4	57.3	59.7
Current account balance (as % of GDP)	-7.5	-4.8	-12.5	-6.7	-7.0	-2.5	-3.6	-8.5*	-7.3*
Outstanding external debt (million USD, end of year)	3,809	5,308	7,452	9,683	9,878	11,055	11,314	15,409	23,598*
Outstanding external debt (as % of GDP)	20.2	26.7	37.1	44.8	50.1	60.0	57.0	67.5	81.9*
Outstanding external debt (as % of exports of goods and services)	54.6	66.6	92.9	113.3	122.9	127.6	117.4	145.8	158.1*
External debt service ^c (as % of exports of goods and services)	10.1	9.0	9.9	12.5	20.8	23.3	24.5	27.0*	20.0*
Gross international reserves (million USD, end of year)	1,895	2,314	2,539	2,816	3,025	3,525	4,704	5,886	8,191
Gross international reserves (in terms of months of imports of goods and services, end of year)	2.5	2.8	2.7	3.2	3.7	4.4	5.2	5.4	5.7
Exchange rate on 31 December (HRK : 1 USD)	5.3161	5.5396	6.3031	6.2475	7.6477	8.1553	8.3560	7.1457	6.1185
Average exchange rate (HRK : 1 USD)	5.2300	5.4338	6.1571	6.3623	7.1124	8.2768	8.3391	7.8637	6.7014

^a Preliminary data for 2003.

^b The average year-on-year inflation rate was measured by the retail price index in the 1994 – 2001 period. From 2002 on, it is measured by the consumer price index.

^c Includes principal payments on long-term debt net of principal payments on trade credits and direct investments, as well as total interest payments net of interest payments on direct investments.
Sources: Central Bureau of Statistics and Croatian National Bank.

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Quarterly Report

Introduction

Available data suggest a mild increase in output growth in the second half of 2004. A slight slowdown in the contribution of domestic demand appears to have been offset by a slightly greater increase in the contribution of foreign demand, leading to a small increase in the growth rate of real GDP.

The slowdown in domestic demand is mainly the result of declining investment expenditure, most of all expenditure on highway construction. In addition, there are signs of slower growth of consumption. Automobile sales fell sharply in August, after the large increase in purchases in July in anticipation of the new excise tax on new car purchases. Furthermore, the CNB's consumer confidence survey results from October also suggest a modest fall in consumer confidence and in consumer's expectations about their financial position a year from now. Real wage growth decelerated from 4.3% year-on-year in the third quarter to 3.9% in October, and growth rates of bank lending to households have stabilized at approximately 16% year-on-year.

Foreign demand increased in the second half, in part thanks to the tourist season, and also due to stronger growth of merchandise exports than merchandise imports. In the third quarter, exports of goods and services grew at an annual rate of 7.4%, while imports of goods and services grew 4.7%.

Registered unemployment began to rise starting in August, reaching the level of 18.1% at the end of October. This was the first sustained increase in unemployment in two and a half years. Apparently, the decreases in registered unemployment created by the new law introduced in 2002 have run their course. The number of people removed from the register "for other reasons", which was very high in the immediate aftermath of the introduction of the new law, has now fallen sharply. Still, a substantial difference remains between registered unemployment and unemployment measured by the Labour Force Survey, which stood at 13.8% during the first half of the year.

Despite moderate real wage growth and dramatic increases in oil prices on world markets, inflation remained restrained in the third quarter and the beginning of the fourth quarter. Annual consumer price inflation amounted to 1.7% at the end of 2003, and 2.0% as of October 2004. The weakness of the US dollar has partly helped Croatia to cushion the oil price shock. Nonetheless, prices for fuels and lubricants were up 18.3% year-on-year in October, and the direct contribution of oil product price increases to inflation was some 0.9 percentage points or 46% of the total price increase.

An important factor contributing to lower inflation has been strong decreases in food prices. These prices were especially high in 2003 due to drought, and have fallen in 2004. Agricultural prices fell some 20% in the first ten months of the year.

While the fall in agricultural prices lowered consumer price inflation, core inflation, which excludes seasonal agricultural products and administratively controlled prices,

rose from 1.2% in December 2003 to 2.3% in October 2004. Still, inflationary pressures remain relatively subdued, with wage growth slightly decreasing and unemployment high, government budget deficits set to decrease, and the kuna strengthening against the US dollar.

The kuna did weaken against the euro in the first two months of the fourth quarter by 0.7%, in keeping with seasonal patterns. The central bank did not intervene in the foreign exchange market during this period, reflecting the overall stability of the exchange rate. However, the kuna strengthened by some 6.4% against the dollar in this period, and the nominal effective exchange rate index appreciated by 1.3%. Data on the real effective exchange rate are only available through September, and they show a 2.0% real appreciation during 2004, driven mainly by the strengthening of the kuna vis-à-vis the dollar.

Monetary aggregates continue to grow at moderate rates. Seasonally adjusted M1 was flat in October, and annual growth was only 3.2%. Kuna quasi-money continues to grow strongly, mainly driven by growth in indexed kuna deposits. These deposits seem to be gaining popularity as substitutes for foreign exchange deposits, since banks accepting them do not have to hold liquid foreign exchange assets under the central bank's "35% rule" that applies to foreign exchange liabilities. Total kuna quasi-money grew by some 22.7% year-on-year in October. M4, which includes kuna and foreign exchange quasi-money, as well as transaction deposits and currency in circulation, grew at 10.3% year-on-year in October, adjusting for exchange rate changes.

One of the key aims of monetary policy in 2004 is to restrain foreign borrowing. The marginal reserve requirement on foreign liabilities, introduced in July, seems to have had an impact in its first months of operation. Banks' effective foreign liabilities (adjusted for exchange rate changes) fell slightly from the introduction of the marginal reserve requirement in July through the beginning of the November reserve calculation period on November 8. The summer months usually see slow growth in foreign liabilities, so it may take a few more months to see whether the requirement is working as expected.

At the same time, the central bank has lowered the reserve requirement from 19% to 18% effective November 8. This change was made to provide kuna liquidity to the banking system to finance a government bond issue. The government obtained kunas by floating bonds on the domestic market, used the kunas to buy Japanese yens from the central bank, and then used the yens to pay off maturing Samurai bonds and thus decrease its foreign borrowing. Thus, the lowering of reserve requirements does not indicate a general easing of monetary policy, but instead is part of a one-off operation to reduce external debt. The lowering of the reserve requirement released HRK 1.4bn. When the government successfully floated its kuna denominated bond worth the equivalent of EUR 200m on November 30, these kuna were removed from circulation.

These actions had been planned in the Memorandum on Economic and Financial Policies signed by the Government of the Republic of Croatia, the Croatian National Bank and

the International Monetary Fund, and they did not endanger the achievement of the performance criteria in the arrangement. The monetary criteria in the arrangement were successfully achieved in the third quarter, and, as of end-November, the prospects for achieving the fourth quarter criteria were good. Net international reserves of the central bank were EUR 6.5bn at program exchange rates at the end of November, as compared to a minimum of EUR 6.2bn stipulated in the agreement. Similarly, net domestic assets of the central bank were HRK -6.4bn at the end of November, and the target for end-December is that NDA should not exceed HRK -3.0bn.

The lowering of the reserve requirement, along with the seasonal decrease in currency in circulation, contributed to very high levels of liquidity in the banking system in October and November. Interest rates on overnight loans on the ZMM fell from 6.67% in September to only 3.77% in October. Money market volume also fell substantially in October, after reaching record high levels in the summer months. High liquidity contributed to substantial increases in sales of MoF T-bills, which reached a total of HRK 7.8bn at the end of October.

Croatia's balance of payments was in surplus in the third quarter of 2004 by some USD 2.3bn according to preliminary data. This was a 15.6% larger surplus than last year. However, much of this improvement simply reflects the strengthening of the kuna against the US dollar. What is noteworthy in the improvement in the current account is the important role of merchandise exports, which grew by 21.2% year-on-year at constant exchange rates in the first nine months of 2004. Even when the volatile category of other transportation equipment, which includes ships, is excluded, merchandise exports grew 17.2%, a 6.7 percentage point increase over last year. The fastest-growing export sectors were electric machines and apparatuses, fur, fur products and leather goods, light metals, specialized machines, medical and pharmaceutical products and metal products.

At the same time, merchandise imports grew 9.6% in the same period, and the trade deficit increased only 0.4%, again at constant exchange rates. Faster growth of exports than imports resulted in an increase in the import coverage ratio of 4.4 percentage points to 47.9% for the first nine months.

Tourism revenues grew only 1% in euro terms year-on-year in the third quarter. Total tourism revenues in the third quarter amounted to USD 4.4bn, and they amounted to USD 6.2bn in the first three quarters. Certainly, the low rate of growth of tourist revenues in 2004 must be considered in light of the very rapid growth in 2003; such rapid growth would have been difficult to repeat indeed.

Foreign direct investment reached USD 300m in the third quarter. Much of this reflects the fact that many foreign companies operating in Croatia only allocated profits between dividends and retained earnings in the third quarter of this year, while they did this in the second quarter last year. Net portfolio investment fell in the third quarter, with the repayment of a DEM 300m euromark bond issued by the government in 1997 and an USD 80.6m semi-annual London Club payment. The international reserves of the Croatian

National Bank increased by USD 107m in the quarter.

During the first nine months of 2004, Croatia's external debt increased by USD 2.8bn, reaching USD 26.3bn. Economic subjects incurred USD 6bn of new debt, and repaid USD 2.9bn of principal, creating a net flow of USD 3.1bn. Exchange rate changes decreased the stock of debt by USD 0.3bn during this period. The government, banks and other sectors (enterprises) all contributed approximately equally to the absolute growth of the debt. The ratio of debt to GDP, calculated using the kuna equivalents of the debt and the projected 2004 GDP, stood at 78% at end-September, up from 74.6% at the end of 2003.

Revenues of consolidated general government amounted to some HRK 66.3bn in the first nine months of this year. Revenue growth has been strong and somewhat steadier than last year. Consolidated central government revenues grew at rates of 5.7%, 6.5% and 6.8% annually in the first three quarters, suggesting a gradual acceleration. Tax revenues grew 6.0% annually in the first three quarters. However, although social contributions grew at the planned rate, VAT revenues have fallen short. If this trend continues, VAT revenues will be 5% below their yearly target at year-end.

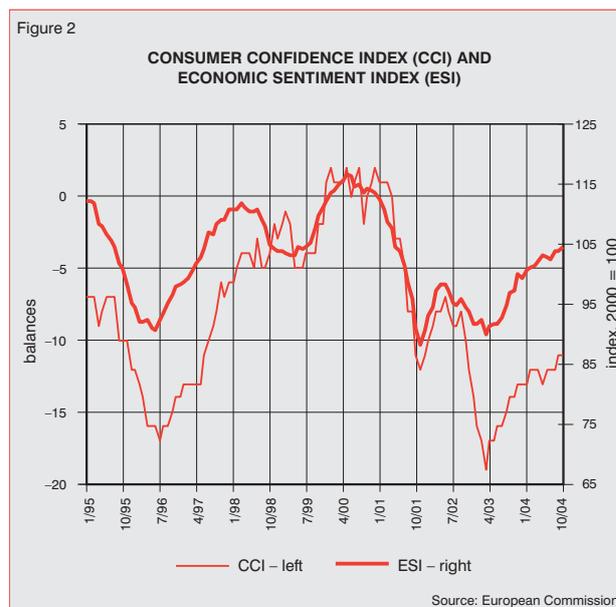
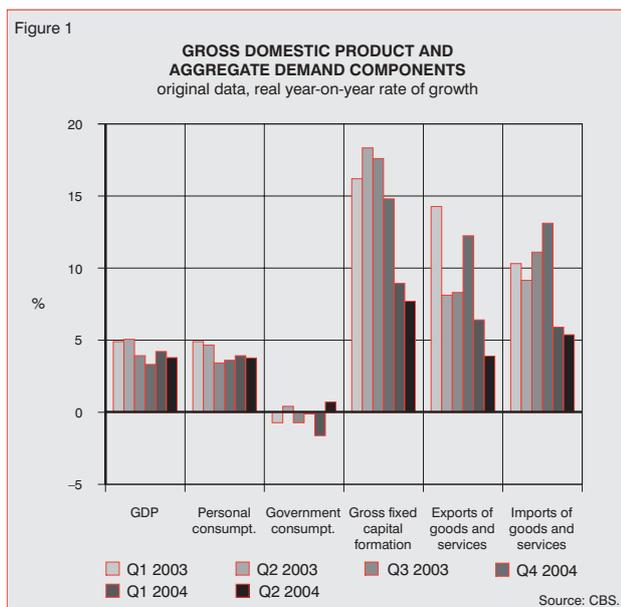
Consolidated general government expenditures amounted to HRK 75.9bn in the first nine months, of which HRK 69.3bn were accounted for by consolidated central government. The deficit of consolidated central government was HRK 9.6bn in the first nine months, some HRK 3.1bn more than in the same period last year. However, this year, more capital expenditures occurred in the first half of the year than last year, so that these amounts are not entirely comparable.

The deficit of consolidated central government has been almost completely financed by borrowing. Only HRK 265m of the deficit have been financed by privatisation revenues. The debt of general government, including the CBRD, rose to HRK 96.7bn at the end of September, and accounted for almost 47% of estimated GDP. Government guarantees outstanding decreased to HRK 13.6bn, so that total government debt and guarantees amounted to HRK 110.3bn or 53.3% of estimated GDP. 70% of this year's increase in debt was financed from domestic sources and 30% from foreign sources.

Demand

At the time of drawing up this report, the data on GDP calculation for the third quarter of 2004 were not available (according to the CBS publishing schedule, the data are to be published on 30 December 2004). Therefore, the analysis of economic developments is primarily based on short-term economic indicators of aggregate demand and its individual components at the beginning of the second half of 2004. The available monthly indicators of economic activity in the real sector for the second half of 2004 point to its gradual heightening. As a result, a slight economic slowdown during the second quarter of 2004 will probably be followed by somewhat stronger real GDP growth in the second half of the year.

According to the preliminary balance of payments data on goods and services trade, as well as the physical and financial



indicators of production and consumption, the contribution of domestic demand to real GDP growth is expected to decrease in the third and fourth quarters of 2004. This will be paralleled by a somewhat smaller negative (or a mildly positive) contribution of net foreign demand to economic growth compared to the first half of the year. The smaller contribution of domestic demand to real GDP growth in the stated period can be mainly attributed to an expected decline in gross fixed capital formation owing to the completion of the investment cycle in road construction and reduced government capital expenditures on construction projects. It is difficult to estimate, at this point, to what extent the growth in private investment will offset the slowdown in road construction. Moreover, given the change in inventories which includes a statistical discrepancy, overall investment consumption is a volatile category and it is therefore difficult to forecast its dynamics in the second half of 2004. However, despite its decline during the second half of the year, domestic demand should continue to be the main contributor to real GDP growth.

The data on recent economic developments in other countries are published with approximately the same delay as in Croatia. Therefore, it is not possible, at present, to analyse the GDP dynamics in other countries during the second half of 2004, which could point to changes in foreign demand. The so-called “quick” estimates of GDP in the eurozone point to its slight slowdown in real terms during the third quarter. However, the latest available monthly indicators, i.e. the aggregate economic indicators based on qualitative analyses and published by the European Commission,¹ point to growing business and consumer optimism, which should stimulate GDP growth in the last quarter of 2004. According to the most recent European Commission data on the results of business and consumer surveys conducted in EU Member States, there are no signs of lessening demand in these countries. This suggests that the growth in Croatian exports to these countries, which are Croatia’s

main foreign trade partners, will remain stable. The developments in overall imports of the eurozone countries were also favourable in July and August, which had a positive impact on the Croatian economy, and resulted in a good tourist performance in the summer season, stronger growth in goods exports over the second half of 2004 and a continuation of favourable foreign trade dynamics in this period.

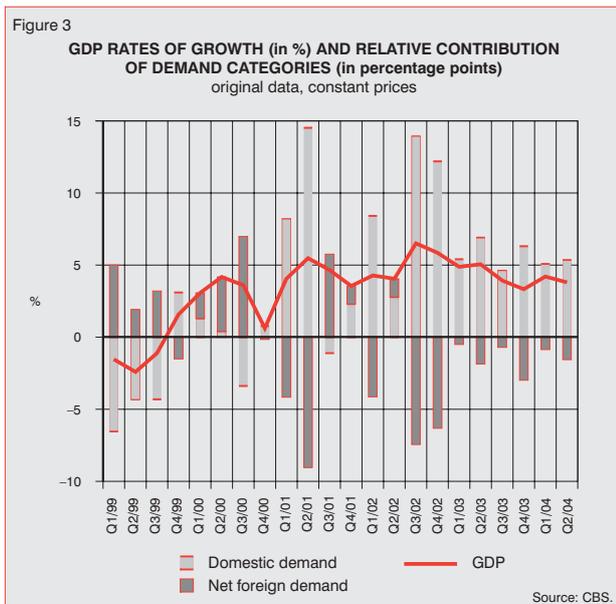
Foreign Demand

In the first half of 2004, both GDP calculation and the preliminary revised balance of payments data² pointed to similar movements in goods and services trade. Both sources recorded an annual slowdown in goods and services trade during the first and second quarters of 2004 compared to end-2003. However, the growth rates of exports and imports presented in the balance of payments data are somewhat higher than those included in the National Accounts compiled by the CBS, particularly as concerns imports. A difference in the growth rates between the two sources was also observed in 2003, but related to exports. These discrepancies were attributable to different methods of tourist consumption calculation used by the two sources. Therefore, given a large share of this component in overall trade, in 2003, the discrepancies were particularly pronounced in the second and third quarters, when revenues from tourist consumption were the largest. The latest change in the methodology of tourist consumption calculation for the balance of payments purposes, which has been in force since early 2004, strongly contributed to the differences in overall imports dynamics since the beginning of the year.

The preliminary revised balance of payments data for 2004 point to strong growth in goods and services trade. A relatively large increase in foreign demand for goods and services, paralleled with a slowdown in imports expressed in kuna, resulted in a larger goods and services trade surplus in the third quarter compared to the same period in 2003.

¹ For more information see CNB Bulletin 97.

² See Box 4 on page 47.



Although the surplus is customary for this part of the year due to the seasonal character of revenues from tourism, its increase was mainly attributable to strong growth in goods exports, which stopped the worsening of the imbalance in goods exports observed since 2000. According to the original physical indicators of tourism performance, the third quarter of 2004 saw a significant increase in the number of foreign tourist arrivals and overnight stays. Such indicators corresponded with the developments in revenues from services recorded in the balance of payments, according to which services exports rose by 7.0 percentage points in nominal terms during the third quarter of 2004. However, this increase was smaller compared to the increase in services imports during the same period (16.2 percentage points) and goods exports (12.8 percentage points), which was partly accounted for by methodological changes in the tourist consumption calculation.

In the third quarter, for the first time in 2004, the growth in overall goods and services exports accelerated at the annual level, reaching a growth rate of 7.4%, over 2 percentage points more than in the second quarter, but 1 percentage point less than in the first quarter. At the same time, the annual growth rate of goods and services imports dropped from 7.4% in the first to 4.7% in the third quarter of 2004. Due to a reduced foreign trade imbalance, the positive contribution of net foreign demand to real GDP growth should be stronger in the third quarter of 2004.

Domestic Demand

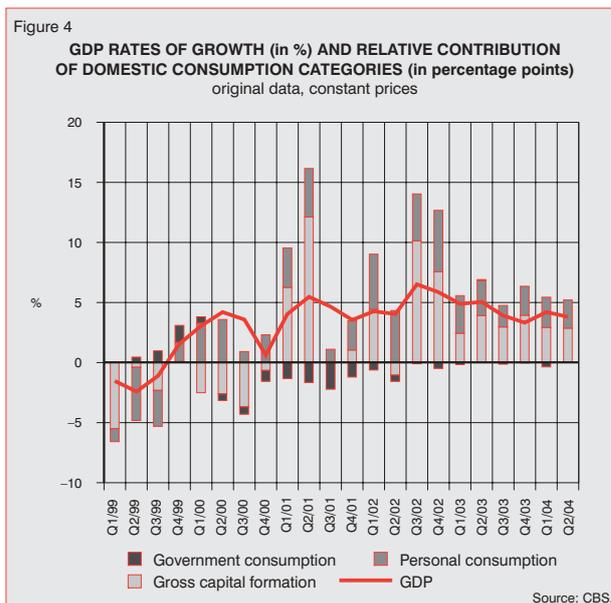
As in previous years, domestic demand made the largest contribution to real GDP formation in the first half of 2004. Its main component was personal consumption, whose mild slowdown was stopped in the second quarter of 2003, so that its growth remained stable till mid-2004. According to the seasonally adjusted data, personal consumption slightly accelerated at the annual level, from 3.7% in the first quarter to 3.8% in the second quarter of 2004. However, these data are subject to revision including an extension of the time

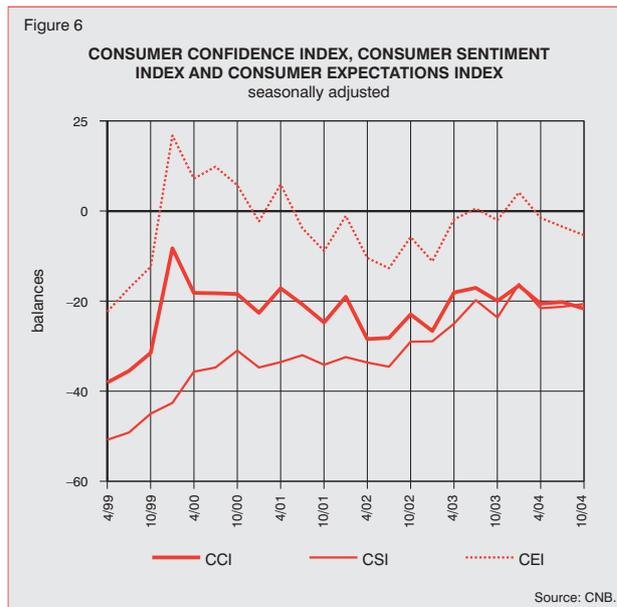
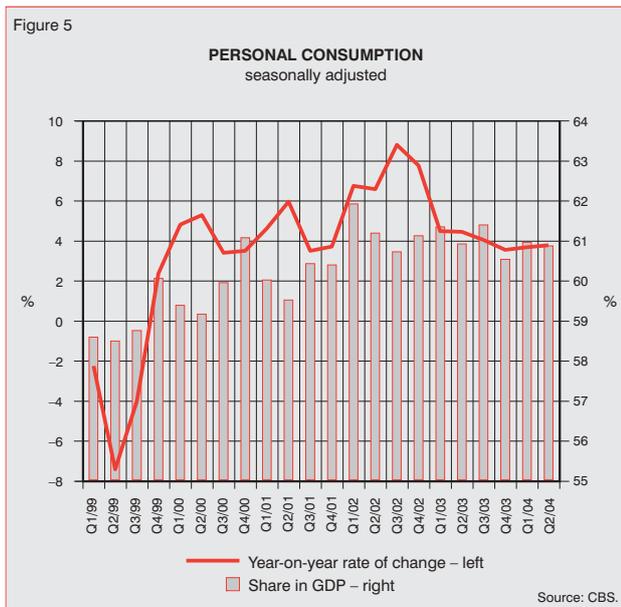
series in the seasonal adjustment procedure. The available monthly indicators of economic activity for the period ending 30 September or 31 October 2004, point to a possible slowdown in personal consumption towards the end of 2004. They also announce a decline in other domestic demand components, especially investment consumption and, to a lesser extent, government consumption, compared to the second quarter.

Personal Consumption

According to the available monthly indicators of personal consumption, which can reflect its dynamics, a mild slowdown in personal consumption can be expected in the third quarter of 2004, despite mixed signals given by different variables. In the third quarter of 2004, production of non-durable consumer goods decreased by 3.0% compared to the same period in 2003, while production of durable consumer goods slowed down from 8.4% in the first quarter to 6.8% and 4.2% in the second and third quarters of 2004 respectively. Such developments point to a decline in personal consumption during the third quarter of 2004 relative to the first half of the year. In contrast to this, the annual growth rate of real retail trade turnover (seasonally adjusted) rose sharply from 0.7% in the second quarter to 3.9% in the third quarter. However, given the impact of tourist (foreign) consumption in this period and the July leap in the imports and sales of cars due to the introduction of excise taxes on cars, which strongly influenced the retail trade data for the third quarter of 2004, the indicator of the real retail trade turnover should be interpreted with great caution.

The imports dynamics of certain product groups connected with personal consumption depended more heavily on the movements of real retail trade turnover than on the dynamics of the domestic production of these products. Following the leap in the sales of cars in June and July 2004, as a result of the mentioned introduction of excise taxes (in mid-July), the third quarter of 2004 saw a sharp fall in the annual growth rates of durable consumer goods imports, which had been exceptionally high till then. On the other



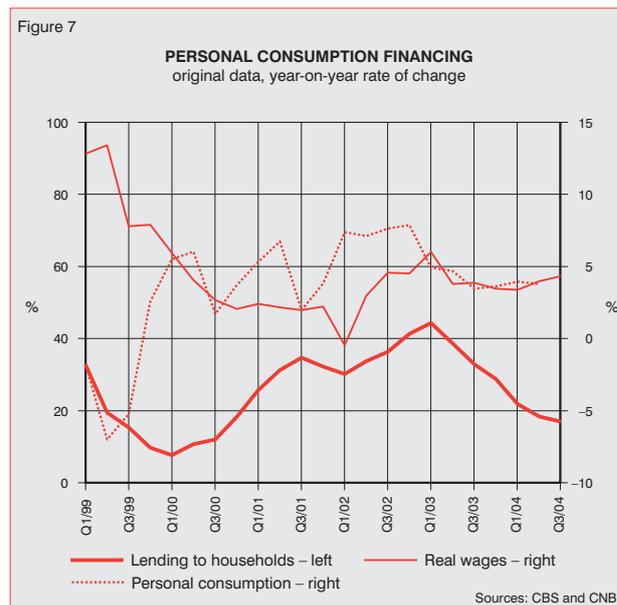


hand, the imports of non-durable consumer goods increased considerably in the third quarter, for the first time in 2004. Given the importance of this category, its increase prevailed over the decline in the imports of durable consumer goods. The imports of goods in retailing offset a slower growth in the domestic production of this group of products. This can be accounted for by tourist demand dynamics and stronger tourist preferences for imported goods. The available monthly indicators of industrial production and retail trade for October confirm the expectations of moderate consumption growth by the end of 2004. It is worth noting that in October, production of non-durable consumer goods also grew, but at a modest 0.8% rate compared to October 2003.

The CNB Consumer Confidence Survey is an additional source of data on consumers' intentions in the second half of 2004. According to the results of the latest survey carried out in October 2004, consumer optimism declined slightly, which was also confirmed by the results of the most recent consumer testing conducted by the "Privredni vjesnik". The consumer confidence index (CCI) fell slightly in the fourth quarter of 2004, while the consumer sentiment index (CSI) rose by a small amount. During the observed period, consumer expectations regarding the future financial situation in their households and the general economic situation in Croatia worsened, which was reflected in a reduced consumer expectations index (CEI). Contrary to this, consumers' assessments of the current financial situation in their households compared to that 12 months ago were slightly more favourable, as well as the assessments of the current favourableness of durable goods purchases for households. In view of these assessments and slightly worsened consumer expectations and given the relative likelihood that savings will grow during the next 12 months, it can be expected that personal consumption will stagnate or mildly decline by the end of 2004.

The data on the changes in regular and non-regular sources of personal consumption financing, i.e. the dynamics of wages, bank lending and government transfers to the household sector, can either support or deny the expecta-

tions of personal consumption dynamics. The third quarter of 2004 saw a continuation of a mild decline in the nominal annual growth rate of bank lending to households, although this rate was still high, around 16.0%, but somewhat lower, if home loans, which grew much faster than average, are excluded. Owing to the new methodology for the compilation of government finance statistics (GFS 2001), it is impossible to establish accurately the dynamics of total government transfers to households in the third quarter of 2004. Expenditures on pensions account for the largest share in these transfers. However, the changes in the pension insurance law, which introduce a semi-annual indexation of pension benefits to the semi-annual nominal growth in gross wages, could result in a somewhat faster growth in pensions. This could provide a stimulus to a future rise in personal consumption. The last pension indexation occurred in August (for the previous month), and the expenditures were realised in September when pensions rose by 4.0%. In the third quarter of 2004, the growth rate of the average real net wage



went up to 4.3% (from 3.9% in the second quarter). October 2004 saw a mild slowdown in average real net wages. However, given the usual monthly data fluctuations, these rates have still shown an upward trend in the second half of 2004. All this suggests that the sources of personal consumption financing have been stable or even more abundant toward the end of 2004 compared to the first half of the year.

Investment Consumption

In early 2004, investment activity measured by gross fixed capital formation continued to grow at a slower pace than in 2003. (For the purpose of GDP calculation, investment in inventories includes a statistical discrepancy arising from a difference between GDP calculation made by the expenditure and production methods. Therefore, total gross capital formation is not a fully reliable indicator of investment demand). The above mentioned slowdown, which started in 2003, coincides with a slower growth of government investment in road construction. Government investment accounts for about one fourth of total investment and has therefore been a strong generator of investment activity growth so far. In the third quarter of 2004, realised capital government expenditures, excluding capital transfers (in accordance with the new GFS), were again heavier than in the same period in 2003, which could have resulted in stronger investment in that period. However, the cumulative capital expenditures realised during the first three quarters of 2004 accounted for the largest share in the planned capital investment for that year. Therefore, it can be expected that they will slowdown significantly at the annual level in the fourth quarter, particularly in view of the considerable investment realised in the last quarter of 2003. A further slowdown in and the completion of government investment projects announce a decline in total investment toward the end of 2004. Although the boost in private investment at end-2004 could partly alleviate the impact of the contraction in government investment, given its strong fall compared to the end of 2003, it is not likely that private investment will completely offset the negative contribution of reduced government

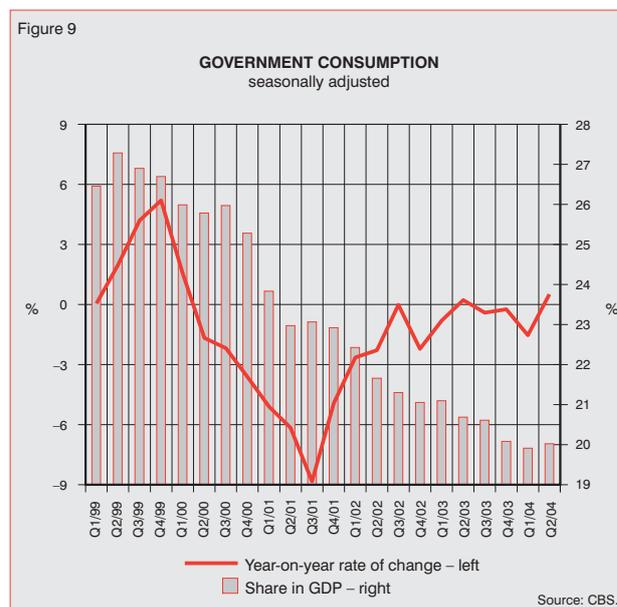
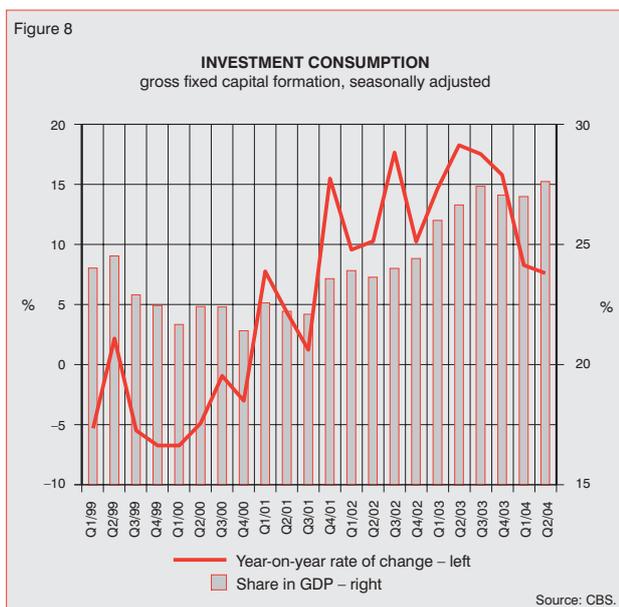
investment to GDP dynamics.

For the first time after the first quarter of 2001, construction activity, measured by the working hours of construction workers at building sites, recorded a cumulative annual fall, after excluding the seasonal effects in July and August. As a result, the total volume of construction projects returned to the level of the beginning of 2003. The Government's payment schedule for road construction works does not correspond with the total volume of the projects completed, which could mean that construction activity in the third quarter of 2004 already announced contraction in capital expenditure towards the end of the year. In addition to the negative developments in construction activity caused by reduced investment in road infrastructure, production in mining and quarrying, which is closely connected with construction, fell at a real annual rate of 2.7% in the second and third quarters of 2004. This was the only industrial activity within the NCEA with negative annual rates of change during the observed period.

The manufacture of capital products and intermediate goods, which, to a certain extent, also reflects the investment movements, recorded positive annual growth rates in the third quarter of 2004. In the case of capital products, this was solely attributable to their strong annual growth in August. However, owing to heavy foreign demand, the manufacture of these products rose in the third quarter of 2004. Contrary to this, the original CBS data point to a moderate decline in the imports of capital products and intermediate goods in the observed period. This is also supported by the data on a total investment slowdown.

Government Consumption

The MoF data on the revenue and expenditure outturns of the consolidated central government in the first nine months of 2004 have been prepared in accordance with the new internationally applied government finance statistics (GFS 2001), which makes comparisons with the prior year difficult. Final government consumption, which includes wages to public sector employees and expenditures on goods



and services, rose by 5.8% in nominal terms during the second quarter of 2004, compared to the first quarter when government consumption decreased due to preliminary budget financing. Following a fiscal expansion in nominal terms during the second quarter of 2004, government consumption declined again by 2.5% in the third quarter compared to the previous three-month period. The decline was more pronounced in expenditures on goods and services (-4.8%) than on the wages of public employees (-1.8%).

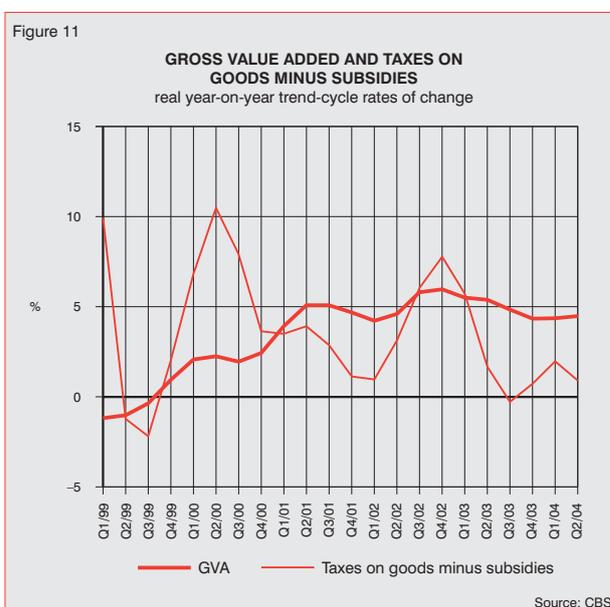
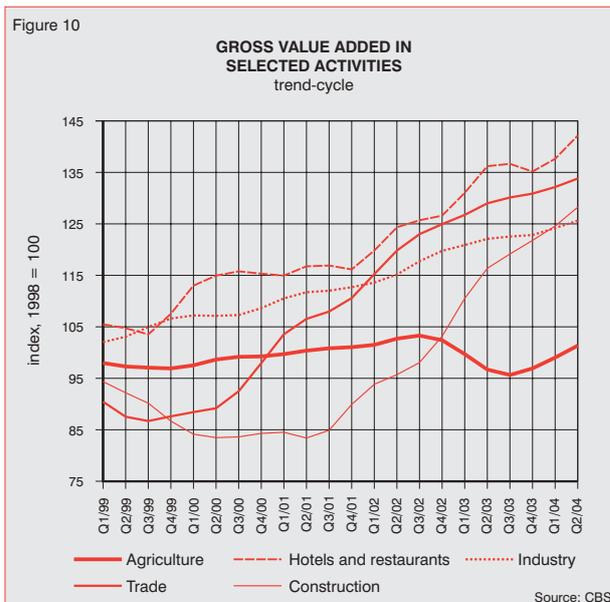
While the reversal of an upward trend in public sector employment at the beginning of the second quarter of 2004, supports the described contraction in final government consumption, the CBS data point to somewhat stronger growth of real gross wages in the public sector and, consequently, to a sharper increase in nominal consumption. These data are incongruous with the available indicators of expenditures on wages. The average nominal gross wage in the public sector mildly accelerated at the annual level, from 3.3% in the second to 4.0% in the third quarter of 2004. Moreover, the base effects of a sharp rise in public sector employment towards the end of 2003 (by some 1.0%) additionally stimulated the growth in final government consumption at the annual level, given that, by the end of 2004, employment is not likely to return to the level recorded before this boost. As more than 70% of planned expenditures on final consumption were realised in the first nine months of 2004, these expenditures, primarily expenditures on goods and services, are expected to grow by the end of 2004.

Similarly, the downward trend in public sector employment, which started at the beginning of the second quarter of 2004, and a moderate wage increase in this sector, should contribute to a slowdown in final government consumption by the end of 2004. However, due to the above mentioned base effects, it is unlikely that it will decline again at the annual level before the end of 2004. Consequently, it can be expected that, as government capital expenditures fall towards the end of 2004, the influence of final government consumption on aggregate demand will be lessened.

Output

According to the quarterly GDP estimate made by the production method, the real annual growth rate of gross value added (GVA) dropped from 4.6% in the first to 4.3% in the second quarter of 2004. After this slowdown, the monthly indicators of GVA movements pointed to a renewed strengthening of economic activity in most sectors during the third quarter. However, construction deviated from the movements in other activities, as it recorded a sharp annual fall in activity during the third quarter. This was owing to reduced demand influenced by a decline in government investment in road construction.

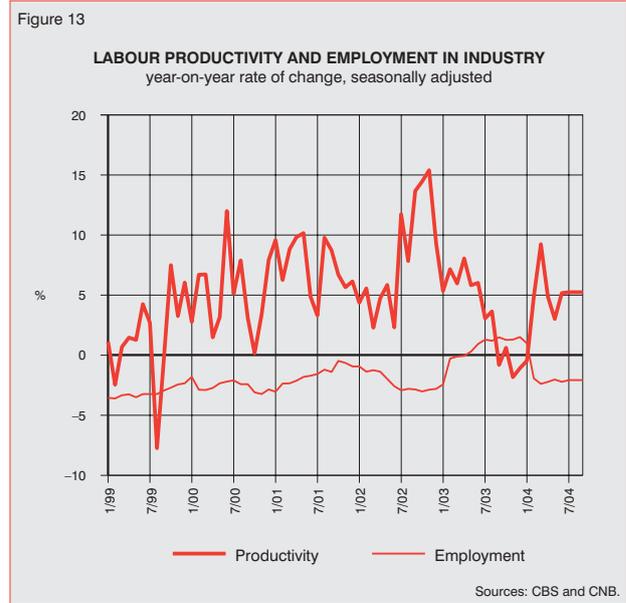
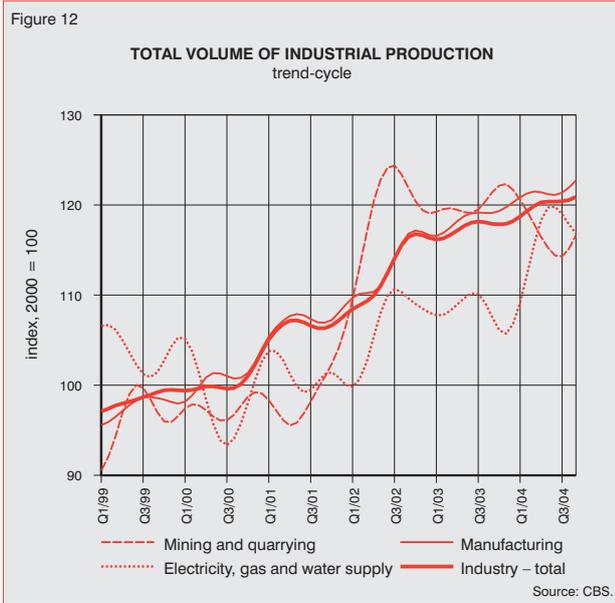
Owing to a much slower growth in taxes on goods minus subsidies than the growth in GVA realised in all economic activities, which jointly constitute GDP, real annual growth of GDP decreased by almost half a percentage point over the first half of the year compared to GVA growth. According to MoF data (consolidated central government), taxes on



goods rose at a lower nominal rate (4.3%) in the third quarter compared to the first and second quarters (4.6% and 8.0% respectively). Subsidies according to the new GFS are not comparable with last year's data based on 1986 GFS. As a result, taxes on products cannot be consistently adjusted for the data published by the MoF. In the previous quarters GVA growth outdid the growth in taxes on goods minus subsidies. These indicators support the assumption that in the third quarter of 2004, the growth in the above mentioned categories of budget revenues and expenditures will continue to lag behind real GVA growth. As a result, GDP growth will remain slower than GVA growth.

Industry

After the real annual rate of GDP growth in industry dropped to 2.9% in the second quarter of 2004, which was 1.7 percentage points lower than its growth rate during the first quarter, a moderate acceleration of the growth can be



expected in the second half of the year. This is suggested by a slight increase in the annual growth rate of the total volume of industrial production from 2.2% in the second to 2.3% in the third quarter of 2004, according to the seasonally adjusted data. This increase was mainly the result of heightened activity in manufacturing during the observed period. Total industrial production stagnated in October 2004, but, given the usual volatility of the monthly industrial production indicators, the data for a single month are insufficient to estimate the industrial production dynamics for the rest of the year. Similarly, finished goods inventories in industry recorded the largest annual increase in October 2004 (7.4%), which followed the third-quarter stagnation in inventories in industry when there were signs of rising domestic and foreign demand towards the year-end and decumulation of inventories.

Manufacturing, which accounts for the largest share of industrial production, rose at the same annual rate as industrial production, 2.2% in the third quarter of 2004. According to the original data, production in manufacturing fell by 3.1% at the annual level in October (which barely corresponded with its fall in overall industry, -3.3%). However, the seasonally and calendar adjusted data (October 2004 had two business days less than the same month in 2003) point to its moderate slowdown (the annual growth rate was 1.4%). As a result, the cumulative annual growth rate of production in manufacturing declined from 2.5% in September to 2.4% in October 2004.

Over the first ten months of 2004, a negative annual rate of change in production was only recorded in mining and quarrying (-1.9%). The decline in production in mining and quarrying was caused by a weakening of domestic demand (due to reduced investment in road construction) which could not be offset by foreign demand. Negative developments were observed in energy supply in the period from August to October, which is partly attributable to warm weather. However, while during these three months energy supply returned to the level of early 2004, the absolute fall in its production was not reflected in the annual dynamics of

energy supply. This was due to the base-period effect, i.e. robust growth of production in energy supply recorded at the beginning of 2004.

A comparative overview of production in main industrial groupings provides a more accurate picture of the described movements in industry. In the third quarter of 2004, a negative annual rate of change (-3.0%) was only recorded in the manufacture of durable consumer goods. A slight increase in the production of these goods in October was not sufficient to reverse the negative trend, so its cumulative rate of change was -0.9% in that month. During the third quarter, production grew in other industrial groupings, particularly in the manufacture of capital and intermediate goods, which also recorded high annual growth rates. Such developments in the manufacture of capital goods were primarily the result of its strong growth in August. The downward trend in production of durable consumer goods continued into the third quarter when its annual growth rate stood at 4.2%. October saw a further slowdown in the production of these goods, as a result of weakening domestic and foreign demand, which is suggested by the preliminary data on merchandise trade.

A decline in employment in industry, which started in February 2004 when the preliminary CBS data on employment were first used, continued in the second half of the year. During the first nine months of 2004, the average rate of change in employment in industry was -1.7%, which stopped the upward trend in employment from last year. In this period, labour productivity in industry rose by 4.5% compared with the same period in 2003 exceeding its last year's growth by approximately 1 percentage point (3.4%). While boosted labour productivity mainly resulted from increased industrial production, employment contraction accelerated its growth. However, as revised preliminary data on employment in industry, expected in April 2005, usually raise employment estimates, they could show that the productivity growth dynamics actually remained the same as in the previous year.

Trade

Following a slight and short-lived slowdown in trade during the second quarter of 2004, its activity heightened again in the third quarter. Real retail trade turnover rose by 3.9% in the third quarter compared with the same period last year. Due to a 2.6% increase in real turnover in September, the cumulative growth rate of retail trade turnover was 2.3% in that month. As already mentioned, this growth was stimulated by a leap in the sale of cars in the first half of July as a consequence of the announced increase in excise taxes on cars and other motor vehicles in the second half of this month. A monthly fall in retail trade in August and September 2004 was partly attributable to the before mentioned exogenous shock. However, as the level of retail sales was high, the annual growth rates of the real retail turnover remained positive in these months.

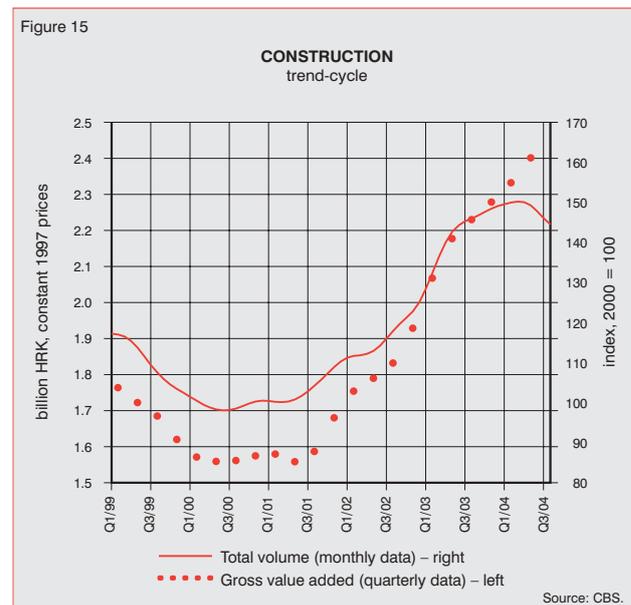
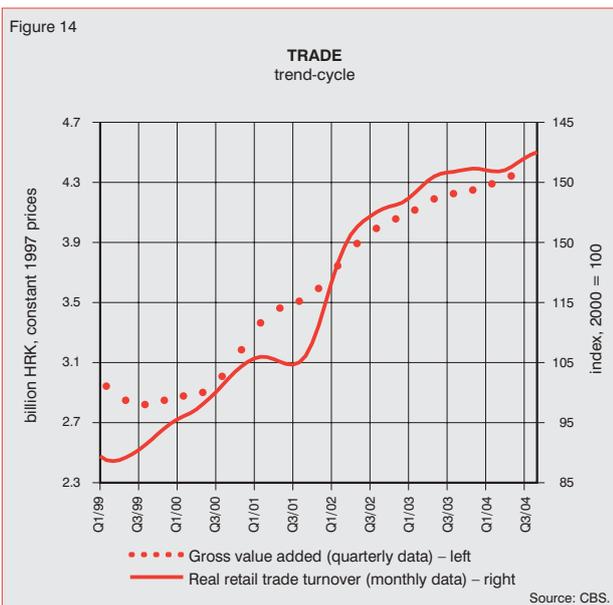
A new data series “real retail trade turnover excluding the sale of motor vehicles and motorcycles”, published by the CBS as of the current year, reflects similar retail trade dynamics. The upward turnover trend in the above mentioned scope of retail trade was stopped in August and September. Yet, given the shortness of the data series, it is impossible to isolate the influence of its seasonal component or to establish the annual dynamics of this indicator. In contrast to this, the overall retail trade turnover declined by 4.1% in real terms during the first nine months of 2004 compared to the same period in 2003. A downward trend in real turnover in overall trade at the annual level, observed since December 2003, could be changed due the forthcoming Christmas holidays. Looking at the turnover of legal entities by their prevailing activity in the period January–September 2004, strong negative developments were observed in the sale, maintenance and repair of motor vehicles, retail trade in food, beverages and tobacco products in specialised shops and retail trade in textiles, wearing apparel, footwear and leather products.

Construction

The end of the investment cycle in road construction in the second half of 2004 contributed to a plunge in construction activity in absolute terms, measured by the number of working hours of construction workers at buildings sites. In the third quarter of 2004, construction recorded a 1.2% fall at the annual level, which indicated that the slowdown in construction activity from mid-2003 had slowly developed into its contraction. This fall could not even be stopped by favourable weather conditions in the third quarter of 2004. As a result, the share of works on buildings rose in the observed period. But as this growth was slow, it was not likely that residential construction would, if only roughly, offset the decline in road construction at end-2004 and in early 2005.

Although construction activity grew at a slower pace at the beginning of 2004 compared with previous years, it was still the fastest growing economic activity in Croatia which made a strong contribution to real GDP growth (0.8 percentage points on average in the first half of 2004). However, owing to the previously described negative movements, this will probably be changed in the third and fourth quarters of 2004.

Uncertainty remains concerning the role of private investment in construction which could partly offset the slowdown in government investment at the end of 2004 and at the beginning of 2005. Certain preliminary indicators of construction activity, e.g. the value of net construction project orders (in the country) and construction permits issued announce favourable trends in the future. Construction project orders rose sharply in the second and third quarters of 2004. The third quarter saw an increase in the number of issued construction permits for buildings and other projects, while the number of issued construction permits for apartments declined. The uncertainty about the role of private investment in construction is further increased by the unspecified time horizon for construction to which the data on construction project orders and construction permits relate.

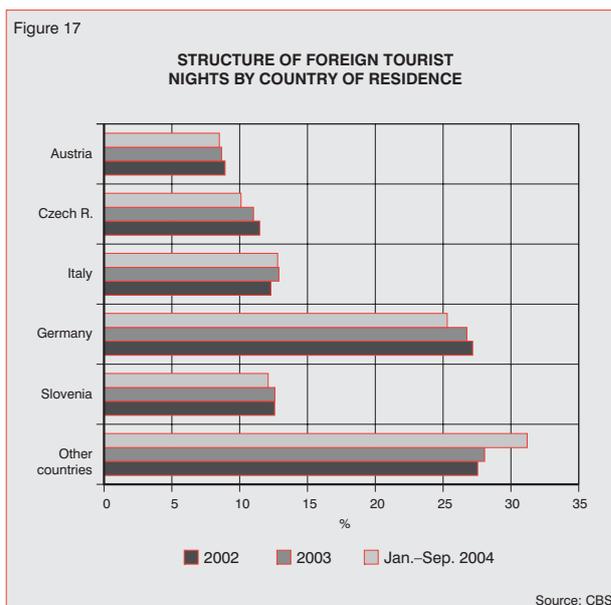


Tourism

In line with the developments in the balance of payments, physical indicators point to good results achieved in the tourist sector during the third quarter of 2004. The number of tourist nights rose by 3.3% in this quarter compared with the same period last year while tourist arrivals grew at a higher rate, 7.7%. Owing to such dynamics of tourist arrivals and overnight stays, the upward trend in the average tourist nights per tourist arrival (5.5 tourist nights per tourist arrival, which is only slightly below the average in 2003) was stopped. In the first nine months of 2004, total arrivals and overnight stays (of predominantly foreign tourists) rose by 6.0% and 2.0% respectively compared with the same period in 2003. As hotels and restaurants participate with less than 4.0% in the total real GVA, the described positive developments in tourism during the third quarter of 2004 will increase its contribution to real GVA growth, although it is likely to remain below 1 percentage point. (In the first half of 2004, tourism made a negative contribution to real GVA growth of -0.2 percentage points).

Given the economic interdependence, it is necessary to analyse the direct and indirect effects of positive developments in tourism during the first nine months on stimulating the economic activity in other sectors of the Croatian economy, primarily trade and transport and communications. This was also reflected in the balance of payments and budget revenues during the observed period.

Over the first nine months of 2004, individual tourist arrivals and nights rose by 5.0% and 3.0% respectively compared to the same period in 2003. The growth in total tourist arrivals and nights was exclusively the result of an increase in the number of foreign tourist arrivals and nights (by 6.0% and 4.0% respectively). However, domestic tourists recorded negative trends in the observed period, with stagnant tourist arrivals and a 5.0% decline in overnight stays. In contrast to this, the total number of organised tourist arrivals and nights rose by 7.0% and 2.0% respectively at the annual level. While organised arrivals of both domestic and foreign



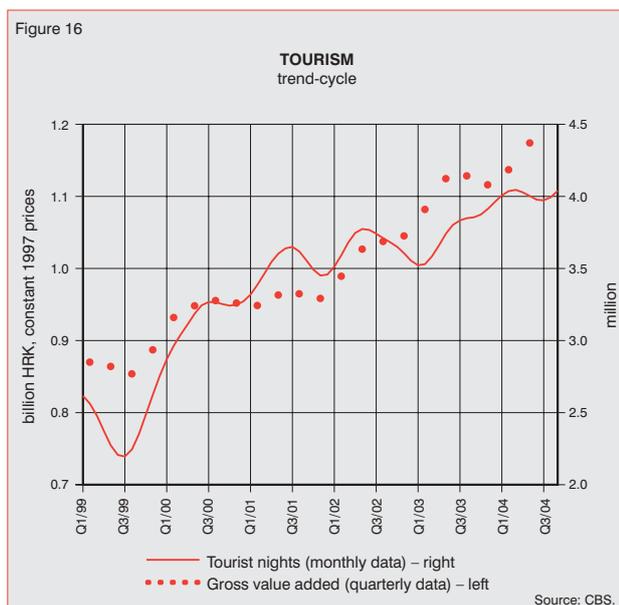
tourist rose at approximately the same annual rate (about 8.0%), organised overnight stays of domestic tourists grew at a much higher rate (8.0%) than those of foreign tourists (1.0%). The stronger growth in overnight stays of foreign tourists points to a change in the structure of tourists in respect of their preferences and means, which occurred in late 2003 and started the upward trend in tourist nights per tourist arrival.

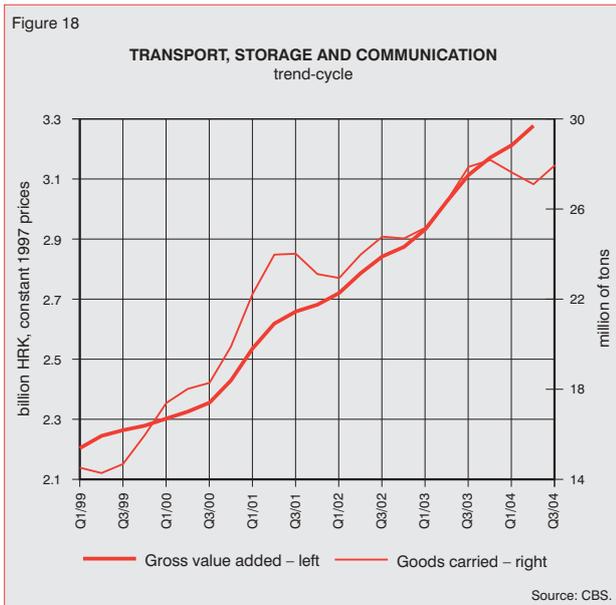
In the period January–September 2004, tourists from Germany, Italy and Slovenia accounted for the largest shares of total tourist nights (25.3%, 12.8% and 12.1% respectively). The shares of tourists from the Czech Republic and Austria were slightly smaller (10.1% and 8.5% respectively). In the observed period, only the share of tourists from Italy in total tourist nights remained nearly the same as in 2003 and 2002, while the shares of tourists from other countries were reduced. Given the usual increase in the arrivals and nights of tourists from the neighbouring countries during the winter holidays, a slight change can be expected in the structure of tourist nights compared with the first nine months of 2004.

Transport and Communications

The available CBS indicators of economic developments in transport, storage and communications for the third quarter of 2004 were mainly positive, particularly in transport of goods. However, a decline was recorded in some other segments of this activity, mainly transport of passengers. Therefore, following a slowdown in the annual growth of GVA in transport and communications over the third quarter, its growth is expected to accelerate again.

A slight decline in the number of transported passengers was recorded in road transport and railway transport, which account for the largest shares of the total transport of passengers (road transport alone participates with 56% in the total transport of passengers). Sea and coastal transport, which participates with 11.0% in the total transport of passengers, and air transport, which accounts for a smaller number of





transported passengers, saw a rise in the transport of passengers, measured by the number of transported passengers and kilometres passed. Contrary to this, transport of goods increased considerably. Road transport of goods, accounting for the largest share of total transport of goods (51%), rose at an annual rate of 6.8% in the third quarter of 2004. In the observed period, favourable developments were also recorded in pipeline transport. The described movements over the third quarter of 2004 stopped the downward trend in transport of goods, while stagnancy in transport of passengers, observed since mid-2001, continued.

Within transport, storage and communications, the most dynamic growth was recorded in telecommunications over the past few years. The upward trend continued into the third quarter of 2004, when the number of minutes spent in mobile and fixed networks rose significantly (by 9.9% and 5.1% respectively at the annual level). This also resulted in their marked growth (5.8% and 8.6% respectively) during the first nine months of 2004.

Labour Market

According to the preliminary administrative indicators, employment continued its slight slowdown in the third quarter of 2004. This was paralleled with a reversal of a downward trend in registered unemployment, which rose over the third quarter of 2004, for the first time in the last two and a half years. However, the latest available Labour Force Survey results and the CPII data on insured persons reflect different movements in the labour market. The Labour Force Survey data for the first half of 2004 point to a rise in employment and a further decline in the Labour Force Survey unemployment rate compared to 2003. A continuation of employment growth during the third quarter of 2004, with the usual seasonal fluctuations, is also confirmed by the CPII data on the number of the insured. In the third quarter, real wages grew at approximately the same rates as in the second quarter of 2004, i.e. somewhat faster than at the beginning

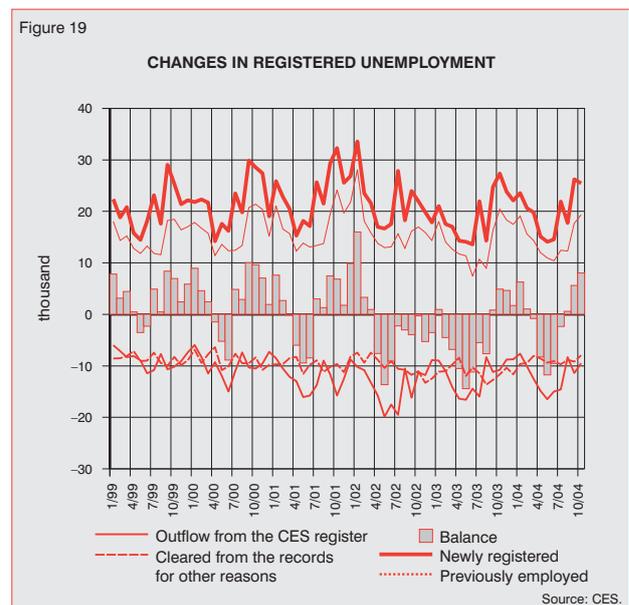
of the year, but without significant deviations from their usual dynamics over the past few years.

Unemployment and Employment

The upward trend in inflows into the CES register, which had lasted for over a year, continued into the third quarter of 2004. During this quarter, the number of persons registered with the CES totalled 66,000, about 8% up on the same quarter in 2003. As in the previous few quarters, the rise in inflows into the register mainly resulted from an increase in the number of persons with work experience newly registered from inactivity, which meant, according to the CES rules, that at least three months had elapsed since these persons' last employment.

There are several possible reasons for the increased inflows into the CES register. For example, it is possible that the persons who had lost their jobs immediately after entering into force of the new Law on Employment Intermediation and Rights during Unemployment, hesitated to register with the CES, owing to reduced employment opportunities with the CES intermediation, or owing to more demanding requirements imposed on the unemployed by the CES. Another reason might be that the unemployed persons became more familiar with the new registration system, after the early phase of its implementation had passed, and found the ways to register more easily and remain within the CES register. And finally, the growth in inflows coincided with entering into force of the new Labour Law, which eased the restrictions on employee dismissals (see Box 1: Labour Law Reform). It is therefore possible that a larger number of dismissals, especially those of elderly employees who previously enjoyed a much higher level of protection, stimulated the growth of inflows into the CES register.

The observed increase in inflows of persons with work experience corresponds with all the described scenarios. However, the fact that the majority of inflows relates to persons who register with the CES from inactivity supports the first two scenarios. The inflows of unemployed persons recorded



in the third quarter of 2004 were still about 14% (10,000) lower than the maximum level reached in the third quarter of 2001, so that the recovery of inflows was actually modest compared with their previous level. This also speaks against a significant increase in dismissals. Moreover, the provisions of the new Labour Law, governing shorter dismissal periods and reduced severance payments, entered into force as late as the beginning of 2004, along with the introduction of higher unemployment benefits and the extension of their duration, which rests with the responsibility of the CES. The upward trend in inflows into the register started immediately after the adoption of the new Labour Law in July 2003. Continued employment growth during the first half of 2004, especially a marked rise in the employment of elderly persons, as suggested by the Labour Force Survey, as well as the continuation of an upward trend in the number of insured persons with the CPII, also speak against a significant increase in the number of dismissals. The data on inflows into the CES register for October 2004 suggest that their growth might slow down or even stop, although the data for a single month are insufficient to estimate future developments.

In the third quarter of 2004, outflows from the CES register continued to decline. During that quarter, 62,000 persons were cleared from the records, 11,000 (15.4%) down on the same period in 2003. Following a decline in outflows from the register to employment in mid-2002, their level stagnated during the last two years. As a result, the reduced outflows from the register to employment made an only marginal contribution to the fall in total outflows from the register during the third quarter. The main generator of the fall in outflows was the reduced number of persons cleared from the records for non-employment reasons, which is still on the decline. The number of such persons fell by one fourth in the third quarter of 2004 compared to the same period in 2003. Moreover, following a rather substantial clearing of persons from the records during the last two years, their number dropped below the level recorded before the employment intermediation reform. The decline in the number of clearings from the CES records was influenced by the har-

monisation with the new Law on Employment Intermediation and Rights during Unemployment, i.e. by removing from the CES records of persons who did not satisfy the new unemployment criteria. Currently, the number of such persons is probably much lower than before the reform, due to a decrease in registered unemployment by almost 100,000 over the two post-reform years. This also influenced the downward trend in the number of persons cleared from the records for non-employment reasons.

Owing to further growth in inflows into and a decline in outflows from the CES register, registered unemployment increased cumulatively by 1.3% (around 4,000) in the third quarter. During October 2004, it rose by an additional 2.6% (about 8,000), reaching 308,000 at the end of this month. Such an increase in registered unemployment outdid its usual growth owing to the abolishment of seasonal jobs at the end of summer and the inflows of younger persons after finishing school. It also represented the first long-term increase in registered unemployment, except for a few sporadic leaps, during the last two and a half years, according to the seasonally adjusted data.

Owing to the described registered unemployment dynamics, the downward trend in registered unemployment rate was reversed in the third quarter of 2004. Following its rise during the summer months, the registered unemployment rate reached a high 18.1% at the end of October 2004. However, despite the unemployment growth over the last few months, this rate was still 0.4 percentage points lower compared to the same month in 2003 or 1 percentage point lower than at end-2003. Should registered unemployment continue to grow in the last quarter of 2004 at the same rate as in the third quarter, given the usual seasonal influences, its level could exceed that recorded at the beginning of 2004.

The latest Labour Force Survey unemployment rate available for the first half of 2004 (13.8%) was still much lower than the rate according to administrative sources. It was also 0.3 and 0.6 percentage points lower than in the first half and second half of 2003 respectively. Unlike the data provided by administrative sources, the Labour Force Survey unemploy-



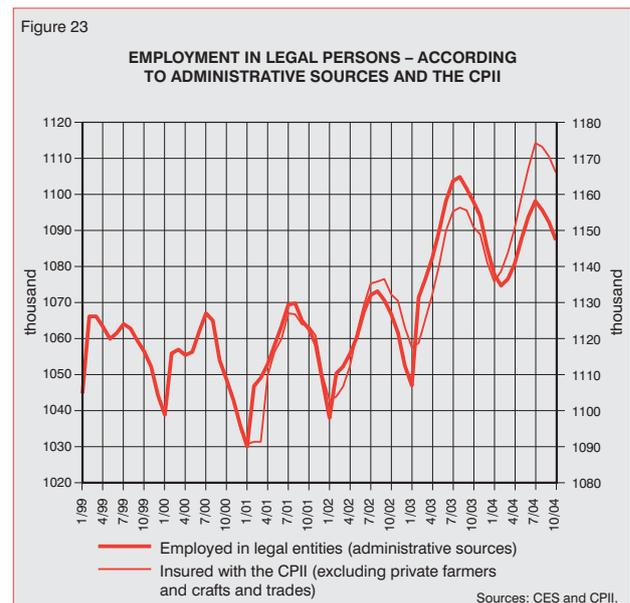
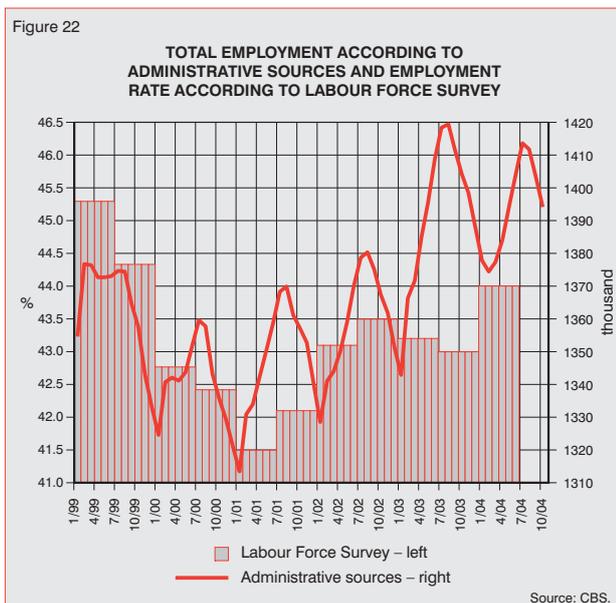
ment dynamics point to a continued decline in unemployment. The Labour Force Survey indicators for the second half of 2004 will only be available in May 2005 and then it will be possible to establish more accurately the unemployment dynamics in the stated period. As registered unemployment declined at a much faster pace than the Labour Force Survey unemployment in the immediate post-reform period, these two rates converged gradually. This was actually one of the indirect goals of the employment intermediation reform. However, the downward trend in registered unemployment was stopped while Labour Force Survey unemployment continued to decline, which resulted in a reversal of the convergence trend in the first half of 2004, although the level of registered unemployment was still much higher than that of the Labour Force Survey unemployment.

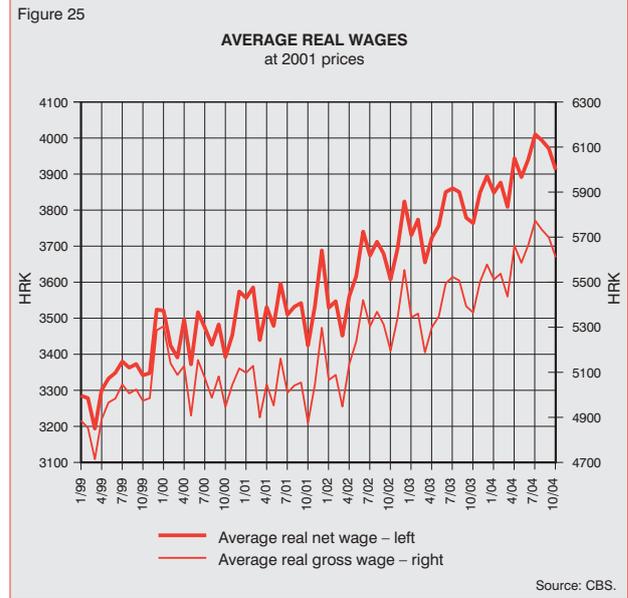
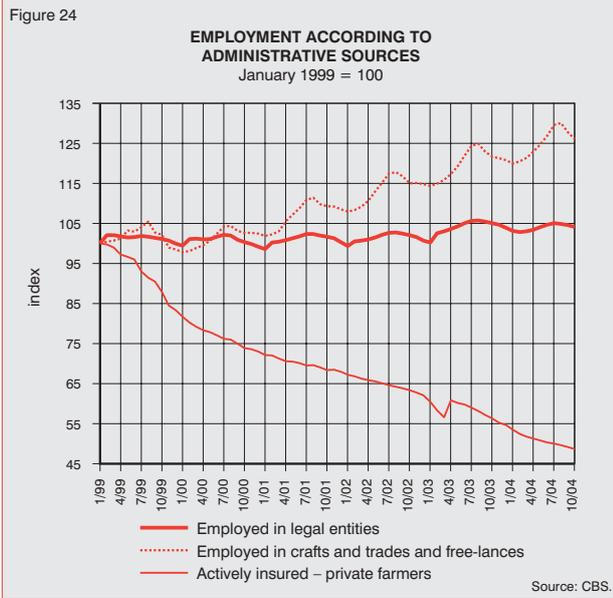
The preliminary administrative indicators of total employment point to further stagnation and a mild decline in employment during the third quarter of 2004, if seasonal influences are excluded. The annual rate of change in total employment was -0.7% in the third quarter of 2004 but fell to -1.0% in October. In contrast to the administrative employment indicators, the most recent Labour Force Survey indicator of employment for the first half of 2004, points to a continuation of growth in employment after its stagnancy during 2003. The Labour Force Survey employment rate for all persons above the age of 15 was 44% in the first half of 2004, 0.8 percentage points up on the first half of 2003 and 1 percentage point up on the second half of the year. The Labour Force Survey indicators of employment are usually more reliable than the administrative indicators and discrepancies between them have been comparatively frequent.

Additional sources of employment data are the CPII data on the total number of insured persons, which are published monthly with a short lag, and the preliminary CES employment indicator. However, unlike the CES indicator, the number of the insured is not subject to subsequent revisions. Over the last few years, the average number of the insured in legal entities rose by approximately 5.5% (around 60,000) compared with the final CES data. This could mean that

some persons pay their contributions independently in order to increase their pension insurance rights or that the scope of data provided by the CPII is broader than that of the CES survey. However, despite the difference in the levels of the insured between the two sources, the trend in the number of insured persons in legal entities during 2001 and 2002 approximately reflected the employment dynamics in legal persons according to the final CES data. Over 2003, the average growth according to CES indicator was somewhat faster (2.6%) than the growth in persons insured with the CPII (1.7%), but both indicators moved in the same direction during that year. However, this tendency was changed in 2004, as in the first ten months, the number of the insured continued to grow at nearly the same pace as in the previous year, while the preliminary CES indicator, which is subject to considerable revision, pointed to a decline in employment in this period. Considering the less pronounced difference in employment trends between the two sources in the previous years, it seems likely that in 2004, too, the employment growth dynamics were similar or only slightly slower than in 2003. This could be supported by the revised preliminary CES indicator of employment to be published in April 2005.

According to the preliminary CES data, October 2004 saw a decline in total employment at the annual level. This was caused by a continuation of a considerable relative decrease in the number of private farmers actively insured with the CPII (by 13.6%) and a slight relative decline in employment in legal entities (by -1.0%). However, given the importance of employment in legal entities, this decline was somewhat sharper in absolute terms. Contrary to this, employment in crafts and trades and free-lances recorded moderate 3.6% growth. A fall in total employment according to administrative sources can be attributed to the two categories which are significantly influenced by statistical reporting conventions, i.e. private farmers who stopped paying social security contributions and preliminary data on employment in legal entities, which are collected from a non-representative sample and are usually subject to a considerable subsequent revision.





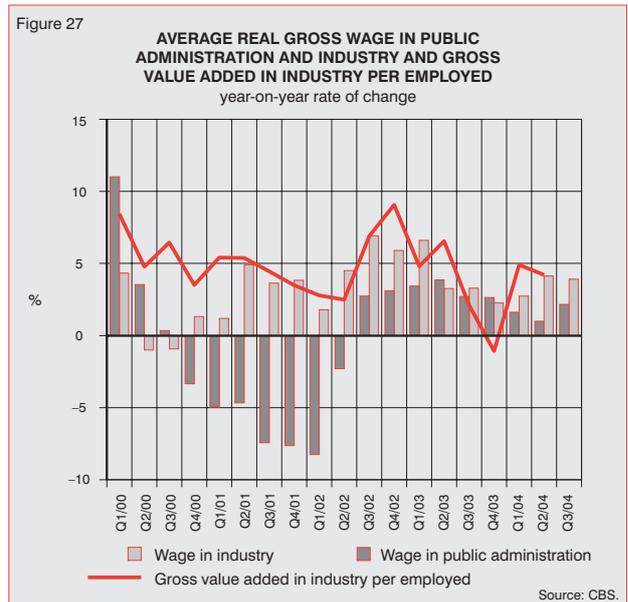
According to the preliminary indicators for legal entities, the sharpest annual fall in employment was recorded in agriculture (1,000 or 3.3%), manufacturing (6,500 or 2.6%), construction (2,100 or 2.7%) and public administration (2,700 or 2.4%). A significant increase in employment was only noticed in education (1,900 or 2.2%).

Owing to stability in registered unemployment, the downward trend in labour force slowed. Consequently, labour force decreased by approximately 0.9% (about 15,000) in October 2004 compared with the same month in 2003. This decrease was significantly smaller compared to the previous months and was mainly the result of the described bias in preliminary employment indicators which also accounted for the underestimated level of unemployment. In contrast to administrative indicators, the total activity rate according to the Labour Force Survey rose significantly and was 51.1% in the first half of 2004, almost one percentage point up on 2003.

Wages and Labour Costs

The relatively strong wage growth, which started at the end of the first quarter of 2004 continued in the third quarter. The annual growth rate of average gross wage paid was 4.8% in that quarter, equal to the rate recorded in the second quarter. In October 2004, the annual rate of its growth declined only slightly, to 4.6%. Net wages continued to grow at a somewhat slower pace than gross wages. The annual growth rate of average real net wage was 4.3% in the third quarter of 2004 but it slowed down to 3.9% in October. The faster growth of gross wages points to the tax progression effects in the circumstances of average wage growth, which results in a heavier tax burden on wages. However, an increase in the non-taxable portion of personal income to be introduced in early 2005, should partly offset the impact of tax progression and provide for further net wage growth in that year at the same rates as in 2004, but with a somewhat slower rise in overall labour costs.

Faster growth in real wages was mainly the result of their



Box 1: Labour Law Reform

In early 2002, an institutional reform of the labour market was launched in Croatia. The first step in this comprehensive reform was the reform of employment intermediation, which has been discussed in several CNB bulletins (see, for example, Bulletin No. 97). The amendments to the Labour Law, moved shortly after the employment intermediation reform, were based on the perception that the Law was much stricter for employers than the labour legislation in both developed countries and the neighbouring transition countries. This resulted in expensive job creation, reduced competitiveness of the domestic economy and increased employment in the unofficial sector and it discouraged foreign investment. Easing restrictions on labour legislation corresponds with the trends followed by other European countries for more than a decade.³

The institutional reform of the labour market was supported by international institutions and was a prerequisite for obtaining the World Bank Structural Adjustment Loan and concluding a Stand-by Arrangement with the IMF. However, the awareness that the reform was necessary and the final outcome of the negotiations with these institutions were mainly attributable to the tripartite negotiations between the Croatian partners. After nearly two years of negotiations regarding the amendments to the Labour Law, which ended in July 2003, a new Law was passed. (It entered into force on the day of its publication, except for the provisions regulating minimum notice periods and severance pays, which applied as of 1 January 2004). The negotiations resulted in significant changes to the Labour Law, pulling Croatia out of the group of countries with the strictest labour legislation, as measured by the OECD EPL (Employment Protection Legislation) index.⁴ As a result, Croatia was classified among the European countries with averagely strict labour legislation. By virtue of the amendments to the Labour Law, the EPL index fell by 23%, i.e. from 3.6% to 2.8% (the maximum index value, 6, indicates the strictest labour legislation). The reform introduced more flexibility in the three main areas covered by the EPL index: permanent employment contracts, temporary employment regulations and collective dismissals. As concerns the termination of individual permanent employment contracts, the amendments included shorter minimum

notice periods and lower minimum severance pays. According to the amended Labour Law, the minimum notice period was reduced to three months (previously six) for employees with 20 years or more of uninterrupted service with one and the same employer. The minimum stipulated severance pay was one third of the wage for each year of service but not more than 6 gross wages for employees with 20 years or more of uninterrupted service (previously: one-half of the net wage for each year of service, i.e. 10 net wages for employees with 20 years of service, without setting the maximum severance pay). The original reform proposal included a reduction of the EPL index to 2.3, which was slightly below the average in EU Member States and the Central and East European transition countries. However, the proposed changes were reduced during the negotiation procedure (Matković, T. and I. Biondić, 2003, *Reforma zakona o radu i promjena indeksa zakonske zaštite zaposlenja*, Financijska teorija i praksa, Vol. 27, No. 4, pp. 515-528).

The reform also included some compensation arrangements which made the Law stricter. For example, the new Labour Law stipulated that employees of all enterprises with more than 200 employed persons should participate in such enterprises' supervisory boards (previously this only related to enterprises in which the state had major stakes and enterprises privatised under special circumstances). Moreover, the Law regulated the possibility of introducing a solidarity contribution for employees who were not trade union members, subject to the approval of the majority of employees of the involved enterprise and the inclusion of such a provision in the collective agreement.

Table 1: International EPL Index Comparison

USA	0.7
UK	0.9
New Zealand	0.9
Ireland	1.1
Canada	1.1
Australia	1.2
Denmark	1.5
Switzerland	1.5
Hungary	1.7
Poland	2.0
Finland	2.1
Czech R.	2.1
Netherlands	2.2
Austria	2.3
Draft HR	2.3
Japan	2.3
Slovak R.	2.4
Belgium	2.5
Germany	2.6
Norway	2.6
Sweeden	2.6
Estonia	2.6
Croatia 2003	2.8
France	2.8
Spain	3.1
Italy	3.4
Slovenia	3.5
Croatia 2001	3.5
Portugal	3.7
Old EU member states average	2.4
OECD average	2.2
New EU member states average	2.0

Source: Biondić and Matković, 2003.

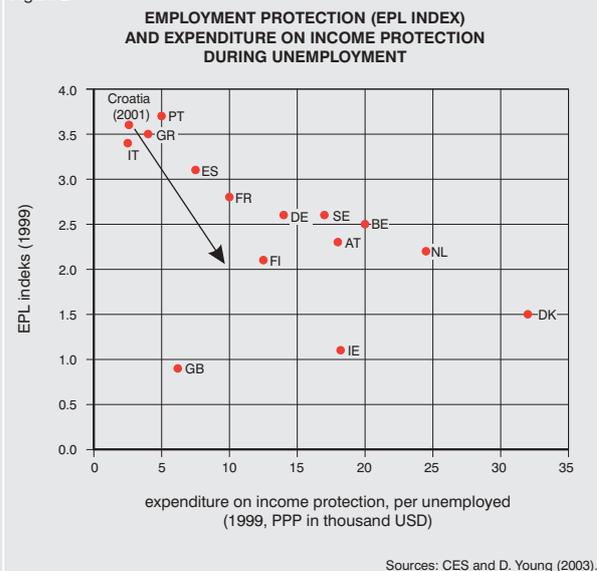
3 Besides the indices which point to less strict labour legislation (Garibaldi, P. and P. Mauro, 2002, *Anatomy of Employment Growth*, Economic Policy, No. 34), the thesis about increasing the labour market flexibility is often supported by the argument that collective bargaining has become less centralised (Borghijs, A., S. Ederveen and R. de Mooij, 2003, *European Wage Coordination: Nightmare or dream to come true?*, Economics Working Papers, No. 20, European Network of Economic Policy Research Institutes).

4 The EPL index is used for measuring procedures, costs, restrictions and procedural delays prescribed in the case of employee dismissal. It is calculated as a weighted average of 22 various indicators. Some of them are expressed in terms of numbers in the Law itself (e.g. severance pays and notice periods), while others are presented in qualitative terms to be quantified in accordance with the prescribed procedure (see OECD, 1997, *Employment Adjustment, Workers and Unemployment*, Employment Outlook 1997, pp. 161-184). Despite serious limitations regarding the interpretation of the EPL index, it is the most reliable measure of the strictness of labour legislation.

Finally, despite the changed definition of a “small employer” which included enterprises with up to 20 employees (previously up to 10), the possibility of unfair dismissals of employees by “small employers” was eliminated. All the above mentioned changes strengthen the bargaining position of workers, but they are not included in the calculation of the EPL index.

The effects of the labour legislation are not fully transparent, both from theoretical and empirical points of view. Given the higher costs of labour force turnover, theoretical models suggest that a high level of employment protection might impede the labour market flows by extending the average period of employment. The effects of stricter labour legislation can be beneficial for employees as they reduce employment and income insecurity. In addition, due to closer connections between employers and employees, the former will be more willing to invest in human resources, which is also socially positive. Finally, protective employment legislation also provides for partial internalisation of dismissal costs which should otherwise be born by the society on account of unemployment benefits and related expenditures. On the other hand, stronger employment protection can also have some negative economic effects. The positive influence of employment protection on unemployment is still under debate and there are no sound arguments either in favour or against it. Similarly, there is no evidence of a correlation between the legal employment protection and higher unemployment rates. However, even if there is no proven cause-and-effect relationship between the legal employment protection and unemployment, the former is an obstacle to reducing unemployment which has once been created under the influence of various negative economic shocks. The negative correlation between overall employment and stronger legal employment protection is somewhat closer than the correlation between the legal employment protection and unemployment. This is accounted for by lower employment rates of youth and women, i.e. the categories entering the labour market, who have difficulties in finding jobs owing to the strict labour legislation. These categories are more inclined to temporary work and therefore prefer various flexible forms of employment which are restricted by law. Finally, in accordance with theoretical forecasts, there are indications that the strict labour legislation results in longer average unemployment and higher

Figure 28



long-term unemployment rates.

While strict and protective labour legislation can have adverse macroeconomic effects, it obviously has some advantages for workers, especially those who have jobs. Therefore, the introduction of less strict labour legislation in Croatia was paralleled with increasing the unemployment benefits and the extension of their duration.⁵ For workers, this represented a substitute for the loss of income. This institutional reform model was strongly advocated by the EU and ILO (Young, D., 2003, *Employment protection legislation: its economic impact and the case for reform*, EU Economic papers No. 186). The ILO particularly emphasises the example of Denmark, which succeeded in reducing the income loss risk for the unemployed by increasing the expenditures on passive and active policy measures related to flexible labour legislation. Such policy seems applicable in Croatia, too, given its relatively modest expenditures on active and passive labour market measures and, until recently, stringent labour legislation.

⁵ The maximum amount of the monthly cash benefit increased from HRK 900 to HRK 1000 and a one-off allowance was introduced. This actually represented a partial adjustment of the benefits for wage growth; the maximum duration of the benefit was increased from 12 to 15 months.

Box 2: Unit Labour Cost (ULC) in Croatia

Unit labour cost (ULC⁶) is a very significant indicator from the monetary authorities' point of view. Firstly, ULC growth can be an early warning against potential inflationary pressures, the risk of growing inflation and existing inflationary pressures. Secondly, it provides for a higher-quality analysis of the causes of inflation. This means that it can help in distinguishing whether inflation comes from domestic or foreign sources, i.e. whether it is caused

⁶ Unit labour cost is defined as the ratio between wages and productivity, i.e. between the total labour cost and total output, which is equivalent.

by growing costs of imported intermediate goods or excessive domestic demand. Finally, ULC can be viewed from a broader perspective, e.g. in relation to the trends in international economic competitiveness.

Since mid-1990s, the CNB has carried out statistical monitoring of the monthly ULC in industry, calculated from the variables then available: total labour costs in industry (deflated by the cost-of-living index in order to obtain the real ULC); these costs were monitored by and published in monthly bulletins of the former Domestic Payment Agency, ZAP (nowadays: FINA); and the total volume of industrial production. However, at end-2001, owing to the payment system reform, FINA ceased to

Figure 29

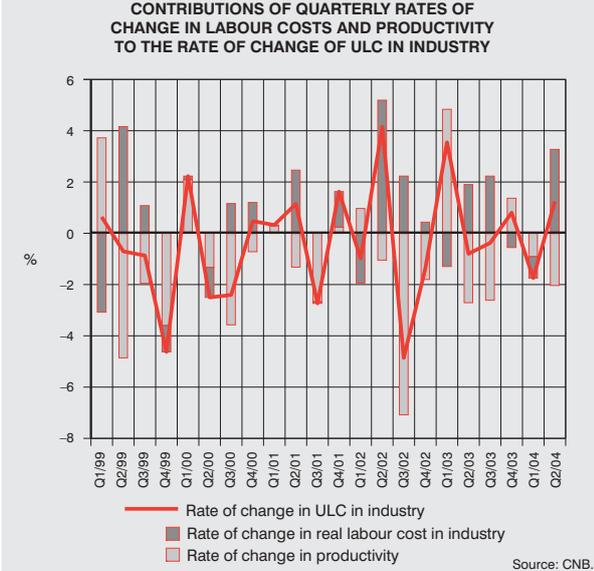
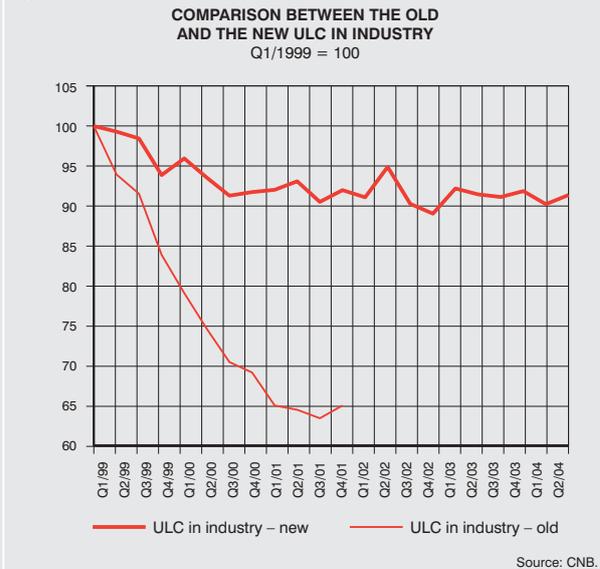


Figure 30



collect the cash flow data. In addition, experience showed that the total volume of industrial production was not a fully satisfactory measure of overall industrial production. Owing to the above mentioned problems related to statistical data and availability of the data series, it was necessary to calculate the ULC index by using other variables. A new ULC was created on the basis of average gross wage and labour productivity in industry, defined as gross value added per employed person in industry.

Despite the high volatility of the quarterly real ULC in industry, a downward trend in ULC was still noticeable in the period between 1999 and 2001, but it stabilised afterwards. This suggests that in the last few years, pressures for wage increase did not outpace the growth in labour productivity, i.e. that the labour market made no significant contribution to price growth. Furthermore, a comparison can be drawn between the contributions of individual ULC components to the change in aggregate ULC. In the period between the second quarter of 1999 and second quarter of 2004 (the same quarters were chosen in order to eliminate the seasonal effects), real gross value added in industry rose by 20.2%, while employment declined cumulatively by 3.9%. As a result, the total growth in labour productivity was 25.7%. During this period, the average gross wage in industry rose by a total of 16.7% in real terms.

The dependence of the ULC calculation on a particular methodology is best illustrated by a comparison between

the calculations of the real ULC in industry made by the new methodology and the old one which was applied till end-2001. According to the old methodology, real ULC decreased by approximately one third in the period between 1999 and 2001, while, according to the new methodology, it dropped by about 10%. The difference between the two results is huge and warns of possible errors in the interpretation of the ULC dynamics.

However, even the new ULC index has some statistical flaws. For example, as the average gross wage in industry does not include employer contributions, this indicator does not reflect changes in the structure of contributions which influence the total labour costs. In addition, the average gross wage is calculated from a sample of enterprises which submit their reports on wages paid for the previous month to the CBS by the middle of each month. Therefore, this indicator does not have to be (and is probably not) created on the basis of a representative sample of enterprises. And finally, the data on employment in industry, which are published by the CBS, are subject to significant subsequent changes, which is why the short-term benefit of the ULC is questionable. Serious discrepancies even exist between the final data on employment and the Labour Force Survey data. Consequently, there is still room to improve the quality of the ULC by improving the reliability of individual statistical indicators used for its calculation.

stronger growth in nominal terms and a moderate rise in consumer prices, which had been steady for two years. The average nominal gross wage rose by 6.7% in the third quarter of 2004 and its growth continued into October at an only slightly lower rate of 6.6%. Such nominal wage growth represented a mild slowdown compared to the second quarter of 2004, when the growth rate of average nominal gross wage reached 8% in some months.

Owing to a recovery in industrial production towards the end of the third quarter of 2004 and reduced employment in

industry, labour productivity, indicated by the annual growth in gross value added per employed person, stabilised at the level of over 4%. In the second quarter of 2004, labour productivity in industry continued to grow at a higher rate than the annual growth rate of average real gross wage in industry, although the latter increased slightly. Given a further recovery in industrial production and a continuation of a slight decline in employment in industry over the third quarter of 2004, labour productivity growth is expected to accelerate a little. Therefore, a continuation of strong wage

growth in the third quarter of 2004 should not create inflationary pressures. However, owing to the preliminary nature of the data on employment in industry, any significant upward adjustment of these data could reveal that the actual rise in productivity was slower than that suggested by the data.

The third quarter of 2004 saw changes in the public administration wage policy and a mild acceleration in real average wage growth in this sector. The stronger growth of wages without imposing any additional burden on the state budget was the result of reduced employment in public administration. However, the wage growth in public administration still lagged significantly behind that in industry, or the average wage growth in overall economy. Therefore, the less restrictive wage policy in the public administration should not generate any significant pressures on the wage growth in other economic sectors.

Prices

Although the total year-on-year rate of consumer price inflation grew modestly in the first ten months of 2004, from 1.7% in December 2003 to 2.0% in October 2004, inflationary pressures registered at the end of the third quarter and the beginning of the fourth quarter were weaker than at the end of the second quarter when inflation reached its record high in 2004 (2.5%). Croatia continued to register the low rate of inflation, down 0.4 percentage points compared with the rate of 2.4% in the eurozone in October. Despite imported inflationary pressures (increased prices of crude oil and other raw materials – metal especially), domestic inflation saw no significant acceleration in its trend, mostly on account of weak pressures on the growth of prices exerted from the domestic economic environment. In keeping with its monetary policy stance, the central bank contributed to the maintenance of the relative stability of the kuna/euro exchange rate, which is still the main nominal anchor for domestic inflationary expectations. The relatively subdued

Table 2: Consumer Price Index, year-on-year rate of change

	Weight	12/03	3/04	6/04	9/04	10/04
Total	100.0	1.7	1.4	2.5	1.6	2.0
Food and non-alcoholic beverages	33.0	2.8	3.5	1.6	-1.7	-1.2
Alcoholic drinks and tobacco	5.4	1.4	1.4	1.4	10.4	10.0
Clothing and footwear	8.3	-0.7	-1.8	1.5	-0.7	-0.6
Housing, water, energy, gas and other fuels	14.3	0.7	0.5	4.5	5.4	5.8
Furniture, equipment and maintenance	4.8	-0.6	-0.4	-0.6	-0.5	-0.1
Health	2.8	5.5	5.5	3.3	3.0	2.3
Transport	11.3	2.2	-1.9	5.4	3.1	5.0
Communication	4.5	-0.2	-0.2	-0.2	-0.1	-0.4
Recreation and culture	5.6	1.6	3.2	3.9	3.2	3.5
Education	0.9	0.3	0.6	0.6	1.2	1.2
Catering services	3.2	3.9	4.1	3.9	4.0	2.9
Miscellaneous goods and services	5.9	1.6	2.0	2.1	2.0	2.3
Goods	77.3	1.6	1.1	2.1	0.7	1.4
Services	22.7	2.2	2.6	3.7	4.3	3.9

Source: CBS.

inflationary pressures were, inter alia, the result of the slow-down in personal consumption, the stagnation of government consumption and the growth in inventories of finished industrial products. In addition, the domestic economy is still marked by a relatively high unemployment rate which has the smothering effect on demands to increase the wages as well as on the negotiating power of trade unions. The strong competitiveness of import products and the fierce competition in retail trade continue to be the significant factors contributing to the weakening of inflationary pressures.

The individual components of the total consumer price index experienced changes in their dynamics in the first ten months of 2004. Following their modest growth in 2003, administrative prices made a considerable contribution to the consumer price inflation in 2004. The reason for this was twofold, the growth in crude oil prices in the world market, and consequently in prices of refined petroleum products, and the growth in other administrative prices (gas, household water supply, road tolls, etc.). With the year-on-year growth in the rates of fuels and lubricants for personal transport equipment (18.3%) and heating oil (42.4%), the prices of refined petroleum products contributed 0.9 percentage points to the rate of consumer price inflation in October

Figure 31



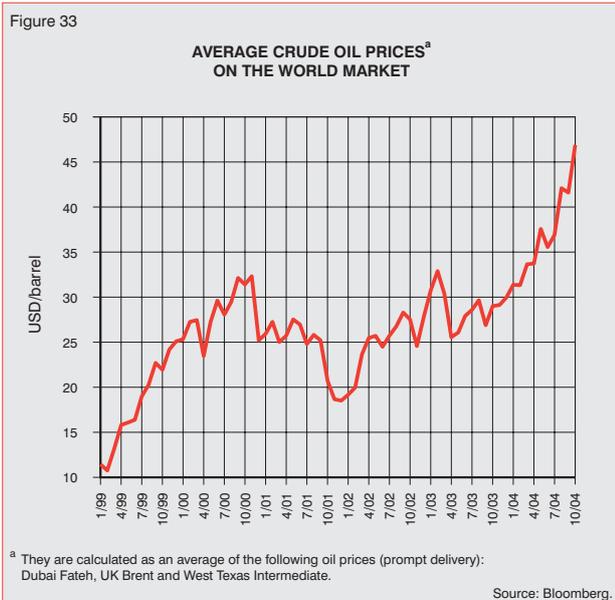
Source: CBS.

Figure 32



* 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 retail price index.

Source: CBS.



2004. Therefore, almost 46% of the annual increase in consumer prices in October 2004 can be attributed to this source. Overall, administrative prices grew by 7% in the first ten months of 2004 (October 2004 to December 2003).

In addition, there was also a significant acceleration in the rate of core inflation, which rose from 1.2% in December 2003 to 2.3% in October 2004. To a great extent, the growth in the core inflation rate was the result of the increase in the price of tobacco products (12.7% year-on-year), which was stimulated by increased excises (August 2004) and increased producer prices. In October, their contribution to the core inflation rate stood at 0.7 percentage points. This contribution usually has a one-off effect on the total growth in prices and is expected to disappear in August 2005. In addition, due to the acceleration in their year-on-year growth rate, from 3.0% in December 2003 to 3.5% in October 2004, the contribution of market-determined service prices to core inflation was also on an upward trend.

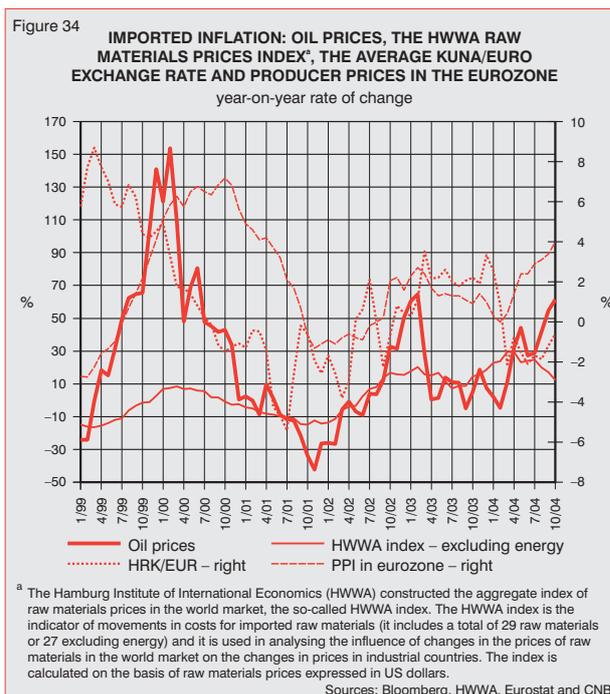
The year-on-year growth rate of service prices, including services prices from the total consumer price index and from the core inflation index, continually exceeded the growth rates of goods prices. The year-on-year rate of change of services prices (CPI) was 3.9% in October, while the growth in goods prices stood at 1.4% year-on-year. This difference in figures is usually explained by the fact that most of the goods are internationally tradable, as well as that the formation of their prices is influenced by foreign competition. Moreover, the faster growth in services prices is attributed to the Balassa-Samuelson effect or the faster growth in labour productivity in goods industry than in services industry. Due to the workforce mobility between the individual economy sectors, the movement in wages in the services sector largely follows the growth in wages in the goods sector, which in turn results in the faster growth in services prices than in goods prices.

The positive and growing contributions to the total inflation in the first ten months of 2004, made by the growth in administrative prices and the growth in prices used in the calculation of core inflation, were offset by the strong fall in

the price of agriculture products in 2004 relative to 2003 which was marked by bad weather and drought periods. Altogether, the price of agriculture products fell by 20% in the first ten months of 2004.

The monthly rate of inflation, measured by the consumer price index, varied at the end of the third quarter and at the beginning of the fourth quarter in keeping with the usual seasonal changes. The movement in prices, however, was also influenced by certain unexpected one-off factors. The September fall in the total consumer price index of 0.2% was strongly influenced by the additional favourable conditions for the purchase of some medium-class automobiles. Higher excises on cars, introduced in July 2004, were not reflected in the increase in car prices in the next two months for car dealers had in stock the sufficient number of automobiles that were cleared through the customs before the adoption of the amendments to the regulations on cigarettes and passenger car. The 5.9% fall in car prices contributed -0.3 percentage points to the fall in the total consumer price index in September relative to August 2004 (this group of products accounts for 4.5% of the CPI basket). Other factors influencing the developments in consumer price inflation in September were of seasonal character. They included the fall in the prices of agricultural products, accommodation services and holiday tours, on one hand, and the increase in the price of clothing and footwear (new collections for autumn/winter 2004), on the other.

The index of consumer prices grew by 0.4% in October 2004 on account of the increase in the price of refined petroleum products and, like in September, on account of seasonal factors. Since the monthly growth in prices registered in October 2004 was 0.4% higher than the monthly growth registered in October 2003, the year-on-year consumer price inflation rate grew from 1.6% in September to 2.0% in October 2004. September and October 2004 saw a hike in crude oil prices in the world market. The price of Brent



Box 3: Effects of Increased Refined Petroleum Products Prices on Consumer Price Inflation in Croatia

In the first ten months of 2004, the average daily crude oil price in the world market grew by a total of 56.5%, or from USD 30.0 a barrel in December 2003 to USD 46.9 a barrel in October 2004. The accelerated global economic growth, stimulated by strong growth in the USA and China, resulted in a faster-than-expected increase in demand for crude oil. On the other hand, the geopolitical factors – such as unstable political situation in Iraq, Venezuela and Nigeria, the oil industry strike in Norway, the suspension of oil deliveries by Yukos and bad weather in the Gulf of Mexico dampened the growth of crude oil supply in the world market and, together with increased expectations that were created in such environment, boosted crude oil prices in the world market.

Consequently, this boost was reflected in increased refined petroleum products prices in the domestic market. The price shocks in the world crude oil market affect domestic inflation through three channels. This is especially pronounced in economies like that of Croatia whose production of refined petroleum products is largely based on imported raw materials. The first of the three mentioned channels is the direct channel where the growth in domestic prices of refined petroleum products, which are an integral part of the consumer goods basket, is effected with a short time lag. The size of the direct effect of an increase in prices of refined petroleum products on inflation depends on these products' share in the CPI basket. In 2004, all refined petroleum products accounted for 4.45% of the total consumer price index.⁷ Of this amount, 4.01 percentage points was accounted for by fuels and lubricants for personal transport equipment and the remaining 0.44 percentage points by heating oil. It follows that, for example, a 10% year-on-year growth in prices of refined petroleum

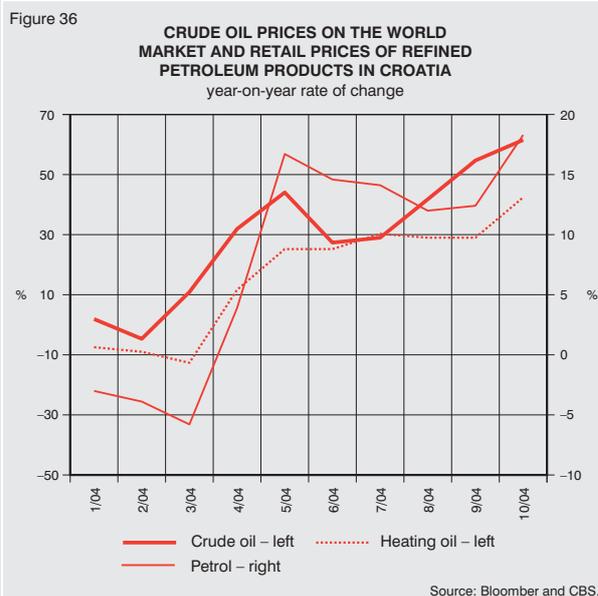
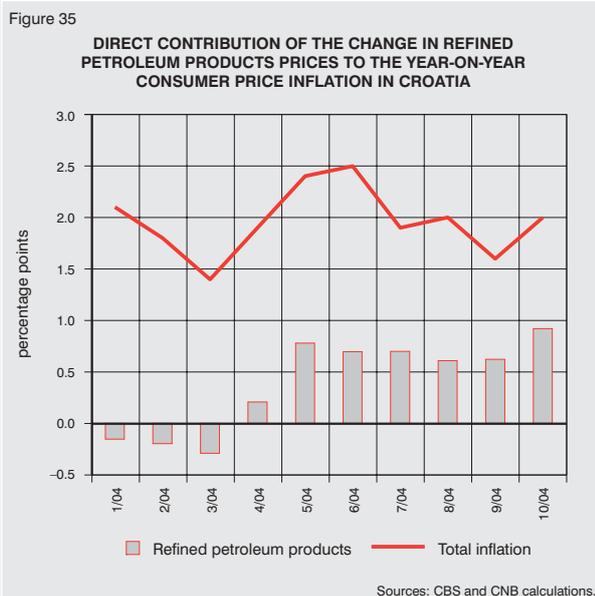
products would directly contribute 0.445 percentage points to inflation.

Although the prices of refined petroleum products grew in the domestic market in January 2004 compared with December 2003, their annual growth registered in the first quarter of 2004 was lower than that in the first quarter of 2003. Following this trend, refined petroleum products prices made the negative contribution to the total inflation in the first quarter of 2004. In contrast, the year-on-year rate of change of refined petroleum products prices grew from 4.7% in April to 20.7% in October. As a result, they made the positive contribution to the total domestic inflation, 0.9 percentage points in October. Therefore, almost 46% of the annual increase in refined petroleum products prices (2.0%) registered in October 2004 can be attributed to this source.

The second channel through which the growth in crude oil prices in the world market is spilled over into domestic inflation is the indirect channel. This is the channel where the growth in producer prices of other products and services, in whose production the refined petroleum products are to a varying extent used as input, is effected with a somewhat longer time lag. Specifically, the producers faced with an increase in input costs will strive to pass on these costs to selling prices in order to keep their profit margins unchanged. Indirect effects are harder to quantify for an increase in production costs of an individual product will be reflected in its retail price and depend on factors such as the degree of competition in a given market place, the phase of the economic cycle and the like. The direct and indirect effects, usually summarised as first-round effects, have a temporary impact on an increase in the year-on-year inflation rate and disappear within one year after the month in which they have been registered for the first time.

The monetary policy is usually tightened only after it is estimated that, due to the growth in refined petroleum products prices, there is a risk of emergence of second-round effects in the economy. Second-round effects typically refer to a situation in which the result of wage-bar-

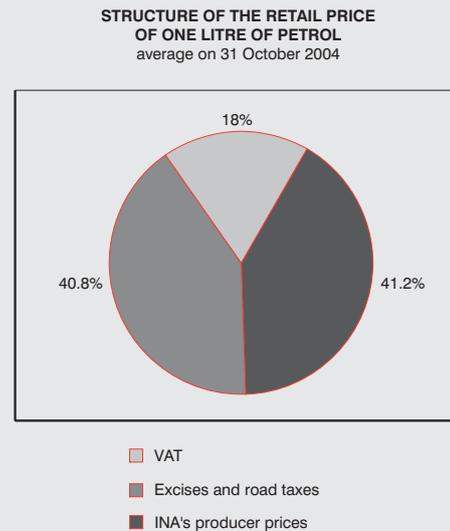
⁷ The CPI is calculated by the CBS.



gaining process is the nominal growth in wages in order to retain their real value. In such a situation a wage-price spiral may occur for the producers will strive to pass on the growth in wages to the growth in prices of their products, which in turn may result in the new rounds of the growth in inflationary expectations and the fall in real wages and the new round of demands for an increase in nominal wages. This is the third channel through which the growth in crude oil prices may affect the developments in the consumer prices inflation, and, as opposed to direct and indirect channels, it may have a lasting impact on the growth of the domestic inflation rate. In the course of 2004, the growth in wages in the government and private sector was moderate. Taking into account the government commitment not to increase the real wage bill, undertaken under the current Stand-by Arrangement with the IMF, it is expected that the stability of wages in the public sector will have stabilising effect on demands to increase the private sector wages. Another factor that should exert stabilising effect on the developments in wages is the high rate of unemployment in the domestic labour market. Overall, it is estimated that, in medium-term, this economic environment should not be affected by the second-round effects of an increase in crude oil prices and their inclusion into demands for an adequate wage increase.

Compared to the total growth in crude oil prices in the world market of 56.5%, expressed in dollar terms, in the first ten months of 2004 (October 2004 to December 2003), the total growth in refined petroleum products prices in the domestic market was considerably lower and amounted to 18.3% for fuels and lubricants for personal transport equipment and 42.2% for heating oil. Other pro-

Figure 37



pellant factors contributing to the slower growth in refined petroleum products prices in the domestic market were the appreciation of the kuna against the US dollar, the decrease in producers' profit margins and the method for calculating the price of fuel for personal transport equipment. The total retail price of fuel is calculated in the manner that excises and road taxes (payable to the CR and CH) are included in their fixed amount (per a litre of fuel) and are not increased relative to the growth in fuel producer prices. Since they account for a significant average share in the total price of fuel (41% at end-October 2004), they have a smothering effect on the year-on-year growth in the rate of

crude grew by a total of 24.0% – from USD 39.3 a barrel at end-August to USD 48.8 a barrel at end-October. This was reflected in the 3.7% increase in the price of petrol and the 10.4% increase in the price of heating oil in the domestic market. As a result, refined petroleum products contributed

0.2 percentage points to inflation in October 2004. The monthly growth in prices in October 2004 was also influenced by the increase in car prices – 1.3% on average. Compared with September, the October contribution of the seasonal growth in the price of clothing and footwear (3.6%)

Figure 38

PRODUCER PRICES OF INDUSTRIAL PRODUCTS BY MAIN INDUSTRIAL GROUPINGS
year-on-year rate of change

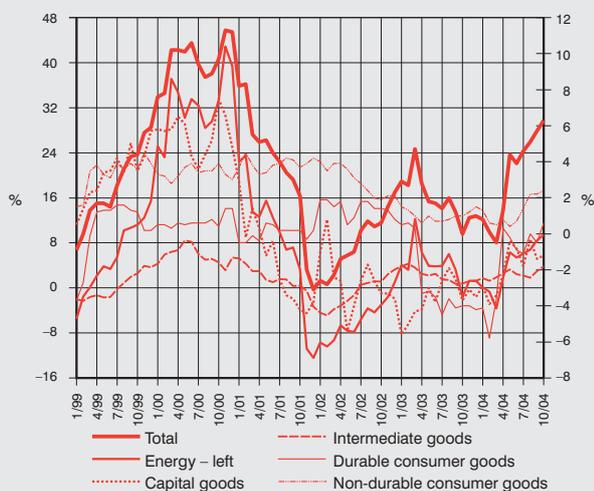
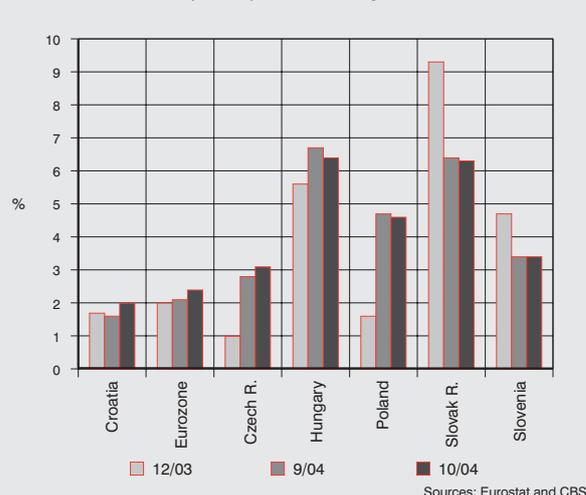


Figure 39

HICP IN THE EUROZONE AND SELECTED EU COUNTRIES AND CPI IN CROATIA
year-on-year rate of change



was largely offset by the seasonal fall in the prices of agricultural products (2.8%) and holiday tours (32.9%).

Imported inflationary pressures were on an upward trend in the first ten months of 2004 and were seen in the continued growth of crude oil prices in the world market, the high year-on-year rates of growth of raw materials (metals especially) and the growth of the year-on-year rates of change of producer prices in the eurozone. The influence of increased crude oil prices on the movement in the price of refined petroleum products and the total consumer price inflation in Croatia is described in Box 3. The strengthening of the kuna against the euro and the dollar (down 0.6%⁸ and 6.7%⁹ in October 2004 compared with December 2003) eased, to some extent, imported inflationary pressures.

Domestic producer prices grew at strong and steady rates in 2004. Influenced by, above all, the increase in the price of energy and intermediate products, the year-on-year rate of producer prices grew from 1.0% in December to 3.9% at the end of the second quarter, 5.7% at the end of the third quarter and 6.3% at the end of the fourth quarter 2004. However, it should be noted that the year-on-year growth rate of prices of final products, which are directly included in the retail trade, has, despite an upward trend registered in the first ten months of 2004, remained in the zone of low inflation due to the increase in productions costs. As a result, the year-on-year rate of change of durable consumer goods prices grew from -4.2% in December 2003 to 0.6% in October 2004, while the year-on-year rate of change on non-durable consumer goods prices grew from 1.5% to 2.4%. The two important factors that limit the growth in prices of final products are the strong import competitiveness and a slight appreciation of the kuna/euro exchange rate. In addition, if current shocks are estimated temporary by chain stores, it is expected that the growth in producer prices will only to a lesser extent be reflected in consumer prices. In other words, this increase will to a larger extent be covered from their profits.

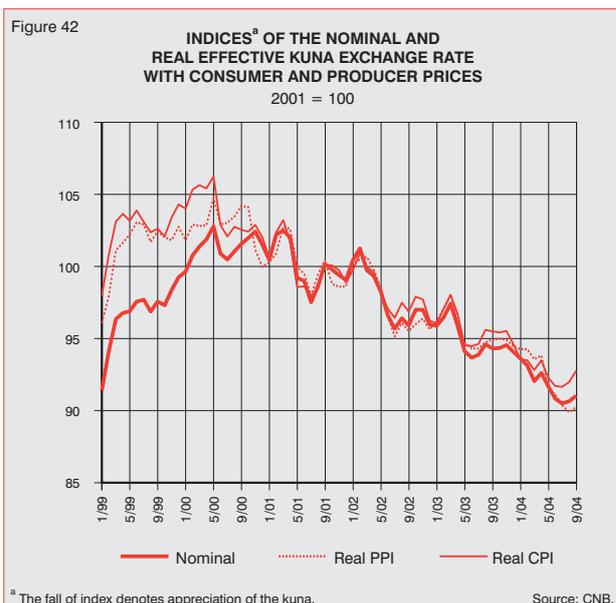
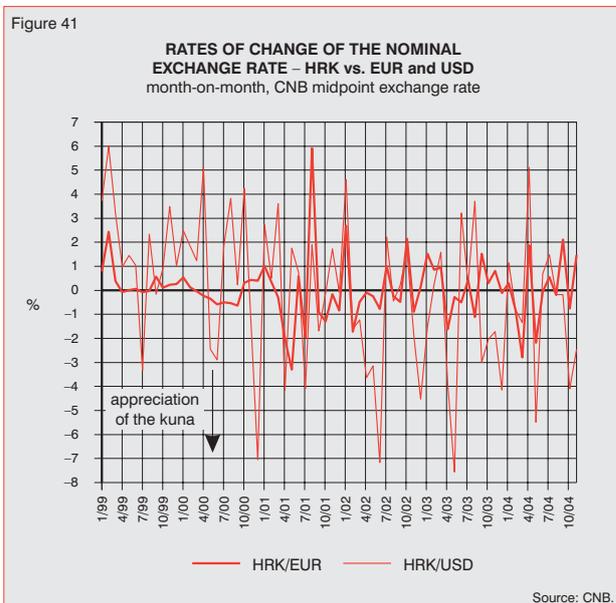
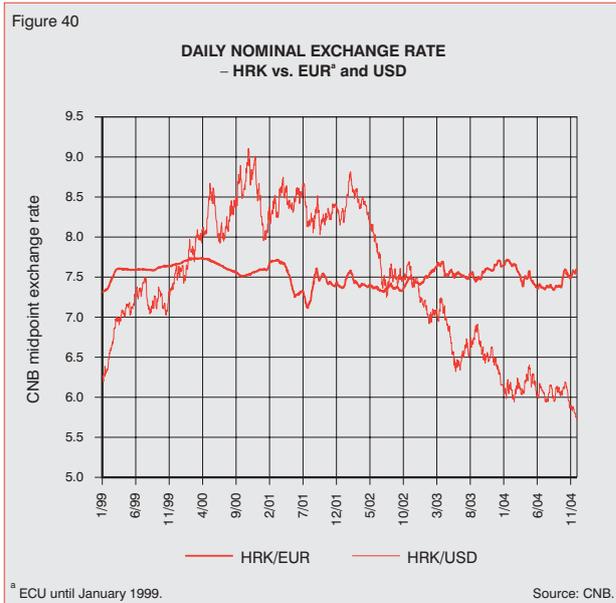
The growth in the eurozone year-on-year inflation rate, from 2.0% in December to 2.4% in October (measured by the HICP), can to a large extent be attributed to the growth in the year-on-year rate of change of energy prices. Despite this year's significant growth in the prices of crude oil and other raw materials, some countries (e.g. Slovenia) saw the continuation of the disinflation trend, which, inter alia, can be attributed to the relatively restrictive monetary policy, reduced excises on refined petroleum products and increased competition in the goods and services market stimulated by Slovenia's accession to the EU.

Exchange Rate

In the first two months of the fourth quarter of 2004, the nominal exchange rate of the kuna against the euro weakened by 0.7%. The euro strengthened to 7.60 kunas on 30 October from 7.55 kunas on 30 September. The kuna/euro

⁸ Kuna vs. euro.

⁹ Kuna vs. US dollar.



exchange rate strengthened by 0.7% at end-November 2004 relative to the rate of 7.66 registered at end-November 2003. The kuna appreciated by 0.8% at end-October 2004. In keeping with seasonal patterns, it depreciated in November and weakened by 1.5% in nominal terms against the euro. Due to the overall stability of the exchange rate, the central bank did not intervene in the foreign exchange market during this period. JPY 25.5bn,¹⁰ needed to pay off maturing Samurai bonds in December, were sold to the MoF on 30 November. In order to buy the yens from the central bank, the government floated the kuna denominated bonds on the domestic market.

After weakening by 0.1% in the first nine months of 2004, the nominal exchange rate of the kuna against the US dollar started to strengthen at the beginning of October. In the first two months of the fourth quarter, the kuna strengthened by 6.4% against the US dollar, and the dollar fell from 6.13 kunas on 30 September to 5.73 kunas on 30 November, reflecting the fall in the dollar/euro exchange rate in the world foreign exchange market (USD 1.23/EUR at end-September relative to USD 1.33/EUR at end-November). This period was also marked by the growing concern of market participants that the hike in crude oil prices might slowdown the global economic growth. In addition, there were signs of a reduction in foreign capital inflows to the USA, which are used to finance its large current account deficit. With a mild depreciation of the nominal kuna/euro exchange rate, the strong kuna/dollar appreciation was the key factor contributing to a 1.3% appreciation of the nominal effective kuna exchange rate in the first two months of the fourth quarter (30 November to 30 September).

The price competitiveness of the Croatian economy, measured by the index of the real effective kuna exchange rate, deteriorated in the first nine months of 2004 – the index of the real effective kuna exchange rate (deflated by consumer prices) grew by 2.0% in September 2004 relative to December 2003. Growing faster in the reference period, domestic producer prices contributed to the real appreciation of the kuna exchange rate. Deflated by producer prices, it stood at 4.5%.

Monetary Policy and Instruments

Monetary Environment

The last quarter of 2004 was marked by extremely high liquidity of the banking system, low interest rates on the money market and, all these factors notwithstanding, temporary pressures on the exchange rate of the kuna to appreciate.

A November reduction in reserve requirements rate from 19% to 18% released about HRK 0.9bn in kuna reserve requirements and additional HRK 0.5bn in foreign currency reserve requirements (in kuna equivalent). This

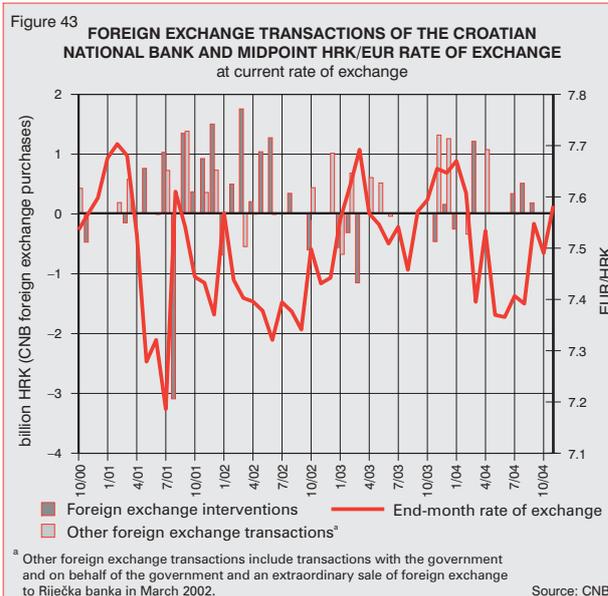
change in the reserve requirement rate was prompted by the need to adjust this instrument with government needs for domestic financing. The significant surplus liquidity created in the system was temporary and lasted until 30 November 2004 when EUR 200m (in kuna equivalent) worth of 15-year government bonds were issued. The government used the raised funds to purchase foreign currency from the CNB to repay HRK 1.4bn worth of Samurai bonds. The net effect of these two transactions over a short term was neutral from the monetary standpoint.

Early in December 2004 the IMF Mission conducted its first review of Croatia's implementation of the Stand-by Arrangement. Quantitative performance criteria agreed under Annex VII of the Stand-by Arrangement to be met by the country's monetary authorities include net international reserves set at minimum EUR 6.2bn at constant, program exchange rate of the euro and the dollar and as 11-day average at end-December 2004 and early January 2005), with net domestic assets of the central bank standing at below HRK –3.0bn at end-2004. With net international reserves calculated in the prescribed manner standing at EUR 6.5bn and net domestic assets at HRK –6.4bn, according to end-November data, the central bank is likely to meet the given criteria for end-2004.

Uses of Instruments of Monetary Policy

Foreign exchange operations in October and November 2004 were marked exclusively by transactions with the government. High liquidity and seasonal weakening of the exchange rate of the kuna did not call for any foreign exchange interventions involving the banks.

The most significant characteristics of bank liquidity developments during the summer was a high level of currency in circulation. Since the second ten-day period in August, cash started returning to the banks instigating liquidity's steady recovery in the last quarter. In the second half of October 2004, despite the return of cash into the banks and extremely good liquidity, the exchange rate of the euro appreciated. It started weakening again early in November, which



¹⁰ In order to buy JPY 25.5bn from the central bank, the government had to allocate a total of HRK 1.4bn.

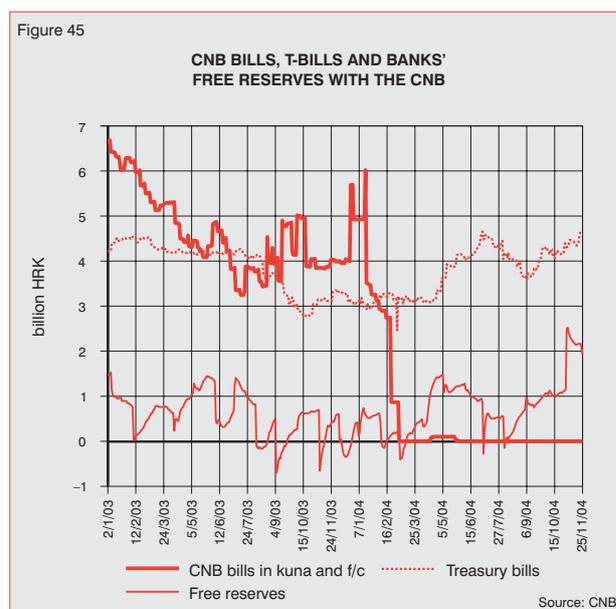
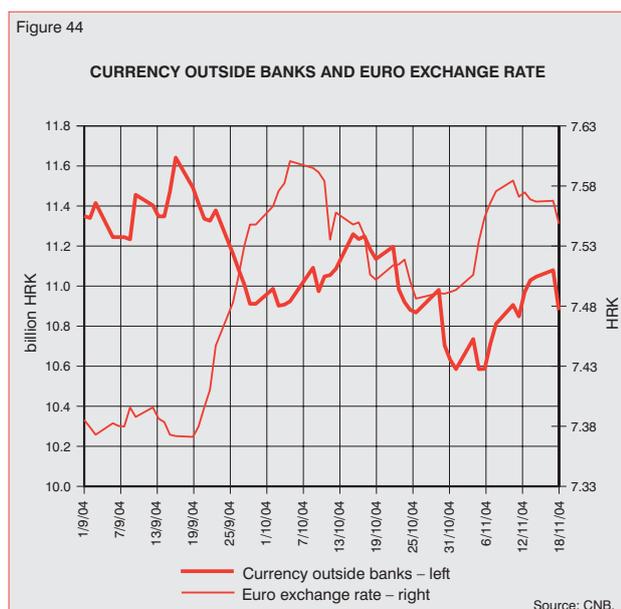


Table 3: Foreign Currency Reserve Requirement, Effect of Change in the Base and Effect of Change in the Rate, in million kuna

	Base	Rate	Calculated RR	% of allocation in f/c	Reserve requirement in f/c	Allocation	RR met by liquid claims	
a)	11/10/2004	127,396.7	19%	24,205.4	58%	14,039.1	10,523.3	3,515.9
b)	8/11/2004	129,262.1	19%	24,559.8	58%	14,244.7	10,658.0	3,586.7
c)	8/11/2004	129,262.1	18%	23,267.2	58%	13,495.0	10,097.1	3,397.9
Effect of increase in the base at unaltered 19% RR rate (b-a)						205.6	134.7	70.8
Effect of the November reduction in the rate (c-b)						-749.7	-560.9	-188.8
Net effect (c-a)						-544.2	-426.2	-117.9

Source: CNB.

is usual for the season, to start strengthening again towards the end of November, despite very high liquidity of the system, following a reduction in the reserve requirements rate. Such a discrepancy between kuna liquidity of the banks and pressures on the exchange rate of the kuna to appreciate, pointed again to the vulnerability of the exchange rate when it comes to issues of kuna government bonds with a currency clause.

Free reserves averaged HRK 1.1bn and HRK 2.2bn in October and November 2004,¹¹ respectively. The average level of settlement accounts in October and November 2004 was over HRK 5bn and HRK 5.5bn, respectively. Accordingly, interest rates on the money market were low, standing at HRK 4.4% in October 2004 and only 2.6% in November 2004, only rising characteristically on the date when reserve requirements are met. Interest rates on MoF T-bills also fell steadily during October and November 2004, and at the last auction in November stood at 4.1%, 6%, and 6.15% for 91, 182 and 364-day bills, respectively. Such extremely good liquidity in the fourth quarter of 2004 was in sharp contrast with the third quarter of 2004, when the central bank purchased foreign currency from the banks on four occasions to create liquidity and when the banks made extensive use of the Lombard facility.

Liquidity was also very satisfactory following the issue of a new government bond on 30 November 2004. In the first few days of December, free reserves stood at high HRK

1.9bn. There were no disturbances on the money market, although this was the week which preceded the date of reserve requirements allocation. Quite the opposite, there was no significant demand for free reserves on the money market and increased demand for T-bills subscriptions was accompanied by interest rates fall.

In November, the instrument of reserve requirement was changed for the third time in 2004. However, this time the change involved a reduction in the rate of reserve requirement, for the first time after a series of the instrument's tightening. Since end-2003 the rate of foreign currency reserve requirement allocated in kuna was steadily raised. Thus, in February 2004, the percentage of reserve requirements that has to be allocated to an account with the CNB was raised from 40% to 60%. In June 2004, a Decision on Marginal Reserve Requirement was adopted, under which banks, as of July 2004, have to allocate marginal reserve requirements against any cumulative increase in their foreign liabilities in the relevant current period relative to June 2004 as the base period. The instrument's tightening came to an end in November 2004 when the reserve requirement rate was cut from 19% to 18%. (Other parameters of the Decision on Reserve Requirements such as the percentage of

Table 4: Marginal Reserve Requirement, in million kuna

	Base	Allocation	Rate of growth of MRR allocations in comparison with the previous month
9/8/2004	1,316.7	316.0	
8/9/2004	865.6	207.7	-34.3
11/10/2004	631.4	151.5	-27.1
8/11/2004	1,294.7	310.7	105.1

Source: CNB.

¹¹ As observed during the reserve requirements maintenance period, and not during the calendar month, i.e. from 11 October to 7 November, from 8 November to 7 December, etc.

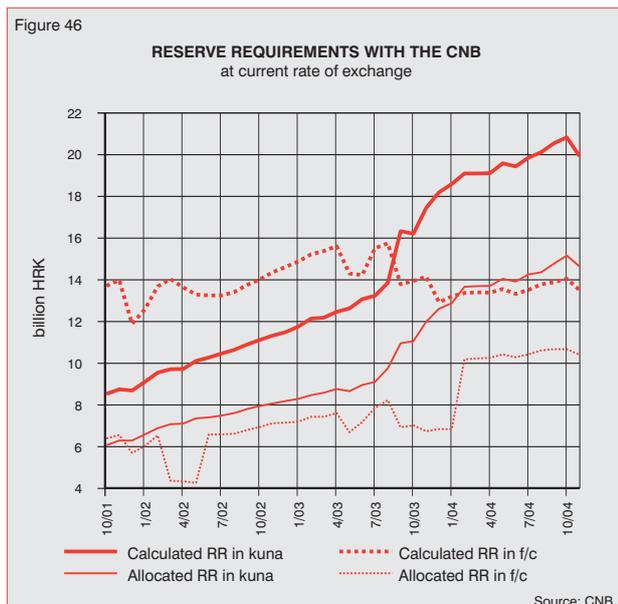


Table 5: Kuna Reserve Requirements, Effect of Change in the Base and Effect of Change in the Rate, in million kuna

	Base	Rate	Calculated RR	Kuna share of RR in f/c	Total RR	Allocation	RR met by liquid claims
a) 11/10/2004	56,083.3	19%	10,655.8	10,166.3	20,822.1	15,146.5	5,675.6
b) 8/11/2004	56,364.1	19%	10,709.2	10,315.1	21,024.3	15,293.6	5,730.7
c) 8/11/2004	56,364.1	18%	10,145.5	9,772.2	19,917.8	14,628.7	5,289.0
Effect of increase in the base at unaltered 19% RR rate (b-a)					202.2	147.1	55.1
Effect of the November reduction in the rate (c-b)					-1,106.5	-664.8	-441.7
Net effect (c-a)					-904.3	-517.7	-386.6

Source: CNB.

kuna allocation, the ratio of allocation to a special account and reserve requirements met by liquid claims and other, have not been changed.) The November reduction was made to improve kuna liquidity in anticipation of additional liquidity needs in the last quarter of 2004 for financing USD 250m worth of government Samurai bonds on the domestic market. The reduction in the reserve requirement rate at the moment when credit growth is not an issue of concern, may, by increasing the credit multiplier, lead to improved government financing from the available domestic sources and thus lead to reduced foreign liabilities growth.

Following the November 2004 allocation, foreign currency reserve requirements stood at HRK 10.1bn¹² (in kuna countervalue), a reduction of HRK 426.2m compared with October allocation. Additional HRK 118m were freed by reducing the amount of foreign currency reserve requirements (in kuna countervalue) that has to be met by liquid claims. The net effect on total foreign currency reserve requirement, in kuna countervalue, was HRK 544.2m. The total effect of the increase in the base and the reduction in the rate of reserve requirement has been calculated as shown in Table 3.

Foreign liabilities rose in the last quarter of 2004, which is common for that part of the year. Foreign liabilities of banks commonly grow rapidly in the first and the last quarters and hold steady in the second and particularly in the third quarters. The November increase in marginal reserve requirements was therefore expected. After three consecutive decreasing marginal reserve requirements allocations, mar-

ginal reserve requirements allocated in November 2004 doubled in comparison with October.

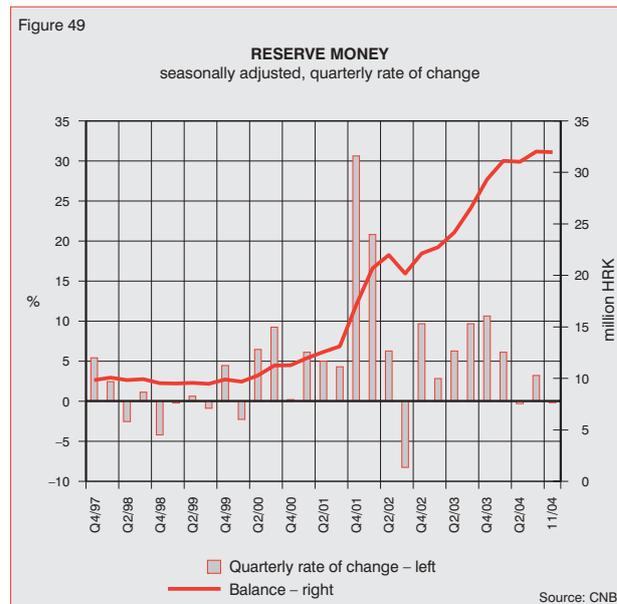
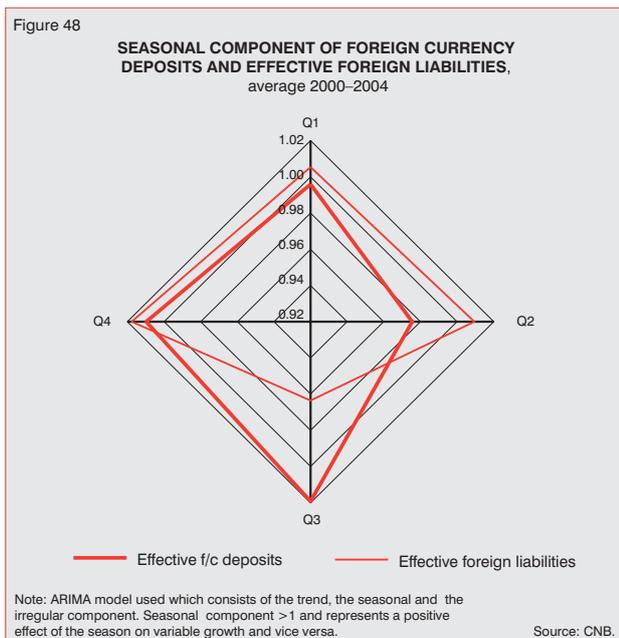
Despite such developments in marginal reserve requirements in November, preliminary evaluation of developments in foreign liabilities of banks points to a smaller increase in foreign liabilities since July than expected. The level of realised effective¹³ foreign liabilities in the observed period lagged mildly behind in comparison with the levels expected. The number of observations is still insufficient for an assessment of the efficacy of the introduced marginal reserve requirement. Generally, developments in foreign liabilities were in line with the usual seasonal trends, so the summer decline in foreign liabilities of banks, though larger than expected, can be attributed to an increase in foreign currency deposits.

Foreign currency inflows during the summer led to a significant increase in foreign currency deposits in banks. Seasonal components of foreign currency deposits and foreign currency liabilities during the year are inversely proportionate.

Foreign liabilities of banks are characterised by seasonal growth in the last quarter triggered by demand for foreign currency during that period, but also in anticipation of companies' and government's demand for foreign currency during the first quarter when many foreign currency import and credit obligations fall due. Foreign currency deposits commonly grow faster in the third quarter. Irrespective of the possible effect of various factors (seasonal factors, foreign currency deposits' growth, marginal reserve requirements,

¹² Marginal reserve requirements excluded.

¹³ The effects of exchange rate changes on the kuna amount of foreign liabilities of banks excluded.



domestic kuna sources growth) the trend of moderate growth of foreign liabilities is a favourable one, and the reduction in the reserve requirements rate may contribute to reduced need for foreign financing owing to improved availability of domestic sources.

Following the November reduction in the rate of kuna reserve requirements, these reserves fell by approximately HRK 904.3m. Of that amount, the amount allocated to a special account with the CNB declined by HRK 517.7m compared with October, while the amount of reserve requirements met by funds in the settlement accounts fell by HRK 386.6m. The modest November increase in the base was due to a seasonal slowdown in the growth of kuna deposits in that part of the year.

In October and November 2004, central government deposits were relatively low. Kuna deposits averaged HRK 385m during October and November. Government foreign currency deposits, in kuna countervalue, amounted to HRK 1.43bn on 30 November 2004 (with Japanese yen as the original currency) and remained in the central bank until 12 December, i.e. until final repayment of the Samurai bond.

Reserve Money and International Reserves

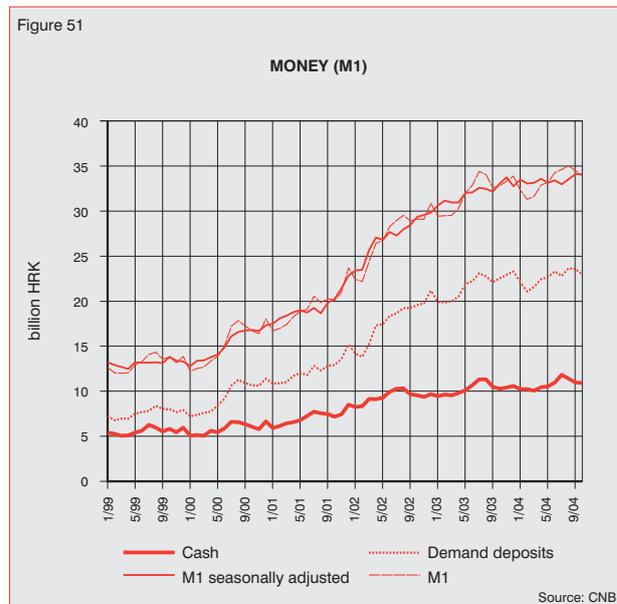
At end-November 2004, reserve money stood at HRK 31.2bn. The annual rate of growth of reserve money in November was 11.1%. However, the two changes in the instrument of reserve requirements mentioned above were included in the calculation of this rate. Namely, following a reduction in the reserve requirement rate to 18% as prescribed under a new Decision on Reserve Requirements, reserve money declined in November 2004, compared with November 2003 when the reserve requirement rate was 19%. Another factor leading to slower growth rate of reserve money was the fact that the part of foreign currency reserve requirements that is allocated in kuna and that constitutes reserve money amounted to 40% in November 2003, in contrast with the current 42%. Reserve money grows primarily due to

an increase in bank deposits with the CNB, or an increase in reserve requirements base, while the growth of currency is more modest. The annual growth rate of bank deposits was 17% despite decline resulting from a reduction in the rate of reserve requirements while currency grew at the rate of 3%. Currency stood at HRK 10.6bn at end-November 2004.

Reserve money withdrawals took place in November 2004 through foreign currency transactions between banks and the government. Reduced reserve requirement rate also contributed to its decline. The balance of the banks' settlement accounts fell by HRK 1.4bn on 29 November, the amount needed to settle government Samurai bonds. On the following day, 30 November, foreign assets of the CNB fell while government foreign currency deposits rose, thus effectively withdrawing reserve money.

Reserve money withdrawal was due to the reduction of the reserve requirement rate. Although the amount of kuna (HRK 0.9bn) and foreign currency (HRK 0.5bn) reserve requirements freed totalled the exact amount needed for the settlement of due government Samurai bonds (HRK 1.4bn), the net kuna effect was negative. At end-November, settlement accounts of banks declined and so did kuna reserve requirements allocated in comparison with end-October.

Developments in international reserves during the last quarter of 2004 were influenced by the previously mentioned sale of foreign currency to the government as well as by a decline in foreign currency reserve requirements. However, this decline did not show in gross international reserves in dollars which stood at USD 8,351.19m at end-November or USD 272m more than at end-October because the government deposited with the CNB USD 248m worth of foreign currency purchased until 12 December, the date of repayment of the Samurai bond. The reduction in reserve requirements which, in kuna equivalent, amounted to HRK 426m, also did not show a reduction in gross reserves because banks commonly chose to allocate around 70% of their reserve requirements in dollars, although a larger share of foreign liabilities of banks are in euro. Therefore, due to a significant weakening of the dollar against the euro, more



dollars have to be allocated. Foreign currency reserve requirements in dollars which are included in the calculation of gross international reserves rose by USD 19m at 30 November compared with end-October when they stood at USD 1,724m. In addition, marginal reserve requirements which stood at USD 53.1m at end-November, twice the amount allocated in the previous month, also contributed to an increase in international reserves.

Net international reserves also rose mildly in November 2004, reaching USD 6.3bn until the end of the month, according to preliminary data. The exchange rate of the dollar against the euro during October and November weakened over 8% so the strengthening of the euro, as the dominant currency in the structure of international reserves against the American dollar, the currency in which reserves are held, from USD 1.22/EUR to USD 1.32/EUR early in December, led to an increase in gross and net international reserves in dollar terms.

Monetary Developments

The growth of banks' foreign borrowing came to a halt in the third quarter of 2004 as a result of increased supply of foreign currency during the summer, improved domestic financing but also as a result of the newly introduced obligation of banks to set aside marginal reserve requirements with the CNB against increases in their foreign liabilities compared with the base period. Of domestic sources of funds during the summer, foreign currency deposits rose particularly, but so did kuna savings and time deposits. Money also recovered in terms of its growth, particularly currency, though its growth rates were much slower than that of quasi-money. Bank placements grew at moderate rates almost matching the increase in domestic sources.

Money (M1)

Following its seasonal growth from April to August, money (M1) declined nominally towards the end of the third and at the beginning of the last quarter of 2004, as usual for

the season. The seasonal component excluded, which largely reflected tourist demand for currency, money increased mildly in the third quarter, following stagnation in the first half of 2004. This growth was halted in October with stagnation in the seasonally-adjusted value of M1. Slower growth of money in 2004 also influenced its annual growth rate which fell from 9.8% at end-2003 to 4.4% at end-June 2004. Acceleration in M1 growth in the third quarter led to an acceleration in its annual growth rate for September which reached 5.8%, compared with only 3.2% at the end of October. Unlike previous months when currency decelerated the most, at the end of the third and at the beginning of the fourth quarter of 2004 demand deposits decreased, while savings and time deposits increased. At end-October 2004, M1 stood at HRK 33.9bn.

The slowdown in the annual growth rate of demand deposits, which marked the year 2004, was particularly pronounced at the beginning of the fourth quarter. Demand deposits at that time declined by HRK 608m, cutting their annual growth rate from 6.6% in September to 1.7% in October. In the first ten months of 2004, demand deposits fell by a total of HRK 379m (-1.6%), as a result of a decline earlier in the year and in October following a seasonal increase in the second and the third quarters. At end-October 2004, demand deposits stood at HRK 22.9bn.

The level of demand deposits was largely affected by the corporate sector which caused a slowdown in the growth of demand deposits. Particularly worth mentioning were October developments when corporate demand deposits declined by HRK 582m (4.8%). Corporate demand deposits declined by a total of 10.2% (HRK 1.3bn) in the first ten months of 2004 because the companies tended to increase their foreign currency and particularly kuna savings and time deposits while reducing demand deposits. As a result, total corporate deposits in banks rose. At the same time, the household sector's funds in giro and current accounts continued to grow, rising by 6.4% (HRK 500m) in the first ten months of 2004. At end-October 2004, the annual growth rate of demand deposits of the household sector was 11.4%, in contrast with

the corporate sector whose demand deposits recorded a negative annual growth rate of -3.0%. As demand deposits of the corporate and household sectors account for 87% of total demand deposits, other sectors have little influence over developments of this component of money. Demand deposits of the local government and other non-banking financial institutions did not undergo any significant changes during 2004.

After reaching over HRK 12bn by mid-August, currency in circulation declined after the tourist season was over. Unlike demand deposits, the seasonally adjusted value of currency started recovering since the second quarter of 2004. This was reflected in a mild recovery of the annual growth rate of currency which increased towards the end of the third and the beginning of the fourth quarter of 2004, following its steady decline over a period of several months, due to the effects of the base period. At end-October 2004, currency stood at HRK 10.9bn, an increase of 6.4% compared with October 2003.

Total Liquid Assets

Rapid growth in kuna non-monetary deposits (savings and time) continued in the third and early fourth quarter of 2004. During the first ten months of 2004, kuna deposits rose by HRK 5.3bn, of which HRK 2.3bn in the third quarter. After their growth gained additional momentum early in the fourth quarter, the annual growth rate of kuna deposits in October reached 36.6%, which is an increase of ten percentage points compared with their growth rate in the previous month. At end-October 2004, kuna savings and time deposits stood at HRK 23.7bn, their share in quasi-money increasing from 18.4% to 22.7%, compared with the same month in 2003. Since 2003, there was a large increase in kuna deposits with a currency clause, particularly those of the household sector. Banks prefer this type of deposits over other types of deposits because, unlike foreign currency deposits, they do not make them liable to the obligation to maintain minimum foreign exchange liquidity.

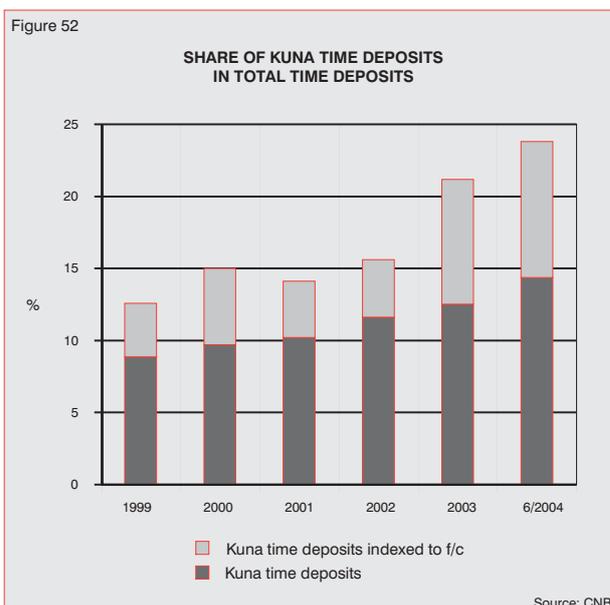
Kuna deposits of the corporate and the household sectors, as the two most significant sectors, grew rapidly in the first ten months of 2004. However, their dynamics differed. Unlike erratic growth of corporate kuna deposits, household kuna deposits grew at a much steadier rate. Corporate kuna non-monetary deposits during the said period rose by HRK 2.7bn. Their growth was particularly pronounced in May and July when companies deposited over HRK 2bn in banks. In other months these deposits were much smaller. Household savings and time deposits in kuna rose by HRK 1.9bn as a result of their steady increase throughout 2004. The annual growth rates of household kuna deposits from January to October 2004 were on the average 5 percentage points higher than the corporate growth rates. However, in October the annual growth rate of companies' kuna deposits jumped suddenly, outstripping the growth rate of their household counterpart. Corporate kuna deposits and household kuna deposits thus rose by 47.8% and 30.9%, respectively, compared with the same month previous year.

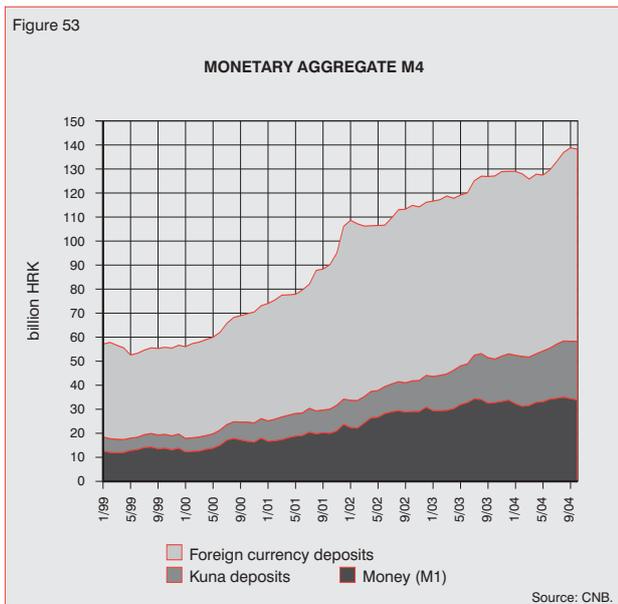
Following the expected increase in foreign currency deposits in the third quarter of 2004 due to tourist-related

inflows of foreign currency, their growth decelerated early in the fourth quarter. As the level of foreign currency deposits expressed in kuna is largely influenced by exchange rate developments, to fully capture this aggregate's developments it is necessary to exclude exchange rate effects. Thus, the exchange rate effects excluded, foreign currency deposits, after symbolic growth in the first half of 2004 (0.7%), grew by a significant 6.3% in the third quarter of 2004, with the largest growth taking place in August (3.6%). Their growth slowed down in October 2004 when, the exchange rate effects excluded, they rose by 0.7%. Owing to their growth in the third quarter 2004, foreign currency deposits outstripped in the first ten months of that year their total growth in 2003, thus contributing to the total increase in domestic sources of financing. At end-October, foreign currency deposits, in kuna countervalue, stood at HRK 80.0bn, growing annually by 4.9%. The exchange rate effects excluded, their annual growth rate was higher and amounted to 7.7%.

In 2004, foreign currency deposits of the corporate sector grew much faster than those of the household sector. However, as household savings account for 84% of total foreign currency deposits they determine developments in total foreign currency deposits. Large inflow of household foreign currency deposits during the third quarter 2004 fully offset their weaker growth in the first half of the year (1.1%, exchange rate effects excluded) and resulted in their nominal increase of HRK 2.5bn (3.9%) in the first ten months of the year. During the same period corporate foreign currency deposits rose by HRK 1.4bn or by 13.0%. The exchange rate effects excluded, both rose even more; in the first ten months of 2004, corporate and household foreign currency deposits rose by 15.7% and 6.3%, respectively. Despite faster growth in kuna deposits as a result of improved confidence in the domestic currency and attractive interest rates offered by banks for these types of deposits, foreign currency deposits of households continued to constitute the most significant source of funds for the banks.

Developments in money (M1) described above, together with accelerated growth in kuna and foreign currency deposits,





contributed to acceleration in the growth of total liquid assets (M4) in the third and early fourth quarter 2004. The largest increase in M4 was recorded in the third quarter when it was sufficient for financing credit activities of banks in the domestic market. This was particularly pronounced since July 2004 when the obligation to set aside marginal reserve requirements against foreign sources of financing was introduced, so the total liquid assets which represent domestic sources of financing were increasingly becoming a factor influencing total increase in the banking system assets. At end-October 2004, M4 stood at HRK 138.4bn, an increase of 8.8% compared with October 2003. The exchange rate effects excluded, the annual growth rate of M4 in October was 10.3%.

Placements

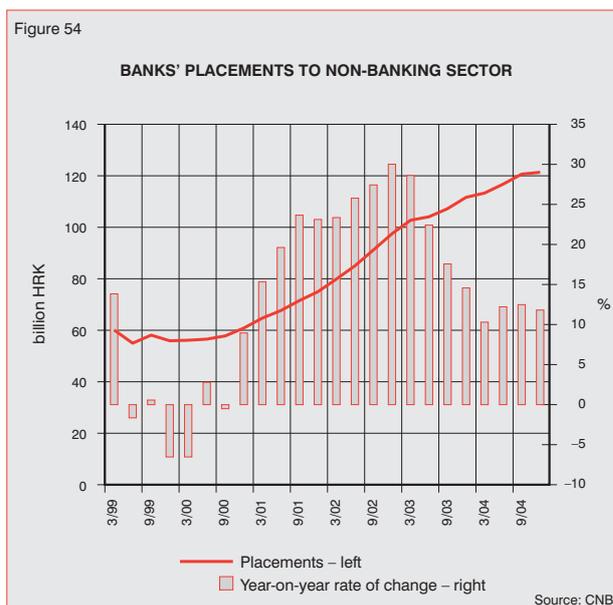
Moderate growth of bank placements to the non-banking sector in the first half of 2004 continued into the third quarter. The annual growth rate of placements thus stabilised at around 12% and the early fourth quarter did not point to any changes in the trend. Looking at bank placements on a quarterly basis, we can see that they slowed down. The exchange rate effects excluded, placements rose by 4.0% in the first quarter, 2.9% in the second quarter and by only 1.5% in the third quarter. A somewhat faster growth of placements in the first quarter 2004 can be attributed to the initial response of banks following suspension of the obligation imposed on fast growing banks to subscribe CNB bills, while poorer growth of placements in the third quarter of 2004 reflects a slower activity of banks characteristic of the summer months. Developments in placements to other sectors in 2004 indicate that the 2003 central bank's measure prescribing mandatory subscription of CNB bills served its purpose and contributed to a slowdown in the excessive growth of domestic placements which came down to levels sustainable over a long term. At end-October 2004, banks placements stood at HRK 121.3bn, which is an increase of 11.8% compared with the same month previous year. Exchange rate effects excluded, this increase amounted to 13.4%.

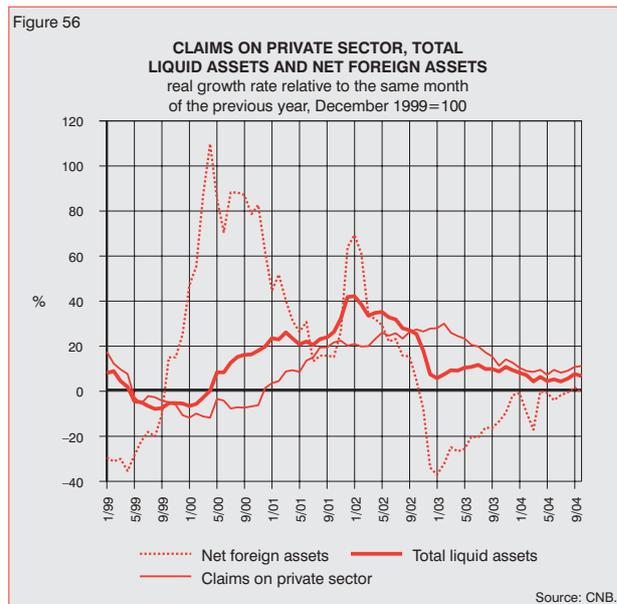
Bank placements to the households continued to grow

faster than placements to the companies in the fourth quarter of 2004. At end-October, placements to the households rose by 16.3% compared with the same month 2003, while placements to the companies rose by 7.6%. However, the growth of bank placements to the corporate sector, which can also make use of other available forms of financing, accelerated in 2004 while the growth of placements to the households decelerated compared with the previous year. In the first ten months of 2004, corporate lending rose by HRK 2.6bn, or, if the exchange rate effects are excluded, by 6.3%. During the same period 2003, these placements increased by only 0.5%, if exchange rate effects are excluded. Placements to the households in the first ten months of 2004, at constant exchange rate, rose by 14.5%, slowing down in comparison with 22.4% in the same period 2003.

Loans account for about 90%, or the largest share of bank placements. It is therefore developments in loans which mainly determine total developments in bank placements. In the first ten months of 2004, loans rose by a total of HRK 10.4bn (9.1%), which is a decline compared with the same period 2003 when they rose nominally by HRK 13.4bn (13.8%). Data on loan distribution in the first ten months of 2004 point to a slowdown in household loans growth and acceleration in corporate lending, though the household sector continued to record much higher annual growth rates than the corporate sector. Clearly, household demand started ebbing due to the sectors' overindebtedness and its inability to absorb any larger supply of loans. Loans to households rose nominally by HRK 6.9bn in the first ten months of 2004, which is a decline compared with the increase of HRK 10.1bn in the same period previous year. Consequently, the annual growth rate decreased and amounted to 16.9% at end-October 2004, which is 12 percentage points less than in the same month previous year. Loans to the corporate sector increased from January to October 2004 by HRK 1.8bn, an increase compared with the increase of HRK 0.8bn in the same period previous year. At end-October 2004, the annual growth rate of loans to the companies was 7.2%.

Loans to households account for 49.8%, or almost one





half of total bank loans and banks' preference for this sector continues due to the highest interest rates that can be achieved in this sector and due to this sector's good non-default history. Looking at the structure of household loans, other kuna loans, i.e. all-purpose loans and current account overdraft facilities still make up the largest portion of the loans (46.1%), while housing loans account for 32.8% of the total. Corporate loans account for 41.2% of total loans, while loans to the central and local government and other non-banking financial institutions account for 8.0% of total loans.

Foreign Assets and Liabilities

Unlike their growth in the first half of 2004, the growth of foreign liabilities of banks was completely suspended in the third and early fourth quarters. Foreign liabilities of banks rose by 9.6%, or from HRK 49.9bn at end-2003 to HRK 54.7bn at end-June 2004. After a decline of HRK 1.7bn (3.2%) in July and August 2004, foreign liabilities held steady undergoing only nominal changes on account of changes in the exchange rate. Thus, their slight September increase was due to the depreciation of the exchange rate of the kuna and their slight October decrease was due to the appreciation of the exchange rate of the kuna.

Stagnation in foreign liabilities of banks can be attributed to several factors. The summer tourist season ensured for the banks sufficient foreign currency, while the increase in the domestic sources described above ensured sufficient funds for the banks to finance their credit activities during that period. Also, to slow down foreign borrowing of banks, the central bank introduced in July 2004 an obligation for the banks to allocate marginal reserve requirements, making foreign borrowing more expensive for banks. Marginal reserve requirements are to be allocated in an amount which equals 24% of the increase in foreign liabilities relative to their June 2004 level, increased by the amount of deposits of related persons.

Following their seasonal increase in July and August 2004 (HRK 2.6bn), foreign assets of banks held steady in Septem-

ber and October. In the first ten months of 2004, exchange rate effects excluded, foreign assets rose by 15.9%, while foreign liabilities rose by 9.3% during the same period. As a result, net foreign assets (NFA) of banks rose from HRK -14.5bn to HRK -13.5bn in the first ten months of 2004.

Placements to the Central Government

Banks' net placements to the government held steady in the first ten months of 2004, recording only sporadic monthly fluctuations and minor changes in the structure. At end-October 2004, they stood at HRK 14.7bn, a decline of 0.2% compared with December 2003. Stagnation in banks' net claims on the government indicate that banks provide temporary financing for the government while other investors, such as mandatory pension funds play a major role in government financing domestically.

Looking at bank placements to the government in 2004 by months, fluctuations of placements to the government were smaller nominally than changes in inflows and outflows of government deposits with the CNB and the banks. On a cumulative level, however, their changes in the first ten months of 2004 were similar. Bank placements to the government during the first ten months of 2004 increased by only HRK 320m (1.5%), and government deposits increased by almost the same amount (-HRK 351m or 5.1%). Due bonds for citizens' blocked foreign currency deposits greatly reduced this placements item, with the said bonds falling from HRK 1.5bn at end-December 2003 to HRK 0.5bn at end-October 2004. Other bonds also declined (HRK 581m) so the HRK 1.6bn increase in bank loans to the government compensated the decline in government bond portfolio. Developments in government deposits were influenced by short-term periods of inflows of government funds from domestic and foreign sources and periods of disbursements of the said funds. Of HRK 7.2bn, as the total amount of government deposits at end-October, deposits with banks (HRK 5.9bn) and deposits with the CNB (HRK 670m) account for their largest share.

Money Market

In the third quarter of 2004 the money market was influenced by a decrease in the banking system liquidity, caused by the high demand for kuna during the main tourist season, which was additionally spurred by the July government bond issue, due 2007, totalling EUR 400m in kuna equivalent. The strong kuna demand drove up money market interest rates, which remained relatively high until end-September, as well as the overnight loan turnover. Due to a prolonged tourist season and the third tranche of the government bond due 2014, worth EUR 300m in kuna equivalent, which was issued in early September, the banking system liquidity improved as late as in late September and early October, leading to a decrease in the money market interest rates and turnover.

The lower banking system liquidity was reflected on investors' interest in MoF T-bills in the third quarter of 2004. Although bills were auctioned at significantly improved rates, very low amounts were subscribed for. As bank liquidity improved at end-September and in October, bills purchases strongly improved with their total balance hitting an all-time high.

Bank lending rates mainly trended downwards in the third quarter of 2004. Interest rate growth in the money market to some extent influenced bank kuna deposit rates, while rates on foreign currency deposits mainly held steady at the level attained in the previous quarter. In consequence of this and the decrease in lending rates, the spread between lending and deposit rates narrowed in the third quarter compared with the previous quarter.

Money Market Interest Rates

Money market interest rates were boosted by the strong currency demand at the onset of the tourist season in late June. According to ZMM data, the reported loan demand was mostly very strong in the third quarter of 2004, so that

rates remained at relatively high levels. This trend was reversed after the tourist season ended in late September, when currency returned to banks and their liquidity improved.

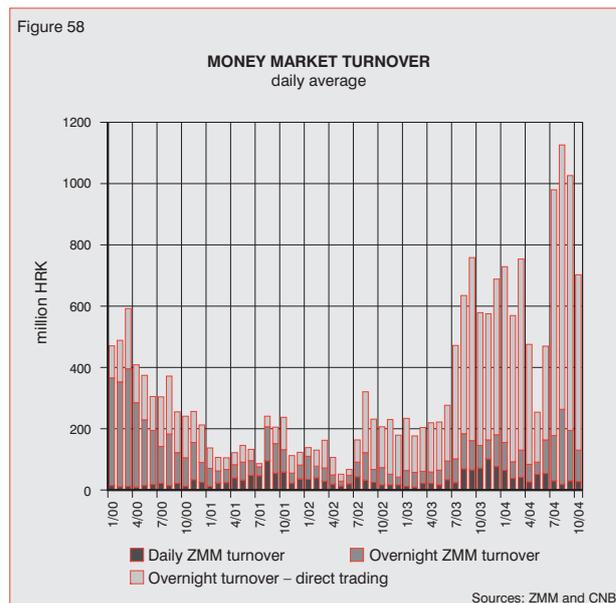
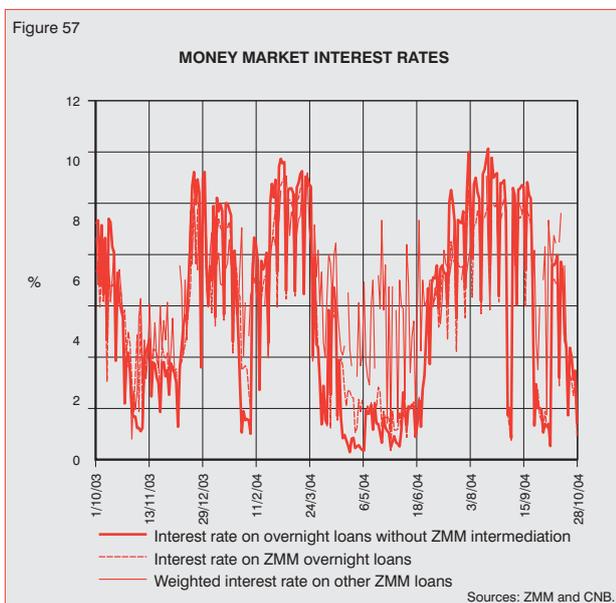
The ZMM weighted interest rate was up from 2.71% in June to 5.69% in July and 7.63% in August. It went down to 6.80% in September, due to a sharp decrease in interest rates (from 8% to 2%) at the month end, and declined further to 4.41% in October.

The weighted interest rate on ZMM overnight loans increased considerably in the third quarter from the end of the second quarter, standing at 5.60% and 7.69% in July and August respectively. In September and October, however, it fell back to 6.67% and 3.77% respectively. The weighted interest rate on other loans moved similarly: it was 6.10% in July and 6.99% in August. However, instead of falling, this rate went up to 7.50% in September, which can be explained by an increased share of loans with longer maturities granted at higher interest rates. The weighted interest rate on other loans reduced to 6.71% in October.

The tight liquidity of the banking system and strong demand for currency boosted trading on the ZMM in the third quarter of 2004. Total turnover increased to a remarkable HRK 13.8bn in the third quarter of 2004 (compared with HRK 9.4bn in the same period in 2003) and to HRK 2.6bn October. Having accounted for about two thirds of the total ZMM turnover in the first half of 2004, overnight loans increased their share to almost 90% in the third quarter, in proof of the fact that in tight liquidity periods money market participants tend to limit trading to the shortest maturity loans.

The average daily turnover in overnight loans stood at HRK 185.4m in the third quarter of 2004, dropping to HRK 102.4m in October. The average daily turnover in other loans was HRK 27.1m and HRK 28.7m in the third quarter and in October respectively.

The third quarter of 2004 saw a strong direct overnight interbank lending. The average daily turnover recorded in this market segment was HRK 831.8m in the third quarter



(compared with HRK 472.5m in the third quarter 2003) and HRK 544.9m in October. Interest rates on direct overnight interbank loans were higher than those on overnight loans intermediated by the ZMM. The weighted interest rate on direct overnight interbank loans amounted to 7.41% in the third quarter and decreased to 3.26% in October.

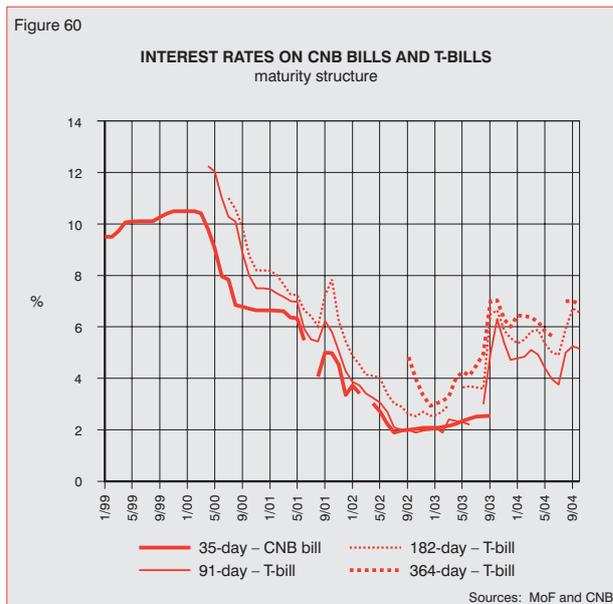
Interest Rates in the Short-Term Securities Market

As there was no need to sterilise surplus liquidity, CNB bills auctions were held neither in the third quarter nor in October 2004. The reduced liquidity of the banking system and a government bond issue released in the domestic market in July, worth EUR 400m in kuna equivalent, lowered the frequency and performance of MoF T-bills auctions in the same period.

As the government temporary fulfilled its financing needs by the said bond issue, July saw only one T-bills auction. Although held weekly in August, auctions met with weak investors' interest, despite a considerable increase in interest rates. As a result, the subscribed amount of T-bills dipped by about HRK 900m in July and August compared with end-June 2004. As money market conditions changed, purchases at September and October auctions increased sharply, especially of 182 and 364-day bills. In September, the total amount of subscribed T-bills reached an all time high of HRK 7.8bn.

Accounting for almost 60% of the total, T-bills having the longest maturity still predominate in the subscribed T-bills structure. They are followed by 182-day bills, whose share is about 35%, while the share of the shortest maturity bills is about 5%.

Interest rates charged on T-bills at auctions in August rose considerably compared with the end of the second quarter (between 1.5 and 2 percentage points, depending on the maturity), remained relatively high until the end of the third quarter and started dropping in October. Weighted interest rates on 91, 182 and 364 day T-bills increased from 3.97%, 5.35% and 5.65% respectively in June to 5.24%,



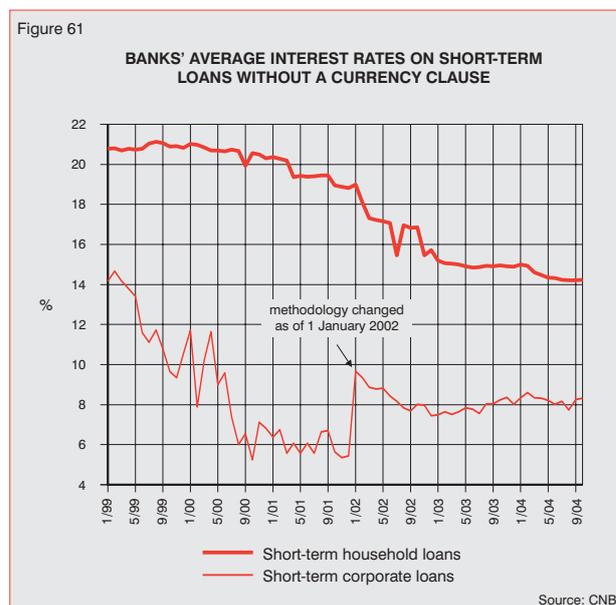
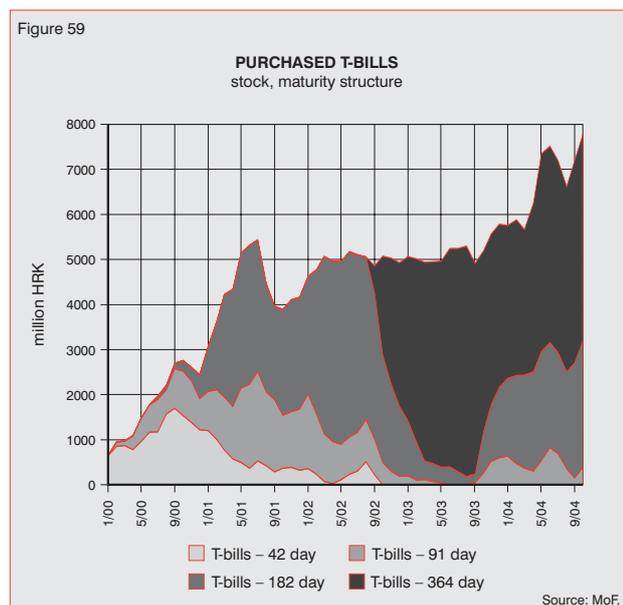
6.72% and 7.0% in September, drifting lower to 5.15%, 6.57% and 6.89% in October.

Also in August, the MoF issued 364-day euro-denominated T-bills, worth EUR 53.8m, at an interest rate of 3.3%. These bills totalled EUR 115.6m at the month-end.

Interest Rates of Banks

Most lending rates of banks either reduced in the third quarter of 2004 or kept to the level attained at the end of the second quarter, while deposit rates rose slightly, particularly those charged on kuna deposits.

After trending downwards in the first six months of 2004, interest rates on short-term corporate loans rallied in the third quarter and in October. The weighted interest rate on short-term kuna corporate loans without a currency clause rose to 8.16% in July, slipped in August, but rebounded to 8.26% and 8.32% in September and October respectively. Falling at an accelerated rate in the first half of 2004, interest

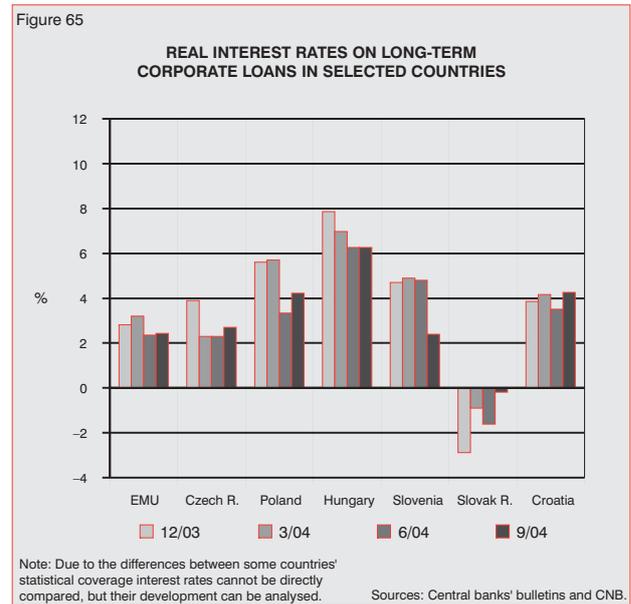
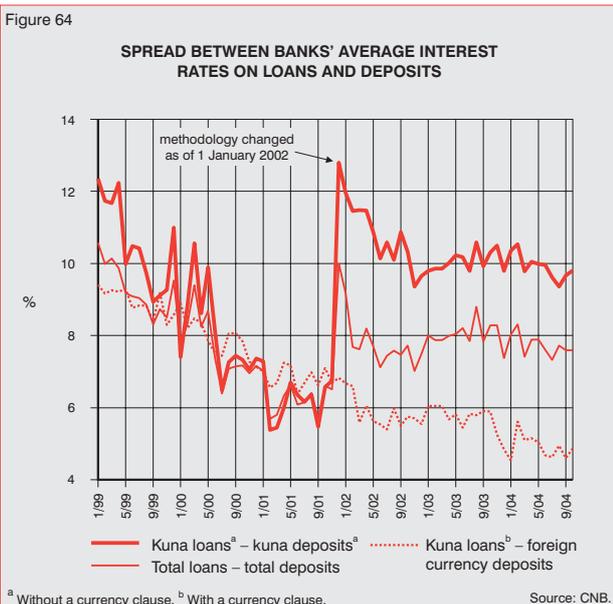
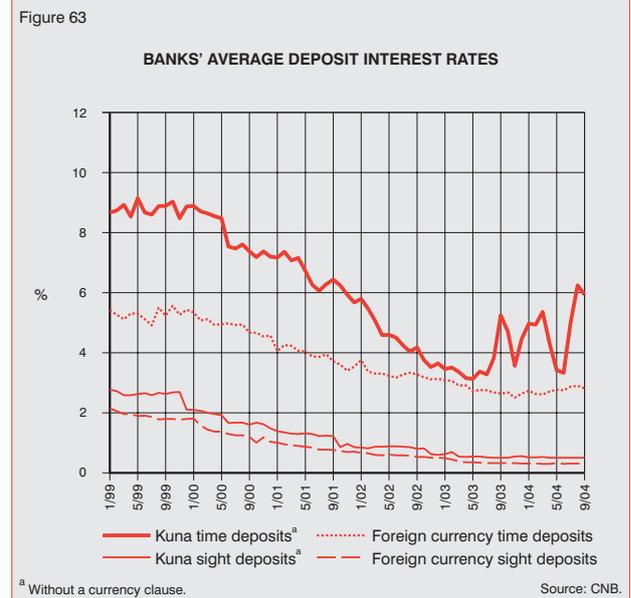
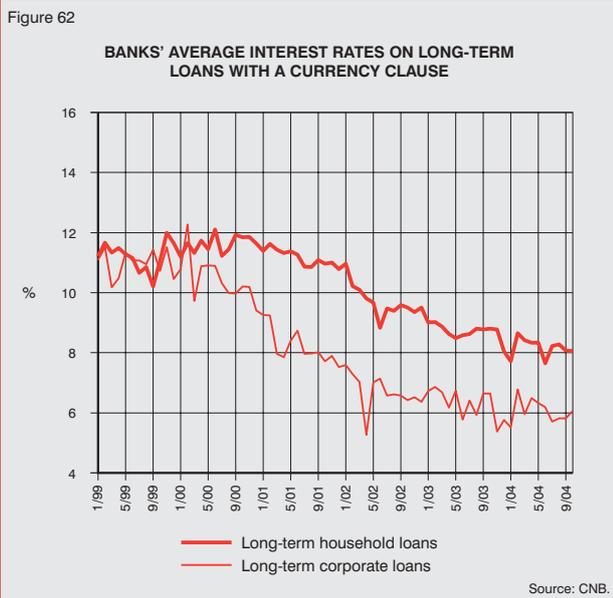


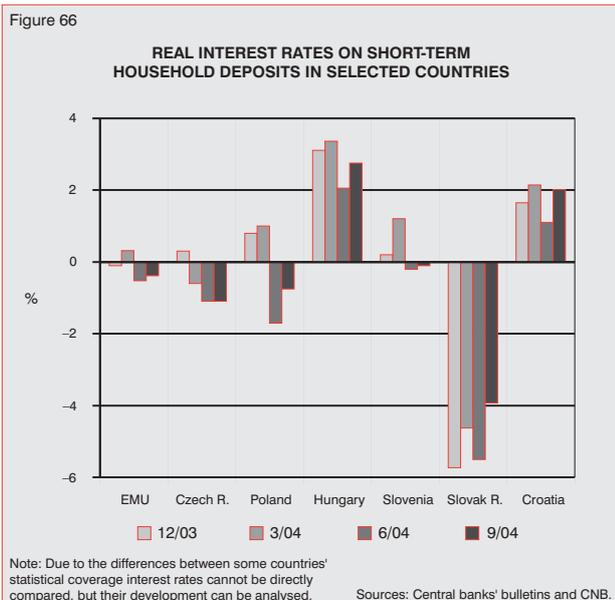
rates on short-term household loans dipped further in the third quarter. The weighted interest rate on short term household loans without a currency clause decreased from 14.33% at the end of the first half of 2004 to 14.21% at the third quarter end, and further to 14.23% in October.

Oscillating strongly around an average of 6% in the last nine months, interest rates on long-term corporate loans remained below 6% in the third quarter of 2004. The weighted interest rate on long-term corporate loans with a currency clause stood at 5.70% in July, rising to 5.82% and further to 6.06% in September and October respectively. Having dropped to its record low of 7.65% at the second quarter end, the weighted interest rate on long-term household loans with a currency clause rose early in the third quarter. Up to 8.28% in August, it went on the decrease in the following two months and stood at 8.06% in October. This increase was mostly contributed to by the increase in the weighted interest rate on other long-term household loans with a currency clause. The weighted interest rate on home loans,

which is lower than interest rates on other long-term household loans, declined from 6.09% in July to 5.73% in September and went back to 6.73% in October.

Following a decrease late in the first half of 2004, bank interest rates on kuna time deposits without a currency clause rebounded strongly in the third quarter. Spurred by rising money market interest rates, the weighted interest rate on kuna time deposits increased to 5.00% and 6.25% in July and August respectively, before gradually dropping to 4.66% in October. This was a common effect of the increase in interest rates on corporate kuna time deposits, caused by their enhanced sensitivity to money market interest rate trends. The weighted interest rate on kuna sight deposits without a currency clause held at 0.50% in the third quarter and in October 2004. As for foreign currency deposits, the weighted interest rate on foreign currency time deposits continued growth started early in 2004, reaching 2.90% in August, and dropped to 2.82% in September. The weighted interest rate on foreign currency sight deposits, however, remained rela-





tively stagnant at around 0.31% in the third quarter and in October 2004.

Since lending rates mainly decreased relative to the first half of 2004 and deposit rates increased, the spread between bank lending and deposit rates slightly narrowed in the third quarter. The spread between interest rates on total loans and total deposits was 7.59 percentage points in September 2004, while the spread between interest rates on kuna loans with a currency clause and interest rates on foreign currency deposits stood at 4.60 percentage points.

An analysis of bank interest rates in selected transition countries and the EMU shows that nominal interest rates on corporate loans declined in some countries and advanced in others, while nominal interest rates on household deposits mostly rose relative to the second quarter of 2004. However, a simultaneous decrease in the CPI inflation rate pushed up both real lending and real deposit rates. The only exception was Slovenia, where a sharp decrease in nominal lending rates brought down real interest rates on corporate loans notwithstanding a reduced inflation rate.

Both nominal interest rates on corporate loans and the inflation rate were somewhat lower in the eurozone late in the third quarter of 2004, while interest rates on household deposits slightly increased compared with the second quarter end. These developments resulted in an increase in real interest rates on both corporate loans and household deposits, although the latter still remained negative. Of all four quarters, real interest rates on household deposits in the eurozone had positive values only in the first quarter of 2004. In Slovakia, real interest rates on household deposits have been negative for quite some time, while recording negative values as late as in 2004 in the Czech Republic, Poland and Slovenia. In Croatia, the inflation rate fall in the third quarter of 2004 drove up real interest rates on corporate loans and household deposits.

Capital Market

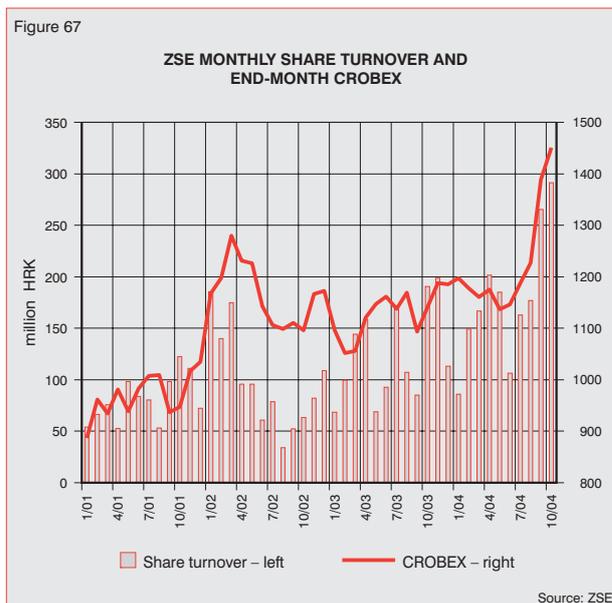
The capital market was very dynamic in the third quarter and in October 2004. Share turnover increased significantly, together with the ZSE and VSE indices, several new bonds were issued and bond turnover rallied following a temporary decline in the second quarter. Croatian eurobond yields were on a continuous decrease in the same period and their spread with benchmark German bonds slightly narrowed.

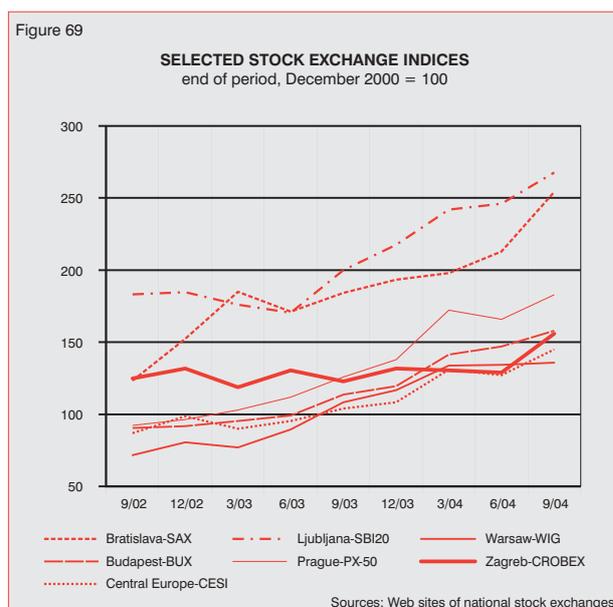
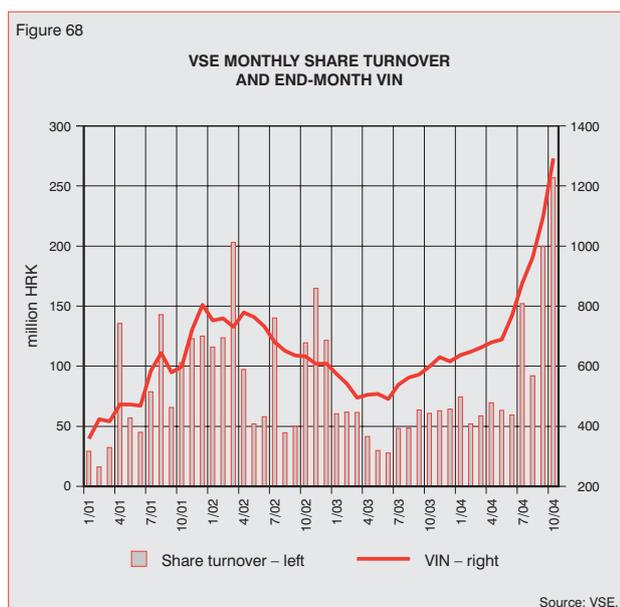
Equity Securities Market

Market capitalization of shares traded on the ZSE rose sharply over the third quarter in 2004, standing at HRK 49,994m at end-September (24% of the GDP estimate for 2004), a rise of HRK 10,099m from the end of the first half of the year. This strong increase was due to the growth of both share liquidity and share prices. Specifically, the overall ZSE market capitalisation is calculated by including the total amount of market capitalisation of shares traded regularly in the previous three months, half of market capitalisation of shares that were not traded in the previous month and a quarter of market capitalisation of shares that were not traded in the previous three months. Share market capitalization on the ZSE rose further during October, reaching HRK 53,156m at the month-end.

Most share prices increased sharply in the third quarter of 2004, pushing up the CROBEX to a record high of 1,388 points at end-September 2004. The CROBEX rose further in October, to 1,450 points. The index growth in the third quarter was due to the rise in prices of all constituent shares, especially of Končar Elektroindustrija and Rivijera Poreč shares (up 60% and 47% respectively). All benchmark share prices, except those of Pliva, continued growth in October.

Share trading continued to grow in the third quarter of 2004. The ZSE share turnover reached HRK 604.8m, up by an approximate 23% from the second quarter and almost 70% from the same period in 2003. The Adris grupa share





accounted for almost one fourth of the total turnover and a strong turnover was also generated by the shares of Pliva, Podravka, Dom holding and Končar Elektroindustrija. Share trading continued on a strong pace also in October, with a turnover of HRK 291m.

The VSE market capitalization of active shares stood at HRK 26,616m at end-September, up HRK 1.2m from the end of the first half of 2004. The VSE saw buoyant share trading in the third quarter of 2004. Standing at HRK 443.5m, the total turnover was 2.3 times higher than in the second quarter and 2.8 times higher than in the same period in 2003. However, this rise was mainly resulted from two large one-off transactions: a purchase of 20% of Elka d.d. shares by Proficio holding in July and a sale of a block of Hotel Split shares, owned by Croatia banka, in August. About two thirds of the total turnover was accounted for by public companies' shares, while the remaining third was generated by the Free Market. In other VSE segments (First and Second Quotation) trading has been negligible for some time, whereas in the Quotation of Rights, which involves trading in the rights of the former Ministry of Public Works, Reconstruction and Construction and the Ministry of Finance, turnover stood at HRK 7.5m in the third quarter. The VSE share turnover leaped to HRK 256.7m in the third quarter, once again due to a single transaction: a sale of the majority share in Brodomerkur.

Trending upwards since mid-2003, the VSE index-VIN, accelerated growth in the third quarter and October 2004, rising by 78%, i.e. from 615.9 at end-2003 to 1,096.6 at end-September 2004. At end-October 2004, the VIN stood at 1,296.3 points. This growth was due to a rise in the prices of all constituent shares, especially of the Ericsson Nikola Tesla share (which was assigned the largest weight) and the Dom holding share.

Following a slowdown in the second quarter, transition countries' stock exchange indices accelerated growth in the third quarter of 2004, resuming the upward trend from the previous twelve months. Having dipped in the second quarter of 2004, the composite Central European Stock Exchange Index, CESI, rebounded in the third quarter. The CESI is compiled from the share prices of selected blue chip companies listed on the Budapest, Bratislava, Ljubljana, Prague and Warsaw Stock Exchanges, with the shares listed on the Warsaw and Prague Stock Exchanges carrying the largest weight. The index value was 1,825 points at end-September, a rise of 34% relative to end-2003 and 12% relative to the end of the first half of 2004. The Bratislava and Ljubljana Stock Exchange indices recorded the strongest growth.

In all observed countries, market capitalisation of both shares and bonds continued growth from early 2003 into the third quarter of 2004. Turnover on most of the observed

Table 6: Comparison of Capital Market Indicators

September 2004	Bratislava	Budapest	Ljubljana	Prague	Warsaw	Zagreb
Average daily turnover, shares (million USD)	0.4	45.8	5.3	70.3	77.7	2.0
Average daily turnover, bonds (million USD)	69.4	3.6	1.5	90.5	12.5	16.8
Turnover ^a /GDP ^c , annual level (%)	0.3	15.1	5.1	20.7	1.6	1.8
Turnover ^a /GDP ^c , annual level (%)	51.2	1.2	1.4	26.7	0.3	15.4
Turnover velocity ^d	2.7	53.3	16.6	53.5	45.1	6.4
Market capitalisation ^a (million USD), end month	3,466	23,706	8,448	33,149	45,497	8,161
Market capitalisation ^b (million USD), end month	11,381	32,293	5,220	21,997	....	3,613
Market capitalisation ^a /GDP ^c , end month (%)	10.7	28.4	30.9	38.8	21.5	28.3
Market capitalisation ^b /GDP ^c , end month (%)	35.0	38.7	19.1	25.7	....	12.5
Index movement from the beginning of the year (%)	31.5	32.2	23.1	32.8	16.4	18.4
Index movement from the beginning of the month (%)	14.7	2.5	0.9	7.3	2.6	11.7

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

Table 7: Bond Issues in the Domestic Market

Series	Issuer	Issue date	Maturity	Currency	Issue nominal value		Last price ^a	Current yield 31/10/2004
DAB-O-05CA	DAB	19/12/2000	19/12/2005	EUR	225,000,000	8.375%	106.20	7.886%
HZZO-O-047A	CIHI	19/7/2000	19/7/2004	EUR	222,000,000	8.500%	–	–
RHMF-O-049A	Republic of Croatia	20/9/2001	20/9/2004	EUR	200,000,000	6.500%	–	–
RHMF-O-08CA	Republic of Croatia	14/12/2001	14/12/2008	EUR	200,000,000	6.875%	111.30	6.177%
RHMF-O-125A	Republic of Croatia	23/5/2002	23/5/2012	EUR	500,000,000	6.875%	114.00	6.031%
RHMF-O-085A	Republic of Croatia	28/5/2003	28/5/2008	HRK	1,000,000,000	6.125%	99.90	6.131%
RHMF-O-142A	Republic of Croatia	10/2/2004	10/2/2014	EUR	650,000,000	5.500%	104.10	5.283%
RHMF-O-077A	Republic of Croatia	7/7/2004	7/7/2007	EUR	400,000,000	3.875%	100.15	3.869%
GDKC-O-116A	City of Koprivnica	29/6/2004	29/6/2011	HRK	60,000,000	6.500%	–	–
GDZD-O-119A	City of Zadar	1/9/2004	1/9/2011	EUR	18,500,000	5.500%	102.55	5.363%
HBOR-O-112A	HBOR	11/2/2004	11/2/2011	EUR	300,000,000	4.875%	–	–
BLSC-O-051A	Belišće d.d.	17/1/2002	17/1/2005	EUR	17,000,000	7.375%	102.50	7.195%
PLAG-O-048A	Plava laguna d.d.	25/2/2002	25/8/2004	EUR	12,000,000	6.750%	–	–
HYBA-O-086A	Hypo-Alpe-Adria Bank d.d.	6/6/2003	6/6/2008	HRK	150,000,000	6.500%	98.55	6.596%
BNAI-O-22CA	Bina Istra d.d.	15/12/2002	15/12/2022	EUR	210,000,000	8.000%	–	–
PODR-O-072A	Podravka d.d.	20/2/2004	20/2/2007	EUR	27,000,000	5.000%	98.80	5.061%
AGRK-O-074A	Agrokor d.d.	3/4/2002	3/4/2007	EUR	230,000,000	11.000%	108.10	10.176%
PLVA-O-115A	Pliva d.d.	12/5/2004	12/5/2011	EUR	75,000,000	5.750%	99.40	5.785%
ATGR-O-077A	Atlantic Grupa d.o.o.	15/7/2004	15/7/2007	EUR	15,000,000	5.750%	99.80	5.762%

^a Regularly traded shares. Source: ZSE.

Table 8: Republic of Croatia International Bond Issues

Bond	Issue date	Currency	Amount	Nominal interest rate	Yield on issue date	Spread on issue date	Spread ^a 30/6/2004	Spread ^a 30/9/2004	Spread ^a 31/10/2004
London Club A, 2006	31/7/1996	USD	857,796,000	6 month LIBOR + 81.25 b.p.			123	117	119
London Club B, 2010	31/7/1996	USD	604,426,000	6 month LIBOR + 81.25 b.p.			104	93	88
Euro-DEM bonds, 2004	16/7/1997	DEM	300,000,000	6.125%	6.20%	95	27	–	–
Eurobonds, 2006	10/3/1999	EUR	300,000,000	7.375%	7.45%	375	35	32	31
Eurobonds, 2005	28/3/2000	EUR	500,000,000	7.000%	7.06%	210	21	16	14
Eurobonds, 2011	14/3/2001	EUR	750,000,000	6.750%	6.90%	215	80	69	73
Eurobonds, 2009	11/2/2002	EUR	500,000,000	6.250%	6.45%	158	62	60	60
Eurobonds, 2010	14/2/2003	EUR	500,000,000	4.625%	4.65%	102	64	64	66
Eurobonds, 2014	15/4/2004	EUR	500,000,000	5.000%	5.11%	101	80	72	75
Samurai bonds, 2004	14/12/1999	JPY	25,000,000,000	4.000%	4.00%	284	30	21	20
Samurai bonds, 2007	11/7/2000	JPY	40,000,000,000	3.000%	3.00%	135	74	62	54
Samurai bonds, 2006	23/2/2001	JPY	25,000,000,000	2.500%	2.50%	152	52	41	38
Samurai bonds, 2008	26/6/2002	JPY	25,000,000,000	2.150%	2.15%	144	76	67	59
Samurai bonds, 2009	26/6/2003	JPY	25,000,000,000	1.230%	1.23%	99	....	....	....

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

exchanges also rose in the third quarter of 2004 relative to that in the previous quarter.

Debt Securities Market

2004 saw new bond issues on the domestic debt securities market. Three new bonds were issued in the third quarter (one government, one municipal and one corporate bond), in addition to the third, last tranche of government bonds due 2014, while two government bonds and one corporate bond matured.

In July, the Republic of Croatia issued a bond worth EUR 400m, having a coupon rate of 3.875% and the issue price of 99.7. The bond was the first to be listed on both the ZSE and VSE. The CIHI bond, worth EUR 222m, fell due at almost the same time, so that it was repaid by a part of the new government bond revenue.

The third tranche of the government bond due 2014, valued at EUR 300m, was issued in September. This and the previous two tranches constitute an integral issue worth EUR 650m. As another government bond (issued in 2000), worth EUR 200m, matured almost at the same time, a part of funds raised by this issue was used for its repayment.

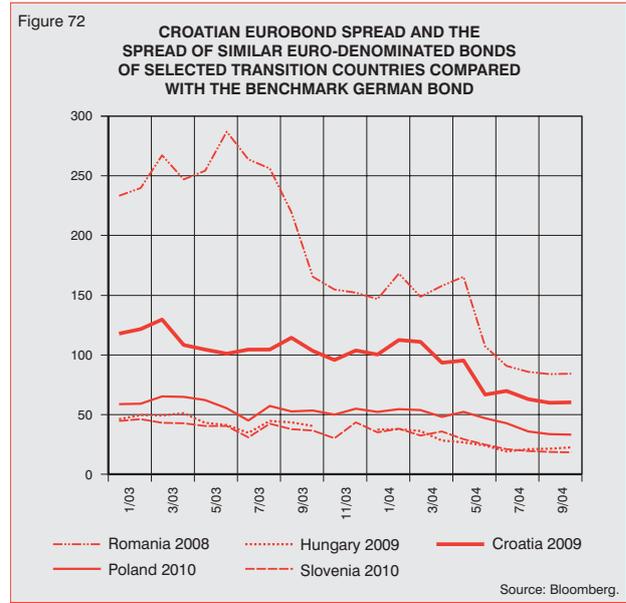
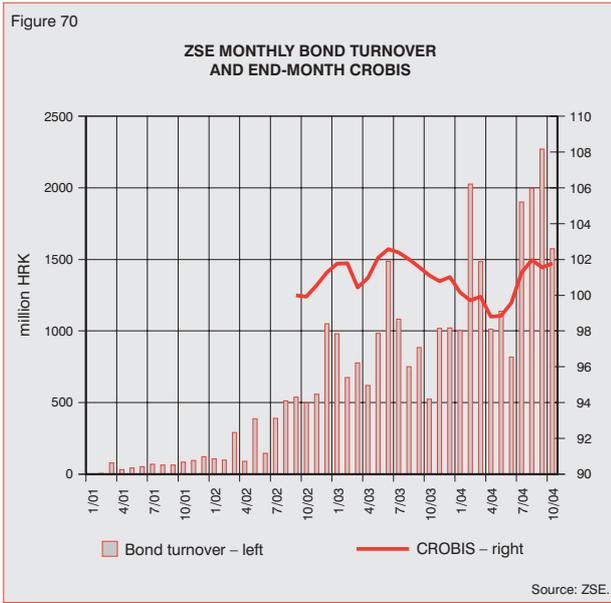
The second municipal bond was listed on the ZSE in Sep-

tember. These are City of Zadar bonds, issued with a maturity of 7 years, at a coupon rate of 5.5%. The issue is worth EUR 18.5m.

Following the new issues and maturities, there were five government bonds listed on the domestic stock exchanges at end-September, two municipal bonds, two bonds of the State Agency for Deposit Insurance and Bank Rehabilitation and a CBRD bond. The market capitalization of these bonds stood at EUR 2.6bn (HRK 19.1bn) or 9.3% of the GDP estimate for 2004, compared with EUR 2.2bn (HRK 16.4bn) or 7.9% of the GDP estimate for 2004 at the second quarter end.

The ZSE saw the listing of the Atlantic grupa corporate bond, as the first bond of a company that is not a joint stock company. The issue is worth EUR 15m and has a coupon rate of 5.75%. After the Plava laguna bond, issued in 2002, fell due in July, eight corporate bonds remained listed on the domestic capital market. The market capitalization of corporate bonds amounted to EUR 612m (HRK 4.6bn or 2.2% of the GDP estimate for 2004) compared with EUR 597m (HRK 4.4bn or 2.1% of the GDP estimate for 2004) at the end of June 2004.

Bond trading on the ZSE was much more intensive in the third quarter of 2004 than in the previous quarter, but it



slowed somewhat in October. The bond turnover totalled HRK 6.2bn in the third quarter (compared with HRK 2.9bn in the second quarter) and HRK 1.5bn in October. The Republic of Croatia bond due 2014 and the new three-year government bond were traded the most.

Having risen early in the third quarter 2004, prices of most government bonds issued in the domestic market drifted downwards in September, rebounding in October. Accordingly, the ZSE bond index, CROBIS, went up to 101.98 points at end-August, declined to 101.54 points in September and stood at 101.77 points at end-October.

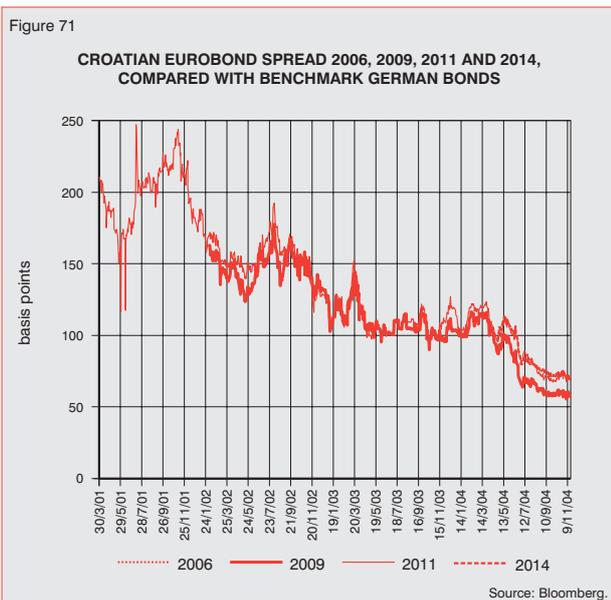
In an effort towards reducing foreign borrowing and intensifying borrowing in the domestic capital market, the Republic of Croatia issued no bonds in foreign markets in the third quarter. A euromark bond issue from 1997, totalling DEM 300m, or EUR 153.4m, fell due in July 2004. There was a total of 13 Croatian bond issues in foreign markets in October, two USD denominated issues (government bonds substituted for the debt of Croatian business entities towards

the London Club), six EUR and five JPY denominated. The 1999 Samurai bond issue, worth JPY 25bn (HRK 1.43bn or EUR 187.9m) matured in December 2004. The Ministry of Finance will repay this bond through borrowing in the domestic capital market.

The 13 Croatian eurobond issues totalled HRK 38.5bn in nominal terms (EUR 5.15bn) at end-October 2004.

The spread between Croatian eurobonds and benchmark German bonds, oscillating around 100 base points in the second half of 2003 and early 2004, narrowed considerably after the announcement of granting EU candidate status to Croatia. It narrowed a bit further during the third quarter of 2004, mostly on account of the reduced spread of developing countries' bonds. The spread between Croatian eurobonds and benchmark German bonds fluctuated around 70 base points for bonds with the longest maturities, falling due in 2011 and 2014.

Consequently, the Croatian eurobond spread came closer to the spread of the countries that joined the EU on 1 May 2004. The eurobond spread of the EU candidate countries, Romania and Bulgaria, still exceeds the Croatian eurobond spread.



International Transactions

The preliminary balance of payments data show that current account surplus reached USD 2.3bn in the third quarter of 2004, which is USD 0.3bn or 15.6% more than in the same period of the previous year. A positive current account balance in third quarter reflects a seasonally large income from services rendered in tourism, while the annual growth in current account balance mainly results from a significantly deteriorated balance in goods trade and a moderate rise in income from tourism.

As regards international relations, it should be noted that external growth continued to grow, the financial liabilities of the Republic of Croatia to foreign countries (excluding liabilities arising from interest) reaching USD 27.4bn at

end-October 2004. Despite the external debt absolute growth, the index of exchange market pressure did not point to international liquidity problems.

Current Account

Merchandise trade of Croatia with foreign countries shows that goods exports reached USD 2.1bn in the second quarter of 2004, compared to goods imports of USD 4.1bn. Movements in income and expenditure items of the goods account resulted in an annual fall in deficit of USD 138m or 6.5% in the third quarter. Such movements can primarily be accounted for by intense overall goods exports and a slow-down in the Croatian goods imports. These findings are also confirmed by goods exports and imports expressed in the euro. The annual growth in income from goods exports thus reached 29.3% in the third quarter, while growth in expenditure arising from goods imports amounted to a low 4%, which resulted in an annual fall in foreign trade deficit of 13.9%. The current movements in merchandise trade, together with the contributions of individual SITC division to movements in total values of goods exports and imports are analysed in more detail under Merchandise Trade.

Net income from exports of services reached USD 4.1bn or 8.4% in the third quarter 2004 compared to the same period last year. Since in the third quarter, the average exchange rate of the US dollar depreciated against the euro by 8.7% at the annual level, and the largest portion of service trade with non-residents is conducted in the euro, a stagnation of net income from service trade at the annual level is evident. This is also confirmed by the balance of payment data expressed in the euro, showing a very mild annual fall in net income from exports of services (-0.4%). In assessing the said results and the corresponding relative changes, a strong base period effect should be taken into account – in the third quarter of 2003, surplus in the service account, in terms of the euro, recorded an extremely high annual growth rate of 52.3%.

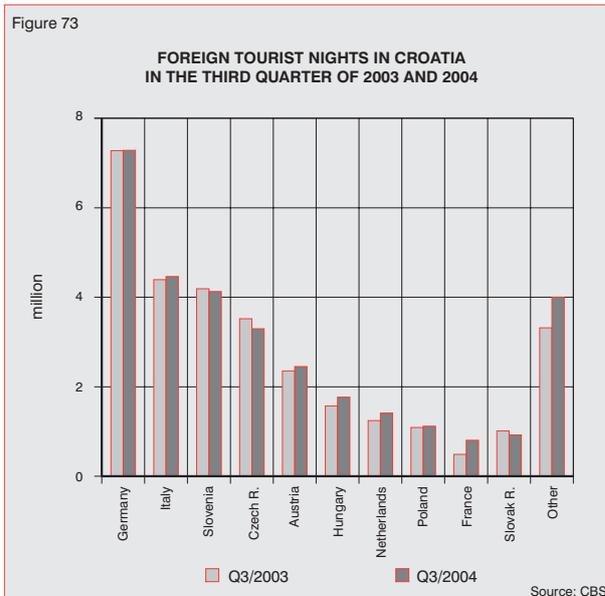
The movements in the service account were mostly effected by the sub-account of travel/tourism, the balance of which recorded a 9.8% annual growth in the third quarter, in terms of the US dollar, or 1% in terms of the euro. Income from tourism reached USD 4.4bn in the July–September 2004 period (a total of USD 6.2bn in the first nine months of 2004). Increased income from tourism in the third quarter of 2004 is a consequence of cross-currency changes and movements in volume indices. In the stated period, foreign tourists' arrivals thus recorded an annual growth rate of 8.5% and foreign tourists' nights rose by 3.9%.

The annual growth in nights of foreign tourists in commercial residential facilities in the third quarter of 2004 can mostly be accounted for by a growth in French (64.2%),

Table 9: Annual Rate of Change in the Arrivals and Nights of Foreign Travellers, in %

	First quarter		Second quarter		Third quarter	
	2003	2004	2003	2004	2003	2004
Arrivals	-26.0	21.7	11.9	0.9	5.4	8.5
Nights	-28.7	28.6	10.1	-2.4	2.7	3.9

Source: CBS.



Hungarian (12.4%) and British (46.4%) tourists. At the same time the number of tourists from the Czech Republic (6.3%), Slovakia (8.9%) and Bosnia and Herzegovina (13.8%) decreased most. Most of the nights were spent in camps (30.7%), hotels (25.6%) and households – rooms, apartments and vacation houses (25.5%).

In the third quarter of 2004, deficit in the income account recorded a significant growth. The changes in the sub-account of (factor) income from direct investments were most evident, such as expenditures based on equity investments, where USD 210m annual growth was recorded, which equally refers to earnings paid out (dividends) and non-paid out (reinvested earnings) that were transferred to foreign owners of companies in Croatia. It should be noted that a pronounced annual growth results from different periods when the companies with significant participation of foreign investors reported and entered into accounts the earnings for the financial year 2003. More specifically, earnings for the financial year 2002 were mostly recorded in the second quarter of 2003, as a result of which the amounts on this basis fall significantly later in 2003, while earnings for the financial year 2003 were distributed equally in the second and third quarter of 2004. As regards other components of the income account in the stated period, net income from compensation of employees recorded an annual growth (23.3%), whereas net expenditures arising from portfolio and other investments were reduced (by 1.2% and 23.2%, respectively) at the annual level.

Net income from current transfers amounted to USD

Table 10: Factor Income Account of the Republic of Croatia, in million USD

	Second quarter		Third quarter	
	2003	2004	2003	2004
Total	-810	-287	-79	-254
Income	115	160	123	156
Expenditures	-925	-447	-202	-410
Compensation of employees (net)	41	75	55	68
Direct investment (net)	-780	-283	-52	-251
Portfolio investment (net)	-25	-28	-32	-31
Other investment (net)	-47	-51	-51	-39

Source: CNB.

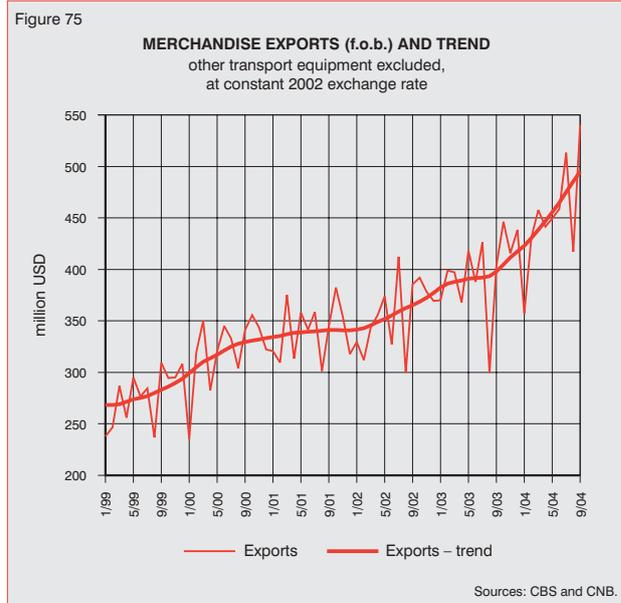
365m in the third quarter, increasing by 6.5% compared to the same period of the previous year. Nevertheless, expenditure grew faster than income – total income based on current transfers recorded an 11% annual growth, compared to 29.3% annual growth in total expenditure.

Merchandise Trade

The preliminary CBS data show that total goods exports stood at USD 5.8bn in the first nine months of 2004, which corresponds to an annual growth rate of 29.9%. At the same time, total goods imports reached USD 12.1bn, growing at an annual rate of 18.1%. Foreign trade deficit of USD 6.3bn thus recorded a 9% annual growth, which is four times less than the annual growth rate of deficit at the same time of the previous year.

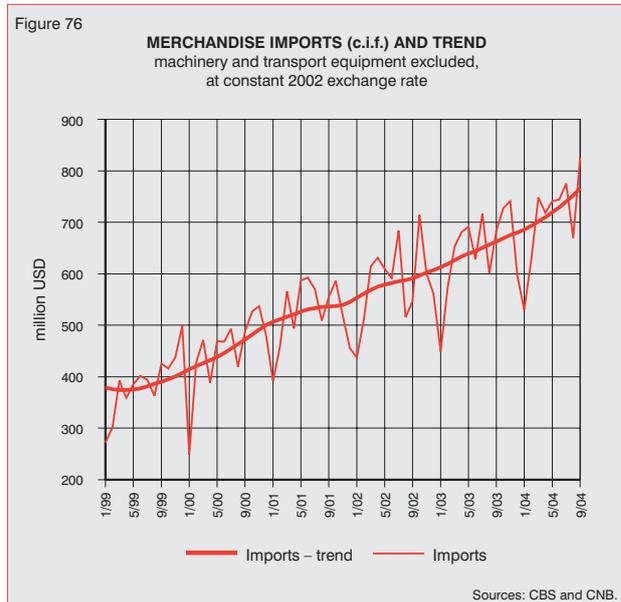
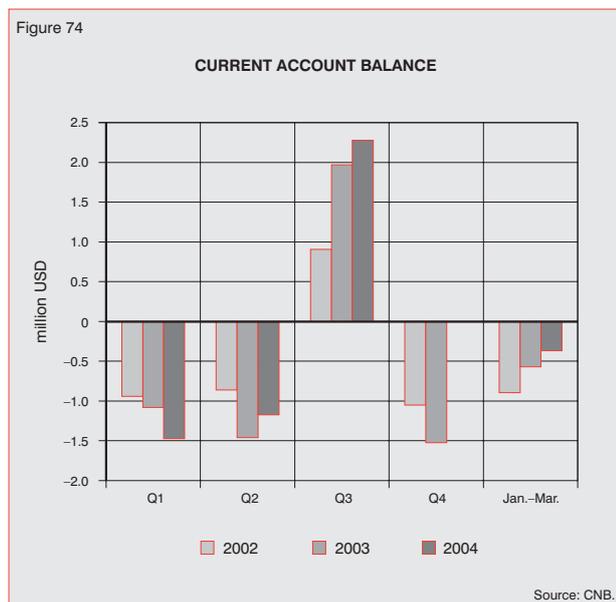
The above indicated nominal growth rates partly reflect the effect of cross-currency changes between the US dollar and the euro, i.e. the effect of the 10.4% annual depreciation of the average exchange rate of the US dollar against the euro, recorded in the January–September 2004 period. If the exchange rate effect is excluded, taking into account that euro accounts for about three fourths of the goods exports and imports currency structure, the annual growth in merchandise trade deficit amounts to only 0.4% in the first nine months of 2004 (expressed at the 2002 constant exchange rate). The same indicator stood at 18.9% in the first three quarters of 2003. A pronounced fall in the annual growth rate of foreign trade deficit resulted from a more dynamic goods exports and a considerable deceleration of the Croatian goods imports. Relatively more favourable movements in merchandise trade are also reflected in the relatively more favourable indicator of the proportion of imports covered by exports, amounting to 47.9% on average in the January–September 2004 period, or 4.4% more than in the same period of 2003.

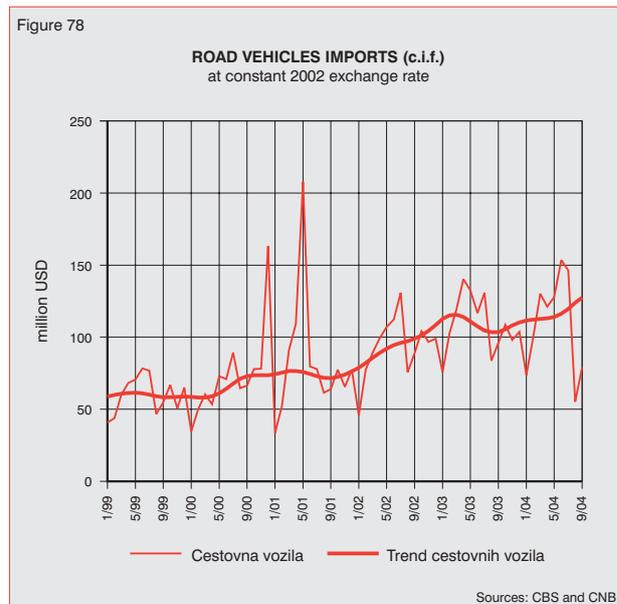
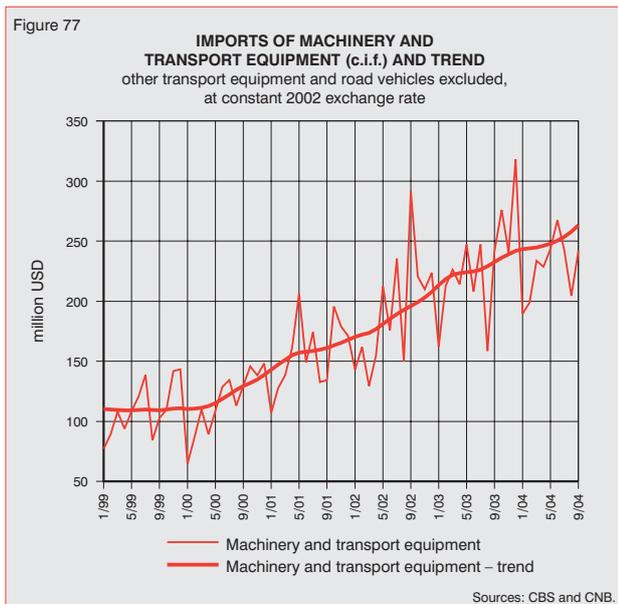
Total goods exports, in terms of the constant exchange rate, grew at an annual rate of 21.2% in the first nine months of 2004, which is a double growth relative to the same period



of the previous year (10.1%). As regards the SITC divisions, the largest contribution to total exports growth was made by other transport equipment, i.e. ships, accounting for 15.3% of total exports in the first nine months of 2004. According to the CBS data, ship exports recorded an annual nominal growth of 59.9%, whereas the annual growth in the same period of 2003 stood at 21.9%. Nevertheless, the positive results in goods exports cannot be attributed only to a growth in exports of ships – the annual growth rate of total exports, exclusive of other transport equipment, amounted to 17.2%, a 6.7 percentage point increase compared to the same period of 2003.

A significant contribution to a growth in total goods exports was also made by oil and refined petroleum products, the exports of which recorded a 42% annual growth in the first nine months, reported at the current exchange rate. A portion of that growth can be accounted for by a rise in the price of crude oil on the global market, which is incorporated in the higher price of the refined petroleum products placed





by Croatia on the exporting markets. However, the annual growth rate of total goods exports, which excludes other transport equipment and oil and refined petroleum products, is still relatively high, in terms of the constant exchange rate, amounting to 13.3% (compared to 6.3% in the same period of the previous year), which points to a more intense dynamics of the Croatian goods exports.

In addition to other transport equipment and oil and refined petroleum products, the largest contribution to a growth in goods exports was made by the following SITC divisions: electrical machinery, apparatus and equipment (55% annual growth rate, reported at the current exchange rate), hides, skins and fur skins (157.7%), ferrous metals (108.4%), machinery specialised for particular industries (43.7%), medical and pharmaceutical products (26.6%), and metal products (29.9%). At the same time, the most pronounced fall in goods exports is recorded by sugar, products of sugar and honey (-77.3%), cereals and cereal preparations (-37.7%) and organic chemical products (-30.2%).

In the January–September 2004 period, total goods imports recorded the annual growth rate of 9.6%, in terms of the constant exchange rate, which is a 5.2 percentage point decrease compared to the annual growth rate in the same period of the previous year. Viewed by individual quarters of 2004, the lowest annual growth (7%) in goods imports was recorded in the third quarter. Total goods imports growth deceleration can primarily be accounted for by lower growth rates of imports of capital goods and road vehicles. In the first nine months of 2004, the annual growth rate of imports of machinery and transport equipment, excluding other transport equipment and road vehicles, thus amounted to 6.9%, representing a significant reduction relative to the indicators for the same period in 2001, 2002 and 2003. A more intense investment in capital infrastructure facilities, which started at end-2000, resulted in relatively high growth rates of imports of capital goods (primarily machinery and transport equipment) that were required for their construction. In the first nine months of 2001, the annual growth rate of imports of machinery and transport equipment, excluding

other transport equipment and road vehicle, thus stood at 37.8%, while in the same period of 2002 and in the first three months of 2003 it amounted to 24.3% at 16%, respectively.

Imports of road vehicle also decelerated significantly – in the first nine months of 2004, the annual rate of change was -1%, expressed at the constant exchange rate, whereas in the same period of 2003, a 20.7% annual growth was recorded. The negative rate of change reflects a significant fall in imports of road vehicles in the third quarter of 2004 (-9.6%), while the first two quarters saw moderate growth rates of 2.1% and 3.4%, respectively. The CBS data on road motor vehicles and trailers registered for the first time also point to a slow-down in imports of road vehicles. The balance at end-September 2004 shows that in the first nine months natural persons registered 58,876 passenger cars for the first time, which is almost 3,000 vehicles less than in the same period of 2003. In addition to a decreased number of vehicles registered by the natural persons for the first time, it should be noted that during September 2004, a monthly fall of 5.9% in the prices of medium-size passenger cars (those included in the basket of currencies for the calculation of the consumer price index) was also recorded.

Although the goods imports growth slowed down, its total value in the first nine months of 2004, in terms of the current exchange rate, was larger than in the same period of the previous year. The SITC divisions that contributed most to the absolute growth in goods imports are the following: oil and refined petroleum products (26.2% nominal annual growth rate), iron and steel (41.8%), electrical machinery, apparatus and equipment (26.7%), and various finished goods (39.2%).

As regards the structure of goods imports by the economic classification of countries, in the January–September 2004 period, 25 EU member states accounted for 65.4% of total exports, representing a moderate fall relative to the same period of 2003, when these countries accounted for 68.7% of total exports. A fall in the share of 15 “old” EU member states is somewhat more pronounced – from 56.2% in the first nine months of 2003 to 52.5% in 2004, mostly as

Table 11: Imports and Exports by Economic Classification of Countries, in %

Exports	2002	2003	Jan.–Sep. 2003	Jan.–Sep. 2004 ^a
Developed countries	70.9	74.6	75.3	72.3
EU-25	65.5	67.6	68.7	65.4
Slovenia	8.7	8.3	8.2	7.3
Hungary	1.7	1.3	1.4	1.2
EU-15	52.7	54.7	56.2	52.5
Austria	7.5	7.7	7.8	9.6
Italy	22.7	26.7	27.5	23.3
Germany	12.5	11.9	12.3	11.5
EFTA	0.8	0.8	0.8	1.0
Developing countries	29.1	25.4	24.7	27.7
CEFTA	0.4	0.7	0.7	0.9
Bosnia and Herzegovina	14.4	14.4	14.6	14.0
Serbia and Montenegro	3.5	3.1	3.1	3.3
Russia	1.7	1.2	1.1	1.5
Imports	2002	2003	Jan.–Sep. 2003	Jan.–Sep. 2004 ^a
Developed countries	80.1	80.8	81.0	78.2
EU-25	71.3	72.0	72.3	70.2
Slovenia	7.7	7.4	7.6	7.3
Hungary	3.0	3.0	3.1	3.0
EU-15	55.8	56.6	56.6	54.7
Austria	6.6	6.6	6.4	6.9
Italy	17.3	18.2	18.2	17.2
Germany	16.2	15.6	15.5	15.4
EFTA	2.0	1.8	1.8	1.5
Developing countries	19.9	19.2	19.0	21.8
CEFTA	0.6	1.2	1.0	1.4
Bosnia and Herzegovina	1.6	1.6	1.6	2.1
Serbia and Montenegro	0.5	0.5	0.5	0.8
Russia	6.7	4.8	4.8	6.9

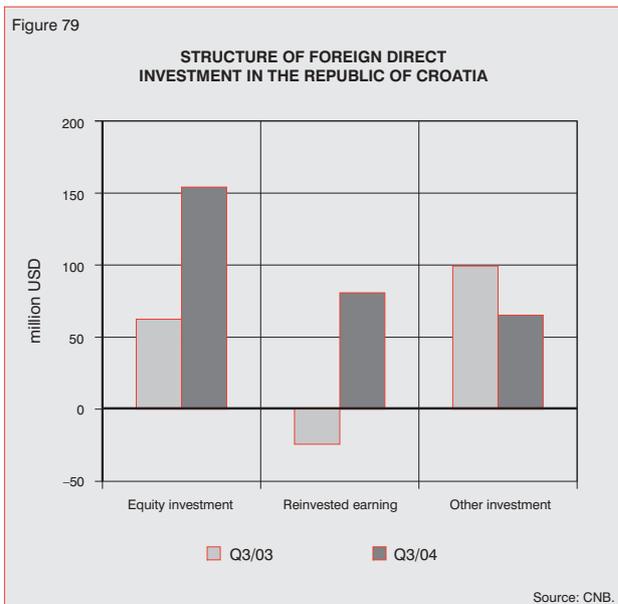
^a Preliminary data. Source: CBS.

a result of a decrease in the share of Italy. Viewed by the value of exports, in terms of the US dollar, Croatia recorded a growth in goods exports to all of its three most important foreign trade partners: Italy (10.1%), Germany (21.8%) and Austria (59%).

In the January–September 2004 period, the share of 25 EU member states in total goods imports recorded an annual fall of 2 percentage points, amounting to 70.2%. The annual growth rate of goods imports from these countries stood at 14.8%, in terms of the US dollar, Germany (17.2%), Italy (11.7%), Austria (26.6%) and Slovenia (13.7) accounting for the largest portion of that growth. As regards the developing countries, whose share in total goods imports of the Republic of Croatia is on the moderate increase, Russia (70.6%) and China (58.5%) contributed most to the annual imports growth.

Capital and Financial Transactions

Foreign direct investments in the Republic of Croatia reached USD 300m in the third quarter of 2004, an increase of USD 162m, or 117.9% relative to the same period of the previous year. Such large differences are related to the already mentioned movements in the sub-account of (factor) income from direct investments, or to the fact that the third quarter of 2004 included undistributed (retained) earnings based on equity investments of a larger number of companies relative to the number of companies whose undistributed earnings were recorded in the same period of 2003. Equity investments, i.e. investments in shares and equity participation, predominated in the structure of foreign direct



investments in the July–September 2004 period (USD 154m). They are followed by retained earnings (USD 81m) and other investments (net liabilities of Croatian companies to their related parent companies abroad, excluding banks, amount to USD 65m).

The trading activities continued to predominate (over 40% of total foreign equity investments) in the structure of direct equity investments in the first three quarters of 2004. Together with investments in financial intermediation, that share rises to almost 60%. Investments in trade mainly refer to investments in large chain stores, and as regards financial intermediation, to the acquisition of shares in the existing banks or their recapitalisation. In addition to investments in the above said activities, in the first three quarters of 2004, non-residents acquired equity participation in hotels and restaurants, in companies involved in recreational, cultural and sporting activities, renting of machinery and equipment, real estate activities and manufacture of food products and beverage.

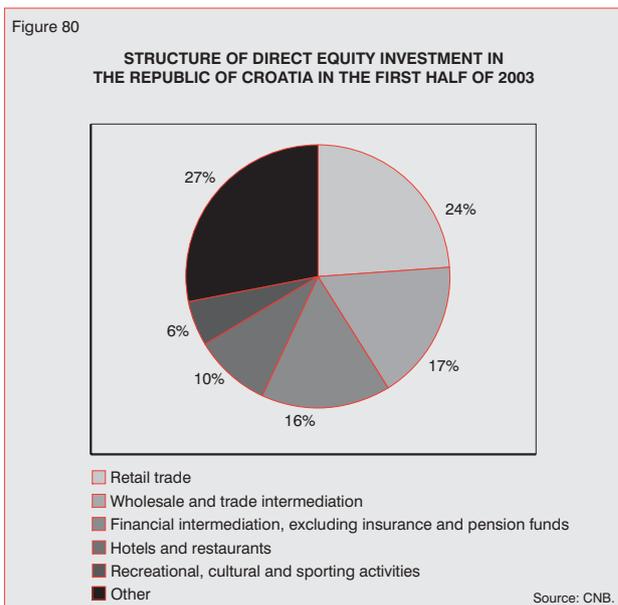


Table 12: Structure of CNB Reserve Assets, end of period, in million USD and %

	Dec. 2003	Jun. 2004	Jul. 2004	Aug. 2004	Sep. 2004
Balance	8,191	7,769	7,669	7,808	7,949
Share					
1. Foreign currency reserves	87.6	92.3	92.6	93.0	92.2
1.1. Securities	48.9	56.8	58.0	55.8	56.1
1.2. Total currency and deposits with:	38.6	35.5	34.6	37.2	36.1
– other national central banks, BIS and IMF	4.1	3.6	3.4	3.3	3.3
– banks headquartered outside Croatia	34.5	32.0	31.2	33.9	32.8
2. IMF reserve position	0.0	0.0	0.0	0.0	0.0
3. SDRs	0.0	0.0	0.0	0.0	0.0
4. Gold	0.0	0.0	0.0	0.0	0.0
5. Reserve repo	12.4	7.7	7.4	6.9	7.7

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

In the third quarter of 2004, portfolio investment assets decreased by USD 13m – assets based on bonds and debentures falling by USD 43m and those based on investments in shares and money market instruments increasing by USD 10m and USD 21m, respectively. In the same period, portfolio investment liabilities reached USD 275m. Movements in liabilities under portfolio investments largely reflect repayments and new issues of foreign bonds. In the third quarter 2004, the government thus repaid DEM 300m of euromark bonds issued in 1997 and USD 80.6m of liabilities to the London Club (the semi-annual annuity of the same amount was repaid in January as well), whereas Zagrebačka banka issued bonds on the Luxembourg Stock Exchange, worth EUR 450m (USD 559m).

In the account of other investments, in the July–September 2004 period, a growth in assets of USD 245m was recorded, which can almost entirely be accounted for by the changes in the currency and deposit item. Claims of domestic banks on non-residents based on currency and deposits increased by USD 330m in the stated period, while the government at the same time recorded a decrease on this basis of almost USD 100m. Net liabilities based on other investments fell by a total of USD 431m in the third quarter of 2004, net liabilities arising from disbursements of loans increasing and net liabilities based on received trade credits and liabilities based on currency and deposits decreasing. In the July–September 2004 period, net disbursements of loans thus reached USD 550m, of which other sectors accounted for USD 314m and government for USD 260m, while banks reduced their net liabilities based on loans by USD 23m. Banks also reduced their net liabilities arising from currency and deposits by a total of USD 590m. At the same time, net liabilities arising from trade credits disbursed to enterprises were also reduced by as much as USD 390m.

During the third quarter of 2004, a growth in CNB reserve assets continued. The largest portion of total increase of USD 107m refers to the increase in assets based on currency and deposits with banks with their head office outside Croatia (USD 98m), while the remaining portion (USD 9m) refers to an increase in assets based on investment in securities. At end-September 2004, CNB reserve assets reached USD 7.9bn, expressed at the approximate market value. The structure of reserve assets investment at the end of the said month shows that debt securities predominate (56.1% of total reserves), together with currency and deposits invested in banks with their head office outside Croatia (36.1%), while

the smaller part refers to other foreign currency reserves, i.e. repo operations (7.7%).

External Debt

At end-October 2004, external debt of the Republic of Croatia reached USD 27.4bn, which is an increase of USD 3.8bn and USD 1.9bn compared to end-2003 and to the end of the second quarter 2004, respectively. External debt data by the debtor sector show that the government still accounts for the largest portion of debt. Government external debt stood at USD 9.7bn at end-September, or 35.3% of total external debt of the Republic of Croatia. It is followed by enterprises whose debt, including foreign direct investments, and its share in total external debt have constantly been increasing since April 2004, reaching USD 9.1bn or 33.4% of total debt at end-September. Following a mild fall in August relative to end-July 2004, banks' debt continued to grow, amounting to USD 8.6bn or 31.3% of total external debt at end-October.

Debt changes in the January–October 2004 period show that disbursements reached USD 6.4bn, whereas USD 3.2bn of due principals was repaid at the same time. In addition to net transactions accounting for USD 3.2bn, cross-currency changes of the reporting currency – US dollar and the euro (end of period exchange rates) also contribute to a statistical

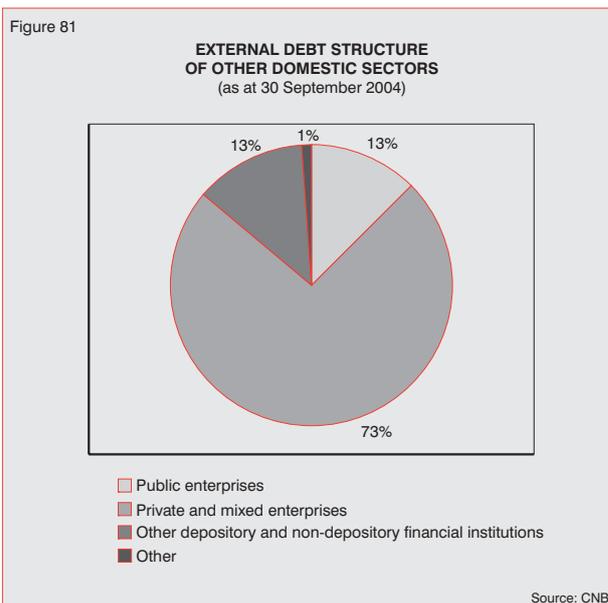


Table 13: External Debt by Debtor, end of period, in million USD and %

	2002	2003	Oct. 2004	Structure			Indicies		
				2002	2003	Oct. 2004	2002/01	2003/02	Oct. 2004/03
1. Government	6,360	8,458	9,656	41.3	35.8	35.3	123.9	133.0	114.2
2. Central bank (CNB)	0	0	0	0.0	0.0	0.0	–	–	–
3. Banks	3,976	7,358	8,561	25.8	31.2	31.3	176.2	185.0	116.4
4. Other sectors	4,016	5,986	7,091	26.1	25.4	25.9	127.2	149.1	118.5
5. Direct investment	1,057	1,796	2,042	6.9	7.6	7.5	163.9	170.0	113.7
Total (1+2+3+4+5)	15,409	23,598	27,350	100.0	100.0	100.0	136.2	153.1	115.9

Source: CNB.

Table 14: Change in External Debt by Debtor, in million USD

	Outstanding debt 31/12/2003	Disbursement	Change		Cross-currency change	Outstanding debt 31/10/2004
			Amortisation			
			Principal	Interest		
1. Government	8,458	1,691	656	325	163	9,656
2. Central bank (CNB)	0	0	0	0	0	0
3. Banks	7,358	1,568	554	98	190	8,561
4. Other sectors	5,986	2,495	1,550	146	160	7,091
5. Direct investment	1,796	637	436	42	45	2,042
Total (1+2+3+4+5)	23,598	6,390	3,196	611	558	27,350

Source: CNB.

Table 15: Change in the General Government External Debt, in million USD

	Outstanding debt 31/12/2003	Disbursement	Change		Cross-currency change	Outstanding debt 31/10/2004
			Amortisation			
			Principal	Interest		
1 General government	8,458	1,691	656	325	163	9,656
1.1 Central government	6,903	728	459	284	132	7,303
1.2 Central government funds	724	565	16	21	22	1,296
1.3 CBRD	780	398	170	19	8	1,016
1.4 Local government	52	0	12	1	1	41

Source: CNB.

increase in external debt, with USD 0.6bn.

Data on debt changes show that enterprises, including foreign direct investments, contributed most to a growth in total debt arising from net transactions. In the first ten months, enterprises borrowed USD 3.1bn, of which approximately two thirds were accounted for by long-term loans, whereas USD 2bn of due principals and USD 0.2bn of interest were repaid in the same period (interest payment does not effect the change in the debt balance).

The structure of external debt of enterprises, including foreign direct investments, shows, at the same time, that 73.4% of total debt of enterprises, including foreign direct investments, relates to the debt of private and mixed enterprises. It is followed by debt of depository and non-depository financial institutions (including leasing companies) whose share was 12.9%, public enterprises¹⁴ (12.6% share), while crafts and trades, households and non-profit institutions account for only 1.1% of total external debt of other domestic sectors.

Government and banks equally contributed to a growth in external debt arising from net transactions. From January to October 2004, the government borrowed additional USD 1.7bn, of which the largest portion refers to liabilities based on portfolio investments, i.e. bonds issued on the foreign market. Almost one billion of US dollar denominated liabilities arising from the issued bonds can be accounted for by only two issues: of the CBRD (HRK 300m or USD 383m) and of the Government of the Republic of Croatia (EUR

500m or USD 595m). The seven-year CBRD bonds are issued on the basis of the so-called *Euro Medium Term Note* (or EMTN), and the funds raised will be used for financing exports and insurance of exports activities and for providing incentives to small and medium enterprises, whereas a portion of the Government euro issue from April 2004 was used for settling the foreign liabilities that fell due. The remaining government disbursements relate to liabilities arising from received long-term loans, including a loan of USD 250m to the CH, which will be used for completing the Split–Zagreb highway.

In the first ten months of 2004, the government repaid USD 0.7bn of due principal (including DEM 300m worth euromark bonds issued in 1997 that fell due in July, two London Club instalments totalling USD 161m and USD 266m of due long-term loans) and USD 325m of due interest.

The central government still has the largest share (75.6%) in the structure of general government external debt (as at end-October 2004), but it has been continuously decreasing. Debt of local government, despite its relatively small share in total general government external debt (0.4%), has also been on the decrease. At the same time, the share of the CBRD (10.5% at end-October) and of central government funds (13.4%) have been constantly increasing.

In the first ten months of 2004, banks borrowed USD 1.6bn and repaid USD 0.6bn of principal in the same period. The largest portion of new disbursements (USD 1.1bn) can be accounted for by liabilities arising from the received long-term loans, while USD 559m (EUR 450m) refers to the bonds issued by Zagrebačka banka on the Luxembourg Stock Exchange in July 2004.

¹⁴ Public enterprises are enterprises where the state participates in the ownership structure with more than 50 percent.

Table 16: Projected Future Principal and Interest Payments by Debtor, end of period, in million USD

	Outstanding debt 31/10/2004	Principal repaid in period Jan.–Oct. 2004	Project future principal payments					Other
			2004	2005	2006	2007		
1. Government	9,656	656	339	1,074	1,085	833	6,321	
2. Central bank (CNB)	0	0	0	0	0	0	0	
3. Banks	8,561	554	121	927	1,285	427	5,785	
4. Other sectors	7,091	1,550	303	1,172	902	1,261	2,894	
5. Direct investment	2,042	436	187	265	376	307	784	
Total (1+2+3+4+5)	27,350	3,196	950	3,438	3,648	2,828	15,783	
Supplement:								
Projected interest payments	–	611	165	900	762	630	2,094	
Total principal and interest	–	3,807	1,115	4,338	4,410	3,458	17,877	

Source: CNB.

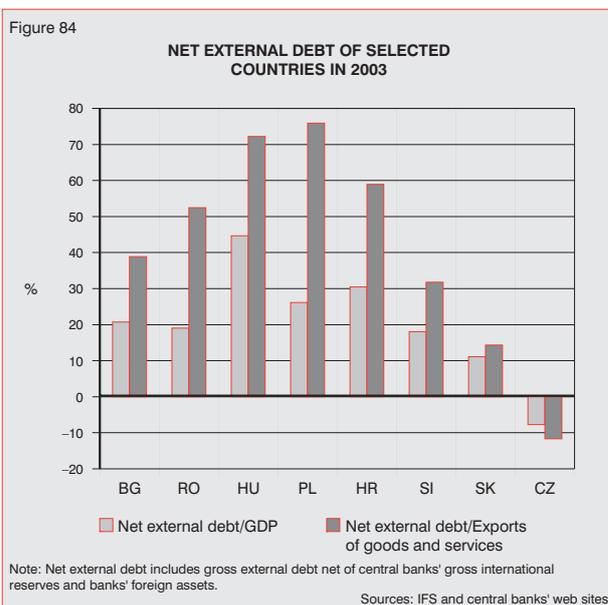
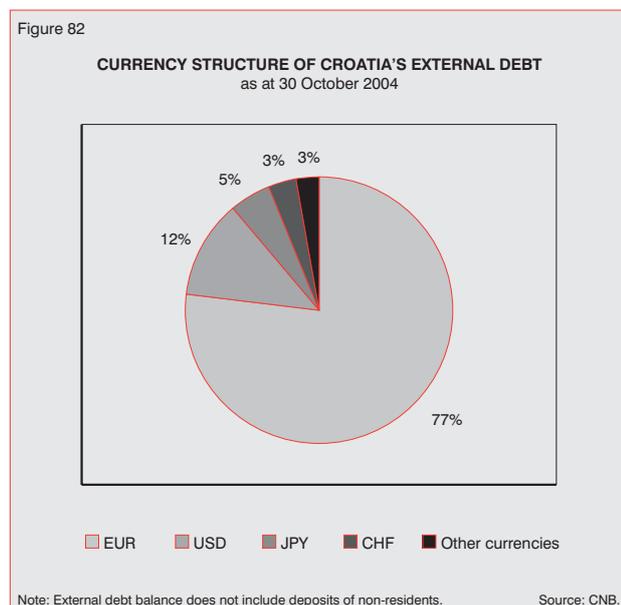
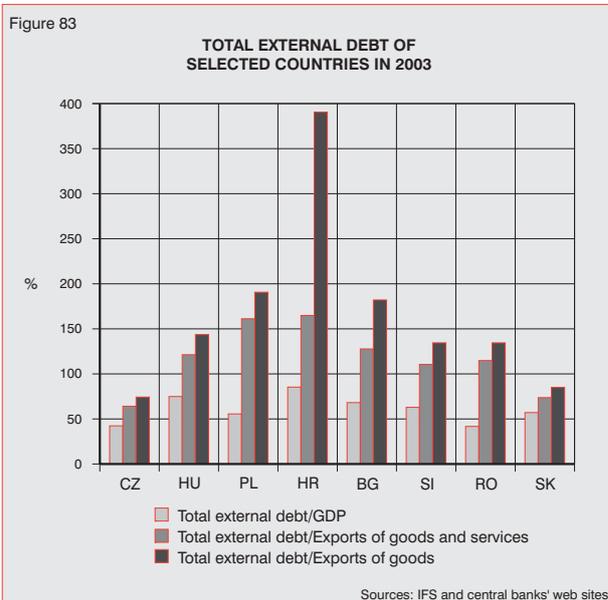
The currency structure of the Republic of Croatia’s external debt, according to the outstanding debt which excludes deposits of non-residents, shows that at end-October 2004, 76.9% of Croatia’s external debt was denominated in the euro, followed by the US dollar with a share of 11.9%, the Japanese yen accounting for 4.9% and the Swiss franc accounting for 3.5%. Since the exchange rate of the reporting currency – US dollar depreciated by 2% at end-October 2004 relative to the exchange rate effective at end-2003, the currency structure and exchange rate fluctuations resulted in an increase of total external debt of the Republic of Croatia of USD 558m, in statistical terms.

The projection of future amortisation shows that USD 0.9bn of principal will fall due until end-2004. The largest portion of this amount relates to other sectors, which must settle USD 489m, inclusive of liabilities arising from foreign direct investments. Until end-2004, the government will amortise USD 339m of principal, USD 236m of which accounts for the repayment of due Samurai bonds issued in December 1999 and USD 103m for liabilities arising from long-term loans. Until end-2004, banks will set aside USD 121m for the repayment of principal falling due, of which USD 55m on long-term loans and USD 66m on short-term loans.

The maturity structure of external debt may be assessed as relatively favourable, in view of a dominant share of long-term debt. However, the estimates of principal and interest amortisation show that, viewed from 2005 to 2011, the largest cost of settling liabilities based on external debt,

will be incurred in the first two forthcoming years. The estimated principal falling due in 2005 thus amounts to USD 3.4bn (interest that is to fall due amounts to additional USD 0.9bn), whereas in 2006, USD 3.6bn should be set aside for repaying the estimated due principal, or USD 0.8bn for interest payment.

The relative indicators of external debt point that at end-October, the share of total external debt in the estimated



Box 4: Number of Travellers in Estimating Revenues and Expenditures from International Travel – Adjustment Completed

In the previous issues of the CNB Bulletin (Nos. 86 and 88) the methodology for estimating revenues and expenditures under the balance of payments item “travel”, showing the Croatian revenues and expenditures from international tourism, was shortly described. For the purpose of their estimate, the two main data should be available: average consumption of travellers and number of travellers, broken down by domestic and foreign travellers (encompassing same-day visitors and tourists). In this text, the statistical problems concerning the number of travellers and their effects on the balance of payment statistics are presented.

Domestic and foreign international travellers enter and leave the Republic Croatia through four types of border crossings: road, air, railway and sea. According to the Ministry of the Interior data on the number of travellers, used in the estimate of total revenues and expenditures and compiled by counting the daily turnover of travellers entering and leaving the Republic of Croatia, the largest number of travellers cross the road border crossing – between 94% and 98% of foreign travellers, depending on the observed period (Table 17). Taking into account their shares, it is evident that those travellers contribute most to the estimated total revenues.

As regards the quality of data on total number of travellers, it is interesting to compare the number of arrivals and departures of travellers. Although it is reasonable to expect these two numbers to be equal in the longer run, i.e. that the share of migrants is not significant, the Ministry of the Interior data show that in the 1998–2003 period a net inflow of non-residents amounted to 13.6m (Table 18), implying that in the observed period, the population of the Republic of Croatia should have increased several fold.

At the beginning of conducting the survey, the CNB in co-operation with the Institute for Tourism from Zagreb decided to examine the data on the number of travellers. The comparison with the statistics of the Slovene colleagues showed that the number of foreign travellers was overestimated by 15.2% and the number of domestic travellers by 21%. Accordingly, in the monthly estimate of revenues, the number of foreign travellers and domestic travellers was reduced by 15.2% and 21%, respectively, a direct consequence of which was a fall in estimated revenues and expenditures.

According to the results of the survey for the first nine months of 2004, the difference between the absolute value of the number of tourists in paid accommodation, based on the report by the Central Bureau of Statistics and the number of unadjusted estimated number of tourists in paid accommodation was reconciled. As a part of the constant improvement of methodology for estimating inflows and outflows from international tourism, the CNB has thus again compared the number of travellers obtained from the Ministry of the Interior with the data of the Statistical Office of the Republic of Slovenia and has come to the conclusion that the reasons for the previously mentioned adjustment of the number of travellers no longer hold true. Accordingly, a review of revenues and expenditures under the balance of payments item “travel” and its related items of goods imports and exports was carried out for the first two quarters of 2004. This adjustment resulted in an increase in revenues and expenditures from international tourism (which includes the value of goods related to the travel motive “shopping”), i.e. a decrease in balance of payments deficit of USD 19.2m in the first and USD 106.9m in the second quarter of 2004, due to a larger increase in revenues (Table 19).

Table 17: Shares of Means of Transport for Foreign Travellers, in %

	2001	2002	2003	Q1/2004	Q2/2004	Q3/2004
Road	96	95	95	98	94	94
Railway	1	1	1	1	1	1
Maritime	2	2	2	0	2	2
Air	2	2	2	1	3	3

Source: Ministry of the Interior.

Table 18: Difference in the Number of Foreign Travellers Entering and Leaving the Republic of Croatia, in million

	1998	1999	2000	2001	2002	2003
Net arrivals of foreign travellers	-1.488	-2.345	-2.739	-2.663	-2.064	-2.320

Source: Ministry of the Interior.

Table 19: Change in Balance of Payment Positions Due to Completion of Adjustment of the Number of Road Travellers, in million USD

	Q1/2004	Q2/2004
Current account	19.2	106.9
1. Goods	-20.7	-24.8
1.1. Exports, adjustments for coverage	3.2	3.2
1.2. Imports, adjustments for coverage	-23.8	-28.0
2. Travel	39.9	131.7
2.1. Credit	73.6	162.0
2.1.1. Business	13.8	15.6
2.1.2. Personal	59.8	146.4
2.2. Debit	-33.6	-30.4
2.2.1. Business	-12.8	-11.8
2.2.2. Personal	-20.9	-18.6

Source: CNB.

GDP for 2004 stood at 77.8% (calculated as a ratio of the kuna equivalent of outstanding external debt in the reporting currency – US dollar to the estimated kuna GDP for 2004), while the same indicator for end-2003 amounted to 74.8%. An increase of 3 percentage points in the first ten months of 2004 points to a significant slow-down in growth of the Republic of Croatia’s external borrowing, relative to the indicator for the same period of the previous year, when a 9.3 percentage point growth was recorded (from 61.4% at end-2002 to 70.6% at end-October 2003).

As regards outstanding external debt at end-2003, Croatia, together with Poland, can be classified as highly indebted country in relation to the selected transition countries. The share of total external debt in goods exports is particularly high in Croatia, amounting to almost 350%, while it stands around 120% on average in other selected countries. If external debt is related to exports of goods and services, Croatia is in a more favourable position due to large income earned from services rendered in tourism, but its indebtedness is still larger than in other transition countries.

Since the CNB international reserves and banks' foreign assets can easily be used for resolving international liquidity problems, external debt may also be viewed through the concept of net external debt, representing a total external debt reduced by the two above stated categories. Net external debt of the Republic of Croatia, defined in this manner, stood at USD 12.4bn at end-October 2004, which is an increase of USD 2.8bn or 29.3% compared to the end of 2003. The relative indicators of net external debt, derived from the debt equivalent in the national currency, reached, at end-October, 35.4% of the estimated GDP for 2004, or 67.4% of the estimated exports of goods and services for 2004.

The net debt indicators put Croatia in a somewhat more favourable position relative to the selected transition countries. The share of Croatia's net external debt in GDP amounted to 30.5% of GDP at end-2003, and only Hungary's share was larger (44.7%), while the share of net external debt of Croatia in exports of goods and services reached 58.9%. Higher (less favourable) share of net debt in exports of goods and services was recorded at end-2003 in Poland (75.9%) and Hungary (72.2%), whereas it amounted to 52.5% in Romania.

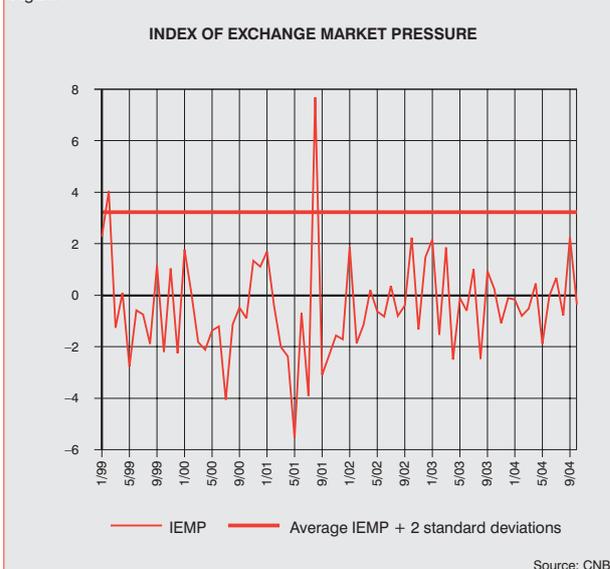
Since the Government of the Republic of Croatia has announced that until end-2004 budget deficit will be financed, to the greatest extent, from the domestic sources of financing and since banks' external borrowing has somewhat slowed down as a result of the introduction of marginal reserve requirement, external debt movements until end-2004 are likely to be determined, in their largest part, by borrowing of other domestic sectors.

International Liquidity

In July and August, the index of exchange market pressure (IEMP)¹⁵ moved in the opposite directions, but within the narrow band around the average. In July, a mild depreciation of the kuna exchange rate against the euro (0.55% at the monthly level, taking into account the period-end exchange rates) was recorded, as well as a fall in gross international reserves expressed in the euro (0.37%), while August saw a mild exchange rate appreciation (0.2%) and reserve growth (1.82%). In September, the kuna depreciated against the euro by 2.11%, which is a record low monthly depreciation of the kuna against the euro since October 2002. Such movements of the kuna against the euro result from, among other things, a decreased demand for kuna due to the end of the peak tourist season and a foreign currency auction where the CNB purchased from banks a total of EUR 25m. Since in the last month of the quarter, the CNB international reserves were also reduced by 0.5%, the index of exchange market pressure increased in September.

The exchange rate stabilisation which followed in October 2004 (0.76% appreciation of the kuna against the euro

Figure 85



was recorded) and a slight fall in reserves (-1.23%) resulted in bringing the index back to its normal values, within plus/minus one standard deviation around the average.

Government Finance

Budget Highlights for the First Nine Months of 2004

Total expenditures of the consolidated central government, broadened to include CH, CR, DAB and CPF operations, exceeded total revenues by HRK 9.6bn in the first nine months of 2004. Although continuing the upward trend from the previous two quarters into the third quarter, revenues were lower than planned in that period. Expenditures also grew further in the third quarter, but at a slower pace than in the second quarter. Both revenues and expenditures of the consolidated central government were lower than planned.

In late October, the Croatian Parliament adopted the government budget for 2005, central government funds and government agencies' financial plans for 2005, as well as projections for 2006–2007. Consolidated central government revenues are planned to exceed HRK 93.5bn and expenditures to reach nearly HRK 99.6bn. Local and regional self-government units were to pass their budgets for 2005 during December. The consolidated general government deficit is planned at 3.7% of the expected nominal GDP for 2005.

Budget Revenues

Consolidated general government revenues totalled HRK 66.3bn in the first nine months of 2004.¹⁶ As it was the case in previous periods, the following comments relate to consolidated central government revenues, which comprise CH,

¹⁵ The index of exchange market pressure is calculated as a weighted average of the appreciation rate of the kuna exchange rate against the euro and a growth rate of gross international reserves, using standard deviations as weights. The IEMP above the critical level, which equals the average value increased by two standard deviations, indicates potential difficulties in international payments.

¹⁶ This figure was calculated based on the revenue outturn data reported in the GFS 2001 format and it is comparable to total revenues and grants (without capital revenues) presented in the GFS 1986 format.

CR, DAB and CPF revenues, that being the highest level for which comparable quarterly data presented by economic classification are available. This excludes the revenues of local and regional self-government units, accounting for about 10% of total general government revenues, as they are not listed by economic classification.

Consolidated central government revenues totalled HRK 59.7bn in the first nine months of 2004, rising at an annual rate of 6.35%.¹⁶ This was mostly due to revenues which grew at an accelerated rate of 6.8% for the year in the third quarter, compared with 5.7% and 6.5% in the first and second quarter respectively. Such quarterly growth dynamics is very different from the one recorded in 2003, when growth was twice higher in the first quarter (11.5%) and twice lower in the second (2.4%), due to a shortfall in non-tax revenues.

The above outturn arose mainly from tax revenues, which were up 6.0% for the year in the first nine months of 2004. However, as this is a nominal figure, it is still insufficient to indicate real revenue growth in relation to the same period last year and this year's expected nominal GDP growth. The said increase was mostly due to the growth in the two main budget revenues, coming from social security contributions and VAT. Collected as planned, social security contributions rose by 8.5% in the first nine months of 2004. This rise, resulting from the wage bill increase, was to the most part due to nominal wage growth and only to some extent to the rise in the number of insured persons. VAT revenues, however, were lower than expected. With a rate of growth of almost 7%, VAT revenues came to HRK 21.7bn in the first nine months of 2004, accounting for 71% of the annual amount planned, which was a shortfall of about 5% (HRK 1.1bn), assuming a constant monthly revenue rate. This VAT revenue outturn is not fully in line with tourism and trade indicators and can be attributed to VAT exemptions generously granted to the tourism sector and tax collection difficulties.

Excise revenues were up by a total of 3.5% in the first nine months. Apart from excises levied on coffee and luxury goods, whose share in total tax revenues is considerably smaller, car excises increased at the highest rate of 8.8%, partly due to the administrative rise in excises implemented under the amendments to the Excise Tax Act on Cars, Motorbikes, Boats and Airplanes. Excises on tobacco products were also raised in July. Accounting for almost one quarter of the total, revenues from this source increased by 1.2% in the first nine months of 2004. Revenues from excises on refined petroleum products, whose share is the largest, only slightly exceeded those in the same period in 2003. Although road transport arrivals were the main cause for a strong 7.7% increase in tourist arrivals during the tourist season, revenues generated by excises on refined petroleum products actually declined in June, July and September 2004, increasing annually only during August. Revenues from excises on refined petroleum products also mainly held steady in the tourist season 2003, but an important difference was that oil prices were higher in 2004.

Among tax revenues, real property tax revenues, coming from real property transaction tax, rose at the highest rate of 24.6%. Profit tax revenues were only a fraction higher in the first nine months of 2004 than in the same period in 2003.

Revenues from customs duties declined by 9.1% because of foreign trade liberalisation, while income tax revenues fell by 3.1% due to income tax related changes, the considerable rise in tax exemptions and a time gap between the start of the tax refund process in 2004 and 2003. As it began much earlier in 2004 than in 2003, with almost 90% of all income tax returns for 2003 processed by early September, its earlier completion is likely to have a positive impact on fourth quarter data.

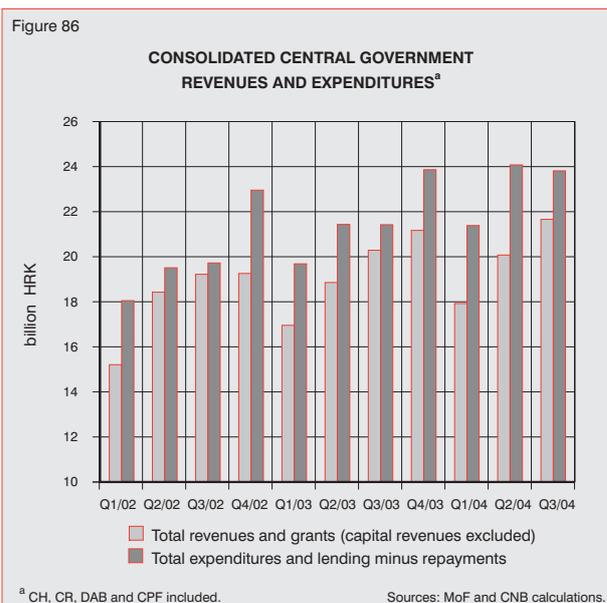
Budget Expenditures, Budget Balance and Deficit Financing

Consolidated general government expenditures totalled HRK 75.9bn from January to September 2004. Of this amount, HRK 69.3bn were consolidated central government expenditures, up 10.7% from the same period in 2003.¹⁷

Broken down by quarters, expenditure growth was 12.3%, 10.9% and 9% for the year in the second, third and first quarter respectively. The same growth dynamics was observed in 2003, but with lower growth rates. This outturn cannot be analysed in more depth because expenditure data by economic classification are reported only in the GFS 2001 format and are incomparable with the available data on the previous periods.

According to MoF data (GFS 2001), total consolidated central government expenditures were below plan in the first nine months of 2004. This is due to a slight decline in the expenditures on other purchases of goods and services, in the expenditures on subsidies and grants and in other expenditures. Expenditures on social benefits and employee compensation were realised as planned.

The consolidated central government deficit stood at HRK 9.6bn in the first nine months of 2004 (without capital revenues), rising by HRK 3.1bn (48%) from the same period last year. This rise should be seen in light of the quarterly deficit dynamics in 2004, which was in contrast with that in



¹⁷ This calculation is based on data on budget revenue outturn and balance without capital revenues – GFS 1986 (Table 20).

Table 20: GFS 1986 Balance Computation (capital revenues excluded), in million HRK

			Jan.–Sep. 2004		Consolidated general government
	Government budget	Extra-budgetary users	Consolidated central government	Units of local and regional self-government	
Revenues ^a	57,572	5,715	62,291	7,687	69,145
Total expenditures and net lending	64,161	8,997	71,896	7,673	78,736
Expense ^a	61,741	3,508	64,252	5,975	69,394
Acquisition of non-financial assets ^a	1,078	5,566	6,644	1,597	8,242
Net acquisition of financial assets – loans ^a	1,012	–97	649	65	714
Acquisition	1,138	81	953	98	1,051
Disposal	126	177	304	33	337
Acquisition of shares and other equity ^a	331	19	350	9	359
Acquisition of other accounts receivable ^a	0	0	0	27	27
GFS 1986 balance (capital revenues excluded)	–6,589	–3,282	–9,605	14	–9,591

^a Note: GFS 2001. Source: MoF.

Table 21: Balance of the Consolidated Central Government by Levels, in million HRK

	2003		2004 ^b		Jan.–Sep. 2004
	Jan.–Sep.	Plan ^a	Jan.–Sep.	Plan ^a	Jan.–Sep. 2003
Government budget	–1,873	738	–6,589	–4,376	
Total revenues and grants	51,763	75,232			
Total revenues and grants (capital revenues excluded)			55,038	78,931	
Total expenditures (lending minus repayments)	53,636	74,494	61,627	83,306	
Extra-budgetary funds	–1,454	–2,793	160.8	....
State agencies	–2,272	–3,288	–3,176	....
CH	–2,448	–3,599			
CR	–135	–145			
DAB	267	360			
CPF	44	97			
Consolidated central government balance	–5,599	–5,343			
Consolidated central government balance (capital revenues excluded)	–5,867	–8,997	–9,605	....	64%
As % of GDP			–4.6		
Note: Consolidated general government balance (capital revenues excluded), as % of GDP				–4.5	

^a Revised plan. ^b Revenues and expenditures were reduced by social security contributions in order to be comparable with the data for previous periods. Sources: MoF and CNB calculations.

2003, mostly on account of capital expenditures. Specifically, most of the planned capital expenditures were realised during the first three quarters of 2004, while only over a half of the total amount planned for the year was spent in the same period in 2003.

The consolidated central government deficit, with repayments, was almost completely financed by borrowing from both domestic and foreign sources, through securities and MoF T-bills issues (the latter valued at slightly above HRK 1.5bn), as well as through loans, with most foreign loans taken out by the CH. EUR 1.05bn worth of bonds in kuna equivalent was issued in the domestic market (a EUR 400m issue in July and a EUR 650m issue in three tranches) and a bond worth EUR 500m in the foreign market in 2004.

A small portion of the deficit was financed by privatization receipts, as the sale of shares generated HRK 265m in receipts in the first nine months, close to a fifth of the annual amount planned.

Government Debt

As shown by CNB data, the general government debt, with the CBRD debt, rose further in the third quarter from the previous two quarters of 2004, advancing to HRK 96.7bn and accounting for 47% of the expected nominal GDP for 2004. Continually decreasing over the first three quarters, issued government guarantees amounted to HRK 13.6bn at end-September. With the potential debt based on issued government guarantees added to the general government debt, the total figure reaches HRK 110.3bn or about

53.3% of the expected nominal GDP for 2004.

In the first nine months of 2004, the general government debt, with the CBRD debt, increased by HRK 12.0bn, up HRK 4.2bn, or 54%, from the increase in the same period last year. Borrowing in the domestic financial market accounted for more than HRK 6.5bn of the increase and the remaining HRK 5.5bn (30%) went to foreign borrowing. This debt increase structure differed considerably from that in 2003, when foreign borrowing predominated in the same period, reflecting the government's intention to rely more on domestic financing sources.

With the HRK 42m decline in the CBRD domestic debt, the said HRK 6.5bn increase in the domestic debt was wholly attributable to general government borrowing, most of which was effected by the Republic of Croatia (HRK 8.5bn), mainly through bonds and T-bills and to some extent through bank loans. The domestic debt of central government funds decreased by HRK 2.5bn in the same period, while that of the local government increased by HRK 0.5bn. The increase was accounted for by bank loans (HRK 346m) and to a large extent by borrowing in the capital market, through municipal bond issues (HRK 202m). Specifically, City of Koprivnica and City of Zadar bonds were listed on the ZSE Official Market in June and September 2004 respectively.

The government external debt, including the CBRD debt, was up by a total of HRK 5.5bn in the first nine months of 2004. This increase comprised HRK 1.4bn borrowed by the CBRD and HRK 4.1bn borrowed by the general government. Of the latter amount, HRK 3.0bn was accounted for by central government funds and the remaining amount by

the Republic of Croatia.

According to CNB data, issued government guarantees totalled HRK 13.6bn, HRK 1.4bn (9.5%) less than at the end of the previous year. Of this amount, HRK 0.9bn was accounted for by the decrease in domestic guarantees and the remaining HRK 0.5bn by the decrease in foreign guarantees.

Central Government Domestic Debt

According to CNB data, the central government domestic debt stood at HRK 38.0bn at end-September, growing by HRK 6.0bn (about 18%) compared with end-2003. With the domestic debt of central government funds declining by more than HRK 2.5bn in the first nine months of 2004, the said increase was fully due to the increase in the Republic of Croatia debt, largely effected by borrowing through bond issues, and to some extent through T-bills issues and bank loans.

July saw the issue of a three-year bond, worth EUR 400m in kuna equivalent, which was partly used for the repayment of CIHI bonds falling due (EUR 222m), and September saw the issue of the third tranche of a government bond worth EUR 300m, with a ten-year maturity. This one, and the January and February issues, completed an integral issue worth EUR 650m in kuna equivalent. The funds collected by the third tranche were used for the repayment of the government bond worth EUR 200m, issued in 2000 and maturing in late September, and for the repayment of CIHI loans (HRK 410m), while the remaining HRK 230m was transferred to the CR. Bond issues accounted for HRK 5.0bn of the total domestic debt increase in the first nine months of 2004, while T-bills purchases and borrowing through bank loans accounted for a smaller share of HRK 1.5bn and HRK

2.03bn respectively. The increase in the Republic of Croatia debt based on borrowing through bank loans was almost entirely realised in the third quarter, in the amount of more than HRK 2bn.

Broken down by quarters, borrowing through bond issues was the dominant way of increasing central government debt in the first and third quarters of 2004, with an increase in the debt based on bank loans in the third quarter, while the debt portion based on issued MoF T-bills reduced. By contrast, the debt increase in the second quarter was wholly accounted for by substantial purchases of MoF T-bills.

Central Government External Debt

According to CNB data, the central government external debt amounted to HRK 56.9bn at end-September 2004, a rise of HRK 5.6bn (about 10.8%), from end-2003. The borrowing of central government funds made up the largest share of the increase (HRK 4.5bn) and the borrowing of the Republic of Croatia accounted for the remaining part (HRK 1.1bn). This is due the EUR 500m government bond issue, which was the main cause of the external debt increase in the second quarter. The external debt of the Republic of Croatia reduced in the first and third quarters, due to the principal repayment to the London Club and DEM 300m worth of euromark bonds, issued in 1997, which matured in July.

The increase in the debt of central government funds in the first nine months of 2004 resulted from the CBRD borrowing (HRK 1.4bn) and the borrowing of government agencies (HRK 3.0bn). The CBRD issued bonds worth EUR 300m on the Luxemburg Stock Exchange, while government agencies borrowed by means of long-term loans, mainly taken out by the CH.

Table 22: Domestic Debt of Central Government, end of period, in million HRK

	Stock				Change	
	Dec. 2001	Dec. 2002 ^a	Dec. 2003 ^b	Nov. 2004	Jan.–Nov. 2003	Jan.–Nov. 2004
1. Domestic debt of central government	24,907	28,747	32,053	38,031	3,440	5,978
1.1. Domestic debt of the Republic of Croatia	21,468	20,998	25,676	34,229	3,373	8,553
Treasury bills	4,892	5,633	6,548	8,067	13	1,519
Money market instruments	7	0	0	–	0	–
Bonds	15,416	13,566	14,937	19,937	1,444	5,000
Credits from banks	1,152	1,799	4,190	6,225	1,916	2,034
1.2. Domestic debt of central government funds	3,439	7,749	6,377	3,802	67	–2,575
Money market instruments	–	–	–	0		
Bonds	1,636	4,108	3,418	1,698	71	–1,720
Credits from banks	1,803	3,641	2,959	2,104	–4	–855
Note: Issued guarantees	6,026	7,528	6,895	5,992	–993	–904

^a In December 2002, the debt of the CR, CH and DAB has been reclassified from the sub-sector the Republic of Croatia to the sub-sector central government funds. ^b Revised data. Source: CNB Bulletin, Table I3.

Table 23: External Debt of Central Government, end of period, in million HRK

	Stock				Change	
	Dec. 2001	Dec. 2002 ^a	Dec. 2003 ^b	Sep. 2004.	Jan.–Sep. 2003	Jan.–Sep. 2004
1. External debt of central government	42,413	45,058	51,421	56,993	4,670	5,571
1.1. External debt of the Republic of Croatia	39,657	38,649	42,222	43,336	3,619	1,114
Bonds	30,029	30,115	33,548	34,629	3,941	1,081
Credits	9,628	8,534	8,674	8,707	–323	33
1.2. External debt of central government funds	2,757	6,409	9,200	13,657	1,051	4,458
Bonds	697	1,019	1,000	3,019	–7	2,019
Credits	2,060	5,390	8,199	10,638	1,058	2,439
Note: Issued guarantees	8,549	7,980	8,310	7,763	154	–541

^a In December 2002, the debt of the CR, CH and DAB has been reclassified from the sub-sector the Republic of Croatia to the sub-sector central government funds. ^b Revised data. Source: CNB Bulletin, Table I3.

Box 5: Pre-Accession Economic Programme

As part of the Pre-Accession Fiscal Surveillance Procedure, the Pre-Accession Economic Programme (PEP) aims at preparing candidate countries for their future participation in the multilateral surveillance and coordination of economic policies, one of the essential functions of the EMU. Strategically important for candidate countries, this document sets the economic policy for the pre-accession period and specifies structural reforms required for a successful accession into the EU and EMU. The PEP, therefore, has a twofold aim. Firstly, to define medium-term economic policy goals, including fiscal policy goals and structural reforms necessitated by the EU accession process, related to privatisation, market competition policy, energy supply, transport and communications, agricultural policy, the social security system, the health system, the judiciary system, the education and science systems, etc. Secondly, its aim is to develop institutional capacity for reform implementation through an improved cooperation and coordination between ministries, government agencies and monetary authorities. The PEP thus serves as an exercise in candidate countries' participation in the EU member states' economic policy coordination mechanism.

In the period from 2001 to their EU accession in May 2004, ten candidate countries were required to annually compile and submit the PEP to the European Commission (EC). As the Republic of Croatia was granted an official candidate status in June 2004, the same obligation was undertaken by the Croatian Government. The PEP was adopted at its session held on 30 November 2004, as the first economic document enabling the EC to assess reform implementation in Croatia. The PEP is also in agreement with the Government's fiscal projection, the stand-by arrangement with the IMF and the documents prepared under the World Bank PAL programme. In four sections, the Croatian PEP devotes most of its content to structural reforms. The first section briefly describes recent macroeconomic developments, the second deals with the macroeconomic assumptions underlying the programme, while the third section covers public finances and defines fiscal policy goals and priorities for the period until 2007. The largest, fourth section, elaborates on the required medium-term structural reforms, dealing with a wide range of areas: the entrepreneurship sector and the corresponding privatisation issues; market competition policy and public service regulation; the financial sector; labour and the labour market with the pension and social security system reform; the public administration reform; the agricultural sector, the health system reform; the judiciary system reform; waste and environment management, etc. This section briefly describes the conditions in each of these areas and the measures aimed at spurring economic growth and preparing Croatia for EU membership.

The PEP defines the following as Croatia's medium-term economic policy goals: maintaining macroeconomic stability, restraining public and external debt growth, fiscal consolidation and unemployment reduction.

With the realisation of these goals enabling further economic growth, macroeconomic projections indicate a slight increase in GDP growth rates in the period between 2005 and 2007, after the economic slowdown in 2004. This is based on an expected economic recovery in the EU, Croatia's major trading partner, in 2005, and a slight acceleration of GDP growth towards the end of the projection horizon. The average GDP growth rate is projected to stand at 4.3% in the period from 2004 to 2007, reaching its peak of 4.6% in 2007.

Foreign trade is projected to continue to grow, involving a further rise in goods and services exports on the one hand, but also a somewhat slower rise in goods imports compared with 2003 and 2004 on the other. As a result, the foreign trade deficit is expected to narrow, as well as the balance of payments current account deficit, which is to be almost completely financed by the FDI. After reaching its high of about 81% of GDP in 2004, the external debt will first stagnate and then decline slightly until 2007.

Monetary and exchange rate policy goals will remain the same, ensuring the likelihood of a stable kuna/euro nominal exchange rate and, with low growth rates of prices in the region, sustained low inflation. In addition, interest rates are expected to converge and decrease in the medium term, spurring consumption and private investment growth that is, in turn, supposed to partly offset the slowdown in public investment. Real wages should grow at lower rates than the economy, which is to be achieved by continued wage restraint policy in the public sector. Given a continued increase in employment and other household income (due to pension adjustment), the average personal consumption growth is expected to be in line with GDP growth.

The fiscal policy projection is undeniably the most important part of the PEP, as it focuses on stabilising the external debt to GDP ratio and accelerating economic development by maintaining macroeconomic stability based on fiscal adjustment. Fiscal policy will be the main instrument for meeting the Maastricht criteria. The public debt to GDP ratio is to be kept below 60% in the forthcoming three-year period and the consolidated general government deficit reduced below 3% of GDP, the maximum level allowed by the Maastricht criteria, in 2007. Even more importantly, it should be sustained in the medium term. Amounting to a high 6.3% of GDP in 2003 (on a modified accrual basis, which disables direct comparison), the budget deficit is targeted to amount to 4.5% of GDP in 2004

Table 24: Macroeconomic Indicators for the 2002–2007 Period

	2002	2003	2004p	2005p	2006p	2007p
GDP real growth, %	5.2	4.3	3.9	4.4	4.5	4.6
Inflation average, %	1.7	1.8	2.2	2.5	2.3	2.2
Retail trade, %	5.5	5.8	4.6	7.9	6.5	4.0
Industrial production, %	5.5	4.2	3.8	4.1	3.7	4.0
ILO unemployment rate	14.4	14.7	14.9	14.2	13.3	12.1
Current account, % of GDP	-8.4	-7.2	-5.6	-5.1	-4.4	-3.8
HRK/EUR exchange rate, average	7.4	7.6	7.5	7.5	7.5	7.5
General government budget, % of GDP	-5.0	-6.3	-4.5	-3.7	-3.2	-2.9
Public debt, % of GDP	50.4	51.6	52.8	52.3	51.0	51.0

Projections (p): MoF. Sources: CBS, CAB and MoF.

and continue the downward trend over the following three years. The realisation of the mentioned goals is defined by the Fiscal Policy Principles, adopted by the Croatian Government in July 2004, and incorporated into the PEP.

The Fiscal Policy Principles stress the importance of alleviating the fiscal burden to improve the competitiveness of the domestic economy. This, and the budget deficit reduction, necessitates a stronger adjustment on the expenditure side of the budget. For this purpose, the government plans to reduce the share of its expenditures in GDP from 53% in 2003 to below 50% in 2007. Also planned is to introduce and implement budgetary limits and reduce administrative and regulatory barriers to business operations by establishing a fiscally acceptable public administration. One of the medium term fiscal policy priorities is to improve budget management transparency and quality by channelling all budgetary operations through the Government Treasury system. Furthermore, there are plans to

decrease government intervention in the enterprise sector by cutting subsidies from 3.4% of GDP in 2004 to 2.2% of GDP in 2007. The PEP also aims at establishing a more efficient public administration, improving the allocation of budgetary funds, reforming the tax system to strengthen production, achieving fiscal decentralisation and decreasing arrears in the public enterprise sector.

All these goals and projections, as defined in the PEP, cover a wide range of structural reforms and economic policy measures to be implemented by the Republic of Croatia in the three-year period, from 2005 to 2007. The fact that the major part of the programme relates to fiscal adjustment and reforms in the sectors falling within the competence of Government ministries, makes the PEP a comprehensive and ambitious document on the economic policy to be implemented by the Croatian Government and other government institutions in order to prepare Croatia for a successful accession into the EU.

Statistical Survey

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 High-

ways, the State Agency for Deposit Insurance and Bank Rehabilitation and the sub-sector central government funds included the Croatian Institute for Health Insurance, the Croatian Pension Insurance Institute, the Croatian Employment Service, the Croatian Privatisation Fund, the Croatian Waters and the Croatian Bank for Reconstruction and Development.

Since January 2004, the Croatian Roads, the Croatian Highways, and the State Agency for Deposit Insurance and Bank Rehabilitation have been reclassified, from the sub-sector the Republic of Croatia to the sub-sector central government funds.

Other domestic sectors include local government authorities, public and other enterprises and households, including craftsmen and non-profit institutions providing services to households. The sub-sector other enterprises also comprises banks undergoing bankruptcy proceedings. In some tables other domestic sectors are divided into the following sub-sectors: local government (which comprises units of local and regional self-government), public and other enterprises, and households (including craftsmen and non-profit institutions).

Foreign sector includes foreign legal and natural persons.

All data on claims and liabilities refer to balances at the end of the reporting period. Foreign exchange items are reported in their kuna equivalent at the CNB's midpoint exchange rate at the end of the reporting period.

Table A1: Monetary and Credit Aggregates

End of period, million kuna and %

Year	Month	Reserve money	Money M1	Money M1a	Broadest money M4	Net domestic assets	Domestic credit	Monthly rates of growth					
								Reserve money	Money M1	Money M1a	Broadest money M4	Net domestic assets	Domestic credit
1994	December	4,714.2	6,642.6	6,996.7	17,679.9	16,540.1	27,661.5	11.73	2.20	3.83	2.26	11.84	3.45
1995	December	6,744.1	8,234.9	8,503.2	24,623.0	21,576.3	32,819.5	2.97	0.89	1.54	3.41	1.00	1.88
1996	December	8,770.4	11,368.9	11,494.9	36,701.1	24,960.4	33,831.2	11.35	7.83	7.67	4.88	-5.41	-11.61
1997	December	10,346.1	13,731.4	13,848.8	50,742.0	33,829.0	48,863.4	7.86	3.93	3.85	2.16	4.98	4.96
1998	December	9,954.2	13,531.4	13,615.2	57,340.3	44,626.8	59,792.0	7.24	6.92	6.59	2.51	3.73	0.25
1999	December ^a	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	September	27,289.1	32,589.4	33,247.6	126,910.9	92,696.3	107,180.1	5.55	-4.27	-3.87	-0.05	0.27	0.39
	October	27,037.8	32,805.7	33,482.9	127,072.4	93,345.6	108,516.8	-0.92	0.66	0.71	0.13	0.70	1.25
	November	28,086.2	33,295.3	33,974.1	128,718.4	93,221.1	110,934.7	3.88	1.49	1.47	1.30	-0.13	2.23
	December	30,586.2	33,888.7	34,630.9	128,893.1	96,121.7	111,661.4	8.90	1.78	1.93	0.14	3.11	0.66
2004	January	29,439.9	32,323.1	32,853.4	128,917.7	98,213.8	113,102.5	-3.75	-4.62	-5.13	0.02	2.18	1.29
	February	29,482.8	31,283.9	31,827.9	127,876.5	97,913.3	113,516.7	0.15	-3.21	-3.12	-0.81	-0.31	0.37
	March	30,076.1	31,622.9	32,187.8	125,766.6	98,115.4	113,282.0	2.01	1.08	1.13	-1.65	0.21	-0.21
	April	30,895.7	32,890.5	33,537.9	127,867.8	97,727.3	115,926.7	2.73	4.01	4.19	1.67	-0.40	2.33
	May	31,175.6	33,193.9	33,931.5	127,461.4	98,300.7	115,314.9	0.91	0.92	1.17	-0.32	0.59	-0.53
	June	31,157.1	34,265.4	34,846.7	129,559.4	99,728.3	116,769.2	-0.06	3.23	2.70	1.65	1.45	1.26
	July	31,652.1	34,621.5	35,204.2	133,013.2	101,861.7	117,874.0	1.59	1.04	1.03	2.67	2.14	0.95
	August	32,327.9	35,024.3	35,818.7	136,825.8	101,771.0	118,889.6	2.14	1.16	1.75	2.87	-0.09	0.86
	September	32,851.8	34,492.3	35,234.5	138,742.8	103,362.9	120,614.7	1.62	-1.52	-1.63	1.40	1.56	1.45
	October	32,654.4	33,852.4	34,478.5	138,356.9	104,170.9	121,318.6	-0.60	-1.86	-2.15	-0.28	0.78	0.58

^a 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

	2000	2001	2002	2003	2004					
	Dec.	Dec. ^a	Dec.	Dec.	Mar.	Jun.	Jul.	Aug.	Sep.	Oct.
ASSETS										
1. Foreign assets (net)	29,017.2	48,661.3	32,817.4	32,771.4	27,651.2	29,831.1	31,151.5	35,054.8	35,379.9	34,186.1
2. Domestic credit	72,051.4	87,637.6	112,518.9	126,371.6	128,272.1	130,542.8	132,431.7	133,118.7	135,342.1	135,998.1
2.1. Claims on central government and funds (net)	11,167.6	12,673.1	15,055.2	14,710.1	14,990.1	13,773.6	14,557.7	14,229.0	14,727.5	14,679.5
2.2. Claims on other domestic sectors	60,653.4	74,513.0	96,329.0	110,467.8	112,030.0	115,525.3	116,625.0	117,696.7	119,340.0	120,005.1
2.3. Claims on other banking institutions	68.7	170.2	219.5	431.8	600.0	517.0	485.1	445.9	530.6	515.4
2.4. Claims on non-banking financial institutions	161.7	281.4	915.3	761.8	651.9	727.0	763.9	747.0	744.0	798.1
Total (1+2)	101,068.7	136,298.9	145,336.3	159,143.0	155,923.3	160,373.9	163,583.2	168,173.5	170,722.0	170,184.2
LIABILITIES										
1. Money	18,030.3	23,703.5	30,869.8	33,888.7	31,622.9	34,265.4	34,621.5	35,024.3	34,492.3	33,852.4
2. Savings and time deposits	7,651.1	10,213.1	13,001.1	18,370.7	19,678.0	20,857.0	22,064.4	22,680.7	23,116.4	23,681.1
3. Foreign currency deposits	46,901.6	71,836.9	72,054.6	76,035.3	74,070.1	74,056.7	75,849.5	78,423.0	80,453.6	80,043.8
4. Bonds and money market instruments	478.2	317.8	216.3	598.4	395.6	380.4	477.9	697.9	680.5	779.7
5. Restricted and blocked deposits	2,864.5	1,926.2	1,729.5	1,721.6	2,049.3	2,295.0	2,177.4	2,161.9	2,177.6	2,055.5
o/w: Households' blocked f/c deposits	1,695.1	770.2	319.3	167.8	110.7	101.8	48.0	46.9	47.2	46.3
6. Other items (net)	25,143.1	28,301.4	27,465.1	28,528.2	28,107.4	28,519.5	28,392.6	29,185.7	29,801.7	29,771.8
Total (1+2+3+4+5+6)	101,068.7	136,298.9	145,336.3	159,143.0	155,923.3	160,373.9	163,583.2	168,173.5	170,722.0	170,184.2

^a The first revaluation of securities with the effect of HRK 165.5m was conducted within the CNB's international reserves as at 31 December 2001. Accrued interest on deposits, with the effect of HRK 63.8m, was included in the international reserves as at 31 December 2001 as well. The CNB's foreign liabilities increased by HRK 6.4m on the basis of accrued interest, while liabilities on the basis of required foreign exchange reserves increased by HRK 8.6m.

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
1994	December	50	13	21	6	6	2	2	33	22	9	2
1995	December	53	15	20	7	7	2	2	21	7	13	1
1996	December	57	10	26	6	9	4	2	22	10	11	1
1997	December	60	4	28	9	8	9	2	33	12	18	3
1998	December	60	3	26	8	11	10	2	33	4	25	4
1999	December	53	4	23	7	7	10	2	30	5	21	4
2000	December	45	3	15	9	6	10	2	29	5	19	5
2001	December	44	3	13	7	7	10	4	21	4	12	5
2002	December	46	4	13	7	9	8	5	10	3	5	2
2003	September	43	3	14	7	6	7	6	9	5	2	2
	October	43	3	13	8	6	7	6	9	5	2	2
	November	43	3	13	8	6	7	6	8	4	2	2
	December	42	2	13	8	5	8	6	7	3	2	2
2004	January	41	2	12	9	6	6	6	7	3	3	1
	February	41	2	12	9	6	6	6	7	3	3	1
	March	41	2	12	9	6	6	6	6	3	3	–
	April	41	2	12	9	5	7	6	6	3	3	–
	May	41	2	12	9	5	7	6	6	3	3	–
	June	41	2	12	9	5	7	6	6	3	3	–
	July	40	2	11	10	5	6	6	6	3	3	–
	August	40	2	11	10	5	6	6	6	3	3	–
	September	40	2	12	9	5	6	6	6	3	3	–
	October	40	2	12	9	5	6	6	6	3	3	–

Table B2: Number of Reporting Banks and Savings Banks and their Classification by Total Assets

The table shows the total number of banks and savings banks during the transition period which report monthly to the CNB. Their operations are shown in the Banks' Accounts. Monetary statistics includes reporting institutions under liquidation as well as those whose operating licences have been revoked, but which have not initiated liquidation proceedings.

Special reporting requirements applied to savings banks until June 1995. Savings banks were not legally obliged to report on their operations, so that data up to June 1995 relate only to those savings banks that reported voluntarily to the CNB. From July 1995 on, the data cover all registered savings banks. Savings banks that were granted a bank operating license are required to adjust their operations to the provisions of the Banking Act by 31 December 2006.

The table also shows the classification of reporting banks and savings banks according to their total assets.

Table C1: Monetary Authorities Accounts

End of period, million kuna

	2000	2001	2002	2003	2004					
	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Jul.	Aug.	Sep.	Oct.
ASSETS										
1. Foreign assets	28,747.4	39,308.9	42,058.8	50,118.6	45,692.9	47,063.6	47,150.8	47,914.7	48,697.4	47,733.4
1.1. Gold	–	–	–	–	–	–	–	–	–	–
1.2. Holdings of SDRs	1,204.2	905.8	17.4	5.0	5.0	7.2	9.0	5.1	5.1	6.8
1.3. Reserve position in the IMF	1.8	1.8	1.6	1.5	1.5	1.5	1.5	1.5	1.5	1.4
1.4. Currency and demand deposits with foreign banks	7.4	6.1	6.4	5.8	5.5	5.5	5.9	5.5	5.7	5.8
1.5. Time deposits with foreign banks	20,986.9	25,565.9	28,183.2	25,580.7	20,160.2	20,334.7	19,790.8	21,168.8	21,365.4	23,595.4
1.6. Securities in f/c	6,545.7	12,829.3	13,850.0	24,525.5	25,520.6	26,714.8	27,343.5	26,733.7	27,319.6	24,124.0
1.7. Non-convertible foreign exchange	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Claims on central government and funds	0.0	–	0.5	1.4	1.9	3.0	3.5	0.6	1.0	1.6
2.1. Claims in kuna	0.0	–	0.5	1.4	1.9	3.0	3.5	0.6	1.0	1.6
2.2. Claims in f/c	–	–	–	–	–	–	–	–	–	–
3. Claims on other domestic sectors	289.5	229.2	110.6	93.6	89.9	85.8	85.4	85.2	85.1	84.5
4. Claims on banks	329.9	18.5	17.9	972.0	23.8	15.1	121.7	296.7	14.6	14.4
4.1. Credits to banks	313.6	–	–	954.4	–	–	107.5	282.6	–	–
Lombard credits	–	–	–	954.4	–	–	107.5	282.6	–	–
Short-term liquidity credits	–	–	–	–	–	–	–	–	–	–
Other credits	14.0	–	–	–	–	–	–	–	–	–
CNB bills under repurchase agreement	299.6	–	–	–	–	–	–	–	–	–
4.2. CNB deposits with banks	15.2	16.6	17.6	14.5	14.1	14.1	14.2	14.2	14.6	14.4
4.3. Overdue claims	1.1	1.9	0.3	3.1	9.7	1.1	0.0	0.0	–	–
5. Claims on other banking institutions	–	–	–	–	–	–	–	–	–	–
Total (1+2+3+4+5)	29,366.8	39,556.6	42,187.7	51,185.6	45,808.5	47,167.5	47,361.4	48,297.2	48,798.1	47,833.9
LIABILITIES										
1. Reserve money	11,717.3	17,803.2	23,027.9	30,586.2	30,076.1	31,157.1	31,652.1	32,327.9	32,851.8	32,654.4
1.1. Currency outside banks	6,636.7	8,507.4	9,680.9	10,573.1	10,039.6	10,977.3	11,842.5	11,384.8	10,947.0	10,915.4
1.2. Banks' cash in vaults	532.3	538.8	1,214.8	1,683.2	1,399.1	1,726.0	1,772.5	1,921.6	1,769.4	1,660.1
1.3. Banks' deposits	4,540.7	8,741.5	12,109.4	18,329.3	18,613.5	18,447.2	18,024.2	19,015.2	20,124.1	20,050.3
Settlement accounts	459.5	2,450.1	3,923.4	5,616.0	4,827.7	4,289.0	3,768.0	4,662.5	5,354.6	4,903.9
Statutory reserves	4,081.2	6,291.4	8,186.0	12,603.9	13,699.9	14,158.2	14,256.2	14,352.7	14,769.5	15,146.5
CNB bills on obligatory basis	–	–	–	109.4	85.9	–	–	–	–	–
1.4. Deposits of other banking institutions	7.5	15.5	19.1	–	–	–	–	–	–	–
1.5. Deposits of other domestic sectors ^b	0.0	0.1	3.5	0.6	23.9	6.6	12.9	6.2	11.3	28.6
2. Restricted and blocked deposits	5,805.5	6,030.5	7,091.2	6,699.2	9,993.7	10,528.2	10,692.6	10,879.6	10,811.2	10,305.0
2.1. Statutory reserve in f/c	5,490.5	5,705.1	7,042.3	6,686.6	9,981.2	10,517.6	10,679.6	10,866.6	10,797.8	10,291.9
2.2. Restricted deposits	315.0	325.4	49.0	12.6	12.6	10.6	13.0	13.0	13.4	13.1
2.3. Escrow deposits	–	–	–	–	–	–	–	–	–	–
3. Foreign liabilities	1,630.8	1,597.5	195.7	2,798.0	965.4	17.7	17.9	17.8	17.8	14.4
3.1. Use of IMF credit	1,290.3	1,025.5	2.8	0.0	–	–	–	–	–	–
3.2. Liabilities to international organisations	9.5	12.2	12.6	19.6	16.7	17.7	17.9	17.8	17.8	14.4
3.3. Liabilities to foreign banks ^a	331.0	559.8	180.2	2,778.5	948.7	–	–	–	–	–
4. Central government and funds' deposits	1,157.4	1,752.1	768.1	1,551.1	889.6	1,781.6	981.6	1,027.3	439.4	668.8
4.1. Demand deposits	1,008.5	1,752.1	608.3	600.2	883.7	994.2	981.5	1,027.2	439.2	668.6
Central government demand deposits	980.8	1,564.8	569.5	548.5	701.1	979.5	970.8	922.8	341.7	570.1
Central government funds' demand deposits	27.7	187.3	38.7	51.7	182.6	14.7	10.7	104.4	97.5	98.5
4.2. Central government f/c deposits	–	–	–	950.9	5.9	787.4	0.1	0.1	0.1	0.1
4.3. CNB bills	148.8	–	159.9	–	–	–	–	–	–	–
5. CNB bills	4,207.3	6,372.3	6,212.4	4,920.2	–	–	–	–	–	–
5.1. CNB bills in kuna	2,394.6	3,458.9	4,986.2	–	–	–	–	–	–	–
5.2. CNB bills in f/c	1,812.7	2,913.4	1,226.3	4,920.2	–	–	–	–	–	–
6. Capital accounts	5,216.6	6,425.2	5,353.5	5,039.0	4,297.3	4,109.4	4,447.1	4,475.2	5,103.1	4,617.6
7. Other items (net)	–368.1	–424.2	–461.1	–408.1	–413.6	–426.5	–429.8	–430.7	–425.2	–426.4
Total (1+2+3+4+5+6+7)	29,366.8	39,556.6	42,187.7	51,185.6	45,808.5	47,167.5	47,361.4	48,297.2	48,798.1	47,833.9

^a From October 2001 to May 2003. Liabilities to foreign banks include also liabilities based on CNB bills subscribed by non-residents.

^b In December 2002, CDA accounts with the CNB for the gross and net settlement of purchased securities have been reclassified from the sector central government to the sector other financial organisations.

Table C1: Monetary Authorities Accounts

The table reports data on claims and liabilities by monetary authorities. In September 1999, the data were revised, with savings banks being transferred for the sub-sector other banking institutions to the sub-sector banks. The whole data series has been revised accordingly.

Foreign assets include the following forms of foreign currency and kuna claims on foreign legal and natural persons: monetary gold, holdings of special drawing rights, foreign cash in vault, reserve position in the International Monetary Fund, current account balances with foreign banks, time deposits with foreign banks and accrued interest, foreign currency security investments and other claims.

Claims on central government and funds are loans and overdue claims on the budget of the Republic of Croatia. Claims in kuna were short-term loans granted for the purpose of overcoming timing differences between incoming revenues and execution of budgetary expenditures, long-term loans granted by special decrees by the government of the Republic of Croatia, and overdue claims on the budgetary central government based on the liabilities to the IMF and foreign banks. Item Claims in foreign currency was a counter-entry to the liability to the IMF based on the succession of membership in that institution. In accordance with the new Croatian National Bank Act that entered into force in April 2001, the Croatian National Bank may not extend credit to the Republic of Croatia.

Claims on other domestic sectors are loans and overdue claims on other domestic sectors, including banks in bankruptcy proceedings.

Claims on banks are credits to banks, deposits by the CNB with banks and overdue claims on banks. Credits to banks are split according to the type of financial instruments. Item Lombard credits comprises credits to banks for regular maintaining of the day-to-day liquidity, which were replaced by lombard credits in December 1994. Short-term liquidity credits, which have been granted since the beginning of 1999, also serve to bridge liquidity problems. Other credits include intervention credits, special credits for bridging liquidity problems granted in the past (initial credits, prerehabilitation credits) and due but unpaid credits. Overdue claims on banks comprise settlement account overdrafts (until mid-1994) and banks' failure to correctly and promptly allocate and maintain statutory reserve requirements.

Since May 1999, Claims on other domestic sectors include overdue claims on banks against which bankruptcy proceedings have been initiated. Due to the reclassification of savings banks from the

sub-sector other banking institutions to the sub-sector banks, data for Claims on banks and Claims on other banking institutions have been revised.

Reserve money consists of currency outside banks, cash in banks' vaults, banks' deposits with the CNB, other banking institutions' deposits and other domestic sectors' deposits with the CNB. Banks' deposits are: settlement account balances, statutory reserves deposited on a special account with the CNB as well as CNB bills on an obligatory basis. Deposits by other banking institutions included, until September 2003, settlement account balances of housing savings banks. Deposits by other domestic sectors are other domestic sectors' giro account balances which, on the basis of legal acts are deposited with the Croatian National Bank.

Restricted and blocked deposits include required foreign exchange reserves and accrued interest, restricted deposits and blocked foreign exchange deposits. Banks 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, kuna funds set aside in the period between May 1999 and April 2002 and deposits of banks against which bankruptcy proceedings have been initiated. Blocked foreign exchange deposits are funds that were set aside in special accounts at the Croatian National Bank for repaying unpaid amounts due to foreign creditors.

Foreign liabilities include use of IMF credits, liabilities to international financial institutions and foreign banks and accrued interest.

Central government and funds deposits are demand deposits and foreign currency deposits of the Republic of Croatia and central government funds with the CNB, and CNB bills purchased by central government institutions.

CNB bills are kuna and f/c CNB bills on a voluntary basis, excluding CNB bills voluntarily purchased by central government institutions.

Capital accounts include reserves, provisions and the income and cost accounts.

Other items (net) are unclassified liabilities decreased by unclassified assets of the Monetary Authorities Accounts.

Due to the reclassification of savings banks from the sub-sector other banking institutions to the sub-sector banks, data for Currency outside banks, Banks' cash in vaults, Banks' deposits and Deposits of other banking institutions were revised.

Table D1: Banks' Accounts

End of period, million kuna

	2000	2001	2002	2003	2004					
	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Jul.	Aug.	Sep.	Oct.
ASSETS										
1. Reserves with the CNB	10,588.9	15,002.7	20,373.5	26,783.7	30,014.3	30,737.4	30,536.5	31,828.1	32,719.8	32,057.1
1.1. In kuna	5,098.4	9,306.2	13,340.0	20,103.4	20,039.6	20,225.7	19,863.6	20,968.4	21,929.8	21,772.6
1.2. In f/c	5,490.5	5,696.5	7,033.5	6,680.2	9,974.6	10,511.7	10,672.9	10,859.7	10,790.0	10,284.5
2. Foreign assets	19,710.4	32,807.6	25,977.8	35,382.9	35,176.0	37,497.5	38,518.4	40,134.7	40,200.1	39,824.2
3. Claims on central government and funds	19,055.5	20,059.9	21,917.7	21,543.6	21,096.4	21,185.0	21,701.1	21,723.1	21,610.8	21,863.3
3.1. Bonds arising from blocked f/c deposits	4,484.4	3,420.1	2,473.5	1,531.9	994.3	987.7	574.4	506.3	517.5	513.7
3.2. Other claims	14,571.0	16,639.7	19,444.3	20,011.7	20,102.1	20,197.2	21,126.7	21,216.8	21,093.3	21,349.6
4. Claims on other domestic sectors	60,363.9	74,283.8	96,218.4	110,374.3	111,940.1	115,439.5	116,539.6	117,611.5	119,254.9	119,920.7
4.1. Claims on local government	1,174.9	1,280.0	1,422.4	1,563.1	1,579.6	1,602.8	1,533.9	1,597.7	1,667.5	1,663.4
4.2. Claims on enterprises	35,890.7	42,882.0	51,723.4	53,809.8	54,823.5	56,083.0	56,189.4	56,668.5	56,310.7	56,377.3
4.3. Claims on households	23,298.3	30,121.9	43,072.6	55,001.4	55,537.0	57,753.6	58,816.3	59,345.4	61,276.7	61,880.0
5. Claims on other banking institutions	68.7	170.2	219.5	431.8	600.0	517.0	485.1	445.9	530.6	515.4
6. Claims on non-banking financial institutions	161.7	281.4	915.3	761.8	651.9	727.0	763.9	747.0	744.0	798.1
Total (1+2+3+4+5+6)	109,949.1	142,605.6	165,622.2	195,278.0	199,478.7	206,103.3	208,544.6	212,490.3	215,060.3	214,978.7
LIABILITIES										
1. Demand deposits	11,386.0	15,180.6	21,166.2	23,315.0	21,559.4	23,281.4	22,766.1	23,633.2	23,533.9	22,908.4
2. Savings and time deposits	7,651.1	10,213.1	13,001.1	18,370.7	19,678.0	20,857.0	22,064.4	22,680.7	23,116.4	23,681.1
3. Foreign currency deposits	46,901.6	71,836.9	72,054.6	76,035.3	74,070.1	74,056.7	75,849.5	78,423.0	80,453.6	80,043.8
4. Bonds and money market instruments	478.2	317.8	216.3	598.4	395.6	380.4	477.9	697.9	680.5	779.7
5. Foreign liabilities	17,809.7	21,857.8	35,023.5	49,932.0	52,252.2	54,712.3	54,499.7	52,976.8	53,499.8	53,357.1
6. Central government and funds' deposits	6,730.5	5,634.7	6,094.9	5,283.3	5,218.6	5,632.8	6,165.4	6,467.3	6,445.0	6,516.6
7. Credit from central bank	328.8	16.6	17.6	968.9	14.1	14.1	121.7	296.7	14.6	14.4
8. Restricted and blocked deposits	2,549.6	1,600.8	1,680.5	1,709.0	2,036.8	2,284.4	2,164.4	2,148.9	2,164.2	2,042.4
o/w: Households' blocked f/c deposits	1,695.1	770.2	319.3	167.8	110.7	101.8	48.0	46.9	47.2	46.3
9. Capital accounts	24,953.1	25,455.1	26,323.2	27,389.5	27,492.9	27,252.0	27,219.8	27,564.7	28,016.9	28,282.4
10. Other items (net)	-8,839.4	-9,507.8	-9,955.6	-8,324.2	-3,238.9	-2,367.7	-2,784.4	-2,398.8	-2,864.6	-2,647.2
Total (1+2+3+4+5+6+7+8+9+10)	109,949.1	142,605.6	165,622.2	195,278.0	199,478.7	206,103.3	208,544.6	212,490.3	215,060.3	214,978.7

Table D1: Banks' Accounts

Banks' Accounts include data on banks' claims and liabilities. Banks' mutual claims and liabilities are consolidated. In September 1999, the data was revised to include savings banks. The whole data series was revised accordingly.

Required reserves held at the central bank include kuna and foreign exchange reserves. Kuna reserves include vault cash and kuna funds held in accounts at the central bank. Foreign exchange reserves include foreign exchange held in accounts at the central bank.

Foreign assets are the following forms of kuna and foreign currency claims on foreign legal and natural persons: foreign cash in vaults, deposits with foreign banks (including loro letters of credit and other collateral), securities, loans, and equities.

Claims on central government and funds are the following forms of claims in kuna and foreign currency: securities and loans. Bonds issued in accordance with the Act on Converting Households' Foreign Exchange Deposits into the Public Debt of the Republic of Croatia are shown separately. Other claims also included, until July 2000, bonds issued in accordance with the Act on the Issue of Bonds for the Restructuring of the Economy of the Republic of Croatia. These bonds have been replaced, pursuant to a Decree of the Government of the Republic of Croatia on the Issuing of Replacement Bonds for the Restructuring of the Economy, issued in April 2000, by kuna

bonds on which interest is paid.

Claims on other domestic sectors include the following claims in kuna and foreign currency: money market instruments, bonds, loans (including acceptances), and equities.

The same forms of kuna and foreign currency claims are included in claims on other banking institutions and non-banking financial institutions, with one difference: Claims on other banking institutions also include deposits with those institutions.

Items Demand deposits, Savings and time deposits, Foreign currency deposits as well as Bonds and money market instruments comprise banks' liabilities to other domestic sectors, other banking institutions and non-banking financial institutions.

Demand deposits include giro and current accounts balances and banks' obligations arising from kuna payment instruments issued, minus currency in the payment system, i.e. checks in banks' vaults and checks in collection.

Savings and time deposits are kuna sight deposits as well as kuna time and notice deposits.

Foreign currency deposits are foreign currency sight deposits as well as foreign currency time and notice deposits.

Bonds and money market instruments are banks' liabilities for securities issued (net) and loans obtained. Issued subordinated and hybrid instruments, purchased by foreign investors, are excluded from this item.

Foreign liabilities comprise the following forms of kuna and foreign currency liabilities to foreign legal and natural persons: giro and current accounts, savings deposits (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 do-

mestic sectors, other banking institutions, non-banking financial institutions, central government and funds as well as foreign legal and natural persons; and households' blocked foreign currency deposits, regulated by the Act on Converting Households' Foreign Exchange Deposits into the Public Debt of the Republic of Croatia.

Capital accounts are share capital, profit or loss for the previous and current year, retained earnings (loss), legal reserves, reserves provided for by the articles of association and other capital reserves, hedging reserves, unrealised gains (losses) from financial assets classified as available-for-sale assets, value adjustments and specific reserves for unidentified losses.

Other items (net) are unclassified liabilities decreased by unclassified assets, including the fair value of derivative financial instruments.

Table D2: Banks' Foreign Assets

End of period, million kuna

	2000	2001	2002	2003	2004					
	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Jul.	Aug.	Sep.	Oct.
1. Foreign assets in f/c	19,619.2	32,763.6	25,924.4	35,261.9	35,000.4	37,284.8	38,303.5	39,985.4	40,028.7	39,687.9
1.1. Claims on foreign banks	19,154.9	31,660.3	21,333.5	31,877.6	29,255.0	30,911.3	32,225.2	33,984.8	33,858.4	33,412.6
Foreign currencies	1,002.8	7,324.7	1,019.8	1,268.6	832.2	1,291.9	1,581.8	1,382.7	1,092.5	1,062.4
Demand deposits	995.0	1,231.9	757.7	1,057.0	813.1	968.4	879.4	799.6	1,441.9	785.4
Time and notice deposits	16,286.7	21,765.2	17,569.8	27,969.4	25,742.3	26,257.3	27,418.2	29,241.8	28,697.2	28,913.0
Securities	454.9	1,008.5	1,690.2	1,364.2	1,658.7	2,185.9	2,144.8	2,361.3	2,424.1	2,451.9
Loans and advances	370.9	290.3	278.7	203.1	195.1	194.1	193.2	191.6	194.6	192.0
Shares and participations	44.6	39.7	17.2	15.4	13.7	13.6	7.8	7.8	7.9	7.9
1.2. Claims on foreign non-banks	464.3	1,103.3	4,590.8	3,384.4	5,745.4	6,373.5	6,078.4	6,000.6	6,170.4	6,275.2
Claims on foreign governments	137.8	596.2	3,855.5	2,905.0	5,237.3	5,888.8	5,662.7	5,600.6	5,688.0	5,777.8
Claims on other non-residents	322.4	505.5	733.7	478.9	507.7	484.4	415.3	399.7	482.0	497.1
Securities	–	72.1	191.3	32.1	109.7	151.6	75.2	75.0	76.5	75.8
Loans and advances	322.4	433.4	542.4	446.8	398.0	332.9	340.0	324.6	405.5	421.3
Shares and participations	4.1	1.6	1.6	0.4	0.4	0.4	0.4	0.4	0.4	0.4
2. Foreign assets in kuna	91.2	44.1	53.4	120.9	175.6	212.7	214.8	149.3	171.4	136.3
2.1. Claims on foreign banks	66.1	29.2	19.6	99.1	154.7	201.7	203.7	138.3	160.2	125.4
2.2. Claims on foreign non-banks	25.1	14.8	33.8	21.9	20.9	11.0	11.1	11.0	11.1	10.9
o/w: Loans and advances	23.3	13.9	33.0	21.0	20.1	10.2	10.3	10.2	10.3	10.1
Total (1+2)	19,710.4	32,807.6	25,977.8	35,382.9	35,176.0	37,497.5	38,518.4	40,134.7	40,200.1	39,824.2

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

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

	2000	2001	2002	2003	2004					
	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Jul.	Aug.	Sep.	Oct.
1. Bonds (c'part to blocked f/c savings deposits)	4,484.4	3,420.1	2,473.5	1,531.9	994.3	987.7	574.4	506.3	517.5	513.7
2. Other claims	14,571.0	16,639.7	19,444.3	20,011.7	20,102.1	20,197.2	21,126.7	21,216.8	21,093.3	21,349.6
2.1. In kuna	12,887.7	14,358.6	15,970.9	16,475.2	16,301.1	16,645.3	16,709.5	16,823.4	16,134.8	16,520.5
2.1.1. Claims on central government	11,288.4	12,810.0	13,969.9	14,500.7	12,396.5	13,357.3	14,471.4	14,568.1	14,502.9	14,657.4
Securities	10,063.5	11,983.1	11,515.6	10,238.1	9,594.9	9,885.3	10,560.3	10,191.5	10,751.8	10,689.6
Loans and advances	1,224.9	826.9	2,454.3	4,262.6	2,801.6	3,472.0	3,911.1	4,376.5	3,751.0	3,967.8
2.1.2. Claims on central government funds	1,599.4	1,548.5	2,001.0	1,974.5	3,904.6	3,288.0	2,238.2	2,255.3	1,631.9	1,863.1
Securities	627.3	560.1	560.7	723.6	1,325.2	1,283.4	636.5	625.3	621.0	625.1
Loans and advances	972.1	988.4	1,440.3	1,250.9	2,579.4	2,004.6	1,601.7	1,630.0	1,010.9	1,238.0
2.2. In f/c	1,683.3	2,281.2	3,473.3	3,536.4	3,801.1	3,551.9	4,417.1	4,393.4	4,958.5	4,829.1
2.2.1. Claims on central government	1,492.7	1,390.9	2,359.1	3,196.9	2,554.5	2,140.0	3,199.3	3,210.8	3,746.8	3,634.7
Securities	869.2	1,065.5	1,733.4	1,805.4	1,403.8	1,396.2	1,205.9	1,231.0	1,274.0	1,196.7
Loans and advances	623.5	325.5	625.7	1,391.5	1,150.7	743.8	1,993.4	1,979.7	2,472.8	2,437.9
2.2.2. Claims on central government funds	190.6	890.3	1,114.2	339.5	1,246.5	1,411.9	1,217.8	1,182.6	1,211.7	1,194.5
Securities	35.0	75.4	195.0	96.4	190.1	180.5	170.8	137.5	118.8	130.8
Loans and advances	155.5	814.8	919.2	243.1	1,056.5	1,231.4	1,047.0	1,045.0	1,092.8	1,063.7
Total (1+2)	19,055.5	20,059.9	21,917.7	21,543.6	21,096.4	21,185.0	21,701.1	21,723.1	21,610.8	21,863.3

Table D3: Banks' Claims on the Central Government and Funds

The table shows banks' kuna and foreign currency claims on the central government and funds.

Bonds arising from blocked foreign currency savings deposits are issued in accordance with the Act on Converting Households' Foreign Exchange Deposits into the Public Debt of the Republic of Croatia.

Big bonds are those issued in accordance with the Act on the Issue of Bonds for the Restructuring of the Economy of the Republic of Croatia.

Other claims are all other banks' kuna and foreign currency claims on the central government and funds: securities, loans and equities. The item Securities also comprised, until July 2000, bonds issued in accordance with the Act on the Issue of Bonds for the Restructuring of the Economy of the Republic of Croatia. These bonds have been replaced, pursuant to a Decree of the Government of the Republic of Croatia on the Issuing of Replacement Bonds for the Restructuring of the Economy, issued in April 2000, by kuna bonds on which interest is paid.

Table D4: Banks' Claims on Other Domestic Sectors

End of period, million kuna

	2000	2001	2002	2003	2004					
	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Jul.	Aug.	Sep.	Oct.
1. Claims in kuna	53,739.5	66,626.8	85,418.7	100,365.0	101,139.2	104,687.6	105,767.8	106,620.9	108,139.7	108,977.8
1.1. Money market instruments	231.9	544.7	1,394.7	1,314.1	1,778.5	2,605.7	2,657.6	2,356.9	2,165.3	2,296.5
1.2. Bonds	1.0	7.7	72.4	56.2	193.7	560.0	612.4	580.3	573.8	553.2
1.3. Loans and advances	49,566.8	62,180.6	80,887.6	96,081.7	96,475.3	98,743.7	100,161.4	101,364.0	103,067.8	104,072.2
1.4. Shares and participations	3,939.8	3,893.8	3,064.0	2,912.9	2,691.7	2,778.2	2,336.3	2,319.7	2,332.8	2,056.0
2. Claims in f/c	6,624.3	7,657.0	10,799.8	10,009.3	10,800.9	10,751.9	10,771.8	10,990.7	11,115.2	10,942.8
2.1. Securities	112.4	126.6	243.2	130.6	231.5	262.2	286.6	268.7	297.3	293.1
2.2. Loans and advances	6,512.0	7,530.5	10,556.6	9,878.7	10,569.4	10,489.7	10,485.2	10,722.0	10,817.9	10,649.7
Total (1+2)	60,363.9	74,283.8	96,218.4	110,374.3	111,940.1	115,439.5	116,539.6	117,611.5	119,254.9	119,920.7

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

	2000	2001	2002	2003	2004					
	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Jul.	Aug.	Sep.	Oct.
LOANS IN KUNA										
1. Loans to central government and funds	2,196.9	1,815.4	3,894.6	5,513.5	5,381.0	5,476.6	5,512.8	6,006.6	4,762.0	5,205.8
1.1. Loans to central government	1,224.9	826.9	2,454.3	4,262.6	2,801.6	3,472.0	3,911.1	4,376.5	3,751.0	3,967.8
1.2. Loans to central government funds	972.1	988.4	1,440.3	1,250.9	2,579.4	2,004.6	1,601.7	1,630.0	1,010.9	1,238.0
2. Loans to local government	996.8	1,069.1	1,202.9	1,485.1	1,522.2	1,541.5	1,481.3	1,526.0	1,566.1	1,569.9
3. Loans to enterprises	25,328.0	31,049.4	36,708.1	39,777.4	39,587.1	39,682.9	40,060.4	40,687.4	40,472.2	40,866.5
4. Loans to households	23,242.1	30,062.1	42,976.6	54,819.3	55,366.0	57,519.2	58,619.7	59,150.6	61,029.5	61,635.7
o/w: Housing loans	8,257.8	9,450.0	12,363.4	16,896.2	17,575.9	18,425.7	18,912.2	19,167.3	19,909.1	20,126.6
5. Loans to other banking institutions	33.5	34.7	17.6	82.3	126.0	55.2	52.6	54.1	53.8	84.1
6. Loans to non-banking financial institutions	105.5	240.9	521.3	427.9	379.5	464.2	600.7	475.7	392.7	537.2
A. Total (1+2+3+4+5+6)	51,902.8	64,271.6	85,321.1	102,105.4	102,361.8	104,739.7	106,327.5	107,900.4	108,276.3	109,899.2
LOANS IN F/C										
1. Loans to central government and funds	779.1	1,140.3	1,544.9	1,634.7	2,207.2	1,975.2	3,040.4	3,024.8	3,565.7	3,501.6
1.1. Loans to central government	623.5	325.5	625.7	1,391.5	1,150.7	743.8	1,993.4	1,979.7	2,472.8	2,437.9
1.2. Loans to central government funds	155.5	814.8	919.2	243.1	1,056.5	1,231.4	1,047.0	1,045.0	1,092.8	1,063.7
2. Loans to local government	171.6	179.1	152.3	47.1	38.2	38.0	30.8	30.7	31.4	31.1
3. Loans to enterprises	6,284.0	7,291.7	10,308.3	9,649.4	10,360.2	10,217.2	10,257.9	10,496.5	10,539.3	10,374.3
4. Loans to households	56.3	59.7	96.0	182.1	171.0	234.4	196.6	194.8	247.2	244.3
5. Loans to other banking institutions	–	–	1.2	174.3	77.7	52.7	29.8	–	56.9	19.4
6. Loans to non-banking financial institutions	–	–	28.3	58.8	250.8	215.8	116.1	223.4	301.0	211.7
B. Total (1+2+3+4+5+6)	7,291.0	8,670.7	12,131.0	11,746.4	13,105.1	12,733.3	13,671.6	13,970.1	14,741.4	14,382.4
TOTAL (A+B)	59,193.9	72,942.3	97,452.1	113,851.8	115,466.9	117,473.0	119,999.1	121,870.5	123,017.7	124,281.6

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

	2000	2001	2002	2003	2004					
	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Jul.	Aug.	Sep.	Oct.
1. Local government	573.6	907.0	1,910.4	2,006.2	2,169.9	2,230.1	2,092.8	2,134.7	2,234.0	2,286.0
2. Enterprises	7,087.1	8,981.6	12,344.5	12,872.9	11,063.5	12,039.3	11,672.0	12,292.7	12,223.9	11,649.8
3. Households	3,499.7	4,872.0	6,307.4	7,873.1	7,799.0	8,243.7	8,485.4	8,546.1	8,435.7	8,374.4
4. Other banking institutions	11.6	17.0	42.1	98.9	101.4	86.2	97.4	177.7	107.5	125.0
5. Non-banking financial institutions	221.7	407.1	568.1	468.1	428.9	686.4	421.1	484.8	535.4	475.4
6. Less: Checks of other banks and checks in collection	-7.6	-4.2	-6.4	-4.2	-3.2	-4.2	-2.7	-2.8	-2.6	-2.3
Total (1+2+3+4+5+6)	11,386.0	15,180.6	21,166.2	23,315.0	21,559.4	23,281.4	22,766.1	23,633.2	23,533.9	22,908.4

Table D6: Demand Deposits with Banks

The table shows demand deposits with banks, classified by domestic institutional sectors.

Demand deposits are the sum of other domestic sectors', other

banking institutions' and non-banking financial institutions' giro and current accounts balances, minus currency in the payment system (i.e. amount of checks in banks' vaults and checks in collection). Banks' obligations arising from kuna payment instruments issued are included in the household sector.

Table D7: Time and Savings Deposits with Banks

End of period, million kuna

	2000	2001	2002	2003	2004					
	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Jul.	Aug.	Sep.	Oct.
1. Savings deposits	1,676.1	2,006.8	2,236.2	2,527.9	2,228.8	2,207.7	2,146.7	2,175.1	2,174.3	2,137.5
1.1. Local government	137.6	118.3	14.8	14.4	9.0	4.9	6.4	4.6	6.9	7.2
1.2. Enterprises	142.4	88.0	213.3	190.5	31.2	22.6	43.2	57.5	68.8	63.0
1.3. Households	1,348.3	1,712.2	1,996.3	2,288.8	2,188.6	2,176.3	2,097.1	2,113.1	2,093.5	2,067.3
1.4. Other banking institutions	0.6	20.8	0.0	–	–	–	–	–	–	–
1.5. Non-banking financial institutions	47.2	67.5	11.8	34.2	0.0	3.8	0.0	0.0	5.0	0.0
2. Time and notice deposits	5,975.0	8,206.3	10,764.9	15,842.9	17,449.3	18,649.3	19,917.7	20,505.6	20,942.1	21,543.6
2.1. Local government	230.7	340.7	482.8	551.6	674.4	713.3	753.0	815.7	860.7	892.8
2.2. Enterprises	2,871.4	3,618.3	4,633.6	7,165.3	7,670.7	8,594.7	9,682.5	9,969.0	10,072.6	10,320.9
2.3. Households	1,789.8	2,554.1	3,793.8	6,194.5	7,039.9	7,411.9	7,629.6	7,798.8	8,151.4	8,386.6
2.4. Other banking institutions	20.8	24.7	58.4	129.3	352.0	270.6	241.2	220.0	102.6	275.0
2.5. Non-banking financial institutions	1,062.2	1,668.5	1,796.3	1,802.2	1,712.2	1,658.7	1,611.5	1,702.1	1,754.8	1,668.2
Total (1+2)	7,651.1	10,213.1	13,001.1	18,370.7	19,678.0	20,857.0	22,064.4	22,680.7	23,116.4	23,681.1

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

	2000	2001	2002	2003	2004					
	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Jul.	Aug.	Sep.	Oct.
1. Savings deposits	14,566.3	23,748.8	21,074.4	21,547.0	20,922.2	21,223.3	21,704.3	23,016.8	23,079.7	22,435.0
1.1. Local government	16.8	13.2	12.2	14.7	13.8	16.2	15.7	15.7	17.4	15.2
1.2. Enterprises	2,408.0	2,884.2	3,346.7	3,620.2	3,776.7	4,091.7	3,937.9	4,799.3	4,733.9	4,369.0
1.3. Households	12,041.5	20,688.3	17,537.3	17,690.2	16,941.5	16,839.5	17,487.0	17,941.1	18,161.4	17,855.9
1.4. Other banking institutions	10.3	23.9	34.7	9.0	18.9	5.3	27.6	12.8	24.8	15.5
1.5. Non-banking financial institutions	89.8	139.2	143.5	212.9	171.3	270.6	236.2	247.8	142.2	179.4
2. Time deposits	32,335.3	48,088.1	50,980.3	54,488.4	53,147.9	52,833.3	54,145.1	55,406.2	57,373.9	57,608.7
2.1. Local government	8.2	1.7	9.5	3.8	0.3	0.3	0.3	1.0	1.1	1.1
2.2. Enterprises	2,753.1	4,619.1	6,009.6	7,154.0	6,832.5	6,260.6	6,567.9	7,046.8	7,566.0	7,852.9
2.3. Households	29,097.2	42,705.4	44,159.2	46,805.1	45,898.2	46,231.0	47,086.3	47,786.8	49,292.9	49,136.3
2.4. Other banking institutions	4.2	11.5	41.5	21.7	61.6	2.2	59.7	72.7	42.4	85.4
2.5. Non-banking financial institutions	472.7	750.3	760.5	503.7	355.2	339.2	431.0	498.8	471.5	533.0
Total (1+2)	46,901.6	71,836.9	72,054.6	76,035.3	74,070.1	74,056.7	75,849.5	78,423.0	80,453.6	80,043.8

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

	2000	2001	2002	2003	2004					
	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Jul.	Aug.	Sep.	Oct.
1. Money market instruments (net)	–	–	5.1	–	–	–	–	–	–	–
2. Bonds (net)	353.5	104.4	92.8	151.9	139.5	144.8	159.6	159.1	160.0	157.2
3. Other domestic borrowing	124.7	213.4	118.4	446.5	256.1	235.6	318.2	538.8	520.6	622.5
3.1. Local government	–	–	–	0.9	2.1	1.2	–	2.1	–	–
3.2. Enterprises	15.2	158.1	46.3	92.7	40.2	40.4	40.2	40.5	40.1	41.1
3.3. Other banking institutions	1.3	4.6	10.0	222.1	62.3	52.0	212.4	419.1	369.1	466.6
3.4. Non-banking financial institutions	108.2	50.7	62.0	130.9	151.6	142.0	65.6	77.1	111.4	114.8
Total (1+2+3)	478.2	317.8	216.3	598.4	395.6	380.4	477.9	697.9	680.5	779.7

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

	2000	2001	2002	2003	2004					
	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Jul.	Aug.	Sep.	Oct.
1. Foreign liabilities in f/c	17,669.8	21,692.7	34,198.5	44,574.3	45,518.5	48,582.5	48,183.8	47,270.9	47,463.8	47,345.7
1.1. Liabilities to foreign banks	11,957.6	16,407.4	28,662.3	38,623.1	39,910.9	43,289.6	42,740.0	41,837.9	41,892.8	41,831.1
Demand deposits	176.3	147.1	130.9	266.6	97.9	145.7	141.8	110.0	98.3	126.0
Time and notice deposits	345.9	1,208.3	9,002.9	14,875.4	14,089.5	14,543.0	13,944.1	13,606.6	11,255.1	11,384.7
Loans and advances	11,435.4	15,052.1	19,528.5	23,481.2	25,723.6	28,600.9	25,380.2	24,839.6	27,192.0	26,986.9
o/w: Subordinated and hybrid instruments	194.2	2,558.3	2,801.4	2,949.2	2,819.5	2,809.7	2,747.2	2,741.7	2,648.1	2,520.9
Bonds	–	–	–	–	–	–	3,273.9	3,281.8	3,347.4	3,333.4
1.2. Liabilities to foreign non-banks	5,712.2	5,285.2	5,536.2	5,951.2	5,607.5	5,292.9	5,443.8	5,433.0	5,571.1	5,514.6
Savings and time deposits	2,868.1	3,777.8	4,160.2	4,753.2	4,926.2	4,612.2	4,792.7	4,784.5	4,948.8	4,899.8
Sight deposits	745.5	873.7	875.6	898.6	1,021.4	989.7	1,076.2	1,021.8	1,052.5	1,044.5
Time and notice deposits	2,122.6	2,904.1	3,284.6	3,854.6	3,904.8	3,622.5	3,716.5	3,762.8	3,896.3	3,855.2
Loans and advances	2,844.1	1,507.4	1,376.0	1,198.0	681.3	680.7	651.1	648.4	622.3	614.8
o/w: Subordinated and hybrid instruments	66.0	39.3	39.7	39.1	70.7	70.5	70.8	70.7	72.2	71.6
2. Foreign liabilities in kuna	140.0	165.1	825.0	5,357.7	6,733.7	6,129.7	6,315.9	5,705.9	6,035.9	6,011.4
2.1. Liabilities to foreign banks	37.0	46.9	690.9	5,087.8	6,393.8	5,723.6	5,870.9	5,237.9	5,557.2	5,528.1
Demand deposits	14.4	38.2	53.6	86.4	103.5	189.4	157.8	112.9	170.6	217.9
Time and notice deposits	22.0	4.2	635.8	2,664.1	3,290.3	2,526.2	2,686.7	2,126.5	2,324.7	2,271.7
Loans and advances	0.7	4.5	1.5	2,337.3	3,000.0	3,008.0	3,026.4	2,998.5	3,061.8	3,038.5
2.2. Liabilities to foreign non-banks	103.0	118.2	134.1	269.9	339.9	406.1	445.0	468.0	478.8	483.3
Demand deposits	50.8	60.1	56.2	76.8	94.6	90.4	94.9	104.3	89.6	93.4
Time and notice deposits	52.2	58.1	77.9	191.4	237.6	303.0	337.3	354.7	380.1	382.1
Loans and advances	–	–	–	1.7	7.7	12.7	12.8	9.0	9.1	7.8
o/w: Subordinated and hybrid instruments	....	....	....	1.7	7.7	12.7	12.8	9.0	9.1	7.8
Total (1+2)	17,809.7	21,857.8	35,023.5	49,932.0	52,252.2	54,712.3	54,499.7	52,976.8	53,499.8	53,357.1

Table D10: Banks' Foreign Liabilities

The table shows banks' total foreign currency and kuna liabilities to foreign legal and natural persons, with the exception of restricted kuna and foreign currency deposits by foreign legal and natural persons.

Banks' foreign liabilities comprise foreign currency liabilities and

foreign kuna liabilities.

Within foreign kuna and foreign currency liabilities, liabilities to foreign banks are reported separately from liabilities to foreign non-banks (total and by financial instruments). Loans and advances also include issued subordinated and hybrid instruments purchased by foreign investors.

Table D11: Central Government and Funds' Deposits with Banks

End of period, million kuna

	2000	2001	2002	2003	2004					
	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Jul.	Aug.	Sep.	Oct.
1. In kuna	3,073.3	3,335.1	4,036.8	4,104.4	4,088.5	4,407.4	4,792.8	4,978.0	5,306.6	5,310.7
1.1. Central government deposits	430.0	295.9	634.3	506.4	440.5	417.1	433.6	526.9	530.6	547.1
Demand deposits	116.7	33.9	476.4	448.0	395.8	371.2	388.9	482.6	486.7	504.3
Savings deposits	26.1	41.6	3.3	3.0	–	5.6	4.6	4.8	4.9	4.1
Time and notice deposits	259.5	217.6	153.6	54.2	43.6	39.2	39.1	38.5	37.9	37.6
Loans and advances	27.7	2.8	1.1	1.1	1.0	1.0	1.0	1.0	1.1	1.1
1.2. Central government funds' deposits	2,643.3	3,039.2	3,402.5	3,598.0	3,648.0	3,990.3	4,359.2	4,451.1	4,776.1	4,763.7
Demand deposits	116.9	214.6	553.2	294.8	192.9	216.7	206.7	318.1	266.8	150.4
Savings deposits	15.2	10.8	0.0	0.3	5.9	2.4	2.4	2.5	4.1	10.1
Time and notice deposits	32.6	195.2	144.3	156.2	155.6	232.5	312.9	304.3	357.7	438.1
Loans and advances	2,478.6	2,618.6	2,705.0	3,146.7	3,293.5	3,538.7	3,837.1	3,826.2	4,147.4	4,165.0
2. In f/c	3,657.1	2,299.6	2,058.1	1,178.9	1,130.1	1,225.4	1,372.6	1,489.2	1,138.4	1,205.9
2.1. Central government deposits	3,622.6	2,275.0	1,938.9	1,158.2	1,064.6	1,065.3	976.3	1,115.5	980.5	936.9
Savings deposits	1,256.1	329.8	263.0	198.5	222.9	209.1	217.0	357.6	223.3	208.7
Time and notice deposits	27.0	55.8	293.1	–	–	14.5	15.3	15.3	15.9	15.7
Refinanced loans and advances	2,339.4	1,889.5	1,382.8	959.6	841.7	841.7	744.0	742.6	741.3	712.5
2.2. Central government funds' deposits	34.6	24.5	119.2	20.8	65.5	160.1	396.3	373.7	157.9	269.0
Savings deposits	25.0	22.9	114.1	20.8	58.4	50.0	187.5	269.5	115.8	182.3
Time and notice deposits	9.5	1.6	5.0	–	7.1	110.2	208.9	104.3	42.1	86.7
Total (1+2)	6,730.5	5,634.7	6,094.9	5,283.3	5,218.6	5,632.8	6,165.4	6,467.3	6,445.0	6,516.6

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

	2000	2001	2002	2003	2004					
	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Jul.	Aug.	Sep.	Oct.
1. Restricted deposits	854.4	830.6	1,361.2	1,541.2	1,926.1	2,182.6	2,116.4	2,102.0	2,117.0	1,996.1
1.1. In kuna	131.6	100.3	789.6	730.1	1,090.3	1,245.7	1,250.0	1,235.2	1,266.8	1,284.5
1.2. In f/c	722.8	730.3	571.6	811.1	835.8	936.9	866.5	866.8	850.2	711.7
2. Blocked f/c deposits of households	1,695.1	770.2	319.3	167.8	110.7	101.8	48.0	46.9	47.2	46.3
Total (1+2)	2,549.6	1,600.8	1,680.5	1,709.0	2,036.8	2,284.4	2,164.4	2,148.9	2,164.2	2,042.4

Table D12: Restricted and Blocked Deposits with Banks

The table shows restricted and blocked deposits by the central government and funds, other domestic sectors, other banking institutions, non-banking financial institutions and foreign legal and natural persons with banks.

Restricted and blocked deposits include two categories of depos-

its: restricted (kuna and foreign currency) deposits and blocked foreign currency deposits.

Blocked foreign currency deposits include households' foreign currency deposits regulated by the Act on Converting Households' Foreign Exchange Deposits into the Public Debt of the Republic of Croatia.

Figure D1

DISTRIBUTION OF BANKS' LOANS BY DOMESTIC INSTITUTIONAL SECTORS

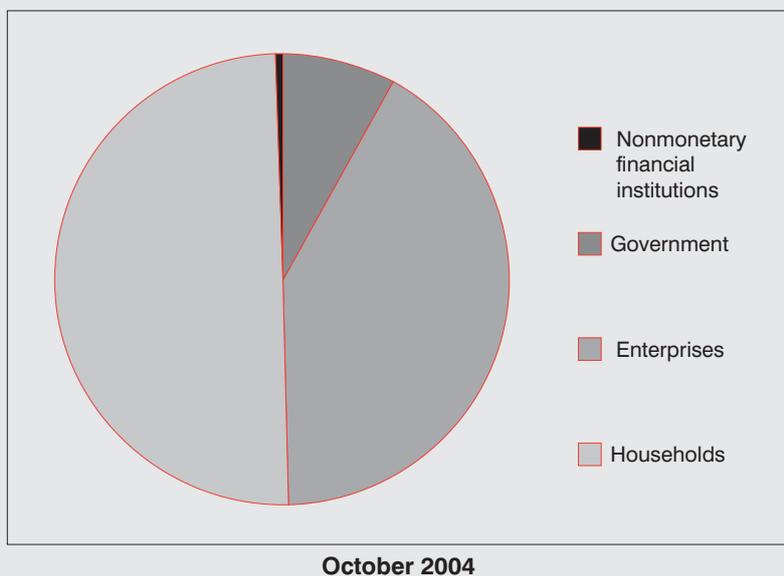
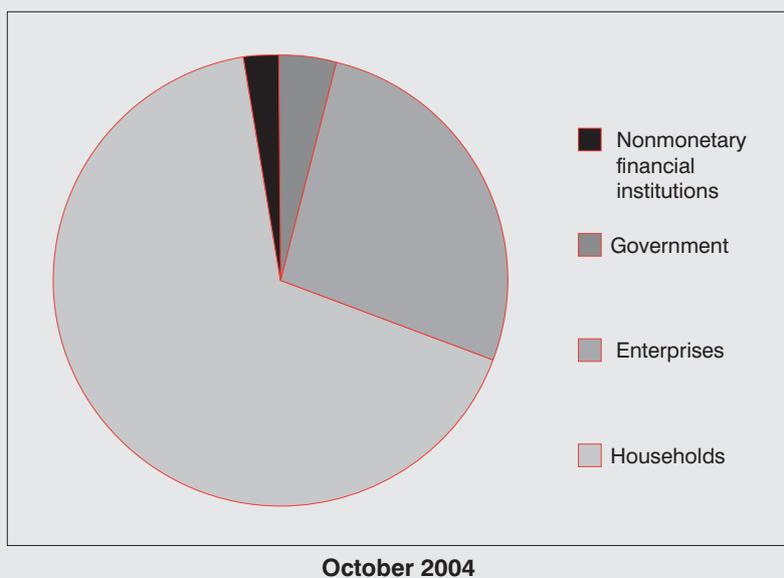


Figure D2

DISTRIBUTION OF BANKS' DEPOSITS BY DOMESTIC INSTITUTIONAL SECTORS



Note:
 Sector "Government" includes the central government and funds and local government and funds.
 Sector "Non-monetary financial institutions" includes other banking institutions and non-banking financial institutions.

Table E1: Housing Savings Banks' Accounts

End of Period, million kuna

	2000	2001	2002	2003	2004					
	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Jul.	Aug.	Sep.	Oct.
ASSETS										
1. Reserves with the CNB	7.6	15.5	19.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Claims on central government and funds	497.6	1,208.8	1,983.9	3,033.5	3,196.9	3,330.1	3,413.4	3,332.1	3,530.4	3,514.6
3. Claims on other domestic sectors	1.1	11.6	93.3	187.9	216.3	271.3	289.2	301.6	322.6	335.0
o/w: Claims on households	0.6	11.6	91.3	187.9	216.3	271.3	289.2	301.6	322.6	335.0
4. Claims on banks	7.6	18.1	37.2	247.2	51.8	37.7	253.9	411.9	373.5	482.0
5. Claims on other banking institutions	–	–	–	–	–	–	–	–	–	–
Total (1+2+3+4+5)	513.8	1,254.0	2,133.6	3,468.6	3,465.0	3,639.2	3,956.6	4,045.7	4,226.6	4,331.6
LIABILITIES										
1. Time deposits	437.8	1,137.5	2,012.9	3,265.2	3,324.0	3,477.7	3,759.6	3,821.6	3,992.9	4,085.1
2. Bonds and money market instruments	10.0	10.0	–	11.1	11.0	11.3	14.9	10.3	10.6	10.5
3. Capital accounts	112.5	124.0	141.1	159.7	159.6	146.2	182.6	200.2	212.6	194.4
4. Other items (net)	–46.5	–17.5	–20.4	32.6	–29.6	4.0	–0.5	13.6	10.5	41.6
Total (1+2+3+4)	513.8	1,254.0	2,133.6	3,468.6	3,465.0	3,639.2	3,956.6	4,045.7	4,226.6	4,331.6

Table E1: Housing Savings Banks' Accounts

Housing savings banks' accounts include data on claims and liabilities of the Croatian housing savings banks. All housing savings banks' claims and liabilities refer exclusively to domestic sectors.

Housing savings banks' required reserves held at the central bank included, until September 2003, kuna funds held in accounts at the central bank.

Claims on central government and funds are claims in kuna on the Republic of Croatia and central government funds.

Claims on other domestic sectors include kuna loans to local government and households.

Claims on banks include loans extended to banks, as well as deposits with banks, including, since October 2003, accounts for regu-

lar operations with banks.

Claims on other banking institutions include investments in investment funds.

Item Time deposits includes local government and households' time deposits.

Bonds and money market instruments are housing savings banks' liabilities for securities issued (net) and loans obtained.

Capital accounts are share capital, profit or loss for the previous and current year, retained earnings (loss), legal reserves, reserves provided for by the articles of association and other capital reserves, hedging reserves, unrealised gains (losses) from financial assets classified as available-for-sale assets, value adjustments and specific reserves for unidentified losses. Other items (net) are unclassified liabilities decreased by unclassified assets.

Table F1: Credit Rates of the Croatian National Bank

In percentage, on annual basis

Year	Month	CNB discount rate	Credit rates						
			On lombard credits ^a	On intervention credits	On intra-day refinance facility ^a	On short-term liquidity credits	On advances on the account of statutory reserves ^a	On inaccurately calculated statutory reserves ^a	On arrears
1	2	3	4	5	6	7	8	9	10
1994	December	8.50	18.00	19.00	17.00	14.00	–	19.00	22.00
1995	December	8.50	25.49	19.00	17.00	–	–	19.00	22.00
1996	December	6.50	11.00	19.00	17.00	–	–	19.00	18.00
1997	December	5.90	9.50	19.00	17.00	–	–	19.00	18.00
1998	December	5.90	12.00	19.00	7.00	14.00	–	19.00	18.00
1999	December	7.90	13.00	19.00	–	14.00	–	19.00	18.00
2000	December	5.90	12.00	18.00	–	13.00	–	18.00	18.00
2001	December	5.90	10.00	–	–	11.00	–	15.00	18.00
2002	December	4.50	9.50	–	–	10.50	–	15.00	15.00
2003	September	4.50	9.50	–	–	10.50	–	15.00	15.00
	October	4.50	9.50	–	–	10.50	–	15.00	15.00
	November	4.50	9.50	–	–	10.50	–	15.00	15.00
	December	4.50	9.50	–	–	10.50	–	15.00	15.00
2004	January	4.50	9.50	–	–	10.50	–	15.00	15.00
	February	4.50	9.50	–	–	10.50	–	15.00	15.00
	March	4.50	9.50	–	–	10.50	–	15.00	15.00
	April	4.50	9.50	–	–	10.50	–	15.00	15.00
	May	4.50	9.50	–	–	10.50	–	15.00	15.00
	June	4.50	9.50	–	–	10.50	–	15.00	15.00
	July	4.50	9.50	–	–	10.50	–	15.00	15.00
	August	4.50	9.50	–	–	10.50	–	15.00	15.00
	September	4.50	9.50	–	–	10.50	–	15.00	15.00
	October	4.50	9.50	–	–	10.50	–	15.00	15.00

^a Breaks in the series of data are explained in notes on methodology.

Table F1: Credit Rates of the Croatian National Bank

The table shows interest rates used by the CNB to calculate and charge interest on loans and on all other claims.

Credit rates of the CNB are being set by special decisions of the Council of the Croatian National Bank, on annual basis. Exceptionally, from June 1995 to 11 September 1996 interest rate charged by the CNB on lombard credits was 1.5 percentage point higher than the weighted average interest rate on CNB bills on a voluntary basis (which serve as collateral for lombard credits) in cases when the weighted average interest rate was higher than 16.5%. Congruently, from June 1995 to August 1996 the table reports weighted average interest rate on lombard credits. Interest rate in September 1996 is calculated as the weighted average of interest rate applied in the first 10 days of September 1996 (according to the regime mentioned above) and fixed interest rate applied since 11 September 1996.

Time series presented in the table contain certain breaks, due to changes in CNB's monetary policy instruments. Consequently, until November 1994, column 4 shows interest rates on regular credits for maintenance of day-to-day liquidity, which were granted based on securities portfolio, and from December 1994 onwards, interest rates on lombard credits.

Furthermore, data shown in column 6 refer, until September 1994, to interest rates on special credits for savings deposits' payments and for payments from households' current accounts, and from October 1994 until September 1997 to interest rates on daily credits for savings deposits and households' current accounts in kuna. Daily credits, as opposed to special credits, are paid back on the same day. In October 1997, this instrument was replaced by daily credits for overcoming short-term liquidity problems that are collat-

eralized by CNB bills. Since December 1998 until April 1999, this credit is incorporated in lombard credit, applying different interest rate for its usage within one day.

Data shown in column 7 refer, until December 1994, to interest rate on initial credits, and since 18 March 1998, to credits for overcoming liquidity problems of banks under evaluation for entry into rehabilitation and restructuring procedures and since February 1999, to interest rates on short-term liquidity credits. Since December 1999, data show interest rates on short-term liquidity credit with a maturity over 3 months which is 1 percentage point higher than interest rate on lombard credits. Interest rate on short-term liquidity credit up to 3 months is 0.5 percentage point higher than interest rate on lombard credits.

Interest rates reported in column 8 refer to the use of statutory reserves, which was being used by banks (in prescribed percentage) to maintain day-to-day liquidity until September 1994. Interest rates paid until September 1994 on the use of statutory reserve funds in amount above prescribed and/or for longer period than allowed are shown in column 9. Since October 1994, interest rates paid on the use of statutory reserve funds are the same as those used for any other failure to fulfil financial obligations, in accordance with the late interest regulations (shown in column 10).

Until June 1994, the same interest rate was applied to funds used above amounts available on giro accounts and to inaccurately calculated or under-appropriated statutory reserves (reported in column 9). From July to September 1994, interest rate applied to the use of those funds from the primary issue was 21%, and since October 1994, the same interest rates have been applied as for other failures to fulfil financial obligations, shown in column 10.

Table F2: Deposit Rates of the Croatian National Bank

In percentage, on annual basis

Year	Month	Interest rates on statutory reserves dep. with the CNB	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				
				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
1994	December	5.15	–	9.00	12.00	14.00	–	–	–	–	–	–
1995	December	5.50	16.50	12.00	25.54	27.00	–	–	–	–	–	–
1996	December	5.50	–	–	8.00	9.50	–	–	–	–	–	–
1997	December	4.50	–	–	8.00	9.00	10.00	–	–	–	–	–
1998	December	5.90	–	–	9.50	10.50	11.00	–	4.60	3.12	3.08	–
1999	December	5.90	–	–	10.50	11.55	12.50	–	4.83	3.56	–	–
2000	December	4.50	–	–	6.65	7.00	7.70	–	5.51	4.83	–	–
2001	December	2.00	–	–	3.36	4.26	4.85	–	2.62	3.06	–	–
2002	December	1.75	–	–	2.08	–	–	2.30	2.68	–	–	–
2003	September	1.50	0.50	–	2.55	–	–	1.69	1.19	–	–	–
	October	1.50	0.50	–	–	–	–	1.65	1.65	–	–	–
	November	1.25 ^b	0.50	–	–	–	–	1.61	1.73	–	–	–
	December	1.25	0.50	–	–	–	–	1.75	1.48	–	–	–
2004	January	1.25	0.50	–	–	–	–	–	–	–	–	–
	February	1.25	0.50	–	–	–	–	–	–	–	–	–
	March	1.25	0.50	–	–	–	–	–	–	–	–	–
	April	1.25	0.50	–	2.50	–	–	–	–	–	–	–
	May	1.25	–	–	–	–	–	–	–	–	–	–
	June	1.25	–	–	–	–	–	–	–	–	–	–
	July	1.25	–	–	–	–	–	–	–	–	–	–
	August	1.25	–	–	–	–	–	–	–	–	–	–
	September	1.25	–	–	–	–	–	–	–	–	–	–
	October	1.25	–	–	–	–	–	–	–	–	–	–

^a Breaks in the series of data are explained in notes on methodology.

^b Since 13 November 2003.

Table F2: Deposit Rates of the Croatian National Bank

The table shows interest rates paid by the CNB on funds deposited with the CNB as well as on securities issued.

Interest rates paid by the CNB for appropriated statutory reserve funds are being set by the Council of the CNB. Until 7 October 1993, the CNB was setting different exchange rates for statutory reserve funds based on savings and time deposits. Therefore, for that period the table reports the weighted average interest rate on appropriated statutory reserve funds (column 3). From 8 October 1993 until the end of February 1994, the CNB paid no interest on appropriated statutory reserve funds, and since March 1994, uniform rate has been applied to these funds.

Interest rates on CNB bills on an obligatory basis are set by a decision of the Council of the CNB.

Until October 1993, interest rates on CNB bills on a voluntary basis were also set by the Council of the CNB, while since November 1993, they have been set at CNB bills' auction sales. Congruently, since November 1993, columns 5, 6 and 7 report weighted average interest rates attained at auctions of CNB bills.

Until October 1994, interest rates on CNB bills on a voluntary basis due in 30 and 90 days are reported in columns 6 and 7 respectively. From November 1994 through January 2001, columns 7 and 9 report interest rates on CNB bills on a voluntary basis due in 91 and 182 days respectively.

Since April 1998 columns 9 through 13 report weighted average interest rates on CNB bills on a voluntary basis in EUR and USD (until December 1998 in DEM and USD) attained at CNB bills' auctions as a weighted average of subscribed amounts in those two currencies.

Table F3: Banks' Reserve Requirements

Daily averages and percentages, million kuna and %

Year	Month	Weighted average res. requirement in % on res. base	Reserve requirement (RR)			Other obligatory deposits with the CNB	Statutory reserves deposited with the CNB		Weighted avg. remuneration rate on immobilized funds in kuna	Weighted avg. remuneration rate on allocated funds in f/c
			Total	In kuna	In f/c		In kuna	In f/c		
1	2	3	4=5+6	5	6	7	8	9	10	11
1994	December	26.20	1,826.0	1,826.0	–	188.3	1,779.2	–	5.63	–
1995	December	30.90	2,431.8	2,431.8	–	826.5	2,215.9	–	7.93	–
1996	December	35.91	3,652.9	3,652.9	–	–	3,312.0	–	4.99	–
1997	December	32.02	4,348.8	4,348.8	–	–	3,914.2	–	4.05	–
1998	December	29.57	13,112.7	3,967.2	9,145.4	57.4	3,469.8	1,467.6	5.28	....
1999	December	30.50	13,579.0	4,210.1	9,368.9	37.3	3,695.1	4,606.5	5.62	....
2000	December	23.22	16,245.8	4,646.8	11,599.0	5.0	4,191.6	5,544.6	4.06	....
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	September	19.00	29,977.8	15,743.2	14,234.6	85.8	10,676.7	7,229.5	1.38	1.41
	October	19.00	30,120.0	16,227.5	13,892.5	99.7	11,023.3	6,995.3	1.41	1.54
	November	19.00	30,493.0	17,073.4	13,419.5	109.4	11,697.5	6,927.1	1.27	1.54
	December	19.00	31,009.4	18,023.8	12,985.6	109.4	12,459.8	6,850.2	1.17	1.47
2004	January	19.00	31,639.9	18,498.6	13,141.3	95.3	12,805.8	6,844.6	1.18	1.33
	February	19.00	32,269.7	18,950.8	13,318.9	85.9	13,432.4	9,263.0	1.17	1.12
	March	19.00	32,487.9	19,106.8	13,381.1	85.9	13,678.3	10,214.0	1.17	1.02
	April	19.00	32,477.6	19,099.7	13,377.9	36.8	13,694.8	10,249.8	1.20	1.16
	May	19.00	32,937.9	19,432.6	13,505.3	–	13,945.7	10,372.8	1.21	1.03
	June	19.00	33,233.4	19,685.3	13,548.1	–	14,131.5	10,436.6	1.20	1.00
	July	19.00	33,336.0	19,813.6	13,522.3	–	14,233.8	10,421.5	1.18	1.10
	August	19.00	33,748.9	20,036.4	13,712.5	253.9	14,327.8	10,477.5	1.17	1.10
	September	19.00	34,298.8	20,440.5	13,858.3	232.0	14,672.2	10,469.5	1.20	1.16
	October	19.00	34,720.2	20,731.8	13,988.4	163.8	15,024.9	10,503.0	1.20	1.40

Table F3: Banks' Reserve Requirements

This table shows data on monthly averages of day-to-day balances of banks' kuna and foreign currency reserve requirements with the CNB. Savings banks are included beginning in July 1999.

Column 3 shows the weighted average reserve requirement ratio as a percentage of the kuna and foreign currency reserve requirement in the reserve base.

Reserve requirement (column 4) represents the prescribed amount of funds banks are required to deposit in a special statutory reserve account with the CNB, or to maintain (in average) in their settlement accounts and in vaults, or in accounts of liquid foreign exchange claims (which include foreign currency cash and checks in foreign exchange, liquid foreign exchange claims maintained in the accounts with the high-grade foreign banks and foreign currency CNB bills).

Column 5 shows the amount of kuna reserve requirements. Between January 1995 and December 2000, this amount corresponded with the statutory reserve requirement instrument, while until December 1994 it comprised two instruments: statutory reserves and liquid assets requirement – LAR (except for the part in which banks were conforming to this requirement by registering CNB bills on a voluntary basis). In December 2000, reserve requirements in kuna and in foreign currency were unified, i.e. reserve requirements rate, periods for calculating, allocating and maintaining reserve requirements were unified, as well as a minimum percentage of the total reserve requirements deposited with the Croatian National Bank. Starting from September 2001, column 5 includes also the f/c component of reserve requirements that is set aside/maintained in kuna.

Column 6 shows the amount of foreign currency reserve requirements, i.e. the prescribed amount of funds banks are required to deposit in a special statutory reserve account with the CNB, or to main-

tain (in average) in accounts of liquid claims. Until November 2000, the calculation base consisted of average daily balances of household foreign exchange savings deposits with a remaining maturity of up to 3 months, while starting from December 2000 the base consists of foreign exchange sources of funds, including: ordinary foreign exchange accounts, special foreign exchange accounts, sight foreign exchange accounts and savings deposits, received foreign exchange deposits and received foreign exchange loans, as well as obligations arising from securities issued in foreign exchange (excluding the bank's equity securities). Starting from November 2001, the base includes also hybrid and subordinated instruments.

Column 7 shows the total amount of other obligatory deposits with the CNB, including CNB bills on an obligatory basis, those CNB bills on a voluntary basis used by banks to maintain the prescribed minimal liquidity (LAR), special statutory reserves (until July 1995), statutory reserves on f/c deposits, f/c credits from foreign banks and guarantees for such credits, and marginal reserve requirements (from August 2004 on).

Column 8 shows the portion of the kuna reserve requirement which banks deposit in a special statutory reserve account with the CNB (until December 1994 this amount corresponded with the statutory reserve instrument, while since January 1995 a minimum percentage of the total reserve requirement banks are required to deposit in a special statutory reserve account with the CNB has been prescribed). This percentage currently stands at 40%.

Column 9 shows the portion of the foreign currency reserve requirement which banks deposit in a special statutory reserve account with the CNB. The minimum percentage of the total reserve requirement banks are required to deposit in a special statutory reserve account with the CNB currently stands at 40%.

Column 10 shows the weighted average remuneration rate on all forms of immobilized funds which include reserve requirements and

Table F4: Banks' Liquidity Indicators

Daily averages and percentages, million kuna and %

Year	Month	Free reserves		Primary liquidity ratio (in %)	Secondary liquidity sources	Kuna CNB bills	F/c CNB bills	Kuna treasury bills
		In kuna	In f/c					
1	2	3	4	5	6	7	8	9
1994	December	119.5	....	1.72	393.7	210.2	–	–
1995	December	49.4	....	0.63	199.4	218.7	–	–
1996	December	267.9	....	2.63	98.5	780.9	–	183.8
1997	December	396.3	....	2.92	32.7	728.9	–	260.7
1998	December	221.9	....	1.65	445.5	850.4	1,377.4	141.3
1999	December	179.6	....	1.30	1,183.6	1,311.1	1,507.6	373.9
2000	December	638.8	10,721.4	3.32	80.1	2,485.3	1,692.7	2,006.5
2001	December	794.4	17,247.4	3.23	2.6	2,656.2	2,630.8	3,360.9
2002	December	1,225.0	10,398.0	3.53	0.6	4,965.5	1,273.9	4,279.5
2003	September	326.0	18,023.3	0.70	425.5	388.6	3,911.2	3,335.5
	October	578.6	18,567.1	1.26	43.2	10.0	4,387.0	2,743.8
	November	621.8	18,914.1	1.36	178.2	0.0	3,893.2	2,980.9
	December	451.6	20,561.4	0.98	501.6	0.0	4,316.0	3,073.2
2004	January	562.2	20,203.3	1.19	238.8	0.0	4,509.2	2,879.9
	February	285.0	20,170.4	0.58	251.3	0.0	2,502.1	3,056.5
	March	399.3	19,645.4	0.81	150.5	0.0	149.9	2,966.2
	April	1,235.8	19,696.8	2.49	6.4	38.1	0.0	3,005.0
	May	1,313.3	19,615.9	2.59	3.6	87.8	0.0	3,643.3
	June	947.1	19,984.7	1.82	1.2	0.0	0.0	3,999.1
	July	618.1	24,020.1	1.17	27.0	0.0	0.0	4,289.5
	August	672.0	26,737.0	1.26	153.8	0.0	0.0	3,950.8
	September	978.6	26,988.7	1.79	0.0	0.0	0.0	3,633.8
	October	1,119.7	27,157.8	2.01	0.0	0.0	0.0	4,029.1

other obligatory deposits with the CNB.

Column 11 shows the weighted average remuneration rate on allocated funds in foreign currency which include the marginal reserve requirement funds (from August 2004 on). The Croatian National Bank pays remuneration equalling the average interest earned on the reserve requirement funds placed abroad on the calculated foreign currency reserve requirement deposited with the Croatian National Bank.

Table F4: Banks' Liquidity Indicators

The table reports monthly averages of day-to-day balances of some indicators of banks' liquidity. Savings banks are included beginning in July 1999.

Column 3 shows free reserves in kuna, defined as bank's total reserves (in settlement accounts and in vaults) decreased by the minimal average settlement account and vault balance, as prescribed by instruments of the CNB.

Column 4 shows free reserves in foreign currency, defined as funds for the maintenance of foreign currency reserve requirements (foreign currency cash and checks in foreign exchange, liquid foreign exchange claims maintained in the accounts with the high-grade foreign banks and foreign currency CNB bills) decreased by the minimal required balance of these funds in the same period.

Column 5 shows the primary liquidity ratio as a percentage of

monthly day-to-day kuna free reserves averages (column 3) in monthly day-to-day averages of deposits which constitute the reserve base.

Column 6 shows the monthly average of day-to-day balances of secondary liquidity sources used. Secondary liquidity sources comprise: use of statutory reserves (until October 1994), regular loans for maintenance of day-to-day liquidity (until November 1994), use of funds exceeding those available in the bank's giro account (until October 1994), special credits for overcoming liquidity problems (initial credits, credits for overcoming liquidity problems of banks under evaluation for entry into rehabilitation and restructuring procedures), lombard credits (since December 1994), intervention credits for overcoming liquidity problems (since October 1994), short-term liquidity credits (since February 1999), as well as overdue liabilities to the CNB.

Column 7 reports the monthly average of day-to-day balances of kuna CNB bills on a voluntary basis (until December 1994, this amount is decreased by the portion of voluntarily registered CNB bills used by banks to maintain the prescribed minimal liquidity).

Column 8 reports the monthly average of day-to-day balances of foreign currency CNB bills on a voluntary basis (EUR and USD).

Column 9 reports the monthly average of day-to-day balances of kuna treasury bills. Until September 2002, it shows the discounted value of treasury bills, while starting from October 2002, it shows their nominal value.

Table G1: Banks' Interest Rates on Kuna Credits Not Indexed to Foreign Currency

Weighted averages of monthly interest rates, in % on annual basis

Year	Month	Money market interest rates		Interest rates on kuna credits not indexed to foreign currency									
		On overnight credits	On other credits	Total average	On short-term credits						On long-term credits		
					Total average	Enterprises	Households			Total average	Enterprises	Households	
							Total average	Credit lines	Other				
1	2	3	4	5	6	7	8	9	10	11	12	13	
1994	December	8.50	17.76	15.39	15.43	....	....	....	....	13.82	....	....
1995	December	27.26	27.15	22.32	22.56	22.23	23.81	23.75	25.58	13.48	13.39	14.38	
1996	December	9.66	10.72	18.46	19.35	19.18	20.18	19.90	23.12	11.51	11.29	14.28	
1997	December	8.46	9.49	14.06	14.12	13.17	19.26	19.34	18.11	13.24	12.98	13.75	
1998	December	10.00	15.91	16.06	16.22	14.89	20.77	20.80	19.92	11.73	11.48	13.16	
1999	December	9.92	12.78	13.54	13.52	10.55	20.83	20.84	20.39	15.14	15.31	14.16	
2000	December	2.39	4.45	10.45	10.45	6.81	20.30	20.33	19.05	9.90	9.64	12.97	
2001	December	2.49	2.18	9.51	9.49	5.43	18.81	18.85	14.88	11.42	10.06	13.14	
2002	December	1.58	1.89	10.91	11.24	7.44	15.16	15.28	9.84	7.32	6.48	7.88	
2003	September	6.29	6.79	11.71	12.02	8.04	14.90	15.00	11.69	9.77	7.63	11.20	
	October	5.37	5.54	12.00	12.25	8.23	14.96	15.07	12.39	9.87	7.84	10.97	
	November	3.02	4.65	12.00	12.33	8.36	14.90	14.99	12.72	9.02	7.04	10.48	
	December	5.47	7.02	11.45	11.80	8.02	14.89	15.01	12.38	8.51	6.14	10.69	
2004	January	6.20	7.48	12.12	12.23	8.35	14.99	15.07	12.97	10.99	8.57	11.51	
	February	5.70	6.01	12.42	12.58	8.60	14.94	15.06	12.17	10.92	8.26	11.37	
	March	7.74	8.17	11.76	12.03	8.34	14.60	14.72	12.16	9.92	5.89	11.40	
	April	3.24	5.46	11.76	11.98	8.32	14.48	14.60	11.99	10.14	5.74	11.48	
	May	1.59	3.93	11.64	12.02	8.22	14.35	14.42	12.66	9.10	5.27	10.88	
	June	1.76	4.64	11.60	11.79	8.01	14.33	14.40	12.41	10.07	6.25	11.44	
	July	5.60	6.10	11.51	11.80	8.16	14.24	14.34	12.58	9.86	5.59	11.79	
	August	7.69	6.99	11.47	11.58	7.74	14.22	14.29	12.86	10.53	6.77	11.81	
	September	6.67	7.50	11.83	12.06	8.26	14.21	14.28	12.68	10.28	6.08	11.71	
	October	3.77	6.71	11.86	12.00	8.32	14.23	14.31	12.51	10.81	7.43	11.35	
Relative significance ^a		-	-	61.65	54.26	20.49	33.76	32.32	1.44	7.39	1.03	6.36	

^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 trad-

ing 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	Total average	Households	Other			
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1994	December	11.99	12.38	....	....	11.65	....	....	....	....	....	....	....
1995	December	19.56	21.62	21.09	18.10	14.33	15.79	10.48	....	....	17.18	19.06	12.27
1996	December	18.97	22.56	22.40	27.00	12.12	13.15	11.30	....	....	19.50	21.46	10.77
1997	December	14.40	16.92	17.00	14.02	12.25	13.00	11.02	....	....	13.61	14.95	9.71
1998	December	13.04	14.28	14.25	13.64	11.15	10.55	12.12	....	....	6.95	8.37	5.71
1999	December	12.53	13.66	13.54	17.21	10.81	10.46	11.65	....	....	6.75	7.43	6.07
2000	December	10.74	11.17	11.10	13.59	10.52	9.41	11.64	....	....	7.70	7.49	8.05
2001	December	9.29	9.45	9.45	11.30	9.20	7.52	10.79	....	....	5.94	5.70	7.27
2002	December	8.25	9.34	8.72	11.37	7.98	6.37	9.50	7.42	10.11	5.91	6.66	5.44
2003	September	8.12	7.79	7.25	10.21	8.24	6.64	8.77	7.10	9.81	4.77	5.14	4.42
	October	8.09	7.93	7.67	9.18	8.14	6.64	8.80	7.18	9.66	5.73	6.00	5.28
	November	7.39	7.42	7.24	8.46	7.38	5.38	8.78	6.92	9.80	5.58	6.25	5.08
	December	7.07	7.21	7.00	8.66	7.03	5.76	8.04	6.02	9.70	5.62	6.22	5.18
2004	January	7.00	7.51	7.24	9.65	6.85	5.51	7.72	5.38	9.91	5.26	5.71	4.77
	February	7.99	7.58	7.45	8.37	8.14	6.78	8.65	6.62	9.91	6.00	6.20	5.68
	March	7.48	7.36	7.21	8.37	7.51	5.95	8.42	6.81	9.46	4.58	4.24	5.46
	April	7.66	7.37	7.26	8.20	7.75	6.49	8.34	6.84	9.33	5.47	5.85	4.83
	May	7.53	7.14	6.92	8.73	7.65	6.32	8.33	6.71	9.46	5.69	5.53	5.94
	June	7.18	7.09	6.86	8.59	7.20	6.19	7.65	6.02	8.69	4.90	5.70	4.30
	July	7.25	7.16	6.98	8.55	7.28	5.70	8.23	6.09	9.40	5.50	6.27	4.95
	August	7.49	7.47	7.21	8.80	7.50	5.82	8.28	5.79	9.83	5.43	6.21	4.96
	September	7.16	6.78	6.55	8.57	7.32	5.82	8.08	5.73	9.57	4.99	5.77	4.26
	October	7.51	7.47	7.31	8.32	7.52	6.06	8.06	6.74	9.29	5.08	5.69	4.42
Relative significance ^a		33.67	7.87	6.63	1.25	25.80	6.91	18.88	9.11	9.77	4.68	2.42	2.26

^a Relative significance is calculated as a percentage of corresponding credit category in total credits disbursed in the reporting month (according to data for the last period included in the table).

Table G2: Banks' Interest Rates on Kuna Credits Indexed to Foreign Currency and on Credits in Euros

The table contains weighted averages of banks' and savings banks' monthly interest rates on kuna credits indexed to f/c and on credits in euros, reported on a yearly basis.

Up to December 2001, data refer to weighted averages of banks' monthly interest rates on kuna credits indexed to f/c and on credits in euros (or German marks) granted to legal persons (which included enterprises, the public sector, financial institutions, non-profit institutions and non-residents) and households, reported on a yearly basis. Savings banks are not covered.

Starting from January 2002, data refer to weighted averages of banks' and savings banks' monthly interest rates on kuna credits indexed to f/c and on credits in euros granted only to enterprises (public and other) and households, reported on a yearly basis.

Data on banks' and savings banks' interest rates on kuna credits indexed to f/c and on credits in euros are based on banks' and savings

banks' periodic reports. The basis for calculation of weighted averages are amounts of credits bearing corresponding interest rates, which were disbursed during the reporting month.

Columns 3 through 11 show weighted averages of banks' and savings banks' monthly interest rates classified by maturity and sectors. Interest rates on short-term credits to enterprises also include interest rates on callable loans.

Up to December 2001, interest rates on credits in euros (columns 12, 13 and 14) refer to credits released in German marks in the reporting month, and starting from January 2002, they refer to credits released in euros, while weighted averages are calculated based on their kuna equivalent using current exchange rate. Credits released in other currencies are not included in this table.

Relative significance of particular interest rates (reported in the last line of the table) refers to data for the last period included in the table. It is calculated as a percentage of the corresponding credit category (to which exchange rates apply) in total credits included in the calculation of weighted averages for that period.

Table G3: Banks' Interest Rates on Kuna Deposits Not Indexed to Foreign Currency

Weighted averages of monthly interest rates, in % on annual basis

Year	Month	Interest rates on kuna deposits not indexed to foreign currency								
		Total average	In giro and current accounts	Total average	On time deposits					
					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
1994	December	5.03	3.55	9.65	....	....	....	....	....	....
1995	December	6.10	3.88	13.65	13.80	10.56	14.28	9.88	10.67	9.62
1996	December	4.15	2.19	10.19	10.11	9.84	10.26	12.36	15.49	9.88
1997	December	4.35	2.19	9.10	9.08	9.30	8.96	9.48	11.24	8.06
1998	December	4.11	2.31	7.73	7.63	9.47	7.15	10.19	10.72	9.56
1999	December	4.27	2.24	8.87	8.79	9.62	8.38	10.96	11.56	10.18
2000	December	3.40	1.64	7.20	7.13	7.44	7.03	8.89	9.19	8.63
2001	December	2.76	1.40	5.68	5.60	6.35	5.38	7.35	7.93	6.70
2002	December	1.55	0.94	3.64	3.53	4.39	2.86	6.05	7.24	3.23
2003	September	1.79	0.74	5.25	5.25	3.88	5.66	4.98	5.30	4.22
	October	1.70	0.74	4.72	4.72	3.66	5.15	4.66	4.71	4.22
	November	1.50	0.78	3.56	3.54	3.58	3.52	4.50	4.49	4.51
	December	1.66	0.75	4.46	4.46	3.62	4.69	4.58	4.90	2.82
2004	January	1.77	0.75	4.96	4.96	3.86	5.22	4.84	5.08	4.08
	February	1.89	0.75	4.95	4.95	3.66	5.26	4.58	4.84	2.56
	March	1.98	0.74	5.35	5.37	3.65	5.87	4.30	4.59	2.79
	April	1.71	0.76	4.31	4.30	3.57	4.46	4.75	4.71	4.81
	May	1.66	0.74	3.42	3.41	3.81	3.35	4.49	4.77	3.69
	June	1.64	0.74	3.34	3.34	3.82	3.25	3.22	4.84	2.02
	July	1.89	0.72	5.00	5.01	3.88	5.19	3.89	4.84	2.70
	August	2.11	0.75	6.25	6.28	3.80	6.57	3.68	4.90	2.10
	September	2.17	0.74	5.93	5.95	3.87	6.16	3.56	4.69	2.20
	October	2.06	0.74	4.67	4.68	3.92	4.76	3.80	4.76	3.05
Relative significance ^a		45.77	29.27	13.45	13.29	1.26	12.03	0.16	0.07	0.09

^a Relative significance is calculated as a percentage of corresponding deposit category in total deposits received in the reporting month (according to data for the last period included in the table).

Table G3: Banks' Interest Rates on Kuna Deposits Not Indexed to Foreign Currency

The table contains weighted averages of banks' and savings banks' monthly interest rates on kuna deposits not indexed to f/c, reported on a yearly basis.

Up to December 2001, data refer to weighted averages of banks' monthly interest rates on kuna deposits not indexed to f/c received from legal persons (which included enterprises, the public sector, financial institutions, non-profit institutions and non-residents) and households, reported on a yearly basis. Savings banks are not covered.

Starting from January 2002, data refer to weighted averages of banks' and savings banks' monthly interest rates on kuna deposits not indexed to f/c received from enterprises (public and other) and households, reported on a yearly basis.

Data on banks' and savings banks' interest rates on kuna deposits not indexed to f/c are based on banks' and savings banks' periodic reports.

Column 3 reports weighted averages of monthly interest rates on total kuna deposits (giro and current accounts, household savings deposits and time deposits) not indexed to f/c. Column 4 shows

weighted averages of monthly interest rates on deposits in giro and current accounts not indexed to f/c received from enterprises (until December 2001, all legal persons) and households, and column 5 shows weighted averages of monthly interest rates on total time deposits not indexed to f/c.

The basis for calculation of weighted averages for kuna time deposits not indexed to f/c are the amounts of those deposits received during the reporting month. The basis for calculation of weighted averages for deposits in giro and current accounts are the end-of-month book balances of those deposits. Weighted averages of interest rates on total kuna deposits not indexed to f/c (column 3) are weighted by the end-of-month balances of all categories included in the calculation.

Kuna and foreign currency deposits used as collateral for credit are included, while restricted deposits (deposits used for payment of imports and other restricted deposits) are not included into the calculation of weighted averages.

Relative significance of particular interest rates (reported in the last line of the table) refers to data for the last period included in the table. It is calculated as a percentage of the corresponding deposit category (to which exchange rates apply) in total deposits included in the calculation of weighted averages for that period.

Table G4a: Banks' Interest Rates on Kuna Deposits Indexed to Foreign Currency and on Foreign Currency Deposits

Weighted averages of monthly interest rates, in % on annual basis

Year	Month	Interest rates on savings and time deposits indexed to f/c				Interest rates on foreign currency deposits					
		Total average	On short-term deposits	On long-term deposits	Total average	Savings deposits					
						Total average	Households		Enterprises		
					EUR		USD	EUR	USD		
1	2	3	4	5	6	7	8	9	10	11	
1994	December	6.95	....	....	....	....	....	....	....	....
1995	December	12.69	11.46	19.36	4.57	2.82	3.53	4.20	1.10	1.53	
1996	December	9.46	9.56	8.80	5.09	1.44	1.32	1.95	1.47	1.39	
1997	December	7.63	7.24	11.77	4.77	1.75	1.89	2.43	0.83	1.40	
1998	December	7.47	7.67	5.58	3.98	2.09	2.38	2.40	0.72	0.74	
1999	December	6.62	6.91	1.10	4.23	1.80	1.95	2.04	0.78	1.30	
2000	December	5.54	5.94	2.16	3.47	1.03	0.99	1.23	0.65	1.29	
2001	December	4.58	4.92	2.56	2.60	0.71	0.71	0.81	0.82	0.40	
2002	December	2.92	3.45	1.48	2.55	0.50	0.52	0.41	0.52	0.38	
2003	September	3.40	3.46	4.89	2.22	0.32	0.36	0.24	0.26	0.19	
	October	3.37	3.18	4.74	2.20	0.32	0.36	0.23	0.26	0.27	
	November	3.25	3.53	4.61	2.14	0.32	0.35	0.23	0.26	0.25	
	December	3.48	3.74	5.55	2.22	0.31	0.35	0.23	0.23	0.15	
2004	January	3.67	3.44	4.43	2.46	0.31	0.33	0.22	0.26	0.17	
	February	3.78	3.61	4.78	2.38	0.31	0.33	0.22	0.30	0.22	
	March	3.70	3.53	4.87	2.38	0.30	0.33	0.22	0.27	0.23	
	April	3.74	3.51	4.72	2.51	0.30	0.33	0.23	0.25	0.19	
	May	3.85	3.48	5.08	2.50	0.31	0.33	0.22	0.32	0.17	
	June	3.64	3.45	5.08	2.50	0.31	0.33	0.22	0.28	0.17	
	July	3.90	3.60	5.06	2.62	0.30	0.33	0.22	0.25	0.18	
	August	3.89	3.63	4.96	2.54	0.31	0.34	0.22	0.28	0.31	
	September	3.89	3.40	4.69	2.56	0.31	0.34	0.22	0.25	0.22	
	October	3.94 ^b	3.58	4.59	2.64	0.32	0.35	0.22	0.26	0.20	
Relative significance ^a		1.78	1.41	0.36	52.45	29.30	20.43	3.44	4.47	0.96	

^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, 30.31 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 start-

ing 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 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

Table G4b: Banks' Interest Rates on Kuna Deposits Indexed to Foreign Currency and on Foreign Currency Deposits

Weighted averages of monthly interest rates, in % on annual basis

Year	Month	Interest rates on foreign currency deposits										
		On time deposits										
		Total Average	On short-term deposits				Total Average	On long-term deposits				
			Households		Enterprises			Households		Enterprises		
	Total Average	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD	
1	2	12	13	14	15	16	17	18	19	20	21	22
1994	December	....	....	....	....	....	....	....	....	....	....	....
1995	December	6.83	6.66	7.10	6.97	5.86	6.68	8.73	8.78	8.81	3.27	4.50
1996	December	7.77	6.95	5.65	6.21	9.86	5.47	12.24	7.71	7.97	19.92	1.50
1997	December	6.36	6.07	6.03	6.42	5.09	7.10	7.32	7.87	8.71	5.09	6.76
1998	December	4.89	4.49	5.42	6.16	2.84	5.37	7.29	7.68	8.59	4.93	6.92
1999	December	5.43	5.17	4.93	6.39	3.97	6.00	6.59	6.64	8.09	3.66	6.77
2000	December	4.57	4.36	3.65	5.15	4.59	6.62	5.56	5.17	6.61	5.97	8.53
2001	December	3.54	3.35	3.42	3.23	3.60	2.44	4.59	4.72	4.42	4.58	0.23
2002	December	3.13	2.96	3.27	2.21	2.89	1.43	4.59	4.69	3.84	3.46	2.30
2003	September	2.64	2.46	2.89	1.70	2.21	1.15	4.23	4.90	3.00	3.07	-
	October	2.68	2.50	2.85	1.61	2.39	1.29	4.76	4.85	3.22	6.37	2.04
	November	2.52	2.36	2.79	1.59	2.15	1.12	4.19	4.31	2.98	3.37	0.00
	December	2.64	2.46	2.83	1.65	2.29	1.08	3.69	4.71	3.13	2.85	1.64
2004	January	2.73	2.47	2.86	1.65	2.22	1.08	3.88	4.86	3.29	3.28	1.67
	February	2.62	2.42	2.82	1.62	2.24	1.09	4.68	4.95	3.18	3.18	1.10
	March	2.61	2.44	2.85	1.63	2.35	1.11	4.45	4.89	2.94	3.11	-
	April	2.70	2.47	2.82	1.65	2.35	1.15	3.79	4.93	3.08	2.98	1.34
	May	2.78	2.58	3.02	1.68	2.33	1.13	4.32	4.75	2.30	3.25	1.95
	June	2.75	2.58	3.05	1.70	2.40	1.17	4.57	4.86	3.24	3.08	4.81
	July	2.87	2.63	3.08	1.74	2.38	1.35	3.95	4.89	3.18	3.24	0.21
	August	2.90	2.70	3.10	1.72	2.38	1.56	4.62	4.95	2.88	3.23	1.30
	September	2.82	2.63	3.05	1.70	2.35	1.72	4.70	4.96	3.20	3.25	2.09
	October	2.85	2.64	3.05	1.89	2.32	1.76	3.92	4.94	3.30	3.26	3.07
Relative significance ^a		23.15	19.36	10.14	1.27	6.66	1.29	3.79	1.48	0.15	2.15	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).

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 EUR, current exchange rate

	2000	2001	2002	2003	2004						
					Mar.	Jun.	Jul.	Aug.	Sep.	Oct. ^a	Nov. ^a
A. Purchase of foreign exchange											
1. Legal persons	3,316.4	5,012.4	4,727.8	6,433.1	654.2	583.4	679.4	529.9	651.1	575.8	583.9
2. Natural persons	2,549.2	3,339.9	3,342.6	3,571.6	276.3	346.5	442.3	448.5	337.5	316.1	320.4
2.1. Residents	2,021.1	2,684.5	2,842.0	3,103.3	268.8	304.7	366.0	347.0	301.6	–	–
2.2. Non-residents	528.0	655.4	500.7	468.2	7.5	41.8	76.4	101.6	35.9	–	–
3. Domestic banks	2,441.4	3,985.8	4,104.5	6,324.4	967.3	690.0	1,024.1	745.7	877.3	1,015.1	810.9
4. Foreign banks	–	–	697.9	1,430.6	214.6	113.3	138.6	108.4	165.0	108.3	100.1
5. Croatian National Bank	168.2	481.7	294.3	438.3	–	–	–	–	–	–	–
Total (1+2+3+4)	8,475.2	12,819.8	13,167.1	18,197.9	2,112.3	1,733.1	2,284.5	2,284.5	2,030.9	2,015.3	1,815.3
B. Sale of foreign exchange											
1. Legal persons	5,414.8	8,534.2	9,029.3	10,852.4	923.5	922.7	1,108.0	946.4	993.3	980.2	893.3
2. Natural persons	963.6	1,253.5	1,333.6	1,403.1	140.2	133.8	177.8	165.8	149.7	130.5	115.3
2.1. Residents	962.8	1,252.3	1,329.7	1,393.1	139.3	131.9	175.5	164.2	148.1	–	–
2.2. Non-residents	0.6	1.2	3.9	10.0	0.9	1.9	2.3	1.6	1.6	–	–
3. Domestic banks	2,441.4	3,985.8	4,104.5	6,324.4	967.3	690.0	1,024.1	745.7	877.3	1,015.1	810.9
4. Foreign banks	–	–	334.3	765.3	71.7	101.4	95.4	84.0	128.2	77.2	93.5
5. Croatian National Bank	284.2	915.7	745.3	84.5	162.7	–	46.0	70.0	25.0	–	–
Total (1+2+3+4)	9,104.0	14,689.2	15,547.0	19,429.7	2,265.3	1,848.0	2,451.3	2,011.8	2,173.6	2,203.0	1,913.0
C. Net purchase (A-B)											
1. Legal persons	-2,098.4	-3,521.8	-4,301.5	-4,419.4	-269.2	-339.4	-428.6	-416.4	-342.3	-404.5	-309.4
2. Natural persons	1,585.6	2,086.4	2,009.0	2,168.4	136.1	212.7	264.5	282.7	187.8	185.6	205.1
2.1. Residents	1,058.3	1,432.2	1,512.3	1,710.2	129.5	172.8	190.5	182.7	153.5	–	–
2.2. Non-residents	527.4	654.2	496.7	458.2	6.6	39.9	74.1	100.0	34.3	–	–
3. Foreign banks	–	–	363.6	665.3	142.9	11.8	-46.0	24.4	36.8	31.2	6.6
4. Croatian National Bank	-116.0	-434.0	-451.0	353.8	-162.7	–	–	-70.0	-25.0	–	–
Total (1+2+3)	-628.8	-1,869.4	-2,379.9	-1,231.8	-153.0	-114.9	-210.0	-179.3	-142.7	-187.7	-97.7
Memo items: Other Croatian National Bank transactions											
Purchase of foreign exchange	405.8	536.8	197.5	570.9	0.0	0.0	–	–	–	–	–
Sale of foreign exchange	86.9	2.6	3.4	94.9	–	–	0.4	0.0	–	1.2	187.5

^a Preliminary data.

Note: In the period from January 1994 to September 2001 all foreign exchange sale and purchase transactions in banks' reports delivered to the CNB were recorded based on realised sale/purchase transaction regardless of the contracted term for realisation and were as such transferred into the Table on Banks' Trade with Foreign Exchange. As of the change in the reporting scope dated 1 October 2001 reports contain data on contracted sale and purchase of foreign exchange broken down by spot, forward and swap transactions. Based on the aforesaid the data for 2002, 2003 and 2004 have been revised so as to include only the data on contracted spot transactions with banks no longer included into the "legal persons" category.

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 US dollars

	2000	2001	2002	2003 ^b	2004		
					Q1 ^b	Q2 ^b	Q3 ^a
A. CURRENT ACCOUNT (1+6)	-460.8	-725.8	-1,920.1	-2,091.7	-1,472.4	-1,172.1	2,277.8
1. Goods, services, and income (2+5)	-1,343.9	-1,691.5	-2,996.0	-3,487.3	-1,814.8	-1,544.0	1,912.4
1.1. Credit	9,008.9	10,053.1	10,999.4	15,412.2	3,079.8	3,996.9	7,457.8
1.2. Debit	-10,352.8	-11,744.5	-13,995.4	-18,899.5	-4,894.6	-5,540.9	-5,545.4
2. Goods and services (3+4)	-935.9	-1,173.9	-2,493.9	-2,266.9	-1,518.9	-1,257.1	2,166.0
2.1. Credit	8,663.1	9,634.2	10,571.0	14,929.1	2,926.2	3,837.2	7,301.6
2.2. Debit	-9,598.9	-10,808.1	-13,064.9	-17,196.0	-4,445.1	-5,094.2	-5,135.6
3. Goods	-3,203.8	-4,101.3	-5,648.6	-7,908.3	-1,792.6	-2,354.1	-1,981.1
3.1. Credit	4,567.2	4,758.7	5,003.6	6,307.7	1,853.7	1,953.4	2,105.4
3.2. Debit	-7,770.9	-8,860.0	-10,652.2	-14,216.0	-3,646.3	-4,307.5	-4,086.5
4. Services	2,267.9	2,927.4	3,154.7	5,641.4	273.7	1,097.0	4,147.1
4.1. Credit	4,095.9	4,875.5	5,567.4	8,621.4	1,072.5	1,883.8	5,196.2
4.2. Debit	-1,828.0	-1,948.1	-2,412.7	-2,980.0	-798.8	-786.8	-1,049.1
5. Income	-408.1	-517.6	-502.1	-1,220.4	-295.9	-286.9	-253.6
5.1. Credit	345.8	418.9	428.4	483.1	153.6	159.7	156.2
5.2. Debit	-753.9	-936.4	-930.5	-1,703.4	-449.5	-446.6	-409.8
6. Current transfers	883.2	965.7	1,075.9	1,395.6	342.4	371.9	365.4
6.1. Credit	1,101.0	1,174.5	1,358.1	1,729.2	460.0	484.1	474.8
6.2. Debit	-217.8	-208.8	-282.3	-333.7	-117.6	-112.2	-109.4
B. CAPITAL AND FINANCIAL ACCOUNT	1,237.1	1,304.2	2,702.3	3,327.0	1,189.2	817.6	-227.3
B1. Capital account	20.9	133.0	443.4	83.6	8.7	9.0	7.8
B2. Financial account, excl. reserves	1,798.3	2,484.3	2,955.8	4,634.4	665.5	1,052.9	-127.9
1. Direct investment	1,085.4	1,404.1	591.1	1,880.6	265.7	248.6	260.4
1.1. Abroad	-3.9	-154.6	-532.9	-92.5	-48.9	-13.9	-39.6
1.2. In Croatia	1,089.4	1,558.7	1,124.0	1,973.1	314.5	262.5	300.0
2. Portfolio investment	707.6	600.7	-229.7	993.4	-176.0	512.4	288.1
2.1. Assets	-22.7	-129.3	-626.5	144.2	-455.4	-222.9	13.1
2.2. Liabilities	730.3	730.0	396.8	849.2	279.4	735.2	275.0
3. Other investment	5.3	479.5	2,594.4	1,760.4	575.9	291.9	-676.4
3.1. Assets	-966.0	360.4	358.8	-2,526.6	177.4	-304.1	-245.4
3.2. Liabilities	971.2	119.1	2,235.6	4,287.0	398.5	596.0	-430.9
B3. Reserve assets (CNB)	-582.1	-1,313.1	-696.9	-1,391.1	514.9	-244.2	-107.2
C. NET ERRORS AND OMISSIONS	-776.3	-578.5	-782.2	-1,235.2	283.2	354.5	-2,050.5

^a Preliminary data. ^b Revised data.

Note: From 1999 on, item "Other investment – Liabilities" includes CNB repo transactions.

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 two currencies: in US dollars (USD) and in domestic currency (HRK). In both 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 mid-point exchange rate in the observed period, into the value of change in the reporting currency.

The Report of the Central Bureau of Statistics on merchandise foreign trade of the Republic of Croatia represents the basic data source for the balance of payments items related to exports and imports. These data are adjusted, in accordance with the recommended compilation method, for coverage and classification. Accordingly, goods exports and imports in the balance of payments are reported at f.o.b. parity. The value of exports at this parity is already contained in the previously mentioned CBS Report, whereas the value of imports f.o.b. is estimated on the basis of research studies of the CNB on the stratified sample of importers. The resulting value serves as a basis for the estimate of the share of transportation and insurance services by which the original value of imports c.i.f., stated in the CBS Report, is reduced. In the 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 Travel-

Table H2: Balance of Payments – Goods and Services

Million US dollars

	2000	2001	2002	2003 ^b	2004		
					Q1 ^b	Q2 ^b	Q3 ^a
Goods	-3,203.8	-4,101.3	-5,648.6	-7,908.3	-1,792.6	-2,354.1	-1,981.1
1. Credit	4,567.2	4,758.7	5,003.6	6,307.7	1,853.7	1,953.4	2,105.4
1.1. Exports (f.o.b.) in trade statistics	4,431.6	4,665.9	4,903.6	6,186.6	1,816.7	1,914.4	2,049.9
1.2. Adjustments for coverage	135.6	92.8	100.0	121.0	37.0	39.0	55.5
2. Debit	-7,770.9	-8,860.0	-10,652.2	-14,216.0	-3,646.3	-4,307.5	-4,086.5
2.1. Imports (c.i.f.) in trade statistics	-7,886.5	-9,147.1	-10,722.0	-14,209.0	-3,649.2	-4,307.4	-4,105.0
2.2. Adjustments for coverage	-444.4	-362.3	-330.1	-537.0	-133.2	-160.8	-134.6
2.3. Adjustments for classification	559.9	649.4	399.9	530.0	136.1	160.7	153.1
Services	2,267.9	2,927.4	3,154.7	5,641.4	273.7	1,097.0	4,147.1
1. Transportation	178.6	166.8	163.4	284.5	74.3	83.7	106.5
1.1. Credit	557.3	588.6	590.2	787.7	200.1	242.3	275.8
1.2. Debit	-378.7	-421.8	-426.8	-503.2	-125.9	-158.5	-169.3
2. Travel	2,189.9	2,728.6	3,030.2	5,704.1	315.2	1,039.2	4,175.3
2.1. Credit	2,758.0	3,335.0	3,811.4	6,376.4	518.3	1,237.8	4,426.1
2.1.1. Business	263.6	273.9	323.0	374.0	102.5	131.2	113.2
2.1.2. Personal	2,494.4	3,061.1	3,488.5	6,002.4	415.8	1,106.7	4,312.8
2.2. Debit	-568.1	-606.4	-781.3	-672.4	-203.1	-198.7	-250.8
2.2.1. Business	-260.5	-289.1	-460.0	-330.1	-83.3	-91.5	-81.2
2.2.2. Personal	-307.6	-317.3	-321.3	-342.3	-119.8	-107.1	-169.6
3. Other services	-100.6	32.0	-38.9	-347.1	-115.8	-25.9	-134.7
3.1. Credit	780.6	951.9	1,165.8	1,457.3	354.1	403.6	494.4
3.2. Debit	-881.2	-919.9	-1,204.6	-1,804.4	-469.8	-429.5	-629.1

^a Preliminary data. ^b Revised data.

lers 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 relations, 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 encom-

Table H3: Balance of Payments – Income and Current Transfers

Million US dollars

	2000	2001	2002	2003 ^b	2004		
					Q1 ^b	Q2 ^b	Q3 ^a
Income	-408.1	-517.6	-502.1	-1,220.4	-295.9	-286.9	-253.6
1. Compensation of employees	69.6	124.5	154.8	202.9	68.5	74.9	68.3
1.1. Credit	82.7	137.3	173.2	241.2	78.2	85.1	82.3
1.2. Debit	-13.1	-12.8	-18.4	-38.3	-9.7	-10.2	-13.9
2. Direct investment income	-152.9	-290.5	-320.3	-957.6	-104.0	-283.0	-251.4
2.1. Credit	9.3	20.2	23.3	23.1	3.5	11.7	15.0
o/w: Reinvested earnings	6.8	15.2	8.4	19.8	2.4	7.2	11.6
2.2. Debit	-162.2	-310.7	-343.7	-980.7	-107.6	-294.7	-266.3
o/w: Reinvested earnings	-93.9	-153.0	-151.5	-657.2	-93.1	-185.9	-80.7
3. Portfolio investment income	-178.8	-218.1	-193.5	-265.4	-221.9	-27.7	-31.4
3.1. Credit	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.2. Debit	-178.8	-218.1	-193.6	-265.4	-221.9	-27.7	-31.4
4. Other investment income	-145.9	-133.4	-143.0	-200.2	-38.4	-51.1	-39.2
4.1. Credit	253.8	261.4	231.8	218.8	71.9	63.0	58.9
4.2. Debit	-399.7	-394.8	-374.8	-419.0	-110.3	-114.1	-98.1
Current transfers	883.2	965.7	1,075.9	1,395.6	342.4	371.9	365.4
1. General government	21.7	56.7	28.6	78.3	-8.8	12.0	2.0
1.1. Credit	118.0	125.5	132.2	239.9	50.7	67.0	52.4
1.2. Debit	-96.3	-68.9	-103.6	-161.6	-59.6	-55.0	-50.4
2. Other sectors	861.5	909.0	1,047.3	1,317.3	351.2	359.9	363.4
2.1. Credit	983.0	1,049.0	1,225.9	1,489.4	409.3	417.1	422.5
2.2. Debit	-121.5	-139.9	-178.7	-172.1	-58.0	-57.2	-59.0

^a Preliminary data. ^b Revised data.

passed 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 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.

Table H4: Balance of Payments – Direct and Portfolio Investments

Million US dollars

	2000	2001	2002	2003 ^b	2004		
					Q1 ^b	Q2 ^b	Q3 ^a
Direct investment	1,085.4	1,404.1	591.1	1,880.6	265.7	248.6	260.4
1. Abroad	-3.9	-154.6	-532.9	-92.5	-48.9	-13.9	-39.6
1.1. Equity capital and reinvested earnings	-33.5	-123.7	-529.0	-100.5	-53.2	-17.5	-27.8
1.1.1. Claims	-33.5	-123.7	-529.5	-100.5	-53.2	-17.5	-27.8
1.1.2. Liabilities	0.0	0.0	0.5	0.0	0.0	0.0	0.0
1.2. Other capital	29.6	-30.9	-3.9	8.0	4.4	3.7	-11.9
1.1.1. Claims	-9.6	5.1	-6.2	-15.3	-5.6	3.6	-11.1
1.2.2. Liabilities	39.2	-35.9	2.2	23.2	10.0	0.1	-0.8
2. In Croatia	1,089.4	1,558.7	1,124.0	1,973.1	314.5	262.5	300.0
2.1. Equity capital and reinvested earnings	805.3	968.0	816.4	1,527.5	293.0	218.1	234.7
2.1.1. Claims	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.1.2. Liabilities	805.3	968.0	816.4	1,527.5	293.0	218.1	234.7
2.2. Other capital	284.1	590.8	307.6	445.6	21.5	44.4	65.3
2.2.1. Claims	0.0	0.1	-0.3	-1.8	-0.1	-14.1	0.0
2.2.2. Liabilities	284.1	590.6	307.9	447.4	21.6	58.5	65.4
Portfolio investment	707.6	600.7	-229.7	993.4	-176.0	512.4	288.1
1. Assets	-22.7	-129.3	-626.5	144.2	-455.4	-222.9	13.1
1.1. Equity securities	-0.2	0.3	-69.4	-65.8	-4.7	-22.4	-9.5
1.1.1. General government	0.0	0.0	-2.5	0.0	0.0	0.0	0.0
1.1.1.1. Banks	-0.2	0.3	-2.5	0.4	0.0	0.0	0.0
1.1.1.2. Other sectors	0.0	0.0	-64.3	-66.1	-4.7	-22.4	-9.5
1.2. Debt securities	-22.5	-129.6	-557.2	210.0	-450.8	-200.4	22.6
1.2.1. Bonds	-17.7	-116.2	-569.8	194.8	-347.8	-164.7	43.3
1.2.1.1. General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.2.1.2. Banks	-17.7	-116.2	-549.8	211.8	-339.2	-163.2	27.3
1.2.1.3. Other sectors	0.0	0.0	-20.0	-16.9	-8.5	-1.5	15.9
1.2.2. Money market instruments	-4.8	-13.4	12.6	15.1	-103.0	-35.7	-20.6
1.2.2.1. General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.2.2.2. Banks	-4.8	-13.4	18.5	7.8	-102.4	-36.3	-20.6
1.2.2.3. Other sectors	0.0	0.0	-5.9	7.3	-0.6	0.6	0.0
2. Liabilities	730.3	730.0	396.8	849.2	279.4	735.2	275.0
2.1. Equity securities	-0.2	13.6	64.3	15.2	11.1	57.5	32.1
2.1.1. Banks	0.4	-4.1	38.6	-2.2	0.9	0.5	1.3
2.1.2. Other sectors	-0.6	17.7	25.7	17.4	10.2	57.0	30.9
2.2. Debt securities	730.5	716.4	332.5	834.0	268.3	677.8	242.8
2.2.1. Bonds	736.1	698.6	359.9	794.8	264.0	714.3	251.1
2.2.1.1. General government	736.1	698.6	245.8	592.7	264.0	595.0	-270.4
2.2.1.2. Banks	0.0	0.0	0.0	0.0	0.0	0.0	559.0
2.2.1.3. Other sectors	0.0	0.0	114.2	202.2	0.0	119.3	-37.5
2.2.2. Money market instruments	-5.6	17.9	-27.4	39.2	4.4	-36.6	-8.3
2.2.2.1. General government	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
2.2.2.3. Other sectors	-5.6	17.9	-27.4	39.2	4.4	-36.6	-8.3

^a Preliminary data. ^b Revised data.

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 US dollars

	2000	2001	2002	2003 ^b	2004		
					Q1 ^b	Q2 ^b	Q3 ^a
Other investment (net)	5.3	479.5	2,594.4	1,760.4	575.9	291.9	-676.4
1. Assets	-966.0	360.4	358.8	-2,526.6	177.4	-304.1	-245.4
1.1. Trade credits	97.8	56.7	-91.5	-185.7	-132.3	-113.6	-4.1
1.1.1. General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.1.1.1. Long-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.1.1.2. Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.1.2. Other sectors	97.8	56.7	-91.5	-185.7	-132.3	-113.6	-4.1
1.1.2.1. Long-term	2.4	8.3	-14.6	-25.5	-17.3	17.7	14.5
1.1.2.2. Short-term	95.4	48.4	-77.0	-160.1	-115.0	-131.3	-18.6
1.2. Loans	-93.2	34.7	-55.1	-27.8	1.7	13.9	-6.8
1.2.1. General government	0.0	-3.2	0.6	-1.1	0.4	0.0	0.4
1.2.1.1. Long-term	0.0	-3.2	0.6	-1.1	0.4	0.0	0.4
1.2.1.2. Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.2.2. Banks	2.7	-9.2	-20.0	4.4	-0.8	13.0	-8.9
1.2.2.1. Long-term	2.3	-3.0	-15.5	5.4	-2.6	10.0	2.4
1.2.2.2. Short-term	0.4	-6.3	-4.5	-1.1	1.8	3.0	-11.3
1.2.3. Other sectors	-96.0	47.1	-35.7	-31.0	2.1	0.9	1.6
1.2.3.1. Long-term	-96.0	47.1	-35.6	-31.1	2.1	1.0	2.0
1.2.3.2. Short-term	0.0	0.0	-0.1	0.1	0.0	-0.1	-0.4
1.3. Currency and deposits	-970.5	269.0	505.4	-2,313.2	308.0	-204.4	-234.5
1.3.2. General government	-25.8	-16.1	-31.1	27.6	-106.4	-72.0	95.5
1.3.3. Banks	-901.8	-1,602.0	1,343.9	-2,308.8	368.4	-195.4	-330.0
1.3.4. Other sectors	-43.0	1,887.0	-807.4	-32.0	46.0	63.0	0.0
1.4. Other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Liabilities	971.2	119.1	2,235.6	4,287.0	398.5	596.0	-430.9
2.1. Trade credits	276.9	72.7	474.0	-251.0	50.6	30.9	-390.8
2.1.1. General government	-3.2	1.1	0.1	1.7	-0.1	0.4	-0.5
2.1.1.1. Long-term	-0.5	1.1	0.1	1.7	-0.1	0.4	-0.5
2.1.1.2. Short-term	-2.7	0.0	0.0	0.0	0.0	0.0	0.0
2.1.2. Other sectors	280.1	71.6	474.0	-252.7	50.7	30.5	-390.4
2.1.2.1. Long-term	-12.7	-14.9	-8.4	-54.6	-15.3	-20.7	-5.0
2.1.2.2. Short-term	292.8	86.5	482.3	-198.1	66.0	51.2	-385.4
2.2. Loans	799.3	-154.2	602.9	3,183.7	250.0	626.0	550.1
2.2.1. Croatian National Bank	-10.2	-5.2	-185.7	374.5	-287.8	-154.9	-0.6
2.2.1.1. o/w: IMF	-28.7	-30.8	-129.6	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
2.2.1.1.2. Repayments	-28.7	-30.8	-129.6	0.0	0.0	0.0	0.0
2.2.1.2. Short-term	18.5	25.6	-56.1	374.5	-287.8	-154.9	-0.6
2.2.2. General government	300.8	-189.8	390.1	571.0	47.7	100.8	260.3
2.2.2.1. Long-term	13.9	170.2	390.1	571.0	47.7	100.8	260.3
2.2.2.1.1. Drawings	264.6	325.3	547.3	798.9	157.0	163.2	329.6
2.2.2.1.2. Repayments	-250.6	-155.1	-157.2	-227.9	-109.3	-62.4	-69.3
2.2.2.2. Short-term	286.9	-360.0	0.0	0.0	0.0	0.0	0.0
2.2.3. Banks	101.5	127.6	65.6	1,152.3	297.9	309.8	-23.4
2.2.3.1. Long-term	107.9	133.1	65.4	1,064.9	295.2	328.7	-14.4
2.2.3.1.1. Drawings	652.6	750.0	610.6	1,872.8	516.0	473.2	58.2
2.2.3.1.2. Repayments	-544.7	-616.9	-545.2	-808.0	-220.8	-144.6	-72.6
2.2.3.2. Short-term	-6.4	-5.5	0.2	87.4	2.7	-18.8	-9.0
2.2.4. Other sectors	407.2	-86.8	332.7	1,085.8	192.2	370.3	313.8
2.2.4.1. Long-term	466.5	-38.7	252.8	1,019.7	150.3	327.8	301.6
2.2.4.1.1. Drawings	971.1	690.1	1,107.0	2,122.8	477.8	591.9	649.7
2.2.4.1.2. Repayments	-504.6	-728.8	-854.1	-1,103.1	-327.5	-264.1	-348.1
2.2.4.2. Short-term	-59.3	-48.1	79.9	66.1	41.9	42.5	12.2
2.3. Currency and deposits	-104.9	200.7	1,159.6	1,355.1	99.6	-60.8	-590.0
2.3.1. Banks	-104.9	200.7	1,159.6	1,355.1	99.6	-60.8	-590.0
2.4. Other liabilities	0.0	-0.1	-0.9	-0.8	-1.7	-0.1	-0.2

^a Preliminary data. ^b Revised data.

Note: From 1999 on, item "Other investment – Liabilities" includes CNB repo transactions.

Table H6: Balance of Payments – Summary

Million kuna

	2000	2001	2002	2003 ^b	2004		
					Q1 ^b	Q2 ^b	Q3 ^a
A. CURRENT ACCOUNT (1+6)	-3,905.6	-6,058.9	-15,541.4	-13,497.4	-8,925.5	-7,157.6	13,830.4
1. Goods, services, and income (2+5)	-11,229.1	-14,114.4	-24,204.4	-23,126.5	-11,054.4	-9,518.2	11,565.6
1.1. Credit	74,694.1	83,974.5	85,406.7	103,092.0	18,755.9	24,660.8	45,088.0
1.2. Debit	-85,923.2	-98,088.9	-109,611.1	-126,218.5	-29,810.3	-34,178.9	-33,522.5
2. Goods and services (3+4)	-7,894.9	-10,016.4	-20,110.7	-14,883.5	-9,250.3	-7,737.1	13,092.7
2.1. Credit	71,797.8	80,245.1	82,068.8	99,969.3	17,820.3	23,674.7	44,143.4
2.2. Debit	-79,692.7	-90,261.5	-102,179.5	-114,852.8	-27,070.7	-31,411.9	-31,050.7
3. Goods	-26,686.7	-34,327.9	-44,138.0	-52,784.7	-10,922.4	-14,487.4	-11,965.1
3.1. Credit	37,910.1	39,690.9	39,196.2	42,165.2	11,283.7	12,077.2	12,730.8
3.2. Debit	-64,596.7	-74,018.8	-83,334.2	-94,949.9	-22,206.1	-26,564.7	-24,695.9
4. Services	18,791.7	24,311.5	24,027.3	37,901.2	1,672.0	6,750.3	25,057.8
4.1. Credit	33,887.7	40,554.2	42,872.6	57,804.2	6,536.6	11,597.5	31,412.6
4.2. Debit	-15,096.0	-16,242.7	-18,845.3	-19,902.9	-4,864.6	-4,847.2	-6,354.8
5. Income	-3,334.1	-4,098.0	-4,093.7	-8,243.1	-1,804.1	-1,781.0	-1,527.1
5.1. Credit	2,896.3	3,729.4	3,338.0	3,122.7	935.6	986.0	944.6
5.2. Debit	-6,230.4	-7,827.4	-7,431.7	-11,365.8	-2,739.7	-2,767.0	-2,471.8
6. Current transfers	7,323.5	8,055.5	8,663.0	9,629.2	2,128.9	2,360.5	2,264.9
6.1. Credit	9,131.4	9,795.4	10,628.9	11,558.8	2,797.7	2,989.0	2,866.9
6.2. Debit	-1,807.9	-1,740.0	-1,965.9	-1,929.6	-668.8	-628.4	-602.1
B. CAPITAL AND FINANCIAL ACCOUNT	10,269.0	10,433.0	21,490.3	22,476.0	7,254.7	5,034.4	-1,374.9
B1. Capital account	172.1	1,140.1	3,695.5	545.0	53.2	55.4	47.0
B2. Financial account, excl. reserves	14,906.7	20,328.0	23,367.0	31,214.0	4,051.5	6,505.7	-770.4
1. Direct investment	8,760.9	11,693.8	4,501.7	12,422.0	1,619.4	1,544.4	1,571.3
1.1. Abroad	-32.9	-1,279.6	-4,375.9	-608.9	-297.9	-86.5	-239.7
1.2. In Croatia	8,793.8	12,973.4	8,877.7	13,030.9	1,917.3	1,630.9	1,811.0
2. Portfolio investment	5,658.5	4,975.0	-1,638.2	6,854.4	-1,068.8	3,170.6	1,738.7
2.1. Assets	-189.8	-1,081.7	-4,839.8	938.5	-2,770.2	-1,364.5	76.4
2.2. Liabilities	5,848.2	6,056.7	3,201.6	5,915.9	1,701.3	4,535.1	1,662.3
3. Other investment	487.3	3,659.2	20,503.5	11,937.5	3,500.9	1,790.7	-4,080.4
3.1. Assets	-7,942.6	2,569.6	3,273.3	-16,361.3	1,077.8	-1,884.4	-1,473.2
3.2. Liabilities	8,429.9	1,089.5	17,230.2	28,298.9	2,423.1	3,675.1	-2,607.2
B3. Reserve assets (CNB)	-4,809.8	-11,035.1	-5,572.2	-9,283.0	3,150.1	-1,526.8	-651.5
C. NET ERRORS AND OMISSIONS	-6,363.4	-4,374.1	-5,948.8	-8,978.6	1,670.7	2,123.3	-12,455.5

^a Preliminary data. ^b Revised data.

Note: From 1999 on, item "Other investment – Liabilities" includes CNB repo transactions.

Table H7: International Reserves and Banks' Foreign Exchange Reserves

End of period, million US dollars

Year	Month	International reserves of the Croatian National Bank							Banks' foreign exchange reserves
		Total	Special drawing rights	Reserve position in the Fund	Gold	Foreign exchange			
						Total	Currency and deposits	Bonds and notes	
1994	December	1,405.0	4.5	–	–	1,400.5	1,400.5	–	878.7
1995	December	1,895.2	139.8	–	–	1,755.4	1,651.0	104.3	1,330.3
1996	December	2,314.0	125.6	–	–	2,188.4	2,016.6	171.8	1,919.5
1997	December	2,539.1	147.1	0.1	–	2,391.9	2,011.7	380.2	2,291.3
1998	December	2,815.7	231.2	0.2	–	2,584.4	1,927.0	657.4	1,885.2
1999	December	3,025.0	189.5	0.2	–	2,835.3	2,459.8	375.5	1,350.2
2000	December	3,524.8	147.7	0.2	–	3,376.9	2,574.3	802.6	2,152.9
2001	December	4,704.2	108.4	0.2	–	4,595.6	3,060.3	1,535.3	3,577.4
2002	December	5,885.8	2.4	0.2	–	5,883.2	3,945.0	1,938.2	2,688.7
2003	September	7,058.5	1.0	0.2	–	7,057.2	3,227.4	3,829.8	3,821.5
	October	7,237.0	1.0	0.2	–	7,235.7	3,332.4	3,903.4	3,810.8
	November	7,860.0	0.8	0.2	–	7,859.0	3,887.7	3,971.2	4,018.7
	December	8,191.3	0.8	0.3	–	8,190.2	4,181.8	4,008.4	4,908.1
2004	January	8,242.8	1.1	0.2	–	8,241.4	4,353.8	3,887.6	4,638.4
	February	8,237.1	0.8	0.3	–	8,236.0	4,170.5	4,065.5	4,381.4
	March	7,545.2	0.8	0.3	–	7,544.1	3,329.9	4,214.2	4,429.6
	April	7,632.5	1.4	0.2	–	7,630.8	3,495.5	4,135.3	4,298.6
	May	7,830.9	1.2	0.3	–	7,829.5	3,429.8	4,399.7	4,637.9
	June	7,768.9	1.2	0.2	–	7,767.5	3,357.6	4,409.9	4,601.8
	July	7,669.2	1.5	0.2	–	7,667.5	3,220.0	4,447.5	4,717.3
	August	7,807.9	0.8	0.2	–	7,806.8	3,450.4	4,356.4	5,029.0
	September	7,949.3	0.8	0.2	–	7,948.2	3,488.6	4,459.6	5,018.8
	October	8,125.0	1.2	0.2	–	8,123.6	4,017.3	4,106.3	5,093.6
	November ^a	8,387.6	0.8	0.2	–	8,386.5	4,150.0	4,236.5	5,326.9

^a Preliminary data.

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

Million US dollars

	2000	2001	2002	2003	2004					
	Dec.	Dec. ^b	Dec.	Dec.	Mar.	Jun.	Jul.	Aug.	Sep.	Oct.
I. Official reserve assets and other f/c assets (approximate market value)										
A. Official reserve assets	3,432.3	4,704.2	5,885.8	8,191.3	7,545.2	7,768.9	7,669.2	7,807.9	7,949.3	8,125.0
(1) Foreign currency reserves (in convertible f/c)	2,567.4	3,420.3	4,423.1	7,174.0	6,689.3	7,171.7	7,101.3	7,264.8	7,332.2	7,932.4
(a) Securities	802.6	1,535.3	1,938.2	4,008.4	4,214.2	4,409.9	4,447.5	4,356.4	4,459.6	4,106.3
o/w: Issuer headquartered in reporting country but located abroad										
(b) Total currency and deposits with:	1,764.8	1,885.0	2,484.9	3,165.6	2,475.1	2,761.8	2,653.8	2,908.4	2,872.5	3,826.1
(i) other national central banks, BIS and IMF	545.7	406.9	338.6	338.8	280.1	279.5	257.8	258.0	261.5	266.8
(ii) banks headquartered in the reporting country										
o/w: Located abroad										
(iii) banks headquartered outside the reporting country	1,219.1	1,478.1	2,146.3	2,826.8	2,195.0	2,482.3	2,395.9	2,650.4	2,611.1	3,559.3
o/w: Located in the reporting country										
(2) IMF reserve position	0.2	0.2	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2
(3) SDRs	147.7	108.4	2.4	0.8	0.8	1.2	1.5	0.8	0.8	1.2
(4) gold										
(5) other reserve assets	717.0	1,175.3	1,460.1	1,016.2	854.8	595.8	566.2	542.0	616.1	191.3
– reverse repo	717.0	1,175.3	1,460.1	1,016.2	854.8	595.8	566.2	542.0	616.1	191.3
B. Other foreign currency assets (specify)	92.5									
– time deposits	92.5									
C. Total (A+B)	3,524.8	4,704.2	5,885.8	8,191.3	7,545.2	7,768.9	7,669.2	7,807.9	7,949.3	8,125.0
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)	-1,210.8	-1,191.4	-771.6	-1,922.2	-1,650.7	-1,663.7	-1,446.3	-1,451.8	-1,471.3	-1,517.6
(a) Croatian National Bank	-265.0	-391.1	-174.4	-808.5	-1.7	-1.5	-1.6	-1.6	-2.0	-1.9
Up to 1 month										
Principal	-107.6	-172.9	-142.6	-444.8	0.0	0.0	0.0	0.0	0.0	0.0
Interest	-4.3	-2.8	-2.3	-2.4	-1.7	-1.5	-1.6	-1.6	-2.0	-1.9
More than 1 and up to 3 months										
Principal	-116.5	-179.6	-27.6	-360.4	0.0	0.0	0.0	0.0	0.0	0.0
Interest	-2.8	-1.9	-0.1	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
More than 3 months and up to 1 year										
Principal	-29.0	-30.4	-1.7							
Interest	-4.7	-3.4	-0.1							
(b) Central government (excl. central government funds)	-945.8	-800.3	-597.3	-1,113.7	-1,649.1	-1,662.2	-1,444.7	-1,450.2	-1,469.3	-1,515.8
Up to 1 month										
Principal	-89.3	-89.7	-102.1	-107.4	-3.9	-288.1	0.0	-10.4	-3.4	-3.3
Interest	-69.0	-49.0	-44.6	-43.0	-3.0	-31.7	-3.4	-4.4	-3.2	-1.4
More than 1 and up to 3 months										
Principal	-93.8	-310.1	-9.0	-11.6	-34.2	-11.2	-13.8	-6.5	-260.8	-372.1
Interest	-77.1	-110.9	-154.3	-210.4	-20.8	-7.8	-7.8	-4.5	-20.4	-39.0
More than 3 months and up to 1 year										
Principal	-497.1	-150.6	-183.5	-618.9	-1,299.0	-1,027.3	-1,112.1	-1,112.7	-879.5	-804.0
Interest	-119.6	-90.0	-103.8	-122.4	-288.2	-296.2	-307.6	-311.7	-302.0	-296.0
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	-40.7	-66.3	-22.4	-454.3	-156.6	0.0	0.0	0.0	0.0	0.0
– outflows related to repos (-)										
Up to 1 month										
Principal	-40.6	-66.3	-22.4	-453.8	-156.6	0.0	0.0	0.0	0.0	0.0
Interest	-0.1	-0.1	0.0	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
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 foreign currency assets (1+2+3)	-1,251.5	-1,257.7	-794.1	-2,376.5	-1,807.3	-1,663.7	-1,446.3	-1,451.8	-1,471.3	-1,517.6
III. Contingent short-term net drains on f/c assets (nominal value)										
1. Contingent liabilities in foreign currency	-969.3	-960.3	-1,698.7	-1,625.2	-2,137.4	-2,229.8	-2,231.6	-2,266.8	-2,300.9	-2,302.2
(a) Collateral guarantees on debt falling due within 1 year	-296.0	-278.6	-714.4	-533.4	-490.3	-494.6	-495.6	-497.2	-539.6	-551.6
– Croatian National Bank										
– Central government (excl. central government funds)	-296.0	-278.6	-714.4	-533.4	-490.3	-494.6	-495.6	-497.2	-539.6	-551.6
Up to 1 month	-48.4	-43.6	-54.5	-69.7	-29.0	-80.6	-9.0	-59.7	-28.8	-68.1
More than 1 and up to 3 months	-11.4	-21.8	-36.7	-118.6	-52.2	-69.2	-87.7	-92.7	-117.7	-139.1

More than 3 months and up to 1 year	-236.2	-213.2	-623.2	-345.0	-409.2	-344.8	-398.9	-344.8	-393.1	-344.5	
(b) Other contingent liabilities	-673.2	-681.7	-984.3	-1,091.8	-1,647.1	-1,735.2	-1,736.0	-1,769.6	-1,761.3	-1,750.6	
– Croatian National Bank	-673.2	-681.7	-984.3	-1,091.8	-1,647.1	-1,735.2	-1,736.0	-1,769.6	-1,761.3	-1,750.6	
Up to 1 month											
More than 1 and up to 3 months	-673.2	-681.7	-984.3	-1,091.8	-1,647.1	-1,735.2	-1,736.0	-1,769.6	-1,761.3	-1,750.6	
More than 3 months and up to 1 year											
– Central government (excl. central government funds)											
2. F/c sec. issued with embedded options (puttable bonds)											
3. Undrawn, unconditional credit lines provided by	80.0	150.7									
– BIS (+)	80.0										
– IMF (+)		150.7									
4. Aggregate short and long positions of options in foreign currencies vis-a-vis the domestic currency											
5. Total contingent short-term net drains on f/c assets (1+2+3+4)	-889.3	-809.7	-1,698.7	-1,625.2	-2,137.4	-2,229.8	-2,231.6	-2,266.8	-2,300.9	-2,302.2	
IV. Memo items											
(a) short-term domestic currency debt indexed to the exchange rate											
o/w: central government (excl. central government funds)											
(b) financial instruments denominated in foreign currency and settled by other means (e.g., in domestic currency)											
(c) pledged assets											
(d) securities lent and on repo											
– lent or repoed and included in Section I	-40.0	-61.7	-20.8	-438.7	-148.8	0.0	0.0	0.0	0.0	0.0	
– lent or repoed but not included in Section I											
– borrowed or acquired and included in Section I											
– borrowed or acquired but not included in Section I	685.6	1,089.3	1,385.5	981.2	780.1	583.1	553.0	507.4	586.4	179.1	
(e) financial derivative assets (net, marked to market)											
(f) currency composition of official reserves assets ^a											
– currencies in SDR basket	3,524.8	4,704.2	5,885.8	8,191.3	7,545.2	7,768.9	7,669.2	7,807.9	7,949.3	8,125.0	
– currencies not in SDR basket	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
– by individual currencies											
	USD	922.5	1,533.2	1,667.2	2,421.7	2,304.7	2,387.1	2,433.2	2,464.5	2,414.9	2,445.5
	EUR	2,453.9	3,062.0	4,215.9	5,768.6	5,239.4	5,380.4	5,234.2	5,342.3	5,533.3	5,678.1
	Other	148.4	109.0	2.7	1.1	1.1	1.5	1.8	1.1	1.1	1.4

^a Until January 2001: Currency structure of official reserve assets and other foreign currency assets. ^b In accordance with the recommendation made by the IMF, time deposits with a maturity over 3 months were also included in Official reserve assets (I.A.). These deposits were previously included in Other foreign currency assets (I.B.).

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.).

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
1994		7.087400	0.524804	1.079560	0.371475	4.381763	9.166192	5.995300	3.692018
1995		6.757758	0.518734	1.047969	0.321342	4.425311	8.252950	5.229967	3.649342
1996		6.804708	0.513722	1.062735	0.352150	4.404976	8.479850	5.433800	3.614536
1997		6.959708	0.505322	1.056355	0.361942	4.246962	10.081567	6.157050	3.555932
1998		7.136608	0.514421	1.079581	0.366683	4.395149	10.539883	6.362292	3.619321
1999		7.579622	0.550834	1.155501	0.391455	4.738375	11.504100	7.112441	3.875409
2000		7.634973	0.554855	1.163944	0.394313	4.901679	12.529639	8.276819	3.903700
2001		7.468966	0.542791	1.138637	0.385740	4.946376	12.010492	8.339074	3.818822
2002		7.406773				5.050089	11.788895	7.863712	
2003		7.563414				4.977823	10.945665	6.701390	
2003	September	7.498390				4.845884	10.782269	6.701337	
	October	7.591783				4.906285	10.874359	6.486725	
	November	7.610261				4.885643	10.991890	6.502923	
	December	7.670232				4.933835	10.933628	6.253412	
2004	January	7.690466				4.913582	11.080823	6.093513	
	February	7.650180				4.864021	11.296065	6.059802	
	March	7.500547				4.786610	11.163558	6.113773	
	April	7.505864				4.827528	11.296071	6.240743	
	May	7.426838				4.819473	11.052733	6.185583	
	June	7.377982				4.861664	11.123095	6.081234	
	July	7.372077				4.831126	11.067028	6.011773	
	August	7.369254				4.791269	11.021240	6.055250	
	September	7.410331				4.805074	10.886861	6.069909	
	October	7.544859				4.888467	10.917838	6.049878	
	November	7.554380				4.963436	10.813955	5.824814	

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
1994		6.902400	0.516285	1.052510	0.346500	4.288893	8.784200	5.628700	3.632100
1995		6.812200	0.526742	1.085365	0.335800	4.618693	8.234500	5.316100	3.705900
1996		6.863600	0.506253	1.055662	0.362600	4.098835	9.359000	5.539600	3.562200
1997		6.947200	0.499445	1.050510	0.357700	4.332003	10.475600	6.303100	3.511000
1998		7.329100	0.531546	1.114954	0.377700	4.567584	10.451000	6.247500	3.739700
1999		7.679009	0.558055	1.170657	0.396588	4.784268	12.340257	7.647654	3.926215
2000		7.598334	0.552192	1.158359	0.392421	4.989712	12.176817	8.155344	3.884966
2001		7.370030	0.535601	1.123554	0.380630	4.977396	12.101856	8.356043	3.768237
2002		7.442292				5.120256	11.451442	7.145744	
2003		7.646909				4.901551	10.860544	6.118506	
2003	September	7.571370				4.914878	10.936545	6.630502	
	October	7.593986				4.892087	11.055446	6.494472	
	November	7.655148				4.949662	11.006683	6.383013	
	December	7.646909				4.901551	10.860544	6.118506	
2004	January	7.670249				4.910845	11.203986	6.188180	
	February	7.607293				4.818707	11.357559	6.138379	
	March	7.395440				4.740667	11.044564	6.055879	
	April	7.533576				4.872317	11.249180	6.365506	
	May	7.369765				4.817155	11.037539	6.016626	
	June	7.365831				4.823095	11.034953	6.057925	
	July	7.406563				4.809769	11.171287	6.148056	
	August	7.391677				4.797921	10.979912	6.136718	
	September	7.547840				4.862672	11.088350	6.125996	
	October	7.490452				4.893801	10.760598	5.874864	
	November	7.600835				5.012090	10.825858	5.731289	

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	
			Indices of producers' prices	Retail price index
1997	December	87.73	93.01	98.79
1998	December	91.08	95.99	98.12
1999	December	99.23	102.76	104.29
2000	December	101.51	99.96	102.02
2001	December	99.07	98.63	98.89
2002	December	95.97	95.63	96.24
2003	September	94.33	94.93	95.51
	October	94.33	94.98	95.43
	September	94.56	94.90	95.52
	December	94.09	94.46	94.62
2004	January	93.61	94.20	93.56
	February	93.13	94.28	93.48
	March	92.03	93.55	92.83
	April	92.61	93.83	93.50
	May	91.68	91.55	92.27
	June	90.84	91.08	91.70
	July	90.50	90.36	91.67
	August	90.64	89.87	92.00
	September	91.05	90.19 ^a	92.78 ^a
	October	92.15	91.38 ^a	93.71 ^a
	November	91.29		

^a Preliminary data.

Note: From 1 January 2001, the euro-zone 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 calcu-

lating the indices of the effective exchange rate of the kuna (1995 in the previous version of notes on methodology under Table H10). The index of the nominal effective exchange rate is an aggregate indicator of the average value of the domestic currency against a basket of currencies. An increase in the index of the nominal effective exchange rate of the kuna in a certain period indicates that the kuna has depreciated against the basket of currencies, and vice versa. The index of the real effective exchange rate is a weighted geometric average of the index of bilateral exchange rates of the kuna adjusted for the relevant relative price indices (the ratio of price indices in partner countries and domestic prices). Producer price and consumer price indices, and the total harmonized consumer price index for the eurozone countries are used as deflators. The time series for consumer prices in Croatia is constructed in the following manner: retail price indices are used until December 2000 inclusive, and consumer prices indices are used as of January 2001. 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: External Debt by Domestic Sectors

Million US dollars

	2000	2001	2002	2003	2004					
	Dec.	Dec.	Dec.	Dec.*	Mar.	Jun.	Jul.*	Aug.*	Sep.*	Oct.
1. Direct investment	626.6	644.6	1,056.8	1,796.4	1,772.7	1,827.8	1,840.7	1,862.7	1,942.1	2,041.8
2. Government	4,828.4	5,132.6	6,360.4	8,457.9	8,644.5	9,300.7	9,155.2	9,217.9	9,342.8	9,656.0
2.1 Portfolio investment	3,141.2	3,677.1	4,357.1	5,646.5	5,825.3	6,386.8	6,045.8	6,062.3	6,145.6	6,353.4
Bonds	3,141.2	3,677.1	4,357.1	5,646.5	5,825.3	6,386.8	6,045.8	6,062.3	6,145.6	6,353.4
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2 Other investment	1,687.2	1,455.5	2,003.3	2,811.4	2,819.2	2,913.9	3,109.4	3,155.5	3,197.1	3,302.6
2.2.1 Trade credits	0.1	1.1	1.1	3.1	3.0	3.4	2.9	2.9	2.9	3.0
Long-term	0.1	1.1	1.1	3.1	3.0	3.4	2.9	2.9	2.9	3.0
Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.2 Credits	1,687.1	1,454.4	2,002.2	2,808.3	2,816.3	2,910.6	3,106.4	3,152.6	3,194.2	3,299.5
Long-term	1,327.1	1,454.4	2,002.2	2,808.3	2,816.3	2,910.6	3,106.4	3,152.6	3,194.2	3,299.5
Short-term	360.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. Croatian National Bank	158.7	122.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w: IMF	158.7	122.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. Banks	2,086.5	2,257.2	3,976.2	7,357.9	7,619.3	7,848.4	8,255.0	8,124.8	8,239.1	8,561.5
4.1. Portfolio investment	0.0	0.0	0.0	0.0	0.0	0.0	542.1	542.0	554.4	573.8
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	542.1	542.0	554.4	573.8
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4.2 Other investment	2,086.5	2,257.2	3,976.2	7,357.9	7,619.3	7,848.4	7,712.9	7,582.7	7,684.6	7,987.7
4.2.1 Currency and deposits	432.8	633.5	1,975.7	3,745.0	3,771.5	3,699.3	3,603.6	3,454.5	3,521.7	3,687.8
4.2.2 Credits	1,653.7	1,623.7	2,000.5	3,612.9	3,847.8	4,149.1	4,109.3	4,128.2	4,162.9	4,300.0
Long-term	1,640.0	1,621.4	2,000.2	3,515.4	3,749.4	4,072.1	4,033.6	4,052.5	4,094.1	4,230.5
Short-term	13.7	2.3	0.4	97.5	98.4	76.9	75.7	75.8	68.9	69.5
5. Other sectors	3,354.6	3,157.4	4,015.9	5,985.9	6,037.5	6,470.5	6,601.2	6,684.7	6,805.9	7,090.9
5.1 Portfolio investment	38.4	54.8	167.7	478.0	470.8	554.2	549.1	549.0	515.0	533.0
Bonds	28.9	27.3	167.7	436.2	426.2	545.9	540.9	540.8	515.0	533.0
Money market instruments	9.5	27.4	0.0	41.8	44.6	8.2	8.2	8.2	0.0	0.0
5.2 Other investment	3,316.3	3,102.7	3,848.2	5,507.9	5,566.7	5,916.3	6,052.1	6,135.7	6,290.9	6,557.9
5.2.1 Trade credits	334.0	273.3	319.1	273.4	261.0	246.3	245.9	240.0	245.8	253.4
Long-term	269.5	236.3	268.1	248.6	230.0	208.7	207.3	202.7	205.5	210.3
Short-term	64.4	36.9	51.0	24.7	31.0	37.6	38.6	37.4	40.3	43.2
5.2.2 Credits	2,982.3	2,829.4	3,529.1	5,234.5	5,305.7	5,670.0	5,806.2	5,895.6	6,045.1	6,304.5
Long-term	2,838.0	2,742.1	3,450.0	5,077.1	5,104.7	5,427.0	5,556.2	5,645.6	5,787.3	6,038.8
Short-term	144.3	87.4	79.1	157.4	201.0	243.1	250.0	250.1	257.9	265.7
Total (1+2+3+4+5)	11,054.8	11,313.9	15,409.3	23,598.0	24,074.1	25,447.3	25,852.1	25,890.0	26,329.9	27,350.2

Table H12: External Debt by Domestic Sectors

According to a new methodology in force starting in March 2000, external debt is defined as the total of liabilities of residents, including: deposits of foreign legal and natural persons (these deposits were not included under the old methodology), loans granted by foreigners with an original maturity longer than 150 days (up to 11 July 2001, this maturity was 90 days), loans for financial purposes, counted exceptionally regardless of their maturity, and bonds and money market instruments issued on foreign markets (at face value).

External debt by domestic sectors is shown in the same manner as in the Capital and Financial Account of the BOP: Direct investment includes borrower – lender transactions of other sectors that are interrelated by ownership (borrower or lender owns more than 10 percent of the other). Item Government shows external debt of the broadly defined government sector, which includes the central government, central government funds (including the Croatian Bank for Reconstruction and Development and, from 31 December 2003 on,

the Croatian Highways, the Croatian Roads and the State Agency for Deposit Insurance and Bank Rehabilitation), as well as local government

Item Croatian National Bank shows the central bank debts. Item Banks shows debts of banks and saving banks. Item Other sectors consists of non-banking financial institutions (other than banks and savings banks), enterprises and households.

Each sector is further divided into Portfolio and other investment. Portfolio investment includes bonds and money market instruments. Other investment includes Currency and deposits (foreign deposits) and Credits. Credits are divided into Trade credits (sale of goods for delayed payment) and Credits (all other credit obligations).

Outstanding external debt is expressed in millions of US dollars according to the CNB's midpoint exchange rate at the end of the period.

The debt balance includes so-called non-reported principal payments (they should have been paid but are not statistically reported as paid) and future principal payments.

Table H13: External Debt by Creditors

Million US dollars

	2000	2001	2002	2003	2004					
	Dec.	Dec.	Dec.	Dec.*	Mar.	Jun.	Jul.*	Aug.*	Sep.*	Oct.
1. Portfolio investment	3,179.6	3,731.8	4,524.8	6,124.5	6,296.1	6,940.9	7,137.0	7,153.3	7,215.1	7,460.1
Bonds	3,170.1	3,704.4	4,524.8	6,082.7	6,251.5	6,932.7	7,128.8	7,145.2	7,215.1	7,460.1
o/w: London Club	1,255.4	1,106.0	956.7	795.5	714.9	714.9	634.3	634.3	634.3	634.3
Money market instruments	9.5	27.4	0.0	41.8	44.6	8.2	8.2	8.2	0.0	0.0
2. Other investment	7,875.2	7,582.1	10,884.6	17,473.6	17,778.0	18,506.3	18,715.1	18,736.7	19,114.8	19,890.1
2.1. Currency and deposits	432.8	633.5	1,975.7	3,745.0	3,771.5	3,699.3	3,603.6	3,454.5	3,521.7	3,687.8
2.2. Long-term	6,781.7	6,812.7	8,737.1	13,368.8	13,553.0	14,310.4	14,607.0	14,771.9	15,084.3	15,673.3
2.2.1. Public creditors	2,269.1	2,242.2	2,608.1	3,345.1	3,289.5	3,406.7	3,375.5	3,426.1	3,476.5	3,645.6
a) International financial organizations	1,128.6	1,166.1	1,378.6	1,763.9	1,729.6	1,824.0	1,821.7	1,859.5	1,883.2	1,961.8
– IMF	158.7	122.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
– IBRD	417.7	468.8	611.0	775.2	777.0	776.3	770.4	776.5	779.9	808.6
– IFC	71.9	85.6	132.3	108.9	103.0	102.7	100.6	100.6	97.5	100.0
– EBRD	296.8	318.7	376.6	477.7	464.7	548.2	551.9	557.0	574.5	590.6
– EUROFIMA	85.6	82.7	109.4	125.2	107.5	108.5	106.9	106.9	108.8	113.6
– EIB	74.0	52.2	84.8	159.4	162.3	173.9	178.3	178.3	179.3	201.1
– CEB	24.0	36.0	64.5	117.5	115.0	114.6	113.6	140.2	143.2	147.9
b) Governments and government agencies	1,140.5	1,076.1	1,229.5	1,581.2	1,559.9	1,582.7	1,553.8	1,566.6	1,593.4	1,683.8
– Paris Club	687.5	621.0	629.5	632.0	593.7	589.2	552.1	551.9	558.9	571.4
– Other	453.0	455.0	599.9	949.2	966.2	993.4	1,001.7	1,014.7	1,034.5	1,112.5
2.2.2. Private creditors	4,512.6	4,570.5	6,129.0	10,023.6	10,263.5	10,903.7	11,231.5	11,345.8	11,607.7	12,027.7
a) Banks	3,397.6	3,471.9	4,676.1	8,075.9	8,271.7	8,851.2	9,174.2	9,265.0	9,426.8	9,756.6
o/w: guaranteed by government agencies	634.6	734.3	686.5	632.0	608.5	579.0	819.0	817.6	824.1	829.8
b) Other sectors	1,115.0	1,098.7	1,452.9	1,947.8	1,991.8	2,052.4	2,057.3	2,080.9	2,180.9	2,271.1
o/w: guaranteed by government agencies	13.8	9.8	5.9	3.9	2.9	2.2	2.2	2.2	2.2	2.3
2.3. Short-term	660.8	135.9	171.7	359.8	453.5	496.7	504.5	510.3	508.8	529.0
2.3.1. Public creditors	0.0	0.0	0.0	0.0	0.0	0.0	2.4	2.4	2.5	2.6
2.3.2. Private creditors	660.8	135.9	171.7	359.8	453.5	496.7	502.1	507.9	506.3	526.4
a) Banks	486.5	61.9	43.4	209.4	245.0	248.7	248.2	252.0	266.6	271.1
o/w: Guaranteed by government agencies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
b) Other sectors	174.3	74.0	128.4	150.4	208.5	248.0	253.9	255.8	239.7	255.3
o/w: Guaranteed by government agencies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total (1+2)	11,054.8	11,313.9	15,409.3	23,598.0	24,074.1	25,447.3	25,852.1	25,890.0	26,329.9	27,350.2

Table H13: External Debt by Creditors

The Table shows outstanding external debt by foreign creditors valued in the same way as in Table H12.

Table H14: External Debt by Domestic Sectors and Projected Future Payments

Million US dollars

	Outstanding debt 31/10/2004	Nonreported principal payments	Projected future principal payments									
			Q4/04	2004	2005	2006	2007	2008	2009	2010	2011	Other
1. Direct investment	2,041.8	123.4	186.6	186.6	264.9	376.2	307.1	258.0	95.0	75.4	45.7	309.6
2. Government	9,656.0	4.1	339.2	339.2	1,074.0	1,084.6	833.1	708.0	1,318.6	1,017.0	1,782.0	1,495.4
2.1. Portfolio investment	6,353.4	0.0	235.8	235.8	798.7	779.5	455.2	339.3	976.8	741.0	1,364.3	663.0
Bonds	6,353.4	0.0	235.8	235.8	798.7	779.5	455.2	339.3	976.8	741.0	1,364.3	663.0
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
2.2. Other investment	3,302.6	4.1	103.5	103.5	275.3	305.1	377.9	368.7	341.8	276.1	417.8	832.4
2.2.1. Trade credits	3.0	0.1	0.4	0.4	0.7	0.7	0.7	0.4	0.0	0.0	0.0	0.0
Long-term	3.0	0.1	0.4	0.4	0.7	0.7	0.7	0.4	0.0	0.0	0.0	0.0
Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.2. Credits	3,299.5	4.0	103.1	103.1	274.5	304.3	377.1	368.4	341.8	276.1	417.8	832.4
Long-term	3,299.5	4.0	103.1	103.1	274.5	304.3	377.1	368.4	341.8	276.1	417.8	832.4
Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. Croatian National Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w: IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. Banks	8,561.5	16.2	121.5	121.5	927.1	1,285.3	426.6	488.9	993.0	192.5	154.7	3,955.6
4.1. Portfolio investment	573.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	573.8	0.0	0.0	0.0
Bonds	573.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	573.8	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
4.2. Other investment	7,987.7	16.2	121.5	121.5	927.1	1,285.3	426.6	488.9	419.2	192.5	154.7	3,955.6
4.2.1. Currency and deposits	3,687.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3,687.8
4.2.2. Credits	4,300.0	16.2	121.5	121.5	927.1	1,285.3	426.6	488.9	419.2	192.5	154.7	267.8
Long-term	4,230.5	16.2	55.2	55.2	924.0	1,285.3	426.6	488.9	419.2	192.5	154.7	267.8
Short-term	69.5	0.0	66.3	66.3	3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5. Other sectors	7,090.9	560.7	302.7	302.7	1,171.6	901.6	1,260.8	682.1	636.4	296.0	238.8	1,040.3
5.1. Portfolio investment	533.0	0.0	0.0	0.0	0.0	0.0	293.3	8.4	8.4	9.6	9.6	203.7
Bonds	533.0	0.0	0.0	0.0	0.0	0.0	293.3	8.4	8.4	9.6	9.6	203.7
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
5.2. Other investment	6,557.9	560.7	302.7	302.7	1,171.6	901.6	967.5	673.7	628.0	286.4	229.2	836.6
5.2.1. Trade credits	253.4	67.6	14.8	14.8	122.8	28.4	11.5	5.7	1.7	0.6	0.2	0.0
Long-term	210.3	67.6	14.8	14.8	79.6	28.4	11.5	5.7	1.7	0.6	0.2	0.0
Short-term	43.2	0.0	0.0	0.0	43.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5.2.2. Credits	6,304.5	493.2	287.8	287.8	1,048.8	873.2	956.0	668.0	626.2	285.7	229.0	836.5
Long-term	6,038.8	412.5	225.7	225.7	925.9	873.2	956.0	668.0	626.2	285.7	229.0	836.5
Short-term	265.7	80.6	62.2	62.2	122.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total (1+2+3+4+5)	27,350.2	704.5	949.9	949.9	3,437.6	3,647.7	2,827.6	2,137.0	3,042.9	1,580.9	2,221.2	6,800.8
Supplement: Projected interest payments		64.7	165.5	165.5	900.3	762.2	630.1	511.0	433.2	304.1	239.3	606.5
Note:												
Publicly guaranteed debt	3,586.2											
o/w: Banks and other sectors	1,283.2											

Table H14: External Debt by Domestic Sectors and Projected Future Payments

The Table shows outstanding external debt at the end of the period and the principal and interest payment projection. All data are shown at the midpoint exchange rate of the CNB at the end of period.

Projected interest payments do not include interest on deposits from non-residents and late interest. Payments are projected at the interest rates at the contracting time and do not reflect changes of variable interest rates.

The note points out the outstanding publicly guaranteed debt – total and the outstanding debt of the banking sector and other sectors covered by government guarantees. The difference is the amount of the government guarantees issued to the government sector (for example the Croatian Bank for Reconstruction and Development, Croatian Roads Administration, etc. included in a broad definition of the government sector).

Table H15: International Investment Position – Summary

Million US dollars

	2000 ^b	2001 ^b	2002 ^b	2003 ^b	2004		
					Q1 ^b	Q2 ^b	Q3 ^a
1. International investment position (net)	-5,743.5	-3,963.6	-9,163.6	-14,472.8	-16,397.2	-17,345.6	-19,500.6
2. Assets	8,353.9	11,082.9	12,268.4	17,951.3	16,088.2	16,879.4	17,260.8
2.1. Direct investment abroad	875.1	966.6	1,825.9	2,335.1	2,151.8	2,484.3	2,402.3
2.2. Portfolio investment	14.3	22.5	40.9	57.5	52.0	59.2	56.6
2.2.1. Equity securities	14.3	22.5	40.9	57.5	52.0	59.2	56.6
2.2.2. Debt securities	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
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.3. Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.4. Other investment	3,942.3	5,389.6	4,515.7	7,367.4	6,339.3	6,566.9	6,852.6
2.4.1. Trade credits	186.3	181.8	188.6	222.7	238.9	220.5	207.0
2.4.2. Loans	154.7	107.3	134.1	149.5	147.5	134.5	145.2
2.4.3. Currency and deposits	3,601.2	5,100.5	4,193.1	6,995.3	5,952.9	6,211.9	6,500.4
2.4.4. Other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.5. Reserve assets (CNB)	3,522.2	4,704.2	5,885.8	8,191.3	7,545.2	7,768.9	7,949.3
3. Liabilities	14,097.4	15,046.5	21,432.0	32,424.1	32,485.5	34,225.0	36,761.3
3.1. Direct investment in Croatia	3,560.3	4,231.8	6,898.8	10,425.6	9,979.5	10,387.8	12,446.8
3.2. Portfolio investment	3,288.4	3,877.2	4,705.6	6,337.6	6,500.8	7,158.7	7,522.0
3.2.1. Equity securities	108.8	145.4	180.8	213.1	204.7	217.7	306.9
3.2.2. Debt securities	3,179.6	3,731.8	4,524.8	6,124.5	6,296.1	6,940.9	7,215.1
Bonds	3,170.1	3,704.4	4,524.8	6,082.7	6,251.5	6,932.7	7,215.1
Money market instruments	9.5	27.4	0.0	41.8	44.6	8.2	0.0
3.3. Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.4. Other investment	7,248.6	6,937.5	9,827.6	15,660.9	16,005.2	16,678.5	16,792.5
3.4.1. Trade credits	334.0	274.4	320.2	277.2	263.9	249.6	245.1
3.4.2. Loans	6,481.8	6,029.6	7,531.8	11,638.7	11,969.8	12,729.6	13,402.3
3.4.3. Currency and deposits	432.8	633.5	1,975.7	3,745.0	3,771.5	3,699.3	3,145.1
3.4.4. Other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0

^a Preliminary data. ^b Revised data.

Table H15: International Investment Position

This table is made in accordance with the recommendations of the IMF (Balance of Payments Manual, Fifth Edition, 1995). Data sources include: reports from banks, enterprises, the Croatian National Bank, and the Zagreb Stock Exchange.

Data on international investments of the Republic of Croatia and international investments into the Republic of Croatia are recorded in US dollars (USD). Depending on the sources of data available, the conversion of values from the original currencies into US dollars is performed:

by applying the current rate of exchange or the average monthly midpoint exchange rate of the Croatian National Bank to transactions;

by applying the midpoint exchange rate of the Croatian National Bank on the reporting date to balances.

The source of data on foreign direct and portfolio equity investment is the statistical research of the Croatian National Bank. The equity investments have been monitored since the beginning of 2001 and are corrected for changes in the official index of the Zagreb Stock Exchange (CROBEX).

Portfolio debt investment and other investment are classified according to the following institutional sectors: the Croatian National Bank, government, banks and other sectors. The government sector comprises central government and funds and local government authorities. The banking sector comprises banks.

Item Portfolio debt investment – Assets and liabilities comprises data on investments of residents into debt securities issued by non-residents (assets) and investments of non-residents into debt se-

curities issued by residents (liabilities). The source of data is the register of foreign credit relations kept by the Croatian National Bank, which also comprises claims and liabilities arising from bonds and money market instruments.

Item Other investment – Trade credits – Assets and liabilities comprises foreign claims and foreign liabilities of the said sectors arising from trade credits. The source of data is the register of foreign credit relations kept by the Croatian National Bank.

Item Other investment – Loans – Assets and liabilities comprises data on loans granted and received between residents and non-residents classified according to institutional sectors. The source of data is the register of foreign credit relations kept by the Croatian National Bank.

Item Other investment – Currency and deposits – Assets shows the total liquid foreign exchange of banks authorized to do business abroad reduced by the amount of foreign exchange deposited by banks with the CNB in fulfilment of a part of their reserve requirements. In addition to banks' foreign claims, foreign claims of the government sector are also shown. The sources of data are reports from the government and banks.

Item Other investment – Currency and deposits – Liabilities shows the total foreign exchange and kuna liabilities of the said sectors abroad arising from current accounts, time and notice deposits, sight deposits and demand deposits. The sources of data for this item are reports from banks.

Item International reserves of the CNB is compiled on the basis of the CNB Accounting Department reports which contain data on their balances and changes.

Table H16: International Investment Position – Direct Investment

Million US dollars

	2000 ^b	2001 ^b	2002 ^b	2003 ^b	2004		
					Q1 ^b	Q2 ^b	Q3 ^a
Direct investment (net)	-2,685.2	-3,265.3	-5,072.9	-8,090.5	-7,827.6	-7,903.5	-10,044.5
1. Abroad	875.1	966.6	1,825.9	2,335.1	2,151.8	2,484.3	2,402.3
1.1. Equity capital and reinvested earnings	824.1	926.3	1,783.8	2,258.2	2,070.6	2,392.5	2,298.7
Claims	824.1	926.3	1,783.8	2,258.2	2,070.6	2,392.5	2,298.7
Liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.2. Other capital	51.0	40.3	42.1	76.9	81.2	91.8	103.6
Claims	....	....	....	....	....	....	....
Liabilities	....	....	....	....	....	....	....
1.3. Financial derivatives (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. In Croatia	3,560.3	4,231.8	6,898.8	10,425.6	9,979.5	10,387.8	12,446.8
2.1. Equity capital and reinvested earnings	2,904.1	3,276.3	5,444.4	8,170.3	7,724.9	8,081.2	10,059.2
Claims	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities	2,904.1	3,276.3	5,444.4	8,170.3	7,724.9	8,081.2	10,059.2
2.2. Other capital	656.2	955.5	1,454.4	2,255.3	2,254.6	2,306.5	2,387.6
Claims	....	....	....	....	....	....	....
Liabilities	....	....	....	....	....	....	....
2.3. Financial derivatives (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0

^a Preliminary data. ^b Revised data.

Table H17: International Investment Position – Portfolio Investment

Million US dollars

	2000 ^b	2001 ^b	2002 ^b	2003 ^b	2004		
					Q1 ^b	Q2 ^b	Q3 ^a
Portfolio investment (net)	-3,274.1	-3,854.7	-4,664.7	-6,280.1	-6,448.8	-7,099.5	-7,465.5
1. Assets	14.3	22.5	40.9	57.5	52.0	59.2	56.6
1.1. Equity capital and reinvested earnings	14.3	22.5	40.9	57.5	52.0	59.2	56.6
Banks	7.2	7.1	8.5	6.1	5.4	6.2	5.9
Other sectors	7.1	15.4	30.3	48.6	43.6	50.1	47.7
1.2. Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Liabilities	3,288.4	3,877.2	4,705.6	6,337.6	6,500.8	7,158.7	7,522.0
2.1. Equity capital and reinvested earnings	108.8	145.4	180.8	213.1	204.7	217.7	306.9
Banks	36.5	36.2	37.7	48.2	43.5	43.0	54.1
Other sectors	72.3	109.2	143.0	165.0	161.2	174.7	252.8
2.2. Debt securities	3,179.6	3,731.8	4,524.8	6,124.5	6,296.1	6,940.9	7,215.1
Bonds	3,170.1	3,704.4	4,524.8	6,082.7	6,251.5	6,932.7	7,215.1
General government	3,141.2	3,677.1	4,357.1	5,646.5	5,825.3	6,386.8	6,145.6
Banks	0.0	0.0	0.0	0.0	0.0	0.0	554.5
Other sectors	28.9	27.3	167.7	436.2	426.2	545.9	515.0
Money market instruments	9.5	27.4	0.0	41.8	44.6	8.2	0.0
Other sectors	9.5	27.4	0.0	41.8	44.6	8.2	0.0

^a Preliminary data. ^b Revised data.

Table H18: International Investment Position – Other Investment

Million US dollars

	2000 ^b	2001 ^b	2002 ^b	2003 ^b	2004		
					Q1 ^b	Q2 ^b	Q3 ^a
Other investment (net)	-3,306.3	-1,547.9	-5,311.9	-8,293.5	-9,665.9	-10,111.6	-9,939.9
1. Assets	3,942.3	5,389.6	4,515.7	7,367.4	6,339.3	6,566.9	6,852.6
1.1. Trade credits	186.3	181.8	188.6	222.7	238.9	220.5	207.0
1.1.1. General government	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
1.1.2. Other sectors	186.3	181.8	188.5	222.6	238.9	220.5	206.9
Long-term	154.4	158.9	176.6	216.9	233.2	214.9	201.2
Short-term	31.9	22.9	11.9	5.8	5.6	5.6	5.7
1.2. Loans	154.7	107.3	134.1	149.5	147.5	134.5	145.2
1.2.1. General government	3.5	5.4	5.8	6.6	6.1	6.1	5.7
Long-term	3.5	5.4	5.8	6.6	6.1	6.1	5.7
1.2.2. Banks	121.7	73.0	97.5	107.7	106.5	93.3	103.0
Long-term	83.6	41.4	62.7	77.8	79.2	69.1	67.3
Short-term	38.1	31.6	34.8	29.9	27.3	24.2	35.7
1.2.3. Other sectors	29.6	28.9	30.7	35.2	34.9	35.1	36.5
Long-term	29.6	28.9	30.6	35.2	34.9	35.0	36.0
Short-term	0.0	0.0	0.1	0.0	0.0	0.1	0.5
1.3. Currency and deposits	3,601.2	5,100.5	4,193.1	6,995.3	5,952.9	6,211.9	6,500.4
1.3.2. General government	69.0	83.5	120.5	102.3	202.6	274.9	181.8
1.3.3. Banks	2,389.2	3,915.0	2,868.6	5,689.0	4,546.3	4,733.0	5,114.6
1.3.4. Other sectors	1,143.0	1,102.0	1,204.0	1,204.0	1,204.0	1,204.0	1,204.0
1.4. Other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Liabilities	7,248.6	6,937.5	9,827.6	15,660.9	16,005.2	16,678.5	16,792.5
2.1. Trade credits	334.0	274.4	320.2	277.2	263.9	249.6	245.1
2.1.1. General government	0.1	1.1	1.1	3.1	3.0	3.4	2.9
Long-term	0.1	1.1	1.1	3.1	3.0	3.4	2.9
Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.1.2. Other sectors	334.0	273.3	319.1	274.1	261.0	246.3	242.1
Long-term	269.5	236.3	268.1	249.4	230.0	208.7	205.5
Short-term	64.4	36.9	51.0	24.7	31.0	37.6	36.6
2.2. Loans	6,481.8	6,029.6	7,531.8	11,638.7	11,969.8	12,729.6	13,402.3
2.2.1. Croatian National Bank	158.7	122.1	0.0	0.0	0.0	0.0	0.0
o/w: IMF	158.7	122.1	0.0	0.0	0.0	0.0	0.0
2.2.2. General government	1,687.1	1,454.4	2,002.2	2,806.3	2,816.3	2,910.6	3,194.2
Long-term	1,327.1	1,454.4	2,002.2	2,806.3	2,816.3	2,910.6	3,194.2
Short-term	360.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.3. Banks	1,653.7	1,623.7	2,000.5	3,614.8	3,847.8	4,149.1	4,162.9
Long-term	1,640.0	1,621.4	2,000.2	3,516.8	3,749.4	4,072.1	4,094.1
Short-term	13.7	2.3	0.4	98.0	98.4	76.9	68.9
2.2.4. Other sectors	2,982.3	2,829.4	3,529.1	5,217.7	5,305.7	5,670.0	6,045.1
Long-term	2,838.0	2,742.1	3,450.0	5,054.8	5,104.7	5,427.0	5,787.3
Short-term	144.3	87.4	79.1	162.9	201.0	243.1	257.9
2.3. Currency and deposits	432.8	633.5	1,975.7	3,745.0	3,771.5	3,699.3	3,145.1
2.3.1. Banks	432.8	633.5	1,975.7	3,745.0	3,771.5	3,699.3	3,145.1
2.4. Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0

^a Preliminary data. ^b Revised data.

Table I1: Consolidated Central Government

Million kuna

	2000	2001	2002	2003 ^a	2004.			
					Jan.	Feb.	Mar.	Apr.
REVENUE AND GRANTS								
1. Budgetary central government	44,635.7	52,747.4	66,932.2	74,953.7	5,271.3	4,903.1	6,434.6	6,324.4
2. Central government funds	22,099.3	18,098.2	4,026.3	6,038.3	601.0	439.3	515.7	418.8
2.1. Pension Fund	11,254.2	5,806.8	129.8	108.9	51.1	11.2	15.0	9.2
2.2. Health Insurance Fund	8,967.4	10,314.5	473.7	822.3	43.3	50.8	48.9	37.6
2.3. Employment Fund	822.4	910.9	25.4	17.9	2.0	1.4	1.7	1.4
2.4. Child Benefit Fund	7.1	5.1	–	–	–	–	–	–
2.5. Croatian Waters	1,048.2	1,060.9	1,098.8	1,144.8	123.6	59.4	73.8	75.1
2.6. Environment Protection Fund	–	–	–	–	–	–	11.3	18.1
2.7. Development and Employment Fund	–	–	1,797.8	–	–	–	–	–
2.8. Regional Development Fund	–	–	500.9	–	–	–	–	–
2.9. Croatian Highways	–	–	–	1,932.4	161.5	114.6	144.9	152.0
2.10. Croatian Roads	–	–	–	1,185.0	103.2	89.3	106.7	108.5
2.11. State Agency for Deposit Insurance and Bank Rehabilitation	–	–	–	584.5	97.7	105.9	103.2	7.9
2.1. Croatian Privatization Fund	–	–	–	242.5	18.6	6.7	10.2	9.0
A. Total (1+2)	66,735.0	70,845.6	70,958.5	80,992.0	5,872.3	5,342.4	6,950.3	6,743.2
EXPENDITURE AND LENDING (minus repayments)								
3. Budgetary central government	36,730.8	44,844.5	67,543.8	74,713.8	5,177.9	6,178.6	7,445.1	7,565.1
4. Central government funds	37,701.4	30,044.6	7,030.5	11,920.5	1,054.5	595.4	927.8	777.6
4.1. Pension Fund	20,180.8	12,125.3	1,558.1	1,838.0	82.1	75.9	82.0	84.7
4.2. Health Insurance Fund	13,918.1	13,192.7	1,261.1	875.0	35.2	85.4	62.7	72.5
4.3. Employment Fund	995.5	983.4	236.7	136.5	9.0	9.0	7.4	9.7
4.4. Child Benefit Fund	1,250.6	2,467.0	–	–	–	–	–	–
4.5. Croatian Waters	1,356.4	1,276.1	1,409.9	1,691.0	180.5	57.2	91.1	87.1
4.6. Environment Protection Fund	–	–	–	–	0.1	0.1	0.7	0.8
4.7. Development and Employment Fund	–	–	2,288.0	–	–	–	–	–
4.8. Regional Development Fund	–	–	276.6	–	–	–	–	–
4.9. Croatian Highways	–	–	–	5,583.5	646.8	280.2	525.4	364.5
4.10. Croatian Roads	–	–	–	1,369.9	108.9	77.9	151.3	121.6
4.11. State Agency for Deposit Insurance and Bank Rehabilitation	–	–	–	253.2	1.4	1.0	1.6	1.0
4.12. Croatian Privatization Fund	–	–	–	173.3	– 9.3	8.7	5.6	35.8
B. Total (3+4)	74,432.3	74,889.1	74,574.3	86,634.3	6,232.4	6,773.9	8,373.0	8,342.7
C. Overall surplus/deficit (A-B)	–7,697.3	–4,043.5	–3,615.8	–5,642.3	–360.1	–1,431.6	–1,422.7	–1,599.4
5. Budgetary central government (1-3)	7,904.8	7,902.9	–611.6	239.9	93.4	–1,275.5	–1,010.5	–1,240.7
6. Central government funds (2-4)	–15,602.1	–11,946.4	–3,004.2	–5,882.2	–453.5	–156.1	–412.2	–358.8

^a Preliminary data. Source: Ministry of Finance.

Table I2: Budgetary Central Government Operations

Million kuna

	2000	2001	2002	2003 ^c	2004			
					Jan.	Feb.	Mar.	Apr.
1. Total revenue	44,635.7	53,503.6	69,869.1	78,249.6	5,552.5	5,244.8	6,718.9	6,616.4
1.1. Current revenue	41,535.0	48,906.3	69,651.1	74,652.1	5,530.3	5,231.0	6,690.7	6,599.9
1.1.1. Tax revenue	39,939.0	47,274.0	67,965.5	72,697.9	5,446.3	5,128.5	6,542.8	6,493.6
1.1.2. Nontax revenue	1,595.9	1,632.3	1,685.6	1,954.1	84.0	102.5	147.9	106.3
1.2. Capital revenue	3,100.7	4,597.3	218.0	3,597.6	22.2	13.8	28.3	16.5
2. Grants	0.0	0.0	0.0	10.4	0.0	0.0	0.0	0.0
2.1. Current	0.0	0.0	0.0	10.4	0.0	0.0	0.0	0.0
2.2. Capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
A. Total revenue and grants (1+2)	44,635.7	53,503.6	69,869.1	78,260.0	5,552.5	5,244.8	6,718.9	6,616.4
3. Total expenditure	49,567.5	56,723.3	71,992.1	79,113.1	5,528.0	6,495.0	7,667.3	7,947.7
3.1. Current expenditure	44,237.4	52,819.2	68,923.5	75,041.4	5,425.5	6,386.2	7,353.6	7,539.5
3.2. Capital expenditure	5,330.1	3,904.1	3,068.7	4,071.7	102.6	108.8	313.6	408.1
4. Lending minus repayments	1,176.1	1,089.5	1,377.5	1,333.5	23.5	107.6	194.4	55.3
B. Total expenditure and lending minus repayment	50,743.5	57,812.8	73,369.6	80,446.6	5,551.5	6,602.7	7,861.7	8,002.9
5. Current account surplus without grants (1.1.-3.1.)	-2,702.4	-3,912.9	727.6	-389.3	104.8	-1,155.2	-662.9	-939.6
6. Current account surplus with current grants (5+2.1.)	-2,702.4	-3,912.9	727.6	-378.9	104.8	-1,155.2	-662.9	-939.6
7. Gross fixed capital formation ^a	-395.4	-3,101.4	966.7	-1,627.6	6.0	24.8	98.2	168.1
8. Gross capital formation ^b	-395.4	-3,101.4	966.7	-1,627.6	6.0	24.8	98.2	168.1
C. Overall surplus/deficit (A-B)	-6,107.9	-4,309.1	-3,500.5	-2,186.6	1.0	-1,357.9	-1,142.8	-1,386.5
9. Foreign financing	6,921.5	2,299.6	2,347.8	3,050.0	-666.6	-4.7	-57.0	4,823.0
10. Domestic financing	-813.6	2,009.6	1,152.7	-863.4	665.6	1,362.6	1,199.8	-3,436.4
10.1. From other general government	-92.0	-11.0	0.0	0.0	0.0	0.0	0.0	0.0
10.2. From monetary authorities	-12.5	-389.1	241.7	-1,026.8	670.3	355.4	-1,237.3	-3,426.3
10.3. From banks	-288.8	2,559.1	782.9	168.6	-18.9	997.5	2,523.6	241.0
10.4. Other domestic financing	-420.3	-149.4	128.1	-5.2	14.2	9.7	-86.6	-251.0
D. Total financing (9+10)	6,107.9	4,309.1	3,500.5	2,186.6	-1.0	1,357.9	1,142.8	1,386.5

^a Net purchase of fixed capital formation. ^b Net purchase of fixed capital formation and net purchase of shares. ^c Preliminary data. Source: Ministry of Finance.

Table I3: Central Government Debt

End of period, million kuna

	2000	2001	2002	2003	2004					
	Dec.	Dec.	Dec. ^a	Dec. ^a	Mar.	Jun.	Jul.	Aug.	Sep.	Oct.
1. Domestic debt of central government	21,324.2	24,907.3	28,746.7	32,053.4	33,784.4	35,405.9	37,062.9	36,923.8	38,031.0	38,831.5
1.1. Domestic debt of the Republic of Croatia	18,509.7	21,467.9	20,997.9	25,676.1	26,842.8	28,877.3	32,747.7	32,585.6	34,229.0	34,844.5
Treasury bills	2,564.6	4,892.3	5,632.7	6,548.1	6,349.1	8,263.2	7,944.5	7,471.7	8,067.2	8,630.5
Money market instruments	14.2	7.4	0.1	0.3	–	54.2	5.0	–	–	–
Bonds	14,082.5	15,415.8	13,565.7	14,937.3	16,539.4	16,341.2	18,890.3	18,757.1	19,936.9	19,806.6
Credits from the CNB	0.0	–	0.5	1.4	1.9	3.0	3.5	0.6	1.0	1.6
Credits from banks	1,848.4	1,152.4	1,798.8	4,189.1	3,952.3	4,215.8	5,904.5	6,356.3	6,223.9	6,405.7
1.2. Domestic debt of central government funds	2,814.4	3,439.4	7,748.9	6,377.3	6,941.6	6,528.6	4,315.2	4,338.2	3,802.0	3,987.0
Money market instruments	–	–	–	–	–	–	–	–	0.0	–
Bonds	1,686.8	1,636.1	4,108.1	3,418.2	3,305.8	3,292.5	1,666.5	1,663.1	1,698.3	1,685.4
Credits from banks	1,127.6	1,803.3	3,640.7	2,959.1	3,635.9	3,236.0	2,648.7	2,675.0	2,103.8	2,301.7
2. External debt of central government	38,927.2	42,413.4	45,057.8	51,433.9	52,076.3	56,076.4	56,044.7	56,328.0	56,992.6	56,489.1
2.1. External debt of the Republic of Croatia	36,845.7	39,656.8	38,648.9	42,234.3	40,828.8	44,218.5	42,647.7	42,928.0	43,335.5	42,907.0
Money market instruments	–	–	–	–	–	–	–	–	–	–
Bonds	25,231.2	30,029.0	30,115.3	33,547.8	32,319.2	35,744.2	34,207.4	34,246.2	34,628.9	34,329.4
Credits	11,614.5	9,627.8	8,533.6	8,686.5	8,509.6	8,474.3	8,440.3	8,681.8	8,706.6	8,577.5
2.2. External debt of central government funds	2,081.5	2,756.7	6,409.0	9,199.6	11,247.5	11,857.9	13,397.0	13,400.0	13,657.1	13,582.2
Money market instruments	–	–	–	–	–	–	–	–	–	–
Bonds	386.5	696.6	1,019.3	1,000.3	2,958.2	2,946.3	2,962.6	2,956.7	3,019.1	2,996.2
Credits	1,695.0	2,060.0	5,389.6	8,199.3	8,289.3	8,911.6	10,434.4	10,443.3	10,638.0	10,586.0
3. Total (1+2)	60,251.4	67,320.8	73,804.6	83,487.3	85,860.7	91,482.3	93,107.6	93,251.8	95,023.6	95,320.6
Supplement: Central government guaranteed debt										
– guarantees for domestic debt	3,412.3	6,025.6	7,528.1	6,895.4	6,688.5	5,879.2	5,872.2	6,130.7	5,991.6	5,691.7
– guarantees for external debt	9,636.0	8,525.1	7,954.8	8,314.2	7,916.3	8,059.1	7,881.6	7,903.8	7,762.6	7,613.9

^a Irrespective of the note under the heading "Classification and Presentation of Data on Claims and Liabilities", the debt of the Croatian Roads, the Croatian Highways and the State Agency for Deposit Insurance and Bank Rehabilitation, contained in this table, was reclassified from the sub-sector the Republic of Croatia to the sub-sector central government funds in December 2002.

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 Sta-

tistical 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, 2001 = 100			Chain indices				Monthly year-on-year indices			
		Consumer price indices			Consumer price indices ^a			Producer prices	Consumer price indices ^a			Producer prices
		Total	Goods	Services	Total	Goods	Services		Total	Goods	Services	
1994	December	....	....	....	100.2	100.1	100.8	100.2	97.0	95.0	108.1	94.5
1995	December	....	....	....	100.2	100.2	99.8	100.5	103.7	102.4	109.3	101.6
1996	December	....	....	....	100.0	100.2	99.5	100.3	103.4	102.3	108.7	101.5
1997	December	....	....	....	100.7	100.3	102.3	99.9	103.8	102.7	108.2	101.6
1998	December	....	....	....	100.2	100.2	100.1	100.0	105.4	104.3	109.2	97.9
1999	December	....	....	....	100.3	100.5	100.0	100.3	104.4	104.6	103.9	105.9
2000	December	....	....	....	100.0	99.9	100.2	100.2	107.4	107.8	105.7	111.2
2001	December	100.5	99.8	103.5	100.4	100.4	100.5	99.0	102.6	100.6	110.3	96.9
2002	December	102.4	100.9	108.3	100.4	100.6	99.6	99.9	101.8	101.1	104.6	102.3
2003	September	103.6	102.0	110.3	100.2	100.8	98.2	99.6	101.9	101.9	102.0	101.2
	October	103.6	102.0	110.0	100.0	100.1	99.8	100.2	101.8	101.8	101.7	100.0
	November	103.8	102.3	110.1	100.2	100.3	100.1	100.3	101.8	102.0	101.3	100.9
	December	104.1	102.5	110.6	100.3	100.2	100.5	100.0	101.7	101.6	102.2	101.0
2004	January	105.1	103.7	111.0	101.0	101.1	100.4	100.3	102.1	102.1	102.4	100.8
	February	105.0	103.4	111.5	99.9	99.8	100.5	99.7	101.8	101.6	102.6	100.1
	March	105.1	103.5	111.8	100.1	100.0	100.3	100.2	101.4	101.1	102.6	99.5
	April	105.3	103.7	111.9	100.2	100.2	100.0	100.9	101.9	101.8	102.6	101.3
	May	106.1	104.2	113.5	100.7	100.5	101.5	102.3	102.4	102.0	103.6	104.4
	June	105.8	103.6	114.3	99.7	99.5	100.7	99.7	102.5	102.1	103.7	103.9
	July	105.3	102.7	115.6	99.6	99.1	101.2	100.9	101.9	101.6	103.0	104.6
	August	105.4	102.7	115.8	100.1	100.1	100.2	101.0	102.0	101.6	103.1	105.1
	September	105.2	102.7	115.0	99.8	100.0	99.3	100.2	101.6	100.7	104.3	105.7
	October	105.7	103.5	114.3	100.4	100.7	99.4	100.8	102.0	101.4	103.9	106.3
	November	106.2	104.1	114.4	100.5	100.6	100.0	99.5	102.3	101.8	103.9	105.5

^a Data from January 1992 to December 2000 relate to the retail price index. ^b Data from January 1992 to December 2001 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. 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 J2a: Core Retail Price Indices

Year	Month	Chain indices			Monthly year-on-year indices		
		Total	Goods	Services	Total	Goods	Services
1994	December	100.1	99.9	101.2	96.3	94.8	109.1
1995	December	100.1	100.0	100.5	103.1	102.6	107.1
1996	December	100.0	100.0	100.0	102.8	101.9	109.5
1997	December	100.2	100.2	100.5	102.5	102.3	104.5
1998	December	100.1	100.0	100.2	105.7	105.3	107.8
1999	December	100.1	100.2	100.0	104.2	104.2	104.1
2000	December	100.1	100.1	100.2	104.6	104.8	103.5
2001	December	99.8	99.7	100.8	101.7	101.1	105.6
2002	December	100.0	100.0	100.0	101.2	101.4	100.2
2003	January	99.7	99.6	100.1	100.6	100.7	99.2
	February	99.9	99.9	99.9	100.3	100.5	98.9
	March	100.1	100.1	100.2	100.2	100.4	99.1
	April	100.0	99.9	100.5	100.1	100.1	99.5
	May	100.3	100.2	100.7	100.3	100.3	100.1
	June	100.2	100.2	100.1	100.5	100.5	100.2
	July	99.8	99.7	100.8	100.6	100.5	101.0
	August	99.9	99.8	100.1	100.5	100.3	101.3
	September	100.7	100.9	100.2	100.9	100.9	101.4
	October	100.5	100.4	100.6	101.0	100.8	101.5
	November	100.2	100.2	100.3	101.3	100.9	103.5
	December	99.9	99.8	100.1	101.2	100.7	103.6

Source: Central Bureau of Statistics.

Table J2a: Core Retail Price Indices

The Central Bureau of Statistics calculates the core retail price index in the manner that agricultural products prices and administrative prices (which among others include the prices of electricity and refined petroleum products) are excluded from the basket of goods

and services used in the calculation of the retail price index. A total of 92 goods and services are excluded and their share in the retail price basket stood at 25.14% in 2003 (of which: agricultural products accounted for 2.18 percentage points, and administrative prices for 22.96 percentage points). The zero weighting method is used to exclude the prices of goods and services.

Table J2b: Core Consumer Price Indices

Year	Month	Basic indices, 2001 = 100			Chain indices			Monthly year-on-year indices		
		Total	Goods	Services	Total	Goods	Services	Total	Goods	Services
2001	December	100.3	100.1	101.8	99.8	99.7	100.3	....	....	....
2002	December	101.5	101.1	104.2	100.0	100.1	99.4	101.2	101.0	102.4
2003	September	101.7	101.0	106.7	99.7	100.3	96.3	100.7	100.3	102.8
	October	102.3	101.7	106.2	100.5	100.7	99.5	101.0	100.8	102.3
	November	102.5	101.9	106.3	100.2	100.3	100.1	101.0	100.9	101.3
	December	102.7	102.0	107.3	100.2	100.1	101.0	101.2	100.9	103.0
2004	January	102.7	101.8	108.1	100.0	99.8	100.7	101.3	101.0	103.6
	February	102.5	101.5	108.5	99.8	99.7	100.4	101.3	100.9	103.7
	March	102.5	101.5	108.6	100.0	100.0	100.1	101.4	101.0	103.6
	April	102.7	101.8	108.5	100.2	100.3	99.9	101.9	101.6	103.3
	May	103.1	102.2	109.2	100.4	100.3	100.7	101.8	101.5	103.6
	June	103.5	102.3	110.9	100.4	100.2	101.5	101.9	101.5	104.0
	July	103.7	102.2	112.8	100.2	99.9	101.8	101.6	101.6	101.9
	August	104.3	102.9	112.9	100.6	100.6	100.1	102.2	102.2	101.9
	September	104.2	103.0	111.2	99.9	100.1	98.5	102.4	102.0	104.2
	October	104.7	103.8	109.9	100.5	100.8	98.8	102.3	102.1	103.5
	November	105.0	104.2	110.0	100.3	100.4	100.1	102.4	102.2	103.5

Source: Central Bureau of Statistics

Table J2b: Core Consumer Price Indices

The Central Bureau of Statistics calculates the core consumer price index in the manner that agricultural products prices and administrative prices (which among others 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 stands at 29.77% (of which: agricultural products account for 7.19 percentage points, and administrative prices for 22.58 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
1994	December	1,646.0	119.0	153.4	233.2
1995	December	1,883.0	99.4	114.4	145.7
1996	December	2,217.0	104.4	117.7	111.8
1997	December	2,544.0	100.8	114.8	116.9
1998	December	2,935.0	104.6	115.4	112.8
1999	December	3,262.0	100.9	111.2	114.0
2000	December	3,499.0	99.9	107.3	108.9
2001	December	3,582.0	96.6	102.4	106.5
2002	December	3,839.0	98.0	107.2	105.0
2003	September	3,899.0	99.6	106.1	106.3
	October	3,996.0	102.5	106.1	106.3
	November	4,054.0	101.5	103.5	106.0
	December	4,045.0	99.8	105.4	105.9
2004	January	4,070.0	100.6	104.6	104.6
	February	4,003.0	98.4	105.7	105.2
	March	4,153.0	103.8	108.0	106.1
	April	4,129.0	99.4	106.1	106.1
	May	4,169.0	101.0	104.9	105.9
	June	4,226.0	101.4	106.0	105.9
	July	4,209.0	99.6	105.7	105.8
	August	4,178.0	99.3	106.7	106.0
	September	4,132.0	98.9	106.0	106.0

Source: Central Bureau of Statistics.

List of Banks & Savings Banks

1 December 2004

Licensed Banks

1. Banka Brod d.d., Slavonski Brod¹
2. Banka Kovanica d.d., Varaždin¹
3. Banka Sonic d.d., Zagreb
4. Banka Splitsko-Dalmatinska d.d., Split¹
5. Brodsko-posavska banka d.d., Slavonski Brod
6. Centar banka d.d., Zagreb
7. Credo banka d.d., Split
8. Croatia banka d.d., Zagreb
9. Dresdner Bank Croatia d.d., Zagreb
10. Erste & Steiermärkische Bank d.d., Zagreb
11. Gospodarsko kreditna banka d.d., Zagreb
12. Hrvatska poštanska banka d.d., Zagreb
13. HVB Splitska banka d.d., Split
14. Hypo Alpe-Adria-Bank d.d., Zagreb
15. Imex banka d.d., Split
16. Istarska kreditna banka Umag d.d., Umag
17. Jadranska banka d.d., Šibenik
18. Karlovačka banka d.d., Karlovac
19. Kreditna banka Zagreb d.d., Zagreb
20. Križevačka banka d.d. Križevci¹
21. Kvarner banka d.d., Rijeka
22. Međimurska banka d.d., Čakovec
23. Nava banka d.d., Zagreb
24. Nova banka d.d., Zagreb
25. Partner banka d.d., Zagreb
26. Podravska banka d.d., Koprivnica
27. Požeška banka d.d., Požega
28. Primorska banka d.d., Rijeka
29. Primus banka d.d., Zagreb
30. Privredna banka – Laguna banka d.d., Poreč
31. Privredna banka Zagreb d.d., Zagreb
32. Raiffeisenbank Austria d.d., Zagreb
33. Samoborska banka d.d., Samobor
34. Slatinska banka d.d., Slatina
35. Slavonska banka d.d., Osijek
36. Štedbanka d.d., Zagreb
37. Volksbank d.d., Zagreb
38. Zagrebačka banka d.d., Zagreb

Licensed Housing Savings Banks

1. PBZ Stambena štedionica d.d., Zagreb
2. Prva stambena štedionica d.d., Zagreb
3. Raiffeisen stambena štedionica d.d., Zagreb
4. Wüstenrot stambena štedionica d.d., Zagreb

Other Licensed Institutions with Full Authorization

1. Hrvatska banka za obnovu i razvitak, Zagreb

Representative Offices of Foreign Banks

1. Bank für Kärnten und Steiermark AG, Zagreb
2. Commerzbank Aktiengesellschaft, Zagreb
3. Deutsche Bank AG, Zagreb
4. Komercijalna banka a.d., Zagreb
5. LHB Internationale Handelsbank AG, Zagreb
6. Sanpaolo IMI S.p.A., Zagreb

Banks and Savings Banks under Bankruptcy Proceedings

Name of bank/savings bank	Date of bankruptcy proceedings initiation
1. Adria štedionica d.o.o., Zagreb	12/10/2000
2. Agroobrtnička banka d.d., Zagreb	14/06/2000
3. Alpe Jadran banka d.d., Split	15/06/2002
4. Cibalae banka d.d., Vinkovci	20/10/2000
5. Glumina banka d.d., Zagreb	30/04/1999
6. Gold štedionica d.o.o., Split	05/10/2001
7. Gospodarska štedionica d.d., Vrbovec	03/04/2003
8. Gradska banka d.d., Osijek	03/05/1999
9. Građanska štedionica d.o.o., Karlovac	03/11/1998
10. Hrvatska gospodarska banka d.d., Zagreb	19/04/2000
11. Ilirija banka d.d., Zagreb	06/04/1999
12. Invest štedionica d.o.o., Zagreb	30/06/1999
13. Kaptol banka d.d., Zagreb	25/11/2002
14. Komercijalna banka d.d., Zagreb	30/04/1999
15. Međimurska štedionica d.d., Čakovec	17/03/2004
16. Neretvansko gospodarska banka d.d., Ploče	10/05/1999
17. Promdei banka d.d., Zagreb	22/12/1999
18. Razvojna banka "Dalmacija" d.o.o., Split	24/09/2001
19. Slavonska štedionica d.d., Zagreb	04/12/2002
20. Štedionica Dugi pogled d.o.o., Zagreb	19/01/2001
21. Štedionica Groš banak d.o.o., Zagreb	23/04/2001
22. Štedionica Mediteran d.o.o., Split	5/12/2001
23. Štedionica za razvoj i obnovu d.o.o., Zagreb	02/07/2001
24. Trgovačko-turistička banka d.d., Split	08/09/2000
25. Županjska banka d.d., Županja	03/05/1999

¹ In accordance with Article 190 of the Banking Law and the pace prescribed therein, the bank is required to adjust its share capital to the provisions of this Law by 31 December 2006.

Banks and Savings Banks under Liquidation Proceedings

Name of bank/savings bank	Date of liquidation proceedings initiation
1. Convest banka d.d., Zagreb	01/11/2003
2. Investicijsko-komercijalna štedionica d.d., Zagreb	31/05/2000
3. Štedionica Dora d.d., Zagreb	01/01/2002
4. Štedionica SA-GA d.d., Zagreb	31/12/2001
5. Štedionica Zlatni vrutak d.d., Zagreb	28/12/2001

Banks and Savings Banks whose License Was Revoked, but Have Not Initiated Liquidation Proceedings

Name of bank/savings bank	Date of revoking operating license
1. Hibis štedionica d.d., Zagreb	07/03/2001
2. Marvil štedionica d.d., Zagreb	08/06/2001

Management of the Croatian National Bank

1 December 2004

Members of the Council of the Croatian National Bank

Chairman of the Council	Željko Rohatinski
Members of the Council	Mate Babić Alen Belullo Božidar Jelčić Branimir Lokin Čedo Maletić Relja Martić Adolf Matejka Damir Novotny Silvije Orsag Tomislav Presečan Sandra Švaljek Boris Vujčić Branko Vukmir

Management of the CNB

Governor	Željko Rohatinski
Deputy Governor	Boris Vujčić
Vicegovernor	Čedo Maletić
Vicegovernor	Relja Martić
Vicegovernor	Adolf Matejka
Vicegovernor	Tomislav Presečan

Executive Directors

Research and Statistics Area	Ljubinko Jankov
Central Banking Operation Area	Irena Kovačec
Foreign Exchange Operations Area	Jadranka Granić
Prudential Regulation and Bank Supervision Area	Marija Mijatović-Jakšić
Planning, Analysis and Accounting Area	Dijana Jakelić
Payment Operations Area	Neven Barbaroša
Information Technology Area	Mario Žgela
Support Services Area	Boris Ninić
International Relations Area	Michael Faulend

List of Abbreviations & Symbols

bn	– billion
b.p.	– basis points
CBRD	– Croatian Bank for Reconstruction and Development
CBS	– Central Bureau of Statistics
CEFTA	– Central European Free Trade Agreement
CES	– Croatian Employment Service
CH	– Croatian Highways
CIHI	– Croatian Institute for Health Insurance
CNB	– Croatian National Bank
consumpt.	– consumption
CPF	– Croatian Privatization Fund
CPII	– Croatian Pension Insurance Institute
CR	– Croatian Roads
DAB	– State Agency for Deposit Insurance and Bank Rehabilitation
dep.	– deposit
ECB	– European Central Bank
EFTA	– European Free Trade Association
EMU	– European Monetary Union
EPF	– Environment Protection Fund
EU	– European Union
excl.	– excluding
f/c	– foreign currency
FDI	– foreign direct investment
FEMPI	– Foreign Exchange Market Pressure Index
FINA	– Financial Agency
FISIM	– Financial Intermediation Services Indirectly Measured
GDP	– gross domestic product
GVA	– gross value added
HICP	– Harmonized Index of Consumer Prices
ILO	– International Labour Organization
IMF	– International Monetary Fund
MoF	– Ministry of Finance

o.w.	– of which
PPI	– producer price index
Q	– quarterly
RPI	– retail price index
RR	– reserve requirement
SAL	– Structural Adjustment Loan
SDR	– special drawing rights
VSE	– Varaždin Stock Exchange
ZMM	– Zagreb Money Market
ZSE	– Zagreb Stock Exchange
VAT	– Value Added Tax
WTO	– World Trade Organization

Abbreviations for Currency

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

Symbols

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

