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BULLETIN

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General Information on Croatia

Economic Indicators

	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
Population (million)	4.494	4.572	4.501	4.554	4.381	4.437	4.443	4.442
GDP (million HRK, current prices)	107,981	123,811	137,604	141,579	152,519	165,639	179,390	193,067
GDP (million EUR, current prices) ^a	15,869	17,790	19,281	18,679	19,976	22,177	24,220	25,526
GDP per capita (in EUR)	3,531	3,891	4,284	4,102	4,560	4,998	5,451	5,747
GDP – year-on-year rate of growth (in %, constant prices)	5.9	6.8	2.5	-0.9	2.9	4.4	5.2	4.3
Average year-on-year inflation rate ^b	3.5	3.6	5.7	4.0	4.6	3.8	1.7	1.8
Current account balance (million EUR) ^c	-755	-2,192	-1,305	-1,309	-487	-789	-2,098	-1,757
Current account balance (as % of GDP)	-4.8	-12.3	-6.8	-7.0	-2.4	-3.6	-8.7	-6.9
Exports of goods and services (as % of GDP) ^c	38.7	40.3	39.8	40.9	47.1	48.7	45.9	51.9
Imports of goods and services (as % of GDP) ^c	48.0	56.8	49.1	49.3	52.3	54.6	57.0	59.5
Outstanding external debt (million EUR, end of year) ^d	4,284	6,761	8,254	9,937	11,865	12,828	15,055	19,811
Outstanding external debt (as % of GDP)	27.0	38.0	42.8	53.2	59.4	57.8	62.2	77.6
Outstanding external debt (as % of exports of goods and services)	69.8	94.4	107.5	130.0	126.1	118.8	135.3	149.5
External debt service (as % of exports of goods and services) ^{d,e}	9.0	9.8	12.3	20.7	23.2	24.3	27.4	19.9
Gross international reserves (million EUR, end of year)	1,868	2,304	2,400	3,013	3,783	5,334	5,651	6,554
Gross international reserves (in terms of months of imports of goods and services, end of year)	2.9	2.7	3.0	3.9	4.3	5.3	4.9	5.2
National currency: Croatian kuna (HRK)								
Exchange rate on 31 December (HRK : 1 EUR)	6.8636	6.9472	7.3291	7.6790	7.5983	7.3700	7.4423	7.6469
Exchange rate on 31 December (HRK : 1 USD)	5.5396	6.3031	6.2475	7.6477	8.1553	8.3560	7.1457	6.1185
Average exchange rate (HRK : 1 EUR)	6.8047	6.9597	7.1366	7.5796	7.6350	7.4690	7.4068	7.5634
Average exchange rate (HRK : 1 USD)	5.4338	6.1571	6.3623	7.1124	8.2768	8.3391	7.8637	6.7014
Consolidated central government deficit (as % of GDP) ^f	....	....	....	-6.5	-7.1	-5.4	-5.0	-4.9
Unemployment rate (ILO, persons above 15 years of age) ^g	10.0	9.9	11.4	13.6	16.1	15.8	14.8	14.3
Employment rate (ILO, persons above 15 years of age) ^g	50.6	49.3	47.0	44.8	42.6	41.8	43.3	43.1

^a Calculated by applying the average annual exchange rate (HRK/1 EUR) to the GDP in kuna terms.

^b Inflation rate was measured by the RPI in the 1994-1998 period. From 1999 on, it is measured by the CPI.

^c Preliminary data.

^d External debt indicators for 2002 and 2003 are shown on a gross basis, while the indicators for 2001 and previous years do not include interest arrears and accrual interest, hybrid and subordinated instruments, repo transactions of banks and the CNB, deposits of international financial institutions with the CNB, and one-sided effects of the secondary bond market.

^e 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.

^f On a cash basis.

^g Employment and unemployment rates as at November 1996 and as at June 1997.

Sources: CBS, MoF and CNB.

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Quarterly Report

Introduction

GDP data for the first three quarters of 2004 show a mild deceleration of economic growth from an annual rate of 4.2% in the first quarter to 3.6% in the third quarter. Monthly data available at the time of writing, while providing some mixed signals, suggest continued deceleration or possibly stagnation of the growth rate. Indicators of consumer sentiment and retail sales suggest somewhat weaker consumption growth in the fourth quarter than in the third quarter, but industrial output seems to have accelerated somewhat. Indicators of investment, such as imports of capital goods, building permits and government capital expenditures all point to weak investment activity in the fourth quarter. Overall, it is clear that economic growth will turn out lower in 2004 than in 2003.

For the first time in more than two years, the sources of growth have changed; where personal consumption and investment in fixed capital had been the motors of growth since mid-2002, in the third quarter of 2004, investment in fixed capital made almost no contribution at all, due to the completion of the current cycle of highway construction, while net exports of goods and services contributed 1.8 percentage points. It is too early to tell whether growth in external demand will continue to supplement consumption growth; however, it is important to note that the positive contribution of external demand in the third quarter came from net exports of goods as well as net exports of services. In particular, industrial exports showed strong growth in the third quarter.

Economic growth in Croatia was at the lower end of the range of growth rates in transition countries of Central and Eastern Europe in the third quarter. Croatia's 3.6% growth rate was roughly equal to the Czech Republic's 3.6% and Hungary's 3.7%, but well below rapid-growing Estonia's 6.1% and Lithuania's 9.1%. All of the transition countries are growing much faster than the eurozone, which grew only 1.7% year-on-year in the third quarter.

Employment seems to have grown mildly in 2004. The number of workers insured by the CPII was up 1.1% year-on-year in the fourth quarter. This indicator seems to be more reliable than the preliminary employment estimate of the CBS, which in the past has always been revised upwards considerably. Despite apparent employment growth, registered unemployment rose in the fourth quarter, in keeping with the usual seasonal pattern. Registered unemployment reached 18.7% at the end of December, the same rate that was seen in December 2003.

Wage growth moderated during the fourth quarter of 2004. The average real gross wage growth was 3.7% year-on-year in the fourth quarter, 1.1 percentage points lower than in the second and third quarter. The average net wages grew at a somewhat slower real rate of 3.1% as wage increases pushed some workers into higher tax brackets.

Inflation rose mildly towards the end of 2004, and the annual rate of growth of consumer prices increased from an average of 1.8% in 2003 to 2.1% in 2004. Looking at the end-year figures, the increase is larger, from 1.7% in De-

cember 2003 to 2.7% in December 2004. However, even this latter level is only 0.3 percentage points above the eurozone average of 2.4% for December 2004. Furthermore, inflation immediately fell to 2.0% in January 2005.

The mild increase in inflation in 2004 can mainly be attributed to administratively regulated prices, whose rate of growth rose from 0.7% in December 2003 to some 5.5% in December 2004. The main items responsible for the increase were oil products, natural gas and water supply to households. In addition, prices of tobacco products rose due to the imposition of higher excise taxes in August.

Automobiles and agricultural products helped prevent greater inflation. Prices of automobiles actually fell 4.0% year-on-year in December 2004, as dealers tried to maintain sales volumes with price discounts. And agricultural product prices fell 2.2% year-on-year in the same month.

Inflationary pressures on world markets in 2004 were seen not only in the 30.4% increase in oil prices, but also in price increases for iron ore (40.6%), sugar (30.7%) and aluminum (24.3%). The impact of these imported inflationary pressures was partly mitigated by the 7.9% appreciation of the kuna against US dollar in 2004 (31 December 2003 to 31 December 2004). In the year to come, it seems likely that oil prices will peak and then fall. However, inflationary pressures on other raw materials prices could continue as the world economic recovery accelerates. Further appreciation of the kuna against the dollar seems likely, but probably will not be enough to completely offset such imported inflationary pressures.

Other sources of inflation remain contained. Wage growth decelerated in the fourth quarter, and appreciation pressures remain strong. The average daily kuna/euro exchange rate appreciated 0.9% in 2004, and the real effective exchange rate appreciated 4.0% deflated by consumer prices and 4.1% deflated by producer prices.

With inflation at moderate levels, monetary policy has focused on the problem of external imbalance. Tighter monetary policy has succeeded in lowering the rate of growth of bank lending from some 30.2% in 2002 to 15.8% in 2003 and 13.8% in 2004. The rate of growth of loans to households continued to fall in 2004, decreasing to 18.7% from 27.7% in 2003, while the rate of growth of loans to enterprises rose mildly to 8.0% from 5.1% in 2003. These figures are only partially comparable, however, since banks encouraged corporate customers to use leasing and to borrow directly from the banks' parent companies abroad in 2003.

While slower lending growth has contributed to an improvement in Croatia's current account and in particular to slower import growth, the issue of external debt has increasingly come to the fore. During 2004, the central bank attempted to discourage bank foreign borrowing by imposing a 24% marginal reserve requirement on the increase in banks' foreign liabilities in July. This rate was raised in February 2005 to 30% in an attempt to further decrease the profitability of borrowing from abroad and lending in Croatia.

In addition, the central bank continued its efforts to facilitate the Ministry of Finance's efforts to switch from foreign to domestic financing of the government deficit. In February

2005, the central bank lowered its requirement for banks to hold liquid foreign exchange assets on the basis of their foreign exchange liabilities from 35% to 32%. This move freed up enough foreign exchange to allow the government to pay off the 500 million EUR eurobond that mature in March 2005.

While this move will have the direct effect of replacing foreign with domestic debt, it should be noted that the decrease from 35% to 32% makes foreign funding slightly less expensive. Furthermore, Croatia's banks may partly fund their loans to the government and private sector from increased foreign borrowing. Thus, this switch, while a helpful one-time policy measure, is not a substitute for fiscal adjustment to decrease the government's borrowing requirements, lower interest rates on the domestic financial markets and contain aggregate demand.

The restrictive stance of monetary policy resulted in slower growth of monetary aggregates in 2004 than in years past. M1 grew only 2.0% in 2004, compared to 9.8% in 2003. The broadest monetary aggregate, M4, grew 8.5% in 2004. Within M4, the growth of kuna deposits indexed to foreign exchange was especially rapid. Household kuna deposits indexed to foreign exchange grew as much as 104.4%. Foreign exchange deposits, which continue to constitute the overwhelming majority of deposits, grew 8.5% at constant exchange rates.

Although deposit growth was solid in 2004, it was still not enough to fully fund the increase in bank placements. Banks filled the funding gap mainly through foreign borrowing. Unless the savings rate increases or loan demand decreases, this funding gap will persist in the future.

Croatia's merchandise trade deficit continued to narrow in the fourth quarter, reaching EUR 1.7bn or 8.2% less than in the same period of the previous year. Continued slowing of import growth contributed to the improved balance, along with strong export performance in the areas of shipbuilding, oil products, electrical machinery, apparatus and equipment. Total merchandise exports grew 21.6% in US dollars at constant exchange rates in 2004. Excluding ships, oil and oil products, exports still grew 15.2%, 7.8 percentage points faster than the previous year. Total merchandise imports grew 8.6%, 6.7 percentage points slower than in the previous year, mostly because of the ending of imports of road-building equipment and the flattening out of automobile imports. Tourist revenues stood at EUR 5.7bn in 2004, remaining at almost the same level as last year. The reduced net outflows based on equity investments in the income account and the decreased merchandise trade deficit mostly contributed to the annual fall in the current account deficit.

Croatia's external debt stood at EUR 22.7bn at the end of 2004, an increase of EUR 2.9bn or 14.5%. Although this is a substantial improvement on the previous year's 31.6% increase, more remains to be done to achieve the goal of decreasing the country's external debt to GDP ratio. In addition, in this issue of the Bulletin, for the first time, we are publishing external debt figures in compliance with the new "External Debt Statistics – Guide for Compilers and Users" published in late 2003 by the World Bank and IMF. These standards, which are being adopted by a large number of

countries around the world, require compiling debt statistics on an accrual basis. In particular, interest accrued but not yet due and not yet paid during a reporting period is now added to the stock of debt, as are interest arrears. These changes and expanded coverage of debt instruments increased Croatia's debt totals (see Box 2).

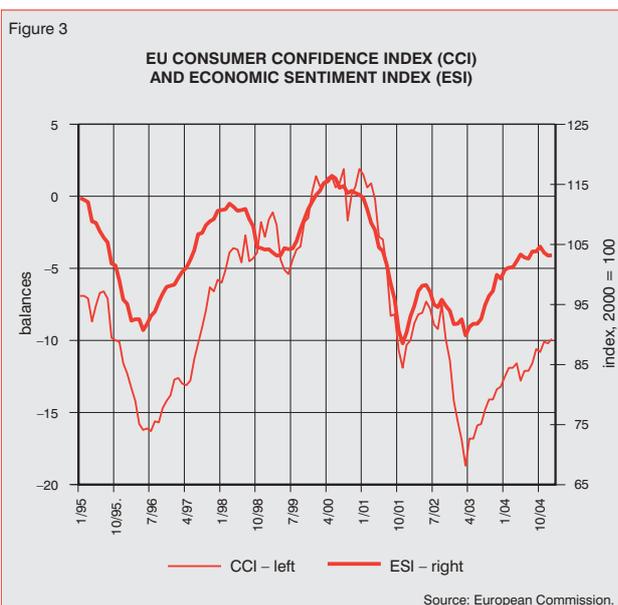
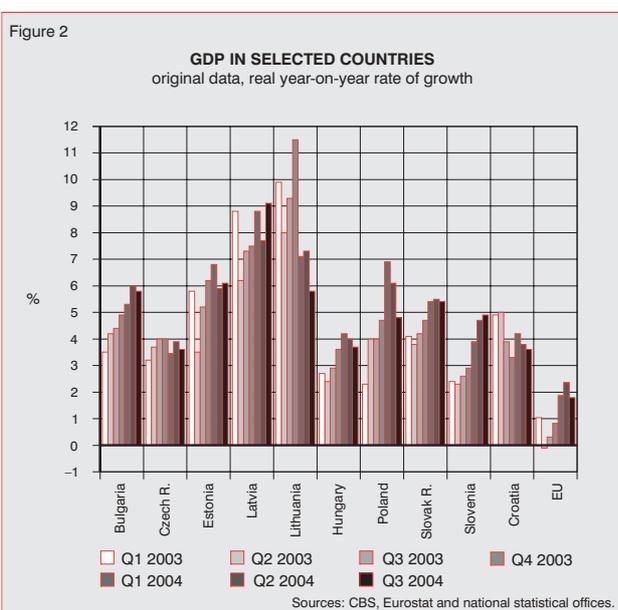
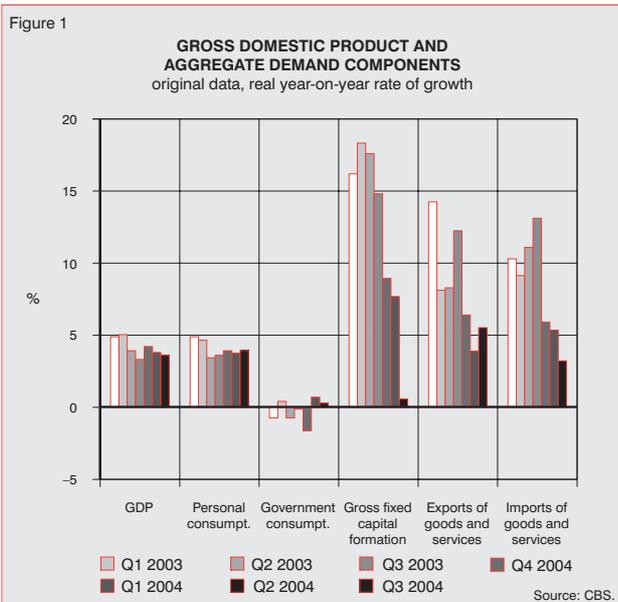
The available data on the fiscal outturn for 2004 show consolidated general government revenues falling short of plan. Tax revenues in several categories, including the VAT, pension contributions and several excise taxes, ended up below the amounts foreseen in the rebalanced budget adopted in July 2004. Also, the sale of the third mobile telephone license, planned for 2004, only occurred in February 2005. Overall, total revenues of consolidated central government rose by only 3.8% in 2004, as compared with an 8.5% increase in 2003. Tax revenues fell less sharply, to 5.5% in 2004 from 6.6% in 2003.

The government budget deficit was almost completely financed by borrowing in 2004. While both domestic and foreign borrowing were used, domestic borrowing played a greater role in 2004 than in 2003. The government raised some HRK 2.5bn and EUR 1.25bn (in kuna equivalent) on domestic markets through issues of T-bills and government bonds. Some of these proceeds were used to pay off the 25 billion JPY Samurai bond that matured in December. The only new emission of government foreign debt was a EUR 500m bond issue. Capital and privatisation revenues amounted to HRK 600m, only about one-third of the planned amount.

Demand

Quarterly gross domestic product (GDP) calculation estimate available for the first three quarters of 2004 points to a slowdown in the real growth of total economic activities during that period. The real GDP growth rate fell from 4.2% in the first quarter to 3.8% and 3.6% in the second and the third quarter, respectively, with the GDP at constant prices rising by 3.9% in the first nine months last year compared with the same period 2003. Following its robust growth in the second quarter of 2004 due to an increase in the deflator for inventories and government consumption, the growth of the implicit GDP deflator slowed down in the third quarter of 2004 causing the growth rate of GDP to fall in the first nine months of 2004 to 3.3%, or its 2003 level. As a result of the given dynamics of real economic activity and GDP deflator, nominal GDP in the first nine months of 2004 was over HRK 155bn, which is an increase of 7.3% compared with the same period previous year.

Real GDP growth in the third quarter of 2004 was mainly generated by dynamic growth of personal consumption and strengthening of net foreign demand. The factors contributing to real GDP growth at the beginning of the second half of 2004 differed greatly from those in the first half of the year, when gross fixed capital formation and personal consumption largely contributed to total growth. The contribution of gross fixed capital formation to real GDP growth in the third quarter of 2004 of only 0.1 percentage point (equalling the



contribution of government consumption during that period) was due to its decline caused by the completion of the investment cycle in road construction and large slowdown of government investment in the infrastructure.

Available indicators of economic activity on a monthly level give mixed signals which point to stagnation or further slowdown of economic growth in the last quarter of 2004. Following stabilisation of industrial production, though at somewhat lower rates, early in the second quarter of 2004, economic growth, prompted by foreign demand, started accelerating again towards the end of the year. On the other hand, as shown by seasonally adjusted data, retail trade growth in real terms slowed down in the fourth quarter of 2004, so personal consumption is not expected to contribute to GDP growth in the same way as it did in the third quarter. Consumer optimism, as shown by last results of CNB consumer confidence survey (conducted in early January 2005) declined somewhat, indicating that the beginning of the year will not see any acceleration in personal consumption growth. However, the greatest risk for the slowdown in economic activity towards the end of 2004 lies in possible investments' decline following the completion of the investment cycle in road construction, as shown by construction's contraction in the second half of 2004.

Following acceleration in the growth of economic activities from mid-2003 in the countries in the environment, which are Croatia's most significant trading partners, the third quarter of 2004 saw its mild slowdown.¹ The annual rate of real GDP growth in the EU countries (all 25 countries) fell from 2.5% in the second to 2.1% in the third quarter while that in the EMU fell from 2.4% in the second to 1.7% in the third quarter. Of the selected countries (Figure 2), the annual growth of real GDP almost equal to that in Croatia (3.6%) was recorded in the Czech Republic (3.6%) and Hungary (3.7%), while other countries mostly recorded higher GDP growth rates. Particularly dynamic growth during that period was observed in Estonia (6.1%) and Latvia (9.1%) which, together with Slovenia (4.9%), recorded accelerated GDP growth compared with the second quarter. In the third quarter, annual economic growth in Bulgaria and Lithuania was 5.8% with Poland's and Slovakia's GDP growth lagging behind somewhat at 4.8% and 5.4%, respectively.

The so called quick estimates of quarterly GDP point to further deceleration in the growth of economic activities in the EU countries in the last quarter of 2004. Quarterly real growth rate in the eurozone in the last quarter, according to these estimates, fell to 0.2% (with annual growth rate at 1.6%) due to expected negative quarterly rates of change of GDP in Germany and Italy, two large eurozone countries, while the estimated quarterly growth rate of all EU member countries stood at 0.3% (with the annual growth rate falling from 2.1% in the third quarter to 1.8% in the fourth quarter). The European Commission made a slight downward revision of its short term growth projections, with the expect-

¹ Data on economic developments abroad are subject to revision, so the real changes shown in quarterly CNB Bulletins do not always have to agree.

tations for real growth rates in the first half of this year ranging between 0.2% and 0.6%.

The slowdown in the growth of economic activities in the eurozone, that may weaken foreign demand, will probably only be temporary as indicated by the last available indicators on a monthly level, i.e. aggregate economic indicators based on qualitative research (business and consumer confidence survey) provided by the European Commission. According to European Commission data, the tendency of growth of the Economic Sentiment Indicator, present since mid-2003, came to a halt between November 2004 and January 2005, with consumer optimism continuing its steady growth.

Foreign Demand

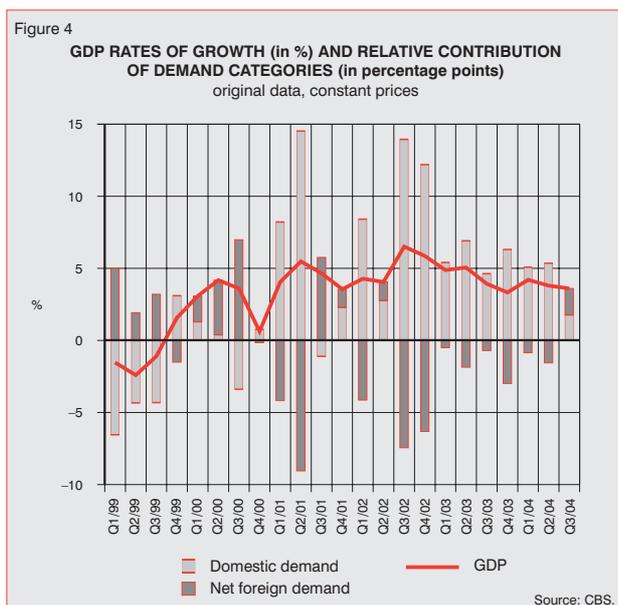
According to quarterly GDP estimates, the contribution of net foreign demand to real GDP growth in the third quarter of 2004 was positive for the first time since the second quarter of 2002 and stood at 1.8 percentage points. Such positive contribution to real growth is due to acceleration in the annual growth rate of total goods and services exports to 5.5%, which is an increase of 1.6 percentage points compared with the second quarter, and further deceleration in the growth rate of total imports which increased by 3.2% in the third quarter 2004, compared with the same period the year before. Such positive foreign trade developments were entirely due to more dynamic goods exports growth and decreasing imbalance in merchandise trade during the third quarter, while net services exports fell mildly during that period compared with the same quarter 2003. Import coverage ratio in the third quarter of 2004 thus reached 50.0%, the level last recorded towards the end of 2001.

Developments in goods and services trade in 2004, according to GDP calculations in the national accounts and balance of payments data, were similar (original nominal data) with only minor departures if compared with the persisting differences between these two sources of data throughout 2003. Goods and services import, according to

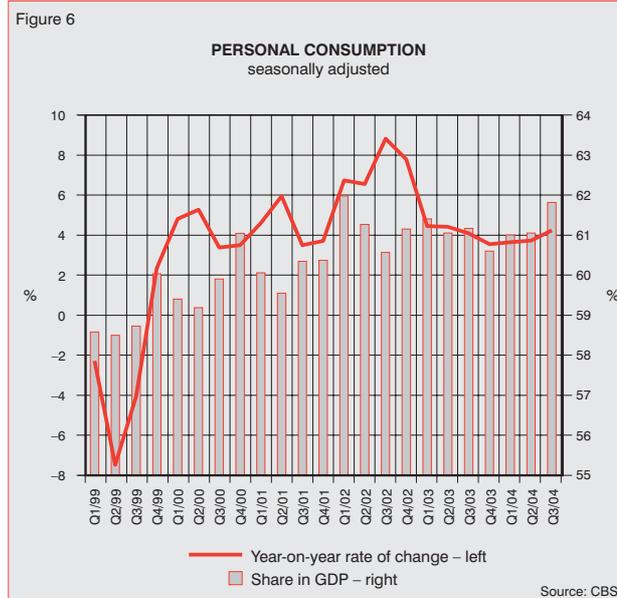
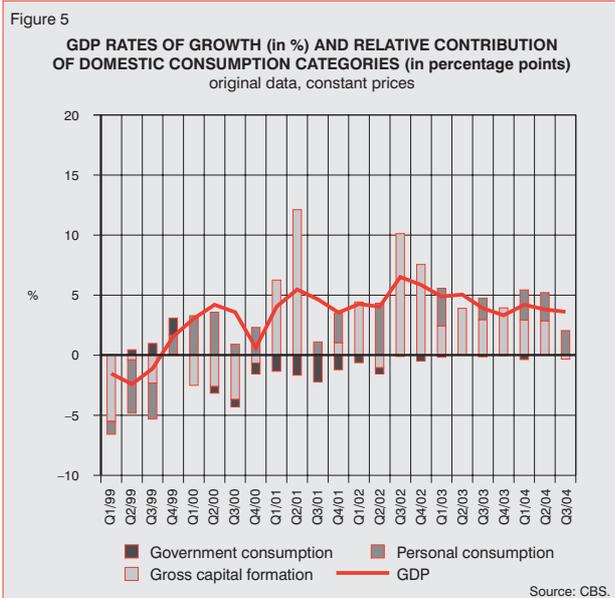
balance of payments data, continued to grow somewhat more rapidly during the first half of 2004 than according to national accounts thus adding slightly to the existing differences between the two sources of data. In the third quarter, the growth rates of total imports according to these two sources became equal. Exports' growth dynamics agreed according to both sources in the first half of the year but total exports grew somewhat faster in the third quarter according to GDP calculations than according to balance of payments data as common for the third quarter when differences between the two sources are the biggest. As balance of payments data recorded in the third quarter of 2003 significantly larger increase of total exports than the national accounts due to higher estimates of receipts from tourism, the dynamics of receipts from tourism recorded in the third quarter of 2004 reduced the difference between nominal levels of total exports according to these two sources. Thus, import dynamics in the third quarter of last year was equal according to both sources, but export growth rates according to both sources differed similarly as import growth rates in the first half of 2004, possibly attributable to the recent changes in statistical monitoring of tourist consumption and revised balance of payments data, which are commonly available on a more frequent basis than GDP revisions.² With tourist consumption accounting for a smaller share of total exports at the end of the year, it is not likely that their levels according to GDP calculations and balance of payments data will differ significantly in the fourth quarter of 2004, despite possible differences in their dynamics.

Preliminary balance of payments data point to a mild slowdown in the growth of export and import of goods towards the end of 2004. However, merchandise exports continued to grow nominally at high annual rates (over 15.0%), while imports during the same period grew at their slowest annual growth rates, due to their low growth rates recorded previously, since early 2000. Data on merchandise trade for the period October to December 2004, provided by the CBS, point to a change in the dynamics of merchandise trade of certain industrial groupings during the observed period (export and import of energy and intermediate goods which rose considerably in the third quarter and slowed down in the fourth quarter).

As usual in the previous years, developments in the service account in the first nine months were determined by dynamics of receipts from tourism. Total services exports were somewhat lower than in the second quarter of 2004, due to smaller receipts from tourism in June, but nominal balance of payments data point to their annual increase of 1.0% in the third quarter. Conversely, though less significant in terms of the tourist industry, the last quarter of 2004 saw acceleration in the growth of receipts from tourism. However, rising receipts from tourism did not determine total developments in the service account during that period which recorded sharp nominal fall caused by smaller receipts from transport of goods and passengers and other services.



² See Bulletin No. 99



Domestic Demand

The third quarter of 2004 saw further slowdown in the contribution of domestic demand to real growth, a tendency present since 2002. Growth of personal consumption, as the most significant component of domestic demand which accounts for approximately two thirds of total GDP, accelerated, according to seasonally-adjusted data, providing growing contribution to total growth this year. The growth of other categories of aggregate demand which account for its lesser share decelerated during the same period. This is particularly true of gross fixed capital formation whose growth in the third quarter 2004 recorded its largest slowdown since 2000, thus decreasing its contribution to GDP growth by over 2.0 percentage points. The contribution of government consumption to real growth stabilised by mid-2004 (second and third quarters) at a low positive level of 0.1 percentage point, sufficient to compensate for its negative contribution from the beginning of last year and held steady at a neutral level throughout the first nine months.

Monthly indicators of economic activities, available for the period up to December 2004 and January this year, point to a possible further slowdown in the growth of domestic demand towards the end of 2004, and for its certain categories, early this year as well.

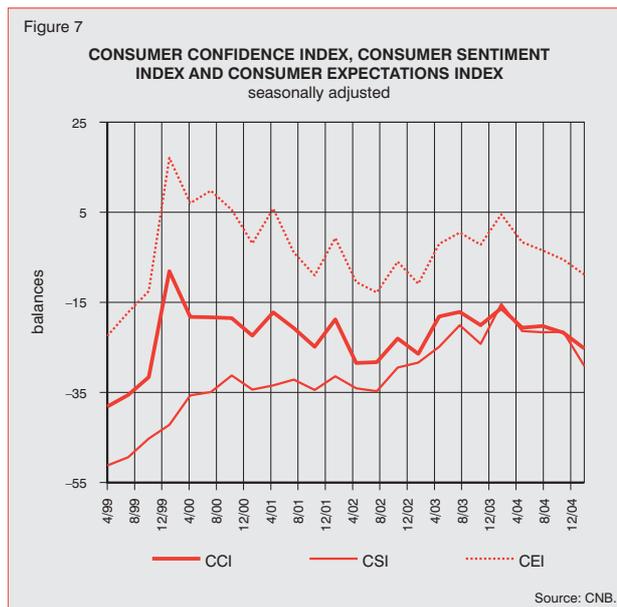
Personal Consumption

Original data indicate that personal consumption in the first nine months of 2004 grew steadily at high annual growth rates which were nonetheless in line with real income growth, and thus meant a slight slowdown compared with its dynamics in 2003. After growing 3.9% annually in the first quarter of 2004, personal consumption in the second quarter slowed down somewhat to 3.8% to accelerate again to 3.9% in the third quarter. Seasonally adjusted data point to completely different tendencies. According to seasonally adjusted data, the growth of personal consumption accelerated in the third quarter 2004, reaching 4.2%, and thus exceeding GDP growth in that quarter by 0.6 percentage points and

its growth in the same period 2003 by 0.1 percentage point.

Available monthly indicators point to stagnation in personal consumption, i.e. mild deceleration in its annual growth rate towards the end of 2004 and in early 2005. The effects of a steep rise in car sales in July 2004, following the announced introduction of excise tax on car sales, excluded, the slowdown in retail sales during the observed period was somewhat milder, as indicated by data on annual drop in car sales. The growth of personal consumption might see further deceleration early this year due to smaller growth of placements to the households and rising prices of oil and refined petroleum products.

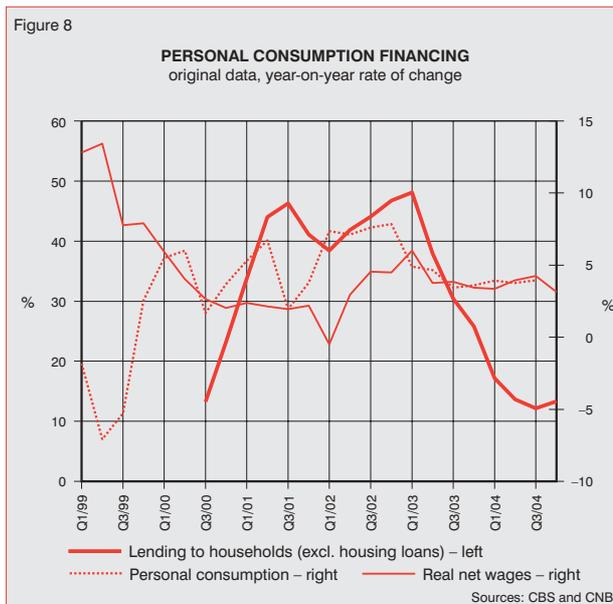
The dynamics of output, inventories and foreign trade is also indicative of personal consumption weakening towards the end of 2004. The production of non-durable consumer goods rose by 2.9% annually in the last quarter of 2004, following negative rates of change in the second and the third quarters. Positive developments on a monthly level during the observed period were also recorded in the production of



durable consumer goods. However, the increased production was largely placed abroad, with the annual growth of import of non-durable consumer goods slowing down, as indicated by data on merchandise trade in the last quarter of 2004. At the same time, rising inventories of the mentioned groupings of industrial products, particularly non-durable consumer goods, provided further proof of domestic demand weakening, although inventories' accumulation could also be attributed to optimistic business expectations. The upward movement of business cycle indicators for the manufacturing industry towards the end of 2004 provided by *Privredni vjesnik* are an indication of the existence of such effects on economic developments.

The CNB's consumer confidence survey, last conducted in the first half of January this year, provides additional source of information on consumer intentions, expectations and possible future movements in personal consumption. The results of this last survey point to a further fall in consumer optimism.³ The Consumer Confidence Index (CCI) fell slightly at the beginning of 2005, adding to the worsening of consumer optimism from mid-last year. The Consumer Expectation Index (CEI) showed similar movements, which is logical given that it is a CCI sub-index. Such developments can be attributed to the worsening of households' financial situation expectations and even larger worsening of expectations concerning the general economic situation in Croatia and expected rising unemployment in the next 12 months. Following mild increase in the second half of 2004, the Consumer Sentiment Index (CSI) also fell in early 2005 due to worse evaluation of the current financial situation of households and general economic conditions in the country and worse evaluation of the favourableness of purchase of durable consumer goods. This fall in the CSI in the observed period exceeded the decline in the CCI due to slightly worse evaluation of the general economic situation in Croatia. Given such consumer expectations as regards the current and future economic developments and consumer perception of the financial situation in their households, we can expect further deceleration of the personal consumption growth in early 2005.

Regular and irregular sources of financing personal consumption offer yet another source of information on possible short-term dynamics of personal consumption. Nominal bank placements to households which exclude housing loans⁴ rose by 13.3% annually in the fourth quarter, showing that, after a year and a half of continuous fall in their annual growth rates from the high 45.0% in early 2003, their falling trend temporarily came to a halt. Developments in government transfers to households, which include pensions as their largest expenditure item, cannot be monitored with precision at this moment due to changes in the methodology of statistical monitoring of government finances (change from GFS 1986 to GFS 2001). The adjustment of January



2005 pensions growth with nominal gross wages growth in the second half of 2004 planned for March is expected to have a positive impact on personal consumption dynamics. However, looking at the dynamics of nominal gross wages in the second half of 2004, the pensions can be expected to rise in March after adjustment by approximately 2.2%, which is a decline of 1.8 percentage points compared with the last adjustment carried out in September last year. Developments in the labour market towards the end of 2004 also point to slower growth of the household income. Average real net wages in the last quarter of 2004 recorded the lowest annual growth rate (3.1%) since mid-2002, thus halting their accelerated growth since mid-2004. During the observed period, according to CPII data on the number of insured persons, as a more reliable employment dynamics indicator than provisional data provided by the CBS, total employment growth also slowed down slightly, which, together with curbed fall and stagnation in employment in insolvent companies at a low level will slow down net wages growth. All this points to moderate growth of personal consumption towards the end of 2004 and in early 2005, although the increase in non-taxable part of income in early 2005 might trigger somewhat faster growth of net wages and to an extent alleviate the said effects.

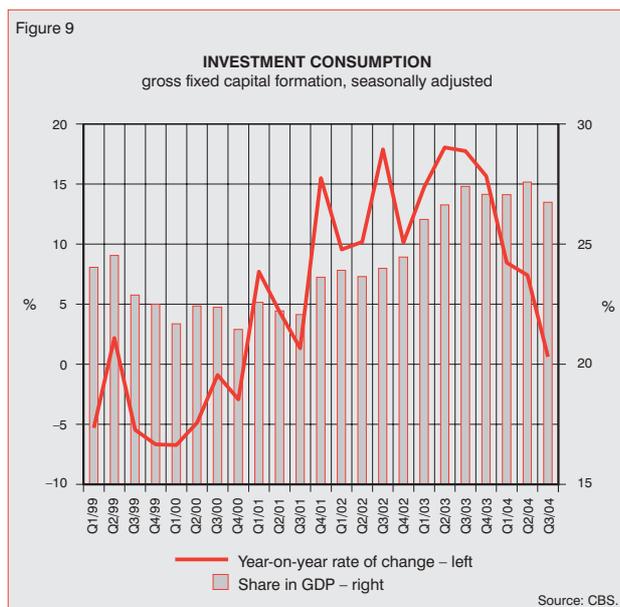
Investment Consumption

The slowdown in gross capital formation growth between the last quarter of 2003 and the second quarter of 2004, greatly accelerated in the third quarter with gross capital formation falling by 1.6%. As a less significant component of these investments, changes in inventories, also includes statistical discrepancy,⁵ this category is statistically imprecise and analytically unreliable, and necessitates separation of the effects of gross fixed capital formation from changes in the inventories and their separate observation. Gross fixed

³ Seasonally adjusted CCI, CSI and CEI data. Original data suggest CCI and CEI growth in the first quarter of 2005, as shown by developments in Consumer Confidence Index (CCI) based on consumer surveys of *Privredni vjesnik*.

⁴ Housing loans are those intended for home purchases or refurbishments. In the context of national accounts (SNA - ESA) this form of consumption is treated as investment consumption and not personal consumption.

⁵ Statistical discrepancy arises from differences in GDP calculations based on expenditure and production methods. The Central Bureau of Statistics does not show it separately but together with changes in the inventories.



capital formation, according to preliminary original CBS data, followed the said slowdown which reached its peak in the third quarter of 2004, with the annual real growth of this category of investment consumption falling to 0.5%, a decline of 7.2 percentage points compared with the previous quarter. This is also the lowest recorded growth rate of gross fixed capital formation on an annual level since 1999, when it fell in absolute terms as well. As a result of such investment dynamics in the third quarter of 2004, the contribution of investment to total real economic activities growth fell by approximately 2.0 percentage points, reaching stagnating government consumption's level of contribution to GDP growth of 0.1 percentage point during the observed period.

The primary cause of decelerating investment activity in 2004 lay in decreased capital government expenditures, which had in the previous period accounted for approximately one fourth of total investment costs, with the major share going to road construction. The completion of the investment cycle in road construction led to a slowdown in government and indirectly also private investment towards the end of 2004. Realised capital government expenditures with capital transfers excluded (according to the new GFS) were considerably lower in the last quarter of 2004 compared with the same period 2003, which is in line with the expectations based on the level of capital expenditures realised in the first three quarters of last year, which accounted for the major share of capital investments planned for 2004.

Such developments had a particularly negative impact on output and employment in construction and mining and quarrying during the observed period. Construction responded to negative demand impulses already in the third quarter 2004 with negative monthly rates of change of construction works while similar developments could be observed in mining and quarrying already at the beginning of that year. The annual growth rate of net construction project orders also slowed down in the third quarter 2004 and started falling early in the fourth quarter. Taking into account all the above mentioned it is difficult to expect that halted government investment towards the end of 2004 will

be set off by private investment so investments in the last quarter are expected either to have low growth rates or to contract in comparison with the same period 2003. In 2005 we will see an increase in the volume of works involving road maintenance and repairs, however, due to uncertainties regarding new roads construction dynamics, it is not clear to what extent this will have a positive effect on investment and what its dynamics will be.

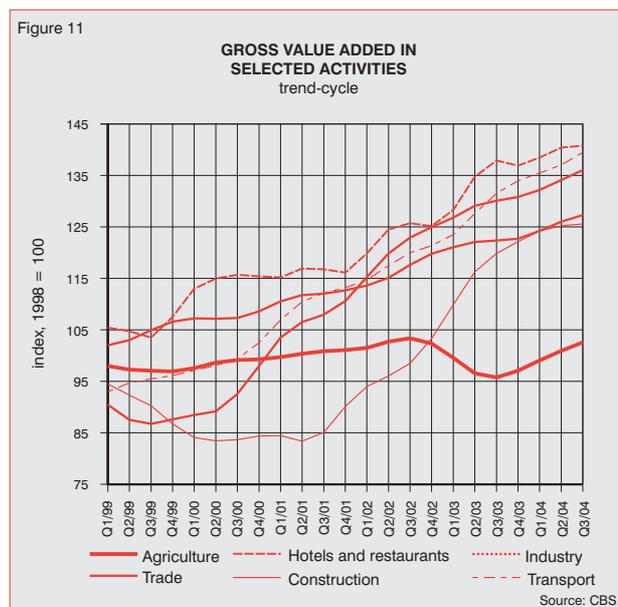
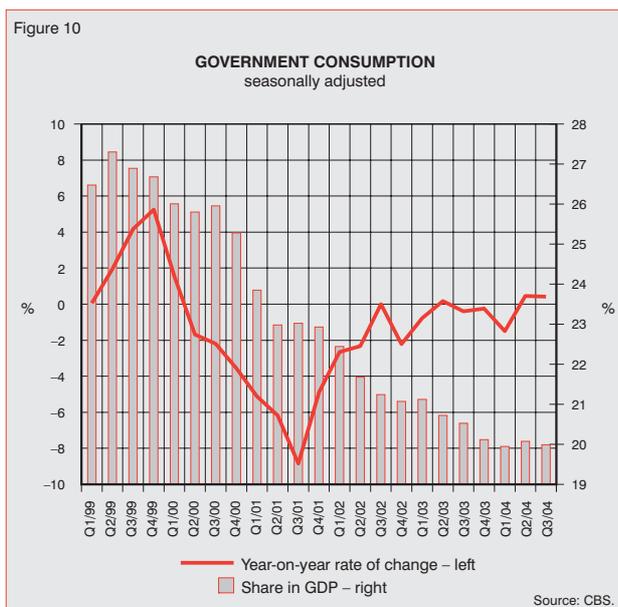
As regards the structure of industrial production, manufacture of capital and intermediate goods trended upwards in the second half of 2004. However, this increased production was to a certain extent intended for foreign markets. Also, according to original CBS data on merchandise trade, the annual rates of change of capital goods' import were negative in the second half of 2004 (monthly import dynamics of capital goods showed an upward trend after September 2004 but six-month moving averages point to opposite movements). At the same time, the annual growth rate of intermediate goods' import slowed down in the last quarter of last year. Looking at all these developments together, investment demand strengthening can hardly be expected to take place towards the end of 2004. This applies equally to public and private investment, despite acceleration in placements to companies in the last quarter (adjusted for exchange rate changes). Also, falling housing lending since mid-2003 notwithstanding, demand for real estate in the last quarter of 2004 was strong, with annual growth rates of housing loans standing at over 25.0%, though insufficient to curb a decline in construction activities.

Government Consumption

According to GDP calculation for the third quarter 2004, government consumption slowed down during that period following acceleration in the second quarter. With government consumption accounting for around 20.0% of GDP, its contribution to GDP formation by mid-year stabilised at 0.1 percentage point. This was sufficient to set off its negative contribution from early 2004 and to achieve a cumulative neutral effect in the first nine months. Original CBS data on employment and wages in the public sector suggest that accelerated growth of nominal government consumption in the second quarter 2004 was due to wage increase and not increased employment in the public sector which grew at slower rates in the second quarter. The last quarter of 2004 saw a slight decline in public sector employment compared with the same period 2003, while gross wages grew at slower rates, causing a slowdown in the nominal growth of government consumption and possibly implying its slightly negative contribution to real GDP growth towards the end of the year.

MoF data on the revenue and expenditure outturns (CH, CR, DAB and CPF included)⁶ of the consolidated central government in 2004 have been prepared in accordance with the new internationally accepted methodology of government finance statistics (GFS 2001) which disables monitoring of the annual dynamics of final government consumption

⁶ This inclusion provides an approximation of the revenue and expenditure of the general government which is included in GDP calculation.



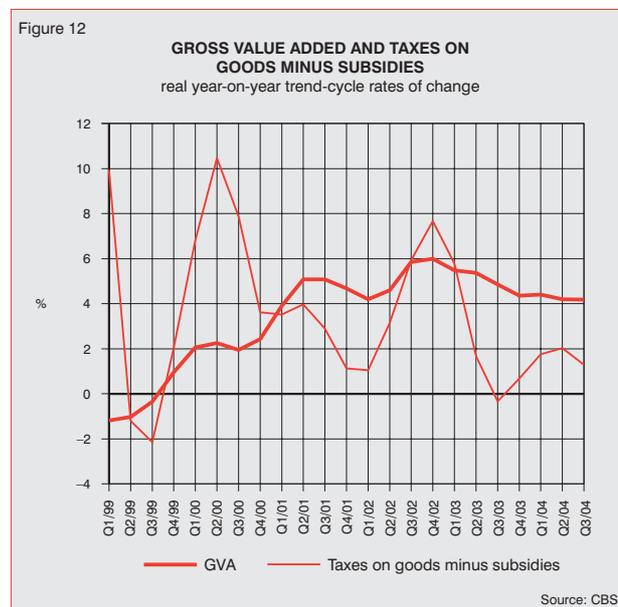
including wages to the public sector and expenditures for goods and services. Therefore it is not possible to verify the expected dynamics of government consumption towards the end of 2004 obtained from CBS data on developments in employment and wages in the public sector.

Output

According to the quarterly GDP estimate made by the production method at constant prices, real annual growth of gross value added (GVA) slowed from 4.6% in the first quarter to 4.3% in the second quarter, and by an additional 0.3 percentage points in the third quarter 2004. This slowdown is likely to be shown by the annual data as well. Cumulative real GVA increased by 4.3% in the first nine months of 2004 compared with the same period in 2003, when the second consecutive slowdown in annual GVA growth was recorded.

Industry, trade and financial intermediation⁷ provided the largest contribution to GVA in the third quarter, larger than in the second quarter. Transport also contributed significantly, despite a slight slowdown in its GVA growth in the third quarter 2004. In contrast, value added in construction sharply decelerated in the observed period, due to the end of the road construction investment cycle and a lower volume of road construction works.

Due to a slower annual growth of taxes on goods minus subsidies, indirectly deflated,⁸ in the third quarter 2004, real GDP growth decelerated by almost a half of a percentage point compared with real GVA growth. According to MoF data, taxes on goods at the consolidated central government level further decelerated GDP growth in the second half of 2004 compared with the first half. Having increased by 4.6%, 8.0% and 4.3% in the first, second and third quarter



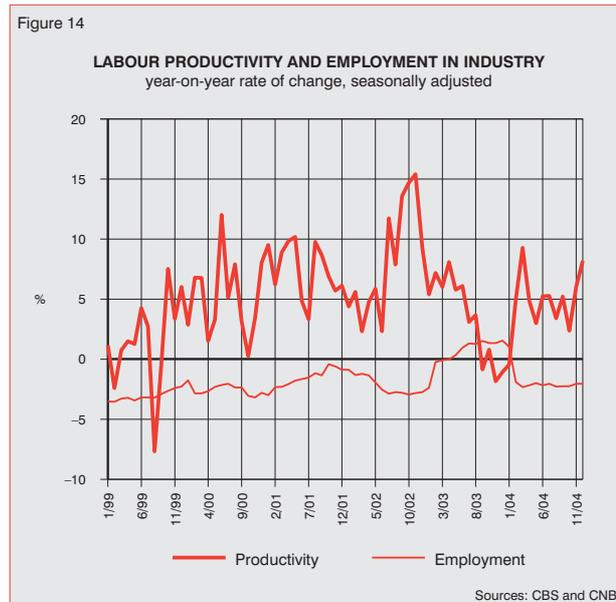
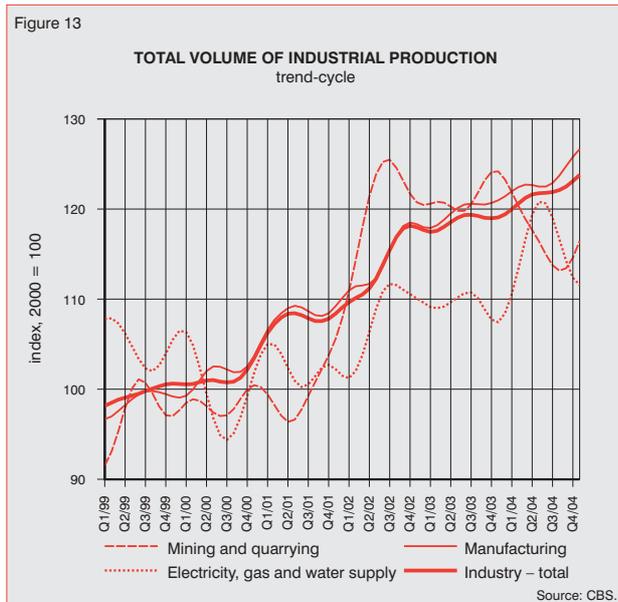
respectively, this tax category was up only 2.8% in the last quarter 2004. Subsidies according to GFS 2001 are not comparable with last year's data based on the 1986 GFS system, which makes it impossible either to make a consistent estimate of subsidies' change in the observed period or adjust the said tax change accordingly. However, indirect taxes and subsidies' trends in the first three quarters of 2004 give an indication of real GDP growth lagging behind GVA growth throughout 2004.

Industry

Preliminary CBS data on industrial GVA trends in 2004 and data on total industrial production volume in the period from October to December in the same year indicate that the slowdown in industrial GVA growth in the second quarter was only temporary. GVA in industry was up 3.8% in real terms in the third quarter 2004, rising by almost a whole percentage point from the second quarter and somewhat

⁷ Financial intermediation, real estate, renting and business activities (NCEA sections J and K) adjusted by FISIM (Financial Intermediation Services Indirectly Measured).

⁸ Their value in real terms resulted from GDP and GVA residual value at constant prices from 1997.



outstripping other economic activities' average value added growth in the observed period. Having provided the largest contribution to GVA in the third quarter 2004, industry will probably remain the largest annual contributor. The year 2004 could thus be the first year since 2000 to see industry as the major growth contributor, the previous years having been dominated by trade (2001 and 2002) and construction (2003).

According to seasonally and calendar adjusted data, total industrial production volume increased by 3.3% in the last quarter of 2004 relative to the same period in 2003, up 1.0 percentage point compared with its third quarter annual growth rate. This growth was primarily accounted for by a surge in manufacturing in November (5.7%) and December (6.2%) 2004. These rates were calculated excluding the seasonal impact and the discrepancy in the number of working days (there was one more workday in the last quarter 2004 against in the same period in 2003). However, these adjustments may not have been accurate, owing to a hard to measure impact of collective vacations and temporary terminations of operations in some companies over Christmas and New Year holidays. It is thus possible that production actually grew at a somewhat higher rate, which might become evident early this year. According to original data, these developments led to an increase in industrial production of 3.7% for the year in 2004.

Such a dynamic industrial production growth in the last quarter 2004 was mostly due to favourable trends in food, wood and chemical industry, which account for about two fifths or, including the fast-growing publishing, printing and reproduction of recorded media section, almost a half of total industrial production. In contrast with industry, domestic consumption declined in the observed period. This is confirmed by original CBS data on goods exports, showing that these sections' output was intended for the foreign, rather than the domestic market, especially non-durable and minor durable consumer goods. At the same time, these products' stocks increased, absorbing the residual output surplus in the fourth quarter 2004. Foreign demand also spurred pro-

duction in other main industrial groupings, primarily in intermediary goods, accounting for about a third of total goods exports.

In contrast with positive developments in manufacturing, energy supply showed an increasingly negative trend in the second half of 2004. However, due to the strong growth in the first half of 2004 and high production levels at mid-year, its rates of change remained positive late in the year. The slowdown in this industrial section's domestic production was partly offset by growing energy imports, as shown by preliminary nominal data on merchandise trade. These developments should be cautiously interpreted, however, as the growth of energy products' prices brought about an increase in nominal figures in that period.⁹

Mining and quarrying was the only industrial section recording a negative rate of change in 2004 (-3.2%). Caused by the decline in road investments, the mining and quarrying contraction started late in 2003, ahead of the construction contraction in the second half of 2004. Although mining and quarrying rose strongly for the month in December 2004, following the November increase in construction works, this is not a certain indication of a reversal of negative trends from late 2004.

As shown by seasonally adjusted data, labour productivity in industry rose by 4.8% in 2004 from 2003. This growth was due to negative annual rates of change of the number of employed in industry and to industrial production growth, with the latter's influence being twice stronger. Industrial production growth had an especially strong impact on productivity growth in the last quarter of 2004, when industrial production rose at an accelerated rate, while the number of employed continued on a steady decline (the average annual rate of change was -2.1% in the second half of 2004). Expectations are that labour productivity growth will be adjusted downwards following CBS's revision of preliminary

⁹ Use of energy produced in the Krško Nuclear Power Plant, which is treated as imports, could have also influenced these developments to some extent.

data on industrial employment, due in April 2005, and that the difference between productivity growth in the last two years will narrow as a result.

Trade

Having grown sharply in 2001 and early 2002, due to spreading of large chain stores, GVA in trade rose at a slower annual rate from end-2002 on. According to the GDP estimate for the third quarter of 2004, real GVA in trade grew for the first time in that period, from 3.6% in the second quarter to 4.8% in the third quarter. Trade thus contributed 0.7 percentage points to total GVA in the third quarter of 2004.

According to nominal CBS data on distributive trade in 2004, these trends in GVA in trade were primarily caused by a faster retail trade growth. In contrast, after the slowdown in the second half of 2003 and in early 2004, wholesale trade declined in absolute terms too in the second and third quarter last year. These negative trends could be attributed to a strong accumulation of stocks in distributive trade (retail and wholesale) whose growth rates exceeded 10.0% in 2002 and 2003. Despite slumping domestic demand, which could not start the stock decumulation process in retail trade, they grew at lower rates in 2004 than in the previous years. Wholesale trade offset the slowdown in demand by reduced supplies, meeting slow traders' demand from accumulated stocks which, in consequence, trended downwards in absolute terms throughout 2004.

According to seasonally adjusted data, real retail trade turnover, having declined in the second quarter of 2004, grew by 3.1 percentage points in the third quarter and dropped again by 2.0 percentage points in the last quarter of the year. Apart from external shocks and base effects, such annual dynamics was mainly caused by trends in personal vehicle sales. Car sales, up due to excise taxes introduced on car imports, boosted retail trade turnover in the third quarter of 2004. However, even if that uncharacteristic rise (in July) is disregarded, it is still evident that retail trade growth accel-

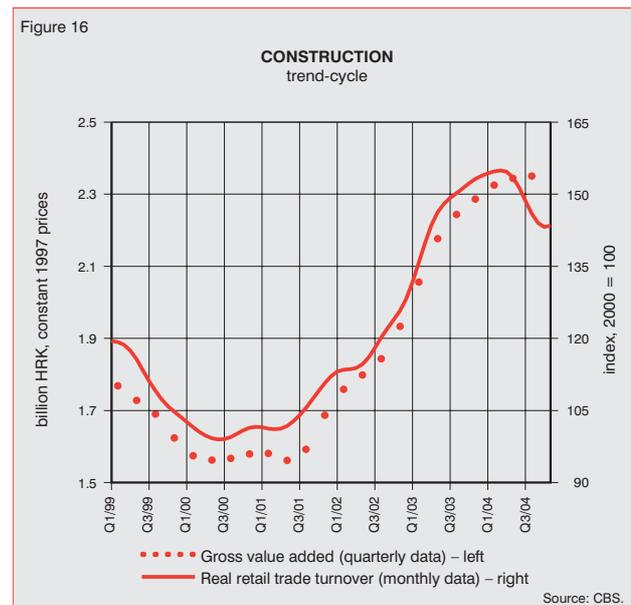
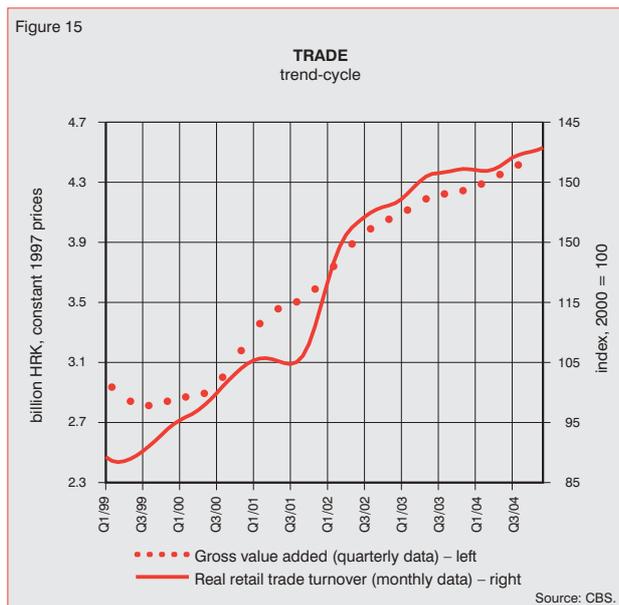
erated early in the second half of 2004, which signifies an increase in domestic demand in that period. Having accelerated growth, real retail trade turnover at end-2004 kept the levels attained at mid-year. Retail trade slowdown in the last quarter of 2004 was less marked if motor vehicle sales are excluded from its turnover,¹⁰ as car sales decreased annually in real terms during the second half of 2004 and nominal car imports (adjusted for changes in the exchange rate) dropped in the last quarter of 2004.

Construction

Construction GVA growth slowed down the most in the third quarter of 2004, making the strongest impact on the slowdown in total GVA and GDP growth in that period. Decelerating since mid-2003, when its annual real growth rates exceeded 20.0%, GVA in construction rose by 2.3% in the third quarter of 2004 relative to the same period in 2003, down by 6.5 percentage points from the annual growth rate achieved in the previous quarter.

Such value added trends primarily resulted from the contraction in capital expenditures after the completion of road construction projects, which also led to a slowdown in gross fixed capital formation. Decelerating strongly in the second half of 2004, due to the end of the investment cycle in road construction, construction is likely to decrease in absolute terms at the year-end and contribute negatively to both GDP and GVA. According to preliminary CBS estimates, value added in construction might grow at an approximate rate of 2.0% in 2004. Accordingly, it can be expected to decrease by almost one fifth in the fourth quarter of the year and contribute negatively to GDP.

It is as yet difficult to predict construction trends in early 2004, due to the uncertain future role of private investments in this activity and an unclear effect of the increase in the volume of road repair and maintenance works, evident in the



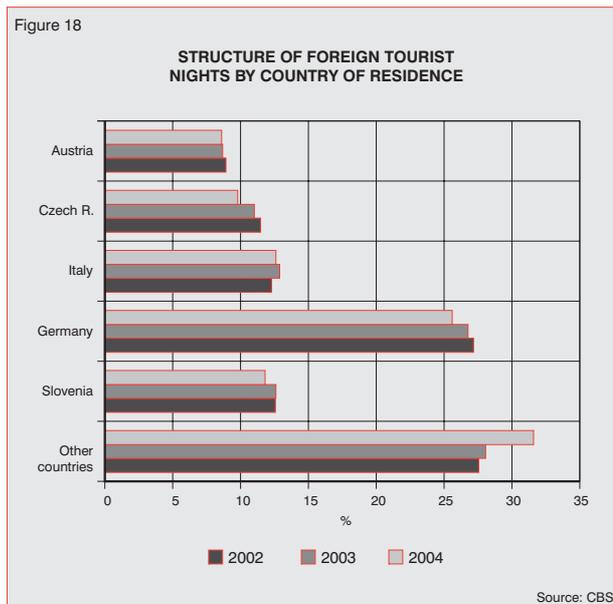
10 This is with reference to NCEA section 50 including the sale, maintenance and repair of motor vehicles and retail trade in motor fuels and lubricants.

first three quarters of 2004. In addition, new road sections' construction schedule for 2005-2008 is still undefined. Leading construction indicators, e.g. net value of domestic construction work orders and building permits issued, point to a continuation of negative tendencies in this activity early in 2005. Construction work orders, for example, grew at a slower annual rate in the second half of the year, while the number of construction permits for civil engineering works, exclusive of buildings and dwellings, and the related construction work value, decreased late in the previous year. Despite the fact that the value of building permits issued for buildings and dwellings rose at increasingly higher monthly rates in the last quarter of 2004, it is hard to expect that the increase in this construction section could completely offset the slowdown in road construction.

Tourism

According to the quarterly GVA estimate, value added in hotels and restaurants decreased in the second and third quarter of 2004, keeping its contribution to total GVA at 0.1 percentage points in the first nine months of the year, a drop from 0.3 percentage points in 2002 and 2003. Despite a small share (3.5%) in total value added in the economy, this sector produces considerable indirect and direct influences on other real sector developments.

These developments were in line with the slowdown in the upward trend in total nominal income (net income reduction) from tourism, also recorded in the balance of payments in that period, and monthly physical indicators' trends, tourist nights and tourist arrivals. Having grown sharply by 17.3% for the year off peak season in the first quarter 2004, tourist nights dropped to 0.7% in the second quarter (mostly on account of the underperformance in June), rising to 4.8% in peak season in the third quarter and falling back to 2.9% in the last quarter of 2004. With tourist arrivals growing at higher rates than tourist nights throughout 2004, the ratio between arrivals and nights decreased slightly (5.5 nights) in all twelve months of the year compared with 2003, when it



stood at 5.6 nights per one arrival. Despite the slowdown in 2004, individual tourist arrivals and nights continued rising at faster rates than organised arrivals and nights.

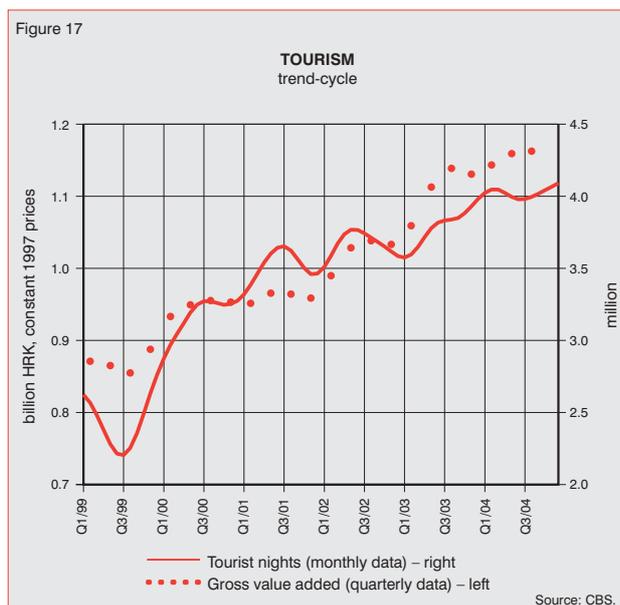
In 2004, most foreign tourist nights were accounted for by tourists from Germany (25.6%), Italy (12.6%), Slovenia (11.8%), the Czech Republic (9.8%) and Austria (8.6%). The structure of foreign tourist nights somewhat changed compared with the previous year, as the number of tourists coming from these countries, although still the largest, slightly decreased, especially regarding tourists from the Czech Republic, Germany and Slovenia. This was due to an increase in the arrivals and nights of tourists from France, Hungary, the Netherlands, Russia and Great Britain.

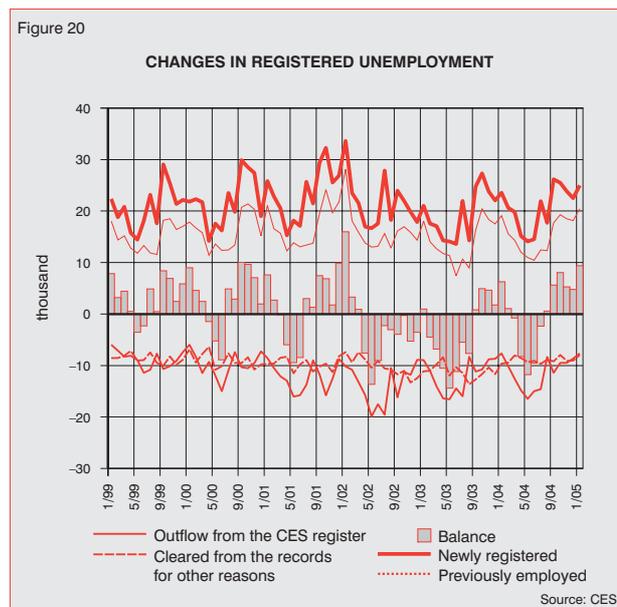
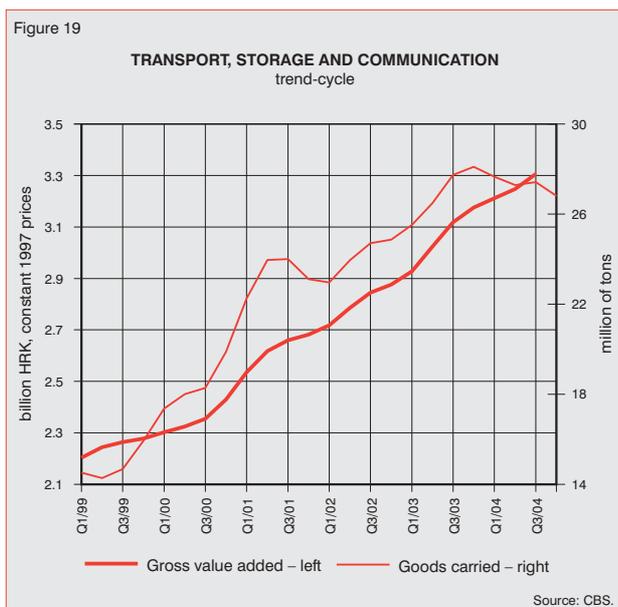
Transport and Communications

Growth of transport, storage and communications, measured by this activity's GVA, slowed down in real terms in the first three quarters of 2004, reducing its contribution to total GVA from 1.1 percentage points in the last quarter of 2003 to 0.9, 0.7 and 0.6 percentage points in the first, second and third quarters in 2004 respectively.

According to available CBS physical indicators, transport, storage and communications showed negative trends in the fourth quarter of 2004, which might further decelerate value added growth in that period and can be associated with balance of payments trends in the same period. According to seasonally adjusted data, the number of transported passengers fell in absolute terms in the last quarter of 2004 compared with the third quarter (with an annual rate of change of -0.5%), while goods transport, having accelerated growth at mid-year (second and third quarter), decreased even sharper in the last quarter (with an annual rate of change of -7.3%). Due to these developments, the number of transported passengers stagnated at 0.1% and goods transport rose at a modest rate of 1.6% for the year in 2004.

Road transport, which accounts for more than a half of total passenger and goods transport, decreased by about 10.0% in the fourth quarter 2004 relative to the fourth quarter





of 2003, measured by passenger and tonne kilometres. Sea and coastal transport, accounting for the second largest share in total goods transport, also decreased in that period compared with the same period in 2003. In contrast, rail transport (accounting for about a third of transported passengers and the second largest share in total passenger transport) rose by 7.3% for the year in the last quarter of 2004, measured by passenger kilometres, but decreased by 75.0% from the third quarter, due to seasonal factors.

In the last quarter of 2004, telecommunication services reversed their trends recorded at mid-year. After minutes spent in the fixed network had decreased and minutes spent in the mobile network had risen in the middle of the year, the use of fixed network increased in the fourth quarter and the number of used minutes in the mobile network declined. However, both telecommunication categories grew considerably on the annual level in 2004.

Labour Market

An upward trend in registered unemployment, which was recorded in mid-2004 when public infrastructure investments began to slow down, continued till the end of the year. Preliminary administrative indicators show that total employment recorded a negative annual rate of change in the last quarter of 2004 as well. Still, this annual drop was the result of a break caused by the preliminary character of the data for the period from February 2004 onwards. Total employment has trended upward since February 2004, although at a somewhat slower pace than in 2003, which is also supported by the CPII data on the insured. Real wages grew at a lesser pace in the last quarter of 2004 compared with mid-year. In early 2005, gross wages are expected to continue growing at a slower pace due to an increase in the income tax threshold, which might lead to continued growth in net wages with a slower upturn in total labour costs.

Unemployment and Employment

A mild recovery of inflows into the CES register continued into the last quarter of 2004. Over 2004, the number of the newly registered with the CES totalled nearly 245,000, or almost 14,000 (5.8%) more than in 2003. This level of inflows was still much below that recorded in 2001, the year before the enactment of amendments to the Law on Employment Intermediation and Rights during Unemployment. Whereas a mild recovery of inflows into the CES register, which started in early 2003, continued throughout most of 2004, its sources were not constant. In the third quarter of 2004, it was mostly boosted by a rise in the number of persons with work experience newly registered from inactivity. By contrast, the last quarter saw a rise in inflows from employment, which may be a sign of a more prompt registration of the unemployed with the CES. The number of newly-registered persons without work experience remained steady throughout 2004 because the stated regulatory changes did not affect the pace of their inflows.

The upward trend in inflows into the CES register was paralleled with a decline in outflows from the register that continued to the end of 2004. The 2004 outflows totalled nearly 247,000, which is almost 33,000 (11.7%) less than in 2003. A fall in employment from the register¹¹ had only a minor effect on the fall in total outflows, of which some 4/5 was attributable to the outflow from the register for non-employment reasons. The stated trends were even more pronounced in the last quarter of 2004 in which a decline in the number of persons cleared from the records was the reason for more than 9/10 of the fall in outflows relative to the same period of 2003.

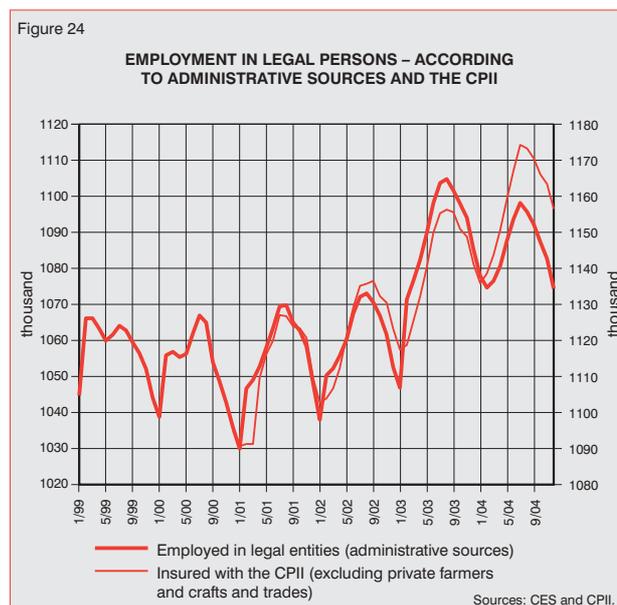
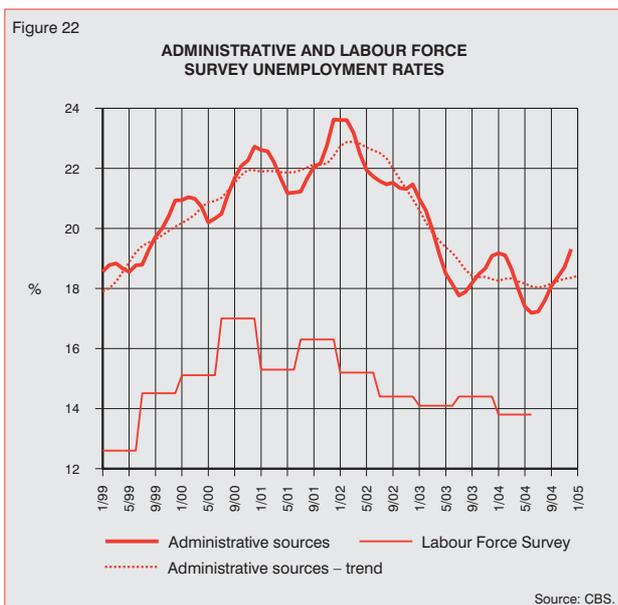
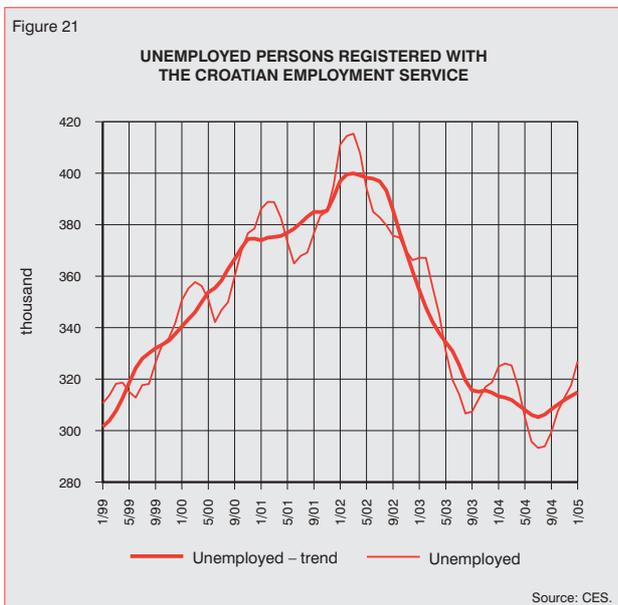
The described rise in inflows and the fall in outflows from the CES register considerably slowed down the downward trend in registered unemployment as early as mid-2003. In

¹¹ Employment from the register has been falling since early 2002 when amendments were made to the Law on Employment Intermediation and Rights during Unemployment, which abolished the obligation to report job vacancies to the CES.

the second half of 2004, the upward trend in inflows was stronger than the downward trend in outflows, which reversed the falling trend in registered unemployment and led to its first increase since 2002 when it started to fall due to the employment intermediation reform and stronger employment growth. The recovery of registered unemployment, with usual seasonal factors in the second half of the year, considerably increased registered unemployment, which grew by almost 4,000 (1.2%) and additional 18,000 (5.5%) in the third and fourth quarters of 2004 respectively. However, due to the base effects of its decline in the first half of 2004, its level was still lower by 1,000 (0.3%) at end-2004 compared with end-2003.

After declining in the first half of 2004, registered unemployment trended upward in the second half of the year. This led to a mild recovery in the rate of registered unemployment, although it did not fluctuate much over the year. This rate reached 18.7% at end-2004 and was the same as that registered at end-2003. Still, the average rate of registered

unemployment was almost 1.0 percentage point lower in 2004 than in 2003. Since economic activity growth slowed down in the second half of 2004, primarily due to a downturn in construction, the rise in the registered unemployment rate could at first sight be connected to these negative economic trends. Still, this connection is questionable due to several reasons. First, as the upward trend in total inflows to the CES register and the downward trend in total outflows from the CES register stabilised as early as beginning of 2003 and remained almost unchanged over the last two years, mid-2004 represented a moment when these two trends offset each other. Second, employment indicators, especially the number of persons insured with the CPII, which is not subject to subsequent revisions, do not suggest an employment downturn in 2004, but only a mild slowdown in its growth at the year-end, which will be further explained later in the text. Finally, the annual contraction in employment in construction activity, which suffered the most due to economic slowdown, was not larger than the fall in employ-

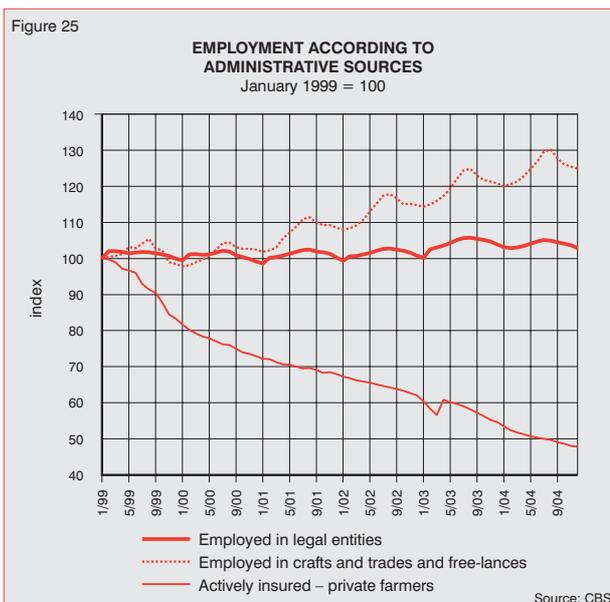


ment in some other activities in the second half of 2004. All this does not necessarily mean that a mild recovery in unemployment did not occur in the second half of 2004, which would be possible if the rate of labour force participation increased. However, this thesis could be upheld by Labour Force Survey data on employment and unemployment for the second half of 2004, which will only be available in May 2005.

Preliminary CBS indicators show that, seasonal effects excluded, employment continued to grow in the fourth quarter of 2004 at a somewhat faster pace than in the second and third quarters, but still slower than in 2003. According to these data, the annual rate of change in total employment was negative in the last quarter of 2004, -0.7% . This rate was the result of a subsequent revision of employment data for the period up to January 2004, which increased the 2003 data by 35,000 persons on average, i.e. 2.6% of average employment in that period. The final data on employment growth in 2004 will be available in April 2005 when the revised preliminary data for that period are to be published. This revision will certainly result in a considerable upward adjustment of data, although it is difficult to speculate the intensity of the expected adjustment.

The CPII data on the number of insured persons, which are not collected on a sample like administrative data and hence are not subject to subsequent revisions, indicate a marginal slowdown in annual employment growth at the end of 2004. According to these data, the annual growth rate of total employment stood at 1.1% in the last quarter of 2004, which is 0.1 percentage point down on the third quarter, whereas total employment growth was 1.3% in 2004, which is 0.4 percentage points down on 2003. Over the preceding years, the growth dynamics of the number of insured persons with the CPII was well coordinated with the dynamics of administrative employment, although intensity of their growth was not always completely aligned.

A negative year-on-year rate of change in total employment, which was recorded in the last quarter of 2004 according to provisional administrative data, was the outcome of a strong and steady downward trend in the number of private farmers actively insured with the CPII and a negative rate of change in the number of insured persons in legal entities. The number of farmers actively insured with the CPII fell to 52,000 in the last quarter of 2004, 13.0% ($8,000$) down on the same period in 2003. However, as was explained in the previous issues of the CNB Bulletin, the fall in the number of private farmers who paid pension insurance contributions does not necessarily mean that these persons are no longer engaged in agricultural activities, so that a decline in their number may underestimate total employment data. Compared with the same period of 2003, the last quarter of 2004 saw a slight decline in employment in legal entities. However, given the importance of employment in legal entities, its 1.0% decline decreased total employment by almost $11,000$. This employment category recorded an annual decline due to a break in the data series in February 2004, which was the result of the preliminary nature of the data for that month, whereas it has been on an upward trend since then. Annual growth in the number of employed in crafts and



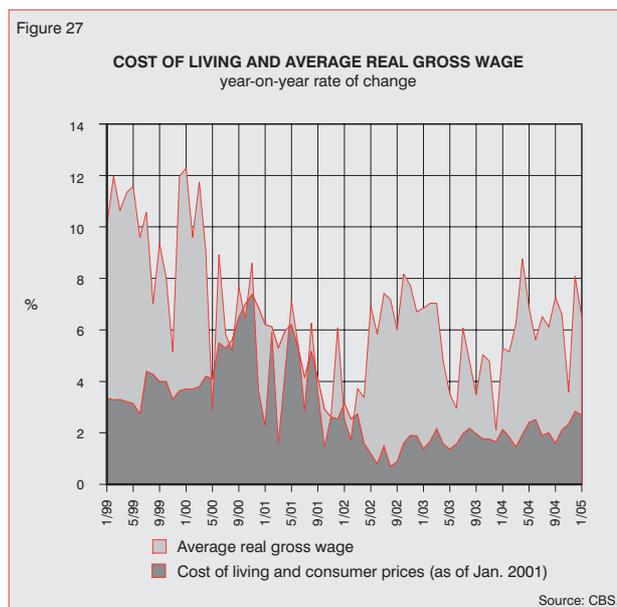
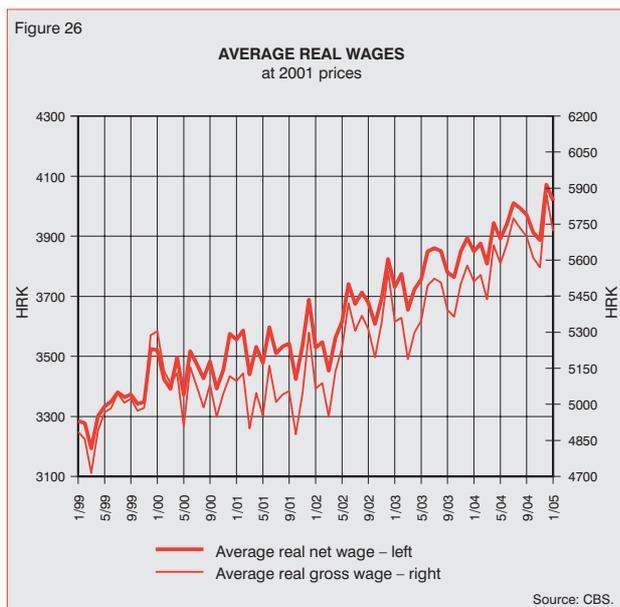
trades and free-lances, an indicator also taken over from the CPII, surpassed 8,000 (3.5%), thus lessening the annual decline in total employment. Annual growth in this employment category was achieved with a slight deceleration in its upward trend.

According to preliminary indicators for legal entities, the sharpest annual fall in employment in the last quarter of 2004 was recorded in agriculture ($1,100$ or 3.8%) and manufacturing ($6,100$ or 2.5%). An annual fall in employment ($2,700$ or 2.4%) was also recorded in a narrowly defined public administration, but was paralleled with employment growth in education and health care (of $2,000$ or 1.3% cumulatively), so that total public administration recorded only a minor employment decline. Employment in construction fell sharply (by $2,100$ or 2.7%), but despite its strong contraction, this activity did not record the steepest employment decline.

The rise in registered unemployment continued to weaken the downward trend in the labour force, which decreased by 0.8% (almost $14,000$) in the fourth quarter of 2004, compared with the same period of 2003. The annual fall in the labour force was connected to the described biases in preliminary employment indicators so that their revision will probably show that the labour force stagnated or even slightly increased.

Wages and Labour Costs

Faster wage growth in mid-2004 slowed down again in the last quarter. The annual growth rate of the average real gross wage paid was 3.7% in the last quarter of 2004, 1.1 percentage point down on the second and third quarters, whereas the average net wage, due to the tax progression effects, grew at a lower real rate of 3.1% . A low growth rate of wages paid in November was the main reason for slower annual wage growth, whereas wages paid in other months near the end of 2004 were almost in line with their mid-year dynamics. Should an upward trend in average wages continue in early 2005 at the same pace as in the second half of 2004, the annual growth rates of real gross wages might slow to

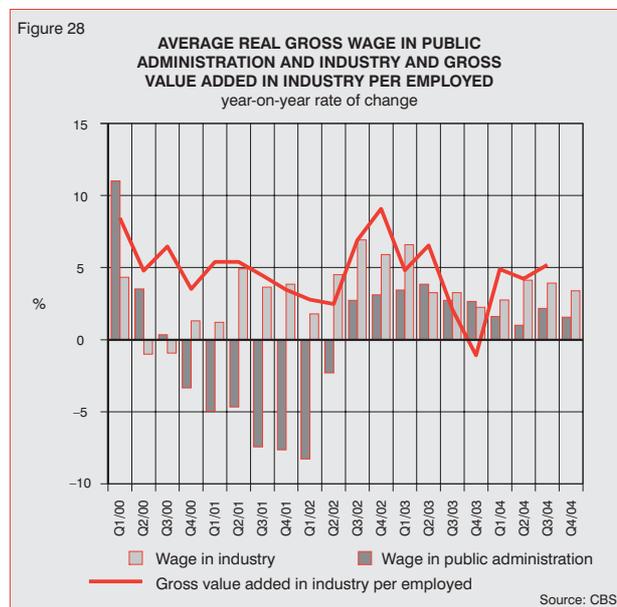


2.0-3.0% due to disappearance of the base effect of their leap in early 2004. Also, an increase in the income tax threshold caused by an increase in a personal allowance and allowances for dependent family members may encourage continued growth in net wages at a somewhat faster pace with lesser pressures on gross wage growth. The average net wage paid in January 2005 grew at a real annual rate of 4.4%, 0.6 percentage points up on the annual growth rate of the average real gross wage in that month. Still, the increase in the income tax threshold will not lower non-wage labour costs compared with previous years, but will only offset the impact of the growing burden of taxes and contributions on wages, which was the result of interactions between wage growth and tax progression last year.

The average real gross wage grew by 4.2% in 2004, which is 1.0 percentage point up on 2003. Notwithstanding this faster growth in the average gross wage, growth in the average real net wage slowed down from 4.2% in 2003 to 3.7% in 2004 due to the mentioned tax progression effects. Should the pace of the average net wage growth in 2005 be similar to that in the two preceding years (some 4.0%), growth in labour costs (gross wages) may slow down by almost 1.0 percentage point in 2005 compared to 2004.

The average nominal gross wage grew by 6.1% in the last quarter of 2004, 0.5 percentage points less than in the quarter before. Since nominal wage growth did not slow down as much as real wage growth, the deceleration in the annual rates of real wage growth was not only due to a lower growth rate of nominal wages paid in November, but also due to the impact of stronger price growth at the year-end on real wage growth, which was almost the same as that of the deceleration in their nominal growth.

Slower annual growth of the average gross wage was the result of slower wage growth in several activities, including public administration and industry. Although wage growth in these two broadly defined activities, which include almost half of the total number of the employed, did not slow down as much as wage growth in other economic activities, it still lagged behind that in other activities. Slower wage growth in



public administration at end-2004 shows that their faster growth in mid-2004 was not a signal of the relaxation of a restrictive wage bill policy. Over the last four years, this policy mostly succeeded in maintaining the growth rate of public sector wages at the level below average wage growth in the overall economy. The annual growth rate of wages in industry, which was some 0.5 percentage points below the overall average throughout the year, was also lower than the rise in labour productivity in industry in the first three quarters. A faster increase in the physical volume of industrial production at the end of 2004, which was accompanied by a deceleration in the annual growth rate of the average real gross wage in industry, should additionally ease inflationary pressures coming from the labour market in the last quarter of 2004. Of course, a revision of employment data to be made in April 2005 may reduce the 2004 data on productivity growth in industry. However, this should not have a major impact on its dynamics, i.e. acceleration of growth in labour productivity in industry at end-2004.

Prices

2004 saw a slight upward trend in consumer price inflation. As a result, the average year-on-year rate of change of the consumer price index grew by 0.3 percentage points or from 1.8% in 2003 to 2.1% in 2004. The year-on-year rate of change of the consumer price index registered at the end of period rose by 1.0 percentage point, from 1.7% in December 2003 to 2.7% in December 2004. The year-on-year inflation rate registered at end-2004 was estimated low – it was only 0.3 percentage points higher than the rate of inflation of 2.4% registered in the eurozone in December 2004 (measured by the HICP), while its average rate equalled to that in the eurozone (2.1%). Several key factors contributed to the low and stable inflation rate in the domestic economy: 1) relatively stable kuna/euro exchange rate,¹² which stabilises the domestic inflationary expectations and influences the stability of import prices of raw materials and final products from the eurozone, and 2) a significant appreciation of the kuna against the US dollar,¹³ which mitigates pronounced upward trends in the crude oil price and the price of other raw materials in the world market (metal especially). Additional factors contributing to the stability of domestic prices in 2004 compared with 2003 were a slight nominal growth in wages of 5.8% (lower than the growth in productivity) and the slowdown in domestic demand growth.

Recent CBS data showed a slowdown in the rate of consumer price inflation in January 2005, and, with the monthly growth in consumer prices of 0.3%, the year-on-year inflation rate fell from 2.7% in December 2004 to 2.0% in January 2005 aided by the base-period effect.

The 2004 growth in the year-on-year consumer price inflation rate can mostly be attributed to the increase in the year-on-year rate of change of administrative prices, from 0.7% in December 2003 to 5.5% in December 2004. The acceleration in the growth of administrative prices in 2004 was, above all, the result of the growth in the crude oil price in the world market that spilled over into the growth of do-

Table 1: Consumer Price Index, year-on-year rate of change

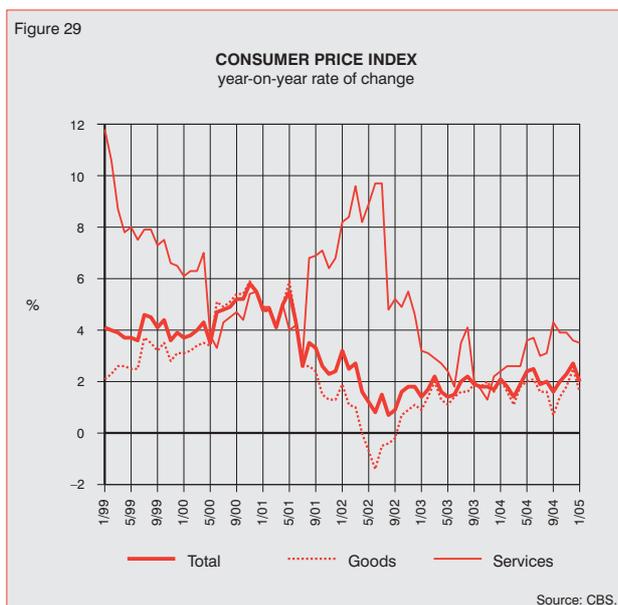
	Weight 2005	12/03	3/04	6/04	9/04	10/04	1/05
Total	100.0	1.7	1.4	2.5	1.6	2.7	2.0
Food and non-alcoholic beverages	32.9	2.8	3.5	1.6	-1.7	2.4	1.4
Alcoholic drinks and tobacco	5.8	1.4	1.4	1.4	10.4	10.2	10.1
Clothing and footwear	8.0	-0.7	-1.8	1.5	-0.7	-1.7	-3.1
Housing, water, energy, gas and other fuels	14.8	0.7	0.5	4.5	5.4	6.0	5.7
Furniture, equipment and maintenance	4.7	-0.6	-0.4	-0.6	-0.5	0.2	0.4
Health	2.8	5.5	5.5	3.3	3.0	1.0	0.8
Transport	11.2	2.2	-1.9	5.4	3.1	2.6	1.0
Communication	4.3	-0.2	-0.2	-0.2	-0.1	-0.5	-0.4
Recreation and culture	5.6	1.6	3.2	3.9	3.2	2.5	2.5
Education	0.9	0.3	0.6	0.6	1.2	1.1	1.4
Catering services	3.2	3.9	4.1	3.9	4.0	2.8	2.2
Miscellaneous goods and services	5.9	1.6	2.0	2.1	2.0	1.9	1.8
Goods	77.1	1.6	1.1	2.1	0.7	2.5	1.6
Services	22.9	2.2	2.6	3.7	4.3	3.6	3.5

Source: CBS.

mestic refined petroleum products prices, and the growth in other administrative prices (gas and household water supply). The influence of administrative prices on the developments in the total consumer price inflation rate was significant due to the weight of 22.6% assigned to this group of products in the CPI basket. As result, due to the growth in the year-on-year rate of change of prices of housing, water and energy, these products contributed 0.1 percentage point to inflation in December 2003 and 0.9 percentage points in December 2004. The increase in prices of gas and heating oil was the consequence of their growth in the world market, while the growth in the household water price was stimulated by the new fee for the wastewater treatment.

The total year-on-year rate of change of consumer prices in 2004 grew also on account of increased prices of tobacco products.¹⁴ As a signification portion of their price is accounted for by excise taxes, these products' prices are strongly impacted by administrative decisions. August 2004 saw the introduction of the higher excise taxes on tobacco products (aimed at increasing the budget revenues), which in turn resulted in the increase in the year-on-year rate of change of prices of alcoholic drinks and tobacco, from 1.4% in December 2003 to 10.2% in December 2004. The contribution of this group of products to the total year-on-year inflation rate grew from 0.1 percentage point in December 2003 to 0.6 percentage points in December 2004. However, this contribution is expected to disappear in August 2005 without having a lasting impact on inflation.

Despite a considerable increase the year-on-year rate of change of prices of fuels for personal transport equipment, from 1.0% in December 2003 to 9.7% in December 2004, transport prices contributed slightly to the total year-on-year consumer price inflation rate in 2004 – 0.3 percentage points compared with 0.2 percentage points in 2003. The reduced contribution was the result of the reverse effect exerted by transport price on the fall in the year-on-year rate of change



12 In 2004, the kuna/euro exchange rate was marked by a slight appreciation trend (the average daily kuna exchange rate strengthened by 0.9% in 2004 compared with 2003).

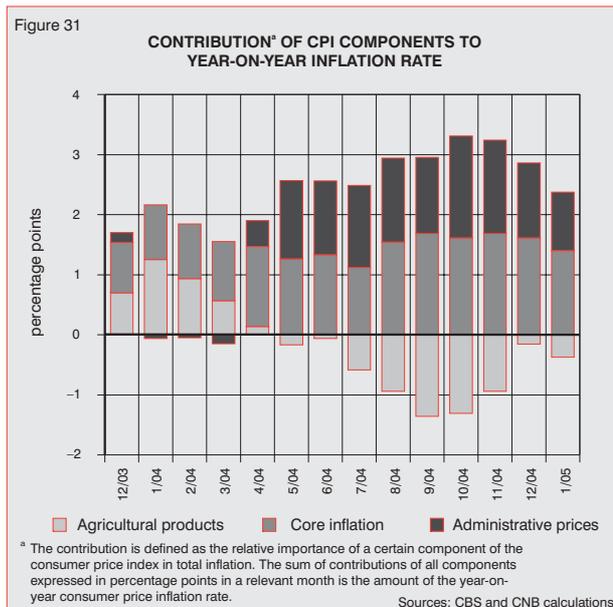
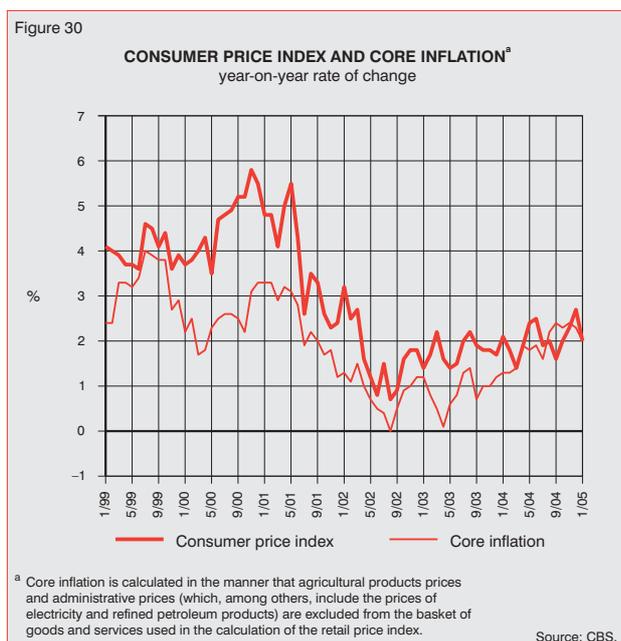
13 The average daily exchange rate of the kuna against the US dollar grew by 9.9% in 2004 compared with 2003.

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

of price of personal automobiles, from 3.2% in December 2003 to -4.0% in December 2004. The price of personal automobiles fell in 2004 due to the introduction of the additional favourable conditions for the purchase of some medium-class automobiles, as well as due to the appreciation of the average exchange rate of the kuna against the euro and the US dollar in which the prices of personal automobiles are indexed. The introduction of higher excise taxes on automobiles in mid-July 2004 did not influence the growth in automobile prices on the annual level.

The total growth in domestic prices of refined petroleum products stood at 12.3% on average in 2004 and was the result of the significant growth in the crude oil price in the world market of 30.4%, with the average daily price of crude oil growing from USD 30.0 a barrel in December 2003 to USD 39.0 a barrel in December 2004. Expressed in kuna terms, this growth was considerably lower and stood at 17.6% due to the appreciation of the kuna against the US dollar. 2004 saw a growth in other raw materials prices in the world market in 2004 – by a total of 10.6% (December 2004 to December 2003) measured by the aggregate HWWA index (in US dollar terms, energy prices excluded). However, the growth registered in 2004 was weaker than that in 2003 (18.8%). 2004 also saw a pronounced growth in prices of iron ores (40.6%), sugar (30.7%) and non-ferrous metals (24.3%). Measured by the HWWA index (expressed in euro terms), raw materials prices in the world market grew by a modest 1.3%, showing significant falls in prices of textile fibres (34.2%) and oil crops and oil (32.8%). The year-on-year rate of change of producer prices in the eurozone grew considerably in 2004 (from 1.0% in December 2003 to 3.6% in December 2004). Above all, this growth was the result of direct and indirect effects of the increase in the price of crude oil and other raw materials in the world market. Therefore, total imported pressures on the growth in domestic prices registered in 2004 may be estimated as significant.

Since the calculation of the core consumer price inflation



index¹⁵ (compiled by the CBS) does not exclude the impact of indirect taxes on the movements in core inflation, 2004 saw a noticeable growth in the core inflation rate (from 1.2% in December 2003 to 2.3% in December 2004) that, to a large extent, may be attributed to the growth in tobacco products prices of 12.7% year-on-year (discussed above). Their contribution to the total core inflation rate stood at 0.7 percentage points in December 2004 relative to 0.0 percentage points in December 2003.

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

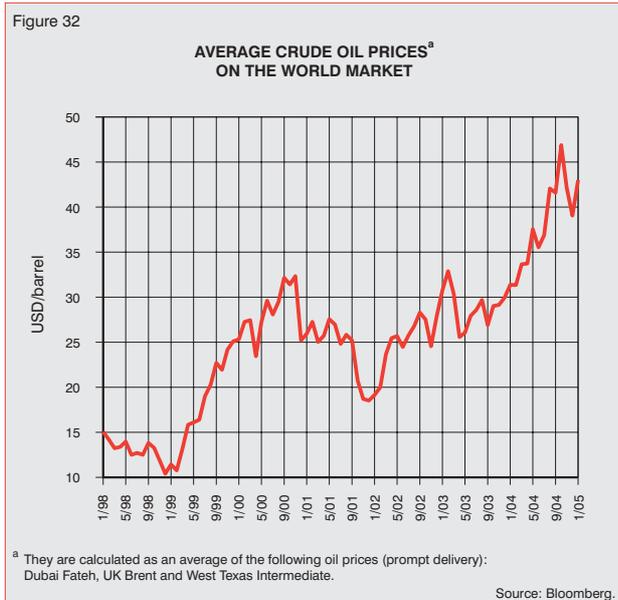
The increased contribution of core inflation and administrative prices to the total year-on-year inflation rate in 2004 was partly offset by the fall in the contribution of agricultural products prices;¹⁶ their year-on-year rate of change fell from 9.7% in December 2003 to -2.2% in December 2004. Agricultural products prices fell in 2004 compared with 2003 when they were high due to drought periods.

The last quarter of 2004 was marked by a considerable slowdown in the year-on-year fall in agricultural products prices, from -18.9% in September to -2.2% in December,

¹⁵ In 2004, goods and services accounted for 70.3% of the core CPI basket.

¹⁶ This group of products includes fruit, vegetable and fish and their share in the total CPI basket accounted for 7.2% in 2004.

Figure 32



which made an important contribution to the acceleration in the consumer price inflation rate, from 1.6% in September 2.7% in December. In contrast, the year-on-year core inflation rate fell slightly in the fourth quarter of 2004 or from 2.4% in September to 2.3% in December, while the year-on year rate of change of administrative prices fell down from 5.6% to 5.5%.

In all months of the fourth quarter, the consumer price index grew strongly – 0.4% in October, 0.5% in November and 0.7% in December. The October movements in the consumer price index were mostly influenced by the monthly growth in refined petroleum products prices and the seasonal increase in prices of clothes and footwear (new collections for autumn/winter 2004). In October 2004, the average daily price of crude oil barrel grew by a strong 12.7% compared with the previous month and reached its record level of USD 46.9. The growth in the crude oil price in the world market was reflected in the 3.7% growth in fuel prices and the 10.4% growth in heating oil prices in the domestic market. Accordingly, refined petroleum products prices contributed 0.2 percentage points to the monthly rate of inflation in October 2004. Following the increase in October, the price of crude oil barrel started to fall in the world market. However, in November and December it remained well above the rates registered in the same months last year.

The pronounced monthly growth in consumer prices registered in November was, to a large extent, the result of a significant seasonal growth in prices of agriculture products of 16.7% and, to a lesser extent, of the growth in prices of clothing and footwear of 1.2% on average. Vegetable prices contributed 0.7 percentage points to the monthly inflation in November. November was also the only month in 2004 which saw a fall in the retail price of refined petroleum products in the domestic market (2.2% on average) that soothed the growth in the aggregate level of consumer prices. These movements were the reflection of the fall in the average daily price of crude oil barrel of 10.1% (in US dollars terms) or 13.5% (in kuna terms) in November compared with October. The fall in the crude oil price is attributed to milder tem-

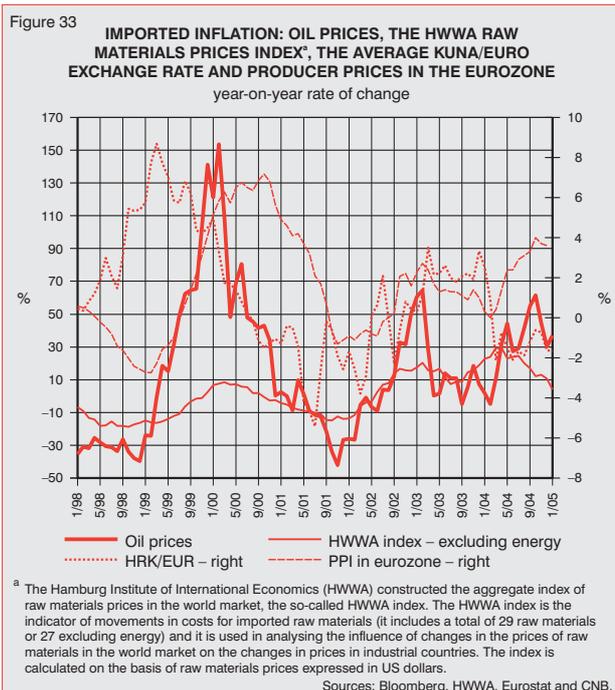
peratures, which facilitated the unexpected growth in crude oil supplies in OECD countries.

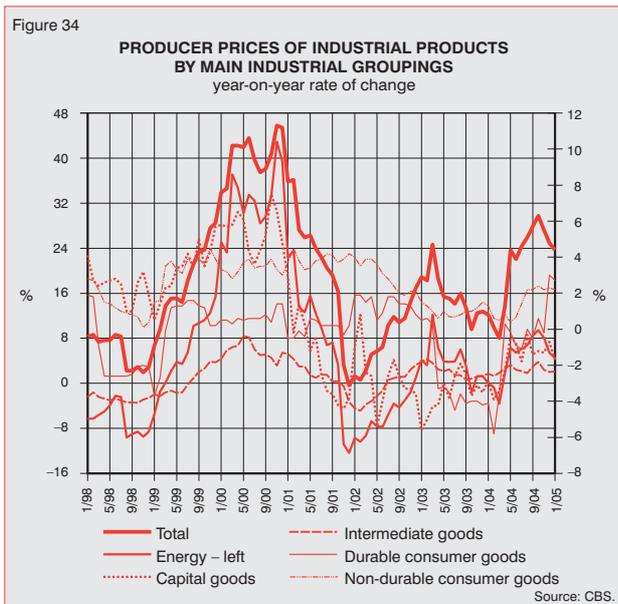
Factors influencing the movements in the consumer price index in November were also present in December when vegetable prices grew by as much as 24.6% compared with the previous month. As a result, vegetable prices contributed 1.0 percentage point to the monthly inflation in December. On the other hand, influenced by the movements in the world market, refined petroleum products prices continued to trend downwards – the price of heating oil fell by 4.7%, while the price of fuels for personal transport equipment went down by 5.0% compared with the previous month.

Agricultural products prices continued their upward trend in January 2005, with vegetable prices contributing 11.5% or the most to the monthly increase in the index of consumer prices of 0.3%. The January growth in the rate of inflation was also stimulated by the increase in price of meat and dairy products. As a result, the contribution of food prices to the monthly rate of inflation grew from 0.3% to 0.7%. Moreover, the crude oil price in the world market started to grow again in January so that the average daily price of crude oil barrel was 10.1% higher in dollar terms in January than in December. Due to the depreciation of the kuna against the US dollar, the monthly growth in the crude oil price was even more pronounced in kuna terms and reached 12.0%. The described movements in the world market were also reflected in the increase in the price of refined petroleum products in the domestic market in January. Compared with December, the January increases in prices were partly offset by the fall in prices of clothing and footwear, by 5.7%. The core index of consumer prices, which excludes the most volatile components such as vegetables and energy, fell by 0.4% in January compared with the previous month, while the year-on-year core inflation rate fell from 2.3% in December 2004 to 2.0% in January 2005.

Overall, producer prices of industrial products grew

Figure 33

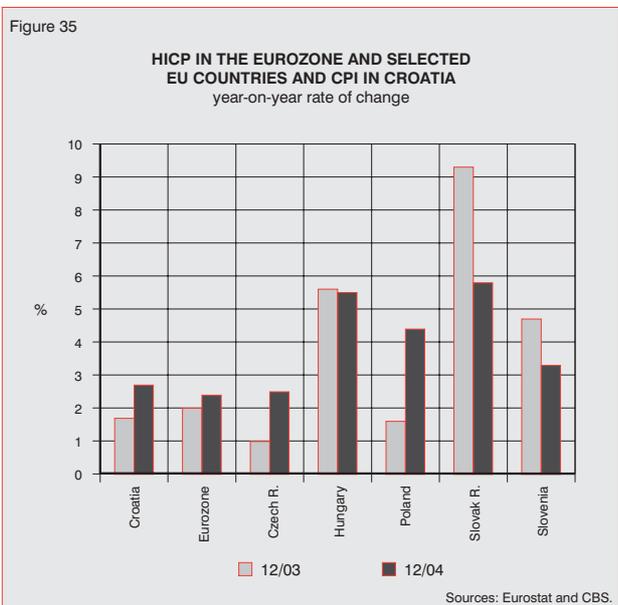




the year-on-year rate of change of producer prices fell from 4.8% in December 2004 to 4.4% in January. This provided for the continuation of the downward trend in producer price inflation which started in November 2004. As a result, the year-on-year rate of change of producer price fell by 1.9 percentage points in January 2005 compared with October 2004 when it stood at 6.3% and hit its record high since February 2001. The year-on-year rate of change of energy prices, which dropped from 9.4% in October 2004 to 4.5% in January 2005, contributed most to the fall in producer price inflation. For the most part, the fall in energy prices was the result of the decrease in refined petroleum products prices and the base-period effect.

Exchange Rate

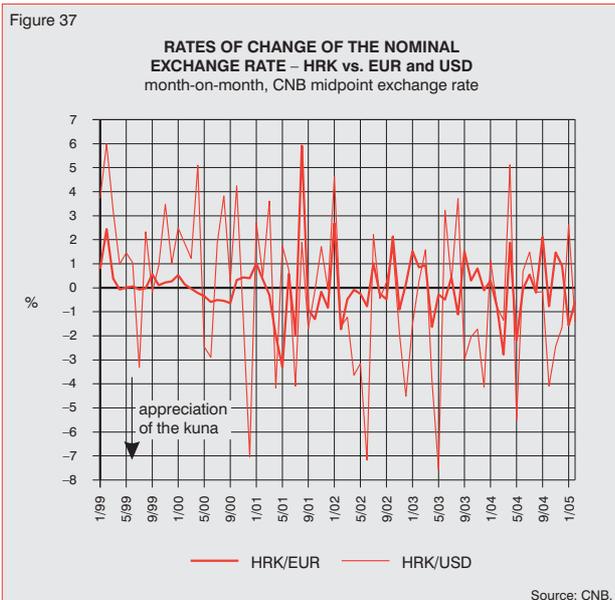
Apart from experiencing slight appreciation trends, generated by increased supply of foreign exchange (significant tourism inflows), foreign borrowings (primarily by banks), growing foreign exchange inflows (goods exports) and appreciation expectations of market participants, the exchange rate of the kuna against the euro was relatively stable in 2004. The average daily kuna/euro exchange rate appreciated by 0.9% in nominal terms, to HRK 7.50/EUR in 2004 from HRK 7.56/EUR in 2003. The kuna/euro exchange rate of HRK 7.67/EUR registered at end-2004 went down by 0.3% in nominal terms compared with HRK 7.65/EUR at end-2003. In order to ease the appreciation pressures on the exchange rate that were present for the most part of the year, the central bank purchased EUR 370.2m (net) at its foreign exchange auctions in 2004, creating a total of 2.7bn in kuna liquidity. A total of eleven foreign exchange auctions were held by the central bank in 2004, and the foreign exchange was purchased at ten of them. A significant portion of the foreign exchange, required for external debt service, the government purchased directly from the CNB and consequently reduced the intensity of demand for foreign exchange in the foreign exchange market. The CNB sold USD



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

The level of producer prices remained on average unchanged in January 2005. Aided by the base-period effect,





141.9m (net) to the MoF in 2004 and withdrew from circulation a total of HRK 741.7m.

In the fourth quarter of 2004, the kuna depreciated against the euro by 1.6% in nominal terms, while the euro grew from 7.55 kunas on 30 September to 7.67 kunas on 31 December 2004. During the reference period, the central bank intervened in the foreign exchange market and, in an effort to smooth the seasonally unusual appreciation of the kuna/euro exchange rate, purchased a total of EUR 99.5m from banks at the auction held in early December. In addition, the central bank sold to the MoF a total of USD 256.6m it required to service the external liabilities (a larger portion of which was accounted by Samurai bonds and a smaller portion by SAL and EFSAL loans). Despite the ample liquidity in the banking system, the kuna/euro exchange rate appreciated in nominal terms in January and February 2005 and the kuna strengthened against the euro by a total of 2.1%, to HRK 7.51/EUR on 28 February from HRK 7.67/EUR on 31 December. The appreciation trend was

most pronounced in the first half of January when the kuna strongly trended upward and regained some of the value it lost in the second half of December. In this period, the CNB held one auction on 19 January and purchased a total of EUR 8.5m from banks. As planned, in January and February the central bank sold to the MoF a total of USD 207.1m it required to service the external debt due mostly under the London and Paris Club and interest on eurobonds and Samurai bonds.

The long-term appreciation trend of the nominal exchange rate of the kuna against the US dollar, which strengthened the kuna against the US dollar by 14.4% in 2002 and 14.5% in 2003, continued into 2004 but at a somewhat reduced intensity. As a result, the kuna grew against the US dollar by a total of 7.9% in 2004 (from HRK 6.12/USD on 31 December 2003 to HRK 5.64/USD on 31 December 2004). This was a consequence of the fall in the value of the US dollar against the euro in the world foreign exchange market, brought about by a significant imbalance in the US economy (huge current account and fiscal deficits). This trend was briefly interrupted in early 2005 when the kuna strongly weakened against the US dollar – by a total of 2.6% in January. However, the appreciation of the kuna against the US dollar continued in February.

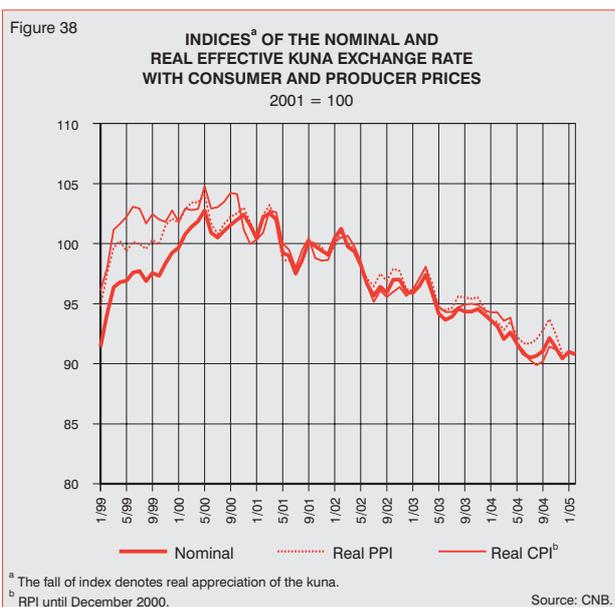
Influenced by a modest nominal appreciation against the euro and the strong appreciation against the US dollar, the index of the nominal effective kuna exchange rate strengthened by 3.9% over 2004 (December 2004 to December 2003). Owing to a deterioration in price competitiveness of exporters (i.e. higher increase in domestic prices than in foreign prices in 2004), the real kuna exchange rate appreciated more strongly than the nominal kuna exchange rate and stood at 4.0% (deflated by consumer prices) and 4.1% (deflated by producer prices).

Monetary Policy and Instruments

Monetary Environment

Monetary policy at end-2004 and in early 2005 continued in conditions of low inflation, with the average year-on-year rate of consumer price inflation in Croatia being the same as in the eurozone, 2.1%. Low inflation was supported by a stable kuna/euro exchange rate that was, notwithstanding abundant kuna liquidity, under appreciation pressures in the fourth quarter of 2004, which is unusual for that period of the year. To ease appreciation pressures, the Croatian National Bank intervened several times and purchased foreign exchange.

Notwithstanding domestic price stability, adverse developments were recorded in foreign borrowing. After a brief slowdown, external debt resumed an upward trend in the fourth quarter of 2004, especially in the banking sector. Commercial banks compensate insufficient domestic sources of funds needed to finance domestic placements by borrowing abroad. Banks borrowed even more at the end of 2004 in order to take up the best possible position for the



beginning of a business year. Thus, total external debt stood at EUR 22.2bn at end-2004. In the short-run, external debt growth adds to appreciation pressures, but in the long-run, it can lead to problems in external debt servicing. In addition to its size, the pace of external debt growth in recent years is a special reason for concern.

The Croatian National Bank has at its disposal certain instruments and measures to influence foreign borrowing, but Croatia's position of a small and open economy in the process of joining the EU reduces the scope of monetary policy actions. The factors contributing to external debt growth are soaring consumption of the government and the private sector, which is above the level of domestic savings. In this environment, monetary policy measures have the role of a signal and can slightly reduce the borrowing pace, but cannot replace the necessary structural adjustment of other economic policies, especially the fiscal policy. In 2004 and early 2005, the CNB resorted to two types of measures aimed at decelerating foreign borrowing. The first relate to the increase in the price of foreign borrowing by commercial banks, which reduces the yield they make due to differences between interest rates in Croatia and abroad. This has been achieved by the introduction of a new instrument (in July 2004) – unremunerated marginal reserve requirements, which commercial banks set aside depending on the increase in their foreign liabilities. The marginal reserve requirement rate was increased from 24% to 30% in February 2005.

The second type of measures relates to the support provided to the government in its endeavours to finance the budget deficit by borrowing on the domestic market instead on foreign markets. For this purpose, the central bank reduced the rate of commercial bank reserve requirements on two occasions. In November 2004, this rate was cut from 19% to 18%, which released funds that banks invested in domestic government bonds. The government used these funds to pay off due Samuraj bonds. In February 2005, the CNB amended the Decision on the Minimum Required Amount of Foreign Currency Claims (which prescribes that commercial banks have to maintain a certain percentage of their foreign currency liabilities by liquid foreign currency claims) and cut the rate of minimum required foreign currency claims from 35% to 32%, which released some HRK 4.0bn. This new percentage provides the banking system with sufficient liquidity to meet government needs for foreign currency without crowding out other sectors, especially the economic sector, from the financial market. The government's financing needs would otherwise be covered by floating some EUR 500m worth of eurobonds on the foreign market. This release of bank reserve requirements is a one-time event and cannot be used in the future to facilitate the central government borrowing on the domestic market. To halt external debt growth, it is above all necessary to reduce the budget deficit of the government that, in conditions of insufficient domestic savings, raises funds directly (floating bonds abroad) or indirectly abroad (through banks that borrow abroad and then provide "domestic" financing to the government). Without fiscal policy adjustments, government debt changes only its structure, i.e. external debt is replaced by domestic debt, but not its level.

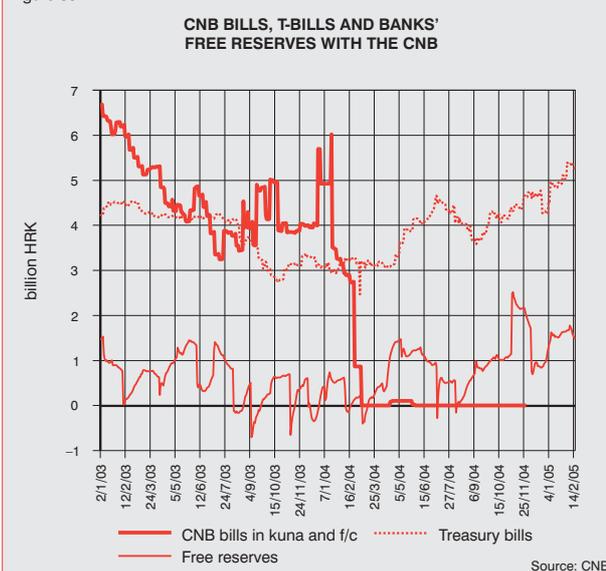
Quantitative criteria under the Stand-by Arrangement with the IMF that relate to monetary policy were met at end-December 2004. Net usable reserves of the central bank that, under the criteria of the Stand-by Arrangement, had to amount to at least EUR 6.2bn (calculated according to constant, program exchange rate of the euro against the US dollar, and as the average on 11 days at end-December 2004 and in early 2005) at end-2004, stood at EUR 6.5bn. Net domestic assets of the central bank, which had to be kept below HRK –3.0bn by end-2004, stood at HRK –5.5bn on 31 December 2004.

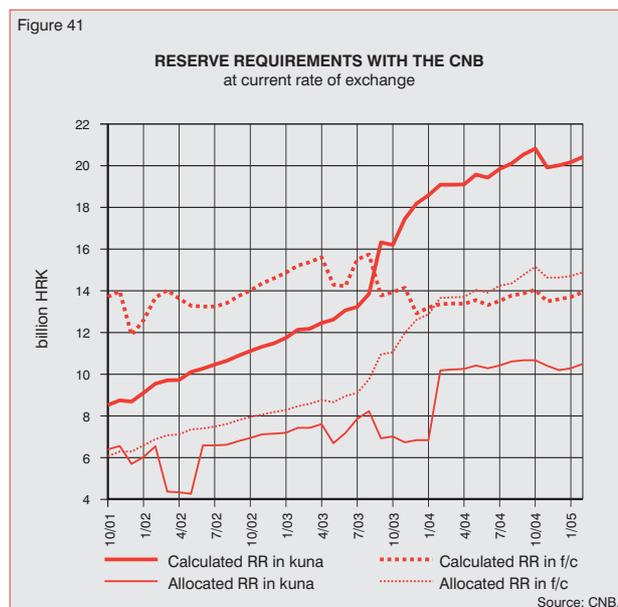
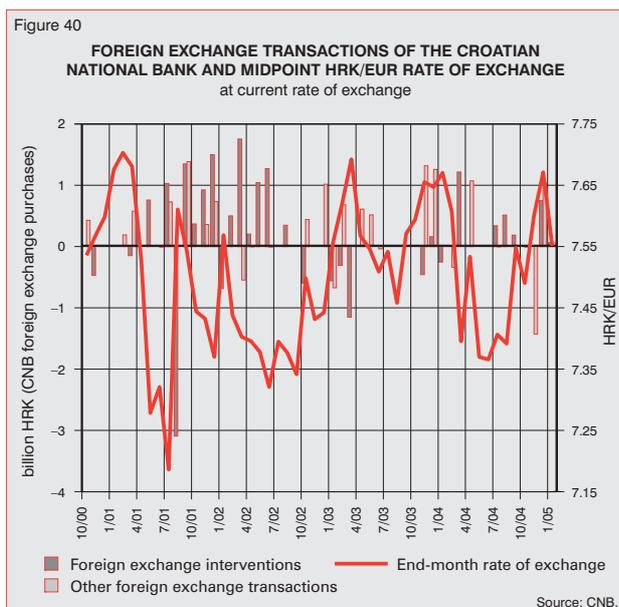
Uses of Instruments of Monetary Policy

Ample liquidity of the banking sector was recorded in the last quarter of 2004 and early 2005. Free reserves averaged some HRK 1.4bn in the last quarter of 2004. A slight drop in liquidity, which still amounted to a substantial HRK 750m, was recorded after the allocation of reserve requirements on 8 December 2004, but was immediately followed by the rise in surplus liquidity. With the return of currency from circulation to banks, which followed its seasonal growth in the pre-Christmas period, abundant banking system liquidity held steady in January when free reserves averaged HRK 1.5bn. At end-2004 and in early 2005, the CNB influenced kuna liquidity by its foreign currency transactions.

In December 2004 and January 2005, the CNB interventions in the foreign exchange market were aimed at preventing the strengthening of the kuna against the euro. At its foreign exchange auction of 8 December 2004, the CNB purchased a total of EUR 99.5m, thus creating HRK 748m. A temporary seasonal depreciation of the kuna at end-December 2004 was followed by an unexpected kuna strengthening in January, notwithstanding extremely good kuna liquidity. This prompted the CNB to intervene again on 19 January 2005. In conditions of surplus kuna liquidity, commercial banks were not interested in selling foreign exchange so that only EUR 8.5m was repurchased, which created a monetary effect of HRK 64m. Still, this intervention helped to curb the

Figure 39





kuna strengthening because it indicated central bank intention to prevent excessive strengthening of the kuna in the period preceding its usual seasonal appreciation.

At the same time, the Croatian National Bank increased its foreign currency trade with the government, which is a part of its overall policy to support government financing on the domestic market. Direct transactions between the government and the CNB prevent unnecessary shocks on the foreign exchange market that occur in conditions of huge foreign exchange supply or demand. The major transaction occurred at end-November 2004 when the CNB sold to the government JPY 25.5bn needed to repay government bonds in Japanese yens. Early 2005 also saw increased sales to the central government of foreign currency needed to pay its foreign liabilities. The lack of increased government demand for foreign currency on the domestic foreign exchange market certainly added to appreciation pressures on the kuna that marked the observed period.

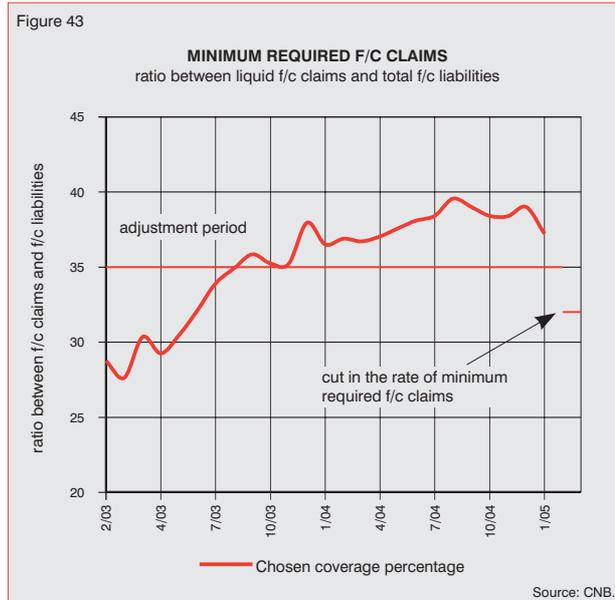
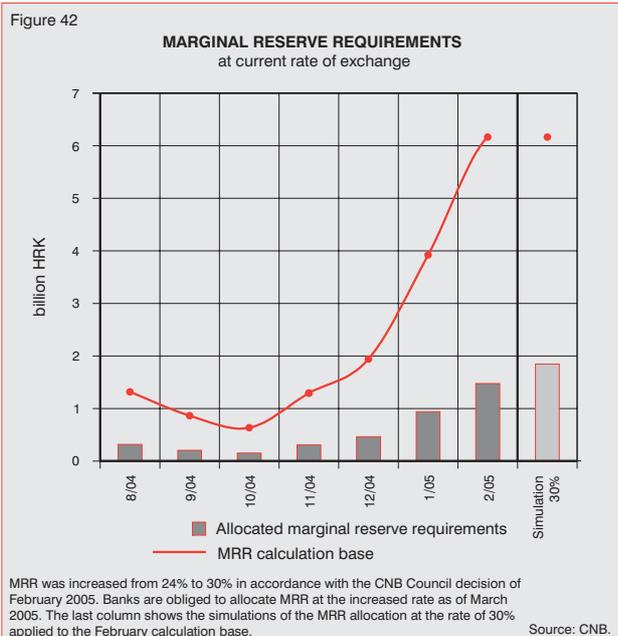
The amendments to the decision on reserve requirements lowered their rate from 19% to 18% in November 2004. Liquidity released by this transaction was withdrawn through the sale of foreign currency to the government in November. This sale followed a domestic market placement of government bonds whereby the government obtained the kuna funds needed to purchase foreign exchange. The total effect on liquidity was neutral at the time. In the meantime, owing to the increase in the base for calculation of foreign currency reserve requirements, especially the rise in foreign liabilities in November and December 2004, as well as January 2005, reserve requirements almost returned to their level before the cut in the reserve requirement rate. Due to the November cut in the rate to 18%, allocated reserve requirements were reduced by HRK 426m in kuna terms (compared with October). Allocation increased by HRK 400m since November due to the increase in the calculation base, so that reserve requirements amounted to HRK 10.5bn in kuna terms in early February 2005. The major generator of this increase in the calculation base were received foreign loans, whereas other items, including foreign currency deposits, mostly held

steady in the stated period.

In early 2005, kuna reserve requirements increased primarily due to growth in corporate kuna deposits, as well as growth in the kuna component of foreign currency reserve requirements boosted by a strong upturn in the foreign currency base, whereas other items grew slightly. In contrast to foreign currency reserve requirements, which almost reached the same level as before the November rate cut to 18%, kuna reserve requirements grew by only half of the released amount in that period. Kuna reserve requirements were reduced by HRK 517m in November 2004 compared with October 2004. Between then and February 2005, when HRK 14.8bn was allocated, kuna reserve requirements went up by HRK 260m. Foreign sources of bank funds grew more than kuna sources, which is perceivable in a faster increase in foreign currency reserve requirements.

Marginal reserve requirements (MRR) are the main instrument used to cut back the increase in foreign liabilities of commercial banks. The February 2005 increase in the rate of MRR obliged commercial banks to allocate with the CNB 30% (instead of the previous 24%) of the increase in foreign liabilities recorded in the period starting from June 2004. After the introduction of this measure in August 2004, foreign liabilities of commercial banks actually held steady for several months so that MRR allocations were very small. This stagnation in MRR in the third quarter and beginning of the fourth quarter of 2004 was largely the result of seasonal effects. Domestic sources of funds (primarily household foreign currency deposits) seasonally increase during the main tourist season so that commercial banks do not need additional foreign sources to finance domestic placement growth in that period. At year-ends (including end-2004), banks run out of funds needed to continue domestic credit activity so they raise them abroad. A foreign liability upturn leads to the increase in the MRR calculation base, which results in increased MRR allocation.

The rise in foreign liabilities of commercial banks recorded in the last quarter of 2004 indicates that a 24% rate of MRR on the increase in foreign liabilities, which have to be allocated



with the CNB, was insufficient to offset the profit commercial banks make by domestic credit activity based on foreign borrowing. It should be said that even the 30% rate does not completely eliminate the difference between interest rates in the country and abroad, so that commercial bank policy to raise funds abroad still pays off. Calculations show that a prohibitive MRR rate (over 50%) would completely eliminate the possibility of large bank profits. However, a prohibitive rate could redirect foreign capital flows from banks to financial institutions connected with banks or directly towards enterprises. Since the CNB is adamant to increase the price of foreign borrowing by the banking sector, but not other sectors, this measure is more of a signal and less a real restriction on bank business policies.

The increased rate for the calculation of MRR has two effects. Above all, the rise in the (marginal) cost of foreign borrowing reduces its attraction to commercial banks by lowering marginal profitability, which is the difference between the marginal cost of an additional unit of external debt and the income earned on placement of that unit to domestic sectors. For the sake of comparison, the marginal burden of sources by MRR is 30%, whereas the total burden of foreign sources by MRR is almost negligible, i.e. less than 2.5%. MRR influence on total bank profitability is also very small and reduces bank profitability only at the value of the second decimal place, by 0.01-0.02%, to around 3.41% at the MRR rate of 30%. On the other hand, the increase in the rate of marginal adjustment additionally penalises commercial banks that borrowed in the last seven months as they will have to increase the already allocated amount of MRR by 1/4 ($(30\%-24\%) / 24\% = 1/4$). In this way, with an unchanged base for MRR calculation, commercial banks will have to allocate additional EUR 50m in March.

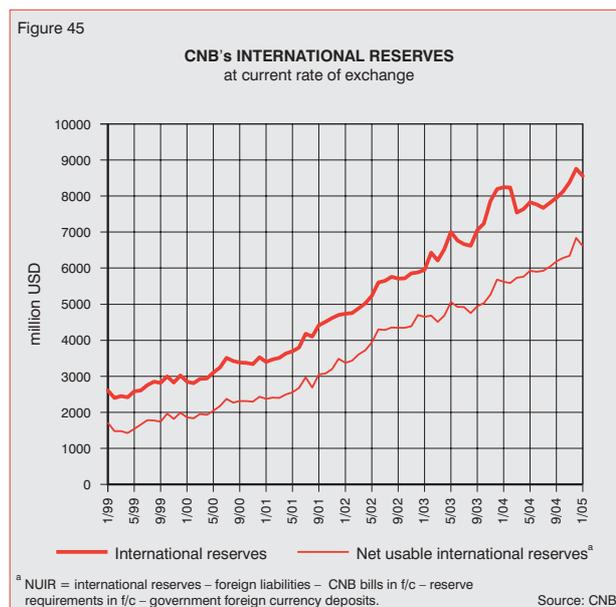
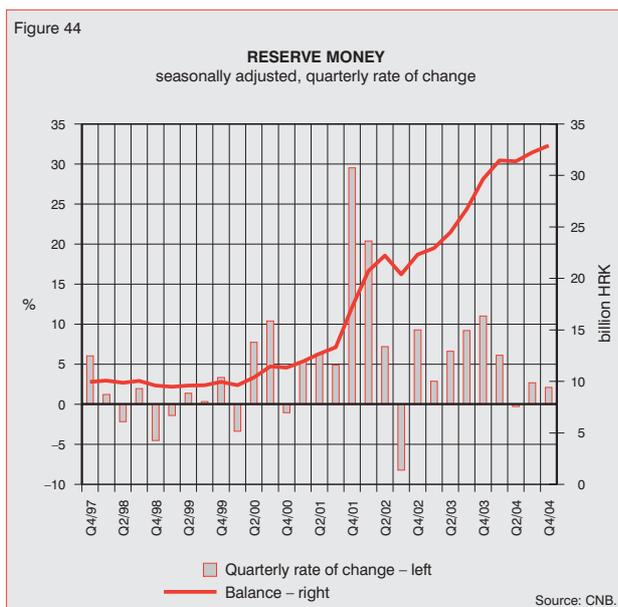
In February 2005, the Croatian National Bank decided to reduce the rate of minimum required foreign currency claims from 35% to 32%. After the adjustment period to this measure introduced in 2003, commercial banks have opted to maintain liquid foreign currency claims above the origi-

nally prescribed minimum ratio of 35% so that their actual coverage percentage ranged from 37% to 39%. In January 2005, liquid foreign currency claims averaged HRK 39.3bn in kuna equivalent, whereas foreign currency liabilities averaged HRK 132.6bn, which means that the average coverage was 37.5%. As each percent of coverage amounts to some HRK 1.3bn, a 3 percentage-point cut in the rate (from 35% to 32%) in February 2005 released some HRK 4.0bn to banks. This calculation is based on the assumption that banks will continue to maintain foreign currency liquidity above the minimum required amount and avoid coming close to the 32% bottom limit. In circumstances of sufficient foreign currency liquidity, it is expected that commercial banks will approve a syndicated loan of EUR 500m to the government, which will be used for the March repayment of due liabilities based on eurobonds.

The comparison of MRR and minimum foreign currency liquidity shows that the latter measure presents a much more stringent limitation to business policies of banks. After the one-time adjustment of foreign currency liquidity from the previous minimum of 35% to 32% in February 2005, which will be mostly used to finance the government, foreign borrowing will still be cheaper for banks, observed from the point of minimum required foreign currency claims. To send a clear signal to banks that mitigation of this measure is not meant to be an incentive to future foreign borrowing, the central bank raised the MRR rate, aware that it does not completely eliminate the effects of reducing the minimum percentage of required foreign currency liquidity, but aiming to send an unmistakable signal that more moderate foreign borrowing of banks will continue to be the main concern of the monetary authorities.

Reserve Money and International Reserves

At end-2004, reserve money (M0) stood at HRK 33.9bn and its annual growth rate was 10.9%. In the preceding two years, M0 grew at higher rates (by 29.4% in 2002 and 32.8% in 2003), but these rates are not comparable due to struc-



tural changes in monetary policy instruments and measures. Achieved M0 growth was in line with the goals of the CNB monetary policy. In 2004, the fastest M0 growth (seasonally adjusted values) was realised in the first and third quarters (5.9% and 3.5% respectively), whereas M0 recorded a 0.3% downturn in the last three months of 2004 due to poor growth in currency at end-2004 and stagnation in allocated reserve requirements. The average amount of reserve money in 2004 was 25.3% over that recorded in 2003. In January 2005, M0 recorded a seasonal fall, standing at HRK 32.6bn at the end of the month and retaining almost the same annual growth rate (10.8%) as in the previous two years.

Within the structure of reserve money, the largest growth was recorded in its major component – bank deposits with the CNB, which grew by a total of HRK 2.8bn or 15.0%. Almost two thirds of this growth is related to the increase in allocated kuna reserve requirements (HRK 2.0bn or 16.4%), whereas the other component of bank deposits – the balance in the banks' settlement accounts – increased by HRK 0.8bn (14.1%). Funds in banks' vaults, which are also included in maintained reserve requirements, went up by 11.2% (HRK 187m), whereas currency recorded the weakest growth (3.6% or HRK 382m) in 2004.

Although reserve money sustained its upward trend on an annual level in early 2005, it recorded a seasonal fall of HRK 1.3bn in January 2005, compared with December 2004. This fall was best observed in the balance in the banks' settlement accounts, which declined by HRK 1.1bn, and a seasonal downturn of HRK 145m in currency. In the same period, reserve requirements set aside slightly grew (by HRK 39m).

Government deposits in kuna averaged some HRK 500m in 2004. They were somewhat lower in the fourth quarter, averaging some HRK 430m, which additionally increased high liquidity in banks' settlement accounts. In early 2005, government kuna deposits increased when the government placed in its account with the CNB the kuna funds intended for the purchase of foreign exchange from the CNB. These funds are needed for the settlement of government obligations to the Paris and London Clubs. Government foreign

currency deposits with the CNB averaged some HRK 380m in 2004 and were highest in the second quarter. In the last quarter of 2004, the government held with the CNB JPY 25.5bn in the period between 30 November (when it purchased yens) and 7 December (when JPY bonds fell due). In early 2005, the government held no foreign currency deposits with the CNB.

After a temporary decline in November 2004, which was caused by a decrease in foreign currency reserve requirements and the sale of yens to the government, international reserves resumed their upward trend in December 2004, which was boosted by the purchase of foreign currency from commercial banks. Growth in international reserves in terms of the US dollar is also affected by the weakening of the US dollar against the euro. At end-December 2004, gross international reserves stood at USD 8.7bn at the market value, which is USD 0.5bn more than at end-2003. A slight fall in international reserves in January 2005 was mostly the result of transactions with the government and the already mentioned sale to the government of foreign currency needed for the settlement of its obligations to the Paris and London Clubs. For this purpose, USD 122m was sold to the government in January and additional USD 52m was sold in February. At end-January 2005, gross international reserves stood at USD 8.5bn.

The stated transactions were also reflected in a slight decline in net usable reserves, which stood at USD 6.7bn at end-January 2005.

Monetary Developments

The fourth quarter of 2004 saw an upsurge in foreign liabilities of commercial banks and faster growth in bank placements to the non-banking sector compared with the quarter before. As the increase in domestic sources of funds was somewhat smaller at the year-end than in the summer months, banks borrowed abroad to finance domestic loan demand. Total growth in bank placements to the non-banking sector in 2004 somewhat surpassed that recorded in

2003. In 2004, foreign currency deposits also grew more than in 2003, whereas steady growth in kuna deposits, especially those of the household sector, was impaired at the year-end. Money grew slower than quasi-money.

Money (M1)

With some seasonal fluctuations, money (M1) held steady in 2004, recording an annual growth rate of 2.0%, which is much lower than a 9.8% growth rate recorded in 2003. However, M1 recovered in early 2005 and amounted to HRK 34.9bn at end-January, up 8.0% on the same month of 2004. As January saw a steeper rise in demand deposits and a slower decline in currency in circulation than are usual at the beginning of a calendar year, the seasonally adjusted value of money recorded a sharp increase following several months of stagnation.

The 2004 stagnation of money was mostly affected by demand deposits, which remained on a slow upward trend in the last quarter of 2004. Thus, their annual growth rate fell from 10.0% in 2003 to only 1.2% in 2004. Still, demand deposits recorded a recovery in January 2005 when they reached HRK 24.1bn, up 9.1% on the same month last year.

A decline in funds in corporate giro and current accounts was the main reason for the slow increase in demand deposits in 2004. Corporate demand deposits fell by HRK 0.9bn (-7.3%) in 2004, whereas they grew by HRK 0.5bn (4.3%) in 2003. This reversal was caused by a growing tendency of enterprises toward kuna and foreign currency savings in particular. Enterprises place their funds mostly in forms of saving that bring higher yields. By contrast, household demand deposits recorded an increase in 2004 (HRK 0.9bn or 11.4%), although it was somewhat less than in 2003 (HRK 1.5bn or 24.8%).

With usual seasonal fluctuations throughout 2004, currency in circulation also grew slower in 2004 than in 2003, by 3.6% compared with 9.2%. This can be attributed to the base period effect since currency recorded strong growth in the preceding years, as well as to increased use of cashless payment by means of debit and credit cards. At end-January

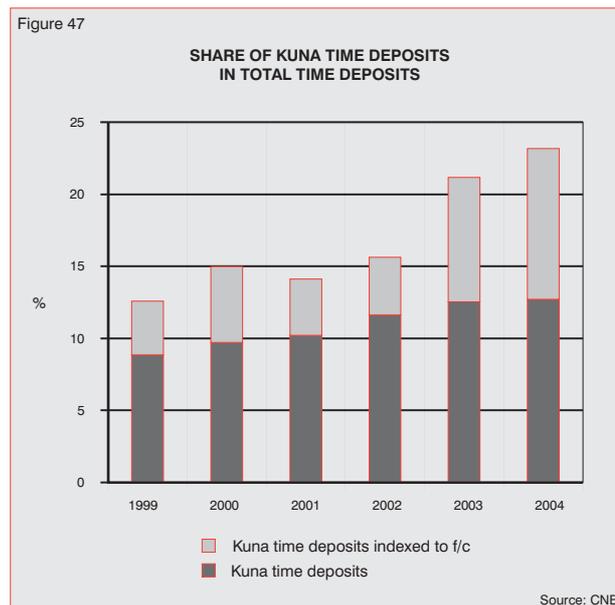
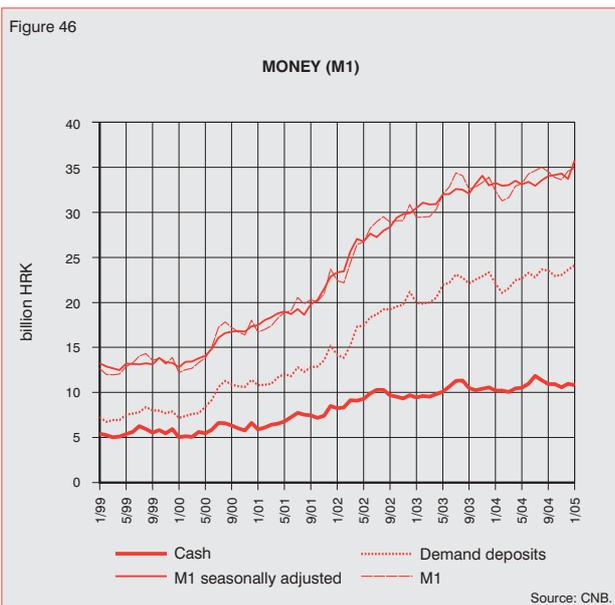
2005, currency stood at HRK 10.8bn, up 5.6% on the same month last year.

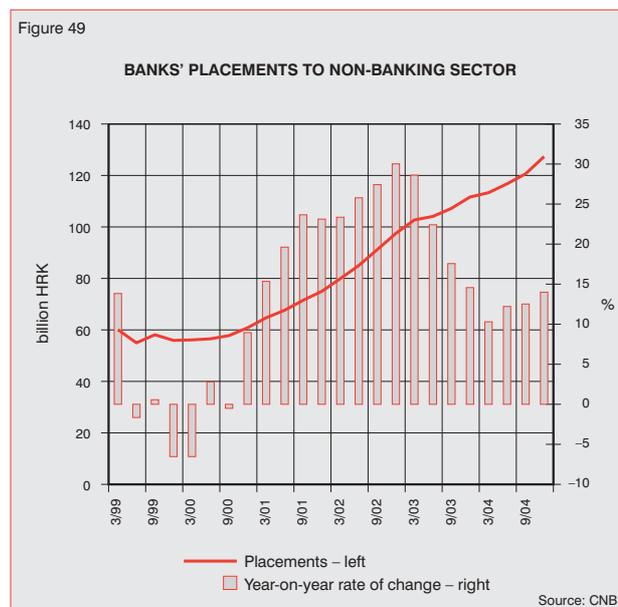
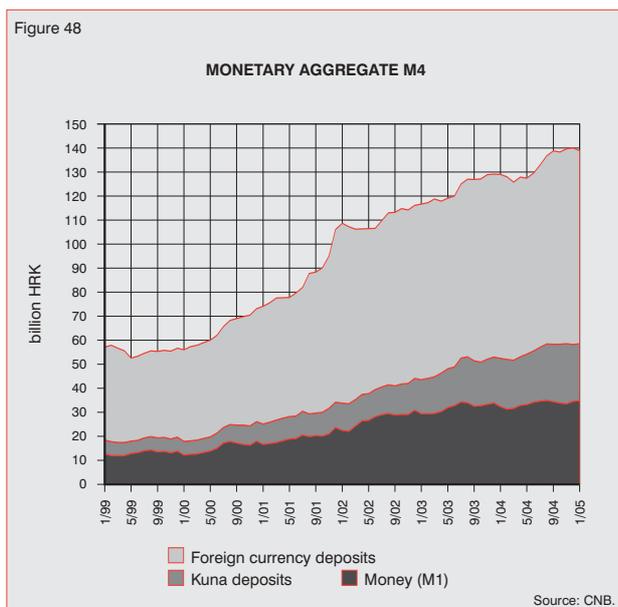
Total Liquid Assets

Growth in kuna non-monetary deposits marked monetary developments in 2004, notwithstanding their downturn in the last quarter when the payout of T-HT dividends led to a fall in kuna time deposits of enterprises, which lowered the growth rate of total kuna deposits. Their annual growth rate fell from 34.3% in November to 22.4% in December, whereas their twelve-month increase in 2004 was HRK 4.1bn in nominal terms. Excluding the stated dividend transaction, the increase would exceed HRK 5.0bn and be approximately the same as in 2003 (HRK 5.4bn). In early 2005, kuna savings and time deposits remained flat, standing at HRK 22.5bn at end-January and accounting for 21.6% of total quasi-money.

Household kuna deposits steadily grew over 2004, without large fluctuations in growth rates, whereas the increase in corporate kuna deposits was much more erratic. In the stated period, kuna non-monetary deposits of the household sector went up by HRK 3.0bn (35.7%), of which as much as HRK 1.3bn was recorded in the last quarter. The stated T-HT dividend payout in December led to a HRK 1.4bn drop in corporate kuna savings in the last quarter, which considerably decreased their annual growth rate, from 45.1% in November to 14.7% in December. This trend continued into January 2005 when their growth rate was 8.2%.

It should be stressed that the amount of kuna time deposits with a currency clause of the household sector doubled (increasing by HRK 2.5bn, 104.4%) in 2004, whereas kuna deposits without a currency clause ("real" kuna deposits) of the same sector grew by only HRK 398m (11.4%). Kuna deposits with a currency clause trended upwards over the last two years so that their share in total kuna deposits went up from 26% at end-2002 to 45% in December 2004. Households and enterprises prefer such deposits because banks encourage them by higher interest rates since they are not obliged to maintain minimum foreign currency liquidity for





these deposits, whereas a currency clause protects them from kuna exchange rate risk. Notwithstanding the fact that interest rates on “real” kuna deposits are still the highest, these deposits account for only 13% of total quasi-money.

Following large foreign currency inflows from tourism over the summer months, the last quarter of 2004 also saw solid growth in foreign currency deposits. In 2004, these deposits grew by a total of HRK 5.7bn, which is HRK 1.7bn more than in 2003, and accounted for half of the absolute increase in total liquid assets in 2004. With the exchange rate effects excluded, the annual growth rate of foreign currency deposits went up from 5.9% in 2003 to 8.5% in 2004. At end- January 2005, these deposits stood at HRK 80.3bn, up 5.0% on the same month last year.

Households and enterprises, which are the two most significant sectors with regard to the structure of foreign currency deposits, recorded a higher increase in foreign currency savings in 2004 than in 2003. Accounting for 83.6% of total foreign currency deposits, households are absolutely the most important bank source of foreign currency funds. A 6.0% upturn in household foreign currency deposits (HRK 3.8bn) in 2004 was HRK 1.0bn higher in absolute terms than in the preceding year, whereas enterprises recorded even faster growth, of 18.4% (HRK 2.0bn). In January 2005, corporate deposits recorded a lower annual growth rate (12.2%), whereas household foreign currency deposits in kuna terms dropped only due to an appreciation of the kuna against the euro.

A slight increase in money and corporate kuna deposits caused by the HT dividend payout in the last quarter of 2004 led to slower growth in total liquid assets (M4). M4 grew by 8.5% in 2004, which is 2 percentage points less than in 2003 (10.5%). At end-January 2005, M4 stood at HRK 138.9bn, up 8.9% on the same month of 2004, with the exchange rate effects excluded.

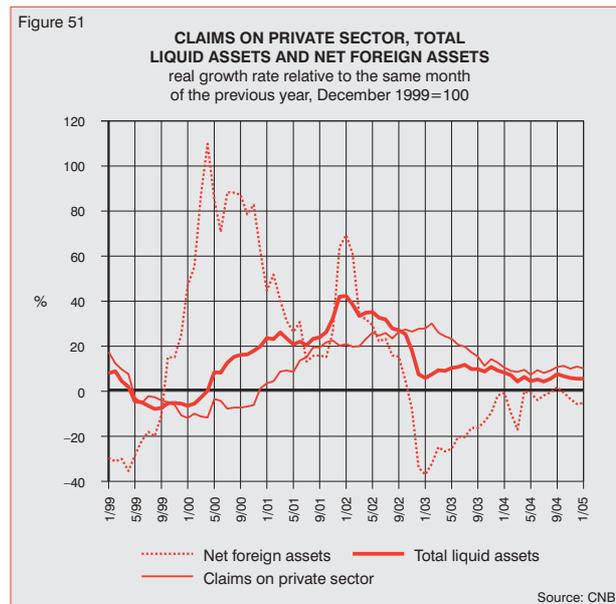
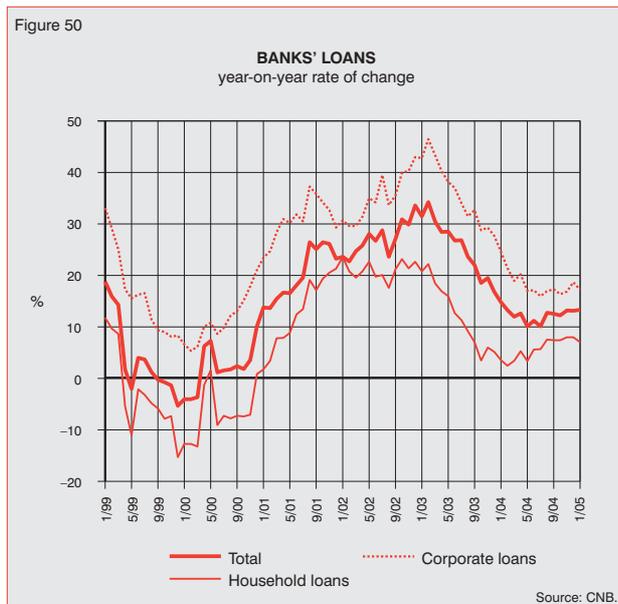
Placements

Bank placements to the non-banking sector grew at a somewhat faster pace in 2004 than in 2003. The exchange

rate effects excluded, their annual growth rate was 14.2% in 2004, while it was 13.3% in 2003. Bank placements increased by HRK 15.6bn in the last twelve months, of which HRK 6.7bn was recorded in the last quarter of 2004. The exchange rate effects excluded, a 4.7% growth in bank placements recorded in that quarter was their largest growth recorded over 2004. These placements increased by 3.9%, 3.4% and 1.5% respectively in the first three quarters of the year. In early 2005, bank placements maintained an effective annual growth rate of 13.9%, standing at HRK 127.0bn at end-January.

Faster growth in bank placements at the end of 2004 was the result of increased household demand for loans in November and December. In the last quarter, bank placements to households grew by HRK 4.0bn, recording an annual growth rate of 18.7% in 2004, which is still lower than the growth rate of 27.7% recorded in 2003. Although growth rates in bank placements to households are still high, it should be mentioned that enterprises recorded faster placement growth in 2004. Total corporate placements increased by HRK 4.8bn (9.0%) in absolute terms in 2004, which is more than double the growth recorded in 2003 (HRK 2.0bn or 4.0%). Since enterprises, apart from banks, have at their disposal other sources of finance (leasing firms or direct borrowing abroad and, to a lesser extent, the capital market), the recorded corporate placement growth is a positive step towards increased financing of the economy relative to household personal consumption. Due to the kuna strengthening, annual growth rates of household and corporate placements slightly fell, to 17.2% and 5.4% respectively, in January 2005.

Bank loans to the non-banking sector, which account for over 95% of total bank placements, increased by 13.8% in 2004, 2 percentage points less than in 2003. The same as total placements, loans grew at a lesser pace due to a moderate decline in household loans (the annual growth rate fell from 27.7% to 18.7%) and an increase in corporate loans (from 5.1% to 8.0%). Notwithstanding somewhat less pronounced growth in loans to households, which can no longer absorb



loan supply as in the previous years, the share of these loans for the first time surpassed half of total bank loans. Thus, at end-December, household and corporate loans accounted for 50.7% and 41.4% respectively of total loans, whereas the rest was accounted for by loans to the central and local government and other non-banking institutions.

Data on the structure of household loans for the last quarter of 2004 indicate intense growth in home loans (7.5% or HRK 1.5bn) and other kuna loans, which include all-purpose loans and current account overdraft facilities (5.0% or HRK 1.4bn). The upturn in other kuna loans may be explained by increased personal consumption in the period around Christmas, whereas the increase in home loans, which account for a third of total loans, is related to soaring demand on the real estate market. Nevertheless, the largest portion of loans are still those used to finance personal consumption, so that other kuna loans together with credit card loans and car loans account for 62.5% of total household loans.

Foreign Assets and Liabilities

Foreign liabilities of commercial banks recorded an enormous increase in the last quarter of 2004, which deteriorated total foreign position of banks. In the last three months of 2004, foreign liabilities of banks rose by HRK 7.6bn (14.3%), which is double the growth in the first nine months of 2004. A seasonal downturn in foreign liabilities is usually recorded in the third quarter when banks record strong foreign currency inflows due to the tourist season, whereas, at the year-end, banks attempt to get the best possible position for the beginning of a new business year so they usually raise more funds abroad. In addition, the fourth quarter of 2004 saw more moderate growth in domestic sources of finance (M4), which also prompted banks to borrow abroad in order to finance domestic credit activity.

A decrease in net foreign assets (NFA), which marked the year 2004, was due to a parallel major upturn in both foreign assets and liabilities. Foreign liabilities grew by a total of HRK 11.7bn (22.5%), whereas foreign assets grew less, by HRK

8.5bn (23.1%) in absolute terms. Hence, NFA fell from HRK -14.5bn at end-2003 to HRK -17.6bn in December 2004. This trend continued into early 2005, with foreign assets declining more (-10.3%) than foreign liabilities (-3.8%) on a monthly level. At end-January 2005, NFA stood at HRK -19.8bn, 37.2% up on the same month of 2004.

Placements to the Central Government

With sporadic monthly fluctuations at end-2004, banks' net placements to the central government recorded a downturn (of HRK 741m or -5.0%) on an annual level because the government settled its due liabilities. Bank placements to the government declined by a total of HRK 491m (2.3%), whereas government deposits, which were more volatile, increased by HRK 251m (3.7%) in 2004. Within the structure of bank placements to the government, the shares of bonds for citizens' blocked foreign currency deposits and other bonds declined (by HRK -1.0bn and HRK -486m respectively), whereas bank placements in money market instruments and T-bills of the Ministry of Finance increased (the total subscribed amount increased by HRK 711m).

Still, stronger growth in bank loans to the government in early 2005 confirms the government's shift toward domestic financing. Bank placements to the government rose by HRK 2.2bn, whereas their placements in money market instruments continued to grow (by HRK 0.4bn) in January. Net bank placements to the central government stood at HRK 15.7bn at end-January.

Money Market

The money market in the last quarter of 2004 was marked by relatively high banking system liquidity and a general drop in demand for kuna compared with the third quarter, with only a temporary seasonal increase in the second half of December. Liquidity was not impaired by the end-November government bond issue, worth EUR 200m, and was additionally spurred by HRK 748m released by the CNB's for-

foreign exchange intervention in December. The lowered demand for kuna resulted in a decrease both in money market interest rates and in turnover. Up temporarily at end-December, interest rates fell again in January 2005, to some extent due to HRK 64m placed in the market by the central bank's foreign exchange intervention undertaken at the middle of the month.

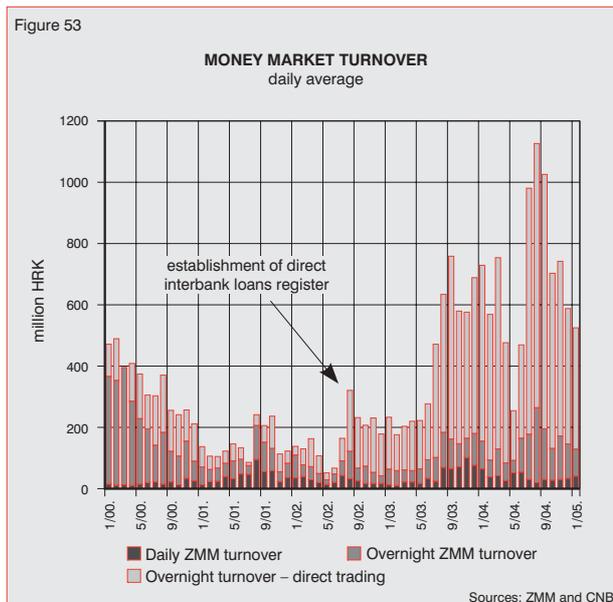
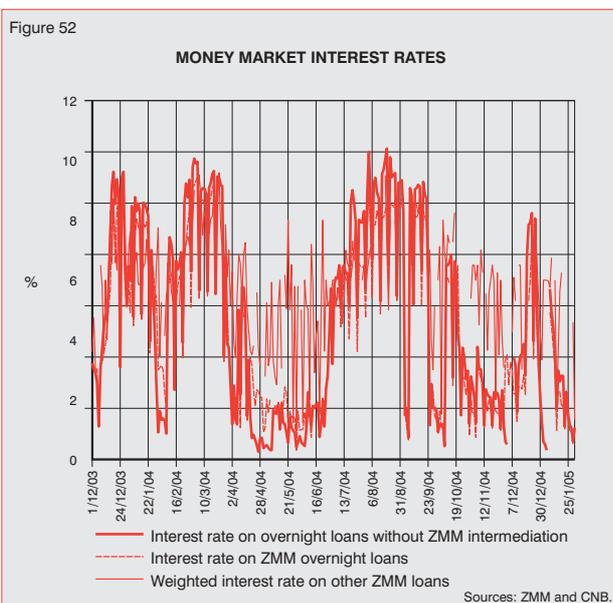
In this period, investors showed considerable interest in MoF T-bills, even with their interest rates dropping steadily over the fourth quarter. As a result, the balance of subscribed T-bills rose to an all-time high at end-January.

Bank lending rates mainly held steady in the fourth quarter relative to the previous quarter until end-December, when they drifted slightly lower. Interest rates charged on foreign currency deposits remained almost stagnant and those charged on kuna deposits decreased in parallel with money market interest rates.

Money Market Interest Rates

As shown by ZMM data, the average reported loan demand dropped during the fourth quarter of 2004 compared with the third quarter, with the resultant decrease in money market interest rates continuing almost throughout the fourth quarter, except for end-December, when a seasonally induced rise in demand for currency brought about their temporary increase. Money market interest rates declined again in January 2005. The ZMM weighted interest rate thus declined from 6.80% in September to 2.62% in November, rebounding to 4.14% in December and dropping again to 2.88% in January.

The weighted interest rate on overnight loans intermediated by the ZMM showed similar trends. Having dropped from 6.67% to 1.81% from September to November 2004, it grew to 3.55% in December and fell back to 2.26% in January. The weighted interest rate on other loans intermediated by the ZMM was on a continuous decline over the fourth quarter 2004, standing at 6.02% at the year-end and dropping further to 4.21% in January.



Total turnover in the ZMM decreased from HRK 13.8bn in the third quarter to HRK 9.6bn in the fourth quarter 2004. The average daily turnover in overnight loans was down from HRK 185.4m in the third quarter to HRK 118.2m in the fourth quarter and further to HRK 88.2m in January. The average daily turnover in other loans stood at HRK 31.5m in the fourth quarter 2004, rising to HRK 41.3m in January.

Regarding the maturity structure of loans intermediated by the ZMM, the share of overnight loans in total turnover was the largest (80%), but still lower than in the third quarter (almost 90%). This is typical of periods with improved banking sector kuna liquidity, as were the last quarter of 2004 and the beginning of 2005. More than 80% of other loans were accounted for by loans with a one-month maturity.

Direct interbank overnight lending without ZMM intermediation fell in the fourth quarter of 2004 compared with the previous quarter. The average daily turnover in this money market segment stood at HRK 528.3m in the fourth quarter of 2004 (compared with HRK 831.8m in the third quarter) and decreased further in January, to HRK 396.2m. Considerably lower in the fourth than in the third quarter, the weighted interest rate on direct interbank overnight loans stood 4.46% in December. It dropped further in January 2005, to 2.87%.

Interest Rates in the Short-Term Securities Market

In the fourth quarter of 2004 and in January 2005, improved liquidity aroused investors' interest in MoF T-bills, despite their lowered interest rates. Consequently, the balance of subscribed T-bills was rising over the fourth quarter, reaching HRK 8.26bn at end-December 2004 and a record high of HRK 9.73bn at end-January 2005.

91, 182 and 364-day T-bills' auction rates continued downwards over the fourth quarter, falling from 5.15%, 6.57% and 6.89% in October to 3.86%, 5.70% and 5.92% respectively in December. In January, these rates stood at 4.00%, 5.41% and 5.58% respectively.

Figure 54

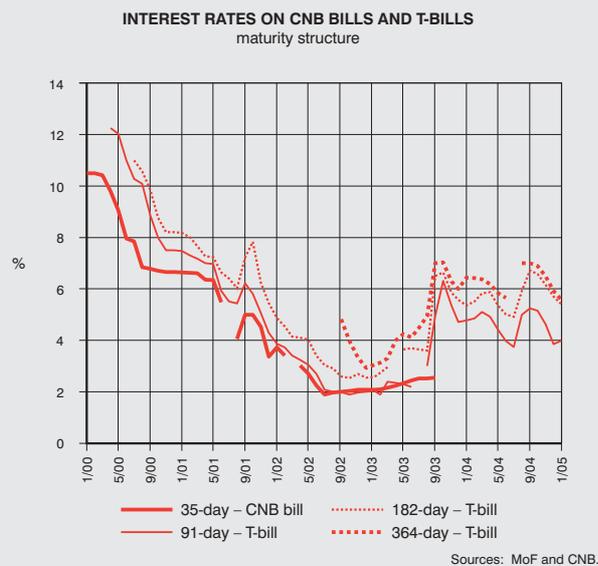
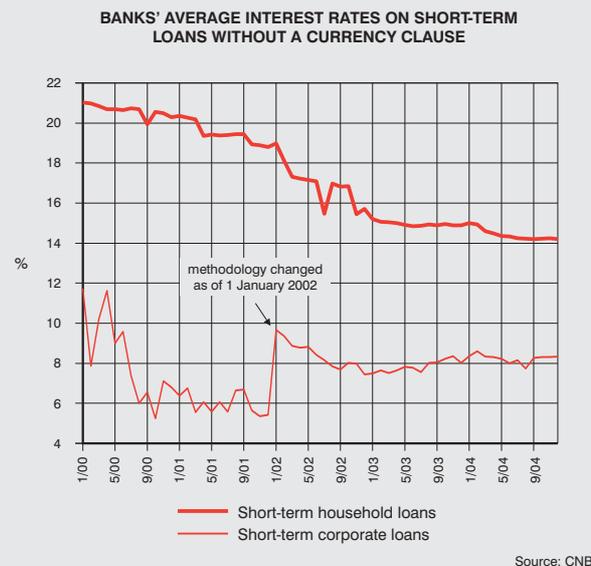


Figure 55



T-bills with the longest maturity accounted for about 60% of total subscribed bills at the fourth quarter end. 182-day bills approximately accounted for about 35% of the total and the shortest maturity bills for about 5%. With their subscription increasing substantially in January 2005, the share of six-month T-bills in the total subscribed amount exceeded 40%.

The Ministry of Finance issued no EUR denominated T-bills in the fourth quarter of 2004 or in January 2005. These bills' end-January balance was EUR 115.6m.

Banks' Interest Rates

Interest rates on short-term corporate loans not indexed to foreign currency were slightly higher at the end of the fourth quarter 2004 than in September. Standing at 8.26% in September, the weighted interest rate on short-term kuna corporate loans not indexed to foreign currency rose to 8.33% in December. Having drifted higher in October and November, interest rates on short-term household loans went back in December to the level they had kept in the previous six months. The weighted interest rate on short-term household loans not indexed to foreign currency stood at 14.21% and 14.19% at the end of the third and the fourth quarter respectively.

Amounting to 5.82% at the third quarter end, the weighted interest rate on long-term corporate loans decreased to 5.55% in December. Up early in the fourth quarter, the weighted interest rate on long-term household loans was also lower at that quarter end (7.73%) than at the third quarter end (8.08%). This decrease was mainly due to the fall in the interest rate on other long-term household loans, which accounted for 47% of total long-term household loans in December 2004.

Following the increase in the third quarter, banks' rates charged on kuna time deposits decreased in the fourth quarter due to the decline in interest rates on corporate kuna time deposits caused, in turn, by the decrease in money market interest rates. Standing at 5.93% in September, the weighted

Figure 56

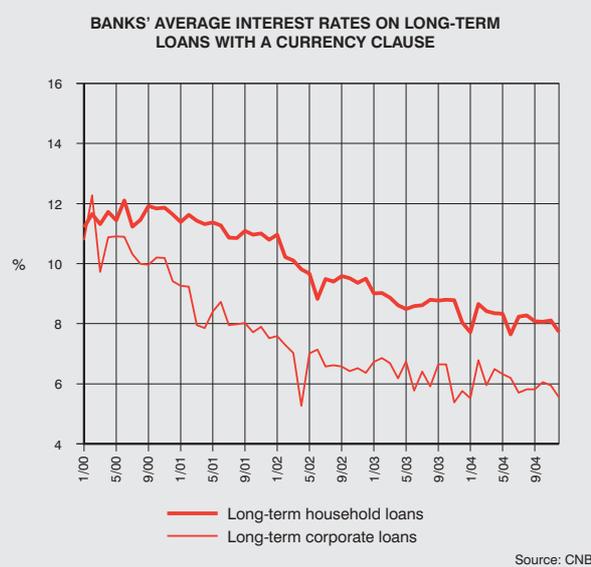
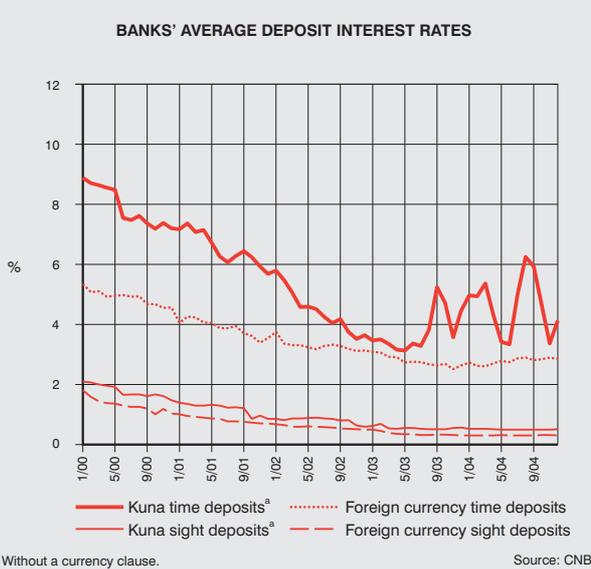


Figure 57



Box 1: Impact of Money Market Interest Rates on Banks' Deposit Interest Rates

Banks' deposit interest rates had remained unaffected by money market interest rate trends until the end of the second quarter 2003. In proof of this is the fact that the weighted interest rate on ZMM loans had up to that time been considerably lower and more volatile than the weighted interest rate on bank time deposits not indexed to foreign currency. In the last eighteen months, however, these two rates have achieved a much higher degree of coordination (Figure 58).

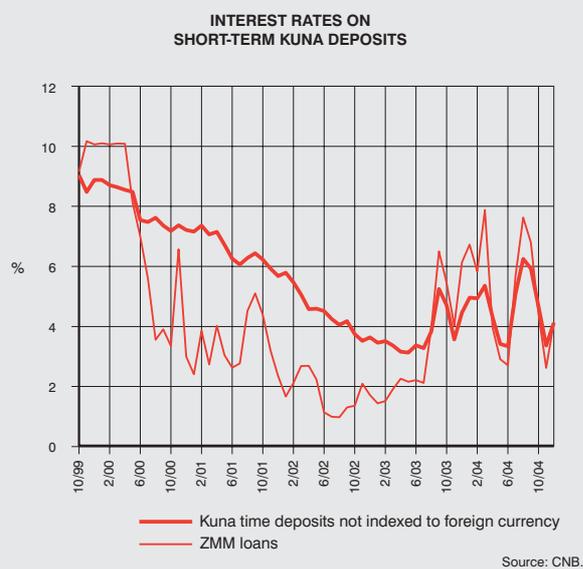
This is explained by banks' data on new kuna time deposits, showing that the inflow of corporate deposits tied for up to one month (and including one month) has accounted for an increasingly larger monthly share in the total inflow of kuna time deposits since early in the third quarter 2003 (Figure 59).

As these deposits are the most similar to money market loans among all time kuna deposits, their interest rates bear the strongest resemblance to money market interest rates (Figure 60). In consequence, their relative weight's fast and strong increase in the calculation of the weighted interest rate on banks' total kuna time deposits resulted in a coordination of that rate and the weighted interest rate on ZMM loans.

However, this statistical explanation of the coordination between money market interest rates and banks' deposits

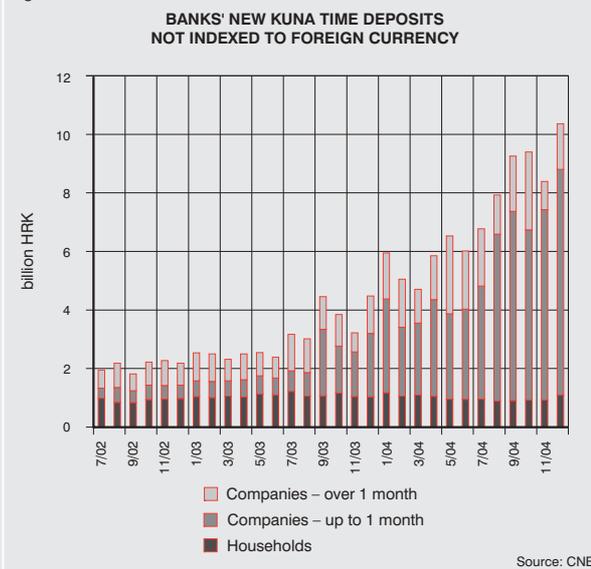
rates does not account for corporate kuna time deposits with the shortest maturities quadrupling their inflow in the last eighteen months. This could be explained by large and liquid companies' active liquidity management, aimed at profiting from the volatility of money market interest rates. Along these lines is the fact that the inflow of the shortest maturity corporate kuna time deposits started increasing at the same time as the volatility of money market interest rates.

Figure 58



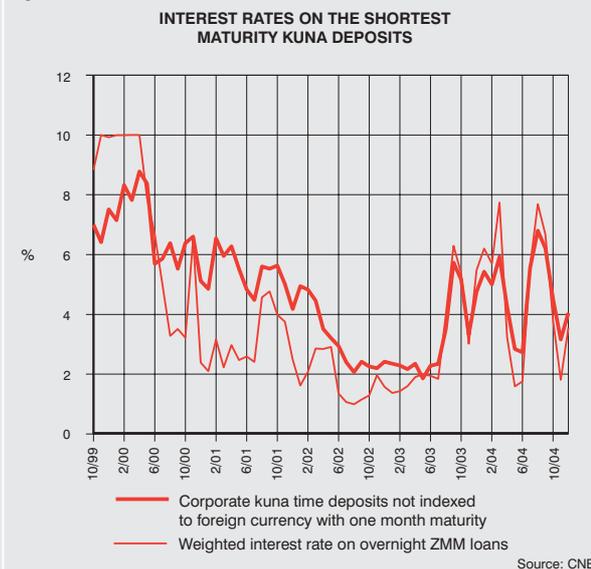
Source: CNB.

Figure 59



Source: CNB.

Figure 60

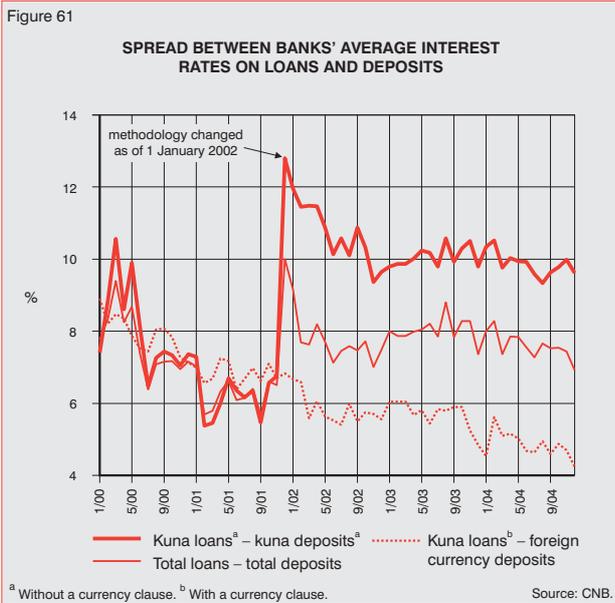


Source: CNB.

interest rate on kuna time deposits fell to 4.12% by December. The weighted interest rate on kuna sight deposits not indexed to foreign currency held steady at about 0.50% in the fourth quarter 2004. The weighted interest rate on foreign currency time deposits drifted higher, from 2.82% in September to 2.85% in December. In contrast, the weighted interest rate on foreign currency sight deposits stagnated at 0.30% in the fourth quarter, the level attained in the previous quarter.

Having increased early in the last quarter 2004, the spread between banks' lending and deposit interest rates

dipped in December relative to September. The spread between interest rates on total loans and total deposits amounted to 7.53 and 6.92 percentage points at the third quarter-end and at the year-end respectively. The spread between interest rates on kuna loans indexed to foreign currency and interest rates on foreign currency deposits decreased from 4.60 to 4.24 percentage points in the same period, while the spread between interest rates on kuna loans not indexed to foreign currency and kuna deposits also dipped, from 9.63 to 9.61 percentage points.



An analysis of banks' interest rate trends in selected transition countries and the EMU shows that banks' nominal interest rates on long-term corporate loans dropped in the fourth quarter from the third quarter, while nominal interest rates on short-term household time deposits increased in some countries and decreased in others.

In the EMU, nominal lending rates fell at the end of the fourth quarter 2004, while nominal deposit rates increased from the end of the third quarter. However, a rise in the CPI inflation rate reduced both real lending and deposit rates.

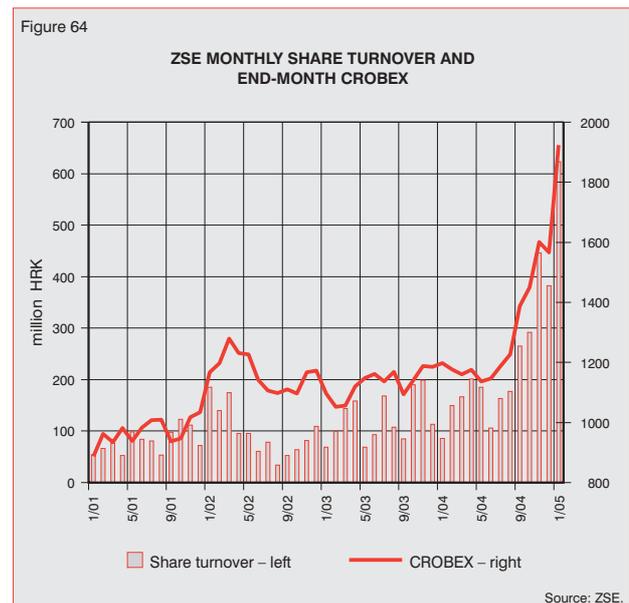
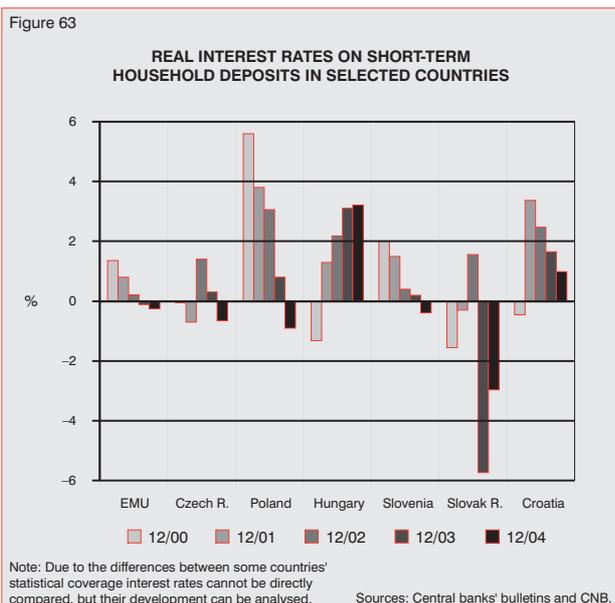
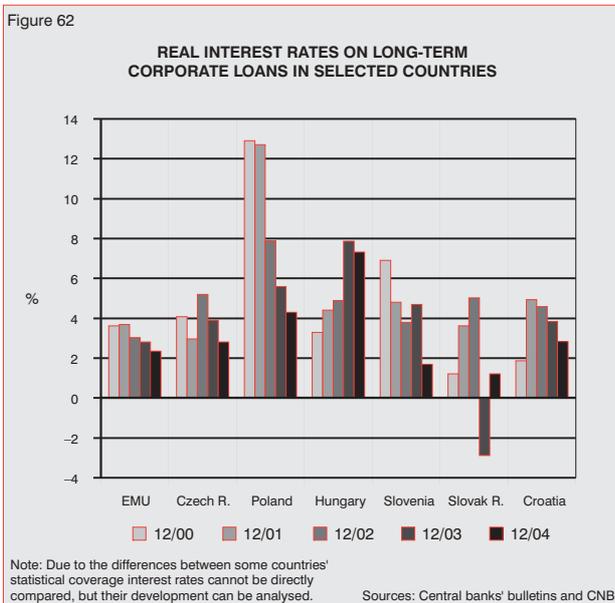
Real deposit rates were positive in the EMU only in the first quarter of 2004. Negative for a longer period of time in Slovakia, real deposit rates in the Czech Republic, Poland and Slovenia recorded negative values as late as in 2004. In Croatia, real interest rates on long-term corporate loans and short-term household deposits decreased in the last quarter of 2004, mostly on account of the rise in the inflation rate compared with the previous quarter.

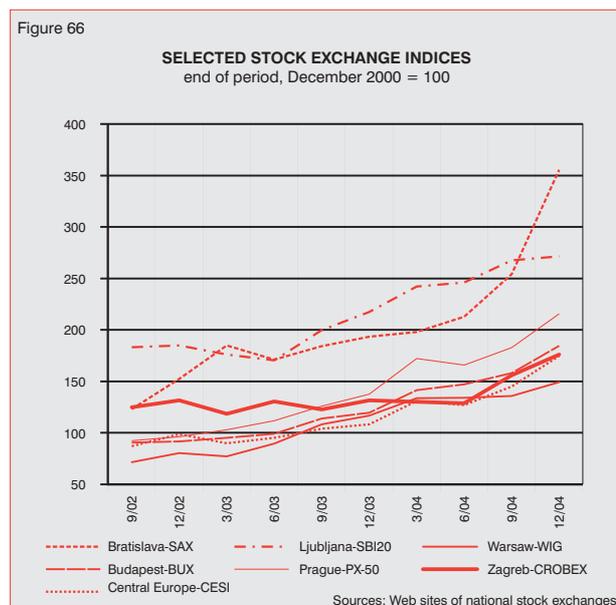
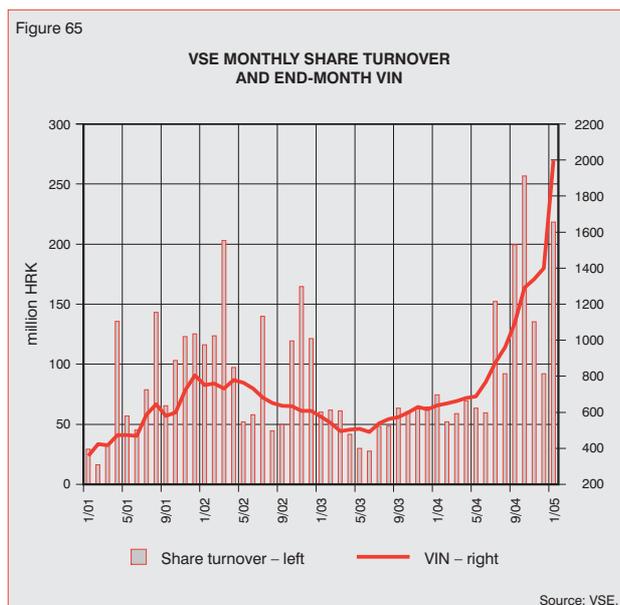
Capital Market

The capital market saw strong activity in the fourth quarter of 2004 and in January 2005. The considerable rise in share turnover was accompanied by the strong growth of most share prices and the increase in both ZSE and VSE indices. A new government bond with the longest ever maturity (15 years) was issued in December 2004 and a new corporate bond, replacing a matured issue of the same issuer, in January 2005. Bond turnover in the domestic market remained high, whereas Croatian eurobond yields decreased in the fourth quarter of 2004 and in January 2005, significantly narrowing their spread with benchmark German bonds.

Equity Securities Market

With share trading continuing to rise from early 2004, ZSE share turnover reached HRK 1,198.8m in the fourth quarter of the year, rising by about 85% from the third quarter





and by 123% from the same period in 2003. As usual, Adris grupa and Pliva shares were traded the most, accounting for 19% and 14% in total trading respectively. Continuing on the trend from the last quarter 2004, share turnover hit a record monthly high of HRK 623.3m in January 2005.

Most share prices rose considerably in the fourth quarter of 2004, pushing up the CROBEX to an all-time high of 1566 points at end-December. The rise in the CROBEX value in the fourth quarter was due to the growth of prices of almost all shares included in its calculation (except for Pliva shares, on the downward trend since October), and especially of Končar Elektroindustrija shares. The prices of all benchmark shares, with the exception of Pliva's, continued growth in January, with Istraturist, Končar Elektroindustrija and Rivijera Poreč shares rising the most for the month, by (82%), (65%) and (64%) respectively. The CROBEX reached its high of 1923 points at end-January.

Market capitalisation at the ZSE increased sharply over the fourth quarter 2004, standing at HRK 61,734m (29.9% of the GDP estimate for 2004) at end-December, up HRK 11,740m, or 20%, from the third quarter end. This strong increase was due to the growth in both share liquidity and share prices. Specifically, the overall ZSE market capitalisation is calculated by including total 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. Market capitalisation of shares at the ZSE rose further in January 2005, standing at HRK 73,269m at the month end.

Market capitalisation of active shares at the VSE amounted to HRK 41,740m at end-December 2004, rising by HRK 15.1m from the end of the third quarter and by 79% from the end of the previous year. Share trading at the VSE also rose in the fourth quarter of 2004. Total turnover stood at HRK 484.1m, up 9% compared with the third quarter of 2004 and 2.6 times compared with the same period in 2003. In contrast with the third quarter, when the rise in the VSE turnover mainly resulted from several large one-off transactions, in the fourth quarter it came from the increase in regular trading. About 36% of total turnover was generated by public companies' shares and 47% by the Free Market. With only one share listed, the Second Quotation has had a negligible turnover for quite some time. The Quotation of Rights, where the rights of the former Ministry of Public Works, Reconstruction and Development and the Ministry of Finance are traded, recorded a turnover of HRK 13.1m in the fourth quarter 2004, which accounted for 3% of the VSE turnover. Triggered by a brisk trading in the open market and an upward trend in public companies' share trading, the VSE share turnover came to a high HRK 218.3m in January.

The VSE index, VIN, has trended upwards since

Table 2: Comparison of Capital Market Indicators

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

^a Shares, ^b Bonds, ^c 2003, ^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).

mid-2003, accelerating the trend in the fourth quarter of 2004 and in January 2005. At end-2004, the VIN rose by 127% relative to end-2003, from 615.9 to 1400 points. Growing steeply in January, the VIN reached 1998 points at the month end, due to the rise in the prices of all constituent shares, and in particular of Ericsson Nikola Tesla and Dom holding shares, jointly accounting for a 50% weight in the index.

Having grown at a moderate rate in the third quarter, Central and East European stock exchange indices rose sharply in the fourth quarter of 2004, continuing the upward trend which had marked the whole year. The composite Central European Stock Exchange Index, CESI, reached 2200 points in the fourth quarter, up 61% from the end of 2003 and 20% from the end of the third quarter 2004. 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 Bratislava and Prague Stock Exchange indices rose the most in the fourth quarter, by 40% and 18% respectively.

Trending mainly upwards since early 2003, market capitalisation of both shares and bonds in the observed Central and East European countries continued the trend in the fourth quarter 2004. Turnover at all observed stock exchanges increased in the fourth quarter 2004 compared with the previous quarter.

Debt Securities Market

In November 2004, the Republic of Croatia issued a bond worth EUR 200m, maturing in 2019, at a coupon rate of 5.375%. The issue price was 99.655 and the spread at issue relative to the benchmark German bond 144 base points. Having the longest ever maturity, this government bond carries a special significance for the development of the Croatian capital market. This bond issue revenues were mostly used for the repayment of the matured Samurai bond issued in 1999.

At end-2004, market capitalisation of government bonds, municipal bonds and government agencies' bonds totalled EUR 2.8bn (HRK 21.4bn), or 10.4% of the GDP estimate for the year. Market capitalisation of corporate bonds was EUR 612.8m (HRK 4.7bn), i.e. 2.3% of the GDP estimate for 2004.

In January, after its 2002 bond issue fell due, Belišće issued EUR 8m worth of bonds due 2009. The bonds were subscribed at an issue price of 99,837 and a coupon rate of 5.5%. This Belišće bond issue is the first annuity corporate bond issue at the Croatian capital market. Belišće is also the first Croatian company to place the second corporate bond issue in the domestic market.

In late January 2005, there were six government bonds, two municipal bonds, two government agencies' bonds (a DAB bond and a CBRD bond) and seven corporate bonds listed at domestic stock exchanges.

Table 3: Bond Issues in the Domestic Market

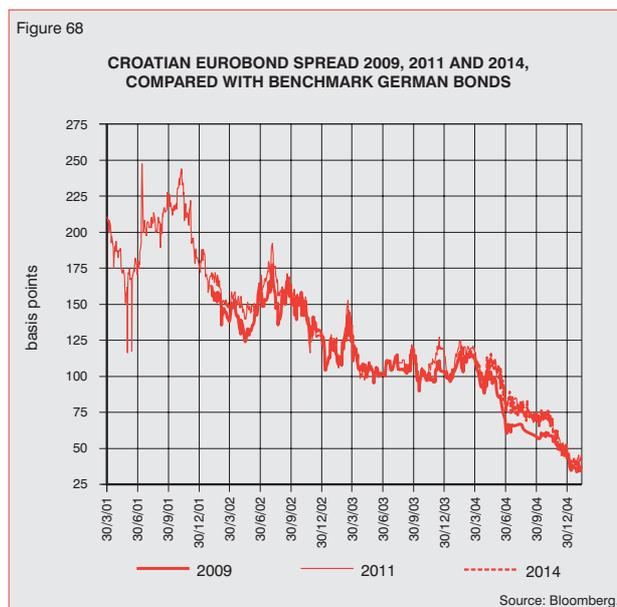
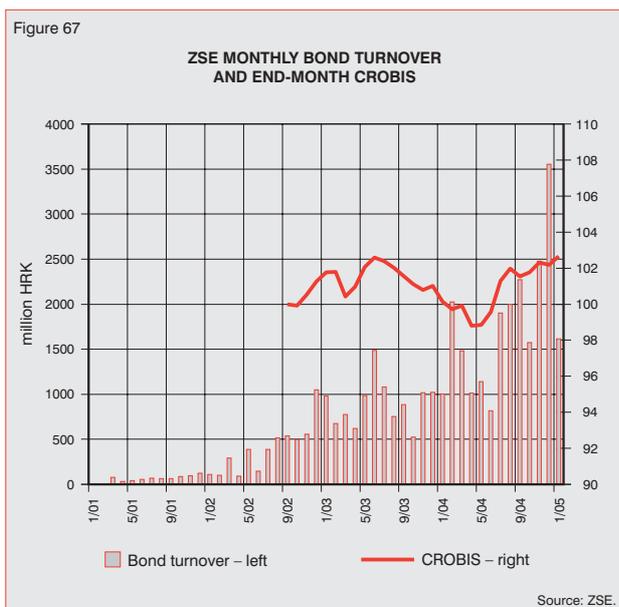
Series	Issuer	Issue date	Maturity	Currency	Issue nominal value	Nominal interest rate	Last price ^a	Current yield 31/1/2005
DAB-O-05CA	DAB	19/12/2000	19/12/2005	EUR	225,000,000	8.375%	104.80	7.991%
RHMF-O-08CA	Republic of Croatia	14/12/2001	14/12/2008	EUR	200,000,000	6.875%	110.60	6.216%
RHMF-O-125A	Republic of Croatia	23/5/2002	23/5/2012	EUR	500,000,000	6.875%	115.70	5.942%
RHMF-O-085A	Republic of Croatia	28/5/2003	28/5/2008	HRK	1,000,000,000	6.125%	102.35	5.984%
RHMF-O-142A	Republic of Croatia	10/2/2004	10/2/2014	EUR	650,000,000	5.500%	107.50	5.116%
RHMF-O-077A	Republic of Croatia	7/7/2004	7/7/2007	EUR	400,000,000	3.875%	101.55	3.816%
GDKC-O-116A	City of Koprivnica	29/11/2004	29/11/2019	EUR	200,000,000	5.375%	105.50	5.095%
GDZD-O-119A	City of Zadar	29/6/2004	29/6/2011	HRK	60,000,000	6.500%	-	-
HBOR-O-112A	HBOR	1/9/2004	1/9/2011	EUR	18,500,000	5.500%	-	-
BLSC-O-051A	Belišće d.d.	11/2/2004	11/2/2011	EUR	300,000,000	4.875%	-	-
PLAG-O-048A	Plava laguna d.d.	14/1/2005	14/1/2009	EUR	8,000,000	5.500%	100.00	5.500%
HYBA-O-086A	Hypo-Alpe-Adria Bank d.d.	6/6/2003	6/6/2008	HRK	150,000,000	6.500%	101.00	6.436%
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%	-	-
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%	100.45	5.724%
ATGR-O-077A	Atlantic Grupa d.o.o.	15/7/2004	15/7/2007	EUR	15,000,000	5.750%	-	-

^a Regularly traded shares. Source: ZSE, monthly report, January 2005.

Table 4: Republic of Croatia International Bond Issues

Bond	Issue date	Currency	Amount	Nominal interest rate	Yield on issue date	Spread on issue date	Spread ^a 30/9/2004	Spread ^a 31/12/2004	Spread ^a 31/1/2005
London Club A, 2006	31/7/1996	USD	604,426,000	6-month LIBOR + 81.25 b.p.	-	-	93	87	95
London Club B, 2010	31/7/1996	USD	857,796,000	6-month LIBOR + 81.25 b.p.	-	-	117	116	115
Eurobonds, 2006	10/3/1999	EUR	300,000,000	7.375%	7.45%	375	38	21	20
Eurobonds, 2005	28/3/2000	EUR	500,000,000	7.000%	7.06%	210	5	-70	-62
Eurobonds, 2011	14/3/2001	EUR	750,000,000	6.750%	6.90%	215	71	44	43
Eurobonds, 2009	11/2/2002	EUR	500,000,000	6.250%	6.45%	158	60	43	35
Eurobonds, 2010	14/2/2003	EUR	500,000,000	4.625%	4.65%	102	62	45	40
Eurobonds, 2014	15/4/2004	EUR	500,000,000	5.000%	5.11%	101	75	44	40
Samurai bonds, 2007	11/7/2000	JPY	40,000,000,000	3.000%	3.00%	135	62	39	33
Samurai bonds, 2006	23/2/2001	JPY	25,000,000,000	2.500%	2.50%	152	41	34	27
Samurai bonds, 2008	26/6/2002	JPY	25,000,000,000	2.150%	2.15%	144	67	67	44
Samurai bonds, 2009	26/6/2003	JPY	25,000,000,000	1.230%	1.23%	99	....	....	....

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



Bond trading at the ZSE increased in the fourth quarter of 2004 relative to the third quarter, dipping somewhat in January 2005. The total ZSE bond turnover stood at HRK 7.6bn in the fourth quarter 2004 (compared with HRK 6.2bn in the third quarter) and at HRK 1.6bn in January. Accounting for 75% of total bond turnover, government bonds due 2014, 2008 and 2007, were traded the most in the last quarter of 2004.

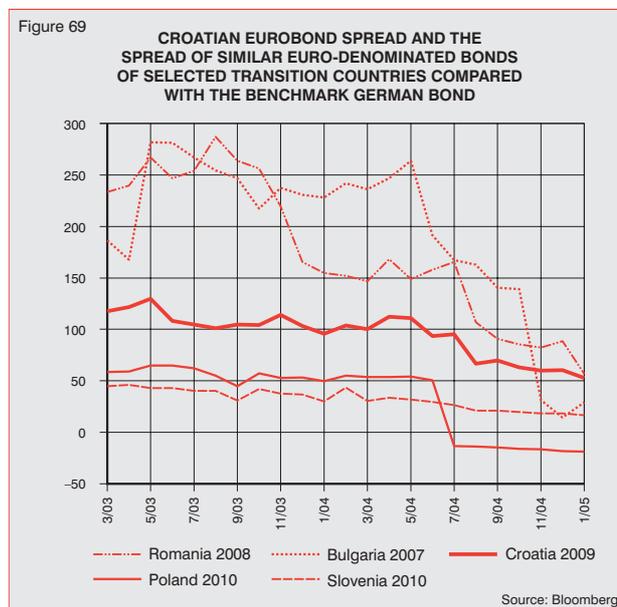
Having drifted downwards late in the third quarter, the prices of most government bonds issued at the domestic market rebounded in the last quarter of 2004. Consequently, the ZSE bond index, CROBIS, rose from 101.5 points in September to 102.2 points at end-December 2004, reaching a record high of 102.7 points at end-January 2005.

In an effort to achieve the planned reduction in foreign borrowing and intensify borrowing in the domestic capital market, the Republic of Croatia issued no bonds in foreign markets in the fourth quarter. The 1999 Samurai bond issue, worth JPY 25bn (HRK 1.43 bn or EUR 187.9m), came due in December 2004 and was repaid by the MoF by borrowing in the domestic capital market.

This leaves a total of 12 Croatian bond issues listed in foreign markets in January 2004; two USD denominated issues (government bonds substituted for the Croatian business entities' debt towards the London Club), six EUR denominated and four JPY denominated issues.

The 12 Croatian eurobond issues totalled HRK 37.9bn (EUR 5bn) at end-January 2005, a decrease compared with HRK 38.5bn (EUR 5.15bn) generated by 13 eurobond issues at end-September 2004.

The spread between Croatian eurobonds and benchmark German bonds was tightening since June 2004, when Croatia was granted EU candidate status. It narrowed further in December, after the starting date for Croatia's pre-accession negotiations had been set and its credit rating improved (Standard & Poor's BBB). At the month end, this spread ranged about 44 base points for the longest maturities (2011 and 2014), falling considerably below an approximate 70 base points for the same maturities at the third quarter end.



The spread narrowed further in January.

After a few months decline, Croatia's eurobond spread came even closer to the spread of countries that joined the EU on 1 May 2004. However, other candidate countries' spread also dropped considerably in the same period, due to successful negotiations with the EU and their credit rating improvement. Specifically, despite weak economic indicators, Romania's eurobond spread with the benchmark German bond narrowed to the level of Croatia's eurobond spread, while Bulgaria's spread fell below that level.

International Transactions

According to the preliminary balance of payments data for 2004, the current account ran a deficit of EUR 1.3bn or 4.6% of the estimated GDP and thus downsized the country's external imbalance compared with the same period last year. External debt continued its upward trend and reached

Table 5: Annual Rate of Change in the Arrivals and Nights of Foreign Travellers, in %

	Q1		Q2		Q3		Q4		Q1 – Q4	
	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004
Arrivals	-26.0	21.7	11.9	0.9	5.4	8.5	16.9	10.7	6.7	6.8
Nights	-28.7	28.6	10.1	-2.4	2.7	3.9	10.8	9.6	4.1	2.9

Source: CBS.

EUR 22.7bn or 82.2% of the estimated GDP at the end of the fourth quarter. The registered external debt increase can to a certain extent be attributed to the change in the debt calculation methodology and the inclusion of new debt instruments. Although the relative indicators show the annual increase in external debt, the IEMP points that Croatia's international liquidity has remained good.

Current Account

The annual fall in the goods account negative balance, which marked the third quarter of 2004, continued into the fourth quarter as well. In the reference period, the foreign trade deficit reached EUR 1.7bn, down 8.2% compared with the fourth quarter last year. Standing at 13.6%, the foreign trade deficit fall was even more pronounced in the third quarter of 2004. In contrast to the second half of the year, the movements in the first half of the year were marked by the average annual growth in the foreign trade deficit of 5.0%. Relatively favourable trends in goods trade in the second half of 2004 were the result of milder annual growth rates of goods imports. This was mainly the consequence of the completion of the current cycle of highway construction and the flattening out of automobile imports. On the other hand, goods exports continued to grow at positive rates, mostly on account of the annual growth in exports of ships and oil and refined petroleum products. Increased rates of exports were also registered in other SITC divisions (for more detail, see Merchandise Trade).

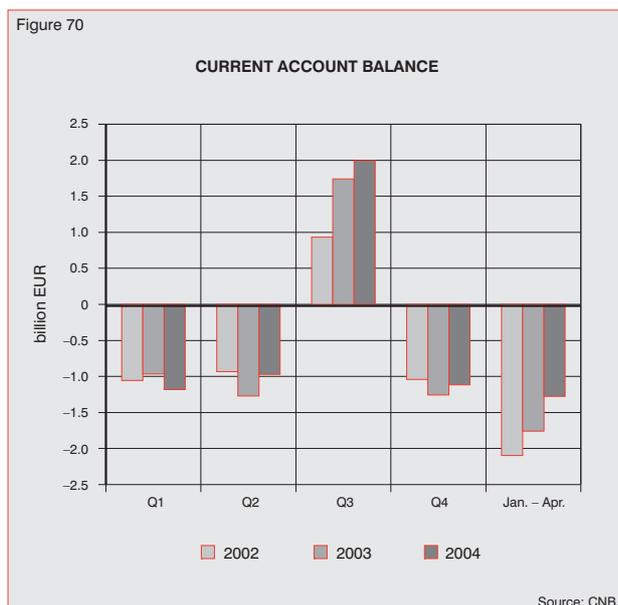
According to the preliminary data, the services account ran a surplus almost similar to that registered in the previous year. Income from travel/tourism stood at EUR 0.6bn in the fourth quarter of 2004 and grew slightly compared with pre-

vious year. In the October-December period of 2004, the annual growth rate of foreign tourist arrivals was 10.7%, while the annual growth rate of foreign tourist nights reached 9.6%. The lower annual rates of growth of financial indices, relative to the annual rates of growth of volume indices, were not the result of pronounced changes in the average consumption by traveller. For the most part, they can be attributed to the change in the structure of foreign guests (i.e. the fall in the number of stays in paid accommodation) that visited Croatia.

In 2004, income from services rendered in tourism reached EUR 5.7bn, which was almost equal to the absolute values registered in the previous year. Concurrently, the share of annual income from tourism in GDP fell slightly, from 22.3% of GDP in 2003 to 20.6% of the estimated GDP for 2004. The year-on-year rates of change in absolute and relative indices on income from tourism would be even more pronounced (i.e. less favourable) if the methodology for calculating the income from tourism had not been changed in early 2004. More specifically, one of the input data required for the calculation of the total income from tourism is the number of travellers collected by the employees of the Ministry of the Interior of the Republic of Croatia at the border crossing points. The comparison of data on the entrance and exit of foreign tourist collected at the border crossing points and submitted by the Ministry of Interior of the Republic of Croatia and the Ministry of Interior of the Republic of Slovenia showed certain discrepancies. Accordingly, the value of income from tourism, which was calculated by multiplying the average consumption per traveller (derived from the survey research) by the total number of travellers, had to be reduced until the end of 2003. Since data collected for 2004 by Croatian and Slovenian border policemen were almost fully harmonised, the CNB decided to exclude the said correction factor from the calculation of income from tourism (see Box 4 in CNB Bulletin No. 99).

Net income from transport services in the October-December period of 2004 saw the fall in its annual level, mostly on account of a faster annual growth in expenditures than in revenues. The annual growth of total expenditures, in the fourth quarter and in 2004 as a whole, was marked by the growth in expenditures for sea transport services. No significant changes were registered in the account of other services in the fourth quarter. However, this account saw a significant net outflow of EUR 55m or 18.5% in 2004 as a whole. The annual fall of net income in 2004 was most evident in the trade with telecommunication and construction services, while net expenditures on financial services decreased.

Net outflows of (factor) income from direct investments stood at EUR 64.1m in the fourth quarter, and fell by 21% year-on-year, while the deficit for 2004 as a whole was halved and stood at EUR 617m. The pronounced annual fall in the deficit in the factor income account was to a large



extent the result of transactions registered in the third quarter, i.e. exceptionally high income from equity investment abroad (in the said quarter, retain earnings reached EUR 144m). Net inflows from current transfers fell in the fourth quarter and in 2004 as a whole on account of a decrease in net inflows from government and other sectors.

Following its annual deterioration in the first quarter of 2004, the current account balance saw positive developments in the remaining part of the year. Moreover, the developments in the current account, registered in 2004 as a whole, resulted in the deficit of EUR 1,276m, which corresponds to the absolute annual fall of 27.4%. Expressed in GDP terms, the current account deficit fell by 2.3 percentage points year-on-year in 2004, or from 6.9% of GDP in 2003 to 4.6% of the estimated GDP for 2004.

Merchandise Trade

According to the preliminary CBS data for the January-December period of 2004, total goods exports stood at USD 8bn (EUR 6.5bn) and total goods imports at USD 16.6bn (EUR 13.3bn). This reduced the imbalance in foreign merchandise trade compared with the previous year. In 2004, the foreign trade deficit grew by 6.7% year-on-year (expressed in US dollar terms), down 31.2 percentage points and 23.1 percentage points compared with 2003 and 2002 respectively. On the other hand, the foreign trade deficit data, expressed in euro terms, show the negative year-on-year rate of growth (-2.5%). Although both indicators suggest relatively favourable trends in 2004, the reason behind this difference should however be explained.

The relative changes in the value expressed in US dollars are the result of the change in the total volume of goods flows. They also reflect the currency composition of goods exports and imports and the fluctuations in the US dollar/euro exchange rate. According to the ITRS data, reported in only two currencies, the euro accounted for more than two thirds of goods exports and imports in 2004, and the average exchange rate of the US dollar against the euro

Table 6: Annual Rate of Change in Goods Exports, Goods Imports and Foreign Trade Balance, in %

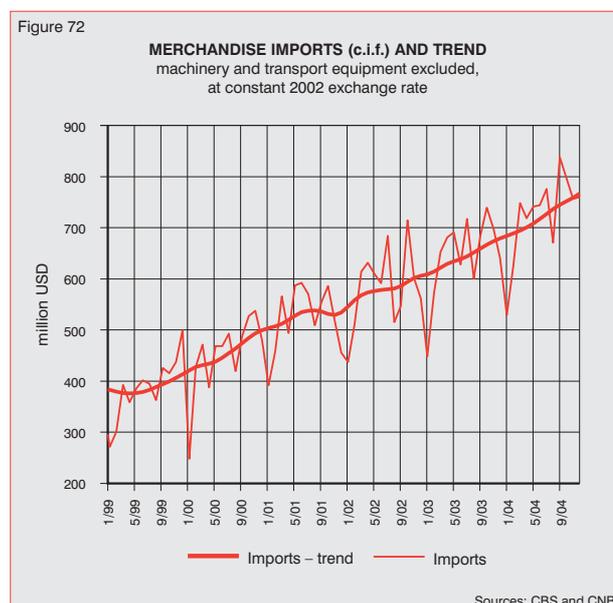
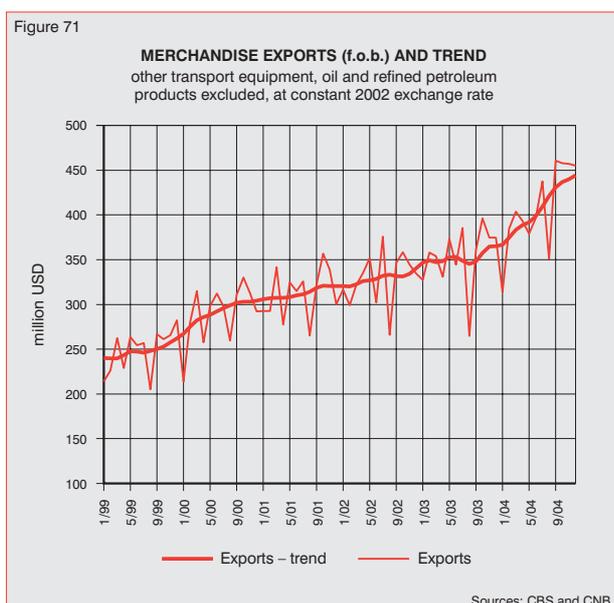
		HRK (current exchange rate)	EUR (current exchange rate)	USD (current exchange rate)	USD (constant exchange rate)
Goods exports	2004 ^a	16.9	18.1	29.7	21.6
	2003	7.6	5.3	26.2	11.2
	2002	-1.3	-0.5	5.1	1.4
	2001	5.8	8.1	5.3	7.3
Goods imports	2004 ^a	5.4	6.5	16.7	8.6
	2003	13.1	10.7	32.5	15.4
	2002	9.8	10.6	17.2	12.2
	2001	16.6	19.2	16.0	18.4
Foreign trade balance	2004 ^a	-3.6	-2.5	6.7	-1.6
	2003	17.8	15.2	37.9	18.9
	2002	21.2	22.0	29.8	23.3
	2001	30.3	33.2	29.7	32.6

^a Preliminary data. Sources: CBS and CNB.

depreciated by 10% year-on-year in 2004. They both have contributed to the misinterpretation of the actual growth in the aggregate goods exports and imports expressed in US dollar terms. The exclusion of cross currency developments contributes even more to relatively favourable data on goods trade. Data reported at the current 2002 exchange rate show the annual growth in the foreign trade balance of -1.6% in 2004, which is in line with indicators derived from kuna values (-3.6%) and euro values (-2.5%).

The relative fall in the 2004 foreign trade deficit can be attributed to the considerable acceleration in goods exports and the pronounced fall in goods imports. This was also reflected in the improved imports/exports coverage rate. Standing at 48.4% in 2004, the coverage rate grew by 4.8 percentage points compared with 2003.

Expressed in the US dollar at the constant 2002 exchange rate, the growth in total goods exports stood at 21.6% year-on-year in 2004, and was twice higher than that in 2003 (11.2%). The largest contribution to the total growth of goods exports was made by other transport equipment, i.e. ships, and oil and refined petroleum products. Taken together, these two SITC divisions account for one fifth of total goods exports. The increase in exports of ships and oil and refined petroleum products accounted for less than one



third of the total growth in goods exports of the Republic of Croatia, indicating more dynamic exports in other divisions as well. This is also confirmed by the year-on-year growth rate of goods exports (ships and oil and refined petroleum products excluded) which grew by 15.2% in 2004, up 7.8 percentage points compared with 2003.

The following divisions also contributed to a large extent to the total exports growth in 2004: electrical machinery, apparatus and equipment (43.1% year-on-year growth, expressed at the constant exchange rate; this growth was to a large extent the result of exports of electrical power machinery, electrical apparatus for making electrical circuits and electricity distribution equipment), leather, leather products and fur (210.7%), machinery specialised for particular industries (66.9%), non-ferrous metals (102.1%, aluminium especially) and other fabricated metal products (34.8%). Concurrently, the fall in goods exports was registered in the following SITC divisions: sugar, sugar product and honey (61.6%), cereals and cereal products (35.8%) and fish and fish products (9.8%). In addition to other transport equipment that doubled its surplus compared with 2003, other SITC divisions with the positive balance in goods trade are wearing apparel (surplus fall of 4.3%) and cork and wood (surplus increase of 16.8%); this mostly relates to the trade in simply processed wood).

Total good imports, reported at the constant exchange rate, grew by 8.6% year-on-year in the January-December period of 2004, down 6.7 percentage points compared with the same period last year. A noticeable slowdown in the growth of goods imports was above the result of the lower annual growth in imports of capital goods and the fall in imports of road vehicles. More specifically, the year-on-year growth rate of imports of machinery and transport equipment (other transport equipment and road vehicles excluded for the purpose of more simple comparison of movements in capital goods) stood at 4.5% in 2004, compared with 18.7% in 2003 and 23.1% in 2002. These developments can probably be explained by the fact that the beginning and scope of the construction of infrastructure facilities in Croatia (espe-

Table 7: Imports and Exports by Economic Classification of Countries, in %

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

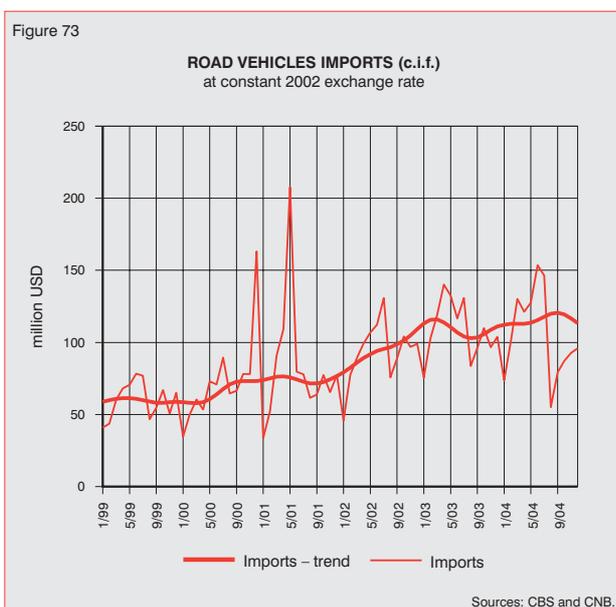
^a Preliminary data. Source: CBS.

cially road construction) resulted in increased imports of machinery in 2002 and 2003, whereas the dynamics and scope of the construction of the remaining infrastructure facilities in 2004 did not call for additional purchases. Imports of road vehicles, as one of the most important factors contributing to the total growth in goods imports in previous years, saw the negative rate of change in 2004 (-3.5% year-on-year).

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

Exports/imports of goods by economic classification of countries show that Croatia's exports to EU-25 were 64.5%, down 3 percentage points year-on-year. This fall was mostly accounted for by the fall of exports to EU-15 "old" Member States, with the fall in exports to Italy and Germany being the strongest. Concurrently, expressed in absolute terms, the significant annual growth rates of goods exports in 2004 were registered with respect to these two countries. As far as developing countries are concerned, exports to Bosnia and Herzegovina (29.3%) and Serbia and Montenegro (54.1%) grew the most, with cigarettes and refined petroleum products being the most represented export goods. In addition, the strong annual growth in exports to Liberia (131.7%) was entirely accounted for by ship exports.

The share of EU-25 in total goods imports of the Republic of Croatia fell from 72% in 2003 to 69.5% in 2004. The



slight fall in imports share was registered vis-à-vis both the “old” and “new” Member States, and was mostly reflected in decreased imports from Italy, France and Slovenia. Concurrently, expressed in absolute terms, imports from Germany and Italy grew the most. Among developing countries, Russia, China and Bosnia and Herzegovina contributed most to the annual imports growth, 77.6%, 56.2% and 50.8% respectively.

Capital and Financial Account

According to preliminary data on the BoP developments, net FDI stood at EUR 81m at the end of the fourth quarter. Croatia’s outward investment reached EUR 29m, while EUR 110m of inward investment were made in Croatia. In the October-December period, total inflow from foreign direct investment to Croatia was marked by increased obligations to connected companies (EUR 218m), and by a concurrent fall in equity investment (EUR 82m) and retained earnings (EUR 26m). FDI to Croatia fell by EUR 626m year-on-year on account of the lack of large privatisation projects in the October-December period of 2004. In contrast, in the same period last year 25% plus one of INA shares were sold to the Hungarian MOL for EUR 412m (USD 505m).

In the fourth quarter of 2004, about one third of FDI was accounted for by investment in other monetary intermediation (recapitalisation of two banks in foreign ownership), while one fifth of FDI was accounted for by investment in different types of trade (wholesale of household electrical appliances, other retail sale in non-specialised stores, retail sale in non-specialised stores with food, and wholesale in pharmaceutical products). In addition to finance and trade, FDI were also made in the extraction of crude petroleum and gas, test drilling and pre-construction ground investigation, manufacture of socks, hotels and motels with restaurants, and life insurance.

Data on the flows in the account of portfolio investment show an increase of EUR 216m in funds based on portfolio

Table 8: Composition of CNB Reserve Assets, end of period, in million EUR and %

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

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

Table 9: Currency Composition of CNB Reserve Assets, end of period, in million EUR and %

	2001	2002	2003	2004
Balance	5,334	5,651	6,554	6,436
Share				
USD	32.6	28.3	29.6	25.0
EUR	65.1	71.6	70.4	75.0
Other	2.3	0.0	0.0	0.0

Source: CNB.

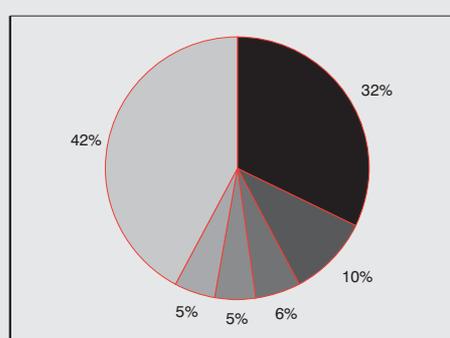
investment in the fourth quarter of 2004, which for the largest part was accounted for by the increase in bank funds from investment in bonds. A smaller portion of this increase was accounted for by bank investment in money market instruments. In the same period, obligations arising from portfolio investment fell by EUR 121m as the result of the pay off of Samurai bonds issued in 1999 (EUR 180m) and the growth in obligations based on issued equity securities of other sectors (EUR 60m).

The account of other investment (trade credits, credits, currency and deposits included) saw an increase of EUR 111m in the October-December period of 2004, stimulated by the increase in bank currency and deposits of EUR 225m, the fall in government currency and deposit of EUR 157m and the increase in funds of other sectors based on trade credits in the amount of EUR 26m. In the same period, obligations arising from other investment grew by EUR 1.1bn. Of this amount, EUR 0.7bn were accounted for by increased bank liabilities from currency and deposits, EUR 0.4bn by net credits, and EUR 3m by net trade credits. In the fourth quarter of 2004, long-term foreign credits used by the government stood at EUR 115m. With repayments, reaching EUR 97m in the said period, net government obligations grew by only EUR 17m. Net bank liabilities arising from credits grew by EUR 174m in the October-December period of 2004, of which EUR 102m were accounted for by short-term credits and EUR 72m by net liabilities arising from long-term credits. Net liabilities of other sectors based on loans grew by EUR 235m, due to EUR 488m of new long-term credits and the repayment of EUR 244m in due principal.

In the last quarter of 2004, international reserves grew by EUR 162m on account of a significant growth in currency and deposits with foreign banks (EUR 408m) and with central banks of other countries (EUR 26m) as well as the fall in the value of securities portfolio (EUR 272m). Data on international reserves flows show that the growth in international reserves marked the second and third quarter of 2004, while

Figure 74

STRUCTURE OF DIRECT EQUITY INVESTMENT IN THE REPUBLIC OF CROATIA IN Q4 2004



- Other monetary intermediation
- Extraction of crude petroleum and natural gas
- Wholesale of electrical household appliances
- Other retail sale in non-specialised stores
- Retail sale in non-specialised stores with food
- Other

Source: CNB.

their fall of EUR 422m was registered in the first quarter of 2004. International reserves amounted to EUR 6.4bn at end-2004, down 1.8% compared with the balance registered at the end of the previous year.

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

In relative terms, international reserves fell by 1.8% year-on-year at end-2004. The registered fall was to a certain extent the consequence of the currency composition of international reserves and the exchange rate movements. More specifically, as shown by the currency composition of Croatia's imports of goods and services in the previous year and the currency composition of projected principal payments of external debt in the next year, the euro accounted for by three thirds and the US dollar one third of international reserves at end-2004.

As the exchange rate of the US dollar against the euro weakened by 8.9% year-on-year at end-2004 (the US dollar stood at 5.64 kuna at end-2004 and 6.12 kuna at end-2003, while the euro grew from 7.65 kunas at end-2003 to 7.67 kunas at end-2004), the value of international reserves of the Republic of Croatia invested in financial instruments denominated in the US dollar is also lower when shown in the reporting euro. Despite such exchange rate movements, it is expected that Croatia National Bank will, thanks to a smaller gap between the positive and negative currency translation differences compared to that in 2003, close the 2004 with a positive financial result.

External Debt

External debt stood at EUR 22.7bn at end-December 2004 and accounted for 82.2% of the estimated GDP (up 4.5 percentage points compared with end-2003). Compared with end-2003, it grew by EUR 2.9bn or 14.5 percentage points. It should be noted that external debt data, disclosed in this number of CNB Bulletin, have been calculated in accordance with the new methodology, i.e. on a gross basis. The new debt instruments are included in the coverage, and the external debt statistics also includes one-sided effects of the secondary bond market. These changes have contributed to the increase in already published absolute and relative indicators on external debt of the Republic of Croatia, whereas, for example, the external debt balance reported at end-2004 grew by EUR 470m or 1.7% of the estimated GDP compared with previously published data. Detail explanations and quantification of the individual effects on the external debt balance in 2001-2004 period are described in Box 2.

Compared with its balance at the end of the third quarter of 2004, external debt grew by EUR 0.8bn or 3.5% at the end of the fourth quarter. Observed at monthly levels, it grew the most in December, by EUR 0.6bn, on account of new bank borrowings. The government external debt fell by EUR 0.3bn in the fourth quarter, mostly on account of the pay off of Samurai bonds issued in 1999.

Other sectors accounted for the largest share in external debt. Together with FDI in companies, it stood at EUR 7.8bn or 34.3%. Banks had the second largest share of EUR 7.7bn or 33.7% in total external debt. For the first time, the share accounted for by the government was the third largest. At end-2004, it stood at EUR 7.2bn or 31.9% of total external debt of the Republic of Croatia. External debt of the CNB

Table 10: Gross External Debt by Debtor, end of period, in million EUR and %

	2002	2003	2004	Structure			Indices	
				2002	2003	2004	2003/02	2004/03
1. Government	5,900	6,601	7,236	39.2	33.3	31.9	111.9	109.6
2. Central bank (CNB)	23	366	2	0.2	1.8	0.0	1,576.2	0.6
3. Banks	3,790	6,121	7,652	25.2	30.9	33.7	161.5	125.0
4. Other sectors	3,935	4,878	5,798	26.1	24.6	25.6	124.0	118.9
5. Direct investment	1,407	1,845	1,986	9.3	9.3	8.8	131.1	107.7
Total (1+2+3+4+5)	15,055	19,811	22,675	100.0	100.0	100.0	131.6	114.5

Source: CNB.

Table 11: Public and Private Sector External Debt, end of period, in million EUR and %

	2002	2003	2004	Structure			Indices		
				2002	2003	2004	2003/02	2004/03	
1. Public sector debt		7,215	8,334	8,521	47.9	42.1	37.6	115.5	102.2
2. Publicly guaranteed private sector debt		500	429	343	3.3	2.2	1.5	85.7	80.1
3. Non-publicly guaranteed private sector debt		7,339	11,048	13,811	48.8	55.8	60.9	150.5	125.0
Total (1+2+3)		15,055	19,811	22,675	100.0	100.0	100.0	131.6	114.5

Note: In addition to the general government debt, the public sector debt includes the external debt incurred by public enterprises and mixed ownership companies. Source: CNB.

Table 12: External Debt by Maturity Term and Debtor, end of period, in million EUR

	Short-term						Long-term					
	Government	CNB	Banks	Other sectors	Direct investment	Total	Government	CNB	Banks	Other sectors	Direct investment	Total
Q4 2003	1	363	617	523	124	1,628	6,600	3	5,504	4,355	1,721	18,182
Q1 2004	1	128	831	593	150	1,703	6,872	2	5,802	4,480	1,745	18,901
Q2 2004	2	0	902	609	170	1,684	7,524	2	6,036	4,857	1,786	20,206
Q3 2004	3	0	454	634	180	1,270	7,525	2	6,270	4,999	1,837	20,633
Q4 2004	3	0	673	664	248	1,589	7,233	2	6,979	5,134	1,739	21,087

Source: CNB.

Box 2: Changes in the Instrument Coverage and Methodology for Monitoring the External Debt and Their Effects on the External Debt Stock of the Republic of Croatia

Aimed at improving the existing standards for external debt monitoring and increasing the availability, consistency and comparability of external debt data among countries, the new External Debt Statistics – Guide for Compilers and Users¹⁷ was published at end-2003. The production of the Guide has been jointly undertaken by the leading international institutions and organisations: the IMF, the World Bank, and the BIS, and the competent services of the OECD, the Paris Club, Eurostat, the Commonwealth and the United Nations.

Guided by the guidelines laid down in the Guide, the World Bank and IMF also introduced the new international reporting standard for external debt in early 2004, to be applied by the countries subscribed to the Special Data Dissemination Standard (SDDS). As the Republic of Croatia is one of the subscription countries, in 2004 the Croatian National Bank made the necessary arrangements for the implementation and changeover to the new methodology for reporting the external debt on a gross basis.

The Guide defines that the gross external debt is the outstanding amount of the current, and not contingent, liabilities that require payment(s) of principal and/or interest by the debtor at some point(s) in the future and that are owed to non-residents by residents of the economy. In contrast to the methodology used by the Croatian National Bank in the previous period, the calculation of the external debt in accordance with the new definition increases the external debt by the amount of interest arrears and accrual interest and changes its structure.

Late principal and interest payments were until now reported under the line item showing the instrument on the basis of which an obligation arose, whereas only late principal payments were included in the external debt stock. For example, the debt stock comprising the long-term credits included the late principal on long-term credits that was reported in the column Non-reported principal payments as a part of the total external debt stock. The new definition of external debt introduces the idea that interest falling due in the current period increases, like the principal, the amount of obligation up to the moment it matures. In accordance with the new accrual principle:

- interest paid within the reporting period is reported as paid interest and does not increase the external debt stock,
- interest accrued within the reporting period and not yet payable increases the external debt stock on the basis of instrument to which it relates, and
- interest accrued and payable within the reporting period increases the short-term debt stock (other debt liabilities).

The new approach has also changed the structure of external debt. More specifically, the amount of late principal

reduces the debt reported under the original debt instrument (i.e. the instrument on the basis of which an obligation to a non-resident was created in the first place), and, on the other hand, increases the short-term debt reported under other debt liabilities.

In addition to implementing the new methodology for calculating the gross external debt (which expanded the coverage of external debt to accrual interest and interest arrears), the Croatian National Bank decided to further expand the coverage of external debt by including the data on balances in hybrid and subordinated instruments, bank and CNB repo transactions, deposits of international financial institutions with the CNB and one-sided effects of the secondary bond market.

Hybrid and subordinated instruments possess certain characteristics of both bank equity and debt and are designed for raising funds.¹⁸ A repo arrangement is a transaction wherein one party (repo seller) raises the funds by selling securities at a particular price to the other party (repo buyer) and commits to repurchase the equivalent securities from the repo buyer on a certain date and at a somewhat higher price. The party that has purchased the securities obtains full legal title to the securities and is free to adjust the terms and conditions for their repurchase. The effects of the secondary securities market, comprised by the new stock of external debt, relate to debt securities issued by Croatian residents in foreign markets (on the basis of which an obligation to non-residents arises), and returned into their ownership by trading in the secondary market. As the effects of the secondary securities market do not include, in this case, bonds issued in the domestic market and subsequently purchased by non-residents from Croatian residents in the secondary market, we are here referring to the inclusion of one-sided effects of the secondary bond market. At this point, the preliminary estimates of the research on bonds issued and purchased in the domestic market by Croatian residents, and subsequently repurchased by non-residents in the secondary market, show that the effect of their inclusion

Table 13: Effects of the New Methodology and Expanded Coverage of Debt Instruments on the External Debt Stock of the Republic of Croatia, end of period, in million EUR

	2002	2003	2004
1. Previously reported stock of external debt	14,790	18,930	22,205
2. New methodology effects on gross external debt calculation			
Total (2.1.+2.2.)	219	257	313
2.1. Interest arrears	23	32	72
2.2. Accrual interest	196	225	241
3. Effects of expanded coverage of debt instruments			
Total (3.1.+3.2.+3.3.+3.4.)	405	991	463
3.1. Hybrid and subordinated instruments	382	359	283
3.2. Bank repo transactions*	....	266	178
3.3. CNB repo transactions	22	363	0
3.4. CNB currency and deposits	2	3	2
4. One-sided effects of the secondary bond market	-359	-366	-306
Total (2+3+4)	265	881	470
5. New stock of external debt (1+2+3+4)	15,055	19,811	22,675

* Preliminary data. Source CNB.

¹⁷ External Debt Statistics – Guide for Compilers and Users, IMF, 2003.

¹⁸ For more precise definitions see *Decision of the Capital Adequacy of Banks* published in official gazette *Narodne novine* No. 117/2003.

in the external debt stock as at end-2004 might increase the external debt by about EUR 100m. The final research results are expected to be available by end-2005 and included in the external debt statistics.

The inclusion of hybrid and subordinated instruments, bank and CNB repo transactions, and deposits of international financial institutions with the CNB increases the previously reported stock of external debt. In contrast, the inclusion of one-sided effects of the secondary securities market results in its decrease. Table 13 shows the overall effects of the new methodology for reporting the external debt on a gross basis, effects of the new coverage of debt instruments, and effects of the secondary securities market on the external debt stock of the Republic of Croatia in the period from 2001 to 2004.

The method of data reporting in the Bulletin Statistical Appendix has also been changed. Data are now disclosed in accordance with the recommendations contained in the Guide and are fully harmonised with the international reporting standard (External Debt Template). Instead by instrument data are now disclosed by maturity, which indicates that the primary level of data disclosure has been changed as well. From now on, the Statistical Appendix will

include the new table that will show the external debt as the actual and contingent liability of the Government. More specifically, this table divides the external debt into: public sector debt,²⁰ private sector debt (banks and enterprises) guaranteed by government and private sector debt exclusive of government guarantees.

Among transition countries, the new methodology for calculating the stock of external debt on a gross basis was adopted by Czech R., Hungary, Poland, Slovakia, Slovenia, Estonia, Latvia and Lithuania. In addition to undertaking the liability to submit the data on a gross basis to the World Bank, most transition countries disclose the data in accordance with the recommended breakdown in their publications.²¹ Bulgaria has also adopted the new methodology for calculating the debt on an accrual basis, as set forth in the Guide. But, as it is not the country subscribed to the SDDS, it discloses some data by debt instrument and some by debt instrument maturity. Romania is also not subscribed to the SDDS, and discloses only the medium-term and long-term debt in its monthly bulletin, divided into the government external debt, private sector external debt guaranteed by government and private sector external debt not guaranteed by government.

Table 14: External Debt and Projected Future Principal Payments by Debtor, in million EUR

	Outstanding debt		Projected future principal payments								
	31/12/2004	Immediate	Q1/05	Q2/05	Q3/05	Q4/05	2005	2006	2007	2008	Other
1. Government	7,236	3	754	52	107	55	969	792	637	534	4,301
2. Central bank (CNB)	2	0	0	0	0	0	0	0	0	0	2
3. Banks	7,652	13	618	167	517	86	1,388	1,012	341	395	4,504
4. Other sectors	5,798	514	243	247	241	244	975	739	990	558	2,023
5. Direct investment	1,986	186	80	65	41	59	244	292	235	202	827
Total (1+2+3+4+5)	22,675	716	1,694	532	906	444	3,577	2,835	2,203	1,689	11,656

Source: CNB.

stood at EUR 2m at end-2004 and included the deposits of international financial institutions with the CNB.

General government external debt, increased by the debt of public enterprises, mixed ownership companies and CNB reached EUR 8.5bn at end-2004. Increased by the publicly guaranteed private sector debt (EUR 0.3bn), the actual and contingent government liabilities reach EUR 8.9bn or 32.1% of the estimated GDP. Table 11 indicates to a 20% fall in government guarantees to the private sector in 2004.

The maturity composition of external debt¹⁹ shows that the long-term liabilities accounted for 93% of total external debt at end-2004, which can be estimated a favourable percentage. The majority of external debt incurred by the government is long-term, which is understandable if we take into account that the government borrows in the foreign market by taking long-term loans and issuing bonds. The long-term debt of other sectors, including FDI in companies, accounted for 88.3% of total external debt incurred by these sectors, while the share registered by banks was larger and amounted to 91.2%.

Despite the favourable maturity composition of external

debt, the estimates for 2005 show that EUR 3.6bn in principal are due for payment in the current year (12.1% of the estimated GDP for 2005). Data on principal payments, according to debt stock as at 31 December 2004, show that in 2005 principal payments will burden banks the most. Banks will have to allocate EUR 1.4bn in 2005 as a whole, of which the largest amounts will be allocated in the first and third quarter, EUR 618m and EUR 517m respectively. Principal payments to be met by enterprises in 2005, FDI included, are the second largest in the value – EUR 1.2bn. As shown in Table 14, principal payments by other sectors are equally distributed in individual quarters. The government will have to settle EUR 1bn in 2005. Of this amount, the majority is accounted for by bonds. More specifically, in the first quar-

²⁰ External debt of the public sector is defined as the external debt liabilities of the general government and public and mixed ownership companies, whereas the general government includes the central government funds, CBRD, and local government. Public enterprises are all enterprises in which the government holds a share of 100%. In contrast, mixed ownership enterprises are those in which the government has a share larger than 50%.

²¹ Above all, this relates to the primary level of data disclosure (maturity term). In addition to tables showing the data in accordance with the new international reporting standard, Slovenia and Czech R. have kept the old debt tables in their regular publications. Hence, Slovenia also discloses the data on net external debt, while the central bank of the Czech R. discloses the data on external debt in convertible and non-convertible currency.

¹⁹ Maturity structure is shown by original maturity. More specifically, all instruments whose maturity period is longer than 1 year at issuance are included in the long-term debt regardless of the fact whether their maturity is shorter than 1 year at some point.

Table 15: External Debt and Projected Future Interest Payments by Debtor, in million EUR

	Outstanding debt 31/12/2004	Immediate	Projected future interest payments								
			Q1/05	Q2/05	Q3/05	Q4/05	2005	2006	2007	2008	Other
1. Government	7,236	0	28	51	30	30	139	270	237	214	652
2. Central bank (CNB)	2	0	0	0	0	0	0	0	0	0	0
3. Banks	7,652	0	8	25	42	22	97	96	69	56	83
4. Other sectors	5,798	0	12	66	36	72	187	185	155	113	641
5. Direct investment	1,986	0	6	13	13	14	45	45	36	26	257
Total (1+2+3+4+5)	22,675	0	54	156	121	138	468	596	496	409	1,633

Source: CNB.

ter of 2005, the government has to pay off the 500 million EUR eurobond issued in March 2000. The two usual debt payments towards the London and Paris Club fall due in January and July, each worth EUR 60m (USD 80.6m). The remaining EUR 0.4bn in outstanding government principal payments are almost fully accounted for by obligations arising from long-term credits.

As far as interest payments are concerned, it should be pointed out that the total amount of interest falling due in 2005 (EUR 0.5bn or 1.6% of the estimated GDP for 2005) is considerably smaller than in previous years. The difference in interest amount is the result of the new methodology for reporting the data on external debt. More specifically, gross external debt includes both the interest arrears and accrual interest (see Box 2). Table 15 shows that almost one half of interest to be settled in 2005 is accounted for by enterprise sector (including FDI), EUR 0.2bn. Government and banks follow with EUR 0.1bn each.

The currency composition of external debt as at end-December 2004 shows that 78% of the external debt was denominated in euros. US dollars accounted for 11% of the total, while Swiss francs and Japanese yens accounted for 4% each. Larger than the average, the increased share of external debt denominated euros is registered with banks (almost 84%). This is understandable taking into account that euro is the national currency of countries whose leading banks have acquired majority shares in Croatian banks, and that Croatian banks mostly borrow from these banks. The euro share of other sectors, FDI in companies included, also exceeds the average for total external debt and stands at 84%.

The euro share of the government in total external debt is somewhat lower (68%), which is the result of bond issues for the London Club (Series A: USD 858m falling due in 2006 and Series B: USD 604m falling due in 2010) and four issues of bonds denominated in Japanese yens (total nominal value of JPY 115bn).

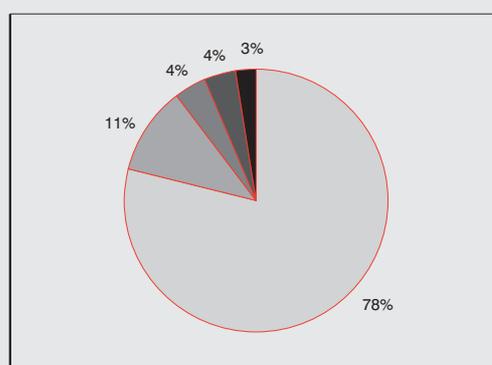
According to relative indicators, the ratio of external debt to the estimated GDP was 82.2% at end-2004 (the ratio of external debt on a gross basis reported in euros to the GDP estimate for 2004 in euro terms). At end-2002 and at end-2003, this indicator stood at 62.2% and 77.6% respectively. Concurrently, the share of Croatia's external debt in exports of goods and services stood at 157.3% at end-2004, up 7.8 percentage points compared with end-2003.

Although the external debt fell in relative terms in 2004, Croatia exceeded, in terms of its external debt in gross national income, for the first time the critical value which separates the medium from severely indebted countries. The Global Development Finance, the World Bank publication which compiles the data on debt stock and debt flows, divides the countries into severely, medium and less indebted countries taking into account the share of the current value of total external debt in gross national income and the share of the current value of total external debt in exports of goods and services. If the first and second share exceed 48% and 132% respectively, the country is classified into the group of medium indebted countries. The critical values for the first and second indicator are 80% and 220%. If only one of the shares exceeds the set critical values the country is considered severely indebted.²² At end-2004, the share of gross external debt in the estimated gross national income²³ stood at 84%, while, due to high income from tourism and relatively high remittances from oversee workers, the share of external debt in exports of goods and services increased by remittances from oversee workers was 150.1%.

Stabilisation, and then the fall in relative indicators on external debt stock, will largely continue to depend on the stance of the government and banks. The government announcement to rely more on domestic sources for the purpose of external debt repayment or refinancing in 2005 (EUR 1bn in principal and interest fall due in 2005) as well as the financing of other needs should be welcomed. The recent increase in MRR and decrease in the minimum coverage between foreign currency claims and foreign currency liabilities, introduced in February 2005 (see Monetary Policy), should be viewed as additional effort to prevent further

Figure 75

CURRENCY COMPOSITION OF CROATIA'S EXTERNAL DEBT
as at 31 December 2004

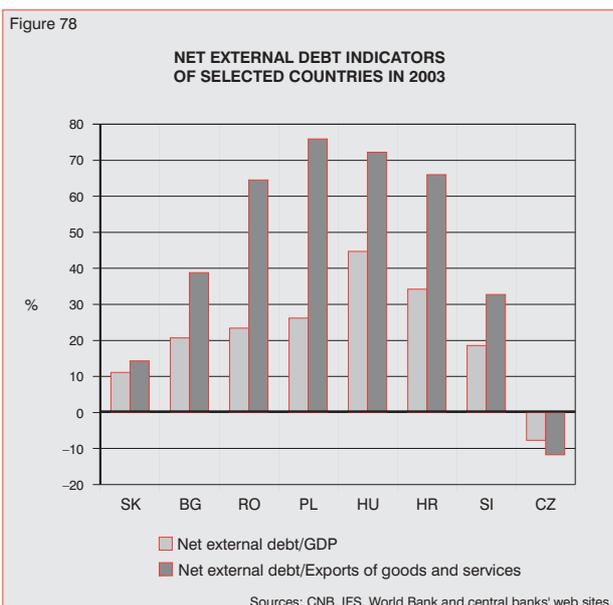
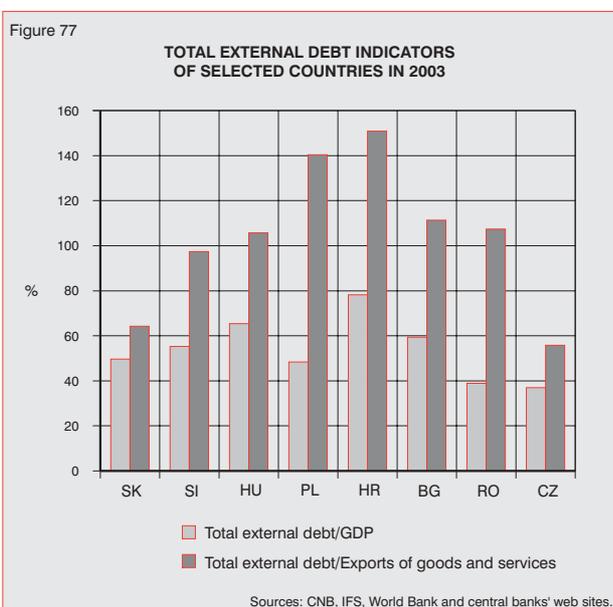
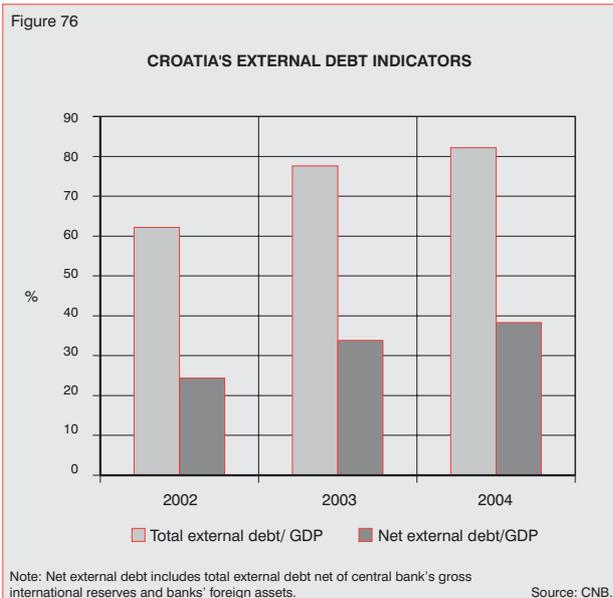


Note: External debt balance does not include deposits of non-residents.

Source: CNB.

²² See *Global Development Finance 2003*, World Bank, pp. 253.

²³ Gross national income is the sum of the estimated GDP and net factor income.



unsustainable borrowing of Croatian banks abroad, and help the government in its effort to substitute the foreign with domestic sources of financing.

Decreased by gross international reserves and bank foreign assets (in extreme cases, these assets may be used to overcome the imbalance in international payments), external debt can be observed on a net basis. It stood at EUR 10.6bn at end-2004, up 22.4% compared with its net value registered at end-2003. Net external debt, expressed in relative terms, stood at 38.3% of the estimated GDP at end-2004 and 73.3% of exports of goods and services for the current year.

Compared with other transition countries, Croatia still stands out as above the average-indebted country. The share of its external debt in GDP amounts to as much as 78.5%,²⁴ and exceeds by 12.8 percentage points and 18.8 percentage points the value of indicators for Hungary and Bulgaria. Expressed as a share in exports of goods and services (data are as at 2003), Croatia's external debt of 151.5% again singles out the country as the most indebted transition country. In contrast, the average value of this indicator for other seven transition countries is lower than 100%.

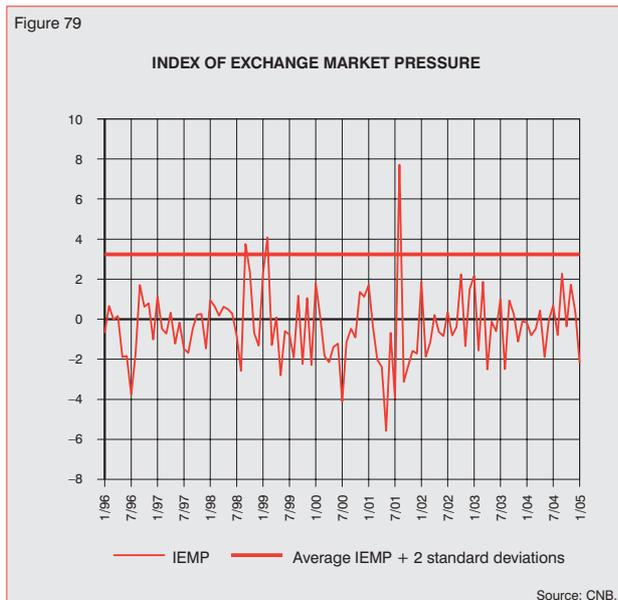
Due to relatively high international reserves, the comparison of external debt on net basis puts Croatia in somewhat more favourable position. Its share of net external debt in GDP at end-2003 was 34%. The higher share was registered only in Hungary (45%). The share of net external debt in exports of goods and services stood at 66%. At end-2003, higher (less favourable) shares of net external debt in exports of goods and services were registered by Poland (76%) and Hungary (72%), while this indicator for Romania stood at 64%.

International Liquidity

The last quarter of 2004 was marked by positive movements in the IEMP²⁵ that continued into January 2005. In October 2004, the kuna appreciated against the euro (0.8% at the monthly level) and, with a slight fall in international reserves, the IEMP value fell considerably (improved) compared with September. The seasonally usual depreciation of the kuna against the euro registered in November, accompanied by a slight fall in international reserves, contributed to the growth in the IEMP. Observed in early December, appreciation pressures continued after the intervention at which the CNB purchased a total of EUR 99.5m. However, due to the increase in demand for foreign exchange in the domestic foreign exchange market in the last few days of 2004, the kuna fell considerably against the euro, depreciating by 0.9% at the monthly level. International reserves grew by 1.7% in the same month, causing the IEMP to fall to a low level. January

24 All relative indicators for transition countries described in this paragraph (Croatia included) are calculated by using the stock of external debt, GDP and exports of goods and services expressed in the national currency. The share of the external debt of the Republic of Croatia in GDP, discussed above (77.6%), was calculated by using the external debt and GDP expressed in euros.

25 IEMP 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.



2005 saw the appreciation of the kuna by 1.6% and the increase in international reserves by 1.9%, and a subsequent fall in the IEMP to its record low since August 2003.

Government Finance

2004 Budget Highlights

In the first three months of the fiscal 2004, the budget was financed on a temporary basis. The budget of the Republic of Croatia was passed in March as were the financial plans of government funds and state agencies. A month later, in April, the 14-month Stand-by Arrangement that the Croatian authorities had entered into with the International Monetary Fund (IMF) as a precautionary measure in 2003, an election year, expired without being completed. This was because, among other things, Croatia's fiscal policy failed to meet the end-December 2003 performance criteria. The negotiations on a new Stand-by Arrangement started without delay.

At the beginning of summer Amendments to the government budget brought about a HRK 2.8bn increase in the 2004 revenues plan and a HRK 1.9bn in the 2004 expenditures plan. The budget rebalance, among other things, envisaged higher revenues from dividend payments of public enterprises, VAT and social security contributions as well as from concession charges. On the expenditure side the major portion of the increase, of over HRK 1.2bn, was earmarked for Croatian Railways (HŽ). The increase in revenues planned by the rebalance exceeded the increase in expenditures so it reduced the targeted budget deficit.

In early July 2004, the Government of the Republic of Croatia adopted the Fiscal Policy Principles for 2005-2007. The fiscal policy goals set out in the Principles include, among other things: fiscal adjustment, which is to lower the general government deficit to below 3% of GDP by 2007, stabilisation of public debt (at below 60% of GDP) as well as external debt (at below 80% of GDP). Later that month, Croatian authorities requested a new Stand-by Arrangement

with the IMF. The IMF supported the programme set forth in the Memorandum on Economic and Financial Policies (MEFP) and granted Croatia a new 20-month Stand-by Arrangement in August. The main aims of the programme are the stabilisation of the external-debt-to-GDP ratio at approximately its present level, that is, the reduction of external vulnerabilities arising from high current account deficits and heavy external debt burden, as well as Croatia's preparations for EU accession. The objectives of the programme should be achieved by reducing the budget deficit and implementing structural reforms, aimed at reducing the role of the state in the economy. As a start of the mid-term consolidation efforts, the 2004 general government deficit is planned at 4.5% of GDP, while the 2005 figure is not to exceed the 3.7% of GDP.

According to the MoF data, reported on a cash basis²⁶, the 2004 consolidated general government deficit totalled 4.9% of the expected nominal GDP in 2004. The deficit target was overrun by 0.4% of GDP or some HRK 800m. Since the expenditure plan was not fully met, the deficit outturn was primarily a consequence of a substantial shortfall on the revenue side.

As of June 2004, the MoF presents detailed data on revenues and expenditures of the government budget as well as the central and general government budgets in accordance with the internationally applied GFS 2001. Since the introduction of the new methodology led to changes in classification and scope of individual revenue and expenditure categories, quarterly data on revenues and expenditures in 2004 are not entirely comparable with the data available for previous years, which had been presented in line with the GFS 1986 methodology. With the help of different calculations comparison is possible only on the revenues side, while the disaggregated data available on the expenditure side do not allow a more detailed analysis.

Budget Outturn

Budget Revenues

According to MoF data, consolidated general government revenues totalled HRK 93.8bn at the end of 2004.²⁷ Of the said amount, current revenues accounted for HRK 92.6bn, while capital and privatisation revenues made up the remaining HRK 1.2bn.²⁸ The share of total revenues in the expected nominal GDP for 2004 totals some 45%, which is just below the eurozone average, that is, higher than in most new EU Member States.

Since quarterly data on revenues and expenditures of the consolidated general government by economic classification are not available, the following comments relate to consolidated central government revenues and expenditures, which comprise CH, CR, DAB and CPF operations, that being the

²⁶ MoF data are shown on a cash basis, except for the revenues and expenditures of CH and CR, which are shown on accrual basis.

²⁷ 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 presented in the GFS 1986 format.

²⁸ This calculation is based on data on budget revenue outturn presented in line with GFS 2001 methodology.

highest consolidation level for which comparable quarterly data presented by economic classification are available. This excludes the local government, accounting for an approximate 10% of total general government revenues and expenditures.

According to the MoF data, the consolidated central government revenues stood at HRK 84bn in 2004, up some HRK 3.0bn on the previous year. Compared to 2003, when revenues grew at 8.3%, the annual revenues growth rate in 2004 amounted to relatively low 3.8%. However, if current revenues are analysed separately from capital revenues, the picture is substantially different. The growth of current revenues, which accounted for over 99% of total revenues over the past year, was higher than the growth observed in 2003 (8.0% as against 7.1%), while capital revenues followed an opposite trend, that is, registered a decline of over 80%. Although the majority of revenue items came in below the 2004 plan, the said discrepancies were partly a consequence of the base period effect, that is, two large transactions. While the sale of 25% of INA's shares greatly affected the capital revenues outturn in 2003, dividend payments of public enterprises (HT, Croatian Telecom) as well as revenues from the sale of UMTS concessions²⁹ contributed significantly to current (non-tax) revenues outturn in 2004. Although non-tax revenues totalled HRK 7.6bn (up 40% on annual level) the annual plan was not fully met, among other things, because revenues from the concession for the third GSM network were received in February 2005.

Tax revenues, accounting for 90% of the consolidated central government revenues, grew at a slower rate (5.5%) in 2004 than the year before (6.6%). This nominal annual growth was lower than the expected nominal GDP growth for 2004. Although revenues from VAT and social contributions, the two most important sources of budget revenues, came in below the annual plan, their growth still accounted for the major portion of tax revenues growth. VAT revenues, making up 35.5% of total revenues, grew 6.2% on annual level, down 2.2 percentage points from the year before. Broken down by quarters, the second quarter witnessed the largest growth, of close to 10%, compared with the same period a year earlier. Despite good indicators on movements in trade and tourism over the summer months, VAT revenues growth was slowly reducing over the second half of the year. The third quarter growth rate came to 5.4%, while the fourth quarter growth rate totalled 4.2% or only a half of the 9% growth rate registered the year before. This resulted in a shortfall of close to HRK 590m or 2.0% compared to the plan envisaged by the budget rebalance. It is noteworthy that the 2005 VAT revenue projections were based on the VAT revenues envisaged in the 2004 budget rebalance, inclusive of the expected one-off effect of the establishment of the financial police in 2005. The annual growth of VAT revenues that is required to meet the 2005 revenue plan amounts to a high 10%.

Social security contributions, accounting for 31% of total

revenues, went up by 7.6% in 2004. This rise, resulting mostly from the wage bill increase, was to the most part due to the nominal wage growth and only to some extent to the rise in the number of insured persons. The growth of social security contributions in 2004 was 0.9 percentage points lower than the year before, when the growth rate was largely influenced by the increase in the number of insured persons. The influence from this segment was substantial in 2003 because the increase in the number of insured persons, excluding persons employed with insolvent enterprises, that is, those for whom employers fail to pay social security contributions, was double the rate (3.8%) observed in 2004 (1.7%). Same as with VAT, despite the increase in social security contributions the 2004 plan was not realised, although the shortfall in revenues from social contributions was sizeably lower. With the exception of excises levied on coffee and luxury goods, accounting for less than 1.4% of total excises, nearly all excise revenues fell short of the plan. The largest in amount, revenues from excises on refined petroleum products were lower than planned. The number of tourist arrivals went up 6% on annual level in 2004, with road transport arrivals accounting for a sizeable share, however, revenues generated by excises on refined petroleum products saw a decline on annual level. Apart from difficulties in collection, weak results were also a consequence of the oil price level, which was substantially higher than in 2003.

Income tax revenues were only a fraction higher (0.4%) in 2004 than in 2003, still this was enough to meet the plan, that is, exceed the planned revenues by 2%. Slow growth of income tax revenues was a consequence of income tax related changes, that is, considerable increase in tax exemptions. The new income tax changes, coming into effect as of the beginning of 2005, additionally reduced income tax. The level of personal tax allowance was raised (from HRK 1,500 to 1,600) as were the tax deductions for dependent family members. It is estimated that these changes will reduce revenues by HRK 850m, of which, in accordance with CNB's projections, personal allowance increase accounts for roughly a half. Revenues will be additionally reduced by the repeal of the tax on dividend income of natural persons. The positive effects, partly making up for the abovementioned reductions, are expected, among other things, from the reduction in the cumulative amount of tax exemptions (from HRK 48,600 to the total of HRK 12,000) and a more clear definition of all income categories. Since income tax revenues account for the revenues of units of local and regional self-government as well as the government budget, revenue reductions arising from income tax related changes will be divided between the two levels of the government. Revenues of units of local and regional self-government will suffer a greater reduction since they receive 65% of the total collected income tax revenues, while the government budget receives the remaining share. The said reduction should also be viewed from the perspective of the share, that is, the importance, of income tax revenues in total revenues of the central and local government. While income tax makes up less than 4% of total consolidated central government revenues, it is the main source of the local government revenues with a share of 45%.

Among tax revenues, real property tax revenues, coming from real property transaction tax, and tax on the trade of

²⁹ This includes UMTS concessions to VIP and HT, while the charge for the concession licence to the third mobile network operator (granted via a separate public tender) and totalling HRK 172m was not collected in 2004.

Table 16: GFS 1986 Balance Computation (capital revenues excluded), in million HRK

	Jan. – Dec. 2004				
	Government budget	Extra-budgetary users	Consolidated central government	Units of local and regional self-government	Consolidated general government
Revenues ^a	80,467	7,768	86,959	10,827	96,345
Total expenditures and net lending	86,205	11,364	96,294	11,555	106,407
Expense ^a	83,145	5,332	87,202	8,759	94,520
Acquisition of non-financial assets ^a	1,664	6,162	7,825	2,711	10,537
Net acquisition of financial assets – loans ^a	938	-182	756	57	812
Acquisition	1,264	95	1,359	126	1,485
Disposal	326	277	603	70	673
Acquisition of shares and other equity ^a	458	52	511	17	527
Acquisition of other accounts receivable ^a	0	0	0	11	11
GFS 1986 balance (capital revenues excluded)	-5,738	-3,596	-9,335	-728	-10,062

^a Note: GFS 2001. Source: MoF.

goods and services rose at the highest rates in 2004, of 22.7% and 18.6% respectively. Profit tax revenues grew at a considerably slower rate of 1.9% as compared to the year before (15.6%), while revenues from custom duties declined by 6.4% due to foreign trade liberalisation.

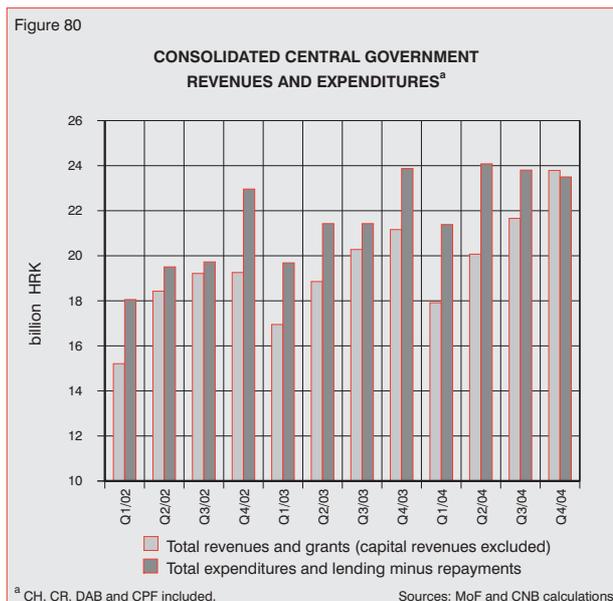
Budget Expenditures, Budget Balance and Deficit Financing

According to MoF data, consolidated general government expenditures in 2004 totalled HRK 102.6bn, down HRK 7.3bn or 7.7% from the previous year.³⁰ Of this amount HRK 92.8bn were consolidated central government expenditures, while units of local and regional self-government accounted for the remaining HRK 9.8bn. Expenditure growth at consolidated central government level totalled 7.1%, making up the lion's share of the overall growth, in line with its share in total consolidated general government expenditures, although expenditures of units of local and regional government grew at a faster rate (9.3%).

Some expenditure categories cannot be compared directly with the data available for previous periods because the June 2004 expenditure data by economic classification are reported only in the GFS 2001 format. Nevertheless, data on interest expenditures, which can be compared, show that interest expenditures grew HRK 0.5bn in 2004 or 13.2% on a year earlier, thus reaching the HRK 4.5bn-level and exceeding the 2004 plan by HRK 0.1bn or 2.6%.

The consolidated general government deficit in 2004 totalled HRK 8.9bn or HRK 10.1bn exclusive of capital revenues, according to the MoF final data. As in the case of consolidated general government expenditures, the major portion of consolidated general government deficit was made up by consolidated central government deficit which stood at HRK 8.7bn or HRK 9.3bn exclusive of capital revenues. The consolidated central government deficit (exclusive of capital revenues) thus amounted to HRK 9.3bn, down 1% from the deficit incurred in 2003, or 4.5% of the expected GDP for 2004.

The consolidated central government deficit, with repayments, was almost completely financed through borrowing, although the government relied more on domestic sources than in the previous years. The financing needs were met primarily through securities, that is, T-bill issues (valued at



nearly HRK 2.5bn) and bond issues. EUR 1.25bn worth of bonds in kuna equivalent was issued in the domestic financial market. Of this amount EUR 400m was issued in July, EUR 200m in November, while EUR 650m was an integral issue in three tranches. The November issue, the last in 2004, worth EUR 200m was intended for principal and interest repayment, arising from Samurai bonds (worth JPY 25.5bn) that became due in December. To some extent financing needs were also met by borrowing abroad, i.e. by taking out loans (with CH accounting for the largest share) and issuing a government bond. Last year saw only one government bond issue, worth EUR 500m, in the foreign financial market. A small portion of the deficit was financed by capital and privatisation revenues. The sale of shares generated HRK 347m in receipts in 2004, while capital and privatisation revenues came to HRK 600m or only slightly above one third of the amount planned.³¹

Government Debt³²

The general government debt, including the CBRD debt, continued expanding in the fourth quarter of 2004 but at a

³⁰ The calculation is based on data on budget revenue outturn and balance without capital revenues – GFS 1986.

³¹ This calculation is based on the revenue outturn data reported in the GFS 2001 format.

³² Data on general government and central government debt have been revised in line with changes in the external debt statistics methodology.

slower rate than over the previous three quarters. According to CNB data, at end-December it totalled HRK 98.6bn or 48% of the expected nominal GDP for 2004. Inclusive of HRK 13.2bn of the potential debt arising from issued government guarantees the end-of-year debt level reached HRK 111.8bn or some 54.1% of the nominal GDP for 2004.

In the course of last year general government debt, including the CBRD debt, went up HRK 12.5bn, up 29% from the increase registered in 2003, when it had risen HRK 9.7bn. A comparison of the debt increase structure in 2003 and 2004 reflects an important difference. While in 2003 the foreign component of debt accounted for two thirds and the domestic component for one third of the increase, in 2004 the said ratio reversed in favour of the domestic component. Thus, almost 60% of the debt increase over the past year resulted from borrowing in the domestic market in consequence of the government's intention to rely more on domestic sources of financing. This increased reliance on domestic sources of finance changed the debt structure. The share of domestic debt in general government debt (inclusive of CBRD debt) increased by 2.3 percentage points, to 43.7% at the end of 2004 from 41.4% a year before. The said increase corresponded to the decrease in the share of external debt, thus encouraging the growth of domestic financial market and contributing to gradual reduction of the government's currency risk exposure.

Out of the HRK 12.5bn increase in total debt in 2004, general government accounts for HRK 11.7bn and CBRD for the remaining HRK 0.8bn. The increase in CBRD debt was almost entirely a result of foreign borrowing at the beginning of the year, while the general government's share was dominated by domestic borrowing, which accounted for 64% as compared to foreign borrowing which made up 36%.

General government domestic debt increased by HRK

7.5bn in 2004 almost entirely due to borrowing of the Republic of Croatia (HRK 9.2bn), local government borrowing accounted for only a small share of the increase (HRK 0.6bn) while the debt of central government funds decreased by HRK 2.3bn. The major portion of this increase in domestic debt was effected through bond and T-bill issues while a small share was accounted for by bank loans, which make the dominant source of financing at local government level. In addition to borrowing through bank loans (HRK 0.4bn), in 2004 the local government started relying to a larger extent on borrowing through issues of municipal bonds (HRK 0.2bn).

General government external debt grew by nearly HRK 4.3bn in 2004, which is HRK 1.0bn or 19% less than the year before. Since local government external debt reduced by HRK 77m, last year's debt increase was primarily effected by borrowing of central government funds (HRK 3.4bn) while the Republic of Croatia accounted for a smaller share (HRK 0.9bn).

Broken down by quarters, the largest general government debt increase of HRK 5.6bn was observed in the second quarter and the smallest, amounting to HRK 0.3bn in the first. This second quarter increase was effected by the euro-bond issue worth HRK 500m and borrowing through T-bills issues. Intensive T-bill subscription was caused by high liquidity at the money market at the end of April and through May. Net T-bill subscription surpassed HRK 1.9bn in the second quarter of 2004.

Central Government Domestic Debt

According to CNB data, the central government domestic debt stood at HRK 41.6bn at end-December 2004, growing by HRK 6.9bn or 19.8% compared with end 2003. With the domestic debt of central government funds declining by HRK 2.3bn, the said increase was fully due to the increase in

Table 17: Domestic Debt of Central Government, end of period, in million HRK

	Stock			Change	
	Dec. 2002 ^a	Dec. 2003	Dec. 2004	Jan. – Dec. 2003	Jan. – Dec. 2004
1. Domestic debt of central government	31,421	34,736	41,616	3,315	6,880
1.1. Domestic debt of the Republic of Croatia	23,320	28,161	37,330	4,841	9,169
Treasury bills	5,633	6,548	9,022	915	2,474
Money market instruments	0	0	–	0	–
Bonds	15,888	17,422	23,186	1,534	5,764
Credits from banks	1,799	4,190	5,121	2,391	931
1.2. Domestic debt of central government funds	8,101	6,576	4,286	-1,526	-2,289
Money market instruments	–	–	–	–	–
Bonds	4,461	3,616	2,033	-844	-1,583
Credits from banks	3,641	2,959	2,253	-682	-706
Note: Issued guarantees	7,528	6,895	5,512	-633	-1,383

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

Table 18: External Debt of Central Government, end of period, in million HRK

	Stock			Change	
	Dec. 2002 ^a	Dec. 2003	Dec. 2004	Jan. – Dec. 2003	Jan. – Dec. 2004
1. External debt of central government	43,517	50,138	55,248	6,620	5,110
1.1. External debt of the Republic of Croatia	37,388	41,049	41,952	3,661	903
Bonds	28,694	32,145	32,793	3,451	648
Credits	8,694	8,904	9,159	210	255
1.2. External debt of central government funds	6,129	9,089	13,296	2,960	4,207
Bonds	685	821	2,765	136	1,944
Credits	5,445	8,269	10,532	2,824	2,263
Note: Issued guarantees	8,260	8,619	7,810	359	-809

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

the Republic of Croatia debt, which came close to HRK 9.2bn. Government debt was predominantly effected by borrowing through bond issues (HRK 5.8bn) and to some extent through T-bill issues (HRK 2.5bn) and bank loans (HRK 0.9bn).

As a result of bond issues and T-bill subscriptions, central government domestic debt increased by HRK 1.4bn in the fourth quarter. At end-November MoF issued government bonds worth EUR 200m at a fixed annual interest rate of 5.375% and 15-year maturity, which made it a government security with the longest maturity.

Central Government External Debt

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

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 M1 ^a	Broadest money M4	Net domestic assets	Domestic credit	Monthly rates of growth					
								Reserve money	Money M1	Money M1 ^a	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	December	30,586.2	33,888.7	34,630.9	128,893.1	96,121.7	111,661.4	8.90	1.78	1.93	0.14	3.11	0.66
2004	January	29,439.9	32,323.1	32,853.4	128,917.7	98,213.8	113,102.5	-3.75	-4.62	-5.13	0.02	2.18	1.29
	February	29,482.8	31,283.9	31,827.9	127,876.5	97,913.3	113,516.7	0.15	-3.21	-3.12	-0.81	-0.31	0.37
	March	30,076.1	31,622.9	32,187.8	125,766.6	98,115.4	113,282.0	2.01	1.08	1.13	-1.65	0.21	-0.21
	April	30,895.7	32,890.5	33,537.9	127,867.8	97,727.3	115,926.7	2.73	4.01	4.19	1.67	-0.40	2.33
	May	31,175.6	33,193.9	33,931.5	127,461.4	98,300.7	115,314.9	0.91	0.92	1.17	-0.32	0.59	-0.53
	June	31,157.1	34,265.4	34,846.7	129,559.4	99,728.3	116,769.2	-0.06	3.23	2.70	1.65	1.45	1.26
	July	31,652.1	34,621.5	35,204.2	133,013.2	101,861.7	117,874.0	1.59	1.04	1.03	2.67	2.14	0.95
	August	32,327.9	35,024.3	35,818.7	136,825.8	101,771.0	118,889.6	2.14	1.16	1.75	2.87	-0.09	0.86
	September	32,851.8	34,492.3	35,234.5	138,742.8	103,362.9	120,614.7	1.62	-1.52	-1.63	1.40	1.56	1.45
	October	32,654.4	33,852.4	34,478.5	138,356.9	104,170.9	121,318.6	-0.60	-1.86	-2.15	-0.28	0.78	0.58
	November	31,211.5	33,600.7	34,268.9	139,632.6	105,932.6	124,824.3	-4.42	-0.74	-0.61	0.92	1.69	2.89
	December	33,924.4	34,562.1	35,186.5	139,947.7	108,205.1	127,308.6	8.69	2.86	2.68	0.23	2.15	1.99
2005	January	32,618.7	34,908.8	35,381.4	138,919.4	109,214.8	127,047.2	-3.85	1.00	0.55	-0.73	0.93	-0.21

^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				2005
	Dec.	Dec. ^a	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Jan.
ASSETS									
1. Foreign assets (net)	29,017.2	48,661.3	32,817.4	32,771.4	27,651.2	29,831.1	35,379.9	31,742.6	29,704.6
2. Domestic credit	72,051.4	87,637.6	112,518.9	126,371.6	128,272.1	130,542.8	135,342.1	141,278.1	142,771.7
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	14,727.5	13,969.6	15,724.5
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	119,340.0	125,790.7	125,591.8
2.3. Claims on other banking institutions	68.7	170.2	219.5	431.8	600.0	517.0	530.6	624.0	499.0
2.4. Claims on non-banking financial institutions	161.7	281.4	915.3	761.8	651.9	727.0	744.0	893.9	956.4
Total (1+2)	101,068.7	136,298.9	145,336.3	159,143.0	155,923.3	160,373.9	170,722.0	173,020.7	172,476.4
LIABILITIES									
1. Money	18,030.3	23,703.5	30,869.8	33,888.7	31,622.9	34,265.4	34,492.3	34,562.1	34,908.8
2. Savings and time deposits	7,651.1	10,213.1	13,001.1	18,370.7	19,678.0	20,857.0	23,116.4	22,479.2	22,456.0
3. Foreign currency deposits	46,901.6	71,836.9	72,054.6	76,035.3	74,070.1	74,056.7	80,453.6	81,742.9	80,340.7
4. Bonds and money market instruments	478.2	317.8	216.3	598.4	395.6	380.4	680.5	1,163.5	1,214.0
5. Restricted and blocked deposits	2,864.5	1,926.2	1,729.5	1,721.6	2,049.3	2,295.0	2,177.6	2,067.0	2,102.3
o/w: Households' blocked f/c deposits	1,695.1	770.2	319.3	167.8	110.7	101.8	47.2	40.0	0.4
6. Other items (net)	25,143.1	28,301.4	27,465.1	28,528.2	28,107.4	28,519.5	29,801.7	31,006.1	31,454.7
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	170,722.0	173,020.7	172,476.4

^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	December	42	2	13	8	5	8	6	7	3	2	2
2004	January	41	2	12	9	6	6	6	7	3	3	1
	February	41	2	12	9	6	6	6	7	3	3	1
	March	41	2	12	9	6	6	6	6	3	3	–
	April	41	2	12	9	5	7	6	6	3	3	–
	May	41	2	12	9	5	7	6	6	3	3	–
	June	41	2	12	9	5	7	6	6	3	3	–
	July	40	2	11	10	5	6	6	6	3	3	–
	August	40	2	11	10	5	6	6	6	3	3	–
	September	40	2	12	9	5	6	6	6	3	3	–
	October	40	2	12	9	5	6	6	6	3	3	–
	November	39	2	12	8	6	5	6	6	3	3	–
	December	39	1	12	9	6	5	6	6	3	3	–
2005	January	38	1	12	8	6	5	6	6	3	3	–

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

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

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				2005
	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Jan.
ASSETS									
1. Foreign assets	28,747.4	39,308.9	42,058.8	50,118.6	45,692.9	47,063.6	48,697.4	49,373.4	49,508.2
1.1. Gold	–	–	–	–	–	–	–	–	–
1.2. Holdings of SDRs	1,204.2	905.8	17.4	5.0	5.0	7.2	5.1	4.8	7.5
1.3. Reserve position in the IMF	1.8	1.8	1.6	1.5	1.5	1.5	1.5	1.4	1.4
1.4. Currency and demand deposits with foreign banks	7.4	6.1	6.4	5.8	5.5	5.5	5.7	5.7	5.9
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	21,365.4	24,337.7	24,313.4
1.6. Securities in f/c	6,545.7	12,829.3	13,850.0	24,525.5	25,520.6	26,714.8	27,319.6	25,023.7	25,180.0
1.7. Non-convertible foreign exchange	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Claims on central government and funds	0.0	–	0.5	1.4	1.9	3.0	1.0	3.3	0.6
2.1. Claims in kuna	0.0	–	0.5	1.4	1.9	3.0	1.0	3.3	0.6
2.2. Claims in f/c	–	–	–	–	–	–	–	–	–
3. Claims on other domestic sectors	289.5	229.2	110.6	93.6	89.9	85.8	85.1	82.9	80.1
4. Claims on banks	329.9	18.5	17.9	972.0	23.8	15.1	14.6	408.9	15.0
4.1. Credits to banks	313.6	–	–	954.4	–	–	–	394.0	–
Lombard credits	–	–	–	954.4	–	–	–	–	–
Short-term liquidity credits	–	–	–	–	–	–	–	–	–
Other credits	14.0	–	–	–	–	–	–	–	–
Securities under repurchase agreement	299.6	–	–	–	–	–	–	394.0	–
4.2. CNB deposits with banks	15.2	16.6	17.6	14.5	14.1	14.1	14.6	15.0	15.0
4.3. Overdue claims	1.1	1.9	0.3	3.1	9.7	1.1	–	–	–
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	48,798.1	49,868.5	49,603.9
LIABILITIES									
1. Reserve money	11,717.3	17,803.2	23,027.9	30,586.2	30,076.1	31,157.1	32,851.8	33,924.4	32,618.7
1.1. Currency outside banks	6,636.7	8,507.4	9,680.9	10,573.1	10,039.6	10,977.3	10,947.0	10,955.6	10,789.4
1.2. Banks' cash in vaults	532.3	538.8	1,214.8	1,683.2	1,399.1	1,726.0	1,769.4	1,871.0	1,807.7
1.3. Banks' deposits	4,540.7	8,741.5	12,109.4	18,329.3	18,613.5	18,447.2	20,124.1	21,082.6	19,963.4
Settlement accounts	459.5	2,450.1	3,923.4	5,616.0	4,827.7	4,289.0	5,354.6	6,408.2	5,249.8
Statutory reserves	4,081.2	6,291.4	8,186.0	12,603.9	13,699.9	14,158.2	14,769.5	14,674.4	14,713.6
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	11.3	15.1	58.1
2. Restricted and blocked deposits	5,805.5	6,030.5	7,091.2	6,699.2	9,993.7	10,528.2	10,811.2	10,777.1	11,248.9
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	10,797.8	10,764.7	11,236.9
2.2. Restricted deposits	315.0	325.4	49.0	12.6	12.6	10.6	13.4	12.4	12.0
2.3. Escrow deposits	–	–	–	–	–	–	–	–	–
3. Foreign liabilities	1,630.8	1,597.5	195.7	2,798.0	965.4	17.7	17.8	18.1	16.8
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	17.8	18.1	16.8
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	439.4	263.2	1,297.5
4.1. Demand deposits	1,008.5	1,752.1	608.3	600.2	883.7	994.2	439.2	228.0	1,297.5
Central government demand deposits	980.8	1,564.8	569.5	548.5	701.1	979.5	341.7	123.0	1,139.6
Central government funds' demand deposits	27.7	187.3	38.7	51.7	182.6	14.7	97.5	105.0	157.9
4.2. Central government f/c deposits	–	–	–	950.9	5.9	787.4	0.1	35.2	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	5,103.1	5,096.5	4,869.4
7. Other items (net)	–368.1	–424.2	–461.1	–408.1	–413.6	–426.5	–425.2	–210.8	–447.4
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	48,798.1	49,868.5	49,603.9

^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				2005
	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Jan.
ASSETS									
1. Reserves with the CNB	10,588.9	15,002.7	20,373.5	26,783.7	30,014.3	30,737.4	32,719.8	33,718.2	33,007.3
1.1. In kuna	5,098.4	9,306.2	13,340.0	20,103.4	20,039.6	20,225.7	21,929.8	22,962.9	21,779.2
1.2. In f/c	5,490.5	5,696.5	7,033.5	6,680.2	9,974.6	10,511.7	10,790.0	10,755.3	11,228.0
2. Foreign assets	19,710.4	32,807.6	25,977.8	35,382.9	35,176.0	37,497.5	40,200.1	43,551.0	39,071.1
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	21,610.8	21,051.3	23,300.7
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	517.5	532.0	22.5
3.2. Other claims	14,571.0	16,639.7	19,444.3	20,011.7	20,102.1	20,197.2	21,093.3	20,519.3	23,278.2
4. Claims on other domestic sectors	60,363.9	74,283.8	96,218.4	110,374.3	111,940.1	115,439.5	119,254.9	125,707.9	125,511.7
4.1. Claims on local government	1,174.9	1,280.0	1,422.4	1,563.1	1,579.6	1,602.8	1,667.5	1,787.9	1,708.3
4.2. Claims on enterprises	35,890.7	42,882.0	51,723.4	53,809.8	54,823.5	56,083.0	56,310.7	58,643.3	58,723.9
4.3. Claims on households	23,298.3	30,121.9	43,072.6	55,001.4	55,537.0	57,753.6	61,276.7	65,276.7	65,079.5
5. Claims on other banking institutions	68.7	170.2	219.5	431.8	600.0	517.0	530.6	624.0	499.0
6. Claims on non-banking financial institutions	161.7	281.4	915.3	761.8	651.9	727.0	744.0	893.9	956.4
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	215,060.3	225,546.2	222,346.2
LIABILITIES									
1. Demand deposits	11,386.0	15,180.6	21,166.2	23,315.0	21,559.4	23,281.4	23,533.9	23,591.3	24,061.2
2. Savings and time deposits	7,651.1	10,213.1	13,001.1	18,370.7	19,678.0	20,857.0	23,116.4	22,479.2	22,456.0
3. Foreign currency deposits	46,901.6	71,836.9	72,054.6	76,035.3	74,070.1	74,056.7	80,453.6	81,742.9	80,340.7
4. Bonds and money market instruments	478.2	317.8	216.3	598.4	395.6	380.4	680.5	1,163.5	1,214.0
5. Foreign liabilities	17,809.7	21,857.8	35,023.5	49,932.0	52,252.2	54,712.3	53,499.8	61,163.7	58,857.9
6. Central government and funds' deposits	6,730.5	5,634.7	6,094.9	5,283.3	5,218.6	5,632.8	6,445.0	6,821.8	6,279.3
7. Credit from central bank	328.8	16.6	17.6	968.9	14.1	14.1	14.6	408.9	15.0
8. Restricted and blocked deposits	2,549.6	1,600.8	1,680.5	1,709.0	2,036.8	2,284.4	2,164.2	2,054.6	2,090.2
o/w: Households' blocked f/c deposits	1,695.1	770.2	319.3	167.8	110.7	101.8	47.2	40.0	0.4
9. Capital accounts	24,953.1	25,455.1	26,323.2	27,389.5	27,492.9	27,252.0	28,016.9	28,666.4	29,094.6
10. Other items (net)	-8,839.4	-9,507.8	-9,955.6	-8,324.2	-3,238.9	-2,367.7	-2,864.6	-2,546.3	-2,062.6
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	215,060.3	225,546.2	222,346.2

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				2005
	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Jan.
1. Foreign assets in f/c	19,619.2	32,763.6	25,924.4	35,261.9	35,000.4	37,284.8	40,028.7	43,428.1	38,920.6
1.1. Claims on foreign banks	19,154.9	31,660.3	21,333.5	31,877.6	29,255.0	30,911.3	33,858.4	35,911.0	31,573.8
Foreign currencies	1,002.8	7,324.7	1,019.8	1,268.6	832.2	1,291.9	1,092.5	1,190.0	918.5
Demand deposits	995.0	1,231.9	757.7	1,057.0	813.1	968.4	1,441.9	906.2	934.4
Time and notice deposits	16,286.7	21,765.2	17,569.8	27,969.4	25,742.3	26,257.3	28,697.2	30,943.7	26,957.5
Securities	454.9	1,008.5	1,690.2	1,364.2	1,658.7	2,185.9	2,424.1	2,674.1	2,567.7
Loans and advances	370.9	290.3	278.7	203.1	195.1	194.1	194.6	189.0	187.8
Shares and participations	44.6	39.7	17.2	15.4	13.7	13.6	7.9	8.1	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	6,170.4	7,517.1	7,346.8
Claims on foreign governments	137.8	596.2	3,855.5	2,905.0	5,237.3	5,888.8	5,688.0	7,066.6	6,910.5
Claims on other non-residents	322.4	505.5	733.7	478.9	507.7	484.4	482.0	450.2	436.0
Securities	–	72.1	191.3	32.1	109.7	151.6	76.5	77.4	76.0
Loans and advances	322.4	433.4	542.4	446.8	398.0	332.9	405.5	372.8	360.0
Shares and participations	4.1	1.6	1.6	0.4	0.4	0.4	0.4	0.3	0.2
2. Foreign assets in kuna	91.2	44.1	53.4	120.9	175.6	212.7	171.4	122.9	150.5
2.1. Claims on foreign banks	66.1	29.2	19.6	99.1	154.7	201.7	160.2	77.8	106.0
2.2. Claims on foreign non-banks	25.1	14.8	33.8	21.9	20.9	11.0	11.1	45.1	44.4
o/w: Loans and advances	23.3	13.9	33.0	21.0	20.1	10.2	10.3	44.3	43.6
Total (1+2)	19,710.4	32,807.6	25,977.8	35,382.9	35,176.0	37,497.5	40,200.1	43,551.0	39,071.1

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				2005
	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Jan.
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	517.5	532.0	22.5
2. Other claims	14,571.0	16,639.7	19,444.3	20,011.7	20,102.1	20,197.2	21,093.3	20,519.3	23,278.2
2.1. In kuna	12,887.7	14,358.6	15,970.9	16,475.2	16,301.1	16,645.3	16,134.8	15,738.1	18,548.8
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	14,502.9	13,933.5	16,650.8
Securities	10,063.5	11,983.1	11,515.6	10,238.1	9,594.9	9,885.3	10,751.8	11,247.1	11,824.4
Loans and advances	1,224.9	826.9	2,454.3	4,262.6	2,801.6	3,472.0	3,751.0	2,686.5	4,826.4
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	1,631.9	1,804.6	1,898.0
Securities	627.3	560.1	560.7	723.6	1,325.2	1,283.4	621.0	621.1	605.6
Loans and advances	972.1	988.4	1,440.3	1,250.9	2,579.4	2,004.6	1,010.9	1,183.5	1,292.4
2.2. In f/c	1,683.3	2,281.2	3,473.3	3,536.4	3,801.1	3,551.9	4,958.5	4,781.1	4,729.5
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	3,746.8	3,548.4	3,500.8
Securities	869.2	1,065.5	1,733.4	1,805.4	1,403.8	1,396.2	1,274.0	1,117.0	1,106.8
Loans and advances	623.5	325.5	625.7	1,391.5	1,150.7	743.8	2,472.8	2,431.3	2,394.0
2.2.2. Claims on central government funds	190.6	890.3	1,114.2	339.5	1,246.5	1,411.9	1,211.7	1,232.8	1,228.6
Securities	35.0	75.4	195.0	96.4	190.1	180.5	118.8	163.1	187.2
Loans and advances	155.5	814.8	919.2	243.1	1,056.5	1,231.4	1,092.8	1,069.7	1,041.4
Total (1+2)	19,055.5	20,059.9	21,917.7	21,543.6	21,096.4	21,185.0	21,610.8	21,051.3	23,300.7

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				2005
	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Jan.
1. Claims in kuna	53,739.5	66,626.8	85,418.7	100,365.0	101,139.2	104,687.6	108,139.7	114,635.7	114,594.0
1.1. Money market instruments	231.9	544.7	1,394.7	1,314.1	1,778.5	2,605.7	2,165.3	2,510.0	2,689.9
1.2. Bonds	1.0	7.7	72.4	56.2	193.7	560.0	573.8	559.8	560.5
1.3. Loans and advances	49,566.8	62,180.6	80,887.6	96,081.7	96,475.3	98,743.7	103,067.8	109,523.9	109,331.4
1.4. Shares and participations	3,939.8	3,893.8	3,064.0	2,912.9	2,691.7	2,778.2	2,332.8	2,042.0	2,012.2
2. Claims in f/c	6,624.3	7,657.0	10,799.8	10,009.3	10,800.9	10,751.9	11,115.2	11,072.2	10,917.7
2.1. Securities	112.4	126.6	243.2	130.6	231.5	262.2	297.3	213.5	243.6
2.2. Loans and advances	6,512.0	7,530.5	10,556.6	9,878.7	10,569.4	10,489.7	10,817.9	10,858.6	10,674.2
Total (1+2)	60,363.9	74,283.8	96,218.4	110,374.3	111,940.1	115,439.5	119,254.9	125,707.9	125,511.7

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				2005
	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Jan.
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	4,762.0	3,870.0	6,118.8
1.1. Loans to central government	1,224.9	826.9	2,454.3	4,262.6	2,801.6	3,472.0	3,751.0	2,686.5	4,826.4
1.2. Loans to central government funds	972.1	988.4	1,440.3	1,250.9	2,579.4	2,004.6	1,010.9	1,183.5	1,292.4
2. Loans to local government	996.8	1,069.1	1,202.9	1,485.1	1,522.2	1,541.5	1,566.1	1,701.9	1,635.7
3. Loans to enterprises	25,328.0	31,049.4	36,708.1	39,777.4	39,587.1	39,682.9	40,472.2	42,844.7	42,919.1
4. Loans to households	23,242.1	30,062.1	42,976.6	54,819.3	55,366.0	57,519.2	61,029.5	64,977.2	64,776.5
o/w: Housing loans	8,257.8	9,450.0	12,363.4	16,896.2	17,575.9	18,425.7	19,909.1	21,397.9	21,400.1
5. Loans to other banking institutions	33.5	34.7	17.6	82.3	126.0	55.2	53.8	154.5	43.4
6. Loans to non-banking financial institutions	105.5	240.9	521.3	427.9	379.5	464.2	392.7	558.0	382.3
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	108,276.3	114,106.4	115,875.9
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	3,565.7	3,501.0	3,435.4
1.1. Loans to central government	623.5	325.5	625.7	1,391.5	1,150.7	743.8	2,472.8	2,431.3	2,394.0
1.2. Loans to central government funds	155.5	814.8	919.2	243.1	1,056.5	1,231.4	1,092.8	1,069.7	1,041.4
2. Loans to local government	171.6	179.1	152.3	47.1	38.2	38.0	31.4	31.9	23.8
3. Loans to enterprises	6,284.0	7,291.7	10,308.3	9,649.4	10,360.2	10,217.2	10,539.3	10,527.3	10,347.3
4. Loans to households	56.3	59.7	96.0	182.1	171.0	234.4	247.2	299.5	303.0
5. Loans to other banking institutions	–	–	1.2	174.3	77.7	52.7	56.9	52.9	34.0
6. Loans to non-banking financial institutions	–	–	28.3	58.8	250.8	215.8	301.0	255.3	492.0
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	14,741.4	14,667.8	14,635.6
TOTAL (A+B)	59,193.9	72,942.3	97,452.1	113,851.8	115,466.9	117,473.0	123,017.7	128,774.2	130,511.5

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				2005
	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Jan.
1. Local government	573.6	907.0	1,910.4	2,006.2	2,169.9	2,230.1	2,234.0	2,020.7	1,943.0
2. Enterprises	7,087.1	8,981.6	12,344.5	12,872.9	11,063.5	12,039.3	12,223.9	12,036.9	12,263.0
3. Households	3,499.7	4,872.0	6,307.4	7,873.1	7,799.0	8,243.7	8,435.7	8,773.0	9,025.1
4. Other banking institutions	11.6	17.0	42.1	98.9	101.4	86.2	107.5	245.4	216.6
5. Non-banking financial institutions	221.7	407.1	568.1	468.1	428.9	686.4	535.4	517.5	615.4
6. Less: Checks of other banks and checks in collection	-7.6	-4.2	-6.4	-4.2	-3.2	-4.2	-2.6	-2.2	-2.0
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	23,533.9	23,591.3	24,061.2

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				2005
	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Jan.
1. Savings deposits	1,676.1	2,006.8	2,236.2	2,527.9	2,228.8	2,207.7	2,174.3	2,233.9	2,332.5
1.1. Local government	137.6	118.3	14.8	14.4	9.0	4.9	6.9	4.6	5.1
1.2. Enterprises	142.4	88.0	213.3	190.5	31.2	22.6	68.8	38.8	41.0
1.3. Households	1,348.3	1,712.2	1,996.3	2,288.8	2,188.6	2,176.3	2,093.5	2,190.5	2,286.4
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	5.0	0.0	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	20,942.1	20,245.4	20,123.4
2.1. Local government	230.7	340.7	482.8	551.6	674.4	713.3	860.7	550.8	624.4
2.2. Enterprises	2,871.4	3,618.3	4,633.6	7,165.3	7,670.7	8,594.7	10,072.6	8,698.5	8,154.4
2.3. Households	1,789.8	2,554.1	3,793.8	6,194.5	7,039.9	7,411.9	8,151.4	9,321.4	9,715.1
2.4. Other banking institutions	20.8	24.7	58.4	129.3	352.0	270.6	102.6	215.9	274.8
2.5. Non-banking financial institutions	1,062.2	1,668.5	1,796.3	1,802.2	1,712.2	1,658.7	1,754.8	1,458.8	1,354.7
Total (1+2)	7,651.1	10,213.1	13,001.1	18,370.7	19,678.0	20,857.0	23,116.4	22,479.2	22,456.0

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				2005
	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Jan.
1. Savings deposits	14,566.3	23,748.8	21,074.4	21,547.0	20,922.2	21,223.3	23,079.7	22,144.6	21,813.5
1.1. Local government	16.8	13.2	12.2	14.7	13.8	16.2	17.4	15.6	14.5
1.2. Enterprises	2,408.0	2,884.2	3,346.7	3,620.2	3,776.7	4,091.7	4,733.9	4,273.2	4,283.7
1.3. Households	12,041.5	20,688.3	17,537.3	17,690.2	16,941.5	16,839.5	18,161.4	17,708.9	17,320.0
1.4. Other banking institutions	10.3	23.9	34.7	9.0	18.9	5.3	24.8	15.4	9.7
1.5. Non-banking financial institutions	89.8	139.2	143.5	212.9	171.3	270.6	142.2	131.6	185.6
2. Time deposits	32,335.3	48,088.1	50,980.3	54,488.4	53,147.9	52,833.3	57,373.9	59,598.3	58,527.2
2.1. Local government	8.2	1.7	9.5	3.8	0.3	0.3	1.1	0.3	0.3
2.2. Enterprises	2,753.1	4,619.1	6,009.6	7,154.0	6,832.5	6,260.6	7,566.0	8,518.6	7,802.1
2.3. Households	29,097.2	42,705.4	44,159.2	46,805.1	45,898.2	46,231.0	49,292.9	50,636.0	50,322.4
2.4. Other banking institutions	4.2	11.5	41.5	21.7	61.6	2.2	42.4	20.7	54.0
2.5. Non-banking financial institutions	472.7	750.3	760.5	503.7	355.2	339.2	471.5	422.7	348.5
Total (1+2)	46,901.6	71,836.9	72,054.6	76,035.3	74,070.1	74,056.7	80,453.6	81,742.9	80,340.7

Table D8: Foreign Currency Deposits with Banks

The table shows foreign currency savings and time deposits by other domestic sectors, other banking institutions and non-banking

financial institutions with banks. Foreign currency savings deposits are all foreign currency sight deposits and foreign currency payment instruments issued while foreign currency time deposits also include foreign currency notice deposits.

Table D9: Bonds and Money Market Instruments

End of period, million kuna

	2000	2001	2002	2003	2004				2005
	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Jan.
1. Money market instruments (net)	–	–	5.1	–	–	–	–	–	–
2. Bonds (net)	353.5	104.4	92.8	151.9	139.5	144.8	160.0	170.5	176.7
3. Other domestic borrowing	124.7	213.4	118.4	446.5	256.1	235.6	520.6	993.0	1,037.3
3.1. Local government	–	–	–	0.9	2.1	1.2	–	–	–
3.2. Enterprises	15.2	158.1	46.3	92.7	40.2	40.4	40.1	40.3	40.7
3.3. Other banking institutions	1.3	4.6	10.0	222.1	62.3	52.0	369.1	842.8	683.5
3.4. Non-banking financial institutions	108.2	50.7	62.0	130.9	151.6	142.0	111.4	109.9	313.2
Total (1+2+3)	478.2	317.8	216.3	598.4	395.6	380.4	680.5	1,163.5	1,214.0

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				2005
	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Jan.
1. Foreign liabilities in f/c	17,669.8	21,692.7	34,198.5	44,574.3	45,518.5	48,582.5	47,463.8	54,536.7	51,469.0
1.1. Liabilities to foreign banks	11,957.6	16,407.4	28,662.3	38,623.1	39,910.9	43,289.6	41,892.8	48,894.3	45,798.3
Demand deposits	176.3	147.1	130.9	266.6	97.9	145.7	98.3	127.6	120.8
Time and notice deposits	345.9	1,208.3	9,002.9	14,875.4	14,089.5	14,543.0	11,255.1	16,056.8	12,358.4
Loans and advances	11,435.4	15,052.1	19,528.5	23,481.2	25,723.6	28,600.9	27,192.0	29,296.3	29,955.3
o/w: Subordinated and hybrid instruments	194.2	2,558.3	2,801.4	2,949.2	2,819.5	2,809.7	2,648.1	2,326.3	2,047.1
Bonds	–	–	–	–	–	–	3,347.4	3,413.6	3,363.8
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	5,571.1	5,642.4	5,670.7
Savings and time deposits	2,868.1	3,777.8	4,160.2	4,753.2	4,926.2	4,612.2	4,948.8	5,002.2	5,072.4
Sight deposits	745.5	873.7	875.6	898.6	1,021.4	989.7	1,052.5	1,052.5	1,160.6
Time and notice deposits	2,122.6	2,904.1	3,284.6	3,854.6	3,904.8	3,622.5	3,896.3	3,949.6	3,911.8
Loans and advances	2,844.1	1,507.4	1,376.0	1,198.0	681.3	680.7	622.3	640.2	598.3
o/w: Subordinated and hybrid instruments	66.0	39.3	39.7	39.1	70.7	70.5	72.2	73.4	72.2
2. Foreign liabilities in kuna	140.0	165.1	825.0	5,357.7	6,733.7	6,129.7	6,035.9	6,627.0	7,388.9
2.1. Liabilities to foreign banks	37.0	46.9	690.9	5,087.8	6,393.8	5,723.6	5,557.2	6,103.9	6,826.4
Demand deposits	14.4	38.2	53.6	86.4	103.5	189.4	170.6	145.1	191.8
Time and notice deposits	22.0	4.2	635.8	2,664.1	3,290.3	2,526.2	2,324.7	2,846.9	3,571.6
Loans and advances	0.7	4.5	1.5	2,337.3	3,000.0	3,008.0	3,061.8	3,111.9	3,063.1
2.2. Liabilities to foreign non-banks	103.0	118.2	134.1	269.9	339.9	406.1	478.8	523.1	562.5
Demand deposits	50.8	60.1	56.2	76.8	94.6	90.4	89.6	95.9	106.4
Time and notice deposits	52.2	58.1	77.9	191.4	237.6	303.0	380.1	419.2	448.3
Loans and advances	–	–	–	1.7	7.7	12.7	9.1	8.0	7.9
o/w: Subordinated and hybrid instruments	....	....	....	1.7	7.7	12.7	9.1	8.0	7.9
Total (1+2)	17,809.7	21,857.8	35,023.5	49,932.0	52,252.2	54,712.3	53,499.8	61,163.7	58,857.9

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				2005
	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Jan.
1. In kuna	3,073.3	3,335.1	4,036.8	4,104.4	4,088.5	4,407.4	5,306.6	5,627.2	5,291.1
1.1. Central government deposits	430.0	295.9	634.3	506.4	440.5	417.1	530.6	445.1	377.7
Demand deposits	116.7	33.9	476.4	448.0	395.8	371.2	486.7	373.3	308.0
Savings deposits	26.1	41.6	3.3	3.0	–	5.6	4.9	4.2	4.1
Time and notice deposits	259.5	217.6	153.6	54.2	43.6	39.2	37.9	66.5	64.5
Loans and advances	27.7	2.8	1.1	1.1	1.0	1.0	1.1	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	4,776.1	5,182.2	4,913.4
Demand deposits	116.9	214.6	553.2	294.8	192.9	216.7	266.8	266.3	222.8
Savings deposits	15.2	10.8	0.0	0.3	5.9	2.4	4.1	3.5	6.0
Time and notice deposits	32.6	195.2	144.3	156.2	155.6	232.5	357.7	262.3	195.9
Loans and advances	2,478.6	2,618.6	2,705.0	3,146.7	3,293.5	3,538.7	4,147.4	4,650.0	4,488.7
2. In f/c	3,657.1	2,299.6	2,058.1	1,178.9	1,130.1	1,225.4	1,138.4	1,194.6	988.2
2.1. Central government deposits	3,622.6	2,275.0	1,938.9	1,158.2	1,064.6	1,065.3	980.5	891.0	828.9
Savings deposits	1,256.1	329.8	263.0	198.5	222.9	209.1	223.3	189.7	212.9
Time and notice deposits	27.0	55.8	293.1	–	–	14.5	15.9	23.2	23.6
Refinanced loans and advances	2,339.4	1,889.5	1,382.8	959.6	841.7	841.7	741.3	678.1	592.4
2.2. Central government funds' deposits	34.6	24.5	119.2	20.8	65.5	160.1	157.9	303.6	159.3
Savings deposits	25.0	22.9	114.1	20.8	58.4	50.0	115.8	156.5	139.6
Time and notice deposits	9.5	1.6	5.0	–	7.1	110.2	42.1	147.1	19.6
Total (1+2)	6,730.5	5,634.7	6,094.9	5,283.3	5,218.6	5,632.8	6,445.0	6,821.8	6,279.3

Table D11: Central Government and Funds' Deposits with Banks

The table reports total banks' kuna and foreign currency liabilities to the central government and funds, with the exception of restricted (kuna and foreign currency) deposits by the central government and funds with banks.

Kuna and foreign currency deposits by the Republic of Croatia and central government funds are shown separately. Kuna deposits comprise demand deposits, savings deposits, time and notice deposits, and loans obtained from the central government and funds. Foreign currency deposits comprise savings deposits, time and notice deposits, and refinanced loans.

Table D12: Restricted and Blocked Deposits with Banks

End of period, million kuna

	2000	2001	2002	2003	2004				2005
	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Jan.
1. Restricted deposits	854.4	830.6	1,361.2	1,541.2	1,926.1	2,182.6	2,117.0	2,014.6	2,089.8
1.1. In kuna	131.6	100.3	789.6	730.1	1,090.3	1,245.7	1,266.8	1,267.4	1,439.2
1.2. In f/c	722.8	730.3	571.6	811.1	835.8	936.9	850.2	747.2	650.7
2. Blocked f/c deposits of households	1,695.1	770.2	319.3	167.8	110.7	101.8	47.2	40.0	0.4
Total (1+2)	2,549.6	1,600.8	1,680.5	1,709.0	2,036.8	2,284.4	2,164.2	2,054.6	2,090.2

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

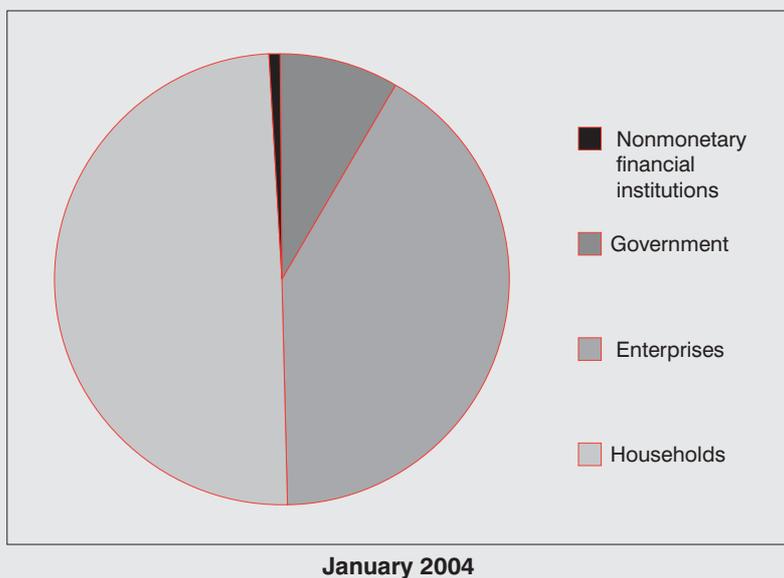
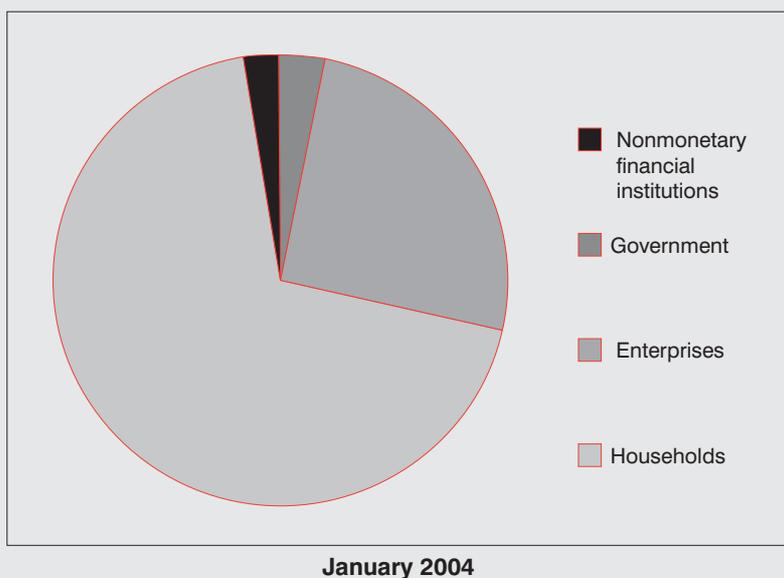


Figure D2

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				2005
	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Jan.
ASSETS									
1. Reserves with the CNB	7.6	15.5	19.1	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	3,530.4	3,779.1	3,813.9
3. Claims on other domestic sectors	1.1	11.6	93.3	187.9	216.3	271.3	322.6	373.2	375.7
o/w: Claims on households	0.6	11.6	91.3	187.9	216.3	271.3	322.6	373.2	375.7
4. Claims on banks	7.6	18.1	37.2	247.2	51.8	37.7	373.5	824.2	759.8
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	4,226.6	4,976.6	4,949.4
LIABILITIES									
1. Time deposits	437.8	1,137.5	2,012.9	3,265.2	3,324.0	3,477.7	3,992.9	4,728.2	4,731.4
2. Bonds and money market instruments	10.0	10.0	–	11.1	11.0	11.3	10.6	10.7	10.6
3. Capital accounts	112.5	124.0	141.1	159.7	159.6	146.2	212.6	206.7	191.6
4. Other items (net)	–46.5	–17.5	–20.4	32.6	–29.6	4.0	10.5	30.8	15.9
Total (1+2+3+4)	513.8	1,254.0	2,133.6	3,468.6	3,465.0	3,639.2	4,226.6	4,976.6	4,949.4

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	December	4.50	9.50	–	–	10.50	–	15.00	15.00
2004	January	4.50	9.50	–	–	10.50	–	15.00	15.00
	February	4.50	9.50	–	–	10.50	–	15.00	15.00
	March	4.50	9.50	–	–	10.50	–	15.00	15.00
	April	4.50	9.50	–	–	10.50	–	15.00	15.00
	May	4.50	9.50	–	–	10.50	–	15.00	15.00
	June	4.50	9.50	–	–	10.50	–	15.00	15.00
	July	4.50	9.50	–	–	10.50	–	15.00	15.00
	August	4.50	9.50	–	–	10.50	–	15.00	15.00
	September	4.50	9.50	–	–	10.50	–	15.00	15.00
	October	4.50	9.50	–	–	10.50	–	15.00	15.00
	November	4.50	9.50	–	–	10.50	–	15.00	15.00
	December	4.50	9.50	–	–	10.50	–	15.00	15.00
2005	January	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	December	1.25	0.50	–	–	–	–	1.75	1.48	–	–	–
2004	January	1.25	0.50	–	–	–	–	–	–	–	–	–
	February	1.25	0.50	–	–	–	–	–	–	–	–	–
	March	1.25	0.50	–	–	–	–	–	–	–	–	–
	April	1.25	0.50	–	2.50	–	–	–	–	–	–	–
	May	1.25	–	–	–	–	–	–	–	–	–	–
	June	1.25	–	–	–	–	–	–	–	–	–	–
	July	1.25	–	–	–	–	–	–	–	–	–	–
	August	1.25	–	–	–	–	–	–	–	–	–	–
	September	1.25	–	–	–	–	–	–	–	–	–	–
	October	1.25	–	–	–	–	–	–	–	–	–	–
	November	1.25	–	–	–	–	–	–	–	–	–	–
	December	1.25	–	–	–	–	–	–	–	–	–	–
2005	January	1.25	–	–	–	–	–	–	–	–	–	–

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

Table F2: Deposit Rates of the Croatian National Bank

The table shows interest rates 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	December	19.00	31,009.4	18,023.8	12,985.6	109.4	12,459.8	6,850.2	1.17	1.47
2004	January	19.00	31,639.9	18,498.6	13,141.3	95.3	12,805.8	6,844.6	1.18	1.33
	February	19.00	32,269.7	18,950.8	13,318.9	85.9	13,432.4	9,263.0	1.17	1.12
	March	19.00	32,487.9	19,106.8	13,381.1	85.9	13,678.3	10,214.0	1.17	1.02
	April	19.00	32,477.6	19,099.7	13,377.9	36.8	13,694.8	10,249.8	1.20	1.16
	May	19.00	32,937.9	19,432.6	13,505.3	–	13,945.7	10,372.8	1.21	1.03
	June	19.00	33,233.4	19,685.3	13,548.1	–	14,131.5	10,436.6	1.20	1.00
	July	19.00	33,336.0	19,813.6	13,522.3	–	14,233.8	10,421.5	1.18	1.10
	August	19.00	33,748.9	20,036.4	13,712.5	253.9	14,327.8	10,477.5	1.17	1.10
	September	19.00	34,298.8	20,440.5	13,858.3	232.0	14,672.2	10,469.5	1.20	1.16
	October	19.00	34,720.2	20,731.8	13,988.4	163.8	15,024.9	10,503.0	1.20	1.40
	November	18.23	33,750.6	20,128.7	13,621.9	279.3	14,749.5	10,196.5	1.22	1.31
	December	18.00	33,615.7	20,040.9	13,574.8	430.1	14,664.1	10,171.3	1.22	1.36
2005	January	18.00	33,813.7	20,138.1	13,675.7	844.2	14,702.2	10,263.1	1.22	1.49

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	December	451.6	20,561.4	0.98	501.6	0.0	4,316.0	3,073.2
2004	January	562.2	20,203.3	1.19	238.8	0.0	4,509.2	2,879.9
	February	285.0	20,170.4	0.58	251.3	0.0	2,502.1	3,056.5
	March	399.3	19,645.4	0.81	150.5	0.0	149.9	2,966.2
	April	1,235.8	19,696.8	2.49	6.4	38.1	0.0	3,005.0
	May	1,313.3	19,615.9	2.59	3.6	87.8	0.0	3,643.3
	June	947.1	19,984.7	1.82	1.2	0.0	0.0	3,999.1
	July	618.1	24,020.1	1.17	27.0	0.0	0.0	4,289.5
	August	672.0	26,737.0	1.26	153.8	0.0	0.0	3,950.8
	September	978.6	26,988.7	1.79	0.0	0.0	0.0	3,633.8
	October	1,119.7	27,157.8	2.01	0.0	0.0	0.0	4,029.1
	November	1,580.1	26,854.9	2.81	0.0	0.0	0.0	4,417.6
	December	1,495.5	26,126.1	2.64	0.0	0.0	0.0	4,581.7
2005	January	1,592.1	24,923.7	2.80	0.0	0.0	0.0	4,859.1

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	December	5.47	7.02	11.45	11.80	8.02	14.89	15.01	12.38	8.51	6.14	10.69	
2004	January	6.20	7.48	12.11	12.22	8.33	14.99	15.07	12.91	10.99	8.57	11.51	
	February	5.70	6.01	12.41	12.58	8.58	14.94	15.06	12.08	10.49	8.44	10.98	
	March	7.74	8.17	11.74	12.03	8.32	14.60	14.72	12.08	9.48	6.00	11.11	
	April	3.24	5.46	11.74	11.98	8.30	14.48	14.60	11.91	9.64	5.89	11.18	
	May	1.59	3.93	11.62	12.02	8.20	14.35	14.42	12.58	8.39	5.39	10.31	
	June	1.76	4.64	11.58	11.79	7.99	14.33	14.40	12.31	9.43	6.39	11.00	
	July	5.60	6.10	11.49	11.79	8.15	14.24	14.34	12.52	9.37	5.68	11.57	
	August	7.69	6.99	11.44	11.58	7.72	14.22	14.29	12.80	9.96	6.88	11.50	
	September	6.67	7.50	11.80	12.06	8.24	14.21	14.28	12.60	9.76	6.21	11.43	
	October	3.77	6.71	11.84	12.00	8.32	14.23	14.31	12.51	10.35	7.64	10.87	
	November	1.81	6.27	11.74	11.96	8.28	14.25	14.31	12.45	9.38	6.87	10.80	
	December	3.55	6.02	11.44	11.71	8.33	14.19	14.27	12.29	9.31	6.90	11.16	
2005	January	2.26	4.21	11.80	11.95	8.21	14.16	14.26	12.09	10.39	6.63	11.15	
Relative significance ^a		–	–	67.05	60.63	22.56	38.07	36.34	1.73	6.41	1.07	5.34	

^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	December	7.07	7.21	7.00	8.66	7.03	5.76	8.04	6.02	9.70	5.62	6.22	5.18
2004	January	7.00	7.51	7.24	9.65	6.86	5.51	7.72	5.38	9.91	5.26	5.71	4.77
	February	7.99	7.58	7.45	8.37	8.14	6.78	8.65	6.62	9.91	6.00	6.20	5.68
	March	7.48	7.36	7.21	8.37	7.51	5.95	8.42	6.81	9.46	4.58	4.24	5.46
	April	7.66	7.37	7.26	8.20	7.75	6.49	8.34	6.84	9.33	5.47	5.85	4.83
	May	7.53	7.14	6.92	8.73	7.65	6.32	8.33	6.71	9.46	5.69	5.53	5.94
	June	7.18	7.09	6.86	8.59	7.20	6.19	7.65	6.02	8.69	4.90	5.70	4.30
	July	7.25	7.16	6.98	8.55	7.28	5.70	8.23	6.09	9.40	5.50	6.27	4.95
	August	7.49	7.47	7.21	8.80	7.50	5.82	8.28	5.79	9.83	5.43	6.21	4.96
	September	7.16	6.78	6.55	8.57	7.32	5.82	8.08	5.73	9.57	4.99	5.77	4.26
	October	7.51	7.47	7.31	8.32	7.52	6.06	8.06	6.74	9.29	5.08	5.69	4.42
	November	7.26	7.03	6.77	8.64	7.33	5.94	8.11	5.87	9.06	5.65	5.90	5.32
	December	6.89	7.25	7.09	8.47	6.77	5.55	7.73	5.71	8.79	5.34	5.92	4.83
2005	January	6.97	7.03	6.86	8.13	6.95	5.91	7.52	5.71	8.51	5.45	5.63	5.29
Relative significance ^a		27.65	7.33	6.37	0.96	20.32	7.23	13.09	4.61	8.48	5.30	2.52	2.78

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

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

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

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

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

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

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

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

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

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

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

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

Year	Month	Interest rates on kuna deposits not indexed to foreign currency								
		Total average	In giro and current accounts	On time deposits						
				Total average	On short-term deposits			On long-term deposits		
					Total average	Households	Enterprises	Total average	Households	Enterprises
1	2	3	4	5	6	7	8	9	10	11
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	December	1.66	0.75	4.46	4.46	3.62	4.69	4.58	4.90	2.82
2004	January	1.77	0.75	4.96	4.96	3.86	5.22	4.84	5.07	4.08
	February	1.89	0.75	4.94	4.94	3.67	5.26	4.58	4.84	2.56
	March	1.98	0.74	5.35	5.37	3.65	5.87	4.30	4.59	2.79
	April	1.71	0.76	4.31	4.30	3.57	4.46	4.75	4.71	4.81
	May	1.67	0.74	3.42	3.41	3.81	3.35	4.51	4.80	3.69
	June	1.64	0.74	3.34	3.34	3.82	3.25	3.22	4.84	2.02
	July	1.89	0.72	5.09	5.11	3.88	5.30	3.72	4.84	2.06
	August	2.11	0.75	6.25	6.28	3.80	6.57	3.68	4.90	2.10
	September	2.17	0.74	5.93	5.95	3.87	6.16	3.56	4.69	2.20
	October	2.06	0.74	4.67	4.68	3.92	4.76	3.80	4.76	3.05
	November	1.76	0.75	3.36	3.34	4.01	3.26	4.53	4.67	4.45
	December	1.83	0.74	4.11	4.11	3.93	4.13	4.10	4.65	3.30
2005	January	1.79	0.74	4.13	4.13	4.06	4.14	3.87	4.28	3.17
Relative significance ^a		46.11	31.03	11.73	11.54	1.76	9.78	0.19	0.12	0.07

^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	December	3.48	3.74	5.55	2.22	0.31	0.35	0.23	0.23	0.15	
2004	January	3.67	3.44	4.43	2.46	0.31	0.33	0.22	0.26	0.17	
	February	3.78	3.61	4.78	2.38	0.31	0.33	0.22	0.30	0.22	
	March	3.70	3.53	4.87	2.38	0.30	0.33	0.22	0.27	0.23	
	April	3.74	3.51	4.72	2.51	0.30	0.33	0.23	0.25	0.19	
	May	3.85	3.48	5.08	2.51	0.31	0.33	0.22	0.32	0.17	
	June	3.64	3.44	5.08	2.50	0.31	0.33	0.22	0.28	0.17	
	July	3.90	3.60	5.06	2.62	0.30	0.33	0.22	0.25	0.18	
	August	3.89	3.63	4.96	2.54	0.31	0.34	0.22	0.28	0.31	
	September	3.89	3.40	4.69	2.56	0.31	0.34	0.22	0.25	0.22	
	October	3.94	3.58	4.59	2.64	0.32	0.35	0.22	0.26	0.20	
	November	3.94	3.65	5.06	2.57	0.31	0.34	0.22	0.26	0.23	
	December	4.17	3.61	5.19	2.65	0.31	0.34	0.22	0.22	0.21	
2005	January	4.27 ^b	3.65	5.02	2.59	0.29	0.32	0.21	0.24	0.30	
Relative significance ^a		2.02	1.56	0.45	51.87	28.34	19.92	3.30	4.34	0.77	

^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, 20.43 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	December	2.64	2.46	2.83	1.65	2.29	1.08	3.69	4.71	3.13	2.85	1.64
2004	January	2.73	2.47	2.86	1.65	2.22	1.08	3.87	4.85	3.29	3.28	1.67
	February	2.62	2.42	2.82	1.62	2.24	1.09	4.68	4.95	3.18	3.18	1.10
	March	2.61	2.44	2.85	1.63	2.35	1.11	4.45	4.89	2.94	3.11	-
	April	2.70	2.47	2.82	1.65	2.35	1.15	3.79	4.93	3.08	2.98	1.34
	May	2.78	2.58	3.02	1.68	2.33	1.13	4.33	4.76	2.30	3.25	1.95
	June	2.75	2.58	3.05	1.70	2.40	1.17	4.57	4.86	3.26	3.08	4.81
	July	2.87	2.63	3.08	1.74	2.38	1.34	3.95	4.89	3.18	3.24	0.21
	August	2.90	2.70	3.10	1.72	2.38	1.56	4.62	4.95	2.88	3.23	1.30
	September	2.82	2.63	3.05	1.70	2.35	1.72	4.70	4.96	3.20	3.25	2.09
	October	2.85	2.64	3.05	1.89	2.32	1.76	3.92	4.94	3.30	3.26	3.07
	November	2.79	2.61	3.00	1.69	2.36	1.94	4.77	4.98	3.08	3.05	3.20
	December	2.85	2.65	3.01	1.69	2.46	2.28	4.20	4.85	3.13	3.61	2.65
2005	January	2.97	2.71	3.03	1.72	2.48	2.26	4.16	4.82	2.93	3.74	2.33
Relative significance ^a		23.53	19.27	10.55	1.30	5.57	1.84	4.27	1.79	0.15	2.32	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 euros, current exchange rate

	2000	2001	2002	2003	2004 ^b	2004				2005	
						Mar.	Jun.	Sep.	Dec. ^b	Jan. ^a	Feb. ^a
A. Purchase of foreign exchange											
1. Legal persons	3,316.4	5,012.4	4,727.8	6,433.1	7,465.3	654.2	583.4	651.1	1,013.8	561.5	546.2
2. Natural persons	2,549.2	3,339.9	3,342.6	3,571.6	3,934.4	276.3	346.5	337.5	350.3	273.6	253.7
2.1. Residents	2,021.1	2,684.5	2,842.0	3,103.3	3,586.1	268.8	304.7	301.6	340.2	–	–
2.2. Non-residents	528.0	655.4	500.7	468.2	348.3	7.5	41.8	35.9	10.1	–	–
3. Domestic banks	2,441.4	3,985.8	4,104.5	6,324.4	10,799.3	967.3	690.0	877.3	1,669.2	943.5	625.8
4. Foreign banks	–	–	697.9	1,430.6	1,426.2	214.6	113.3	165.0	157.6	165.7	130.9
5. Croatian National Bank	168.2	481.7	294.3	438.3	33.0	–	–	–	–	–	–
Total (1+2+3+4)	8,475.2	12,819.8	13,167.1	18,197.9	24,110.1	2,112.3	1,733.1	2,030.9	3,190.9	1,944.4	1,556.6
B. Sale of foreign exchange											
1. Legal persons	5,414.8	8,534.2	9,029.3	10,852.4	11,280.3	923.5	922.7	993.3	1,245.2	823.6	749.1
2. Natural persons	963.6	1,253.5	1,333.6	1,403.1	1,671.1	140.2	133.8	149.7	154.8	116.0	134.3
2.1. Residents	962.8	1,252.3	1,329.7	1,393.1	1,654.5	139.3	131.9	148.1	153.6	–	–
2.2. Non-residents	0.6	1.2	3.9	10.0	16.6	0.9	1.9	1.6	1.3	–	–
3. Domestic banks	2,441.4	3,985.8	4,104.5	6,324.4	10,799.3	967.3	690.0	877.3	1,669.2	943.5	625.8
4. Foreign banks	–	–	334.3	765.3	1,001.1	71.7	101.4	128.2	76.6	130.3	190.5
5. Croatian National Bank	284.2	915.7	745.3	84.5	543.2	162.7	–	25.0	239.5	108.5	–
Total (1+2+3+4)	9,104.0	14,689.2	15,547.0	19,429.7	25,295.0	2,265.3	1,848.0	2,173.6	3,385.3	2,122.0	1,699.7
C. Net purchase (A–B)											
1. Legal persons	–2,098.4	–3,521.8	–4,301.5	–4,419.4	–3,815.1	–269.2	–339.4	–342.3	–231.4	–262.0	–202.9
2. Natural persons	1,585.6	2,086.4	2,009.0	2,168.4	2,263.3	136.1	212.7	187.8	195.4	157.6	119.4
2.1. Residents	1,058.3	1,432.2	1,512.3	1,710.2	1,931.6	129.5	172.8	153.5	186.6	–	–
2.2. Non-residents	527.4	654.2	496.7	458.2	331.7	6.6	39.9	34.3	8.8	–	–
3. Foreign banks	–	–	363.6	665.3	425.1	142.9	11.8	36.8	81.1	35.3	–59.6
4. Croatian National Bank	–116.0	–434.0	–451.0	353.8	–510.2	–162.7	–	–25.0	–239.5	–108.5	0.0
Total (1+2+3)	–628.8	–1,869.4	–2,379.9	–1,231.8	–1,636.9	–153.0	–114.9	–142.7	–194.4	–177.6	–143.1
Memo items: Other Croatian National Bank transactions											
Purchase of foreign exchange	405.8	536.8	197.5	570.9	145.1	0.0	0.0	–	0.0	–	–
Sale of foreign exchange	86.9	2.6	3.4	94.9	239.3	–	–	–	4.9	78.3	9.0

^a Preliminary data. ^b Revised 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 euros

	2003	2004 ^a	2004			
			Q1	Q2	Q3	Q4 ^a
A. CURRENT ACCOUNT (1+6)	-1,756.9	-1,275.7	-1,180.4	-972.7	1,992.4	-1,114.9
1. Goods, services, and income (2+5)	-3,001.4	-2,436.1	-1,453.8	-1,281.2	1,693.6	-1,394.8
1.1. Credit	13,696.4	15,059.4	2,466.1	3,322.9	6,250.8	3,019.6
1.2. Debit	-16,697.8	-17,495.5	-3,919.9	-4,604.0	-4,557.1	-4,414.4
2. Goods and services (3+4)	-1,927.4	-1,819.2	-1,216.8	-1,041.0	1,769.3	-1,330.7
2.1. Credit	13,251.4	14,417.7	2,341.8	3,184.3	5,987.9	2,903.7
2.2. Debit	-15,178.7	-16,236.9	-3,558.6	-4,225.3	-4,218.6	-4,234.4
3. Goods	-6,974.2	-6,724.7	-1,436.5	-1,950.1	-1,627.1	-1,711.1
3.1. Credit	5,571.7	6,601.9	1,483.4	1,623.1	1,729.7	1,765.7
3.2. Debit	-12,545.9	-13,326.7	-2,919.8	-3,573.2	-3,356.8	-3,476.8
4. Services	5,046.9	4,905.5	219.7	909.1	3,396.4	380.4
4.1. Credit	7,679.7	7,815.8	858.5	1,561.2	4,258.2	1,138.0
4.2. Debit	-2,632.8	-2,910.2	-638.8	-652.1	-861.8	-757.6
5. Income	-1,074.1	-616.9	-237.0	-240.2	-75.6	-64.1
5.1. Credit	445.0	641.7	124.3	138.6	262.9	115.9
5.2. Debit	-1,519.1	-1,258.6	-361.3	-378.8	-338.5	-180.1
6. Current transfers	1,244.5	1,160.4	273.3	308.4	298.7	279.9
6.1. Credit	1,538.7	1,529.2	367.8	401.9	388.1	371.4
6.2. Debit	-294.2	-368.7	-94.4	-93.4	-89.4	-91.5
B. CAPITAL AND FINANCIAL ACCOUNT	3,022.7	2,183.1	863.9	824.5	-99.2	593.9
B1. Capital account	72.4	23.1	7.0	7.4	6.4	2.3
B2. Financial account, excl. reserves	4,176.7	2,191.7	435.0	1,020.3	-17.2	753.7
1. Direct investment	1,686.0	616.5	205.6	212.3	117.1	81.4
1.1. Abroad	-93.0	-254.3	-40.7	-17.1	-167.6	-29.1
1.2. In Croatia	1,779.0	870.8	246.3	229.4	284.7	110.4
2. Portfolio investment	895.4	179.2	-146.4	433.1	229.5	-337.0
2.1. Assets	121.3	-752.9	-363.1	-184.3	10.5	-215.9
2.2. Liabilities	774.1	932.1	216.7	617.4	219.1	-121.1
3. Other investment	1,595.2	1,396.0	375.8	374.8	-363.9	1,009.3
3.1. Assets	-2,151.8	-412.5	85.7	-159.7	-227.8	-110.7
3.2. Liabilities	3,747.0	1,808.4	290.0	534.5	-136.1	1,120.0
B3. Reserve assets (CNB)	-1,226.4	-31.7	421.9	-203.2	-88.3	-162.0
C. NET ERRORS AND OMISSIONS	-1,265.8	-907.4	316.6	148.2	-1,893.2	520.9

^a Preliminary 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 three currencies: in euros (EUR), US dollars (USD) and domestic currency (HRK). In all cases, the same data sources are used and the same principles regarding the scope of transactions and the procedures for compiling particular items are applied. Since the original data are reported in different currencies, the transaction values are converted from the original currency into the reporting currency by applying the exchange rate from the CNB exchange rate list in one of the following manners:

- by applying the midpoint exchange rate on the date of the transaction;
- by applying the average monthly or quarterly midpoint exchange rate in the case the transaction date is not available;
- by applying the end-of-period exchange rate for the calculation

of a change in the transaction value between the two periods; the end-of-period balances reported in the original currency serve as a basis for calculating the change in the original currency value, which is converted, by applying the average midpoint exchange rate in the observed period, into the value of change in the reporting currency.

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

	2003	2004 ^a	2004			
			Q1	Q2	Q3	Q4 ^a
Goods	-6,974.2	-6,724.7	-1,436.5	-1,950.1	-1,627.1	-1,711.1
1. Credit	5,571.7	6,601.9	1,483.4	1,623.1	1,729.7	1,765.7
1.1. Exports (f.o.b.) in trade statistics	5,464.4	6,452.6	1,453.7	1,590.8	1,684.3	1,723.8
1.2. Adjustments for coverage	107.3	149.3	29.6	32.4	45.4	41.9
2. Debit	-12,545.9	-13,326.7	-2,919.8	-3,573.2	-3,356.8	-3,476.8
2.1. Imports (c.i.f.) in trade statistics	-12,538.0	-13,349.9	-2,922.3	-3,573.1	-3,372.4	-3,482.1
2.2. Adjustments for coverage	-475.6	-474.7	-106.5	-133.4	-110.2	-124.6
2.3. Adjustments for classification	467.7	498.0	109.0	133.3	125.8	129.9
Services	5,046.9	4,905.5	219.7	909.1	3,396.4	380.4
1. Transportation	252.2	245.3	59.4	69.5	87.5	28.9
1.1. Credit	696.3	791.1	160.2	201.0	226.9	203.0
1.2. Debit	-444.1	-545.8	-100.8	-131.5	-139.4	-174.1
2. Travel	5,090.4	5,010.7	252.4	860.9	3,421.5	475.9
2.1. Credit	5,686.5	5,687.0	414.6	1,025.6	3,626.8	619.9
2.1.1. Business	334.5	389.0	82.1	108.8	92.7	105.4
2.1.2. Personal	5,352.0	5,297.9	332.5	916.8	3,534.1	514.5
2.2. Debit	-596.1	-676.2	-162.2	-164.7	-205.3	-144.0
2.2.1. Business	-292.3	-297.3	-66.7	-75.9	-66.5	-88.1
2.2.2. Personal	-303.8	-379.0	-95.5	-88.8	-138.9	-55.8
3. Other services	-295.8	-350.5	-92.1	-21.3	-112.6	-124.4
3.1. Credit	1,296.9	1,337.7	283.6	334.6	404.4	315.1
3.2. Debit	-1,592.7	-1,688.2	-375.7	-355.9	-517.1	-439.5

^a Preliminary 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 euros

	2002	2003 ^a	2004			
			Q1	Q2	Q3	Q4 ^a
Income	-1,074.1	-616.9	-237.0	-240.2	-75.6	-64.1
1. Compensation of employees	183.9	233.9	54.9	62.2	55.9	60.9
1.1. Credit	217.3	268.3	62.7	70.6	67.4	67.6
1.2. Debit	-33.4	-34.4	-7.8	-8.4	-11.5	-6.7
2. Direct investment income	-844.5	-420.3	-81.4	-236.3	-68.5	-34.1
2.1. Credit	33.4	165.0	4.2	15.8	147.2	-2.2
o/w: Reinvested earnings	30.3	156.3	3.2	11.4	144.4	-2.8
2.2. Debit	-877.8	-585.2	-85.5	-252.0	-215.8	-31.9
o/w: Reinvested earnings	-588.9	-275.8	-73.1	-162.5	-66.0	25.8
3. Portfolio investment income	-239.6	-256.6	-178.9	-22.6	-25.6	-29.5
3.1. Credit	0.0	0.0	0.0	0.0	0.0	0.0
3.2. Debit	-239.6	-256.6	-178.9	-22.6	-25.6	-29.5
4. Other investment income	-173.9	-173.9	-31.6	-43.5	-37.4	-61.4
4.1. Credit	194.4	208.4	57.4	52.2	48.3	50.5
4.2. Debit	-368.3	-382.4	-89.1	-95.8	-85.6	-111.9
Current transfers	1,244.5	1,160.4	273.3	308.4	298.7	279.9
1. General government	70.5	0.5	-7.3	9.7	1.7	-3.6
1.1. Credit	213.1	178.3	40.6	55.6	42.8	39.2
1.2. Debit	-142.6	-177.8	-48.0	-45.9	-41.1	-42.9
2. Other sectors	1,174.0	1,160.0	280.7	298.7	297.0	283.6
2.1. Credit	1,325.6	1,350.9	327.1	346.3	345.3	332.2
2.2. Debit	-151.6	-190.9	-46.4	-47.6	-48.3	-48.6

^a Preliminary 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 euros

	2003	2004 ^a	2004			
			Q1	Q2	Q3	Q4 ^a
Direct investment	1,686.0	616.5	205.6	212.3	117.1	81.4
1. Abroad	-93.0	-254.3	-40.7	-17.1	-167.6	-29.1
1.1. Equity capital and reinvested earnings	-101.9	-228.4	-44.3	-20.1	-157.9	-6.2
1.1.1. Claims	-101.9	-231.2	-44.3	-20.1	-157.9	-9.0
1.1.2. Liabilities	0.0	2.8	0.0	0.0	0.0	2.8
1.2. Other capital	8.9	-25.9	3.6	3.0	-9.7	-22.9
1.1.1. Claims	-12.8	-28.6	-4.3	3.0	-9.0	-18.2
1.2.2. Liabilities	21.7	2.7	8.0	0.0	-0.7	-4.7
2. In Croatia	1,779.0	870.8	246.3	229.4	284.7	110.4
2.1. Equity capital and reinvested earnings	1,345.1	546.4	230.1	192.9	230.7	-107.4
2.1.1. Claims	-1.2	-25.8	0.0	0.0	0.0	-25.8
2.1.2. Liabilities	1,346.4	572.2	230.1	192.9	230.7	-81.6
2.2. Other capital	433.8	324.4	16.2	36.5	53.9	217.8
2.2.1. Claims	-1.5	-12.2	-0.1	-11.9	0.0	-0.2
2.2.2. Liabilities	435.3	336.6	16.3	48.4	53.9	218.0
Portfolio investment	895.4	179.2	-146.4	433.1	229.5	-337.0
1. Assets	121.3	-752.9	-363.1	-184.3	10.5	-215.9
1.1. Equity securities	-58.0	-33.3	-3.9	-18.7	-7.8	-2.8
1.1.1. General government	0.0	0.0	0.0	0.0	0.0	0.0
1.1.1.1. Banks	0.3	0.0	0.0	0.0	0.0	0.0
1.1.2. Other sectors	-58.3	-33.3	-3.9	-18.7	-7.8	-2.8
1.2. Debt securities	179.4	-719.6	-359.2	-165.6	18.2	-213.1
1.2.1. Bonds	165.9	-585.0	-277.8	-136.1	35.1	-206.2
1.2.1.1. General government	0.0	0.0	0.0	0.0	0.0	0.0
1.2.1.2. Banks	180.1	-592.9	-270.9	-134.9	22.1	-209.1
1.2.1.3. Other sectors	-14.1	7.9	-6.8	-1.2	13.0	2.9
1.2.2. Money market instruments	13.5	-134.6	-81.4	-29.5	-16.8	-6.9
1.2.2.1. General government	0.0	0.0	0.0	0.0	0.0	0.0
1.2.2.2. Banks	7.3	-134.7	-81.0	-29.9	-16.8	-6.9
1.2.2.3. Other sectors	6.2	0.0	-0.5	0.5	0.0	0.0
2. Liabilities	774.1	932.1	216.7	617.4	219.1	-121.1
2.1. Equity securities	13.5	140.8	8.9	47.1	26.4	58.4
2.1.1. Banks	-2.1	-0.1	0.7	-0.1	1.0	-1.7
2.1.2. Other sectors	15.6	140.9	8.1	47.2	25.4	60.2
2.2. Debt securities	760.6	791.2	207.9	570.3	192.7	-179.6
2.2.1. Bonds	726.6	825.0	205.2	600.0	199.4	-179.6
2.2.1.1. General government	538.6	306.0	205.2	500.0	-219.6	-179.6
2.2.1.2. Banks	0.0	450.0	0.0	0.0	450.0	0.0
2.2.1.3. Other sectors	188.0	69.0	0.0	100.0	-31.0	0.0
2.2.2. Money market instruments	34.0	-33.8	2.7	-29.7	-6.8	0.0
2.2.2.1. General government	0.0	0.0	0.0	0.0	0.0	0.0
2.2.2.2. Banks	0.0	0.0	0.0	0.0	0.0	0.0
2.2.2.3. Other sectors	34.0	-33.8	2.7	-29.7	-6.8	0.0

^a Preliminary 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 euros

	2003	2004 ^a	2004			
			Q1	Q2	Q3	Q4 ^a
Other investment (net)	1,595.2	1,396.0	375.8	374.8	-363.9	1,009.3
1. Assets	-2,151.8	-412.5	85.7	-159.7	-227.8	-110.7
1.1. Trade credits	-167.2	-182.3	-159.0	-16.0	18.9	-26.2
1.1.1. General government	0.0	0.0	0.0	0.0	0.0	0.0
1.1.1.1. Long-term	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
1.1.2. Other sectors	-167.2	-182.3	-159.0	-16.0	18.9	-26.2
1.1.2.1. Long-term	-23.0	16.4	-14.0	14.8	11.9	3.8
1.1.2.2. Short-term	-144.1	-198.7	-144.9	-30.8	7.0	-30.0
1.2. Loans	-22.5	11.1	1.7	11.6	-5.6	3.5
1.2.1. General government	-1.0	-0.3	0.3	0.0	0.3	-0.9
1.2.1.1. Long-term	-1.0	-0.3	0.3	0.0	0.3	-0.9
1.2.1.2. Short-term	0.0	0.0	0.0	0.0	0.0	0.0
1.2.2. Banks	4.3	6.1	-0.3	10.8	-7.3	2.9
1.2.2.1. Long-term	5.0	7.0	-2.1	8.3	2.0	-1.3
1.2.2.2. Short-term	-0.6	-0.9	1.7	2.5	-9.3	4.2
1.2.3. Other sectors	-25.9	5.3	1.7	0.8	1.3	1.5
1.2.3.1. Long-term	-26.0	5.6	1.7	0.8	1.6	1.5
1.2.3.2. Short-term	0.1	-0.4	0.0	-0.1	-0.3	0.0
1.3. Currency and deposits	-1,962.1	-241.3	243.1	-155.3	-241.1	-88.0
1.3.2. General government	30.3	72.7	-83.0	-44.8	63.6	137.0
1.3.3. Banks	-1,964.5	-368.7	289.2	-162.7	-270.3	-225.0
1.3.4. Other sectors	-27.9	54.7	36.8	52.3	-34.4	0.0
1.4. Other assets	0.0	0.0	0.0	0.0	0.0	0.0
2. Liabilities	3,747.0	1,808.4	290.0	534.5	-136.1	1,120.0
2.1. Trade credits	-226.9	-76.1	10.0	-6.7	-82.4	3.0
2.1.1. General government	1.5	-0.3	-0.1	0.3	-0.4	-0.1
2.1.1.1. Long-term	1.5	-0.3	-0.1	0.3	-0.4	-0.1
2.1.1.2. Short-term	0.0	0.0	0.0	0.0	0.0	0.0
2.1.2. Other sectors	-228.4	-75.8	10.1	-7.1	-82.0	3.1
2.1.2.1. Long-term	-47.4	-31.1	-12.4	-13.6	0.0	-5.1
2.1.2.2. Short-term	-181.0	-44.8	22.5	6.5	-82.0	8.2
2.2. Loans	2,833.9	1,642.9	196.6	591.3	429.9	425.1
2.2.1. Croatian National Bank	354.2	-371.7	-240.8	-128.8	-0.5	-1.7
2.2.1.1. o/w: IMF	0.0	0.0	0.0	0.0	0.0	0.0
2.2.1.1.1. Drawings	0.0	0.0	0.0	0.0	0.0	0.0
2.2.1.1.2. Repayments	0.0	0.0	0.0	0.0	0.0	0.0
2.2.1.2. Short-term	354.2	-371.7	-240.8	-128.8	-0.5	-1.7
2.2.2. General government	502.9	406.5	42.9	132.4	214.0	17.2
2.2.2.1. Long-term	502.9	406.5	42.9	132.4	214.0	17.2
2.2.2.1.1. Drawings	697.8	700.7	131.0	183.8	271.3	114.6
2.2.2.1.2. Repayments	-194.9	-294.2	-88.1	-51.4	-57.3	-97.4
2.2.2.2. Short-term	0.0	0.0	0.0	0.0	0.0	0.0
2.2.3. Banks	1,005.7	647.4	234.5	258.2	-19.4	174.1
2.2.3.1. Long-term	927.2	568.5	233.5	274.7	-11.4	71.7
2.2.3.1.1. Drawings	1,644.7	993.1	415.1	395.2	49.7	133.2
2.2.3.1.2. Repayments	-717.5	-424.5	-181.5	-120.5	-61.0	-61.5
2.2.3.2. Short-term	78.5	78.9	1.0	-16.5	-8.0	102.4
2.2.4. Other sectors	971.2	960.7	160.0	329.6	235.7	235.5
2.2.4.1. Long-term	920.7	890.4	127.8	291.2	227.2	244.1
2.2.4.1.1. Drawings	1,898.1	1,943.5	394.1	515.9	545.1	488.5
2.2.4.1.2. Repayments	-977.3	-1,053.1	-266.3	-224.7	-317.8	-244.3
2.2.4.2. Short-term	50.4	70.3	32.2	38.4	8.5	-8.7
2.3. Currency and deposits	1,140.7	243.3	84.7	-50.1	-483.4	692.0
2.3.1. Banks	1,140.7	243.3	84.7	-50.1	-483.4	692.0
2.4. Other liabilities	-0.7	-1.6	-1.4	-0.1	-0.2	0.0

^a Preliminary data.

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

Table H6: Balance of Payments – Summary

Million kuna

	2000 ^b	2001 ^b	2002 ^b	2003 ^b	2004 ^a	2004			
						Q1 ^b	Q2 ^b	Q3 ^b	Q4 ^a
A. CURRENT ACCOUNT (1+6)	-3,931.5	-5,893.5	-15,502.0	-13,352.4	-9,792.5	-8,905.3	-7,174.7	14,755.2	-8,467.8
1. Goods, services, and income (2+5)	-11,245.0	-14,086.4	-24,278.8	-23,057.8	-18,657.2	-11,034.2	-9,535.2	12,490.4	-10,578.1
1.1. Credit	74,468.0	84,083.8	85,563.6	103,319.5	112,405.8	18,766.1	24,706.2	46,148.3	22,785.2
1.2. Debit	-85,712.9	-98,170.2	-109,842.4	-126,377.3	-131,063.0	-29,800.3	-34,241.4	-33,658.0	-33,363.3
2. Goods and services (3+4)	-8,043.7	-9,950.0	-20,004.4	-14,802.4	-13,983.0	-9,250.8	-7,737.3	13,049.6	-10,044.4
2.1. Credit	71,592.3	80,321.0	82,188.2	100,061.5	107,613.2	17,820.1	23,674.8	44,208.1	21,910.3
2.2. Debit	-79,636.0	-90,270.9	-102,192.6	-114,863.9	-121,596.2	-27,070.9	-31,412.1	-31,158.5	-31,954.6
3. Goods	-26,681.2	-34,323.1	-44,135.8	-52,782.7	-50,331.8	-10,922.6	-14,488.0	-12,006.3	-12,915.0
3.1. Credit	37,909.7	39,695.8	39,198.3	42,167.2	49,471.2	11,283.5	12,077.3	12,787.7	13,322.8
3.2. Debit	-64,591.0	-74,018.9	-83,334.1	-94,949.9	-99,803.0	-22,206.0	-26,565.2	-24,794.0	-26,237.7
4. Services	18,637.5	24,373.1	24,131.4	37,980.3	36,348.8	1,671.7	6,750.6	25,055.9	2,870.6
4.1. Credit	33,682.6	40,625.2	42,989.9	57,894.3	58,142.0	6,536.6	11,597.5	31,420.4	8,587.5
4.2. Debit	-15,045.0	-16,252.1	-18,858.5	-19,914.0	-21,793.2	-4,864.9	-4,846.9	-6,364.5	-5,716.9
5. Income	-3,201.2	-4,136.4	-4,274.4	-8,255.4	-4,674.2	-1,783.3	-1,797.9	-559.2	-533.7
5.1. Credit	2,875.7	3,762.9	3,375.4	3,258.0	4,792.6	946.0	1,031.4	1,940.2	875.0
5.2. Debit	-6,076.9	-7,899.3	-7,649.8	-11,513.4	-9,466.8	-2,729.4	-2,829.3	-2,499.4	-1,408.7
6. Current transfers	7,313.5	8,192.9	8,776.7	9,705.4	8,864.6	2,128.9	2,360.5	2,264.9	2,110.3
6.1. Credit	9,118.6	9,934.0	10,761.2	11,639.9	11,454.5	2,797.7	2,989.0	2,866.9	2,800.9
6.2. Debit	-1,805.1	-1,741.1	-1,984.4	-1,934.6	-2,589.9	-668.8	-628.4	-602.1	-690.6
B. CAPITAL AND FINANCIAL ACCOUNT	10,248.0	10,483.3	21,673.8	23,031.9	16,604.3	6,594.5	6,062.7	-664.8	4,611.9
B1. Capital account	170.1	1,145.1	3,695.6	546.9	172.8	53.2	55.4	47.0	17.2
B2. Financial account, excl. reserves	14,887.3	20,373.3	23,550.5	31,767.9	16,682.3	3,391.2	7,534.0	-60.5	5,817.5
1. Direct investment	8,741.4	11,735.2	4,459.4	12,749.8	4,643.2	1,568.8	1,587.3	862.5	624.5
1.1. Abroad	-33.1	-1,278.5	-4,419.4	-713.8	-1,897.5	-309.3	-127.7	-1,236.0	-224.5
1.2. In Croatia	8,774.5	13,013.7	8,878.8	13,463.6	6,540.7	1,878.1	1,715.1	2,098.5	849.0
2. Portfolio investment	5,658.7	4,978.9	-1,831.5	6,860.4	1,206.3	-1,070.5	3,165.8	1,739.7	-2,628.7
2.1. Assets	-189.8	-1,081.7	-4,839.8	936.8	-5,690.4	-2,771.8	-1,365.3	76.4	-1,629.7
2.2. Liabilities	5,848.4	6,060.6	3,008.4	5,923.6	6,896.7	1,701.3	4,531.1	1,663.3	-999.0
3. Other investment	487.3	3,659.2	20,922.6	12,157.8	10,832.7	2,892.9	2,780.9	-2,662.7	7,821.7
3.1. Assets	-7,942.6	2,569.6	3,261.5	-16,361.3	-3,023.3	676.1	-1,187.1	-1,677.2	-835.1
3.2. Liabilities	8,429.9	1,089.5	17,661.0	28,519.1	13,856.0	2,216.8	3,968.0	-985.5	8,656.8
B3. Reserve assets (CNB)	-4,809.5	-11,035.1	-5,572.2	-9,283.0	-250.8	3,150.1	-1,526.8	-651.3	-1,222.8
C. NET ERRORS AND OMISSIONS	-6,316.5	-4,589.9	-6,171.8	-9,679.4	-6,811.8	2,310.8	1,111.9	-14,090.4	3,855.9

^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 euros

Year	Month	International reserves of the Croatian National Bank							Banks' foreign exchange reserves
		Total	Special drawing rights	Reserve position in the Fund	Gold	Foreign exchange			
						Total	Currency and deposits	Bonds and notes	
1994	December	1,145.7	3.7	–	–	1,142.0	1,142.0	–	716.6
1995	December	1,479.0	109.1	–	–	1,369.9	1,288.4	81.4	1,038.1
1996	December	1,867.7	101.3	0.0	–	1,766.3	1,627.6	138.7	1,549.2
1997	December	2,303.7	133.4	0.1	–	2,170.2	1,825.2	345.0	2,078.9
1998	December	2,400.2	197.1	0.1	–	2,203.0	1,642.6	560.4	1,607.0
1999	December	3,012.7	188.7	0.2	–	2,823.7	2,449.8	373.9	1,344.7
2000	December	3,783.2	158.5	0.2	–	3,624.5	2,763.0	861.5	2,310.7
2001	December	5,333.6	122.9	0.2	–	5,210.5	3,469.7	1,740.7	4,056.0
2002	December	5,651.3	2.3	0.2	–	5,648.8	3,787.8	1,861.0	2,581.6
2003	December	6,554.1	0.7	0.2	–	6,553.2	3,346.0	3,207.2	3,927.1
2004	January	6,650.1	0.9	0.2	–	6,649.0	3,512.6	3,136.4	3,742.2
	February	6,646.6	0.7	0.2	–	6,645.7	3,365.2	3,280.5	3,535.4
	March	6,178.5	0.7	0.2	–	6,177.6	2,726.8	3,450.9	3,627.3
	April	6,449.1	1.2	0.2	–	6,447.7	2,953.6	3,494.1	3,632.1
	May	6,393.1	1.0	0.2	–	6,391.9	2,800.1	3,591.8	3,786.4
	June	6,389.5	1.0	0.2	–	6,388.3	2,761.4	3,626.9	3,784.7
	July	6,366.1	1.2	0.2	–	6,364.7	2,672.9	3,691.8	3,915.7
	August	6,482.2	0.7	0.2	–	6,481.4	2,864.6	3,616.7	4,175.2
	September	6,451.8	0.7	0.2	–	6,450.9	2,831.4	3,619.5	4,073.4
	October	6,372.6	0.9	0.2	–	6,371.5	3,150.8	3,220.6	3,995.0
	November	6,324.5	0.6	0.2	–	6,323.7	3,129.2	3,194.5	4,016.7
	December	6,436.2	0.6	0.2	–	6,435.4	3,173.3	3,262.0	4,220.1
2005	January	6,556.4	1.0	0.2	–	6,555.3	3,220.6	3,334.6	3,718.0
	February ^a	6,582.1	0.7	0.2	–	6,581.3	3,254.4	3,326.8	3,235.6

^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

End of period, million euros

	2000	2001	2002	2003	2004				2005
	Dec.	Dec. ^b	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Jan.
I. Official reserve assets and other f/c assets (approximate market value)									
A. Official reserve assets	3,683.9	5,333.6	5,651.3	6,554.1	6,178.5	6,389.5	6,451.8	6,436.2	6,556.4
(1) Foreign currency reserves (in convertible f/c)	2,755.6	3,877.9	4,246.9	5,740.1	5,477.7	5,898.3	5,950.9	6,235.4	6,455.3
(a) Securities	861.5	1,740.7	1,861.0	3,207.2	3,450.9	3,626.9	3,619.5	3,262.0	3,334.6
o/w: Issuer headquartered in reporting country but located abroad	–	–	–	–	–	–	–	–	–
(b) Total currency and deposits with:	1,894.2	2,137.2	2,385.9	2,532.9	2,026.8	2,271.4	2,331.4	2,973.3	3,120.6
(i) other national central banks, BIS and IMF	585.8	461.3	325.1	271.1	229.4	229.9	212.2	233.1	207.4
(ii) banks headquartered in the reporting country	–	–	–	–	–	–	–	–	–
o/w: Located abroad	–	–	–	–	–	–	–	–	–
(iii) banks headquartered outside the reporting country	1,308.4	1,675.9	2,060.8	2,261.8	1,797.4	2,041.5	2,119.2	2,740.3	2,913.3
o/w: Located in the reporting country	–	–	–	–	–	–	–	–	–
(2) IMF reserve position	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
(3) SDRs	158.5	122.9	2.3	0.7	0.7	1.0	0.7	0.6	1.0
(4) gold	–	–	–	–	–	–	–	–	–
(5) other reserve assets	769.6	1,332.6	1,401.9	813.1	700.0	490.0	500.0	200.0	100.0
– reverse repo	769.6	1,332.6	1,401.9	813.1	700.0	490.0	500.0	200.0	100.0
B. Other foreign currency assets (specify)	99.3	–	–	–	–	–	–	–	–
– time deposits	99.3	–	–	–	–	–	–	–	–
C. Total (A+B)	3,783.2	5,333.6	5,651.3	6,554.1	6,178.5	6,389.5	6,451.8	6,436.2	6,556.4
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)	–1,299.6	–1,350.7	–740.9	–1,538.0	–1,351.7	–1,368.3	–1,194.2	–988.6	–1,008.1
(a) Croatian National Bank	–284.4	–443.4	–167.4	–646.9	–1.4	–1.2	–1.6	–1.8	–1.7
Up to 1 month	Principal –115.5	–196.1	–136.9	–355.9	–	–	–	–	–
Interest –4.6	–3.2	–2.2	–1.9	–1.4	–1.2	–1.6	–1.8	–1.7	
More than 1 and up to 3 months	Principal –125.0	–203.7	–26.5	–288.3	–	–	–	–	–
Interest –3.1	–2.1	–0.1	–0.7	–	–	–	–	–	
More than 3 months and up to 1 year	Principal –31.1	–34.5	–1.6	–	–	–	–	–	–
Interest –5.0	–3.8	–0.1	–	–	–	–	–	–	
(b) Central government (excl. central government funds)	–1,015.2	–907.4	–573.5	–891.1	–1,350.4	–1,367.0	–1,192.5	–986.8	–1,006.4
Up to 1 month	Principal –95.9	–101.7	–98.1	–85.9	–3.2	–236.9	–2.8	–76.5	0.0
Interest –74.0	–55.6	–42.8	–34.4	–2.5	–26.0	–2.6	–13.8	–57.7	
More than 1 and up to 3 months	Principal –100.7	–351.6	–8.6	–9.3	–28.0	–9.2	–211.7	–510.1	–512.8
Interest –82.7	–125.7	–148.1	–168.3	–17.0	–6.4	–16.5	–169.0	–139.1	
More than 3 months and up to 1 year	Principal –533.5	–170.8	–176.2	–495.2	–1,063.7	–844.9	–713.8	–143.7	–234.1
Interest –128.4	–102.0	–99.7	–98.0	–236.0	–243.6	–245.1	–73.8	–62.7	
2. Aggregate short and long positions in forwards and futures in f/c vis-à-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	–43.7	–75.2	–21.5	–363.5	–128.2	–	–	–	–
– outflows related to repos (–)	–43.7	–75.2	–21.5	–363.5	–128.2	–	–	–	–
Up to 1 month	Principal –43.6	–75.1	–21.5	–363.1	–128.2	–	–	–	–
Interest –0.1	–0.1	0.0	–0.4	–	–	–	–	–	
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)	–1,343.3	–1,426.0	–762.4	–1,901.5	–1,479.9	–1,368.3	–1,194.2	–988.6	–1,008.1
III. Contingent short-term net drains on f/c assets (nominal value)									
1. Contingent liabilities in foreign currency	–1,040.3	–1,088.8	–1,631.0	–1,300.4	–1,750.3	–1,833.9	–1,867.5	–1,772.9	–1,815.9
(a) Collateral guarantees on debt falling due within 1 year	–317.7	–315.9	–685.9	–426.8	–401.5	–406.8	–438.0	–370.9	–329.0
– Croatian National Bank	–	–	–	–	–	–	–	–	–
– Central government (excl. central government funds)	–317.7	–315.9	–685.9	–426.8	–401.5	–406.8	–438.0	–370.9	–329.0
Up to 1 month	–52.0	–49.4	–52.3	–55.8	–23.7	–66.2	–23.4	–62.7	–19.6
More than 1 and up to 3 months	–12.3	–24.7	–35.2	–94.9	–42.7	–56.9	–95.5	–33.9	–36.3

More than 3 months and up to 1 year	-253.5	-241.7	-598.3	-276.1	-335.1	-283.6	-319.0	-274.4	-273.1
(b) Other contingent liabilities	-722.6	-772.9	-945.1	-873.6	-1,348.8	-1,427.1	-1,429.5	-1,402.0	-1,486.9
– Croatian National Bank	-722.6	-772.9	-945.1	-873.6	-1,348.8	-1,427.1	-1,429.5	-1,402.0	-1,486.9
Up to 1 month	–	–	–	–	–	–	–	–	–
More than 1 and up to 3 months	-722.6	-772.9	-945.1	-873.6	-1,348.8	-1,427.1	-1,429.5	-1,402.0	-1,486.9
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	85.9	170.8	–	–	–	–	–	–	–
– BIS (+)	85.9	–	–	–	–	–	–	–	–
– IMF (+)	–	170.8	–	–	–	–	–	–	–
4. Aggregate short and long positions of options in foreign currencies vis-à-vis the domestic currency	–	–	–	–	–	–	–	–	–
5. Total contingent short-term net drains on f/c assets (1+2+3+4)	-954.5	-918.0	-1,631.0	-1,300.4	-1,750.3	-1,833.9	-1,867.5	-1,772.9	-1,815.9
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 repored and included in Section I	-42.9	-70.0	-20.0	-351.0	-121.8	–	–	–	–
– lent or repored but not included in Section I	–	–	–	–	–	–	–	–	–
– borrowed or acquired and included in Section I	–	–	–	–	–	–	–	–	–
– borrowed or acquired but not included in Section I	735.9	1,235.1	1,330.3	785.1	638.8	479.5	475.9	180.7	89.1
(e) financial derivative assets (net, marked to market)	–	–	–	–	–	–	–	–	–
(f) currency composition of official reserves assets ^a									
– currencies in SDR basket	3,783.2	5,333.6	5,651.3	6,554.1	6,178.5	6,389.4	6,451.8	6,436.2	6,556.4
– currencies not in SDR basket	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
– by individual currencies									
USD	990.2	1,738.4	1,600.8	1,937.6	1,887.2	1,963.2	1,960.0	1,609.1	1,349.1
EUR	2,633.8	3,471.6	4,047.9	4,615.6	4,290.4	4,425.0	4,490.9	4,826.3	5,206.2
Other	159.2	123.6	2.6	0.9	0.9	1.2	0.9	0.8	1.2

^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	
2004		7.495169				4.855608	11.048232	6.035494	
2003	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	
	December	7.544991				4.916727	10.873149	5.643633	
2005	January	7.563796				4.891373	10.811869	5.741322	
	February	7.516931				4.849005	10.904242	5.780433	

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	
2004		7.671234				4.971314	10.824374	5.636883	
2003	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	
	December	7.671234				4.971314	10.824374	5.636883	
2005	January	7.551070				4.882683	10.924580	5.784488	
	February	7.507513				4.873743	10.888344	5.702630	

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	95.39 ^a
1999	December	99.23	102.76	102.08 ^a
2000	December	101.51	99.96	101.79 ^a
2001	December	99.07	98.63	98.89
2002	December	95.97	95.63	96.24
2003	December	94.09	94.46	94.62
2004	January	93.61	94.20	93.56
	February	93.13	94.28	93.48
	March	92.03	93.55	92.83
	April	92.61	93.83	93.50
	May	91.68	91.55	92.27
	June	90.84	91.08	91.70
	July	90.50	90.36	91.67
	August	90.64	89.87	92.00
	September	91.05	90.19	92.78
	October	92.15	91.44	93.71
	November	91.29	91.17	92.43
	December	90.43	90.61 ^a	90.85 ^a
2005	January	91.00	91.70 ^a	91.00 ^a
	February	90.76		

^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 1997 inclusive, and consumer price indices are used as of January 1998. Data for the last two months are preliminary. The historical data may be corrected for the subsequent changes in the data published by the statistical offices of the countries whose prices are included in the calculation of the index of the real effective exchange rate of the kuna.

Table H12: Gross External Debt by Domestic Sectors

Million euros

	2002	2003	2004					
	Dec.	Dec.	Mar.	Jun.	Sep.	Oct.	Nov.	Dec.
1. Government	5,900.3	6,600.6	6,873.1	7,526.5	7,527.6	7,537.4	7,453.3	7,236.1
Short-term	0.9	0.9	1.5	2.3	2.6	3.3	3.3	3.4
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.9	0.9	1.5	2.3	2.6	3.3	3.3	3.4
Principal arrears	0.9	0.9	1.3	2.0	2.1	2.8	2.8	2.9
Interest arrears	0.0	0.1	0.2	0.3	0.4	0.5	0.5	0.6
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	5,899.5	6,599.6	6,871.6	7,524.2	7,525.0	7,534.1	7,450.0	7,232.6
Bonds	3,947.6	4,310.9	4,516.7	5,034.5	4,831.1	4,852.2	4,855.7	4,635.2
Credits	1,950.8	2,286.4	2,352.6	2,487.1	2,691.6	2,679.6	2,592.1	2,595.3
Trade credits	1.1	2.3	2.4	2.6	2.3	2.3	2.3	2.1
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Croatian National Bank	23.2	365.7	130.5	2.4	2.4	1.9	2.4	2.4
Short-term	21.5	363.1	128.2	0.0	0.0	0.0	0.0	0.0
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	21.5	363.1	128.2	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	1.7	2.6	2.3	2.4	2.4	1.9	2.4	2.4
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	1.7	2.6	2.3	2.4	2.4	1.9	2.4	2.4
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. Banks	3,789.6	6,121.1	6,632.7	6,938.2	6,723.4	6,783.4	6,935.8	7,652.4
Short-term	14.3	617.1	830.5	902.4	453.9	473.6	548.7	673.3
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.3	604.2	817.7	889.6	441.0	460.9	536.1	660.8
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	14.0	12.9	12.8	12.8	12.8	12.7	12.6	12.5
Principal arrears	14.0	12.9	12.8	12.8	12.8	12.6	12.5	12.4
Interest arrears	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	3,775.3	5,503.9	5,802.1	6,035.8	6,269.6	6,309.8	6,387.1	6,979.2
Bonds	0.0	0.0	0.0	0.0	443.1	444.5	444.9	444.5
Credits	1,878.4	2,767.7	3,021.0	3,300.6	3,273.9	3,278.5	3,269.4	3,315.7
Currency and deposits	1,896.9	2,736.2	2,781.1	2,735.2	2,552.6	2,586.7	2,672.8	3,219.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. Other sectors	3,934.7	4,878.4	5,072.9	5,465.8	5,633.1	5,653.4	5,749.1	5,798.1
Short-term	460.7	523.2	593.0	608.8	633.9	636.3	633.3	664.2
Money market instruments	0.0	33.5	36.5	6.8	0.0	0.0	0.0	0.0
Credits	27.2	70.1	101.0	136.1	137.5	136.9	133.4	125.4
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	47.5	22.2	27.3	28.8	36.7	29.8	25.4	24.9
Other debt liabilities	386.0	397.4	428.2	437.2	459.8	469.6	474.5	513.9
Principal arrears	365.4	369.9	398.2	403.0	422.1	430.9	435.2	462.7
Interest arrears	20.7	27.6	30.0	34.2	37.7	38.8	39.3	51.2
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	3,474.0	4,355.3	4,479.9	4,857.0	4,999.2	5,017.2	5,115.8	5,133.9
Bonds	161.2	345.3	363.3	454.0	388.4	391.4	395.6	384.3
Credits	3,103.0	3,858.3	3,980.9	4,278.8	4,487.8	4,507.5	4,605.5	4,637.3
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	209.9	151.7	135.8	124.2	123.0	118.3	114.7	112.3
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

5. Direct investment	1,407.0	1,844.8	1,895.0	1,956.4	2,016.8	1,982.9	1,983.1	1,986.5
Short-term	73.2	124.0	149.7	170.1	179.7	177.8	191.4	247.9
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	30.0	43.9	73.2	79.3	87.0	84.1	93.2	61.9
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	43.1	80.1	76.5	90.9	92.8	93.7	98.3	186.0
Principal arrears	41.0	75.9	71.7	85.1	85.6	85.7	89.5	166.3
Interest arrears	2.1	4.2	4.8	5.7	7.1	8.0	8.8	19.7
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	1,333.8	1,720.8	1,745.3	1,786.3	1,837.0	1,805.1	1,791.7	1,738.6
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	1,300.0	1,689.7	1,716.1	1,758.0	1,810.7	1,779.4	1,766.4	1,714.8
Trade credits	33.8	31.1	29.2	28.2	26.3	25.7	25.3	23.8
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total (1+2+3+4+5)	15,054.8	19,810.6	20,604.2	21,889.2	21,903.2	21,959.1	22,123.8	22,675.4

Table H12: Gross External Debt by Domestic Sectors

External debt is defined as the external debt liabilities of residents on the basis of debt securities issued in foreign markets (at face value), credits (repo agreements included) regardless of their contractual maturity, deposits of non-residents, and trade credits granted by non-residents with contractual maturity of more than 180 days (90 days up to 11 July 2001 and 150 days up to 31 December 2002).

External debt by domestic sectors is shown in the same manner as in the Capital and Financial Account of the BOP. Item Government shows external debt of the general government, which includes the Republic of Croatia, central government funds (including the Croatian Bank for Reconstruction and Development, the State Agency for Deposit Insurance and Bank Rehabilitation, the Croatian Roads and the Croatian Highways), and local government. Item Croatian

National Bank shows the central bank debts. Item Banks shows debts of banks. Item Other sectors shows debts of other banking institutions, non-banking financial institutions, enterprises, non-profit institutions and households, including craftsmen. Item Direct investment shows borrower – lender transactions of other sectors that are interrelated by ownership (borrower or lender owns more than 10 percent of the other).

Each sector data are further shown by contractual maturity (short-term and long-term) and by debt instrument.

Outstanding gross external debt includes principal and interest arrears, as well as accrual interest and future principal payments.

Outstanding debt data are shown at the CNB's midpoint exchange rate at the end of the period.

Data are considered preliminary until after publication of the final BOP data for the reporting quarter.

Table H13: Public Sector Gross External Debt, and Publicly Guaranteed and Non-Publicly Guaranteed Private Sector Gross External Debt

The gross external debt position presented in this Table highlights the role of the public sector.

Public sector includes the general government (including the Republic of Croatia, central government funds and local government), the central bank, public enterprises and mixed ownership companies. Public enterprises are defined as enterprises in 100% ownership of business entities from the public sector. Mixed ownership companies are defined as companies in which business entities from the public

sector have a share larger than 50%.

Publicly guaranteed private sector gross external debt is defined as the external debt liabilities of business entities not covered by the definition of the public sector, the servicing of which is guaranteed by a business entity from the public sector.

Non-publicly guaranteed private sector gross external debt is defined as the external debt liabilities of business entities not covered by the definition of the public sector, the servicing of which is not guaranteed by the public sector.

Items are valued in the same manner as in Table H12.

Table H13: Public Sector Gross External Debt, and Publicly Guaranteed and Non-Publicly Guaranteed Private Sector Gross External Debt

Million euros

	2002	2003	2004					
	Dec.	Dec.	Mar.	Jun.	Sep.	Oct.	Nov.	Dec.
1. Public sector	7,215.3	8,334.0	8,344.5	8,834.4	8,813.5	8,794.8	8,711.3	8,521.2
Short-term	54.8	409.5	179.1	36.6	30.7	28.5	37.3	34.9
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	21.9	390.9	157.1	18.1	13.5	11.2	20.0	9.2
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	32.9	18.6	21.9	18.5	17.2	17.3	17.3	25.6
Principal arrears	32.9	18.6	21.8	18.2	16.7	16.7	16.7	24.5
Interest arrears	0.0	0.1	0.2	0.3	0.5	0.6	0.6	1.2
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	7,160.0	7,924.2	8,165.2	8,797.5	8,782.6	8,766.0	8,673.8	8,486.1
Bonds	3,947.6	4,310.9	4,516.7	5,034.5	4,831.1	4,852.2	4,855.7	4,635.2
Credits	3,130.2	3,560.7	3,599.7	3,722.4	3,905.3	3,869.8	3,774.5	3,806.9
Currency and deposits	1.7	2.6	2.3	2.4	2.4	1.9	2.4	2.4
Trade credits	80.5	50.0	46.6	38.2	43.9	42.1	41.2	41.6
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Direct investment	0.5	0.3	0.2	0.2	0.2	0.2	0.2	0.2
2. Publicly guaranteed private sector	500.1	428.6	409.5	411.5	354.4	351.9	349.6	343.3
Short-term	22.3	32.0	37.0	39.6	40.8	42.0	40.8	42.4
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	22.3	32.0	37.0	39.6	40.8	42.0	40.8	42.4
Principal arrears	16.7	23.3	28.1	29.8	30.0	31.0	29.9	30.8
Interest arrears	5.6	8.7	8.9	9.8	10.7	11.0	11.0	11.5
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	477.8	396.6	372.5	371.9	313.6	309.8	308.7	300.9
Bonds	31.2	31.2	31.2	31.2	0.0	0.0	0.0	0.0
Credits	442.6	362.9	339.0	338.6	311.8	308.1	307.2	299.4
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	4.0	2.5	2.3	2.1	1.8	1.7	1.6	1.5
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Direct investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. Non-publicly guaranteed private sector	7,339.4	11,048.1	11,850.2	12,643.4	12,735.3	12,812.4	13,062.8	13,810.9
Short-term	420.3	1,062.9	1,337.2	1,437.3	1,018.9	1,042.6	1,107.2	1,263.6
Money market instruments	0.0	33.5	36.5	6.8	0.0	0.0	0.0	0.0
Credits	27.1	646.6	889.8	1,007.5	565.0	586.6	649.5	777.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	47.5	22.2	27.3	28.8	36.7	29.8	25.4	24.9
Other debt liabilities	345.7	360.7	383.5	394.3	417.2	426.3	432.3	461.8
Principal arrears	330.6	341.8	362.4	369.8	390.2	398.6	404.0	422.6
Interest arrears	15.1	18.9	21.1	24.4	27.0	27.7	28.3	39.2
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	5,512.6	8,140.6	8,618.3	9,249.9	9,699.9	9,787.2	9,972.8	10,561.0
Bonds	130.0	314.1	332.1	422.8	831.4	836.0	840.5	828.8
Credits	3,359.3	4,988.8	5,415.8	6,005.4	6,236.3	6,287.7	6,385.3	6,441.9
Currency and deposits	1,896.9	2,736.2	2,781.1	2,735.2	2,552.6	2,586.7	2,672.8	3,219.0
Trade credits	126.4	101.5	89.3	86.5	79.6	76.8	74.2	71.2
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Direct investment	1,406.5	1,844.6	1,894.7	1,956.2	2,016.5	1,982.7	1,982.9	1,986.3
Total (1+2+3)	15,054.8	19,810.6	20,604.2	21,889.2	21,903.2	21,959.1	22,123.8	22,675.4

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

Million euros

	Outstanding debt 31/12/2004	Immediate	Projected future principal payments												
			Q1/05	Q2/05	Q3/05	Q4/05	2005	2006	2007	2008	2009	2010	2011	2012	Other
1. Government	7,236.1	3.4	753.6	52.4	107.2	55.4	968.6	792.2	636.9	534.3	989.0	774.9	1,362.6	183.6	990.6
Short-term	3.4	3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	3.4	3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal arrears	2.9	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	0.6	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	7,232.6	0.0	753.6	52.4	107.2	55.4	968.6	792.2	636.9	534.3	989.0	774.9	1,362.6	183.6	990.6
Bonds	4,635.2	0.0	676.2	0.0	51.4	0.0	727.5	547.6	333.6	238.8	713.5	549.4	1,025.3	13.8	485.8
Credits	2,595.3	0.0	77.4	52.2	55.7	55.2	240.5	244.0	302.7	295.2	275.4	225.5	337.3	169.8	504.8
Trade credits	2.1	0.0	0.1	0.2	0.1	0.2	0.6	0.6	0.6	0.3	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Croatian National Bank	2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.4
Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.4
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.4
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. Banks	7,652.4	12.5	617.8	167.0	517.3	86.3	1,388.5	1,011.7	341.0	394.8	789.2	178.4	92.6	118.5	3,325.2
Short-term	673.3	12.5	510.5	122.0	27.9	0.4	660.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	660.8	0.0	510.5	122.0	27.9	0.4	660.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	12.5	12.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal arrears	12.4	12.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	6,979.2	0.0	107.4	45.0	489.4	85.9	727.7	1,011.7	341.0	394.8	789.2	178.4	92.6	118.5	3,325.2
Bonds	444.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	444.5	0.0	0.0	0.0	0.0
Credits	3,315.7	0.0	107.4	45.0	489.4	85.9	727.7	1,011.7	341.0	394.8	344.7	178.4	92.6	118.5	106.2
Currency and deposits	3,219.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3,219.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. Other sectors	5,798.1	513.9	243.1	247.2	241.2	243.5	975.1	739.3	989.7	557.6	569.9	259.4	212.8	174.3	806.3
Short-term	664.2	513.9	29.3	76.8	37.2	7.0	150.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	125.4	0.0	29.3	76.8	12.3	7.0	125.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	24.9	0.0	0.0	0.0	24.9	0.0	24.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	513.9	513.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal arrears	462.7	462.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	51.2	51.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	5,133.9	0.0	213.8	170.4	204.0	236.5	824.7	739.3	989.7	557.6	569.9	259.4	212.8	174.3	806.3
Bonds	384.3	0.0	19.8	0.0	0.0	0.0	19.8	0.0	200.3	5.7	5.7	6.6	6.6	8.2	131.3
Credits	4,637.3	0.0	179.5	156.3	193.8	210.7	740.4	709.8	778.2	546.9	562.6	252.4	206.0	166.1	674.9
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	112.3	0.0	14.5	14.1	10.2	25.8	64.6	29.5	11.1	4.9	1.5	0.5	0.1	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

5. Direct investment	1,986.5	186.0	79.7	65.1	40.8	58.9	244.5	292.3	235.1	201.9	108.7	57.6	38.0	28.8	593.7
Short-term	247.9	186.0	35.6	7.7	9.6	9.0	61.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	61.9	0.0	35.6	7.7	9.6	9.0	61.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	186.0	186.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal arrears	166.3	166.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	19.7	19.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	1,738.6	0.0	44.1	57.3	31.1	49.9	182.5	292.3	235.1	201.9	108.7	57.6	38.0	28.8	593.7
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	1,714.8	0.0	43.1	56.4	30.2	48.3	178.1	287.0	231.0	198.3	106.9	56.1	36.7	27.9	592.7
Trade credits	23.8	0.0	1.0	0.9	0.9	1.6	4.4	5.2	4.1	3.6	1.8	1.5	1.3	0.9	0.9
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total (1+2+3+4+5)	22,675.4	715.8	1,694.3	531.7	906.5	444.1	3,576.5	2,835.5	2,202.8	1,688.5	2,456.8	1,270.2	1,705.9	505.3	5,718.1
Supplement: Projected interest payments			53.9	155.6	121.0	137.8	468.3	595.6	496.4	409.0	350.2	243.9	193.6	104.4	740.8

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

The Table shows outstanding gross external debt, projected principal payments and estimated interest payments according to the CNB's midpoint exchange rate at the end of the period.

Estimated interest payments do not include interest on deposits from non-residents, repo transactions and hybrid and subordinated

instruments, as well as late interest on these instruments. Future interest payments are estimated at the interest rates at the contracting time and do not reflect changes of variable interest rates.

Projected payments of accrual interest, which are an integral part of the gross external debt, increase the projected principal payments in the first quarter period and, consequently, decrease the interest payments estimated for the same period.

Table H15: International Investment Position – Summary

Million euros

	2003	2004 ^a	2004			
			Q1	Q2	Q3	Q4 ^a
1. International investment position (net)	-12,155.1	-16,644.2	-13,923.3	-14,832.4	-16,307.4	-16,644.2
2. Assets	14,363.3	13,828.1	13,174.1	13,882.2	14,009.2	13,828.1
2.1. Direct investment abroad	1,868.4	1,871.7	1,762.1	2,043.2	1,949.8	1,871.7
2.2. Portfolio investment	46.0	43.4	42.6	48.7	45.9	43.4
2.2.1. Equity securities	46.0	43.4	42.6	48.7	45.9	43.4
2.2.2. Debt securities	0.0	0.0	0.0	0.0	0.0	0.0
Bonds	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
2.3. Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0
2.4. Other investment	5,894.9	5,476.8	5,191.0	5,400.9	5,561.7	5,476.8
2.4.1. Trade credits	178.1	151.9	195.6	181.4	168.0	151.9
2.4.2. Loans	119.6	114.3	120.8	110.6	117.9	114.3
2.4.3. Currency and deposits	5,597.1	5,210.6	4,874.6	5,108.9	5,275.9	5,210.6
2.4.4. Other assets	0.0	0.0	0.0	0.0	0.0	0.0
2.5. Reserve assets (CNB)	6,554.1	6,436.1	6,178.5	6,389.4	6,451.8	6,436.1
3. Liabilities	26,518.4	30,472.2	27,097.4	28,714.6	30,316.6	30,472.2
3.1. Direct investment in Croatia	8,382.1	9,544.2	8,220.6	8,602.7	10,181.0	9,544.2
3.2. Portfolio investment	4,860.2	5,703.2	5,084.1	5,674.3	5,911.7	5,703.2
3.2.1. Equity securities	170.5	239.2	167.6	179.1	249.1	239.2
3.2.2. Debt securities	4,689.7	5,464.0	4,916.4	5,495.3	5,662.5	5,464.0
Bonds	4,656.2	5,464.0	4,879.9	5,488.5	5,662.5	5,464.0
Money market instruments	33.5	0.0	36.5	6.8	0.0	0.0
3.3. Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0
3.4. Other investment	13,276.1	15,224.9	13,792.8	14,437.6	14,223.9	15,224.9
3.4.1. Trade credits	176.1	139.3	165.5	155.5	162.0	139.3
3.4.2. Loans	9,949.9	11,334.5	10,401.4	11,092.0	11,031.8	11,334.5
3.4.3. Currency and deposits	2,738.7	3,221.4	2,783.4	2,737.6	2,554.9	3,221.4
3.4.4. Other assets	411.3	529.8	442.4	452.4	475.2	529.8

^a Preliminary data.

Table H15: International Investment Position – Summary

This table is made in accordance with the recommendations of the IMF (Balance of Payments Manual, Fifth Edition, 1993). Data sources include: reports from banks, enterprises, the Croatian National Bank, and the Zagreb Stock Exchange.

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

- by applying the current rate of exchange or the average monthly midpoint exchange rate of the Croatian National Bank to transactions;
- by applying the midpoint exchange rate of the Croatian National Bank on the reporting date to balances.

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

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

Item Portfolio debt investment – Assets and liabilities comprises data on investments of residents into debt securities issued by

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

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

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

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

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

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

Table H16: International Investment Position – Direct Investment

Million euros

	2003	2004 ^a	2004			
			Q1	Q2	Q3	Q4 ^a
Direct investment (net)	-6,513.7	-7,672.4	-6,458.6	-6,559.5	-8,231.3	-7,672.4
1. Abroad	1,868.4	1,871.7	1,762.1	2,043.2	1,949.8	1,871.7
1.1. Equity capital and reinvested earnings	1,806.8	1,764.8	1,695.6	1,967.7	1,865.7	1,764.8
Claims	1,806.8	1,764.8	1,695.6	1,967.7	1,865.7	1,764.8
Liabilities	0.0	0.0	0.0	0.0	0.0	0.0
1.2. Other capital	61.5	106.9	66.5	75.5	84.1	106.9
Claims	....	....	....	....	....	....
Liabilities	....	....	....	....	....	....
1.3. Financial derivatives (net)	0.0	0.0	0.0	0.0	0.0	0.0
2. In Croatia	8,382.1	9,544.2	8,220.6	8,602.7	10,181.0	9,544.2
2.1. Equity capital and reinvested earnings	6,537.3	7,557.7	6,325.7	6,646.3	8,164.3	7,557.7
Claims	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities	6,537.3	7,557.7	6,325.7	6,646.3	8,164.3	7,557.7
2.2. Other capital	1,844.8	1,986.5	1,895.0	1,956.4	2,016.8	1,986.5
Claims	....	....	....	....	....	....
Liabilities	....	....	....	....	....	....
2.3. Financial derivatives (net)	0.0	0.0	0.0	0.0	0.0	0.0

^a Preliminary data.

Table H17: International Investment Position – Portfolio Investment

Million euros

	2003	2004 ^a	2004			
			Q1	Q2	Q3	Q4 ^a
Portfolio investment (net)	-4,814.2	-5,659.8	-5,041.5	-5,625.6	-5,865.7	-5,659.8
1. Assets	46.0	43.4	42.6	48.7	45.9	43.4
1.1. Equity capital and reinvested earnings	46.0	43.4	42.6	48.7	45.9	43.4
Banks	4.8	4.5	4.5	5.1	4.8	4.5
Other sectors	41.2	38.8	38.1	43.6	41.1	38.8
1.2. Debt securities	0.0	0.0	0.0	0.0	0.0	0.0
2. Liabilities	4,860.2	5,703.2	5,084.1	5,674.3	5,911.7	5,703.2
2.1. Equity capital and reinvested earnings	170.5	239.2	167.6	179.1	249.1	239.2
Banks	38.5	40.5	35.6	35.4	43.9	40.5
Other sectors	132.0	198.6	132.0	143.7	205.2	198.6
2.2. Debt securities	4,689.7	5,464.0	4,916.4	5,495.3	5,662.5	5,464.0
Bonds	4,656.2	5,464.0	4,879.9	5,488.5	5,662.5	5,464.0
General government	4,310.9	4,635.2	4,516.7	5,034.5	4,831.1	4,635.2
Banks	0.0	444.5	0.0	0.0	443.1	444.5
Other sectors	345.3	384.3	363.3	454.0	388.4	384.3
Money market instruments	33.5	0.0	36.5	6.8	0.0	0.0
Other sectors	33.5	0.0	36.5	6.8	0.0	0.0

^a Preliminary data.

Table H18: International Investment Position – Other Investment

Million euros

	2003	2004 ^a	2004			
			Q1	Q2	Q3	Q4 ^a
Other investment (net)	-7,015.6	-9,745.7	-8,471.3	-9,034.3	-8,659.8	-9,745.7
1. Assets	5,894.9	5,476.8	5,191.0	5,400.9	5,561.7	5,476.8
1.1. Trade credits	178.1	151.9	195.6	181.4	168.0	151.9
1.1.1. General government	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	0.0	0.0	0.0	0.0	0.0	0.0
1.1.2. Other sectors	178.1	151.8	195.6	181.3	167.9	151.8
Long-term	173.5	147.5	191.0	176.8	163.3	147.5
Short-term	4.6	4.4	4.6	4.6	4.6	4.4
1.2. Loans	119.6	114.3	120.8	110.6	117.9	114.3
1.2.1. General government	5.2	5.3	5.0	5.0	4.7	5.3
Long-term	5.2	5.3	5.0	5.0	4.7	5.3
1.2.2. Banks	86.2	79.9	87.2	76.7	83.6	79.9
Long-term	62.3	56.2	64.8	56.8	54.6	56.2
Short-term	23.9	23.7	22.4	19.9	29.0	23.7
1.2.3. Other sectors	28.2	29.1	28.5	28.8	29.6	29.1
Long-term	28.2	28.7	28.5	28.8	29.2	28.7
Short-term	0.0	0.4	0.0	0.1	0.4	0.4
1.3. Currency and deposits	5,597.1	5,210.6	4,874.6	5,108.9	5,275.9	5,210.6
1.3.2. General government	81.9	8.9	165.9	226.1	147.6	8.9
1.3.3. Banks	4,551.9	4,317.0	3,722.8	3,892.6	4,151.2	4,317.0
1.3.4. Other sectors	963.4	884.7	985.9	990.2	977.2	884.7
1.4. Other assets	0.0	0.0	0.0	0.0	0.0	0.0
2. Liabilities	12,910.4	15,222.5	13,662.3	14,435.2	14,221.6	15,222.5
2.1. Trade credits	176.1	139.3	165.5	155.5	162.0	139.3
2.1.1. General government	2.3	2.1	2.4	2.6	2.3	2.1
Long-term	2.3	2.1	2.4	2.6	2.3	2.1
Short-term	0.0	0.0	0.0	0.0	0.0	0.0
2.1.2. Other sectors	173.8	137.2	163.1	153.0	159.7	137.2
Long-term	151.7	112.3	135.8	124.2	123.0	112.3
Short-term	22.2	24.9	27.3	28.8	36.7	24.9
2.2. Loans	9,586.8	11,334.5	10,273.2	11,092.0	11,031.8	11,334.5
2.2.1. Croatian National Bank	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
2.2.2. General government	2,286.4	2,595.3	2,352.6	2,487.1	2,691.6	2,595.3
Long-term	2,286.4	2,595.3	2,352.6	2,487.1	2,691.6	2,595.3
Short-term	0.0	0.0	0.0	0.0	0.0	0.0
2.2.3. Banks	3,372.0	3,976.4	3,838.7	4,190.1	3,715.0	3,976.4
Long-term	2,767.7	3,315.7	3,021.0	3,300.6	3,273.9	3,315.7
Short-term	604.2	660.8	817.7	889.6	441.0	660.8
2.2.4. Other sectors	3,928.5	4,762.8	4,081.9	4,414.8	4,625.2	4,762.8
Long-term	3,858.3	4,637.3	3,980.9	4,278.8	4,487.8	4,637.3
Short-term	70.1	125.4	101.0	136.1	137.5	125.4
2.3. Currency and deposits	2,736.2	3,219.0	2,781.1	2,735.2	2,552.6	3,219.0
2.3.1. Banks	2,736.2	3,219.0	2,781.1	2,735.2	2,552.6	3,219.0
2.4. Other liabilities	411.3	529.8	442.4	452.4	475.2	529.8

^a Preliminary 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

	2002	2003	2004			
	Dec. ^{a*}	Dec. [*]	Mar. [*]	Jun. [*]	Sep. [*]	Dec. [*]
1. Domestic debt of central government	31,421.5	34,736.4	35,893.2	37,641.2	40,039.8	41,615.9
1.1. Domestic debt of the Republic of Croatia	23,320.0	28,160.8	28,674.8	30,846.7	35,975.1	37,329.7
Treasury bills	5,632.7	6,548.1	6,349.1	8,263.2	8,067.2	9,022.5
Money market instruments	0.1	0.3	–	54.2	–	–
Bonds	15,887.9	17,422.0	18,371.4	18,310.6	21,682.9	23,186.2
Credits from the CNB	0.5	1.4	1.9	3.0	1.0	3.3
Credits from banks	1,798.8	4,189.1	3,952.3	4,215.8	6,223.9	5,117.8
1.2. Domestic debt of central government funds	8,101.5	6,575.5	7,218.5	6,794.5	4,064.7	4,286.2
Money market instruments	–	–	–	–	–	–
Bonds	4,460.7	3,616.4	3,582.6	3,558.5	1,960.9	2,033.0
Credits from banks	3,640.7	2,959.1	3,635.9	3,236.0	2,103.8	2,253.2
2. External debt of central government	43,517.5	50,137.9	50,537.4	55,149.1	56,556.2	55,248.4
2.1. External debt of the Republic of Croatia	37,388.3	41,048.8	39,495.7	43,470.2	43,057.9	41,951.9
Money market instruments	–	–	–	–	–	–
Bonds	28,694.2	32,144.8	30,707.5	34,378.3	33,671.6	32,793.2
Credits	8,694.1	8,904.1	8,788.2	9,092.0	9,386.3	9,158.7
2.2. External debt of central government funds	6,129.2	9,089.1	11,041.8	11,678.8	13,498.3	13,296.4
Money market instruments	–	–	–	–	–	–
Bonds	684.6	820.6	2,695.3	2,705.0	2,792.7	2,764.8
Credits	5,444.6	8,268.6	8,346.5	8,973.9	10,705.6	10,531.6
3. Total (1+2)	74,939.0	84,874.3	86,430.7	92,790.3	96,596.0	96,864.3
Supplement: Central government guaranteed debt						
– guarantees for domestic debt	7,528.1	6,895.4	6,667.0	5,847.0	5,969.4	5,407.5
– guarantees for external debt	8,259.7	8,618.7	8,208.6	8,361.7	8,053.9	7,809.8

^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	89.6	90.6	86.2	100.3	100.4	100.0	100.0	105.4	104.3	109.2	97.9
1999	December	93.1	93.4	91.8	100.6	100.8	100.0	100.3	103.9	103.1	106.5	105.9
2000	December	98.2	98.5	96.9	100.4	100.4	100.1	100.2	105.5	105.5	105.5	111.2
2001	December	100.5	99.8	103.5	100.4	100.4	100.5	99.0	102.4	101.3	106.8	96.9
2002	December	102.4	100.9	108.3	100.4	100.6	99.6	99.9	101.8	101.1	104.6	102.3
2003	December	104.1	102.5	110.6	100.3	100.2	100.5	100.0	101.7	101.6	102.2	101.0
2004	January	105.1	103.7	111.0	101.0	101.1	100.4	100.3	102.1	102.1	102.4	100.8
	February	105.0	103.4	111.5	99.9	99.8	100.5	99.7	101.8	101.6	102.6	100.1
	March	105.1	103.5	111.8	100.1	100.0	100.3	100.2	101.4	101.1	102.6	99.5
	April	105.3	103.7	111.9	100.2	100.2	100.0	100.9	101.9	101.8	102.6	101.3
	May	106.1	104.2	113.5	100.7	100.5	101.5	102.3	102.4	102.0	103.6	104.4
	June	105.8	103.6	114.3	99.7	99.5	100.7	99.7	102.5	102.1	103.7	103.9
	July	105.3	102.7	115.6	99.6	99.1	101.2	100.9	101.9	101.6	103.0	104.6
	August	105.4	102.7	115.8	100.1	100.1	100.2	101.0	102.0	101.6	103.1	105.1
	September	105.2	102.7	115.0	99.8	100.0	99.3	100.2	101.6	100.7	104.3	105.7
	October	105.7	103.5	114.3	100.4	100.7	99.4	100.8	102.0	101.4	103.9	106.3
	November	106.2	104.1	114.4	100.5	100.6	100.0	99.5	102.3	101.8	103.9	105.5
	December	106.9	105.0	114.6	100.7	100.9	100.2	99.3	102.7	102.5	103.6	104.8
2005	January	107.3	105.3	114.8	100.3	100.3	100.2	100.0	102.0	101.6	103.5	104.4
	February	108.5	106.8	115.2	101.1	101.4	100.3	100.3	103.3	103.2	103.3	105.1

^a Data from January 1992 to December 1997 relate to the retail price index. ^b Data from January 1992 to December 1998 relate to the retail price index. Source: Central Bureau of Statistics.

Table J1: Consumer Price and Producer Price Indices

The Central Bureau of Statistics (CBS) introduced the consumer price index (CPI) in early 2004. This indicator of price movements was compiled in accordance with the methodological principles laid down by the ILO and Eurostat. In its First Release, issued on 17 February 2004, the CBS published the data on movements in the CPI in January 2004 and the time series for the CPI as of January 2001. The CBS subsequently constructed the time series for the consumer price

index encompassing the period from January 1998 to December 2000. As expected following the introduction of the new index, the CBS has stopped publishing the retail price index (RPI) and the cost of living index whose calculation methodologies have not been adequately harmonised with internationally accepted standards. The main characteristic of the CPI are discussed in Box 1 in the CNB Bulletin No. 91 (2004). The data on the average year-on-year consumer price inflation rate are shown in the Bulletin table on Economic Indicators.

Table J2: Core Consumer Price Indices

Year	Month	Basic indices, 2001 = 100			Chain indices			Monthly year-on-year indices		
		Total	Goods	Services	Total	Goods	Services	Total	Goods	Services
1998	December	93.2	93.7	90.6	99.9	99.9	100.0	....	....	....
1999	December	95.9	96.4	93.3	100.1	100.1	100.1	102.9	102.9	103.0
2000	December	99.1	99.3	98.0	100.4	100.4	100.2	103.3	103.0	105.0
2001	December	100.3	100.1	101.8	99.8	99.7	100.3	101.2	100.8	103.8
2002	December	101.5	101.1	104.2	100.0	100.1	99.4	101.2	101.0	102.4
2003	December	102.7	102.0	107.3	100.2	100.1	101.0	101.2	100.9	103.0
2004	January	102.7	101.8	108.1	100.0	99.8	100.7	101.3	101.0	103.6
	February	102.5	101.5	108.5	99.8	99.7	100.4	101.3	100.9	103.7
	March	102.5	101.5	108.6	100.0	100.0	100.1	101.4	101.0	103.6
	April	102.7	101.8	108.5	100.2	100.3	99.9	101.9	101.6	103.3
	May	103.1	102.2	109.2	100.4	100.3	100.7	101.8	101.5	103.6
	June	103.5	102.3	110.9	100.4	100.2	101.5	101.9	101.5	104.0
	July	103.7	102.2	112.8	100.2	99.9	101.8	101.6	101.6	101.9
	August	104.3	102.9	112.9	100.6	100.6	100.1	102.2	102.2	101.9
	September	104.2	103.0	111.2	99.9	100.1	98.5	102.4	102.0	104.2
	October	104.7	103.8	109.9	100.5	100.8	98.8	102.3	102.1	103.5
	November	105.0	104.2	110.0	100.3	100.4	100.1	102.4	102.2	103.5
	December	105.1	104.2	110.4	100.1	100.1	100.4	102.3	102.2	102.9
2005	January	104.7	103.8	110.7	99.6	99.5	100.2	102.0	101.9	102.4
	February	105.2	104.2	111.2	100.5	100.5	100.5	102.7	102.7	102.5

Source: Central Bureau of Statistics

Table J2: Core Consumer Price Indices

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

goods and services used in the calculation of the total consumer price index. A total of 111 goods and services are excluded and their share in the consumer price basket stood at 30.06% in 2005 (of which: agricultural products accounted for 6.93 percentage points, and administrative prices for 23.13 percentage points). The zero weighting method is used to exclude the prices of goods and services.

Table J3: Average Monthly Net Wages

In current prices, in kuna

Year	Month	Nominal amount in kuna	Chain indices	Monthly year-on-year indices	Cumulative year-on-year indices
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	December	4,045.0	99.8	105.4	105.9
2004	January	4,070.0	100.6	104.6	104.6
	February	4,003.0	98.4	105.7	105.2
	March	4,153.0	103.8	108.0	106.1
	April	4,129.0	99.4	106.1	106.1
	May	4,169.0	101.0	104.9	105.9
	June	4,226.0	101.4	106.0	105.9
	July	4,209.0	99.6	105.7	105.8
	August	4,178.0	99.3	106.7	106.0
	September	4,132.0	98.9	106.0	106.0
	October	4,128.0	99.9	103.3	105.7
	November	4,352.0	105.4	107.4	105.8
	December	4,312.0	99.1	106.6	105.9

Source: Central Bureau of Statistics.

List of Banks & Savings Banks

1 March 2005

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. Centar banka d.d., Zagreb
6. Credo banka d.d., Split
7. Croatia banka d.d., Zagreb
8. Dresdner Bank Croatia d.d., Zagreb
9. Erste & Steiermärkische Bank d.d., Zagreb
10. Gospodarsko kreditna banka d.d., Zagreb
11. Hrvatska poštanska banka d.d., Zagreb
12. HVB Splitska banka d.d., Split
13. Hypo Alpe-Adria-Bank d.d., Zagreb
14. Imex banka d.d., Split
15. Istarska kreditna banka Umag d.d., Umag
16. Jadranska banka d.d., Šibenik
17. Karlovačka banka d.d., Karlovac
18. Kreditna banka Zagreb d.d., Zagreb
19. Kvarner banka d.d., Rijeka
20. Međimurska banka d.d., Čakovec
21. Nava banka d.d., Zagreb
22. Nova banka d.d., Zagreb
23. Partner banka d.d., Zagreb
24. Podravska banka d.d., Koprivnica
25. Požeška banka d.d., Požega
26. Primorska banka d.d., Rijeka
27. Privredna banka Zagreb d.d., Zagreb
28. Raiffeisenbank Austria d.d., Zagreb
29. Samoborska banka d.d., Samobor
30. Slatinska banka d.d., Slatina
31. Slavenska banka d.d., Osijek
32. Štedbanka d.d., Zagreb
33. VABA banka d.d., Varaždin
34. Volksbank d.d., Zagreb
35. 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. Gospodarska štedionica d.d., Vrbovec	03/04/2003
7. Gradska banka d.d., Osijek	03/05/1999
8. Građanska štedionica d.o.o., Karlovac	03/11/1998
9. Hrvatska gospodarska banka d.d., Zagreb	19/04/2000
10. Ilirija banka d.d., Zagreb	06/04/1999
11. Invest štedionica d.o.o., Zagreb	30/06/1999
12. Kaptol banka d.d., Zagreb	25/11/2002
13. Komercijalna banka d.d., Zagreb	30/04/1999
14. Međimurska štedionica d.d., Čakovec	17/03/2004
15. Neretvansko gospodarska banka d.d., Ploče	10/05/1999
16. Promdei banka d.d., Zagreb	22/12/1999
17. Razvojna banka "Dalmacija" d.o.o., Split	24/09/2001
18. Slavenska štedionica d.d., Zagreb	04/12/2002
19. Štedionica Dugi pogled d.o.o., Zagreb	19/01/2001
20. Štedionica Groš banak d.o.o., Zagreb	23/04/2001
21. Štedionica Mediteran d.o.o., Split	5/12/2001
22. Štedionica za razvoj i obnovu d.o.o., Zagreb	02/07/2001
23. Trgovačko-turistička banka d.d., Split	08/09/2000
24. Županjska banka d.d., Županja	03/05/1999

¹ In accordance with Article 190 of the Banking Act and the pace prescribed therein, the bank is required to adjust its share capital to the provisions of this 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. Križevačka banka d.d., Križevci	03/01/2005
4. Primus banka d.d., Zagreb	23/12/2004
5. Štedionica Dora d.d., Zagreb	01/01/2002

6. Štedionica SA-GA d.d., Zagreb	31/12/2001
7. 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 March 2005

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	MRR	– marginal reserve requirement
b.p.	– basis points	o.w.	– of which
CBRD	– Croatian Bank for Reconstruction and Development	PPI	– producer price index
CBS	– Central Bureau of Statistics	Q	– quarterly
CEFTA	– Central European Free Trade Agreement	RPI	– retail price index
CES	– Croatian Employment Service	RR	– reserve requirement
CH	– Croatian Highways	SAL	– Structural Adjustment Loan
CIHI	– Croatian Institute for Health Insurance	SDR	– special drawing rights
CNB	– Croatian National Bank	VSE	– Varaždin Stock Exchange
consumpt.	– consumption	ZMM	– Zagreb Money Market
CPF	– Croatian Privatization Fund	ZSE	– Zagreb Stock Exchange
CPI	– Consumer Price Index	VAT	– Value Added Tax
CPII	– Croatian Pension Insurance Institute	WTO	– World Trade Organization
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		
FINA	– Financial Agency		
FISIM	– Financial Intermediation Services Indirectly Measured		
GDP	– gross domestic product		
GVA	– gross value added		
HICP	– Harmonized Index of Consumer Prices		
IEMPI	– Index of Exchange Market Pressure		
ILO	– International Labour Organization		
IMF	– International Monetary Fund		
MoF	– Ministry of Finance		

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

