





CROATIAN NATIONAL BANK  
**ANNUAL REPORT 2007**

## **PUBLISHER**

Croatian National Bank  
Publishing Department  
Trg hrvatskih velikana 3  
10002 Zagreb  
Phone: ++ 385 1/4564-555  
Contact phone: ++ 385 1/4565-006  
Fax: ++ 385 1/4564-687

## **WEBSITE**

<http://www.hnb.hr>

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

ISSN 1331-6567



CROATIAN NATIONAL BANK

# ANNUAL REPORT 2007

Zagreb, 2008



## Contents

Summary	9
Macroeconomic Developments	15
1.1 International Environment	17
1.1.1 European Union and the Eurozone	17
1.1.2 United States of America	19
1.1.3 Japan	19
1.1.4 Developing and Emerging Market Countries	20
1.1.5 Crude Oil Price Movements	21
1.2 Economic Activity	21
1.2.1 Demand	21
1.2.2 Output	23
1.2.3 Labour Market	25
1.2.4 Prices and the Exchange Rate	28
1.2.5 Monetary Developments and Monetary Policy	33
1.2.6 Money Market	40
1.2.7 Capital Market	44
1.2.8 Balance of Payments	51
Monetary Policy Instruments and International Reserves Management	61
2.1 Instruments of Monetary Policy in 2007	63
2.1.1 Open Market Operations	63
2.1.2 Standing Facilities	66
2.1.3 Reserve Requirements	67
2.1.4 Measures for Restricting Placements and External Debt Growth	68
2.1.5 Other Instruments	72
2.1.6 Croatian National Bank Interest Rates and Remuneration	73
2.2 International Reserves Management	74
2.2.1 Institutional and Organisational Framework, Principles of Management, Risks and Manner of International Reserves Management	74
2.2.2 International Reserves in 2007	75

Banking Sector . . . . .	99
3.1 Banks' Business Operations. . . . .	83
3.1.1 Banks' Balance Sheet. . . . .	85
3.1.2 Banks' Capital. . . . .	89
3.1.3 Quality of Banks' Assets . . . . .	91
3.1.4 Quality of Banks' Earnings . . . . .	93
3.1.5 Banks' Liquidity. . . . .	96
3.2 Housing Savings Banks' Business Operations . . . . .	97
3.2.1 Housing Savings Banks' Balance Sheet . . . . .	98
3.2.2 Housing Savings Banks' Capital. . . . .	99
3.2.3 Quality of Housing Savings Banks' Assets . . . . .	100
3.2.4 Quality of Housing Savings Banks' Earnings . . . . .	101
3.3 Supervision Report. . . . .	102
3.3.1 On-Site Supervision . . . . .	103
3.3.2 Off-Site Analysis . . . . .	103
3.3.3 Licensing and Market Competition . . . . .	103
3.3.4 New Regulations on Banks' Business Operations and Supervision of Banks and Credit Unions. . . . .	104
Payment Operations . . . . .	107
4.1 Interbank Payment Systems. . . . .	109
4.2 Interbank/Interinstitutional Cooperation in the Area of Payment Operations . . . . .	111
4.3 Reports on Payment Statistics . . . . .	111
Currency Department Operations . . . . .	115
5.1 Currency Outside Banks . . . . .	117
5.2 Cash Supply . . . . .	118
5.3 Withdrawal and Processing of Worn-Out Banknotes . . . . .	119
5.4 Expert Evaluation of Banknotes . . . . .	120
5.5 Commemorative Coin Issues . . . . .	120
Public Relations . . . . .	121
6.1 Public Relations. . . . .	123
International Relations. . . . .	125
7.1 Activities of the CNB in Connection with the Relations between the Republic of Croatia and the European Union . . . . .	127
7.2 International Monetary Fund (IMF). . . . .	129
7.3 Bank for International Settlements (BIS) . . . . .	130
7.4 Cooperation with Other International Financial Institutions . . . . .	130
7.5 Foreign Exchange System and Foreign Exchange Policy Measures of the Republic of Croatia . . . . .	131
7.5.1 Free Movement of Capital . . . . .	131
7.5.2 Exchange Transactions . . . . .	131
7.5.3 Activities Related to Anti-Money Laundering, Terrorist Financing and Counterfeiting of Foreign Cash. . . . .	132

Financial Statements of the Croatian National Bank . . . . .	133
Statement of Income . . . . .	136
Balance Sheet . . . . .	137
Statement of Changes in Equity . . . . .	138
Statement of Cash Flows . . . . .	139
Notes to the Financial Statements for the Year Ended 31 December 2007 . . . . .	140
Management and Internal Organisation of the Croatian National Bank . . . . .	155
List of Banking Institutions . . . . .	159
Statistical Appendix . . . . .	165
A. Monetary and Credit Aggregates	
<b>Table A1:</b> Monetary and Credit Aggregates . . . . .	168
B. Monetary Institutions	
<b>Table B1:</b> Monetary Survey . . . . .	169
<b>Table B2:</b> Number of Reporting Banks and Savings Banks and their Classification by Total Assets . . . . .	170
C. Monetary Authorities	
<b>Table C1:</b> Monetary Authorities Accounts . . . . .	171
D. Banks	
<b>Table D1:</b> Banks' Accounts . . . . .	173
<b>Table D2:</b> Banks' Foreign Assets . . . . .	174
<b>Table D3:</b> Banks' Claims on the Central Government and Funds . . . . .	175
<b>Table D4:</b> Banks' Claims on Other Domestic Sectors . . . . .	175
<b>Table D5:</b> Distribution of Banks' Loans by Domestic Institutional Sectors . . . . .	176
<b>Table D6:</b> Demand Deposits with Banks . . . . .	176
<b>Table D7:</b> Time and Savings Deposits with Banks . . . . .	177
<b>Table D8:</b> Foreign Currency Deposits with Banks . . . . .	177
<b>Table D9:</b> Bonds and Money Market Instruments . . . . .	178
<b>Table D10:</b> Banks' Foreign Liabilities . . . . .	178
<b>Table D11:</b> Central Government and Funds' Deposits with Banks . . . . .	179
<b>Table D12:</b> Restricted and Blocked Deposits with Banks . . . . .	179
E. Housing Savings Banks	
<b>Table E1:</b> Housing Savings Banks' Accounts . . . . .	180
F. Monetary Policy Instruments and Liquidity	
<b>Table F1:</b> Credit Rates of the Croatian National Bank . . . . .	181
<b>Table F2:</b> Deposit Rates of the Croatian National Bank . . . . .	182
<b>Table F3:</b> Banks' Reserve Requirements . . . . .	183
<b>Table F4:</b> Banks' Liquidity Indicators . . . . .	184
G. Financial Markets	
<b>Table G1:</b> Banks' Interest Rates on Kuna Credits Not Indexed to Foreign Currency . . . . .	185
<b>Table G2:</b> Banks' Interest Rates on Kuna Credits Indexed to Foreign Currency and on Credits in Euros . . . . .	186
<b>Table G3:</b> Banks' Interest Rates on Kuna Deposits Not Indexed to Foreign Currency . . . . .	187

<b>Table G4a:</b> Banks' Interest Rates on Kuna Deposits Indexed to Foreign Currency and on Foreign Currency Deposits . . . . .	188
<b>Table G4b:</b> Banks' Interest Rates on Kuna Deposits Indexed to Foreign Currency and on Foreign Currency Deposits . . . . .	189
<b>Table G5:</b> Banks' Trade with Foreign Exchange . . . . .	190
H. International Economic Relations	
<b>Table H1:</b> Balance of Payments – Summary . . . . .	191
<b>Table H2:</b> Balance of Payments – Goods and Services . . . . .	192
<b>Table H3:</b> Balance of Payments – Income and Current Transfers . . . . .	193
<b>Table H4:</b> Balance of Payments - Direct and Portfolio Investments . . . . .	194
<b>Table H5:</b> Balance of Payments – Other Investment . . . . .	195
<b>Table H6:</b> Balance of Payments – Summary . . . . .	196
<b>Table H7:</b> International Reserves and Banks' Foreign Currency Reserves. . . . .	197
<b>Table H8:</b> International Reserves and Foreign Currency Liquidity . . . . .	198
<b>Table H9:</b> Midpoint Exchange Rates of the Croatian National Bank (period average) . . . . .	200
<b>Table H10:</b> Midpoint Exchange Rates of the Croatian National Bank (end of period) . . . . .	200
<b>Table H11:</b> Indices of the Effective Exchange Rate of the Kuna . . . . .	201
<b>Table H12:</b> Gross External Debt by Domestic Sectors . . . . .	202
<b>Table H13:</b> Public Sector Gross External Debt, and Publicly Guaranteed and Non-Publicly Guaranteed Private Sector Gross External Debt. . . . .	203
<b>Table H14:</b> Gross External Debt by Domestic Sectors and Projected Future Payments . . . . .	205
<b>Table H15:</b> Gross External Debt by Other Sectors. . . . .	207
<b>Table H16:</b> International Investment Position – Summary . . . . .	209
<b>Table H17:</b> International Investment Position – Direct Investment . . . . .	210
<b>Table H18:</b> International Investment Position – Portfolio Investment. . . . .	210
<b>Table H19:</b> International Investment Position – Other Investment. . . . .	211
I. Government Finance	
<b>Table I1:</b> Consolidated Central Government According to the Government Level. . . . .	212
<b>Table I2:</b> Budgetary Central Government Operations. . . . .	213
<b>Table I3:</b> Central Government Debt . . . . .	214
J. Non-Financial Statistics	
<b>Table J1:</b> Consumer Price and Producer Price Indices. . . . .	215
<b>Table J2:</b> Core Consumer Price Indices . . . . .	216
<b>Table J3:</b> Average Monthly Net Wages . . . . .	216
<b>Table J4:</b> Consumer Confidence Index, Consumer Expectations Index and Consumer Sentiment Index. . . . .	217
Concluding Notes . . . . .	219
List of Abbreviations and Symbols . . . . .	221

## Summary

In 2007, the Croatian economy recorded a strong real GDP growth, an increase in employment, decrease in unemployment and slowdown in foreign borrowing. However, the inflation rate accelerated and the current account deficit increased in the same period. Against the background of the inflation acceleration – caused by negative shocks on the supply side and, to some extent, on the demand side – the Croatian National Bank fulfilled its objective of maintaining price stability by ensuring the stability of the kuna exchange rate against the euro. In addition to the efforts to realise its primary objective, the central bank acted to slow down the growth of bank placements, thus reducing banks' external debt and decelerating the growth of external debt of the economy as a whole. These results were achieved by implementing a set of monetary policy instruments, especially significant being the marginal reserve requirement, prescribed minimum foreign currency liquidity and the Decision on the purchase of compulsory CNB bills, which prescribed the compulsory purchase of CNB bills for banks whose placements growth in 2007 exceeded 12%.

Increasing inflationary pressures were among the key features of the macroeconomic environment in 2007. The annual rate of change in the CPI increased from 2.0% at the end of 2006 to 5.8% in December 2007, with the inflation rate accelerating sharply after July. Negative supply-side shocks sharply drove up the domestic prices of food and refined petroleum products. The increase in the domestic prices of food products was caused by drought and the growth of world food raw material prices (primarily cereals, oilseeds and milk), while the increase in domestic refined petroleum product prices resulted from the crude oil price rise in the world market. Inflationary pressures coming from the demand side were observed, among other things, in the strong growth of household disposable income and sharply accelerated real annual growth of personal consumption.

Other price indicators also sharply accelerated in 2007. The annual core inflation rate of change rose from 2.3% in December 2006 to 2.4% in July 2007 and to 5.0% in December 2007. This was to a large extent due to the price growth of industrial food products. The inflation acceleration over 2007 was also due to the price increase in agricultural products. Administrative prices also grew in that period, primarily due to the price increase in refined petroleum products. Domestic industrial producer prices accelerated sharply in 2007, with their annual rate of change growing to 5.8% in December 2007 (from 1.9% in December 2006), mainly because of the price growth of intermediate products, energy and non-durable consumer goods.

In 2007, the environment of CNB's monetary policy was, in addition to the mentioned inflationary shocks, marked by a sharp nominal increase in household disposable income and strong foreign borrowing by government-related companies. The increase in household disposable

income was primarily caused by the repayment of debt owed to pensioners and growth of government transfers to households. The repayment of debt to pensioners, which was financed by the flotation of government-owned companies' shares, started in mid-2006, with a pay-out of HRK 2.4bn (1.0% of GDP), and continued in 2007 with HRK 3.4bn (1.2% of GDP). The annual growth rate of government expenditures for social benefits was almost twice higher in 2007 than in the previous two years. Consumer confidence surveys, carried out around mid-2007, showed a marked increase in consumer confidence, which could partly be ascribed to the favourable macroeconomic environment, but also to expectations of an increase in household capital gains on investments in shares and investment funds. In addition, external debt of large government-owned companies increased by EUR 1.2bn in 2007, in contrast with EUR 0.2bn in 2006. Road construction companies recorded the highest external debt increase, EUR 0.7bn, compared with EUR 0.2bn in 2006. Ina and local government-owned companies also strongly contributed to the growth of external debt in 2007.

The sharp acceleration in the nominal growth of household disposable income and companies' funds raised by foreign borrowing led to an acceleration of domestic demand real growth and, in turn, of real GDP growth, which rose from 4.8% in 2006 to 5.6% in 2007.

The CBS's quarterly GDP estimate for 2007 shows that personal consumption, the main component of aggregate demand, grew annually by 6.2% in real terms and, due to its trends, which were mainly in line with changes in its primary and secondary financing sources, contributed 3.7 percentage points to overall GDP growth. Final consumption was also boosted by the government consumption growth of 3.4%, caused primarily by the increase in expenditures for the use of goods and services. Due to the slowdown in private investments in the second half of 2007, gross fixed capital formation increased by 6.5%, a more moderate rate than in the previous year, and contributed 2.0 percentage points to overall GDP growth. The slowdown in goods and services exports and imports in 2007 was mainly due to a drop in trade in goods, with net exports contributing a negative 0.8 percentage points to the real growth of the economy.

According to a GDP estimate by production approach, service activities made the largest contribution to GVA growth in 2007 (3.7 percentage points). The surge in personal consumption, coupled by good results in tourism, led to an increase in GVA in trade, with the result that the annual GVA growth rate for 2007 stood at 7.5%.

Other activities made a smaller contribution to the real growth in whole economy GVA (2.3 percentage points). However, GVA in industry rose at a significant rate of 6.5%, primarily due to an increase in consumer goods production. In contrast, the growth of GVA in construction decelerated considerably, which can mainly be attributed to a drop in private sector investments.

Reflecting overall economic developments, labour market trends were positive in 2007. Registered unemployment stood at 254,484 at the end of the year, dropping by 13.2% as compared to the end of 2006. The average registered unemployment rate declined from 16.6% in 2006 to 14.8% in 2007. The CBS's Labour Force Survey results, previously released semi-annually, have been published quarterly since the beginning of 2007 in order to improve the Survey's methodology and implementation and bring it in line with the EU *acquis*. This change in the Survey release schedule has made the comparison of data for 2007 with the previous data series more difficult. According to the latest available survey data for the first three quarters in 2007, the unemployment rate was 9.6%.

CBS data show that employment averaged 1,516,900 in 2007, increasing by 3.3% over 2006 and recording a rate of change equal to the one in 2006. The average real gross and net wage increased moderately, by 3.4% and 2.3% respectively.

In 2007, the central bank continued to implement monetary policy aimed at maintaining the stability of the nominal kuna exchange rate against the euro, which is the main anchor of domestic inflationary expectations and basic precondition for domestic price stability. Furthermore, a stable kuna/euro exchange rate has a positive impact on the price stability of goods imported from the eurozone. Overall, the kuna/euro exchange rate appreciated slightly by 0.3% in nominal terms in 2007, with the euro dropping from HRK 7.35/EUR at the end of 2006 to HRK 7.33/EUR at the end of 2007. Persisting during most of the observed period, appreciation pressures primarily resulted from a seasonal foreign exchange inflow from tourism, foreign exchange supply generated by corporate foreign borrowing and inflow of foreign exchange aimed for bank recapitalisation. In addition, the kuna/euro exchange rate appreciation was also affected by the growing demand for the kuna for investments in securities on the domestic market. In the first half of 2007, the central bank conducted only foreign exchange transactions with the government, while the main instruments for the creation of kuna liquidity were reverse repo auctions.

The nominal effective exchange rate of the kuna appreciated by 3.2% over 2007, primarily because of a strong nominal appreciation of the kuna exchange rate versus the US dollar. As domestic consumer prices rose at a faster rate than foreign consumer prices in 2007, the index of the real effective exchange rate of the kuna deflated by consumer prices appreciated by 5.5% in the observed period. The same index deflated by producer prices appreciated by 3.8% in the same period, suggesting that domestic producer prices only slightly outpaced foreign producer prices.

The central bank expanded its set of monetary policy instruments in 2007, aiming to contribute to alleviating the imbalances of the Croatian economy in international trade in goods and services. In addition to the marginal reserve requirement rate of 55%, which considerably increased the price of foreign borrowing for banks, and the minimum foreign currency liquidity ratio of 32%, the central bank, motivated by the positive results achieved in 2003 and with an aim to slow down the growth of bank placements, enacted the Decision on the purchase of compulsory CNB bills, which prescribed the obligatory purchase of CNB bills for banks whose placement growth in 2007 exceeded 12%.

These central bank measures successfully curbed the growth of bank placements, bringing their annual rate of change down from 22.9% in 2006 to 15.0% at the end of 2007. Banks continued to focus on household lending in 2007, making adjustments to the said decision by reducing corporate lending. However, although lending to companies decelerated considerably, banks raised the required funding from other financing sources, so that the rate of change in total corporate debt went up from 25.3% in 2006 to 26.0% until the end of 2007. Central bank measures thus had an effect only on the reduction of borrowing-financed household consumption.

Bank lending was to a great extent financed from domestic financing sources, while prudential regulation measures brought about an increase in bank capital as a permanent financing source. Due to these trends, and with the restricted growth of placements, banks markedly improved their external positions in 2007. With foreign liabilities down by HRK 10.9bn and foreign assets up by HRK 6.8bn, banks' net foreign assets increased by HRK 17.7bn. The decrease in banks' external debt led to a sharp drop in marginal reserve requirements, which were, standing at HRK 5.0bn at the end of 2007, HRK 2.7bn lower than at the end of 2006.

Due to stable kuna/euro exchange rate trends, there were not many central bank foreign exchange interventions in 2007. The foreign exchange purchased from banks at auctions totalled EUR 0.8bn, which was a decrease relative to the net purchase of EUR 1.2bn in 2006. In addition to banks, the CNB also conducted foreign exchange transactions with the MoF, selling a net of EUR 0.2bn. The CNB created a total of HRK 4.9bn through foreign exchange transactions carried out with banks and the central government in 2007, which proves that foreign exchange transactions continued to prevail as the main instrument for reserve money creation.

In 2007, the CNB considerably relied on regular weekly repo operations in short-term money supply management, especially during periods when pressures increased both in the money and foreign exchange markets, as in the summer months and during the invitation for bids to purchase T-HT shares. The amount placed under reverse repos averaged HRK 3.4bn in 2007, which was three times more than in 2006. Due to rising inflationary pressures, reserve money creation at the auctions held in the last quarter became more restrictive and the marginal repo rate increased to over 4%.

In 2007, reserve requirements continued to be the main liquidity management instrument. Domestic deposits growth resulted in an increase in the reserve requirement calculation base, with kuna reserve requirements rising at a somewhat faster rate than foreign currency reserve requirements. The central bank also sterilised liquidity through compulsory CNB bills subscription, especially in the second half of the year when the provisions of the decision governing their subscription were tightened.

As a result of these central bank transactions, reserve money (M0) went up by a total of HRK 5.6bn (12.1%) in 2007, which was a slightly lower increase than in 2006. Money supply (M1) grew by HRK 9.4bn (19.3%). The surge in M1 resulted from the economic upturn and was primarily accounted for by the increase in household and corporate demand deposits. Savings and time deposits also recorded a sharp increase, with foreign currency savings deposits rising at an especially high rate and kuna deposits slowing growth relative to the previous year. These trends in money supply and savings and time deposits led to an increase in total liquid assets of HRK 33.4bn (18.3%), which was equal to the increase in 2006.

Money market interest rates, relatively low and stable in the first half of 2007, increased sharply and became much more volatile at mid-year. Given the good liquidity of the banking system, these interest rate trends could be attributed to the supply and demand mismatch, where a small group of banks generated the lion's share of demand for the kuna, while the participants with excess funds refused to invest them at standard prices. Money market disturbances in the second half of the year were also generated by the initial public offering of the 32.5% government share in T-HT. The weakening of the impact of capital market transactions on the demand for money resulted in a primary liquidity surplus in October 2007, which the CNB withdrew by reducing the volume of open market operations. However, due to the shallowness of the market and its inability to quickly and easily adjust to large inflows and outflows of funds without considerable interest rate changes, a consequence of restoring liquidity to normal levels was that interest rates remained high until the end of the year.

Having dropped in the first half of 2007, interest rates at T-bills auctions increased in the second half of the year. The weighted interest rate on 364-day T-bills recorded the highest increase, from 3.88% in January to 5.05% in December, while weighted interest rates on 91 and 182-day bills rose more moderately, from 3.46% and 3.63% respectively in January to 3.60% and 3.75% respectively in December 2007.

Banks' interest rates on short-term loans halted the several-year downward trend in 2007. Interest rates on long-term corporate loans indexed to foreign currency continued growth from 2006, whereas interest rates on long-term household loans indexed to foreign currency, having fallen early in 2007, increased in the second half of the year. Banks' deposit rates increased sharply in 2007. These domestic interest rate trends reflected the growth of European interest rates, started late in 2005, as well as banks' adjustment to CNB measures.

The domestic capital market was dynamic in most of 2007, continuing its accelerated growth and development. The annual share turnover hit a historical high of HRK 22.0bn, the number of transactions doubled and the stock exchange index, CROBEX, reached the highest value on record. In addition to the anticipated growth of institutional investors' assets and inflows of venture capital, demand for equity securities was also boosted by the growth of general public interest in share investments in the domestic capital market (2007 was marked by initial public

offerings of shares, especially by the IPO of T-HT), which resulted in a sharp increase in the prices and liquidity of most shares listed on the ZSE. The CROBEX stood at 5,239 points at the end of December 2007, registering a growth of 63.2% relative to the end of December 2006. The Croatian debt securities market also recorded a record high bond turnover of HRK 43.9bn, and the government, municipalities and companies continued borrowing in similar volumes as in the previous years. The key event for the Croatian capital market in 2007 was the merger of the Varaždin Stock Exchange with the Zagreb Stock Exchange, which turned the ZSE into the focal point of securities trading in Croatia.

The narrowing of the yield spread between Croatian eurobonds and benchmark German bonds in the first half of 2007 signalled an improvement in Croatia's rating on the international capital markets. However, these spreads again widened considerably by the end of 2007, owing to the US subprime mortgage market crisis and a change in risk perception of capital market investors worldwide, and especially in developing countries.

Despite a slowdown, bank lending remained strong in 2007, driving up domestic demand and increasing imports, with the result that the current account deficit stood at EUR 3.2bn (8.6%), which was an increase of EUR 0.5bn (0.7 percentage points of GDP) compared with 2006. As in the previous years, the deficit increase resulted from growing imbalances in international trade in goods. In contrast with the goods account, the balances in other current transactions accounts improved relative to 2006. The surplus in international trade in services increased considerably, primarily due to the continued growth of income from tourism. In addition, the deficit in the factor income account slightly reduced, while the downward trend in the surplus on current transfers slowed.

The current account balance deteriorated by almost one-fifth in 2007 relative to 2006 owing to a sharp increase in the foreign trade deficit. The goods account balance deteriorated by 13.1%. Looking at total aggregates at current prices, this was due to a decrease in the annual growth rate of goods exports (from 17.2% in 2006 to 8.6% in 2007), which exceeded the drop in the annual growth rate of goods imports (from 14.0% in 2006 to 10.8% in 2007). It needs emphasising, however, that these developments contain many noises. The slowdown in the growth of exports and imports was, among other things, to a great extent due to the construction of the North Adriatic pipeline. Before it was built, the gas from these drills was first exported to Italy and then, in a large measure, imported into Croatia. The pipeline construction had a lower impact on the slowdown in the annual growth rate of goods imports than on goods exports, as gas accounts for a considerably lower share in total goods imports than in goods exports. In contrast, a common change in the correction factors, used for adjusting the value of goods imports measured according to the c.i.f. parity to the value according to the f.o.b. parity, led to an increase in the f.o.b. value of goods imports. A detailed analysis of developments in foreign trade which excludes some noises suggests different trends. For example, the annual growth rate of total goods exports, excluding ships, oil and refined petroleum products and natural and manufactured gas, in constant exchange rate terms, reduced from 12.6% in 2006 to 11.5% in 2007, and that of goods imports dropped from 14.4% to 12.1%.

External debt increased by EUR 3.7bn (12.5%) over 2007, standing at EUR 32.9bn at the end of the year. The debt increase was slightly lower than in 2006 due to the decrease in banks' external debt resulting from monetary policy measures, primarily those restricting the growth of placements not subject to CNB bills subscription and those providing for the continued application of the marginal reserve requirement rate. The slowdown in external debt was also due to the government's switch to domestic borrowing, thanks to which this sector's debt remained almost unchanged in relation to the end of 2006. The opposite effect was produced by the corporate debt increase of a high EUR 3.9bn (41.6% annually). In addition to majority private-owned companies, the accelerated growth in this institutional sector's debt was also accounted for by public and mixed-ownership companies. Furthermore, the debt generated by direct investments, mostly involving corporate debt investments, also accelerated growth.

External debt rose at a higher rate than nominal GDP, with the result that the external debt to GDP ratio went up by 2.3 percentage points, from 85.5% at the end of 2006 to 87.8% at the end of 2007. The ratio between external debt and goods and services exports also increased, from 172.2% to 179.2%. Net external debt (as shown by data on the international investment position) also continued to grow, despite the strong growth of domestic sectors' foreign assets, including international reserves, and relative indicators of net external debt also worsened. The net external debt to GDP ratio increased by 1.6 percentage points in 2007 over 2006, standing at 40.8% at the end of 2007, while net debt as a percentage of goods and service exports grew by 4.4 percentage points, reaching 83.3%.

The net inflow of funds in the capital and financial transactions account increased by 15.6% in 2007 compared with 2006, standing at EUR 4.1bn. The sharpest increase was recorded in foreign direct investments into the RC, which amounted to EUR 3.4bn in 2007, a rise of 33.5% over the year before. Net outflow of funds from the portfolio investment account reduced from the previous year due to a surge in domestic sectors' liabilities and slowdown in the growth of their foreign assets. Net inflows from other investments were half lower than in 2006, which was in consequence of a marked drop in banks' foreign liabilities and increase in their foreign assets.

According to the balance of payments data, international reserves increased by EUR 722m in 2007, which was half of the increase in the previous year. According to the monetary statistics data, international reserves reached EUR 9.3bn at the end of 2007, which sufficed for the coverage of 5.2 months of goods and services imports. The slower growth of international reserves in 2007 was related to a drop in banks' allocated marginal reserve requirements caused by a reduction in their foreign liabilities. A similar effect on international reserve trends was produced by a lower purchase of foreign exchange from banks through foreign exchange interventions relative to 2006.

# Macroeconomic Developments

1

2

3

4

5

6

7

8



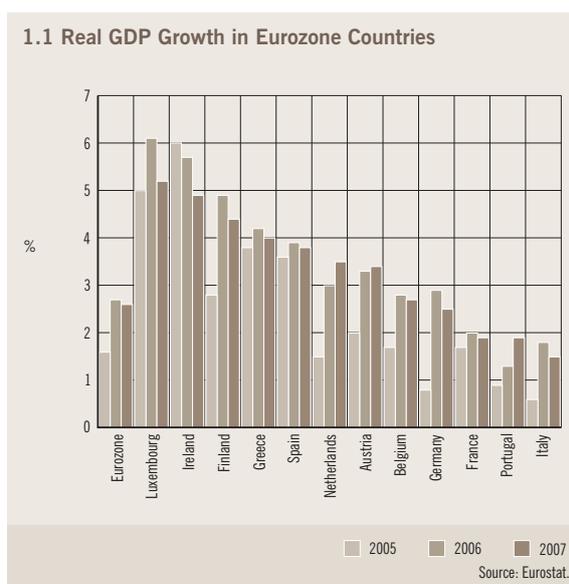
## 1.1 International Environment

The world economy grew at an annual rate of 4.9% in 2007, only 0.1 percentage point below the rate a year before. A mild slowdown in GDP growth relates primarily to developed countries, whereas the growth of developing countries remained at the level of 2006. The main generators of these global economic movements were the disturbances in the world financial markets that broke out in mid-2007 with a crisis in the US subprime mortgage loan market, and strong inflationary pressures mostly fuelled by the growth in food and energy product prices over the second half of the year. The crude oil price, having reached about USD 90 per barrel towards year-end, contributed to an economic slowdown in developed countries, but it also accelerated the growth of oil exporting countries.

### 1.1.1 European Union and the Eurozone

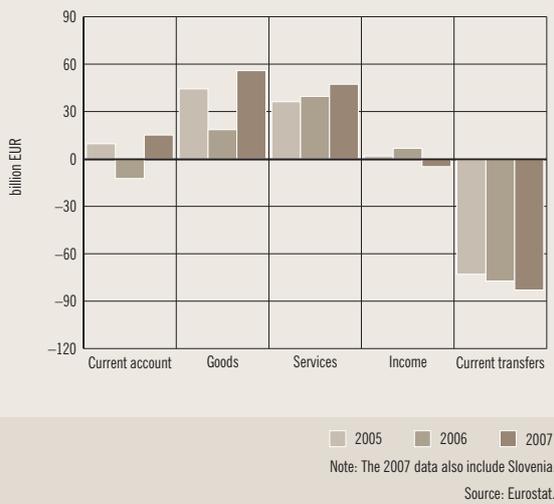
In 2007, real economic growth in the eurozone<sup>1</sup> stood at 2.6%, only slightly below the previous year's rate of 2.7%. This was due to markedly slower real GDP growth in most European economies, particularly Ireland, Finland, Germany and Italy, whereas only three countries (Portugal, the Netherlands and Austria) recorded faster GDP growth relative to that in 2006. The economic slowdown (notably in the second half of the year) resulted from the tightening of credit terms in response to the fear that the US financial market crisis would spill over to Europe. Under such circumstances, personal consumption growth decelerated, which adversely impacted on the economic growth rate in the eurozone, as did the slowdown in public spending. By contrast, real GDP growth was positively influenced by a continuing boost in investments and a pickup in net exports. Despite a mild decline in economic activity during 2007, the unemployment rate continued its downward trend dropping to 7.4%, with the sharpest fall recorded in Germany and France.

A sharper slowdown in imports relative to exports in the eurozone led to an increase in the merchandise trade surplus with the rest of the world, despite the continuous appreciation of the EUR/USD exchange rate caused primarily by an ever widening difference between the Fed's and European Central Bank's key interest rates. Apart from the exchange rate appreciation,



<sup>1</sup> The term *eurozone* includes most European countries which use the euro as the official currency, i.e. Austria, Belgium, Finland, France, Greece, Ireland, Italy, Luxembourg, the Netherlands, Germany, Portugal and Spain, but excludes Slovenia, Cyprus and Malta.

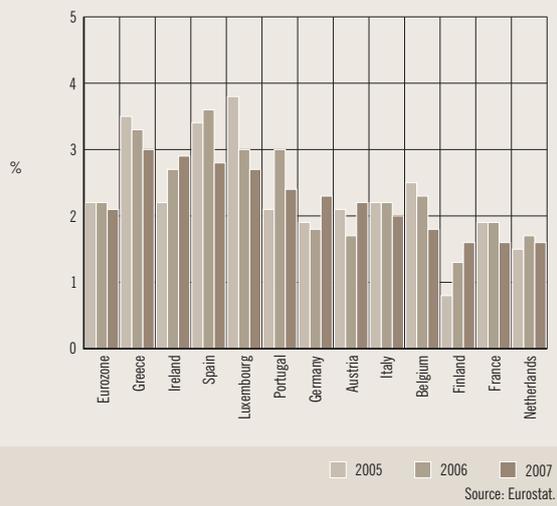
## 1.2 Current Account Balance in the Eurozone



the slowdown in exports was influenced by the weakening demand from the USA and Great Britain, whereas the slowdown in imports was mainly due to a decline in domestic economic activity. As a result of such movements, the current account balance improved and, after a deficit in 2006, a surplus of EUR 15.2bn was recorded in 2007.

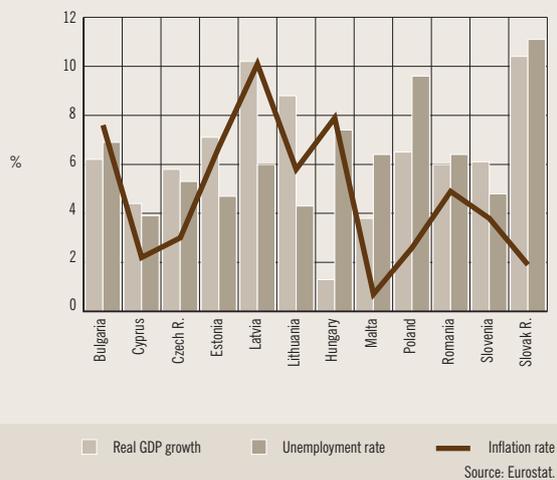
Inflation in the eurozone, as measured by the harmonised consumer price index, stood at 2.1% in 2007, only slightly exceeding the targeted rate of 2%. Inflationary pressures continued throughout the year, primarily as the result of growing energy and food product prices. In response to these pressures, the ECB raised its Minimum Bid Refinance Rate on two occasions during the first half of the year. However, due to a fear of a US financial crisis spillover to the European financial markets and of a possible economic slowdown, the ECB failed to additionally increase its key interest rate, despite the persistence of inflationary pressures, so that it remained at the level of 4.0% by the end of the year.

## 1.3 HICP Rates of Change in Eurozone Countries



The countries that joined the EU in the last two accession waves recorded somewhat slower average economic growth in 2007 (6.4%) compared with the previous year (6.9%). The sharpest decline was observed in Estonia which reported a fall from a double-digit growth rate in the previous two years to 7.1%. A slowdown was also observed in Hungary which grew at a rate as low as 1.3%, mainly due to adverse effects of fiscal consolidation. By contrast, the highest growth rates were recorded in Latvia, Lithuania and Slovakia. Most countries reported lower unemployment rates, particularly Poland. Thus, the average unemployment rate in new EU Member States dropped from 7.9% in 2006 to 6.4% in 2007. It is the fall in unemployment and growth in disposable household income that boosted domestic demand, being one of the main generators of economic growth. A positive contribution to real GDP growth also came from strong exports, despite the economic slowdown recorded in old EU Member States that are the main trading partners of this group of countries.

## 1.4 Real GDP Growth, Unemployment and Inflation Rates in Selected EU Countries in 2007



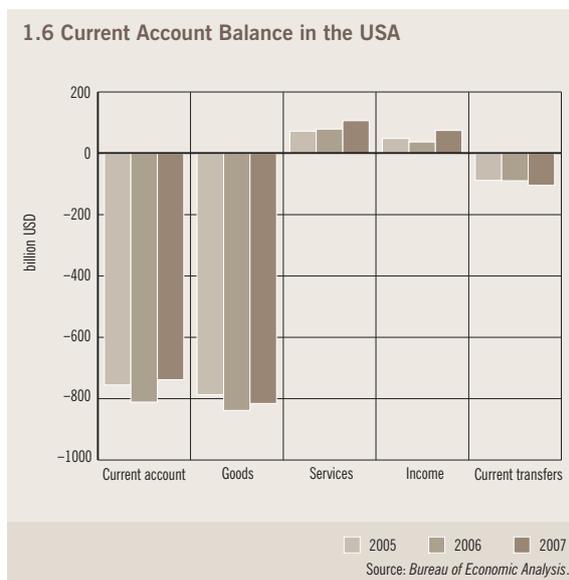
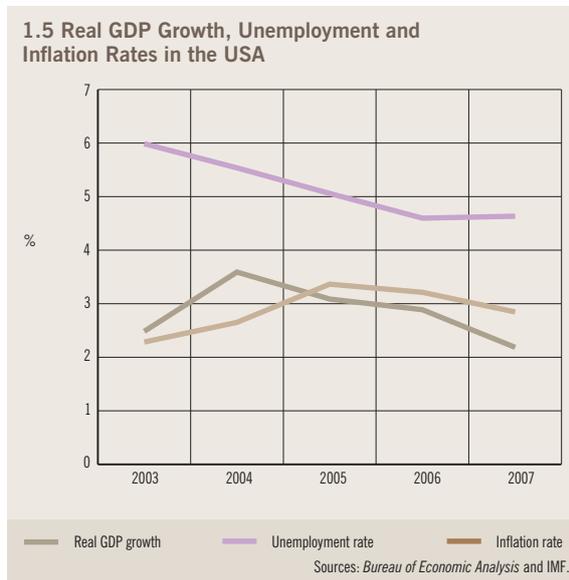
The growth in food and energy product prices contributed to strong inflation in new EU Member States, which went up from an average of 4.0% in 2006 to 4.8% in 2007. Like in 2006, the highest inflation rate was recorded in Latvia (10.1%) and the strongest inflation growth (of as much as 3.9 percentage points) was reported by Hungary.

## 1.1.2 United States of America

In 2007, economic growth in the USA slowed down markedly, to 2.2% (from 2.9% in 2006), mainly owing to unfavourable real estate market developments, and, consequently, a reduced volume of investment in house building, which led to a considerable annual decrease in GDP growth by 1 percentage point. A drop in real estate prices triggered a crisis in the subprime mortgage loan market, followed by the tightening of the credit terms, as an increasingly large number of borrowers were unable to meet their credit obligations. Subsequently, the crisis spilled over from the real estate market to other related financial markets. A number of financial institutions, which were exposed to real estate market risks, either directly or through the securitisation of claims, sustained heavy losses, spreading uncertainty on the financial market and causing a decline in investors' confidence. Under such circumstances, the Fed intervened on three occasions during the second half of 2007, by lowering its Federal Funds Target Rate, with a view to boosting liquidity and stimulating economic activity. The total reduction amounted to 1 percentage point and resulted in a rate of 4.25% at the end of 2007.

Slower economic growth also impacted on the unemployment rate, which did not continue its downward trend from the previous few years, but remained at the level of 4.6%. A slowdown in the growth of employment and disposable household income adversely affected personal consumption. Despite high crude oil prices, inflation in the USA declined slightly relative to 2006, and its annual rate was 2.9%. Slower growth in the general price level was attributable to reduced core inflation, greatly due to lower prices of clothing and financial services in the first half of 2007.

Reduction in the Federal Funds Target Rate resulted in a strong depreciation of the US dollar against the euro, by 9.0% on average. The lower US dollar exchange rate stimulated the growth of US exports, which, along with the weakening of goods imports, contributed to reducing the current account deficit (from 6.2% of GDP in 2006 to 5.3% in 2007). The US budget deficit went up 8.5% in the fiscal year 2007 relative to the previous year, reaching 2.1% of GDP. This was attributable to a slowdown in tax revenues relative to the previous fiscal year, when their strong growth was the main cause of the budget deficit narrowing.



## 1.1.3 Japan

Japanese economy grew at a real rate of 2.1% in 2007, 0.3 percentage points below the rate in 2006. The decline in GDP growth was mainly attributable to the weakening of investment, particularly in housing construction. By contrast, favourable contributions to economic growth again came from strong personal consumption and high exports, boosted by the demand from fast-growing Asian countries, notably China. The unemployment rate fell to 3.9% compared with 2006. Favourable movements in exports and a slowdown in imports led to a further increase in the current account surplus.

A rise in the consumer price index of 0.3% in 2006, after a long period of deflation or zero-inflation, was followed by a repeated fall in prices over most of 2007. An increase in the consumer price index was only recorded in the last quarter of 2007, due to growing inflationary pressures from abroad caused by higher prices of energy and food products. Despite that, a zero inflation rate was recorded at the level of 2007. Excluding energy and food products from the consumer price index, its annual rate of change was negative (-0.1%).

### 1.1.4 Developing and Emerging Market Countries

In contrast to developed countries, the economies of developing countries and emerging market countries continued to grow at high rates over 2007, mostly due to strong domestic demand. The average economic growth rate of 7.8% realised in this group of countries only slightly exceeded the rate in 2006. Of all the observed countries, China recorded the fastest growth and its contribution to the global economic growth for the first time exceeded the contributions of the USA and eurozone.

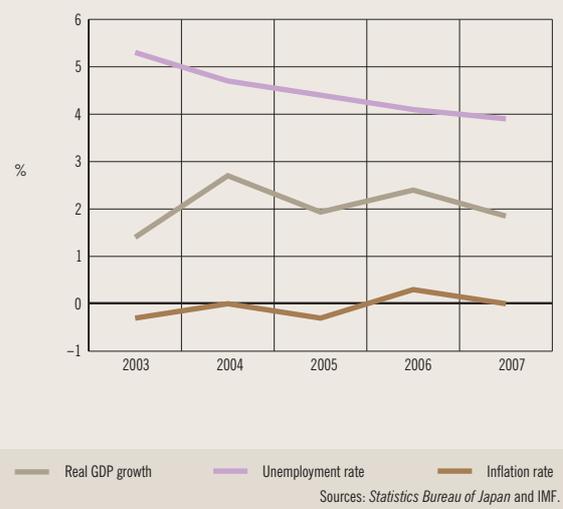
Real growth of Chinese economy accelerated additionally in 2007, compared with the year before, to 11.4%. This was the fifth consecutive year of this country's double-digit real economic growth. The main growth generators were again strong exports and personal consumption, stimulated by an increase in employment and disposable household income. Despite a mild slowdown in 2007, goods exports remained very high, reaching 25.7%. The growth rate of goods imports was slightly lower (20.8%), so that the foreign merchandise trade surplus continued upwards, reaching 8.1% of GDP at end-2007. Owing to the merchandise trade surplus and a continuously strong inflow of foreign direct investments, the yuan continued to appreciate, strengthening against the US dollar by 6.5% in 2007. Despite the domestic currency appreciation, inflation went up by as much as 3.3 percentage points during the year, to 4.8%. The key growth generators of the general price level were a boost in food prices, which contributed to inflation by a total of 4 percentage points, and, to a somewhat lesser extent, the growth in housing costs.

In 2007, India recorded slower but still high real GDP growth of 9.2%, greatly due to a continuation of rapid investment and personal consumption growth. An exceptionally strong inflow of foreign investments provided an impetus for the rupee appreciation, which impacted negatively on the competitiveness of India's exports. Moreover, as a result of a marked increase in imports, the current account deficit went up from 1.1% of GDP in 2006 to 1.8% of GDP in 2007. Inflation rate rose only slightly relative to 2006, to 6.4%.

Real GDP growth in the Russian Federation reached 8.1% in 2007, up 0.7 percentage points on 2006. The growth in energy product prices, which led to an economic slowdown in developed countries, produced a contrary effect in Russia, given the large share of oil and gas in Russian exports. Investments and personal consumption continued strongly upwards. Despite the administrative price control measures, the inflation rate remained above the target level of 8%. The current account surplus decreased from 9.5% of GDP in 2006 to 5.9% in 2007, primarily due to a marked increase in goods imports.

Most countries of Southeast Europe<sup>2</sup> saw an acceleration of their relatively high economic growth rates achieved in 2006, with the exception of Bosnia and Herzegovina, which reported a mild slowdown, from 6.2% to 5.8%. The main growth generator in these countries was the heavy domestic demand, whereas the negative net exports had a contrary effect. Such economic activity developments led to a fall in unemployment rates. Despite its decrease, unemployment in the region remained very high. Bosnia and Herzegovina and Macedonia, for example, recorded unemployment rates as high as 42.9% and 34.9% respectively. All the countries in the region witnessed the worsening

1.7 Real GDP Growth, Unemployment and Inflation Rates in Japan



<sup>2</sup> Albania, Bosnia and Herzegovina, Montenegro, Macedonia and Serbia.

of their current account balances, mostly owing to the fast growth of imports resulting from a boost in domestic demand. Montenegro stands out among other countries, with its current account deficit of 37% of GDP in 2007.

GDP growth in the countries of South and Central America continued at relatively high rates in 2007. The strongest impetus to economic growth was provided by rising domestic demand, together with the prices of some raw materials (e.g. crude oil, metals and agricultural raw materials), being important export products of this group of countries. Among the large Latin American economies, Brazil recorded a strong acceleration of its economic growth, as opposed to Mexico, whose economy declined markedly, mainly due to the weakened demand from the USA, Mexico's most important trading partner.

### 1.1.5 Crude Oil Price Movements

The average crude oil price per barrel increased by 10.6% in 2007 (from USD 64.3 in 2006 to USD 71.1), half the increase recorded in 2006 (20.5%). The oil price growth was more pronounced in the second half of 2007, so that the crude oil price exceeded USD 90 per barrel at the end of the year. The oil price movements during 2007 were additionally influenced by supply and demand. The major factors of influence were the slower than expected growth of crude oil production in non-OPEC countries and rapid growth of demand for crude oil, particularly from China and India. Moreover, like in the previous years, the market showed concern over the security of crude oil deliveries from politically unstable countries (Iraq, Nigeria and Venezuela), whereas the tensions between the USA and Iran continued to contribute to high crude oil prices. Furthermore, concerns about the economic recession in the USA and further depreciation of the US dollar prompted investors to redirect investments from financial to goods markets, particularly in raw materials, whose prices are expected to continue their upward trend in the near future.

1.8 Crude Oil Price in the World Market



## 1.2 Economic Activity

### 1.2.1 Demand

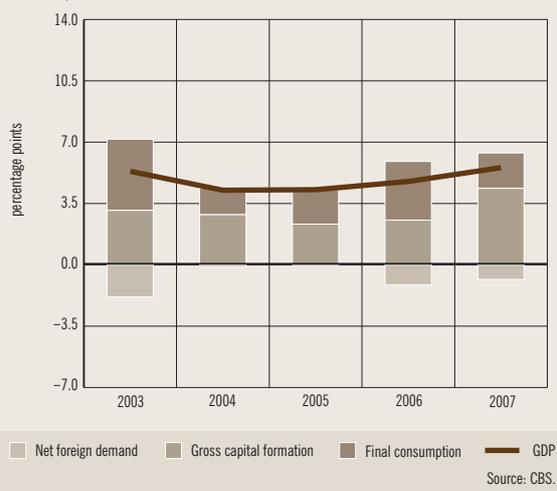
According to the quarterly GDP estimate, real economic growth stood at 5.6%<sup>3</sup> in 2007, up 0.8 percentage points from 2006. The strengthening of total economic activity was largely driven by rising final consumption. Exceptionally strong public investment growth partly offset the decline in the private sector investment activity, so that gross fixed capital formation also made a sizeable contribution to economic growth during 2007. International trade declined slightly, notably due to a slowdown in goods trade.

The general price level growth, measured by implicit GDP deflator, reached 4.0% in 2007, 0.6 percentage points above its growth rate in 2006. The acceleration of the annual growth rate of implicit GDP deflator was mainly due to strong growth of government consumption deflator. However, one may not disregard the accelerated dynamics of implicit deflator for goods and services exports which, paralleled with a slowdown in the growth of total

<sup>3</sup> The CBS data on GDP for 2005, 2006 and 2007 are based on a quarterly GDP estimates and are therefore provisional.

### 1.9 Contributions of Domestic and Foreign Demand to GDP Growth

constant prices



imports deflator, partly contributed to the worsening of price competitiveness of domestic goods and services in foreign markets. In the observed period, nominal GDP was estimated at HRK 275.1bn, which is HRK 24.5bn or 9.8% more than in 2006.

Personal consumption was the main economic growth generator during 2007, contributing 3.7 percentage points to GDP formation. It is noteworthy that in 2007, personal consumption reached its record high (6.2%) since 2002, when it stood at 7.7%. Heavier consumption in 2007 primarily resulted from increased primary and secondary household incomes, high capital market yields and increased consumer optimism. Average real net wage rose by 2.3% in 2007, and the estimated employment growth was stronger (3.3%). A boost in personal consumption was due to a marked real acceleration of government transfers to households (including the repayment of debt to pensioners totalling HRK 3.4bn), and the regular semi-annual pension indexing

by 3.9%.<sup>4</sup> Bank loans to households and favourable capital market movements, paralleled with a boost in consumer optimism, additionally stimulated household consumption during most of the year. Nevertheless, personal consumption growth decelerated continuously over the year, from 7.1% in the first to 5.0% in the last quarter.

Government consumption continued to grow in 2007. General government real expenditures for current consumption rose at a rate of 3.4%, their contribution to total GDP formation increasing from 0.4 percentage points in 2006 to 0.7 percentage points in 2007. As shown by the MoF data on the consolidated general government expenditure, the real government consumption growth was mainly the consequence of a rapid increase in government expenditures for goods and services. By contrast, lower employment in public administration led to a slowdown in the real dynamics of wages and salaries paid. The nominal growth of this category of government expenditures increased during 2007, mostly as the result of an administratively regulated increase in the wage calculation base for budgetary users and a rise in severance payments (by 51.3% nominally), which led to a huge increase in implicit deflator for government consumption (by 6.1%).

Investment activity was more moderate in 2007, compared with that in 2006, despite several years of steady and relatively strong growth of gross profits and a continuous improvement of business climate and entrepreneurial activity. Gross fixed capital formation grew at a rate of 6.5%, contributing 2.0 percentage points to total GDP formation. These developments arose from a slowdown in the private sector investment activity over the second half of 2007, which was partly due to a reduced demand of households for real estate (investments in the housing stock). This is corroborated by the available bank data on extended housing loans and the CBS data on the sale of newly built apartments in 2007. In contrast to this, net capital expenditures of the general government (primarily investments in road infrastructure and railway modernisation) grew strongly, thus partly offsetting the aforementioned decline in private investment. In 2007, the gross fixed capital formation trend continued to be in line with the movements in gross value added in construction, given that construction projects account for the largest share in total investments in capital assets.

International goods and services trade shrank slightly over 2007 relative to 2006,<sup>5</sup> with the slowdown in imports being more pronounced than that in exports. Goods and services imports at constant prices grew at a rate of 5.8% (7.3% in 2006), and goods and services exports at a rate of 5.7% (6.9% in 2006). As a result, net foreign demand

4 The semi-annual pension indexing has been carried out since 2005, by adjusting the current value of pension to a rate which equals half the sum of the rate of change in average consumer price index in the previous semi-annual period and the rate of change in average gross wage of all employees in the Republic of Croatia in the previous semi-annual period relative to the previous semi-annual period. In 2007, the first nominal indexation (by 1.3%) took place in March and the second (by 2.6%) in September (the indexation was higher in both nominal and real terms than in 2006).

5 At this point it should be mentioned that the values of imports and exports of goods and services in the National Accounts do not fully correspond with those in the Balance of Payments due to the differences in the calculation of tourist consumption.

made a negative contribution of 0.8 percentage points to real economic activity growth, but the external imbalance was still mitigated compared with 2006.

Given the small share of the change in inventories in total of GDP, and its low growth rate (0.6%), this category had almost no influence on the economic growth formation in 2007.

## 1.2.2 Output

As shown by the GDP calculation according to production method,<sup>6</sup> total GVA went up 5.6% in real terms in 2007 relative to 2006, when it grew at a rate of 4.8%. As the net indirect tax growth almost equalled the total growth of GVA in 2007, there is no significant difference between the rates of change in GDP and GVA.<sup>7</sup> The acceleration of GVA growth in all economic activities during 2007 was mostly due to a sharp increase in gross value added in service activities, as a result of personal consumption strengthening and a heavy foreign demand for tourist services. The contribution of service activities to total GVA growth amounted to 3.7 percentage points. GVA dynamics of other activities was slightly more moderate, mainly due to the weakening of construction activity.

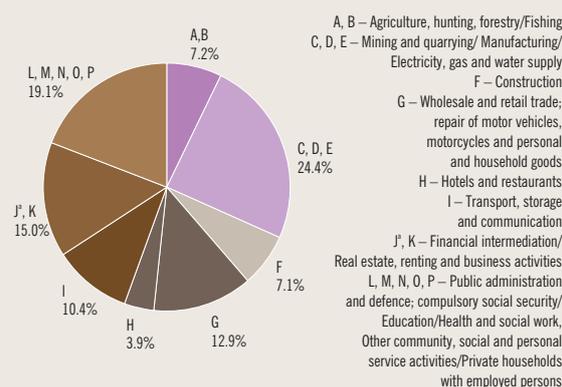
Viewed individually, the strongest GVA acceleration relative to 2006 was observed in hotels and restaurants, financial intermediation and trade. Moreover, special prominence should be given to GVA growth in industry, given its large share in total economy. In contrast to this, the sharpest slowdown in GVA growth was recorded in construction.

### Industry and Construction

GVA in industry went up 6.5% in 2007 relative to 2006, its contribution to total real GVA growth amounting to 1.9 percentage points in this period. Viewed by semi-annual period, GVA growth in industry decelerated in the second half of 2007.

The industrial production growth was largely fuelled by stronger production of consumer goods. As suggested by nominal CBS data on merchandise trade, increased supply of these goods was mainly absorbed by the domestic market. On the other hand, production of investment goods slowed down compared with 2006, due to the weakening domestic demand for these goods.

**1.10 Gross Value Added by NCEA Categories in 2007**  
current prices



\*FISIM excluded.  
Source: CBS.

**1.11 Gross Value Added in Industry and Construction**  
trend-cycle



Source: CBS.

6 In the National Accounts, GVA is expressed at the so-called basic prices, whereas GDP is expressed at market prices. The GDP calculation according to production method is made by totalling the value added realised in all economic activities and increasing it by the total amount of tax on products reduced by subsidies. However, as the category 'net indirect taxes' is not included in the CBS's GDP calculation at constant prices, this value can be obtained as a GDP and GVA residual expressed at constant 1997 prices.

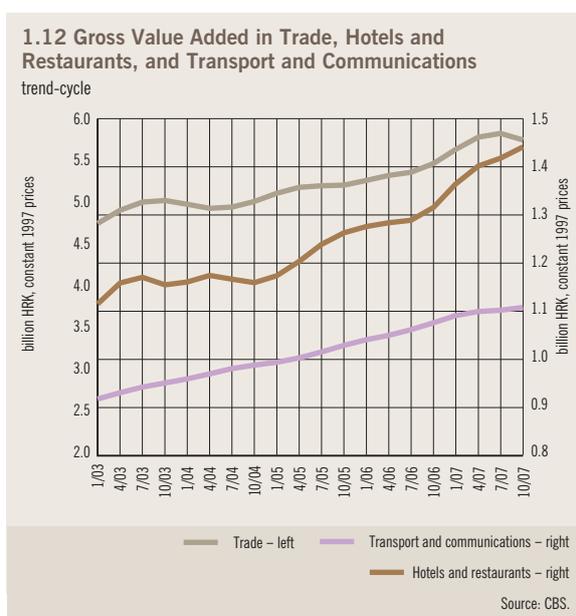
7 The category 'net indirect taxes' is obtained by reducing the total amount of indirect taxes collected by subsidies to companies. Owing to favourable economic movements in 2007, tax revenues increased sharply, but this increase was partly offset by a substantial rise in subsidies to companies.

Manufacturing, making the bulk of industrial production, grew at a rate of 6.6% in 2007 (up 2.1 percentage points on 2006). By contrast, the production dynamics of energy supply slowed down additionally, partly as a result of relatively good weather conditions. Slower growth of production in mining and quarrying, and its short-term fluctuations over the year mainly reflected the changes in construction activity during the year.

GVA growth in construction (by 3.8%) slowed down sharply in 2007 relative to 2006. Consequently, the contribution of this activity to total GVA growth was half as large as in 2006, 0.3 percentage points. The construction activity slowdown was the most pronounced in the first half of the year. As suggested by the available MoF data on the volume of investment in fixed assets during 2007, the recovery of construction at mid-year was mainly due to increased public investment in road construction. A slowdown in public sector investment in construction and a reduced volume of local government's investment in government stimulated house building stopped the strong upward trend in works on buildings that started at end-2004.

## Non-Financial Services

A boost in personal consumption in 2007, paralleled with good tourist performance stimulated the GVA growth in trade. At the entire-2007 level, real GVA in this activity rose by 7.5% relative to 2006, so that the contribution of trade to total GVA growth stood at 1.1 percentage points. Nominal CBS data on distributive trade in 2007 point to strong growth of turnover in both wholesale and retail trade, accompanied by the accumulation of trade inventories.



According to financial and volume indicators of demand for tourist services, the 2007 tourist season was very successful. Tourist arrivals and overnight stays went up 7.5% and 5.7% respectively, compared with 2006, whereas the revenues from travel services recorded in the balance of payments (in euro terms) rose nominally by 7.2% relative to the year before. Moreover, 2007 saw an upward trend in demand for tourist services during the off-tourist season. The structure of tourists remained almost unchanged, with foreign tourists accounting for more than 90% of both total arrivals and nights. Most tourists came from Germany, Slovenia, Italy, the Czech Republic and Austria.

These movements and the changes in personal consumption during 2007, led to an acceleration of GVA growth in hotels and restaurants. The rate of change in GVA in this category thus reached a high of 9.4% and its contribution to total GVA growth rose mildly. However, it should be noted that the contribution of this activity to economic growth rather underestimates the direct and

indirect impacts of tourist consumption on the real growth in overall GVA. But, given the strong interconnectivity of tourist consumption with other economic activities, these impacts are difficult to be precisely quantified.

In line with the volume indicators of tourist arrivals over 2007, GVA in transport, storage and communications, being a pronouncedly dynamic activity, grew at a high rate of 7.1%. This was mostly the result of a sharp increase in the transport of passengers measured by passenger-kilometres, which rose by 10.9% relative to 2006. By contrast, transport of goods, measured by ton-kilometres, grew at a much slower rate of 0.9%. Telecommunications services saw a continuation of a downward trend in minutes spent in fixed network, whereas minutes spent in mobile network continued strongly upwards.

### 1.2.3 Labour Market

In line with the movements in overall economy, labour market recorded positive trends in 2007. As a result of a decrease in registered unemployment in 2007, the number of unemployed persons registered with the CES stood at 254,484 at year-end, down 38,669 (13.2%) from end-2006. The average registered unemployment rate for 2007 stood at 14.8% and was 1.8 percentage points below the average rate for 2006. According to the latest Labour Force Survey results, published quarterly since the beginning of 2007, the Labour Force Survey unemployment rate stood at 8.4% in the third quarter of 2007, whereas the average unemployment rate for the first three quarters of the year reached 9.6%.

As suggested by the CBS data, average employment stood at 1,516,909 in 2007, up 49,033 (3.3%) on 2006. Owing to an annual acceleration of the nominal gross and net wage growth, accompanied by a slowdown in the growth of the annual consumer price index, real gross and net wages paid rose faster in 2007 relative to 2006. As a result of the tax progression, the average real net wage growth (2.3%) slowed down compared with the average real gross wage growth (3.4%).

#### Employment and Unemployment

At the annual level, registered unemployment decreased continuously during 2007. Seasonally adjusted data point to a decline in registered unemployment in 2007, by 27,300 or 9.4% on average, relative to 2006. This decline was mostly attributable to a sharp fall in the number of unemployed persons during the second half of the year. The number of unemployed persons registered with the CES was the lowest in August, 242,900, hitting a record low for the last 11 years. These movements of registered unemployment corroborate the continued downward trend in unemployment, observed since early 2005. The average registered unemployment rate reached 14.8% in 2007, down 1.8 percentage points from 2006.

The structure of inflows into and outflows from the CES register of unemployed persons shows that the annual decline in registered unemployment resulted from an annual decrease in the number of newly registered persons with the CES, unlike in 2006, when unemployment dropped due to stronger employment from the register. As a result of a continued weakening of inflows into the CES register throughout 2007, the monthly average number of the newly registered with the CES was 17,200 (down 2,200 or 11.5% in annual terms).

By contrast, outflows from the register decreased, so that the number of persons employed from the register averaged 12,200 at the monthly level, down 1.9% from 2006. Besides employment from the CES register, the outflows also include clearings from the register for non-employment reasons, e.g. failure to report regularly to the CES, non-compliance with regulations, unregistration, military service, retirement, change of status, etc. The number of clearings during 2007 remained low and has not changed significantly since end-2004.

1.13 Unemployed Persons Registered with the Croatian Employment Service



**Table 1.1 Inflows into and Outflows from the CES Register**

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

	1 – 6/2007	7 – 12/2007	2007	Share in total flow		
	1 – 6/2006	7 – 12/2006	2006	1 – 6/2007	7 – 12/2007	2007
<b>Newly registered</b>						
<b>1. By type of inflow:</b>	<b>-7.2</b>	<b>-14.5</b>	<b>-11.5</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
– directly from employment	-3.9	-13.3	-9.3	62.0	59.6	60.6
– from private agriculture or similar works	-10.4	-42.5	-27.7	0.9	0.5	0.7
– directly from school	-14.2	-20.4	-19.3	4.3	14.3	9.9
– from inactivity	-11.8	-12.9	-12.3	32.8	25.6	28.8
<b>2. By previous work experience:</b>	<b>-7.2</b>	<b>-14.5</b>	<b>-11.5</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
– first-time job seekers	-16.7	-21.2	-19.6	19.5	25.8	23.1
– previously employed	-4.6	-12.0	-8.7	80.5	74.2	76.9
<b>Outflow from the CES register</b>	<b>2.4</b>	<b>-5.1</b>	<b>-1.1</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
– outflow from the register to employment	2.8	-7.7	-1.9	63.5	55.4	59.8
– cleared for other reasons	1.8	-1.6	0.0	36.5	44.6	40.2

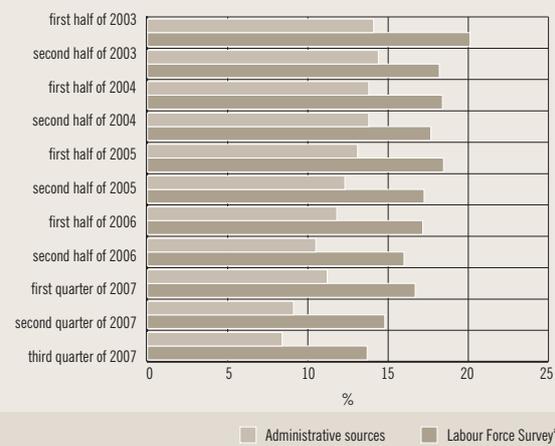
Source: CES.

**1.14 Total Employment According to Administrative Sources and the CPIA**



Sources: CBS and CPIA.

**1.15 Administrative and Labour Force Survey Unemployment Rates**



<sup>a</sup>The Labour Force Survey is published quarterly since the beginning of 2007.

Source: CBS.

In contrast to employment from the CES register, which decreased in 2007 and to the number of insured persons with the CPIA, being a reliable short-term indicator of employment, which slowed annually from 2.8% in 2006 to 2.7% in 2007, the CBS employment data suggest stable and strong growth of employment. According to the final CBS data on employment, the number of employed persons averaged 1,516,900 in 2007, up 49,000 or 3.3% on 2006. As a result of this growth, the annual rate of change in total employment equalled the rate in 2006. Employment in legal entities, which accounts for almost 80% of total employment, made the largest contribution to total employment growth during 2007, its annual growth rate increasing from 4.2% in 2006 to 4.5% in 2007. Employment in crafts and trades and free lances rose annually by 0.4% in the observed period, which represents a slowdown relative to 2006 (1.7%). The number of private farmers actively insured with the CPIA continued to fall at a faster pace than in 2006, thus offsetting the small but positive contribution of employment in crafts and trades and free lances to total employment growth. Viewed by NCEA activity, the largest positive contributions to total employment growth in 2007 came from real estate, rental and business services (10,400 or 10.6%), construction (7,600 or 5.8%) and wholesale and retail trade (12,900 or 5.1%). Negative annual rates of change in employment in 2007 were reported by electricity, gas and water supply and narrowly defined public administration. On the other hand, industry and public administration (including education, health care and social welfare) recorded positive annual employment growth, 2.8% and 1.8% respectively.

During 2006, the CBS created the conditions for methodological and implementation improvements in the Labour Force Survey, aimed at obtaining more accurate results and ensuring full harmonisation with the EU *acquis communautaire*. As a result, the Survey has been

conducted on a continuous basis since 2007, i.e. households are interviewed continually throughout the year, with each week being a reference week or surveyed or implementation week. The data collected are continuously submitted to the CBS which processes them and publishes the results on a quarterly basis. Owing to the described changes, it is difficult to make comparisons with the existing survey data on employment and unemployment, because they are available semi-annually. According to the latest available Labour Force Survey data for the first three quarters of 2007, the number of unemployed persons declined continuously, falling to 151,000 in the third quarter, a record low unemployment ever since the Survey has been conducted. During the first three quarters of 2007, the Labour Force Survey unemployment decreased by 36,000 (17.5%) compared with the first half of 2006, or by 28,500 (14.4%) compared with the entire 2006. Apart from the decline in unemployment, the Labour Force Survey results also suggest positive employment trends. Indeed, during the third quarter of 2007, the number of employed persons stood at 1,661,000, which represents an increase by 63,000 relative to the first half of 2006, or by 25,000 (1.6%) relative to the entire 2006. The Labour Force Survey employment rate also increased in the third quarter to 45.4% (from 43.6% in 2006). The Labour Force Survey unemployment rate continued its downward trend recorded ever since 2001. In the third quarter of 2007, this rate fell to 8.4%, so that the average Labour Force Survey unemployment rate for the first nine months of 2007 stood at 9.6%. The Labour Force Survey indicators for the last quarter of 2007 are still unavailable and are expected to be published in May 2008.

## Wages and Labour Costs

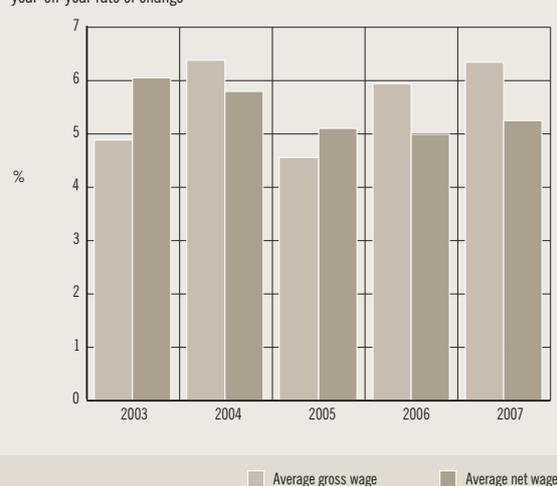
The nominal growth of gross and net wages paid accelerated during 2007, so that the annual rate of average nominal gross wage reached 6.3%, up 0.4 percentage points on 2006, whereas the average nominal net wage growth increased from 5.0% in 2006 to 5.3% in 2007.

Moderate growth in nominal wages and the acceleration of the consumer price index throughout the year impacted on the real wage growth. The real wage movements were determined by the nominal wage trends during most of the year, but their influence faded towards year-end, as the growth of real wages decelerated owing to a boost in the consumer price index. The annual rate of average real gross wage paid in 2007 stood at 3.4%, up 0.7 percentage points on 2006. Owing to the tax progression effects, average real net wage rose at a lower annual rate of 2.3% (1.7% in 2006).

The annual acceleration of average real gross wage in 2007 arose from a marked wage growth in most NCEA activities. The largest positive contributions to average real gross wage growth came from manufacturing and wholesale and retail trade, notably due to the large shares of these activities in total economy. The highest annual rates of gross wage growth were reported by agriculture (6.4%), construction (5.7%) and mining and quarrying (5.4%). Real gross wage paid in public administration (including education, health care and social welfare) grew at an annual rate of 4.7%, up 3.2 percentage points on 2006. Such growth was, among other things, the result of an agreement on a 6% increase in the wage base in public administration for 2007, relative to the base applied in 2006. In contrast to the general wage growth trend, real gross wage in industry declined annually from 3.8% in 2006 to 2.9% in 2007. This was mostly attributable to a slowdown in wages paid in manufacturing. Labour productivity in industry, measured

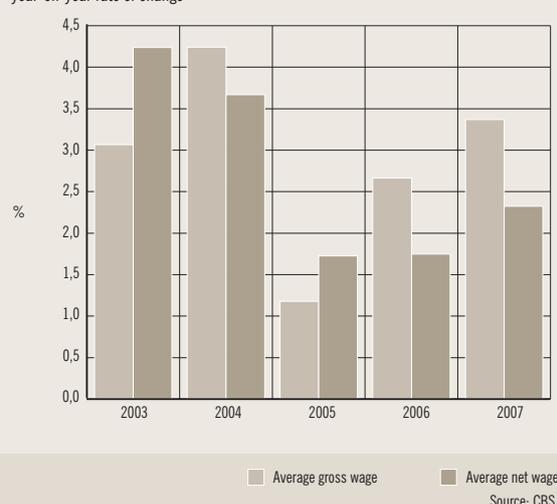
1.16 Average Nominal Wage

year-on-year rate of change



1.17 Average Real Wage

year-on-year rate of change



by the GVA dynamics in this activity, at constant prices, per employee accelerated annually from 3.0% in 2006 to 3.6% in 2007. The growth of gross wages in industry was slower than the labour productivity growth in this activity and should therefore have no major impact on inflation.

## 1.2.4 Prices and the Exchange Rate

### Prices

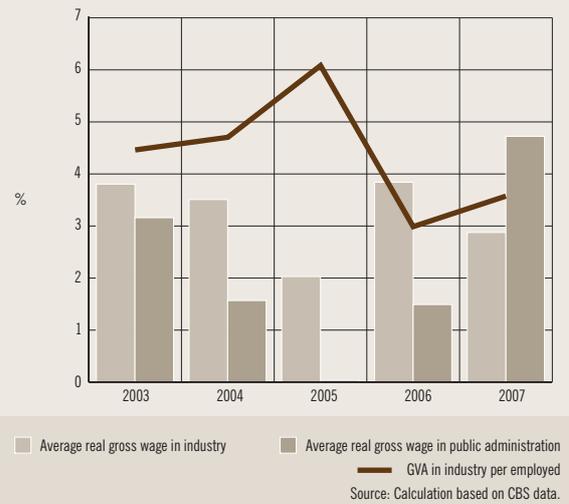
The annual rate of change of the CPI increased from 2.0% at the end of 2006 to 5.8% in December 2007, with the inflation rate accelerating considerably after July. The average annual rate of change of the CPI decreased by 0.3 percentage points, from 3.2% in 2006 to 2.9% in 2007. This was due to a low effect of inflation carried over from 2006,<sup>8</sup> but also to stable consumer price trends in the first seven months in 2007. In contrast, core inflation rose in 2007, with its average annual rate of change up from 2.5% in 2006 to 3.0% in 2007. Industrial producer prices also increased and the average annual rate of change in the producer price index went up from 2.9% in 2006 to 3.4% in 2007.

The annual growth of consumer price inflation in 2007 was primarily driven by negative supply side-shocks, which sharply pushed up the prices of food products and refined petroleum products. The increase in the domestic prices of food products was caused by drought and the growth of world food raw material prices (primarily cereals, oilseeds and milk), while the growth of domestic refined petroleum product prices resulted from the crude oil price increase in the world market. The annual rate of change in food prices increased from 0.4% in December 2006 to 11.4% in December 2007, with the result that the contribution of this product group to the overall annual inflation rate went up from 0.1 to 3.2 percentage points in the observed period. The annual rate of change in refined petroleum product prices accelerated from -1.9% in December 2006 to 10.9% in December 2007 and the contribution of this product group to the overall inflation rate increased from -0.1 to 0.6 percentage points in the same period.

The annual increase in consumer price inflation in 2007 was also partly due to demand-side factors. The real annual growth of personal consumption accelerated considerably in 2007. Household disposable income increased in the first half of 2007 due to the growth of banks' placements to households, which, however, slowed in the second half of the year, thanks to the tightening of CNB's measures. The nominal growth of household disposable income was considerably influenced by the repayment of the government's debt owed to pensioners and the increase in other government transfers to households (including severance payments). Consumer confidence surveys showed a marked increase in consumer confidence around mid-2007, which could partly be ascribed to the favourable macro-economic environment, but also to expectations of an increase in household capital gains on investments in shares (continued privatisation of T-HT) and investment funds.

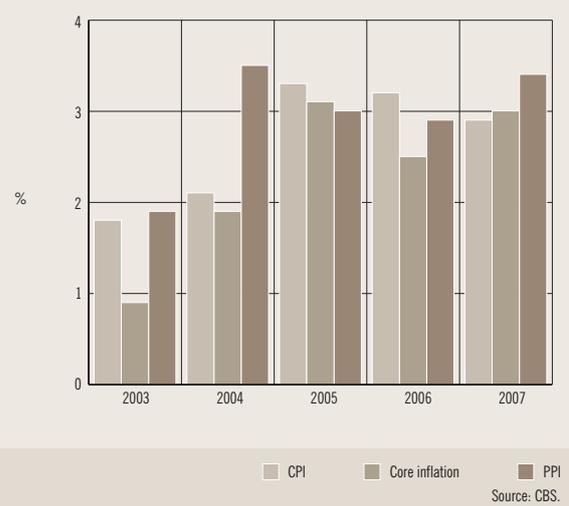
1.18 Gross Wage and GVA per Employed

year-on-year rate of change



1.19 CPI, Core Inflation and PPI

average year-on-year rate of change



<sup>8</sup> The carry-over effect from 2006 to 2007 amounted to only 0.4 percentage points due to the slow CPI growth in the second half of 2006, while the carry-over effect from 2007 to 2008 amounted to a higher 3.3 percentage points.

As shown by an analysis of the three CPI components, the largest contribution to overall inflation growth came from core inflation. The annual rate of change of core inflation, which excludes administrative prices and agricultural product prices, increased considerably in the last five months in 2007 – from 2.3% in December 2006 to 2.4 % in July and 5.0% in December 2007. This was to a large extent due to the price growth of industrial food products (milk and dairy products, bread and cereal products, oil and meat) since August 2007. The acceleration of core inflation over the year was also due to the price increase in tobacco products (caused by the rise in their producer prices) and footwear. The drop in car prices, which followed their growth in 2006, had the opposite effect on core inflation trends in the observed period.

The increase in agricultural product prices strongly contributed to the acceleration of the annual inflation rate in 2007. The annual rate of change in these products' prices went up from –1.3% in December 2006 to 18.0% in December 2007, primarily due to the growth of vegetable prices.

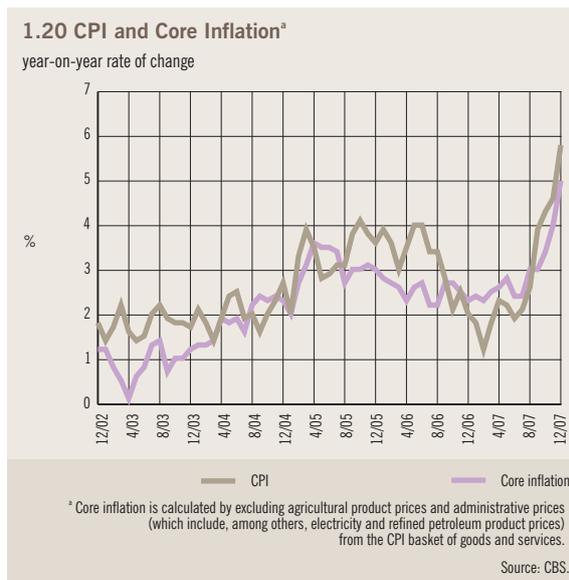
**Table 1.2 Consumer Price Index**

year-on-year rate of change

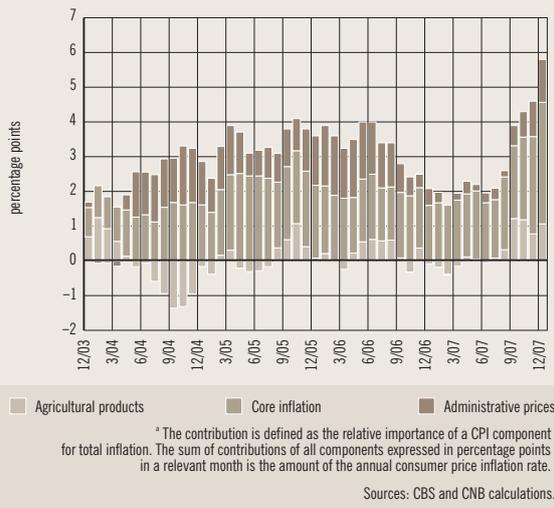
	Weight 2007	12/2006	3/2007	6/2007	9/2007	12/2007
<b>Total</b>	<b>100.0</b>	<b>2.0</b>	<b>1.8</b>	<b>1.9</b>	<b>3.9</b>	<b>5.8</b>
Food and non-alcoholic beverages	30.5	0.8	0.2	0.8	6.7	10.7
Alcoholic drinks and tobacco	5.5	1.9	1.3	2.7	4.1	6.4
Clothing and footwear	8.5	3.2	5.2	5.5	4.9	5.1
Housing, water, energy, gas and other fuels	14.5	5.4	3.0	1.6	1.7	3.9
Furniture, equipment and maintenance	5.4	2.5	2.0	1.6	1.9	3.0
Health	2.9	1.9	1.9	2.6	1.3	1.3
Transport	11.5	1.1	2.1	3.0	2.8	4.7
Communication	4.4	-0.1	-0.3	-0.2	-0.3	-0.3
Recreation and culture	6.3	0.9	2.5	1.3	3.1	1.8
Education	1.0	0.2	0.0	0.0	2.3	2.3
Catering services	3.6	2.3	2.4	1.6	1.9	2.4
Miscellaneous goods and services	5.9	2.9	3.4	3.6	3.4	4.4
<b>Goods</b>	<b>76.4</b>	<b>1.4</b>	<b>1.1</b>	<b>1.6</b>	<b>4.3</b>	<b>6.6</b>
<b>Services</b>	<b>23.6</b>	<b>4.2</b>	<b>3.7</b>	<b>2.7</b>	<b>2.2</b>	<b>3.4</b>

Source: CBS.

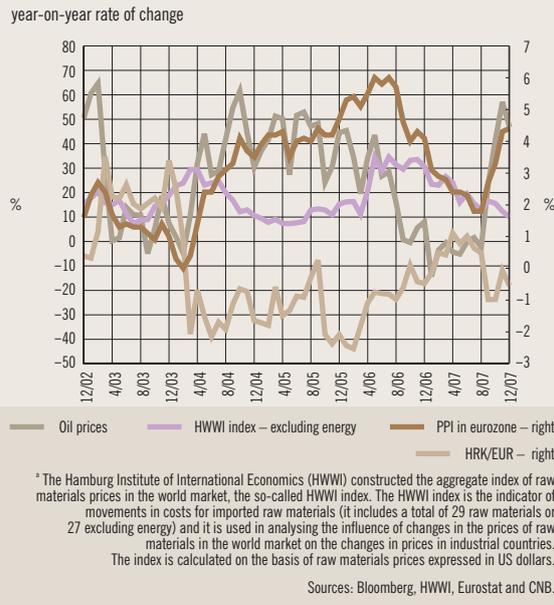
The annual rate of change of administrative prices went up from 2.0% in December 2006 to 5.1% in December 2007, chiefly as result of the increase in the annual rate of change of refined petroleum product prices. The Government offset the pass-through effect of the increase in world crude oil prices on domestic refined petroleum product prices by reducing excises on all types of unleaded petrol in late April 2007. The annual growth rate of refined petroleum product prices increased in the last quarter of 2007 due to the crude oil price increase in the world market and the negative base effect, resulting from the price drop in domestic refined petroleum product prices in the same period in 2006.



**1.21 Contribution<sup>9</sup> of CPI Components to Year-on-Year Inflation Rate**



**1.22 Imported Inflation: Oil Prices, the HWWI Index<sup>9</sup>, the Average Kuna/Euro Exchange Rate and Producer Prices in the Eurozone**



In 2007, imported inflationary pressures were generated by the sharp increase in world crude oil and food raw material prices. These pressures were partly offset by a marked appreciation of the kuna/US dollar exchange rate. Having risen by an average 8.1% (in US dollar terms) in 2006, world crude oil prices continued to grow at a much sharper rate averaging 46.8% in 2007 (from USD 61.0 per barrel in December 2006 to USD 89.5 per barrel in December 2007). This growth amounted to 32.4% in kuna terms in the same period, due to the nominal appreciation of the kuna exchange rate against the US dollar. The increase in world crude oil prices was the sharpest in the last quarter of 2007. Specifically, crude oil prices continued to rise from September into the first two months of the last quarter, due, among other things, to the fall in US crude oil reserves, market concerns over the build up of tensions in the Middle East over Turkey's military intervention in northern Iraq, bad weather conditions in the Gulf of Mexico, market concerns that oil reserves might not be sufficient to meet winter demand and the continued weakening of the US dollar. Crude oil prices fell by 2.0% in December relative to November.

In 2007, imported inflationary pressures also derived from price increases in other raw materials on the world market. Raw material prices<sup>9</sup> increased by a significant 10.0% in December 2007 relative to the end of 2006, but this rate was still lower than the rate of 30.6% recorded in 2006. Food raw material prices grew especially strongly in 2007, with oilseeds prices surging by 71.1% in December 2007 relative to the same period in 2006. The annual rate of change of world cereals prices slowed down from 50.9% in December 2006 to a still high 39.8% in December 2007. The supply-side factors that had an impact on the increase in world food raw material prices included bad weather conditions (droughts and floods) and cattle diseases. Among the demand-side factors contributing to the increase were the growth of demand for food raw materials for bio-diesel production and the rising demand of developing countries, especially of China and India. Other contributing factors included the crude oil price rise, increase

in freight tariffs, depreciation of the US dollar exchange rate, and speculative investments of investment funds. The conditions on the world market for food products were further aggravated by weak reserves of food raw materials, which made their prices sensitive to unanticipated shifts in supply and demand. This was in consequence of the liberalisation of markets for food raw materials in many countries, which led to the decrease in the state reserves of these products. On the other hand, world prices of non-ferrous metals dropped by 11.3% in 2007. Analysts ascribe this to disturbances in the global financial market and market concern that the global economic slowdown, and especially the slowdown in the US economy, could decrease demand for non-ferrous metals.

The annual rate of change of producer prices in the eurozone increased from 4.1% in December 2006 to 4.4% in December 2007, primarily due to the growth of energy and food product prices. In contrast, the prices of inter-

<sup>9</sup> As measured by the HWWI index (excluding energy products, in US dollar terms).

mediate goods in the eurozone dropped in the observed period due to, according to ECB analysts, the strengthening of the euro exchange rate on the world foreign exchange markets and the stabilisation of industrial raw material prices. The annual rates of change of producer prices of capital goods and durable consumer goods in the eurozone were mostly in the low inflation range (up to 2.0%) in 2007, so that there were no pressures from this source on the growth of import prices in Croatia.

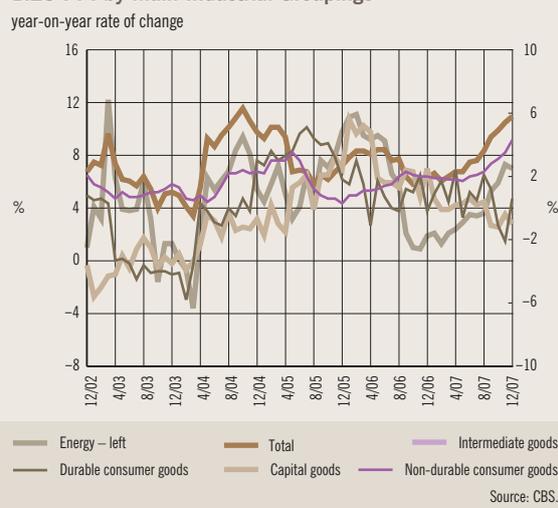
Domestic industrial producer prices accelerated sharply in 2007. Their annual rate of change went up from 1.9% in December 2006 to 5.8% in December 2007. A price increase was recorded in all main industrial groupings, except in capital goods. Especially sharp was the rise in the annual rate of change of intermediate goods prices, which went up from 2.6% in December 2006 to 8.8% in December 2007, and the highest price increase was recorded in the production of other non-metal mineral goods, which mostly include building materials. As intermediate goods include some food raw materials (flour), their price increase in the observed period could be attributed to the increase in world food raw material prices. In contrast, the annual growth rate of prices of metal decelerated markedly in 2007, which could be ascribed to the drop in the annual rate of change of world metal prices. Furthermore, the annual rate of change of energy prices grew from 1.9% in December 2006 to 7.0% in December 2007, due to the increase in producer prices of refined petroleum products and water supply prices. The increase in world crude oil prices led to the growth of domestic refined petroleum products prices, pushing their annual rate of change up from -5.7% in December 2006 to 18.5% in December 2007. The price increase in industrial food products and the increase in producer prices of tobacco products were the main factors contributing to the price growth of non-durable consumer goods, whose annual rate of change went up from 2.0% in December 2006 to 4.3% in December 2007.

## Exchange Rate

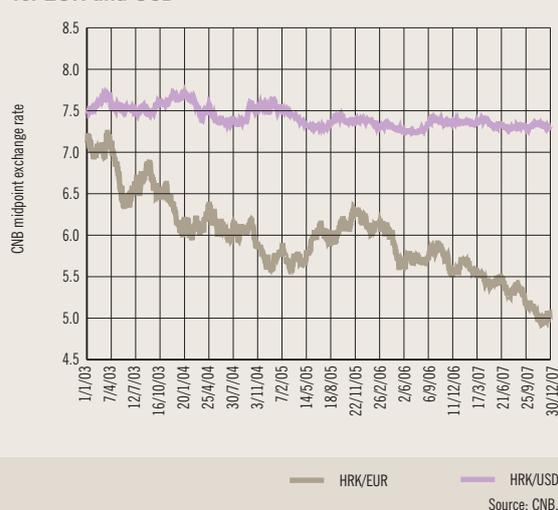
In 2007, the central bank continued to implement monetary policy aimed at maintaining the stability of the nominal exchange rate of the kuna against the euro, which is the main anchor of domestic inflationary expectations and the basic precondition for domestic price stability. In addition, a stable kuna/euro exchange rate has a positive impact on the stability of prices of goods imported from the eurozone.

The kuna/euro exchange rate appreciated by a slight 0.3% in nominal terms in 2007, with the euro dropping from HRK 7.35 at the end of 2006 to HRK 7.33 at the end of 2007. The daily nominal exchange rate of the kuna ranged between HRK 7.28 and HRK 7.41/EUR, oscillating within a narrow range from -0.8% to 1.1% around the average daily exchange rate recorded in 2007. Present for most of the observed period, appreciation pressures primarily resulted from the seasonal foreign exchange inflow from tourism, the foreign exchange supply generated by corporate foreign borrowing and the inflow of foreign exchange aimed for bank recapitalisation. In addition, the appreciation of

1.23 PPI by Main Industrial Groupings



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



the kuna/euro exchange rate was also affected by the growth of demand for the kuna for investments in securities on the domestic market.<sup>10</sup>

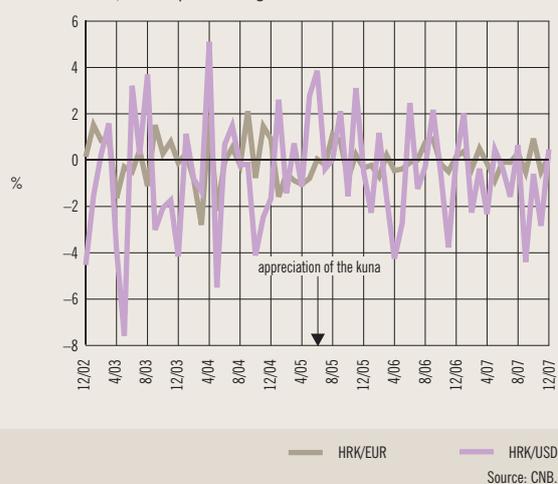
In the first half of 2007, the central bank conducted only foreign exchange transactions with the government, while the main instrument for the creation of kuna liquidity were reverse repo auctions. In the second half of the year, as appreciation pressures built up, the CNB intervened in the foreign exchange market, purchasing from banks a total of EUR 662.0m.<sup>11</sup> With EUR 177.0m purchased at the foreign exchange auction of 28 December 2006, whose monetary effect (kuna issuance) was realised in January 2007, the central bank purchased a total of EUR 839.0m from banks in 2007 and released HRK 6.1bn. Also in 2007, the central bank sold foreign exchange worth a total of EUR 171.6m to the MoF and withdrew HRK 1.3bn. In overall, the CNB issued a net of HRK 4.9bn through foreign exchange market operations in 2007, a decrease of HRK 0.7bn compared with 2006.

The appreciation of the kuna exchange rate against the US dollar recorded in 2006, when it appreciated by 10.5%, continued at the same pace in 2007. The kuna exchange rate strengthened by 10.6% against the US dollar in that year, from HRK 5.58/USD on 31 December 2006 to HRK 4.99/USD on 31 December 2007. The strengthening of the kuna/US dollar exchange rate was mainly a result of the weakening of the US dollar exchange rate versus the euro in the world foreign exchange markets. Specifically, the US dollar/euro exchange rate continued to depreciate in 2007,<sup>12</sup> with the downward pressures mainly due to market concerns over the possible consequences for the US economic activity of the subprime crisis and resulting expectations of a loosening of US monetary policy. Consequently, the said depreciation of the US dollar versus the euro was to a great extent a result of the narrowing of the interest rate spread between the US and the eurozone. The Fed cut its key rate three times in 2007, while the ECB increased its key rate two times in the same period. The Fed's key rate was thus reduced by 1.0 percentage point, from 5.25% to 4.25%, in 2007, while the eurozone key interest rate went up by 0.5 percentage points, from 3.5% to 4.0%, in the same period. In addition to strengthening against the euro and US dollar, in 2007 the kuna also strengthened by 3.5% against the Swiss franc and by 9.0% against the pound sterling. Due to these trends, the index of the daily nominal effective exchange rate of the kuna appreciated by 3.3% against the basket of currencies (31 December 2007 relative to 31 December 2006).

Data on the trends in the index of the real effective exchange rate of the kuna point to a worsening of export price competitiveness in the period from December 2006 to December 2007. The index of the real effective exchange rate of the kuna deflated by consumer prices appreciated by 5.5% in 2007, outpacing the appreciation of the nominal effective exchange rate of the kuna

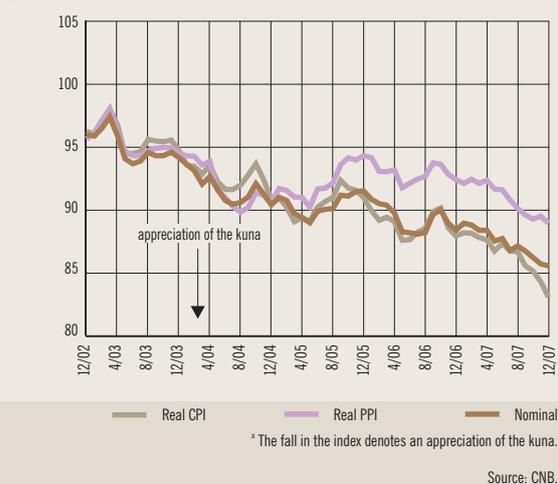
**1.25 Rates of Change of the Nominal Exchange Rate – HRK vs. EUR and USD**

month-on-month, CNB midpoint exchange rate



**1.26 Indices<sup>a</sup> of the Nominal and Real Effective Exchange Rate of the Kuna with Consumer and Producer Prices**

2001 = 100



10 This growth peaked in the second half of September and early in October, during the subscription of T-HT shares.

11 EUR 139.0m was purchased in July, EUR 355.2m in October and EUR 167.8m in December.

12 The depreciation was the sharpest in the second half of 2007.

(3.2%), which was due to the faster growth of domestic consumer prices relative to foreign consumer prices. The nominal effective kuna exchange rate appreciated mainly because of the strong nominal appreciation of the average kuna exchange rate against the US dollar. The index of the real effective exchange rate of the kuna deflated by producer prices appreciated by 3.8% in 2007, reflecting a slightly faster growth of domestic producer prices relative to foreign producer prices (Great Britain, the eurozone and Switzerland).

### 1.2.5 Monetary Developments and Monetary Policy

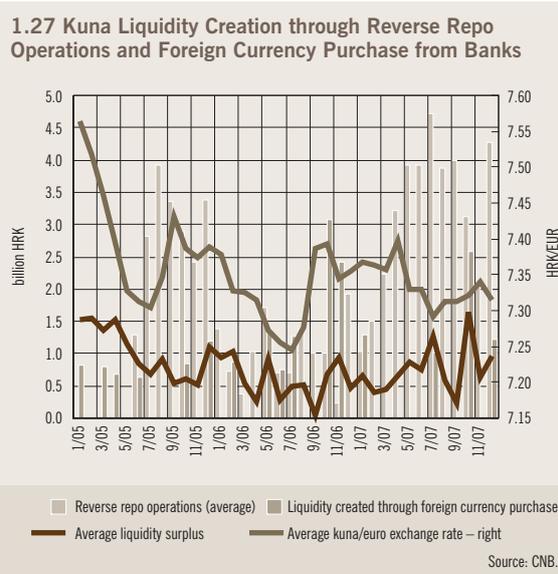
In 2007, the Croatian National Bank continued to alleviate external imbalances in the Croatian economy. In addition to the marginal reserve requirement rate of 55%, making foreign borrowing of banks much more expensive, and the prescribed 32% minimum foreign currency liquidity, the central bank, encouraged by positive experience from 2003, introduced another measure by its Decision on the subscription of compulsory CNB bills, aimed at restricting the bank placement growth. The Decision prescribes the obligation for banks whose annual placement growth in 2007 exceeds 12% to purchase compulsory CNB bills.

The 2007 measures of the CNB gave positive results: bank placements to the private sector slowed down sharply, accompanied by a decline in banks' external debt, which retarded external debt growth in overall economy. Apart from reducing external debt, external liabilities of banks in the banks' balance sheets were to a large extent substituted by capital and private sector deposits, particularly household deposits, which was also indirectly influenced by the central bank measures. Recapitalisations of banks and their stronger orientation to promoting domestic saving additionally contributed to financial stability of the banking system. It can therefore be concluded that the monetary policy instruments applied in 2007 were efficient.

In addition to strong inflows of foreign capital and the resulting appreciation pressures on the kuna/euro exchange rate, which were not induced by changes in economic fundamentals, monetary policy implementation was faced with additional challenges towards end-2007. They notably included the acceleration of the general price level, owing to the growth of food and oil prices, but also the potential risks of the global financial crisis spillover to the regional markets and Croatia. Under such circumstances, the central bank sought to maintain the stability of the nominal kuna/euro exchange rate, which is a key prerequisite for domestic price stability, as this is its legally prescribed task.

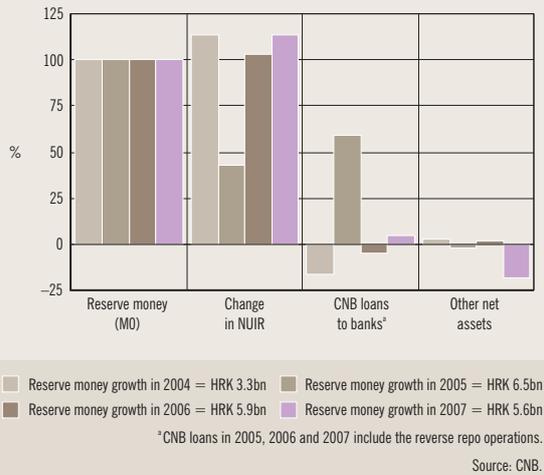
#### Monetary Policy and Flows of Creating and Withdrawing Reserve Money

Owing to a stable kuna/euro exchange rate during 2007, there was no need for frequent central bank interventions in the foreign exchange market. There were only four CNB interventions in the foreign exchange market in 2007, of which two auctions were held in July, when the demand for kuna usually strengthens due to the tourist season. One auction was held at the end of the year, as a result of the seasonal effect of heavier holiday consumption. In addition to this, the largest foreign exchange auction of the CNB in 2007 was held on the occasion of the invitation to bid for the purchase of T-HT shares in October, when the market was facing strong demand for kuna and, consequently, great appreciation pressures. In addition to these auctions, a foreign exchange intervention was held at the end of 2006, with a value date of 2 January 2007, so that its monetary effects became evident in early 2007. Foreign exchange purchased from banks in 2007 totalled EUR 0.8bn, which represents a decrease relative to the net amount of EUR 1.2bn purchased in 2006.



### 1.28 Annual Flows of Reserve Money Creation and Withdrawal

reserve money growth = 100%



Besides with banks, the central bank conducted foreign exchange purchase and sale transactions with the central government, i.e. the Ministry of Finance. The CNB was a net seller of foreign exchange, mainly used by the government for the settlement of its foreign liabilities. Net foreign exchange sales to the MoF in 2007 totalled EUR 171.6m, which represents a decrease relative to the net amount of EUR 438.3m sold by the CNB to the central government in 2006. In foreign exchange transactions conducted in 2007 both with banks and the central government, the CNB purchased a net amount of EUR 667.4m, thus creating HRK 4.9bn. These movements suggest that foreign exchange transactions continue to be the most important instrument of reserve money creation.

The CNB's short-term money supply management in 2007 largely relied on regular weekly reverse repo auctions which recorded an increase in banks' demand for kuna liquidity over the year. The reverse repo auctions

were one of the main sources used by banks in meeting their reserve requirement obligations. The reliance on reverse repo auctions was also observed in the periods of pronounced pressures in the money and foreign exchange markets, particularly in summer and during the invitation to bid process for the purchase of T-HT shares.

The average balance of funds placed at reverse repo auctions in 2007 was HRK 3.4bn, i.e. three times the amount recorded in 2006. At most auctions held during the first three quarters, the CNB accepted all the bids received from banks at a marginal repo rate of 3.5%. In the last quarter of 2007, owing to stronger inflationary pressures, reserve money creation at auctions was more restrictive. A part of bids received from banks was rejected in this period, whereas some auctions were not even held in order to avoid excess liquidity creation. Towards the end of the year, banks started to offer higher interest rates in order to ensure the necessary funds, and the central bank raised the marginal repo rate to over 4%.

Besides its regular operations, in the period from mid-June to early October the CNB also used fine-tuning operations. Like in the previous year, these operations were used to provide the necessary liquidity to finance a part of debt to pensioners to the amount of HRK 1.2bn.

### 1.29 Regular Reverse Repo Operations



In addition to open market operations, in 2007 banks also made use of other permanently available options which included obtaining liquidity from the CNB by taking intra-day and Lombard loans. On the other hand, they made overnight deposits of their surplus liquidity with the CNB. Interest-free intra-day loans were commonly used by banks for increasing their settlement account limits. Lombard loans were used more intensely during 2007, particularly in the second half of the year, when liquidity creation through regular operations gradually declined. In 2007, Lombard loans to the average amount of HRK 1.1bn were used for a total of 42 business days, whereas the overnight deposit facility worth HRK 0.8bn on average was used by banks for 107 business days.

In 2007, reserve requirements remained the main reserve money withdrawal instrument. As a result of the growth in banks' sources of funds, particularly domestic deposits, the reserve requirement calculation

base increased. The kuna component of the reserve requirement grew at a somewhat faster pace than the foreign currency component. The reserve requirement rate remained the same, 17%. Given the exceptionally favourable kuna liquidity of the banking system, there was no room for reducing the reserve requirement rate, because such a change might lead to an excessive release of sterilised liquidity. This might in turn cause imbalance and instability in the foreign exchange and money markets, owing to restricted credit activity of banks. Apart from the reserve requirements, the central bank sterilised part of liquidity by the subscription of compulsory CNB bills, particularly in the second half of the year, when the decision regulating their subscription was made more restrictive.

Foreign liabilities of banks decreased sharply in 2007, thus causing a reduction in marginal reserve requirements. At year-end, total allocated marginal reserve requirements of banks with the CNB stood at HRK 5.0bn, down HRK 2.7bn from end-2006.

### Reserve Money and International Reserves

In 2007, reserve money (M0) rose by a total of HRK 5.6bn or 12.1%, i.e. slightly less than in the previous year (HRK 5.9bn or 14.7%). In addition to autonomous and seasonal effects, the movements of reserve money were due to the changes in monetary policy instruments and measures introduced at end-2007 and during 2007, as well as due to some extraordinary events on the capital market. The increase in reserve money was largely fuelled by the subscription of compulsory CNB bills, whereas the demand for additional liquidity in the last quarter was also stimulated by the invitation to bid process for the purchase of T-HT shares.

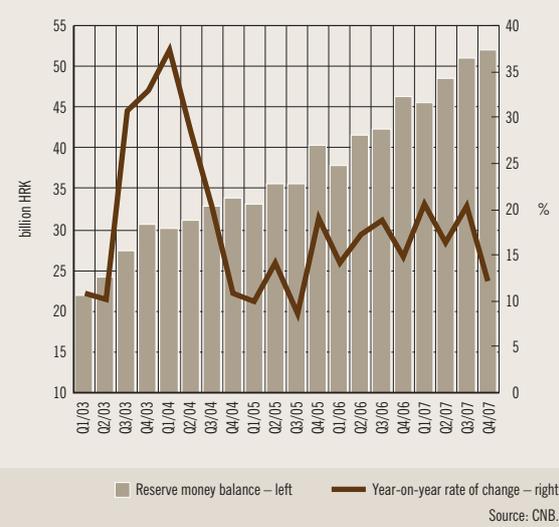
Concerning the reserve money structure, the largest increase was observed in funds allocated by banks to their accounts with the CNB based on monetary policy instruments. Bank deposits with the CNB, which include the kuna reserve requirement and purchased compulsory CNB bills, rose by HRK 4.2bn. At year-end, the purchased compulsory CNB bills stood at HRK 2.0bn, their contribution to the reserve money growth reaching 36%. The other main component of reserve money, currency outside banks went up HRK 1.4bn in 2007.

The kuna reserve requirement was influenced by autonomous growth of the calculation base due to the growth of both kuna and foreign exchange sources of funds, as 50% of the foreign currency reserve requirement is allocated and maintained in kuna. The growth of the calculation base for the kuna reserve requirement was slower relative to that in the previous year. Specifically, as a result of the central bank's decision from September 2007, by which kuna deposits with a currency clause were also included in the calculation base for maintaining the minimum foreign currency liquidity of 32%, banks abandoned their policy of substituting foreign currency deposits by kuna deposits with a currency clause, which retarded the growth of the base. At the end of 2007, the allocated and maintained kuna reserve requirement stood at HRK 31.8bn and accounted for 61% of reserve money, 2 percentage points less than at end-2006.

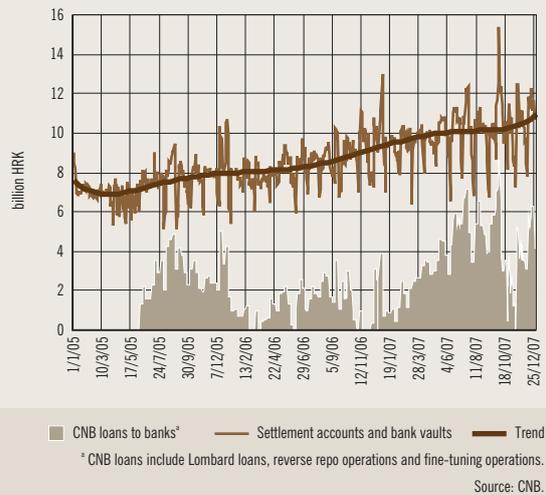
1.30 Calculated Reserve Requirements and Subscribed Compulsory CNB Bills



1.31 Reserve Money



**1.32 Banks' Settlement Accounts with the CNB and Liquidity Loans**



The balances in the settlement accounts of banks, together with the funds in bank vaults, were strongly influenced by the seasonal effects of the reserve requirement maintenance period. At the beginning of each period, banks tend to accumulate large liquidity surpluses, whereas at the end of the period, after having met their reserve requirement obligations, they channel the liquidity surpluses from their settlement accounts to overnight deposits. During 2007, liquidity surplus in the settlement accounts of banks and in bank vaults (including overnight deposits) averaged HRK 1.1bn, which was an increase compared with the average surplus of HRK 0.8bn in 2006.

The calculation base for the foreign currency reserve requirement, representing a foreign exchange item not included in reserve money, was influenced by the growth in foreign currency deposits and a drop in foreign liabilities of banks. The net effect of such developments was a moderate increase in the base during 2007, leading to a mild rise in the allocated foreign currency reserve requirement, by HRK 0.4bn relative to end-2006. The foreign currency reserve requirement thus reached HRK 9.2bn.

Central government deposits with the CNB stood at HRK 199bn at the end of 2007. The average daily balance of total deposits was lower and they were less volatile during 2007 compared with the previous year. Such trend has been observed for several years, suggesting improvement in the central government liquidity management.

Gross international reserves of the CNB rose by EUR 582m in 2007, reaching EUR 9.307m at the end of the year. Compared with 2006, their growth was more moderate, primarily as a result of reduced allocation of marginal reserve requirement. The largest share of this increase was due to the purchase of foreign exchange

**1.33 International Reserves of the CNB**



from banks, whereas the largest outflow arose from the sale of foreign exchange to the government. In contrast to this, net usable international reserves, with potential short-term outflows excluded, rose by EUR 885m last year, which approximates their increase in 2006. Besides the said transactions with banks and the central government, changes in net usable international reserves were attributable to income from international reserves investment and exchange rate differences.<sup>13</sup> At the end of 2007, net usable international reserves of the CNB stood at EUR 7,349m.

### Developments in Monetary and Credit Aggregates

Total liquid assets (M4) rose by HRK 33.4bn in 2007, owing to the growth in all M4 components: money, savings and time deposits, bonds and money market instruments. The annual movements of this broadest monetary aggregate were in line with the common seasonal dynamics, with the exception of the end of the third quarter, when M4 temporarily fell, due to transactions relating to the invitation to bid for the purchase of T-HT shares. At the end of 2007, total liquid assets amounted to HRK 215.8bn, their annual growth rate (18.3%) remaining at the level of 2006.

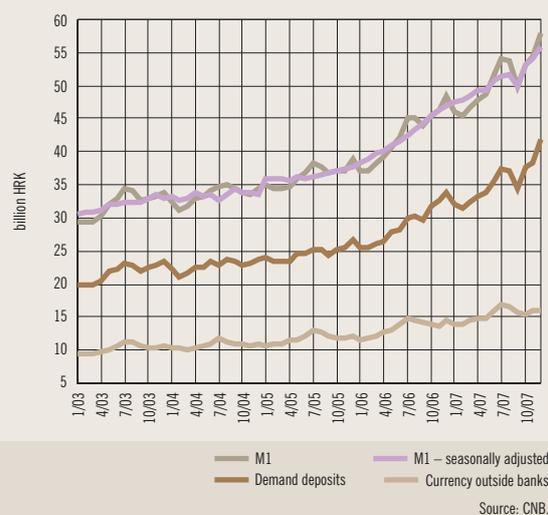
<sup>13</sup> For more details, see Chapter 2.2 International Reserves Management.

### 1.34 Monetary Aggregates

year-on-year rate of change



### 1.35 Money (M1)



In an environment of intensive economic activity in 2007, money (M1) grew at a fast pace. This narrowly defined monetary aggregate, consisting of demand deposits and currency outside banks, rose in 2007 by HRK 9.4bn, which approximates its growth in the previous year. At end-2007, M1 reached HRK 57.9bn and its annual growth rate stood at 19.3%.

Demand deposits, accounting for over two thirds of total money, were the main generator of M1 growth in 2007. The strong growth of demand deposits marked the summer months and the end of the year when commonly stronger demand for transaction money was also accompanied by banks' accelerated credit activities. Viewed by sector, the largest contributions to demand deposit growth (over 4/5 of the total) came from household and corporate sectors, whereas the remaining share was attributable to local government and non-banking financial institutions. At the end of 2007, the current and giro account balances stood at HRK 41.9bn, up 23.5% on end-2006.

### 1.36 Demand Deposits



The other component of money, currency outside banks, maintained its stable growth trend in 2007. It reached its highest levels at the peak tourist season and at the end of December as a result of increased demand for cash for holiday spending. This monetary aggregate stood at HRK 16.0bn at end-2007, whereas its average daily balance increased by HRK 2.0bn (15.0%) compared with the daily average in 2006.

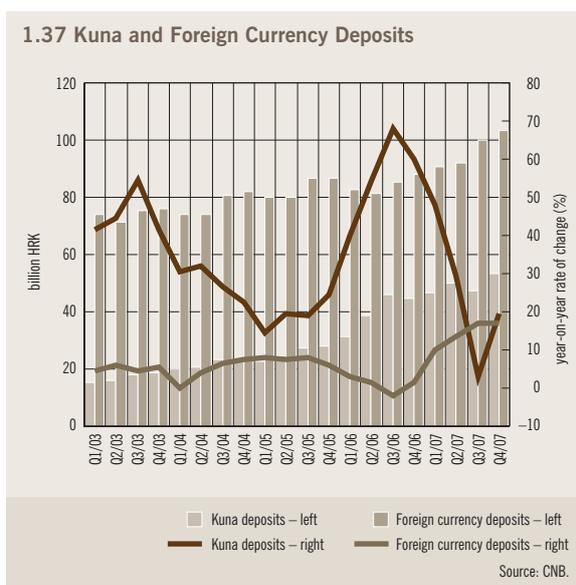
### Kuna and Foreign Currency Non-Monetary Deposits

Savings and time deposits grew strongly in 2007, which was, inter alia, due to a successful tourist season, accelerated economic growth and substantial government transfers to the household sector (notably on account of the repayment of debt to pensioners). Moreover, deposit growth was also stimulated by more favourable saving conditions, as, given the central bank's measures, the funds thus collected represented 'a cheaper way of financing' compared with foreign borrowing. Unlike 2006, when the growth of foreign currency deposits slowed down owing to a boost in kuna time deposits with a currency clause, in 2007, domestic sectors, particularly the household sector, again expressed preference for foreign currency saving.

Foreign currency deposits rose by HRK 14.8bn or 16.8% in 2007. This has been the largest growth of foreign currency deposits since 2001, when an exceptionally strong inflow of foreign currency deposits into banks was due to the introduction of the euro and conversion of foreign currencies into the euro. More than a half of this increase in 2007 was realised in the third quarter, which is a common result of inflows from tourism. However, foreign currency deposits again grew at the end of the year, but this time owing to negative capital market trends making foreign currency saving with banks a more reliable form of investment. Foreign currency deposits reached HRK 103.1bn at end-2007, accounting for two thirds of total savings and time deposits.

Foreign currency deposit growth was reported by all domestic sectors. Household deposits accounted for more than a half of the last year's increase, so that their share in total foreign currency deposits remained above 80%. Corporate foreign currency deposits accounted for one third of the total foreign currency deposit increase, whereas the rest related to foreign currency deposits of other banking and non-banking financial institutions.

1.37 Kuna and Foreign Currency Deposits



The growth in kuna deposits slowed down sharply in 2007. Their increase (HRK 8.8bn) was half the increase in 2006. Apart from this slowdown, there was a considerable change in their structure. The downward trend in kuna deposits with a currency clause that started in October 2007 as a result of changes in the Decision on the minimum required amount of foreign currency claims, continued throughout 2007, so that the share of foreign currency indexed kuna deposits in total kuna non-monetary deposits decreased from 36.2% at end-2006 to 15.3% at end-2007. Total kuna deposits reached HRK 53.6bn at the end of the year, their annual growth rate standing at 19.6%.

In terms of kuna deposit structure by sector, the movements of kuna deposits in 2007 were radically different from those in the previous years. More than a half of their increase was attributable to deposits of other banking and non-banking institutions, suggesting strong growth of their assets in 2007. The remainder of the

kuna deposits increase in that year related to corporate sector deposits, whereas kuna deposits of households stagnated in 2007, following a boom in 2006, because of the households' preferences for foreign currency savings.

## Banks' Placements

Bank placements to the non-banking sector slowed down markedly in 2007. Their annual growth rate dropped from 22.9% in 2006 to 15.0% in 2007. The slowdown in placements was due to the central bank's measures aimed at restricting bank loan growth to a long-term sustainable level. The most important of these measures was the Decision on the subscription of compulsory CNB bills, imposing the upper limit of 12% on the growth of bank placements not subject to the obligation to subscribe CNB bills in 2007. The Decision underwent several changes during the year in order to achieve the planned system-wide credit growth. The most significant change was made in June, when the monthly limit on permissible placement growth was reduced from 1% in the first half of the year to 0.5% in the remainder of 2007. The reason behind the tightening of this CNB's measure was that the placement growth in the first half of the year considerably exceeded the planned growth. With an increase of HRK 27.4bn, total bank placements to the non-banking sector reached HRK 210.8bn at the end of 2007.

Loans granted accounted for the largest share (over 90%) of total bank placements, so that their movements closely reflected the movements of total placements. The currency structure of loans granted suggests a marked change in favour of "pure" kuna loans. Concurrently, the share of loans indexed to the Swiss franc increased, but much less than in the previous year, whereas the share of euro-indexed loans decreased. Such developments arose from the growth in banks' long-term kuna sources of funds (from recapitalisation) and an increase in the euro and Swiss franc benchmark interest rates on foreign markets, which also impacted on the interest rate movements in Croatia.

Viewed by sector, loans to households continued to account for the largest share in total loan supply of banks in 2007. The annual growth rate of loans granted to this sector stood at 18.0%, down 3.8 percentage points from 2006. Home loans accounted for almost a half (HRK 8.3bn) of the total increase in loans to households in 2007. Strong demand for home loans continued, and their rapid growth resulted inter alia from high residential prices in Croatia. In addition to this, by extending loan repayment periods and introducing new instruments of collateral, banks made this type of loans accessible to more households. Other all-purpose loans accounted for the second largest share of the total increase in loans to households, whereas the remaining increase (under 10%) related to credit card loans, car purchase loans and mortgage loans. At the end of 2007, total bank loans granted to households stood at HRK 112.9bn and continued to account for the largest share (about 55%) of total banks' loan portfolio.

Banks complied with the CNB measures mainly by more moderate corporate lending. Thus, the annual growth rate of loans to enterprises (10.2%) more than halved in 2007 compared with the previous year's rate. As a result, total bank loans granted to the corporate sector reached HRK 86.3bn at end-2007.

Despite a deceleration of the growth in domestic bank loans, enterprises covered part of their financial needs from alternative sources of financing; mostly by direct foreign borrowing (notably in the second half of 2007), but also by inflows from foreign direct investment and from leasing. Moreover, in 2007 enterprises exercised the option to raise funds in the domestic capital market.

As the data on total debt of the corporate and household sectors are not officially published by the government statistical service, the CNB made an estimation of these sectors' total debt as a sum of their euro-denominated debts to domestic banks, leasing companies and foreign creditors. The estimate of the total household sector debt shows that its dynamics mainly depend on bank loans to households, whereas the growth in total corporate sector debt is much less dependent on bank loans granted to this sector. Consequently, as a result of a slowdown in bank loans to households in 2007, the growth rate of total household debt fell from 23.5% in 2006 to 20.3% in 2007. The deceleration of bank loans to enterprises was much stronger than that of bank loans to households, but instead of reducing the total corporate debt, it speeded up its growth from 25.3% in 2006 to 26.0% in 2007. Given these circumstances, it can be pointed out that the slowdown in domestic banks' loans to enterprises had no impact on satisfying their total needs for financing.

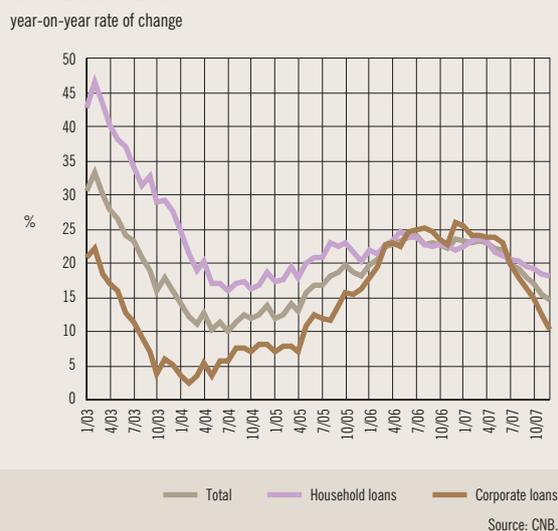
### Banks' Net Claims on the Central Government

The central bank improved its position towards banks in 2007. In addition to further fiscal consolidation in the form of reduced budget deficit, such developments were the result of receipts from the privatisation of T-HT and government borrowing from other non-banking institutions. The privatisation receipts were used by the government for the repayment of debt to pensioners, but also for servicing its short-term loans.

1.38 Banks' Placements to the Non-Banking Sector



1.39 Banks' Loans



Total banks' claims on the central government, including loans granted and claims arising from the subscribed short-term and long-term securities rose by HRK 1.0bn in 2007. This increase was mainly attributable to the claims arising from subscribed MoF T-bills. On the other hand, central government deposits with banks increased by HRK 2.7bn in 2007. Their strong growth was mainly fuelled by a rise in the funds received from the CBRD, classified in the monetary statistics as part of government deposits. As a result of the developments in placements and deposits, net banks' claims on the central government decreased by a total of HRK 1.7bn. At the end of 2007, net bank placements to the central government stood at HRK 15.2bn, down 10% from end-2006.

## Developments in Foreign Assets and Liabilities

Banks' external position improved in 2007. Net foreign assets of banks stood at HRK -18.7bn at the end of 2007, having increased by HRK 17.7bn compared with end-2006.

Although trending up in the past several years, foreign liabilities of banks decreased by HRK 10.9bn in 2007. Capital inflows from the recapitalisation and strong growth in domestic sources of funds, together with the prescribed restriction on bank placement growth provided a basis for reducing foreign liabilities of banks. Thus, the largest decrease in foreign liabilities was recorded in the months when major recapitalisations and strong domestic deposit growth took place. An additional incentive for reducing foreign liabilities of banks came from the release of allocated marginal reserve requirement kept with the central bank. At the end of 2007, foreign liabilities of banks stood at HRK 65.2bn, down 14.4% from end-2006.

Apart from reduced banks' foreign liabilities, an increase in bank placements abroad also contributed to the improvement in total external position of banks. Specifically, in response to a rise in their total foreign currency liabilities, banks were forced to increase their liquid foreign currency claims in order to maintain the prescribed level of foreign currency liquidity. Foreign assets of banks rose by HRK 6.8bn in 2007, reaching HRK 46.4bn at year-end.

## 1.2.6 Money Market

Money market interest rates, relatively low and stable in the first half of 2007, increased sharply and became much more volatile at mid-year. Given the good liquidity of the banking system, these interest rate trends could be attributed to the supply and demand mismatch, where a small group of banks generated the lion's share of demand for the kuna, while the participants with excess funds refused to invest them at usual prices. The central bank responded to market requirements for kuna liquidity by supplying the kuna at over 49 regular reverse repo auctions, which saw record high amounts of bids and placements (an average of HRK 3.4bn per auction, HRK 2.3bn more than in 2006). Although there were only four of them in 2007, CNB's foreign exchange interventions remained the most important instrument for liquidity creation. Money market disturbances in the second half of the year were mainly attributable to the initial public offering of the 32.5% government share in T-HT. The weakening of the impact of capital market transactions on the demand for money resulted in a primary liquidity surplus, which the CNB offset by cancelling three successive repo auctions. However, due to the shallowness of the market and its inability to quickly and easily adjust to large inflows and outflows of funds without considerable interest rate changes, a consequence of restoring liquidity to normal levels was that interest rates remained high until the end of the year.

In the previous two years the MoF made use of favourable money market conditions to acquire cheap short-term financing so that T-bill issue amounts were much larger than planned. In 2007, however, the annual issue plan was adhered to, with the total stock of subscribed T-bills, mainly on the downward trend, dropping to HRK 11.7bn at the end of December, which was a decrease of HRK 0.6bn relative to the end of 2006. As government short-term borrowing requirements declined, the annual T-bill issue plan was carried out so that interest rates at T-bill auctions rose at a slower pace than money market yields.

Banks' interest rates on short-term loans halted their several-year downward trend in 2007, with a rise observed both in household and corporate loans not indexed to foreign currency. Interest rates on long-term corporate loans indexed to foreign currency continued growth from 2006, while the several-year downward trend in interest rates on long-term household loans indexed to foreign currency reversed in the second half of 2007. Banks' deposit interest rates grew strongly in 2007. In relation to money market interest rates, especially sharp was the increase in interest

rates on kuna time deposits not indexed to foreign currency. In addition, interest rates on some foreign currency time deposits hit record highs since 2000. These interest rate trends resulted from the increase in European interest rates, started already in late 2005, and the adjustment of banks to CNB measures.

## Money Market Interest Rates

In 2007, banks' primary liquidity was financed from secondary liquidity sources on the money market in the average daily amount of HRK 2.6bn (the total for the year was HRK 660.1bn), which accounted for a sharp increase in the daily money market turnover of an average HRK 1.2bn relative to 2006. This means that banks' money market financing increased by HRK 309.6bn in 2007 relative to 2006, with the largest single contribution to the increase coming from the HRK 122.6bn growth in interbank trading in reserve money and with considerable increases in other categories of trading on the money market contributing as well. The largest share in the total of HRK 660.1bn worth of money market loans received by banks in 2007 was made by loans used by banks in demand deposit trading (HRK 589.4bn), whereas repo purchases and securities sales accounted for HRK 52.2bn and HRK 18.5bn respectively. HRK 298.9bn of demand deposit trading went to loans received from banks, HRK 154.7bn were deposits received from other financial institutions and HRK 135.7bn loans received from other legal persons.

In 2007, direct interbank trading continued to dominate interbank trading in reserve money with HRK 263.3bn, while interbank trading intermediated by the ZMM generated a total of HRK 35.7bn. Overnight loans, the most liquid instrument in direct interbank trading in reserve money, accounted for HRK 189.7bn (72.1% of the turnover in direct interbank trading), which was an increase of HRK 80.2bn over 2006. The average daily turnover of these loans, mostly on the increase in 2007, grew from HRK 287.6m in January to a record high of HRK 1,132.0m in November, drifting slightly downwards in December.

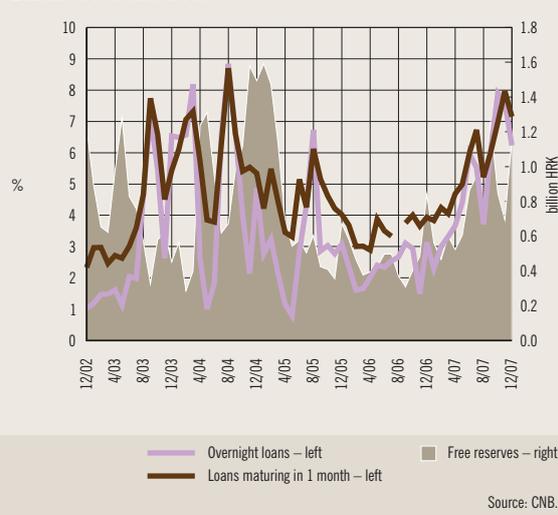
The surge in banks' money market financing in 2007 was coupled by the growth and sharp volatility of interest rates in interbank trading. The weighted interest rate on overnight loans in direct interbank trading in reserve money rose from 2.30% in January to a record high of 7.90% in October and stood at 6.23% in December. The daily interest rate on overnight loans in direct interbank trading, ranging from 0.61% to 4.53% in 2006, became much more volatile in 2007 and ranged between 0.92% and 14.67%.

The average daily turnover in overnight interbank loans intermediated by the ZMM was also at its historical high of HRK 268.8m in November 2007, reducing to HRK 175.3m in December. The weighted interest rate on these loans also went up, from 1.77% in January to 5.33% in December 2007, which was due mainly to the sharp increase in weighted interest rates in direct interbank trading in demand deposits and to a small extent to the relationship between supply of and demand for

1.40 Money Market Turnover

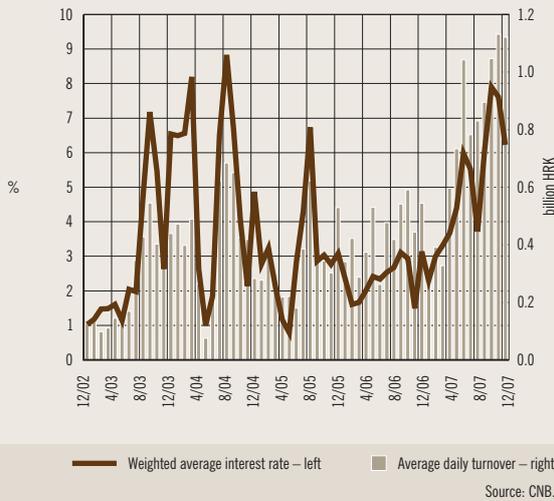


1.41 Interest Rates in Direct Interbank Trading and Banks' Free Reserves



### 1.42 Direct Interbank Trading in Overnight Loans

monthly averages on the basis of daily data



overnight loans that are most traded in this segment of the interbank market.

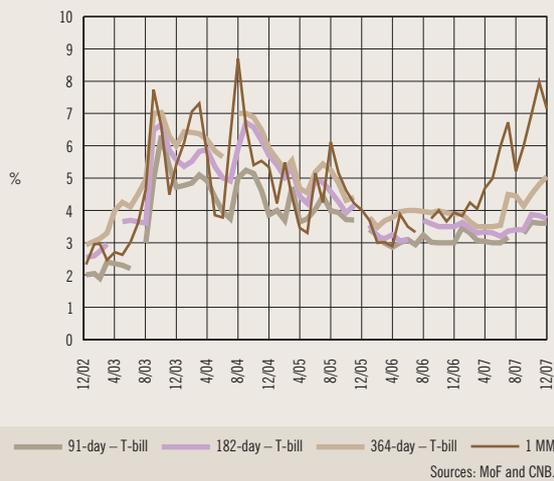
### Interest Rates on the Short-Term Securities Market

Having dropped in the first half of 2007, interest rates at T-bills auctions increased in the second half of the year. The highest increase, from 3.88% in January to 5.05% in December, was that of the weighted interest rate on 364-day T-bills, while weighted interest rates on 91 and 182-day bills rose more moderately, from 3.46% and 3.63% respectively in January to 3.60% and 3.75% respectively in December 2007.

Despite this increase, interest rates at T-bills auctions grew at an increasingly slower pace compared with interest rates in reserve money trading. The spread between the weighted interest rate on auctioned 364-day T-bills and the weighted interest rate on one-month loans in direct interbank trading in reserve money thus rose from 0.04 percentage points in December 2006 to 2.10 percentage points in December 2007.

### 1.43 Interest Rates on T-Bills and in Direct Interbank Trading

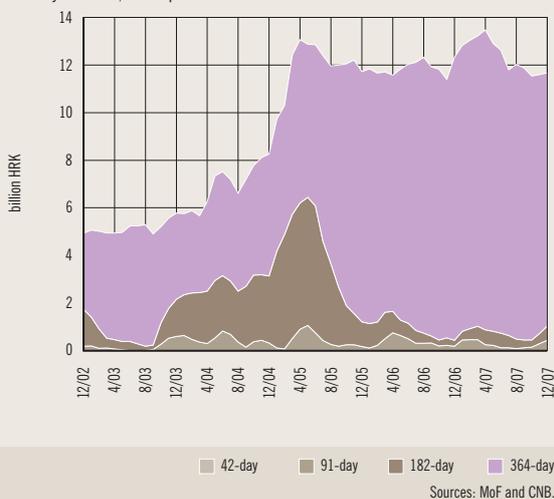
maturity structure



The MoF held 34 T-bills auctions in 2007, two fewer than in 2006. The average amount of bids received was HRK 650.9m, a decrease of HRK 209.6m relative to the previous year. With an average of 58.7% of the bids accepted, the subscribed T-bills amount went slightly over the planned HRK 13.0bn. The stock of the subscribed T-bills reduced from HRK 12.3bn at the end of December 2006 to HRK 11.7bn at the end of December 2007. The largest share in the total continued to be made by one-year T-bills, accounting for 91.2% at the end of 2007, which was 5 percentage points less than at the end of 2006. The share of 91 and 182-day bills was 3.7% and 5.1% respectively.

### 1.44 T-Bills Stock

maturity structure, end of period



### Banks' Interest Rates

Banks' lending interest rates increased in 2007. This can be attributed to the interest rate increase in the eurozone and the fact that domestic interest rates adjusted to this increase, but with a time lag, after banks' other income-generating sources had been used up. The weighted interest rate on short-term kuna corporate loans not indexed to foreign currency increased from 6.75% in December 2006 to 7.39% in December 2007. The weighted interest rate on short-term household loans not indexed to foreign currency also went up, from 11.84% in December 2006 to 12.34% in December 2007, which was primarily due to the share of overdrafts, commonly the most expensive loans, in total short-term loans expanding from 83.9% in December 2006 to 89.7% in December 2007.

Interest rates on long-term corporate loans indexed to foreign currency continued growth from 2006, with their weighted interest rate up from 6.21% in December 2006 to 6.51% in December 2007. Having bottomed out at 5.91% in May 2007, the weighted interest rate on long-term household loans indexed to foreign currency increased sharply in the second half of the year, standing at 6.80% in December 2007, up by 58 basis points over December 2006. In addition to the increase in interest rates on most loan subgroups within long-term kuna household loans indexed to foreign currency, this increase was also partly caused by a change in the structure of these loans, that is, by an increase in the share of more expensive, other long-term loans (from 33.1% in December 2006 to 44.2% in December 2007) and drop in the share of the cheapest, home loans.

Banks' time deposit rates grew sharply in 2007, even outpacing lending interest rates. This can be attributed to banks' adjustment to CNB measures from late 2006 which made foreign and foreign currency borrowing more expensive. As banks attempted to substitute foreign and foreign currency sources of financing for relatively cheaper domestic sources, the highest increase was recorded in interest rates on kuna time deposits not indexed to foreign currency. The weighted interest rate on kuna time deposits not indexed to foreign currency went up from a low of 2.98% in December 2006 to 5.42% in December 2007, due primarily to a considerable growth of interest rates on one-month kuna corporate deposits, which account for the largest share in total deposits, while the interest rate increase in other subcategories of kuna time deposits not indexed to foreign currency was less marked. The weighted interest rate on foreign currency time deposits continued growth from early 2004, rising from 3.82% in December 2006 to 4.33% in November 2007, its highest level since December 2000. This interest rate drifted downwards to 4.32% in December. Interest rates on sight deposits mostly remained unchanged. The weighted interest rate on kuna sight deposits not indexed to foreign currency reduced from 0.41% in December 2006 to 0.36% in December 2007, while the weighted interest rate on foreign currency sight deposits stood at 0.25%, rising by only 1 basis point over December 2006.

These lending and deposit rate developments led to the continuation of a several year downward trend in the interest rate spread between comparable loans and deposits, which reversed, however, late in 2007 due to the depletion of banks' non-interest sources of income. The interest rate spread between total loans and total deposits thus reduced from 5.89 percentage points in December 2006 to a historical low of 5.65 percentage points in October 2007, but rose to 5.78 percentage points in December. The spread between the weighted

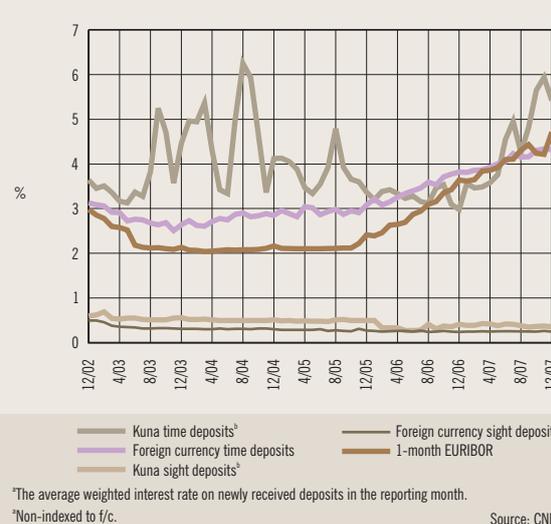
1.45 Banks' Average Interest Rates<sup>a</sup> on Short-Term Loans Not Indexed to Foreign Currency



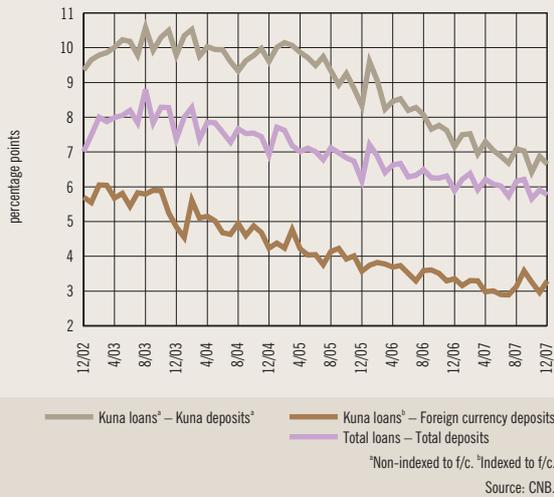
1.46 Banks' Average Interest Rates<sup>a</sup> on Long-Term Loans Indexed to Foreign Currency



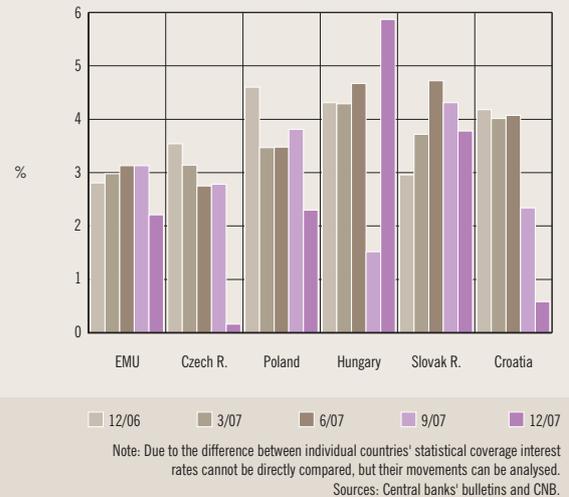
1.47 Banks' Average Deposit Interest Rates<sup>a</sup>



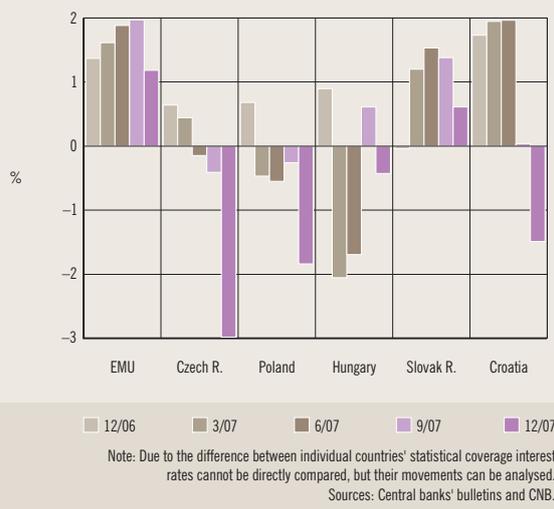
**1.48 Spread between Banks' Average Interest Rates on Loans and Deposits**



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



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



interest rate on kuna loans not indexed to foreign currency and the weighted interest rate on kuna deposits not indexed to foreign currency hit its all-time low of 6.42 percentage points in October, standing at 6.65 percentage points in December, which was a drop of 51 basis points compared with December 2006. Although it reduced to a record low of 2.89 percentage points in July, the spread between the weighted interest rate on kuna loans indexed to foreign currency and the weighted interest rate on foreign currency deposits was at 3.29 percentage points in December 2007 only slightly lower than in December 2006.

Nominal interest rates on long-term corporate loans mainly increased in the selected CEE countries and in EMU member countries in 2007. However, in most of these countries this effect was offset by high inflation rates, with the result that real interest rates on long-term corporate loans reduced considerably relative to the end of 2006, increasing only in Hungary and Slovakia.

With the inflation rate increase sharply exceeding the increase in nominal interest rates on three-month kuna household deposits in 2007, the real interest rate on these deposits late in the year recorded its first negative value since June 2006 in Croatia. Real interest rates on household deposits dropped compared with the end of 2006 in most observed countries, with the sharpest drop in this rate recorded in the Czech Republic and the only increase in Slovakia.

## 1.2.7 Capital Market

Upward trends in the domestic capital market continued from 2006 in most of 2007: the annual share turnover hit a historical high of HRK 22.0bn, the number of transactions doubled and the stock exchange index, CROBEX, reached the highest value on record. The Croatian debt securities market was also brisk, with a record high annual bond turnover of HRK 43.9bn, and with government, municipal and corporate domestic borrowing volumes similar as in the previous years. The key event for the Croatian capital market in 2007 was the merger of the Varaždin Stock Exchange with the Zagreb Stock Exchange, which turned the ZSE into the hub of securities trading in Croatia. In addition, 2007 was also marked by initial public offerings of shares, and especially by the IPO of T-HT, which

invited the involvement of many small investors, first-time participants in the capital market. In late 2007, the ZSE put in service a new trading system, the OMX, which processes a considerably larger number of transactions and supports trading in financial derivatives. These trends indicate that the Croatian capital market continued to grow and develop at an accelerated pace in 2007.

In 2007, almost all CEE capital markets recorded an increase in share turnover and a drop in bond turnover. With the exception of Slovakia, the average daily share turnover rose in almost all major stock exchanges in CEE countries over 2006, while the average daily bond turnover decreased in most of the observed countries, except in Slovenia and Croatia. Despite a sharp increase share turnover, the ZSE's share turnover to GDP ratio remained very low. Share turnover was lower only at the Bratislava and Ljubljana Stock Exchanges, while it was much higher at all of the other stock exchanges. In contrast, the bond turnover to GDP ratio was higher only at the Bratislava Stock Exchange.

The increase in demand for shares and share prices led to the growth of the market capitalisation of shares at the end of December 2007 relative to the end of 2006 at all reference stock exchanges. The market capitalisation of bonds also increased in the observed period, reducing only at the Ljubljana Stock Exchange. At the end of 2007, the ZSE again had the highest ratio of share market capitalisation to GDP of all regional stock exchanges, while its ratio of bond market capitalisation to GDP was lower than the ratios of reference CEE stock exchanges, despite a growing number of domestic debt securities issues.

**Table 1.3 Comparison of Capital Market Indicators**

2007	Bratislava	Budapest	Ljubljana	Prague	Warsaw	Zagreb
Average daily turnover, shares (million EUR)	0.1	141.1	7.9	146.0	509.0	12.1
Average daily turnover, bonds (million EUR)	42.9	3.4	0.4	73.3	3.7	24.2
Share turnover/GDP <sup>a</sup> , annual level (%)	0.0	35.2	5.9	28.7	41.7	8.2
Bond turnover/GDP <sup>a</sup> , annual level (%)	19.7	0.9	0.3	14.4	0.3	16.3
Turnover velocity <sup>b</sup>	0.5	109.4	10.1	2.0	11.9	6.4
Market capitalisation of shares (million EUR), end of year	4,744	32,520	19,740	69,184	301,579	48,086
Market capitalisation of bonds (million EUR), end of year	13,379	39,830	5,935	n.a.	97,503	5,641
Market capitalisation of shares/GDP <sup>a</sup> , end of year (%)	8.6	32.2	58.6	53.9	98.1	128.2
Market capitalisation of bonds/GDP <sup>a</sup> , end of year (%)	24.4	39.5	17.6	n.a.	31.7	15.0
Share index movement from the beginning of the year (%)	7.2	5.6	78.1	14.2	10.4	63.2

<sup>a</sup> 2007. <sup>b</sup> Annualised monthly share turnover x 100/ market capitalisation of shares.  
Sources: Bloomberg and reports from BSSE, BSE, PSE, LJSE, WSE and ZSE.

In 2007, the domestic debt securities market saw the issues of ten new bonds and three bond tranches, totalling about EUR 1.25bn in nominal terms. This was a slight increase from EUR 1.21bn in nominal terms generated by eleven bond issues in 2006. Thirty-six bond issues were listed on the domestic capital market at the end of 2007, five more than at the end of 2006. The market continued to be dominated by government bonds, whose share in the total nominal value of newly issued bonds in the domestic market increased considerably from about 68% in 2006 to about 84% in 2007. Although 2007 saw the issue of six new corporate bonds, their share in the total nominal value of new bond issues in the domestic market dropped from an approximate 31% in 2006 to approximately 14% in 2007, while their share in the total domestic turnover and market capitalisation remained low. In the last two years, companies opted increasingly for raising the required funding on the capital market, as evident from more and more numerous corporate bond issues and four share IPOs, worth a nominal HRK 46.9m, realised in 2007.

**Table 1.4 Initial Public Offering of Shares**

in million HRK

Year	Number of successful issues	Total value of issues
1997	17	839.4
1998	6	247.1
1999	3	29.0
2000	1	20.0
2001	1	13.0
2002	1	11.8
2003	1	1.2
2004	2	11.0
2005	4	231.0
2006	0	0.0
2007	4	46.9

Note: Public offerings are recorded according to the date of HANFA's decision.  
Source: HANFA.

The narrowing of the yield spread between Croatian eurobonds and benchmark German bonds in the first half of 2007 signalled an improvement in Croatia's rating on the international capital markets. However, these spreads again widened considerably by the end of 2007, owing to the US subprime mortgage market crisis and a change in risk perception of capital market investors worldwide, and especially in developing countries.

## Equity Securities Market

The equity securities market had a record high annual share turnover<sup>14</sup> of HRK 22.0bn in 2007, which was a rise of 57.1% over 2006. The number of shares listed on the ZSE went up from 202 to 383 over the year, mainly as a consequence of the merger between the VSE and ZSE. In addition to the anticipated growth of institutional investors' assets and inflows of venture capital, demand for equity securities was also boosted by the growing general public interest in investing in shares on the domestic capital market, which sharply pushed up the prices and liquidity of most shares listed on the ZSE. As a result, the ZSE share index, CROBEX,<sup>15</sup> increased continuously until it reached an all-time high at mid-October, and decreased afterwards. However, the CROBEX rebounded by the end of December 2007, standing at 5,239 points, up 63.2% compared with December 2006.

Due to the increase in the prices and liquidity<sup>16</sup> of equity securities, the market capitalisation of shares listed

**1.51 ZSE Monthly Share Turnover and End-Month CROBEX**



14 The data on the total share turnover from January 2002 to February 2007 are the sum of individual shares' turnovers at the VSE and ZSE. The unified ZSE's data have been used since the VSE and ZSE merger in March 2007.

15 After its regular revision in September 2007, the CROBEX was comprised of 30 shares. The shares of the following joint stock companies were excluded from the CROBEX since September 2006: Franck, Istraturist, Jadranska banka, Kraš, Luka Ploče, Plava laguna, Pliva, Riviera holding and Sunčani Hvar, and the shares of AD Plastička, Badel 1862, Dom holding, Ericsson Nikola Tesla, Hidroelektra niskogradnja, Ina, Ingra, Luka Rijeka, Magma, Riviera Poreč, Slatinska banka, Viadukt, Viro tvornica šećera and Zagrebačka banka were included.

16 The ZSE market capitalisation is calculated by multiplying the last price of each share by its issue number. However, the calculation also includes the share's liquidity so that the market capitalisation of a share not traded in the previous month is halved. For the shares not traded in the previous three months, the calculation includes only one fourth of its market capitalisation.

on the ZSE was HRK 352.2bn at the end of December 2007, accounting for 128.1% of GDP for 2007 and increasing by HRK 154.5bn (78.2%) compared with the end of December 2006.

In 2007 shares were traded on four ZSE markets: the Official Market, Closed-End Investment Fund Shares Market, Public Joint-Stock Company Shares Market and Parallel Securities Market. In addition to the already listed common shares of Ina, Istraturist d.d., Medika d.d., Pliva d.d., Podravka d.d. and Viro tvornica šećera d.d., and the common and preferential shares of Croatia osiguranje d.d., also listed in the Official Market during the year were the common shares of Atlantic grupa d.d., Ingra d.d., Magma d.d., T-HT, Varteks d.d. and Veterina d.d. The most traded shares were the shares of Ina, which had a turnover of HRK 1.6bn, accounting for 6.9% of the total annual share turnover. T-HT shares accounted for 6.4% of the total turnover, Adris grupa d.d. shares for 5.8%, Ericsson Nikola Tesla d.d. shares for 4.2% and Atlantska plovidba d.d. shares for 3.8%.

Most of the main world stock exchange indices grew in 2007, and similar trends marked the markets in CEE countries. The Ljubljana Stock Exchange index, SBI20, increased the most (by 78.1%) at the end of December 2007 over the end of December 2006, while the indices of the ZSE, PSE, WSE and BSE increased by 63.2%, 14.2%, 10.4% and 7.2% respectively. The Budapest Stock Exchange index, BUX, increased the least, by 5.6%.

## Debt Securities Market

Ten new bonds were issued on the domestic debt securities market in 2007, including one government bond, three municipal and six corporate bonds, as well as the second tranches of two government bonds and one municipal bond. There were 36 bond issues<sup>17</sup> on the domestic debt securities market at the end of December 2007, including ten government bonds, one government agency bond (CBRD), seven municipal bonds and eighteen corporate bonds, three municipal and two corporate bonds more than at the end of December 2006.

In February 2007, the MoF issued the first tranche of a new kuna government bond due 2017, nominally worth HRK 2.5bn and having a yield to maturity at issue of 4.91%. The MoF issued this bond's second tranche in July 2007, reducing its nominal value, due to favourable government revenue trends, from the planned HRK 3.5bn to HRK 3.0bn, and thus increased the total value of the issue to HRK 5.5bn. At the end of October 2007, the MoF issued the second tranche of a fifteen-year kuna government bond with a foreign currency clause, nominally worth EUR 300m, due 2019, so that the total value of the issue increased to EUR 500m.

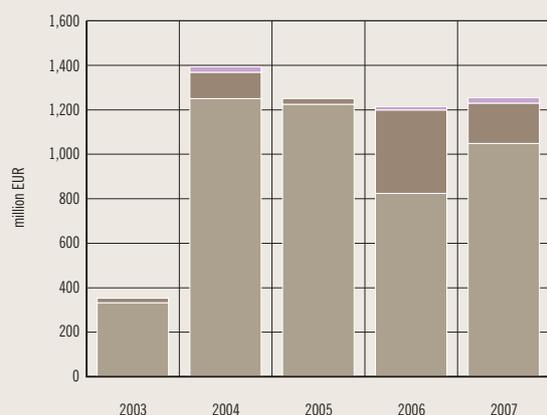
1.52 Selected Stock Exchange Indices

end of period, December 2003 = 100



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

1.53 Bond Issues in the Domestic Market



Source: ZSE.

<sup>17</sup> This figure and the market capitalisation calculations exclude the bonds of the Fund for Indemnification of Deprived Property.

Six new corporate bonds were issued in the domestic capital market in 2007, two fewer than in 2006. Corporate bonds were issued by Optima telekom d.d., Jadran Galenski laboratorij d.d., Jadranka d.d., Jadrolinija d.d., Odašiljači i veze d.o.o. and Hrvatska elektroprivreda d.d. All the bonds were kuna-denominated, with two of them due in five years, two in seven and two in ten years. The yields to maturity at issue ranged between 5.65% and 9.22% and the total nominal value of the six issues was HRK 1.3bn, which was less than half of the total value of corporate bond issues in the previous year.

Also issued in 2007 were three new municipal bond issues and one bond tranche. New bonds were issued by the cities of Vinkovci, Osijek and Split, while Rijeka issued the second tranche of a bond issued in 2006. Two of the bonds were denominated in kuna and other issues were euro-denominated. The yields to maturity at issue ranged from 4.87% to 5.56%, while the total value of the issues was HRK 186.3m.

**Table 1.5 Bond Issues in the Domestic Market, stock as at end-December 2007**

Series	Issuer	Issue date	Maturity	Currency	Issue nominal value	Nominal interest rate	Last price <sup>a</sup>	Current yield 31/12/2007
RHMF-0-08CA	Republic of Croatia	14/12/2001	14/12/2008	EUR	200,000,000	6.875%	101.60	6.767%
RHMF-0-125A	Republic of Croatia	23/5/2002	23/5/2012	EUR	500,000,000	6.875%	105.00	6.548%
RHMF-0-085A	Republic of Croatia	28/5/2003	28/5/2008	HRK	1,000,000,000	6.125%	99.80	6.137%
RHMF-0-142A	Republic of Croatia	10/2/2004	10/2/2014	EUR	650,000,000	5.500%	100.10	5.495%
RHMF-0-19BA	Republic of Croatia	29/11/2004	29/11/2019	EUR	500,000,000	5.375%	102.99	5.219%
RHMF-0-103A	Republic of Croatia	8/3/2005	8/3/2010	HRK	3,000,000,000	6.750%	103.20	6.541%
RHMF-0-157A	Republic of Croatia	14/7/2005	14/7/2015	EUR	350,000,000	4.250%	98.90	4.297%
RHMF-0-15CA	Republic of Croatia	15/12/2005	15/12/2015	HRK	5,500,000,000	5.250%	98.20	5.346%
RHMF-0-137A	Republic of Croatia	11/7/2006	11/7/2013	HRK	4,000,000,000	4.500%	96.20	4.678%
RHMF-0-172A	Republic of Croatia	8/2/2007	8/2/2017	HRK	5,500,000,000	4.750%	95.00	5.000%
GDKC-0-116A	City of Koprivnica	29/6/2004	29/6/2011	HRK	60,000,000	6.500%	101.30	6.417%
GDZD-0-119A	City of Zadar	1/9/2004	1/9/2011	EUR	18,500,000	5.500%	102.55	5.363%
GDRI-0-167A	City of Rijeka	18/7/2006	18/7/2016	EUR	16,383,008	4.125%	–	–
GDST-0-137A	City of Split	24/7/2006	24/7/2013	EUR	8,000,000	4.563%	100.30	4.549%
GRVI-0-17AA	City of Vinkovci	23/10/2007	23/10/2017	HRK	42,000,000	5.500%	–	–
GROS-0-17AA	City of Osijek	30/10/2007	30/10/2017	HRK	25,000,000	5.500%	–	–
GDST-0-15BA	City of Split	27/11/2007	27/11/2015	EUR	8,100,000	4.750%	–	–
HBOR-0-112A	CBRD	11/2/2004	11/2/2011	EUR	300,000,000	4.875%	–	–
BLSC-0-091A	Belišće d.d.	14/1/2005	14/1/2009	EUR	8,000,000	5.500%	101.60	5.413%
HYBA-0-086A	Hypo Alpe-Adria-Bank d.d.	6/6/2003	6/6/2008	HRK	150,000,000	6.500%	100.05	6.497%
PLVA-0-115A	Pliva d.d.	12/5/2004	12/5/2011	EUR	75,000,000	5.750%	99.00	5.808%
MDKA-0-087A	Medika d.d.	11/7/2005	11/7/2008	EUR	16,500,000	4.500%	99.10	4.541%
RBA-0-112A	Raiffeisenbank Austria d.d.	10/2/2006	10/2/2011	HRK	600,000,000	4.125%	97.50	4.231%
PODR-0-115A	Podravka d.d.	17/5/2006	17/5/2011	HRK	375,000,000	5.125%	96.20	5.327%
NEXE-0-116A	Nexe grupa d.d.	14/6/2006	14/6/2011	HRK	750,000,000	5.500%	97.00	5.670%
MTEL-0-097A	Metronet telekomunikacije d.d.	28/7/2006	28/7/2009	HRK	120,000,000	8.500%	101.90	8.342%
HOTR-0-941A	Hospitalija trgovina d.o.o.	5/10/2006	5/10/2009	HRK	75,000,000	8.250%	101.20	8.152%
HEP-0-13BA	Hrvatska elektroprivreda d.d.	29/11/2006	29/11/2013	HRK	500,000,000	5.000%	94.00	5.319%
ATGR-0-11CA	Atlantic grupa d.d.	6/12/2006	6/12/2011	HRK	115,000,000	5.750%	98.35	5.846%
INGR-0-11CA	Ingra d.d.	6/12/2006	6/12/2011	HRK	200,000,000	6.125%	98.20	6.237%
OPTE-0-142A	Optima telekom d.o.o.	1/2/2007	1/2/2014	HRK	250,000,000	9.125%	101.15	9.021%
JDGL-0-126A	Jadran Galenski laboratorij d.d.	11/6/2007	11/6/2012	HRK	125,000,000	5.650%	–	–
JDRA-0-129A	Jadranka d.d.	13/9/2007	13/9/2012	HRK	75,000,000	6.475%	–	–
JRLN-0-12AA	Jadrolinija d.d.	25/10/2007	25/10/2012	HRK	70,000,000	6.500%	–	–
OIV-0-14BA	Odašiljači i veze d.o.o.	20/11/2007	20/11/2014	HRK	100,000,000	7.250%	–	–
HEP-0-17CA	Hrvatska elektroprivreda d.d.	7/12/2007	7/12/2017	HRK	700,000,000	6.500%	–	–

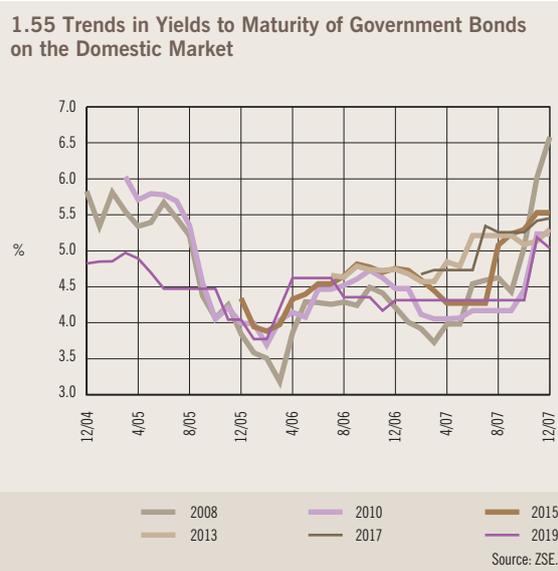
<sup>a</sup> Regularly traded.  
Source: ZSE, monthly report, December 2007.

The bond turnover<sup>18</sup> was HRK 43.9bn in 2007, which was an increase of 26.0% relative to 2006. The most liquid bond was a new ten-year Republic of Croatia bond maturing in 2017, which generated 19% of the total turnover (HRK 8.3bn). A high turnover was generated by RC bonds due 2013 (HRK 6.7bn, 15% of the total), 2015 (HRK 6.5bn, 15% of the total) and 2014 (HRK 5.2bn, 12% of the total). Although the number of corporate bond issues continued to rise in 2007, these bonds were not very liquid and generated a turnover of only HRK 1.2bn in 2007, which accounted for 2.8% of the total annual bond turnover on the ZSE.

The market capitalisation of all bonds<sup>19</sup> on the domestic capital market was HRK 41.3bn (EUR 5.6bn) at the end of December 2007, accounting for 15.0% of GDP for 2007. The market capitalisation of government bonds, municipal bonds and the CBRD bond amounted to HRK 37.3bn (EUR 5.1bn), 13.6% of GDP, whereas the market capitalisation of corporate bonds stood at HRK 4.0bn (EUR 546m), which was 1.5% of GDP.

The interest rate increase in the domestic money market, especially in the second half of 2007, made debt securities investments less attractive, which led to an increase in their required yields and decrease in prices. The bond index, CROBIS<sup>20</sup> therefore fell throughout 2007, standing at 96.5 points at the end of December, which was a drop of 4.6 points relative to the end of December 2006.

There were seven Croatian bond issues on foreign capital markets at the end of December 2007, one fewer than at the end of December 2006. In line with the strategy of substituting foreign with domestic borrowing, the RC issued no new bonds in foreign markets in 2007. A Samurai bond issued in 2000, worth JPY 40bn (about HRK 1.8bn), fell due in July 2007, and was refinanced by issuing the second tranche of a kuna bond due 2017. Four of the remaining RC international bonds are euro-denominated, two in Japanese yens and one is denominated in US dollars. The total nominal value of all seven issues of Croatian bonds in foreign markets was HRK 23.0bn (EUR 3.1bn) at the end of 2007, which was a drop of HRK 2.6bn (EUR 0.3bn) compared with the end of the previous year.



<sup>18</sup> The data on the total bond turnover from January 2004 to February 2007 are the sum of the respective bond turnovers on the VSE and ZSE, with the unified ZSE data used since the VSE and ZSE merger in March 2007. It needs emphasising that the bond turnover on the VSE had been negligible, standing below 0.4% of the total bond turnover in all the observed years.

<sup>19</sup> Excluding the bonds of the Fund for Indemnification of Deprived Property.

<sup>20</sup> At the end of 2007, the CROBIS included nine Republic of Croatia bonds. A government bond due 2008 was delisted from the index since the end of 2006.

**Table 1.6 Republic of Croatia International Bond Issues, stock as at end-2007**

Bond	Issue date	Currency	Amount	Nominal interest rate	Yield on issue day	Spread on issue day	Spread <sup>a</sup> 31/3/2007	Spread <sup>a</sup> 30/6/2007	Spread <sup>a</sup> 30/9/2007	Spread <sup>a</sup> 31/12/2007
London Club Series A, 2010	31/7/1996	USD	857,796,000	6-month LIBOR + 81.25 b.p.			92	100	134	142
Eurobonds, 2011	14/3/2001	EUR	750,000,000	6.75%	6.90%	215	41	22	74	112
Eurobonds, 2009	11/2/2002	EUR	500,000,000	6.25%	6.45%	158	41	26	64	94
Eurobonds, 2010	14/2/2003	EUR	500,000,000	4.625%	4.65%	102	40	17	64	95
Eurobonds, 2014	15/4/2004	EUR	500,000,000	5.000%	5.11%	101	59	34	79	147
Samurai bonds, 2007	11/7/2000	JPY	40,000,000,000	3.00%	3.00%	135	62	....	....	....
Samurai bonds, 2008	26/6/2002	JPY	25,000,000,000	2.15%	2.15%	144	40	41	65	67
Samurai bonds, 2009	26/6/2003	JPY	25,000,000,000	1.23%	1.23%	99	44	47	63	66

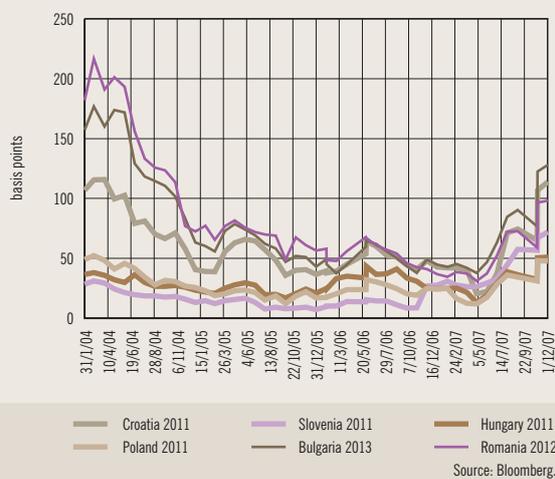
<sup>a</sup> In relation to benchmark bond.  
Source: Bloomberg.

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



The spreads between Croatian eurobonds and benchmark German bonds were in line with the expectations of the level of key American and European interest rates. Specifically, the ECB's key interest rate increase, necessitated by inflationary pressures in the eurozone, sharply pushed up benchmark German bond yields, while domestic eurobond yields increased to a smaller extent, which resulted in the narrowing of their yield spreads. However, owing to the global financial crisis triggered by the problems in the US subprime market and risk of its spreading to other segments of the economy, international investors opted for safer investments, which led to a sharp increase in demand for developed countries' government bonds and a sharp decrease in required yields on these low-risk bonds. These yields narrowed further as the Fed reduced the key interest rate three times before the end of 2007, while the ECB, due to persisting strong inflationary pressures, left its key interest rate unchanged in the second part of the year. In contrast, Croatian eurobond yields increased until the end of the year, which resulted in the widening of the spread between these and benchmark German bond yields. The spreads between required yields on Croatian eurobonds due in 2009, 2011 and 2014 and required yields on benchmark German bonds expanded to 94, 112 and 147 basis points respectively, a considerable increase compared with 39, 40 and 42 basis points in 2006.

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



In the first half of 2007, required yields on eurobonds of new EU member countries grew at a slower pace than required yields on the benchmark German bond and their spread narrowed considerably. Yields on the benchmark Croatian eurobond grew at even slower rates, with the result that their yield spread with the benchmark German bond narrowed sharply in that period. The escalation of the crisis on the US subprime mortgage market in the second half of 2007 resulted in an increase in required yields on eurobonds of almost

all observed countries, which, in addition to a decrease in yields on the benchmark German bond, resulted in the widening of their yield spread. The sharpest increase in the yield spread was recorded by the bonds of a group of peer transition countries, comprised by Croatia, Bulgaria and Romania.

## 1.2.8 Balance of Payments

As shown by the preliminary data, the current account deficit reached EUR 3.2bn or 8.6% of GDP in 2007, rising by EUR 0.5bn or 0.7 percentage points of GDP over the end of 2006. The observed deterioration of the current account balance is attributed to the widening of foreign trade imbalance. The remaining current transactions accounts showed better results in 2007 than in 2006: factor income deficit trended down, net revenues from international trade in services improved and net revenues from current transfers decelerated less sharply.

The overall external debt of the economy rose by EUR 3.7bn or 12.5% in 2007, a decrease of 1.2 percentage points over the end of 2006. To a large extent, this was due to lower external debt of banks. By contrast, enterprises additionally increased their external borrowing in 2007, and the government sector debt remained close to its end-2006 level. According to the index of exchange market pressure (IEMP), domestic sectors encountered no difficulties in the settlement of their international payments.

### Current Account

The current account balance deteriorated by almost one-fifth in 2007 relative to 2006 owing to a sharp increase in the foreign trade deficit. The goods account balance deteriorated by 13.1%. Looking at total aggregates at current prices, this was due to a decrease in the annual growth rate of goods exports (from 17.2% in 2006 to 8.6% in 2007), which exceeded the drop in the annual growth rate of goods imports (from 14.0% in 2006 to 10.8% in 2007). It needs emphasising, however, that these developments contain many noises. The slowdown in the growth of exports and imports was, among other things, to a great extent due to the construction of the North Adriatic pipeline. Before it was built, the gas from these drills was first exported to Italy and then, in a large measure, imported into Croatia. The pipeline construction had a lower impact on the slowdown in the annual growth rate of goods imports than on goods exports, as gas accounts for a considerably lower share in total goods imports than in goods exports. In contrast, a common change in the correction factors, used for adjusting the value of goods imports measured according to the c.i.f. parity to the value according to the f.o.b. parity, led to an increase in the f.o.b. value of goods imports (EUR 131.8m) in 2007 relative to the last five-year period (2002-2006). A detailed analysis of developments in international trade which excludes some noises suggests different trends (see Trade in Goods). For example, the annual growth rate of total goods exports, excluding ships, oil and refined petroleum products and natural and manufactured gas, in constant exchange rate terms, reduced from 12.6% in 2006 to 11.5% in 2007, and that of goods imports dropped from 14.4% to 12.1%.

Table 1.7 Current Account

in million EUR and %

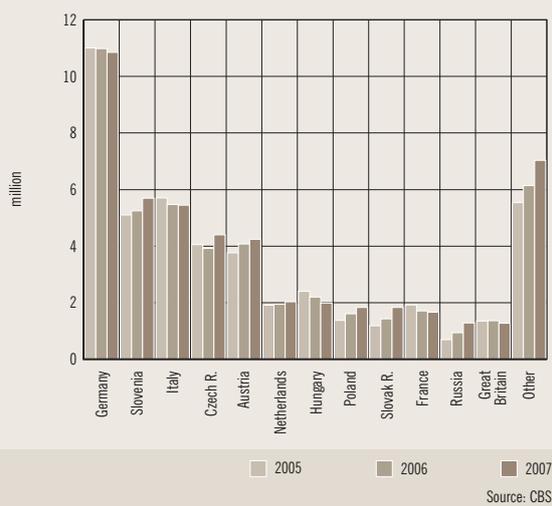
	2005	2006	2007 <sup>a</sup>	Rate of change 2007/2006
A. CURRENT ACCOUNT	-1,976	-2,692	-3,206	19.1
1. Goods	-7,518	-8,344	-9,434	13.1
1.1. Credit	7,220	8,464	9,193	8.6
1.2. Debit	-14,738	-16,808	-18,626	10.8
2. Services	5,318	5,710	6,320	10.7
2.1. Credit	8,053	8,534	9,179	7.6
2.2. Debit	-2,735	-2,824	-2,859	1.3
3. Income	-959	-1,165	-1,137	-2.4
3.1. Credit	717	891	1,289	44.7
3.2. Debit	-1,677	-2,056	-2,427	18.0
4. Current transfers	1,184	1,106	1,045	-5.5
4.1. Credit	1,628	1,638	1,574	-3.9
4.2. Debit	-445	-532	-529	-0.6

<sup>a</sup> Preliminary data.

Source: CNB.

International trade in services improved in 2007 relative to 2006: the annual growth rate of net revenues accelerated to 10.7%, due mainly to good revenue performance. Shown by individual services, tourism revenues grew at the highest rate in 2007, amounting to EUR 6.7bn or 7.2% more than in 2006. An upward trend was also observed in revenues from transportation services, mainly sea cargo transport, and in revenues from other services. Despite strong consumption of residents abroad, expenditures grew at a slower rate in 2007 than in 2006. Moreover, expenditures on other foreign services, comprising above all trade, agricultural, mining and architectural services, fell substantially in 2007, due in part to the methodological changes introduced in mid-2006.<sup>21</sup>

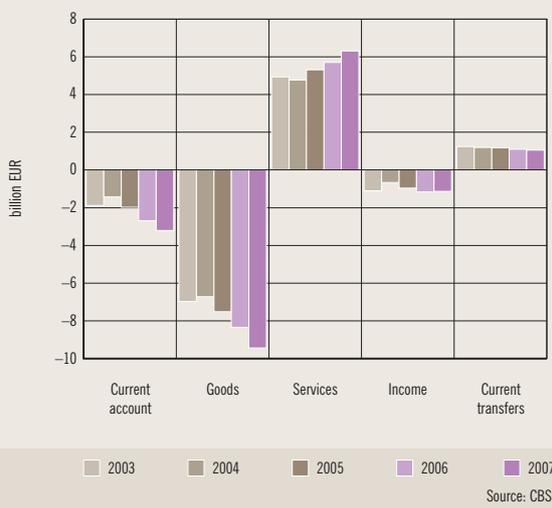
**1.58 Foreign Tourist Nights in Commercial Accommodation Facilities by Country of Residence**



According to the CBS indicators on foreign tourist arrivals and nights stayed in commercial accommodation facilities, tourism revenues grew sturdily in 2007, with the increase in arrivals and nights amounting to 7.5% and 5.4% respectively. Shown by the country of residence, the number of nights stayed by tourists from the Central and Eastern Europe (the Czech Republic, Slovenia and Russia) grew the most in reference period, while the number of nights stayed by tourists from old EU Member States stagnated at its end-2006 level. In addition, a substantial decrease in the number of nights stayed by German tourists was offset by an increase in the number of nights stayed by Austrian tourists.

Overall, the deficit in international trade in goods and services stood at EUR 3.1bn in 2007. Owing to favourable developments in the account of services, it slightly decelerated from 19.7% in 2006 to 18.2% in 2007. However, notwithstanding its annual slowdown, the deficit in goods and services widened from 7.7% of GDP in 2006 to 8.3% of GDP in 2007, decreasing their export/imports coverage ratio from 86.6% to 85.5%.

**1.59 Current Account Balance**



After deteriorating substantially in 2006, the factor income deficit fell modestly in 2007 on account of a sizeable growth in domestic sectors' revenues. Specifically, in the reference period, domestic owners of foreign companies more than doubled their revenues from foreign direct investment. Furthermore, revenues from compensation of employees continued to grow at high rate in 2007. Like in the previous year, this is attributed to improved monitoring of international payment transfers, which, introduced in mid-2006, resulted in a revenue transfer from the account of current transfers (workers' remittances) to the factor income account (employee compensation). Revenues from foreign investment of international reserves grew also considerably in 2007, with the rise in banks' foreign assets contributing to further increase in their interest income. Factor income outflows went up by 18.0% in 2007. Expenditures on direct equity investment (comprising the

dividend and retained earnings of foreign owners) fell modestly and those on domestic sectors' interest payments on external debt increased substantially. Compared with 2006, enterprises had to allocate 60% more for interest payments in 2007.

<sup>21</sup> In contrast to the previous periods when they were reported on a gross basis, direct re-export and transit of goods are reported on a net basis as of mid-2006 (i.e. as a difference in the price of goods). The methodological changes in the accounts of agricultural, mining and other services resulted in the new treatment of trade with foreign branches and contributed to the transfer of some expenditure from the account of services to the account of foreign direct investment.

The positive balance in the account of current transfers decreased by 5.5% in 2007. The fall in net revenues in the first half of the year, largely accounted for by the improvement in the system for monitoring international payment transfers, was followed by a rise in the positive balance in the second half of the year. The observed changes were most pronounced in worker's remittances. The government sector transfers saw a concurrent increase in both revenues and expenditures, which was slower in 2007 than in 2006.

## Trade in Goods

Like in several previous years, the rise in the foreign trade deficit contributed most to the widening of the current account imbalance in 2007. Somewhat faster growth of the deficit in goods in 2007 relative to 2006 (13.1% vs. 11.0%, according to the balance of payments data in euros) was mainly the consequence of lower trade in other transport equipment (predominately ships) and some food products (SITC divisions: coffee, tea, cacao and spices and fish and preparations). Net imports of iron and steel, stimulated largely by their growing prices on the world market, grew also substantially in the reference period, while the trade balance in electric current and various capital goods, mostly telecommunication apparatus and general industrial machinery and equipment, deteriorated. Although not growing at an accelerated pace in 2007, net imports of road vehicles and oil and refined petroleum products continued to contribute strongly to foreign trade deficit.

According to the CBS data, total exports of goods stood at USD 12.4bn in 2007, growing annually by 11.5% (in constant US dollars). However, compared with 2006, they fell by 5.9 percentage points, due largely to lower exports of natural and manufactured gas. The reason for this is to be found in the construction of the North Adriatic pipeline, which enabled direct transportation of gas to the domestic market. Before it was built, the gas was first exported to Italy and then, in a large measure, imported into Croatia, increasing the value of foreign gas trade. Exports of agricultural and food products (coffee, tea, cacao and spices, fish and preparations, and sugar, sugar preparations and honey) and exports of ships and electric current also decelerated in 2007.

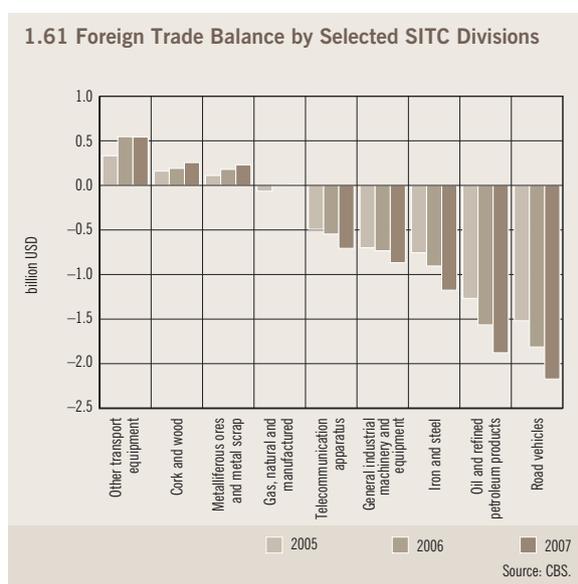
By contrast, exports of electrical machinery, apparatus and appliances, machinery specialised for particular industries and power generating machinery and equipment showed better results in 2007. In addition, after falling in 2006, exports of road vehicles (predominantly parts and accessories) and wearing apparel accelerated in 2007. Although the annual growth rate of crude oil prices halved in 2007 relative to 2006, the growth in the value of exported oil and refined petroleum products continued to contribute significantly to total export growth.

According to the CBS data, total imports of goods stood at USD 25.8bn in 2007, increasing annually by 13.0% (in constant US dollars). Compared with 2006, they decreased by 2.7 percentage points, due largely to the construction of the North Adriatic pipeline. In addition to gas, other contributors to slower import growth were lower imports of sugar, sugar preparations and honey. Specifically, in September 2006, the EC abolished its export subsidies for C-sugar, which in turn led to strong increase of import sugar prices and larger sales of domestically produced sugar. In part, these developments were also the reason behind lower sugar exports in 2007. Furthermore, the value of imports of non-ferrous metals also decelerated substantially in 2007, owing to a significant fall in their world market prices.

By contrast, imports of other transport equipment, up by more than one-third (measured in constant exchange rate terms), made a substantial contribution to relatively high growth of total imports in 2007. This is, however, attributed to the reporting of value-added finishing operations on a gross basis. Specifically, as much as one-half of the increase in imports reported under this SITC division in 2007 was accounted for by imports of tankers from Italy and Malta where Croatian shipyards mostly direct their ships intended for finishing operations. Although lower at the end of 2007 (14.5%) than at the end of 2006 (16.7%), imports of road vehicles also accelerated significantly



in 2007. In addition, the rise in prices of iron and steel on the world market made a substantial contribution to the growth in the value of their imports. Although the growth in import prices of crude oil has, in contrast to the prices of iron and steel, slowed down in 2007, imports of oil and refined petroleum products continued to make large contribution to total import growth. Similarly, imports of capital goods (machinery and transport equipment, excluding other transport equipment and road vehicles) continued to grow at fairly high rates in 2007. Within this, most pronounced was the rise in imports of general industrial machinery and equipment and telecommunication apparatus.



As shown by the geographic structure of Croatia's exports of goods, the share of exports to developed countries decreased modestly in 2007 (69.3%) relative to 2006 (71.7%). The main contributor to this was the slowdown of ship exports to Italy and Sweden, i.e. old EU Member States. In addition, the slowdown of exports to Italy also included lower exports of gas due to the construction of the pipeline. By contrast, exports to new EU Member States accelerated considerably, including predominantly higher exports of ships intended for finishing operations to Malt, exports of oil and refined petroleum products and machinery specialised for particular industries to Hungary and exports of motor vehicle parts and accessories and various chemical products to Slovenia. In addition, after trending up in 2007, the share of exports to developing countries in total Croatia's exports of goods rose from 28.3% in 2006 to 30.7%. Above all, this was the result of stronger exports to the countries in the region and especially high exports of oil and refined petroleum products, cereals and cereal

preparations and electric current to Bosnia and Herzegovina. Exports to Serbia and Montenegro also grew considerably in the reference period and mostly comprised non-metallic mineral manufactures, electrical machinery, apparatus and appliances, and oil and refined petroleum products.

**Table 1.8 Imports and Exports by Economic Classification of Countries**

in %

Exports			Economic classification of countries	Imports		
2005	2006	2007 <sup>a</sup>		2005	2006	2007 <sup>a</sup>
<b>69.3</b>	<b>71.7</b>	<b>69.3</b>	<b>Developed countries</b>	<b>73.8</b>	<b>72.6</b>	<b>71.8</b>
62.0	63.2	59.1	EU-25	65.6	65.0	63.3
8.1	8.2	8.3	Slovenia	6.8	6.3	5.9
1.6	1.7	2.2	Hungary	3.1	3.0	2.9
48.1	48.8	43.7	EU-15	50.6	50.1	48.7
7.2	6.0	6.1	Austria	5.8	5.4	5.3
21.2	23.1	19.1	Italy	16.0	16.7	16.0
10.7	10.3	10.0	Germany	14.8	14.5	14.4
1.1	1.5	1.2	EFTA	1.7	1.7	1.9
<b>30.7</b>	<b>28.3</b>	<b>30.7</b>	<b>Developing countries</b>	<b>26.2</b>	<b>27.4</b>	<b>28.2</b>
14.3	12.6	14.4	Bosnia and Herzegovina	2.4	2.8	2.8
4.5	5.4	6.6	Serbia, Montenegro	0.9	1.1	1.3
1.3	1.2	1.3	Russia	9.2	10.1	10.1
0.1	0.2	0.2	China	4.7	5.3	6.2

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

The structure of Croatia's imports of goods was also marked by a slight decrease in the share of imports from developed countries and a rise in the share of imports from developing countries. Although still high in value, imports from developed countries grew at a low rate owing to weaker imports of gas from Italy. Imports from other developed countries, primarily Germany, Austria and Slovenia, which, in addition to Italy, account for the largest shares in the structure of total Croatia's imports of goods, continued to grow strongly in the reference period. Specifically, higher imports from Germany included road vehicles, general industrial machinery and equipment, and iron and steel, while those from Austria included manufactures of metals (n.e.c.), paper, paperboard and articles of paper pulp. Higher imports from Slovenia comprised general industrial machinery and apparatus and electric current. High prices of energy products – largely imported from Russia – contributed to the high growth rate of imports from developing countries as well as to the increase in their shares in Croatia's total imports of goods. Imports from China (wearing apparel, telecommunication apparatus, and office machines and automatic data processing machines) continued to grow at an accelerated pace in 2007 and thus contributed to further increase in the share of imports from developing countries.

## Capital and Financial Account

Net inflows to the capital and financial account stood at EUR 4.1bn in 2007, an increase of 15.6% over a year ago. At EUR 3.4bn in 2007, inward FDI were the major factor contributing to the growth of inflows. Concurrently, strong growth in domestic sectors' liabilities and, in part, a fall in their foreign assets resulted in lower net outflow from the account of portfolio investment. By contrast, two times lower in 2007 than in the previous year, net inflows from other investment were mostly impacted by domestic banks which significantly reduced their foreign liabilities and considerably increased their foreign assets. As a result, international reserves expanded further in 2007, reaching a total of EUR 9.3bn at year-end.

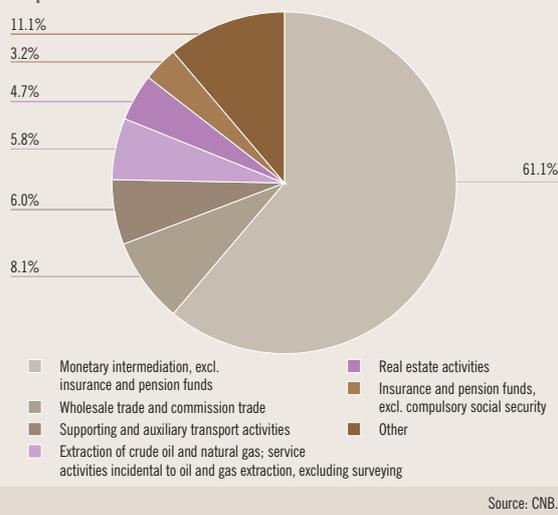
Net FDI totalled EUR 3.4bn in 2007, increasing by EUR 0.9bn or 33.5% over the end of 2006. To a large extent, this was due to inward investments, which at EUR 3.6bn were by almost one-third higher in 2007 than in 2006 and outstripped the growth in the current account deficit. Debt investment (i.e. domestic sectors' liabilities to their affiliated companies abroad), the value of which more than tripled in 2007, and equity investment, to a smaller extent, predominated in the structure of inward investments. However, foreign owners of domestic banks and enterprises saw a decrease in their retained earnings in 2007. Thanks to a strong increase in retained earnings, domestic sectors, on the other hand, increased their investment abroad.

In 2007, more than a half of total inward equity investment was accounted by monetary intermediation, the largest constituent part of which were the recapitalisations of foreign-owned banks valued at more than EUR 1.1bn. They were prompted by the implementation of monetary policy measures, including, above all, further tightening of prudential measures and high MRR rate. In addition to recapitalisations, some more substantial equity investment made in 2007 related to the sale of Tifon d.o.o. to Hungarian MOL, the sale of Diners Club

1.62 Financial Account



1.63 Structure of Direct Equity Investment in the Republic of Croatia in 2007



Adriatic d.d. to Erste Bank der österreichischen Sparkassen AG and the sale of Osiguranje Zagreb d.d. to Swiss Balôise-Holding AG. Broken down by the country of origin, Austrian investors accounted for more than a half of total inward investment in 2007 (the recapitalisation of Austrian-owned banks, the recapitalisation of other banks through Austrian-based branches in foreign ownership and the takeover of Diners Club Adriatic d.d.). With the reclassification of Swiss foreign investment into Belgian foreign investment, Belgians became the second largest inward investors in 2007 (Dukat d.d., previously Swiss-owned, was taken over by a Belgian-based subsidiary of French Lactalis).

In 2007, portfolio investment liabilities grew only slightly more rapidly than domestic sectors' assets, resulting in a net outflow of EUR 35m (EUR 0.5bn in 2006). The major contributors to the growth of domestic sectors' liabilities were foreign-issued bonds of the CBRD (EUR 250m) and Zagrebački holding d.o.o. (EUR 300m). In 2007, the government repaid JPY 40bn worth of Samurai bonds and made regular payments for Series A London Club bonds. One should also mention an early repayment of Bina-Istra d.d. bonds worth EUR 210m. Domestic sectors' liabilities on equity portfolio investment continued to enjoy their strong growth dynamics in 2007, due largely to the increase in non-resident investment in publicly offered shares (especially T-HT shares).

Although at a lower pace than in 2006, foreign assets of domestic sectors grew in 2007 on account of continued strong investment of domestic investment funds in foreign shares and a decrease in foreign assets of banks which partly replaced their claims on foreign bonds and money market instruments by currency and deposits in foreign banks.

Two times slower than in 2006 (EUR 3.1bn), net inflows to the account of other investment (including loans, trade credits, and currency and deposits) stood at EUR 1.4bn in 2007. This was due to a parallel decrease in foreign liabilities and strong growth in foreign assets. The growth of foreign assets reached EUR 1.6bn in 2007 due largely to the observed increase in currency and deposits abroad. Although foreign borrowings of other sectors have trended up in the reference period, especially those of public and mixed-ownership enterprises and enterprises in majority private ownership (Autocesta Rijeka – Zagreb d.d., Zagrebački holding d.o.o. and Ina), liabilities on other investment grew at a slower rate in 2007 than in 2006, thanks mainly to CNB measures prompting banks to decrease their liabilities to foreign creditors by EUR 1.3bn (in 2006, for example, banks increased their liabilities to foreign creditors by EUR 1.4bn).

According to the balance of payments data (excluding the changes in currency translation rates), international reserves increased by EUR 722m in 2007, which was half of the increase in the previous year. The slower growth of international reserves in 2007 was related to a drop in banks' allocated marginal reserve requirements caused by a reduction in their foreign liabilities. Owing to less intensive appreciation pressures in 2007 than in 2006, a deceleration was also noted in the amount of foreign exchange purchased from banks at CNB auctions (from EUR 1.2bn in 2006 to EUR 0.8bn in 2007). As a result, the main generators of international reserves growth were larger allocations of foreign currency reserve requirements by banks, due mostly to strong growth in their foreign currency deposits. Also, the sale of foreign exchange to the MoF impacted less strongly the decrease in international reserves in 2007. International reserves, as suggested by the monetary statistics data (including the changes in currency translation rates), amounted to EUR 9.3bn at the end of 2007, increasing by 6.7% over the end of 2006 or to a level sufficient to cover 5.2 months of imports of goods and services.

**Table 1.9 Composition of CNB Reserve Assets**

end of period, in million EUR and %

	2003	2004	2005	2006	2007
<b>Balance</b>	<b>6,554</b>	<b>6,436</b>	<b>7,438</b>	<b>8,725</b>	<b>9,307</b>
Share					
1. Foreign currency reserves	87.6	96.9	98.6	93.6	95.7
1.1. Securities	48.9	50.7	48.4	48.1	51.3
1.2. Total currency and deposits with:	38.6	46.2	50.2	45.4	44.5
– Other national central banks, BIS and IMF	4.1	3.6	5.5	2.3	2.0
– Banks headquartered outside Croatia	34.5	42.6	44.7	43.2	42.4

	2003	2004	2005	2006	2007
2. IMF reserve position	0.0	0.0	0.0	0.0	0.0
3. SDRs	0.0	0.0	0.0	0.0	0.0
4. Gold	–	–	–	–	–
5. Reverse repo	12.4	3.1	1.3	6.4	4.2

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

Debt securities comprised more than one-half of total international reserves at the end of 2007, rising by more than 3 percentage points compared with the end of 2006. In addition, a significant portion of reserves was accounted for by currency and deposits with foreign commercial banks, while only a small portion of reserves was accounted for by currency and deposits with other central banks, BIS and IMF. Finally, the remaining portion of reserves was predominantly accounted for by investments in reverse repo operations.

## External Debt

Gross external debt continued to expand in 2007 but slowed down its growth dynamics. External debt increased by EUR 3.7bn (12.5%) over 2007, decelerating 1.2 percentage points over the end of 2006. The debt increase was slightly lower than in 2006 due to the decrease in banks' external debt resulting from monetary policy measures, primarily those restricting the growth of placements not subject to CNB bills subscription to 12% and those providing for the continued application of the marginal reserve requirement rate of 55%. Moreover, in line with the government's effort to add to the narrowing of external imbalances by shifting its borrowing focus from foreign to domestic market, the external debt level of this sector remained at the end of 2007 almost unchanged relative to the end of 2006. By contrast, enterprises additionally intensified their foreign borrowings from foreign banks and affiliated enterprises abroad in 2007.

**Table 1.10 Gross External Debt by Domestic Sectors**

end of period, in million EUR and %

	2004	2005	2006	2007	Structure				Indices		
					2004	2005	2006	2007	2005/2004	2006/2005	2007/2006
1. Government	7,257	7,047	6,668	6,663	31.6	27.4	22.8	20.2	97.1	94.6	99.9
2. Croatian National Bank (CNB)	2	3	3	2	0.0	0.0	0.0	0.0	112.3	97.2	91.4
3. Banks	7,732	8,979	10,223	8,879	33.7	34.9	34.9	27.0	116.1	113.9	86.9
4. Other sectors	5,896	7,264	9,503	13,452	25.7	28.2	32.5	40.9	123.2	130.8	141.6
5. Direct investment	2,046	2,455	2,878	3,933	8.9	9.5	9.8	11.9	120.0	117.2	136.6
o/w: Subordinated and hybrid instruments	314	214	167	56	1.4	0.8	0.6	0.2	68.1	78.1	33.5
<b>Total (1+2+3+4+5)</b>	<b>22,933</b>	<b>25,748</b>	<b>29,274</b>	<b>32,929</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>112.3</b>	<b>113.7</b>	<b>112.5</b>

Source: CNB.

Unlike in previous years, when they were the main generators of external debt growth, in 2007, faced with tighter CNB measures, banks decreased their foreign liabilities by EUR 1.3bn or 3.1%. The fall in foreign liabilities was also positively contributed to by a strong inflow of domestic funds into the banking system and by a sizeable inflow of foreign funds from bank recapitalisations. In 2007, broken down by instruments, banks reduced most their liabilities on loans, currency and short-term deposits. In line with these developments, the external debt of banks went down to EUR 8.9bn in 2007, with its share in total external debt declining by as much as 8 percentage points or from 34.9% to 27.0%.

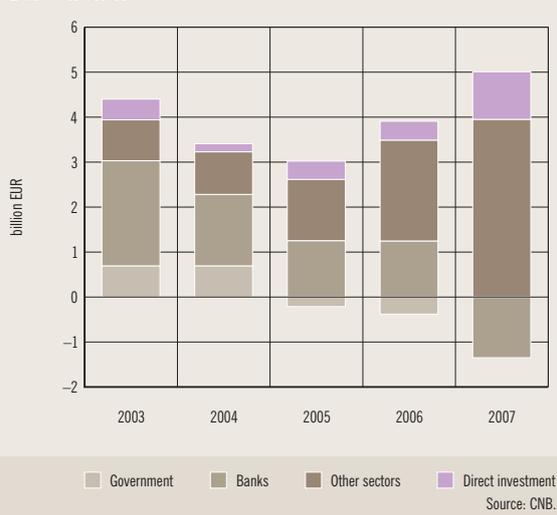
However, in contrast to banks, other sectors (predominantly enterprises) stepped up their borrowing efforts in 2007. The external debt of this sector grew by a remarkable EUR 3.9bn or 41.6% in 2007 (EUR 2.2bn in 2006), reaching a total of EUR 13.5bn at year-end. These developments are also attributed to the fact that in the period of

strong economic growth, accompanied by a restricted access to loans in the domestic market, a large number of enterprises opted for foreign borrowing that was in part supported and intermediated by domestic commercial banks. In addition to enterprises in majority private ownership, other driving forces behind the accelerated debt growth in 2007 were public enterprises and mixed-ownership enterprises. Within this, the most prominent were the borrowings of Autocesta Rijeka – Zagreb d.d. (road construction loans), Zagrebački holding d.o.o. (bonds worth EUR 300m, issued in June) and Ina (withdrawal of the majority of the funds granted under a syndicated loan of USD 1bn in the reference period). The external debt of non-banking financial institutions, leasing companies mostly, continued to expand rapidly in 2007.

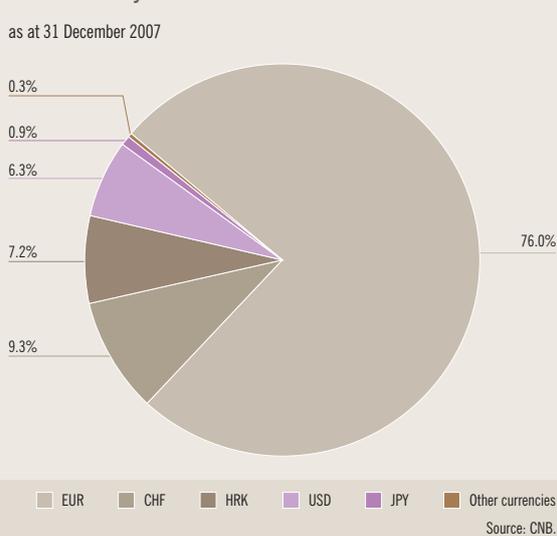
Direct investment related debt, comprising direct debt investment in enterprises and, to a smaller extent, hybrid and subordinated instruments of banks, also increased strongly in 2007. Total direct investment grew accordingly by EUR 1.1bn or 36.6% in 2007, reaching a total of EUR 4.0bn at year-end. If we add direct debt investment in enterprises to the debt of other sectors, the overall increase in enterprises' debt (shown in accordance with the broadened coverage) stood at EUR 5.1bn in 2007, up 41.9% over the end of 2006. Hence, its share in total external debt rose by 10.9 percentage points in 2007 and ended the year at 52.6%.

The government sector (comprising the central government, central government funds, CBRD and local government) kept its external debt level almost unchanged relative to the end of 2006. Specifically, in 2007 it amounted to EUR 6.7bn, while the most important payments made by this sector included the repayment of Samurai bonds worth JPY 40bn (about EUR 250m) and the semi-annual settlements of amounts due to the London Club. As for new liabilities, the CBRD reported the highest increase in borrowing, comprising the launch of bonds worth EUR 250m. In addition, central government funds, mainly CM and CR, increased their foreign debt liabilities by EUR 0.2bn in 2007. The external debt of the entire public sector (comprising the government sector, public enterprises and mixed enterprises) also went up in 2007, due primarily to the increase in foreign borrowing of public and mixed enterprises. By contrast, the contingent debt of the public sector (i.e. the publicly guaranteed private sector debt) eased further in 2007, continuing its year-long downward trend.

**1.64 Contributions of Domestic Sectors to External Debt Growth**



**1.65 Currency Structure of External Debt**



After expanding by an additional 1.2 percentage points in 2007, the euro share in the currency structure of external debt reached 70.6%, due largely to higher euro-denominated borrowings of other sectors and the growth in the euro-denominated debt of the government sector. Moreover, the kuna share went up from 6.0% to 7.2%, owing mainly to the growth in kuna-denominated external debt of banks, additionally stimulated by the 32% rule contributing to higher costs for foreign currency than for kuna foreign borrowings. By contrast, the external debt shares denominated in Japanese yens and Swiss francs went down in the reference period due, above all, to the repayment of Samurai bonds and the decrease in banks' franc-denominated share of external debt.

Present for several years, the strong upward trend in the short-term debt halted in 2007. As a result, the short-term debt rose by only 2.0% in 2007, ending the year at EUR 4.4bn. The slower growth of short-term foreign liabilities was the consequence of the fall in banks'

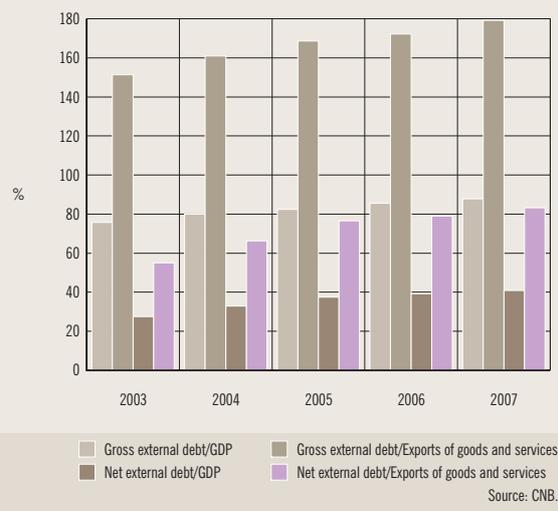
short-term debt, mainly loans, currency and short-term deposits of non-residents. In line with this, the share of short-term debt in total external debt decreased by 1.4 percentage points, reaching 13.3% at the end of 2007.

Faster growth in external debt, than in nominal GDP and exports of goods and services, resulted in the worsening of the relative external debt indicators in 2007. The external debt to GDP ratio thus expanded by 2.3 percentage points, or from 85.5% at the end of 2006 to 87.8% at the end of 2007. Concurrently, the ratio of external debt to exports of goods and services rose from 172.2% to 179.2%. Despite strong growth in foreign assets of domestic sectors (international reserves included), net external debt (as shown by data on the international investment position) trended up in the reference period, with a slight deterioration being also observed in the relative net external debt indicators. As a result, net external debt accounted for 40.8% of GDP at the end of 2007, up 1.6 percentage points over the end of 2006, while the ratio of net external debt to exports of goods and services stood at 83.3%, increasing by 4.4 percentage points over at the end of 2006.

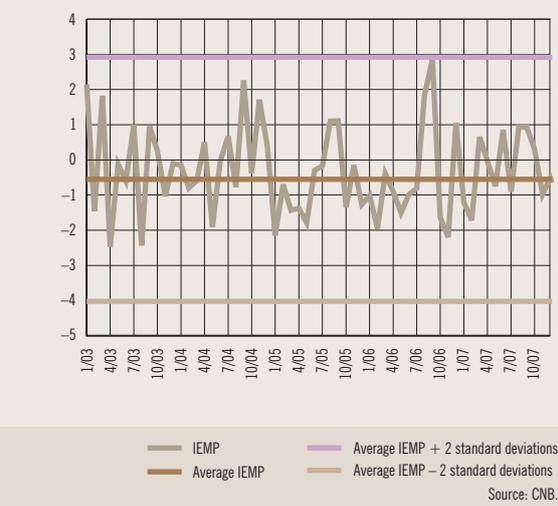
### International Liquidity

In 2007, the IEMP<sup>22</sup> stayed close to its long-term average value, indicating no difficulties in Croatia's settlement of international payments. The average index value was slightly higher in 2007 than in 2006, owing to lower annual growth in international reserves (EUR 0.6bn in 2007 vs. EUR 1.3bn in 2006) and lower appreciation of the kuna/euro exchange rate (0.2% at the end of 2007 vs. 0.4% at the end of 2006).

1.66 External Debt Indicators



1.67 Index of Exchange Market Pressure



22 IEMP is calculated as a weighted average of the monthly growth rate of the kuna/euro exchange rate (at end-period) and the monthly growth rate of gross international reserves (in euro terms), using standard deviations as weights. The value of the index above the critical level (plus two standard deviations) indicates potential difficulties in the settlement of international payments.



# Monetary Policy Instruments and International Reserves Management

1

2

3

4

5

6

7

8



## 2.1 Instruments of Monetary Policy in 2007

To mitigate external imbalances of the Croatian economy, the Croatian National Bank focused its efforts in 2007 on reducing bank placements growth and slowing down external debt growth of banks. In that context, the central bank retained all the existing measures for restricting external borrowing growth and introduced a new measure to directly influence the growth of domestic placements of banks.

In 2007, the central bank continued to use marginal reserve requirements and special reserve requirements and with a view to directly restricting placements growth, introduced as of 1 January 2007 a Decision on the purchase of compulsory CNB bills, thus restricting the growth of bank placements not subject to a purchase obligation in that year to 12%.

At the same time, the central bank continued to actively manage banking system liquidity throughout 2007 through open market operations. Foreign exchange interventions and regular weekly reverse repo operations were the main instrument of reserve money creation. In the last quarter of 2007, the central bank conducted foreign exchange interventions through increased purchases of foreign currency from the banks, reducing at the same time liquidity supply at regular reverse repo auctions. Even though the interest rate spread, as determined by interest rates on the standing facilities such as the Lombard loan and overnight deposits, was set to limit possible interest rate fluctuations on the money market, asymmetric demand of banks for liquidity and a fall in the amount of created liquidity at regular CNB auctions led to an increase in overnight interest rate volatility, particularly in the second part of 2007.

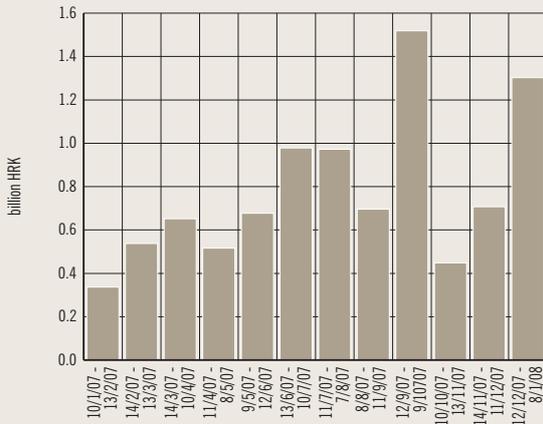
### 2.1.1 Open Market Operations

Open market operations are the basis of central bank liquidity management. Consisting of regular operations, fine-tuning operations, and structural operations, their volume affects interest rate developments on the interbank market, where the major share of transactions involves overnight loans. However, interest rates are not the main factor considered by the CNB when deciding on the volume of open market operations.

Demand for reserves in the accounts of banks with the central bank is determined by the total amount of the kuna component of reserve requirements and demand for surplus liquidity. Total average demand for reserves stood at HRK 31.8bn in 2007. Of that amount, the kuna component of reserve requirements averaged HRK 31.1bn, with the average surplus liquidity standing at HRK 0.8bn. The average balance of total demand for liquidity rose 17.9% in 2007, compared with 2006, largely due to the increase in the kuna component of reserve requirements. Average surplus liquidity ranged from HRK 0.3bn to HRK 1.5bn during the reserve maintenance periods in 2007. Of all the reserve requirements maintenance periods, that in September saw the highest maximum amount of average surplus liquidity. In the last maintenance period in the year when average surplus liquidity is commonly higher, average surplus liquidity stood at HRK 1.3bn.

## 2.1 Average Liquidity Surplus in Reserve Requirements Maintenance Periods

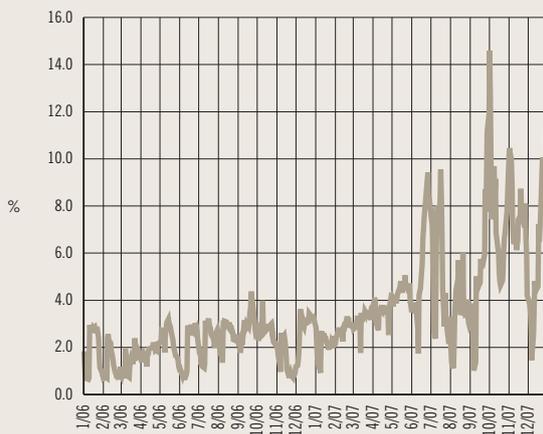
by maintenance periods



Source: CNB.

The supply of reserves is determined by factors under direct influence of the central bank, such as open market operations, and by autonomous factors, such as CNB balance sheet items which affect banking system liquidity but whose changes are not under direct CNB influence. The most significant autonomous factors include net foreign assets, currency outside banks and government kuna deposits. Autonomous factors averaged HRK 28.5bn in 2007, an increase of 9.6% compared with 2006. Of the autonomous factors, the average daily balance of currency outside banks rose the most (15%) while net foreign assets rose by 10.8%. The average level of government kuna deposits shrank by 20.9% in 2007 compared with the previous year, pointing to improved asset management of the government.

## 2.2 Overnight Interest Rates



Source: CNB.

The average level of overnight interest rates and their variability on the money market were greater in 2007 compared with 2006, despite higher average surplus liquidity in 2007 compared with 2006. The overnight interest rate ranged from 0.92% to 14.59% in 2007, compared with 2006, when it ranged from 0.63% to 4.37%. As a result, the variation coefficient stood at 51.54% in 2007, an increase of 30.25% compared with the variation coefficient in 2006 (39.57%). Relatively high interest rate variability in an environment characterised by increased surplus liquidity levels shows that liquidity management of banks and the money market are still not sufficiently developed.

## Regular Operations

Regular open market operations, most commonly reverse repo operations, are the primary source of liquidity for the banks. These operations are conducted at auctions which are normally held every Wednesday. Participation is open to domestic banks and acceptable collateral includes kuna T-bills of the Ministry of Finance.

## 2.3 Regular and Fine-Tuning Operations



Source: CNB.

In addition to foreign exchange interventions, reverse repo operations conducted at auctions organised by the CNB were the main instrument of liquidity creation in 2007. The banks participated in all of the total of 49 reverse repo auctions held in 2007.

In 2007, similarly as in 2006, in the period from June to October, liquidity was increased not only through regular operations but also through fine-tuning operations, with the largest amount of liquidity thus created in 2007 being utilised by the banks during the summer months.

Liquidity creation at regular reverse repo auctions was particularly strong in the first part of each of the reserve requirements maintenance periods, showing that the banks still tend to ensure the bulk of their reserve

requirements already in the first part of the maintenance period.

The total amount of funds thus placed to the banks in 2007 stood at HRK 164.4bn, a three-fold increase compared with the previous year. The amount of funds placed at auctions in 2007 ranged from HRK 0.4bn in January to HRK 6.5bn in October. The average daily balance of the funds created through reverse repo operations during the same period was HRK 3.4bn. The largest average daily balance of funds created through reverse repo auctions was HRK 5.1bn recorded in the maintenance period from 12 September 2007 to 9 October 2007. Individual amounts of funds placed at the four auctions during that period ranged from HRK 4.1bn to HRK 6.5bn.

Repo rates bid at reverse repo auctions in the first three quarters of 2007 equalled the marginal repo rate which stood at 3.5% during that period. However, in the last three months of 2007, some banks participated in auctions with several bids. Besides, in the first three quarters, partial acceptance (75%) of the bids received, took place at only one auction, while all the other auctions were characterised by full bid acceptance. The ratio of bids accepted to total bids received ranged from 45.2% to 89.7%, while the percentage of bids accepted at the marginal repo rate at these auctions ranged from 45.2% to 100%. The number of banks which took part at reverse repo auctions ranged between two and twelve, with seven banks on average participating in each auction. The average number of bids per bidder ranged between one and 1.6.

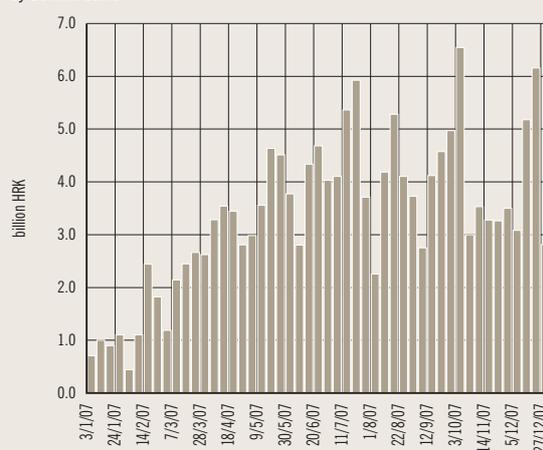
## Fine-Tuning Operations

Unlike regular operations which are used exclusively to improve the system's liquidity, fine-tuning operations are used to temporarily reduce or improve the system's liquidity. These operations are conducted on an ad hoc basis to manage the liquidity situation in the market and to manage interest rates, in particular in situations when it is necessary to neutralise the effects of interest rate changes caused by unexpected market fluctuations. Operations of this type may be executed as repo and reverse repo operations, outright purchases and sales of securities and foreign currency, and foreign exchange swaps. Frequency and maturity of fine-tuning operations have not been standardised which ensures a high level of flexibility and possibility to respond quickly to any sudden market fluctuation. These operations are conducted at auctions through unstandardised bids or bilaterally through a limited number of participants. Acceptable collateral includes kuna T-bills of the Ministry of Finance.

In the context of open market operations, the central bank executed in June 2007 a fine-tuning operation, creating HRK 1.3bn worth of liquidity, with non-standard maturity of the reverse repo operation. Another four fine-tuning operations followed in July, August, September and October, involving amounts ranging from HRK 1.2bn to HRK 1.3bn.

## 2.4 Regular Operations

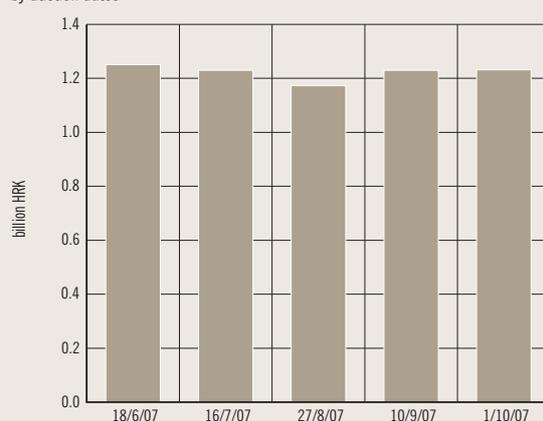
by auction dates



Source: CNB.

## 2.5 Fine-Tuning Operations

by auction dates



Source: CNB.

## Structural Operations

The third type of open market operations are structural operations which are carried out in the case of need for longer-term liquidity structure adjustment. Carried out through outright securities purchase and sale transactions and repo and reverse repo operations, they are used to increase or reduce the system's liquidity. Their maturity and frequency are not standardised and they are carried out at auctions through standard bids and with banks' participation. Acceptable collateral for these types of operations includes various government securities. No structural operations took place in 2007.

### 2.1.2 Standing Facilities

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

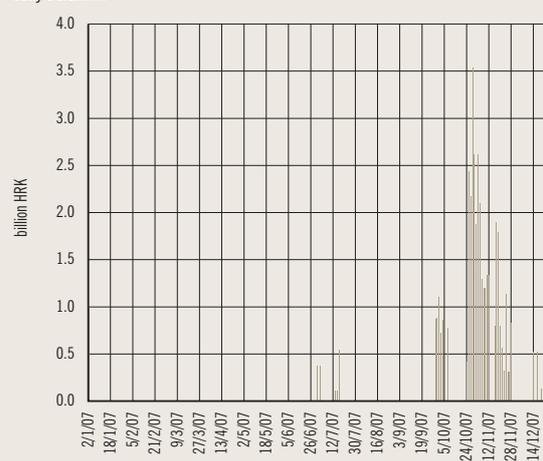
#### Lombard Loan

Interest rate on the Lombard loan provides a ceiling to the interest rate corridor on the money market. In 2007, it was set at 7.5%. The facility is granted against a pledge and may be used on a daily basis up to an amount of 90% of the nominal value of the pledged T-bills of the Ministry of Finance. The Lombard loan is used on a bank's request or is granted automatically in the even of default on an intra-day loan, and that exclusively at the end of a business day. It is repayable on the next business day. The CNB may at its discretion deny the banks temporarily or permanently the use of the Lombard facility. In the context of measures for restricting credit activities of banks, the interest rate on the Lombard loan was raised from 7.5% to 9% in early December 2007, with scheduled application as of 1 January 2008.

Although the Lombard loan was used for only one business day in the first half of 2007, the use of this facility intensified later in the year, especially in the last quarter of the year. The amounts granted under the Lombard facility in 2007 ranged from HRK 0.1bn to HRK 3.5bn, with the average daily amount of the use of the facility standing at HRK 1.1bn. The maximum average amount of the Lombard loan during the days of its use was HRK 1.6bn in October 2007. The largest daily Lombard loan of HRK 3.5bn was also granted in that month (29 October 2007). The minimum average daily amount of the Lombard loan of HRK 0.3bn was recorded in July 2007. In 2007, this facility was used for a total 42 days, of which as many as 36 days took place in the last three months of 2007. The banks used

#### 2.6 Lombard Loans

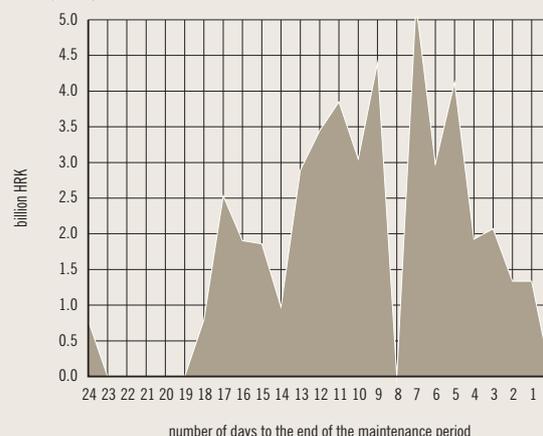
daily balances



Source: CNB.

#### 2.7 Changes in Lombard Loan Balance in Reserve Requirements Maintenance Periods

average daily balances



Source: CNB.

the Lombard facility between one and 17 business days within a month, with the largest number of days of use of the Lombard facility taking place in November 2007.

## Deposit Facility

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

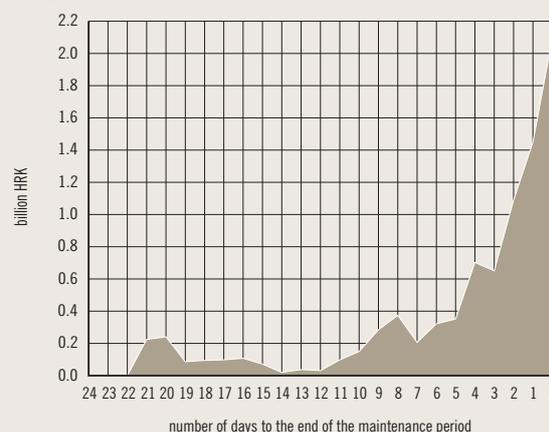
Throughout 2007, the banks made use of the overnight deposit facility with the CNB, particularly, in terms of the number of days, in the last quarter of 2007. Within a reserve requirements maintenance period, the use of overnight deposits is commonly more frequent in the second part of the period, when the banks are more confident that they will meet the reserve requirements. Overnight deposits commonly increased immediately before a new period of reserve requirements maintenance, with monetary deposits exceeding HRK 2.0bn on individual days.

The average daily balance of the deposit facility in 2007 was HRK 0.8bn. The largest daily amount of the overnight daily deposit facility was HRK 4.6bn recorded in early October 2007. Overnight deposits were used for a total of 107 days in 2007, and the banks used the overnight facility between 4 and 19 business days in a month. The maximum average amount of the facility during those days was HRK 1.8bn in October 2007, and its minimum average amount was HRK 0.3bn in April 2007. The largest number of days of the use of overnight deposits took place in December 2007 when the banks deposited their funds with the central bank for 19 days, with the average deposit standing at HRK 0.6bn.

### 2.1.3 Reserve Requirements

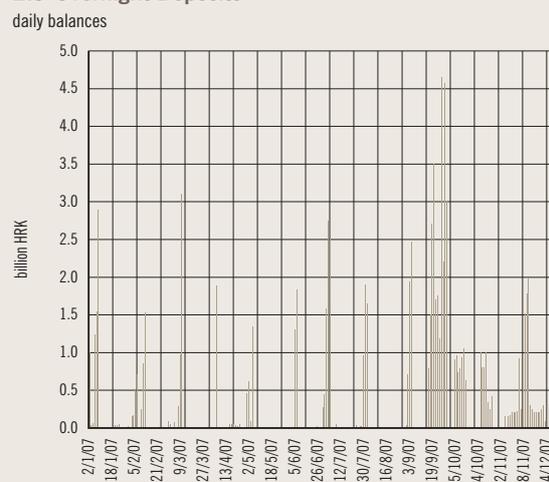
Reserve requirements were again the main instrument of banking system liquidity sterilisation in 2007. The reserve requirement rate remained unchanged at 17% throughout the year. The base for the calculation of reserve requirements consists of the kuna and foreign currency components. Of the calculated foreign currency component of reserve requirements, 50% is included in the calculated kuna component of reserve requirements and is executed in kuna. The calculation period extends from the first to the last day of a calendar month, and the maintenance period begins on the second Wednesday in a month and ends on the day which precedes the second Wednesday of the following month. The kuna and foreign currency reserve requirements allocation percentages are 70% and 60%, respectively, of the calculated reserve requirements. However, the foreign currency component of reserve requirements calculated on the basis of non-residents' foreign currency funds and foreign currency funds received from

**2.8 Changes in Overnight Deposit Balance in Reserve Requirements Maintenance Periods**  
average daily balances



Source: CNB.

**2.9 Overnight Deposits**



Source: CNB.

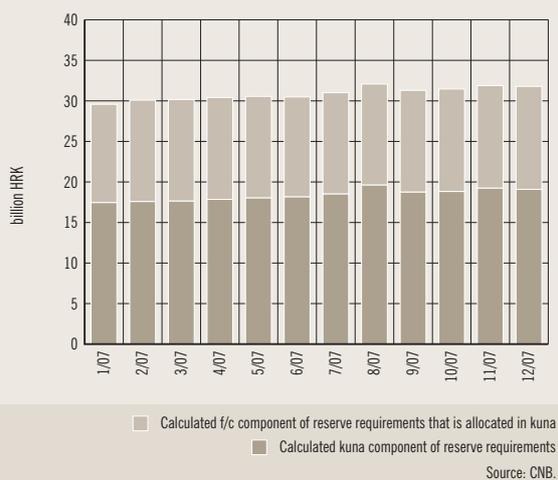
legal persons in a special relationship with a bank is allocated at the rate of 100%. The remaining part of reserve requirements may be maintained by average daily liquid claims balance.

## Kuna and Foreign Currency Component of Reserve Requirements

The kuna component of the base grew steadily throughout 2007, except for its November fall, reaching HRK 114.0bn in December, a 10.2% growth on an annual level. The growth of kuna component of the base ranged from 0.3% to 2.3% per month in 2007, reaching its highest growth in October.

### 2.10 Total Kuna Component of Reserve Requirements

balance in maintenance periods



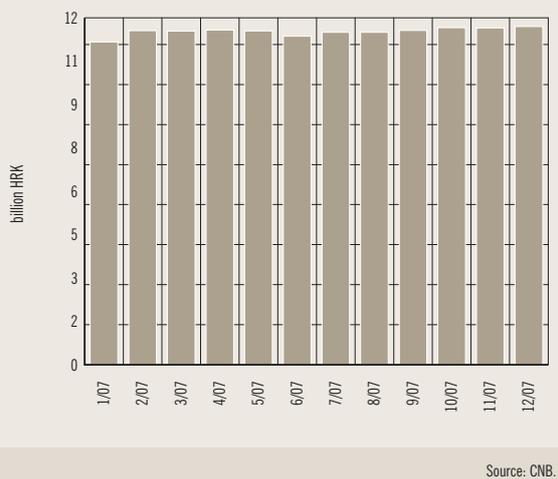
The foreign currency component of the base fluctuated between HRK 144.8bn in May and HRK 150.5bn in December 2007, growing by 2.2%. The largest increase (3.4%) in the foreign currency component of the base took place in January. Overall, the remaining part of 2007 was marked by milder growth, with even negative growth rates taking place in individual months.

In 2007, the kuna component of reserve requirements rose by 7.4%, reaching HRK 31.8bn in the last period of maintenance. The growth of the kuna component of reserve requirements was slower than the growth of the kuna component of the base due to stagnation in the foreign currency component of reserve requirements that is executed in kuna.

The share of the calculated foreign currency component of reserve requirements that it allocated in kuna rose by 4.8% from the January maintenance period to the maintenance period in December 2007, which is in line with developments in the foreign currency base during that period, given that the percentage of that foreign currency component did not change during the year.

### 2.11 Total Foreign Currency Component of Reserve Requirements

balance in maintenance periods



The foreign currency component of reserve requirements fluctuated during 2007 and, in line with developments in the foreign currency component of the base, rose from HRK 12.1bn in January to HRK 12.7bn in December, an increase of 4.8%.

Remuneration paid for the allocated kuna component of reserve requirements in 2007 was 0.75%. The remuneration paid on the foreign currency component of reserve requirements allocated in euro amounted to 50% of the ECB Minimum Bid Refinance Rate and on those allocated in American dollars to 50% of the US Federal Funds Target Rate.

## 2.1.4 Measures for Restricting Placements and External Debt Growth

In addition to the existing instruments, marginal reserve requirements and special reserve requirements, the CNB also used in 2007 a subscription of compulsory CNB bills, a new measure aimed at restricting the growth of bank placements.

## Marginal Reserve Requirements

The instrument of marginal reserve requirements did not undergo any changes in 2007. The base for the calculation of this requirement again consisted of four components.

The first component of the base for the calculation of marginal reserve requirements (MRR I) is the positive difference between the average daily balance of sources of funds received from non-residents and legal persons in a special relationship with the bank in the calculation and initial calculation periods, with the initial calculation period being that from 1 June to 30 June 2004.

The second component of the base for the calculation of marginal reserve requirements (MRR II) is calculated in the same way as the first component of the base, with the exception that the initial calculation period is that from 1 to 30 November 2005.

The third component of the base for the calculation of marginal reserve requirements (MRR III) is the positive difference between the average daily balance of funds collected from persons engaging in financial leasing and individual off-balance sheet items comprising guarantees and warranties for the account of non-residents in kuna and foreign currency and which serve as a basis for the foreign borrowing of domestic natural and legal persons in the calculation and initial calculation periods, with the initial calculation period being that from 1 to 30 November 2005.

And finally, the fourth component of the base for the calculation of marginal reserve requirements (MRR IV) is the positive difference between the average daily balance of funds received from non-residents and legal persons in a special relationship with the bank which are used for financing domestic legal and natural persons in the form of syndicated loans or for domestic banks' placements to domestic legal and natural persons in the name and for the account of the mandator (mandated operations) with the mandator's funds received or placed not being shown on the bank's balance sheet but on a separate balance sheet (balance sheet of mandated operations) in the calculation and initial calculation periods, with the initial calculation period being that from 1 to 31 May 2006.

The rates of marginal reserve requirements applied to MRR I base and MRR II base are 40% and 15%, respectively, and that applied to MRR III base and MRR IV base is 55%.

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

Total calculated marginal reserve requirements fell from HRK 12.1bn in January 2007 to HRK 5.2bn in December 2007, which is a decrease of 57.1%. Looking at their monthly dynamics, they rose visibly in the first quarter and fell in the next two quarters, with the exception of their June increase. At HRK 4.2bn, the calculated marginal reserve requirements were at their lowest in September 2007. Following their October increase, marginal reserve requirements reached, with minor fluctuations, HRK 5.2bn at the end of 2007.

Developments in the base for the calculation of marginal reserve requirements point to a similar dynamics as those in the calculated marginal requirements, with the most significant input to the base coming from the sources of funds of non-residents and legal persons in a special relationship with the bank, with their dynamics being therefore the most important factor affecting the dynamics of the calculated marginal reserve requirements.



In January 2007, total sources of funds from non-residents and legal persons in a special relationship with the bank were HRK 79.4bn. They grew steadily until March when they reached their maximum of HRK 79.6bn and shrank afterwards, with the exception of their June and October increase. The sources of non-residents rose again in December, reaching HRK 66.0bn which is a 16.9% fall compared with the beginning of the year. The base for the calculation of marginal reserve requirements fell from HRK 24.2bn to HRK 10.9bn, simultaneously with the fall in the relevant sources of funds.

The sources of funds of legal persons engaging in financial leasing rose from HRK 167.5m in January to HRK 172.1m in December, in contrast with guarantees and warranties for the account of non-residents used for foreign borrowing of domestic legal persons which declined from HRK 4.3bn to HRK 3.9bn during the same period. This caused an increase in the base for the calculation of marginal reserve requirements from HRK 131.4m in January to HRK 136.6m in December.

The funds received from non-residents and legal persons in a special relationship with the bank for financing domestic persons in the form of syndicated loans and mandator funds (mandated operations) for placements to domestic persons totalled HRK 2.4bn in January 2007, falling to HRK 1.8bn until December. The relevant base for the calculation of marginal reserve requirements fell from HRK 263.9m to HRK 110.2m during the same period.

### Special Reserve Requirements

In force since February 2006, special reserve requirements on liabilities of banks arising from issued securities are an instrument introduced by the central bank to slow down bank borrowing based on issued debt securities.

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

According to data for the calculation period in December 2006, special reserve requirements were HRK 88.1m in January 2007 and HRK 97.7m in March 2007, their maximum in that year. In the remaining part of the year they fell steadily, reaching HRK 36.1m in December, for the November calculation period.

### Subscription of Compulsory CNB Bills

Decision on the subscription of compulsory CNB bills was introduced with the aim of directly restricting bank placements growth and indirectly reducing external debt growth and stabilisation of the current account deficit.

Under the said Decision, the maximum permissible growth of placements for the calculation period from 1 to 31 January 2007, relative to the balance of placements as at 31 December 2006 was initially 1%, with the permissible growth of placements in each subsequent calculation period, which always began on 1 January 2007 and ended on the last calendar day of each month, increasing by 1 percentage point. The maximum permissible growth of placements in 2007 was thus set at 12%.

The calculation of the subscription of compulsory CNB bills was to be done on the 20th day in a month by each bank which has exceeded the permissible growth of placements. The rate of subscription was 50% of the excess. The subscribed CNB bills matured in 360 days and were remunerated by the CNB at the same rate that is payable on the allocated kuna component of reserve requirements.

To accommodate the seasonal needs for the granting of placements, the CNB amended its Decision in February 2007, setting instead of a monthly permissible growth of placements, a uniform permissible growth of placements of 12% for all the calculation periods in a calendar year, relative to the previous year and setting 31 December of the previous year as the initial date. In early June 2007, the base for the calculation of compulsory CNB bills was divided into a balance sheet and an off-balance sheet component, and towards the end of that month the CNB issued a new decision, changing the initial period for the determination of the base for the calculation of subscription of compulsory CNB bills and tightening the permissible rate of placements growth after it had discovered that the growth of placements up to that point had been much higher than planned.

Under the new decision, the permissible growth of placements for the calculation period from 1 to 31 July, relative to 30 June 2007 was 0.5%, and additional 0.5 percentage points for all the subsequent calculation periods, with the calculation period always beginning on 1 July 2007 and ending on the last calendar day of each month.

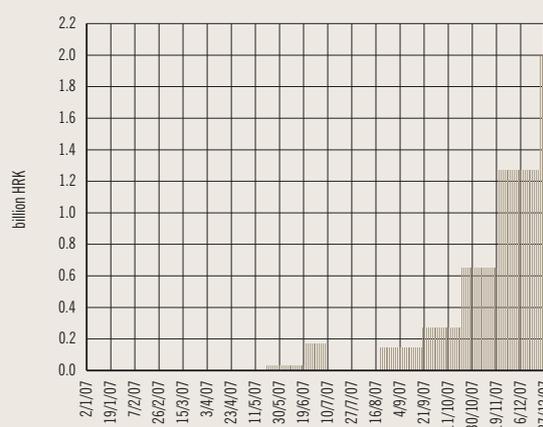
Under its September 2007 amendments, the CNB additionally tightened the conditions for the subscription of compulsory CNB bills by widening the basis for the calculation of their subscription through the inclusion in the calculation of placements the total amount of loans and credits granted to residents by legal persons with registered offices in the Republic of Croatia in which a bank or a qualifying holder in a bank, and which is a financial institution, has control in accordance with the provisions of Article 11, paragraph (2) of the Banking Act (OG 84/2002 and 141/2006) or a qualifying holding in accordance with the provisions of Article 8, paragraph (2) of the same Act. In addition to loans and credits placements also include receivables arising from loans and credits which bank-owned legal persons acquired by purchasing receivables or on the basis of another legal arrangement, pursuant to which they attained creditor status. Accordingly, the new initial date for loans granted by legal persons owned by a domestic or foreign bank was set at 30 September 2007 and the new calculation period began on 1 October 2007. The permissible growth of placements was again set at 0.5% relative to the first calculation period from 1 to 31 October 2007 and at additional 0.5 percentage points for each successive calculation period.

And finally in December 2007, the CNB issued a new Decision on the subscription of compulsory CNB bills, re-defining all the key elements of this Decision for 2008 and setting the initial date for the calculation of compulsory CNB bills at 31 December 2007 and the beginning of each calculation period at 1 January 2008. The permissible growth of placements for the first calculation period from 1 to 31 January 2008 was set at 1% and additional 1 percentage point for each successive calculation period. The compulsory CNB bills are purchased at the rate of 75% of the base and are issued at the interest rate of 0.25% annually.

In accordance with the calculation base, in the first three months of 2007 there were no purchases of compulsory CNB bills. Their first purchase following the adoption of this Decision took place on 20 April 2007 and totalled HRK 45.0 thousand based on the calculation base of HRK 90.9 thousand for the period from 1 January to 31 March. After that the calculation base rose until end-May when it stood at HRK 277.3m, while the cumulative purchase of compulsory CNB bills stood at HRK 167.4m on 20 June. After the June change in the initial calculation period, there were no purchases of compulsory CNB bills in the period from 9 July until 20 August when HRK 143.2m were purchased based on the calculation base of HRK 286.4m between 1 and 31 July 2007. The purchase of compulsory CNB bills rose steadily in the rest of the year, standing at HRK 2.0bn at the end of the year, with the calculation base ranging between HRK 252.8m and HRK 1.4bn during that period.

### 2.13 Purchased Compulsory CNB Bills

daily balances



Source: CNB.

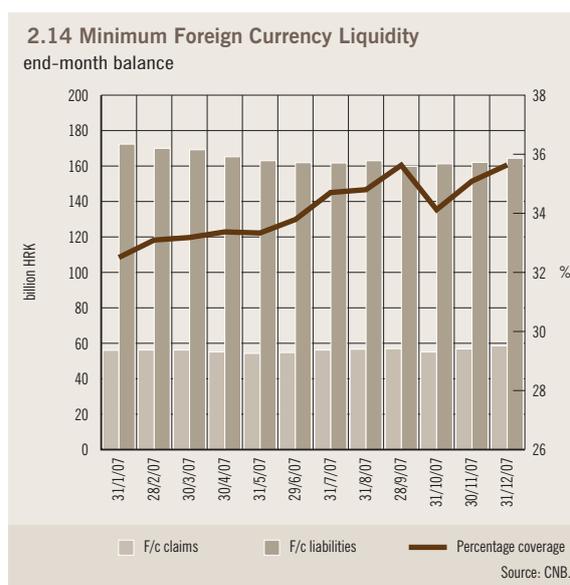
## 2.1.5 Other Instruments

### Minimum Required Foreign Currency Claims

Set at 32% of all foreign currency liabilities, the minimum required foreign currency claims are an instrument used by the central bank to maintain foreign currency liquidity of banks. The banks are obliged to meet the prescribed maintenance percentage on a daily basis, with liquid foreign currency claims being those (with the exception of those on loans) maturing in less than three months. Given uniform treatment of kuna liabilities with a currency clause and foreign currency liabilities since 2006, and the fact that a large number of banks was not able to meet the prescribed 32% ratio in the given time-frame, following the inclusion of kuna liabilities with a currency clause in the definition of foreign currency liabilities, an adjustment period had been set, with 31 March 2007 as its deadline, during which the banks were obliged to increase each month, starting from October 2006, their maintenance percentages by two percentage points, to attain the minimum 32% until 31 March 2007.

In July 2007, the central bank expanded the scope of foreign currency claims, and that exceptionally for the period from 5 July 2007 to 31 October 2007, to include under foreign currency claims an EUR 244.5m worth of syndicated domestic banks foreign currency loan to the Ministry of Finance.

At 31 January 2007, the coverage of foreign currency liabilities by foreign currency claims was 32.50%, the 2007 minimum. The ratio improved later in the year, reaching 33.37% on 30 April and after a slight fall in May, recovered to 35.63% on 28 September. At the end of October, the coverage fell back to 34.13%, but recovered until the end of the year, standing at its maximum of 35.64% on 31 December 2007.



### Croatian National Bank Bills in Kuna

Dematerialised negotiable 35-day kuna CNB bills are sold at auctions at a discount and with the same day settlement. The CNB determines the date of the auction while access to the primary market is open to domestic banks, foreign bank branches and the CBRD. The Central Depository Agency provides depository services for CNB bills. Though constituting a part of the operating monetary policy framework, CNB bills were not used in 2007.

### Short-Term Liquidity Loans

Short-term liquidity loans are loans granted to banks with liquidity problems after all other sources of liquidity available on the market have been exhausted. In 2007, there was no need for short-term liquidity loans. The interest rate on this type of loans is equal to the rate charged on the Lombard loan increased by 0.5 percentage points if the loan is used for a period up to three months, or increased by 1 percentage point if the loan is used for a period of over three months.

### Intra-Day Loans

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

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

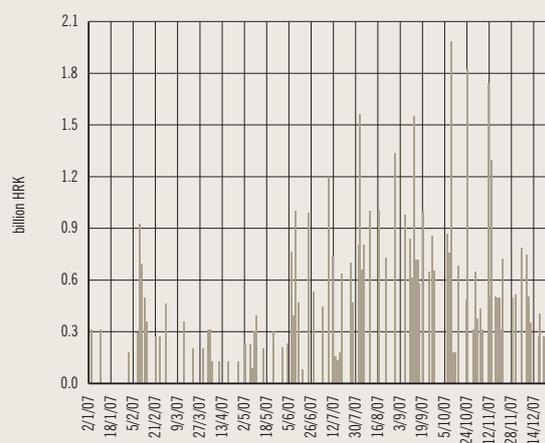
In 2007, intra-day loans were used for 99 days and their average amount was HRK 0.6bn, with individual daily amounts granted ranging from HRK 0.1bn to HRK 2.0bn. Compared with their 90 day use in 2006 and their average amount in that year (HRK 0.3bn), the frequency of use of this facility did not change much, though the average amount of the loan increased. As regards the use of intra-day loans on the days of regular operations, of the total of 49 reverse repo auctions held, the loan was used at 44 of them, or at 89.8% of all regular auctions in 2007. Average intra-day loans on these days were HRK 0.6bn, with the individual daily amounts granted ranging from HRK 0.1bn to HRK 1.6bn.

### 2.1.6 Croatian National Bank Interest Rates and Remuneration

Interest rates on standing facilities move within a range which sets a limit to the corridor of movements in overnight interest rates on the money market. The ceiling on the interest rate spread is the interest rate on the Lombard loan (7.5% annually) and the floor is the interest rate on overnight deposits with the CNB (0.5% annually). Interest rate spread and its ceiling and floor values remained unchanged throughout 2007.

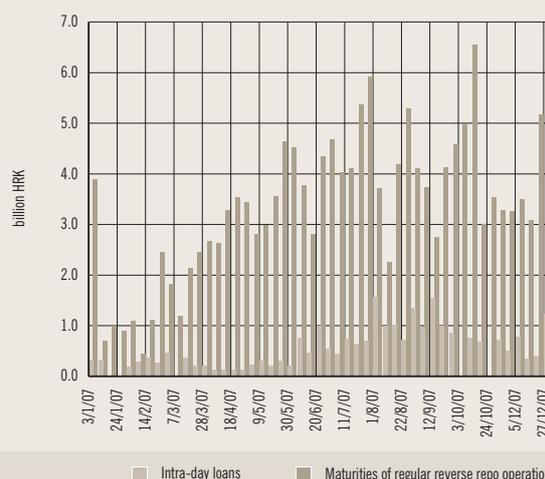
In the first three quarters of 2007, the repo rate, which is the rate at which the banks pay interest on funds borrowed at reverse repo auctions of the CNB, did not change. However, more active role assumed by the central bank in liquidity management, in terms of refusal to accept full bid amounts offered by banks at reverse repo auctions, prompted some banks in the last quarter of 2007 to participate in the auctions with several bids and different interest rates, thus causing a more pronounced diversification of the bid repo rates and of the weighted repo rate. The lowest bid repo rate ranged from 3.50% to 4.00% during the observed period and the highest bid repo rate ranged from 3.50% to 4.50%. Throughout the year, the weighted repo rate ranged from 3.50% to 4.18%, the amount achieved at the last auction in 2007. The marginal repo rate, i.e. the lowest acceptable repo rate, stood at 3.50% in the first ten months of the year, and in the last two months of the year ranged from 3.60% to 4.10%, the amount achieved at the last auction in 2007.

2.15 Use of Intra-Day Loans



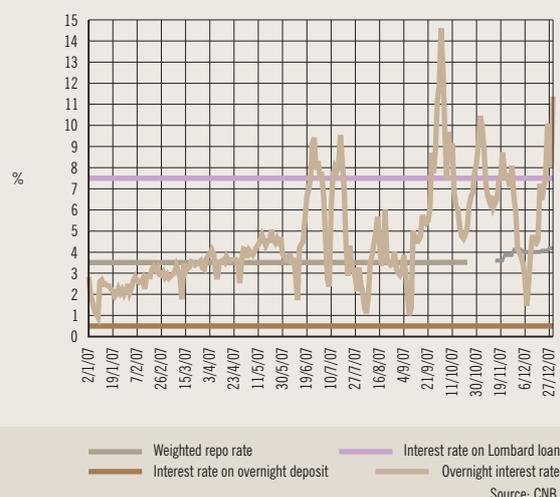
Source: CNB.

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



Source: CNB.

2.17 Interest Rate Spread, Repo Rates and Overnight Interest Rates in 2007



Source: CNB.

In early December, the central bank raised the rate at which it calculates and charges interest on Lombard loans from 7.5% to 9%. The increase in the Lombard loan rate, in force as of 1 January 2008, took place in the context of measures to restrict credit activities of banks.

Remuneration paid on the kuna component of reserve requirements was 0.75% while that paid on the foreign currency component of reserve requirements allocated in American dollars amounted to 50% of the US Federal Funds Target Rate, and for funds allocated in euro, 50% of the ECB Minimum Bid Refinance Rate.

The CNB raised its discount rate from 4.5% to 9% in December. In accordance with the provisions of Articles 26 and 29 of the Civil Obligations Act, the central bank is obligated to publish twice a year the discount rate applicable at the end of each half-year and since 1 January 2008, the amount of agreed and penalty interest have been linked to the CNB discount rate.

## 2.2 International Reserves Management

The Croatian National Bank manages the international reserves of the Republic of Croatia, which under the Act on the Croatian National Bank constitute a part of the balance sheet of the Croatian National Bank. The Croatian National Bank manages international reserves in accordance with the established monetary and foreign exchange policies and in a manner which ensures smooth settlement of international obligations of the Republic of Croatia. In managing the international reserves, the central bank is governed primarily by principles of liquidity and safety. International reserves of the Republic of Croatia comprise all claims and securities in a convertible foreign currency, banknotes and coins in a convertible foreign currency and special drawing rights (SDR).

### 2.2.1 Institutional and Organisational Framework, Principles of Management, Risks and Manner of International Reserves Management

#### Institutional and Organisational Framework of International Reserves Management

The Act on the Croatian National Bank governs the status, operations, ownership status, powers and organisation of the Croatian National Bank, and the relationship of the Croatian National Bank with the Republic of Croatia, banks and international institutions and organisations. As the central bank of the Republic of Croatia, the Croatian National Bank enjoys operational autonomy and independence and is accountable to the Croatian Parliament.

The Council of the Croatian National Bank is the body responsible for the implementation of the objectives and tasks of the central bank and the establishment of the operating policy of the Croatian National Bank. The Council of the CNB is also responsible for formulating the strategy and policies for international reserves management. It sets the strategic objectives and the principles of international reserves management and approves the framework for risk management.

International Reserves Commission is the body responsible for the development of strategies for international reserves investment in accordance with the objectives set by the Council of the CNB and the adoption of tactical decisions in international reserves management, while taking into account the market conditions.

International Reserves and Foreign Exchange Liquidity Department is responsible for operational implementation of international reserves management policy and strategy in accordance with decisions of the Commission and the Council. The Department is responsible for investment and maintaining of liquidity of international reserves on a daily basis, risk management and making reports for the Commission and the Council.

Internal Audit, as an autonomous organisational unit directly responsible to the Governor, conducts regular audit of the operations of the International Reserves and Foreign Exchange Liquidity Department. Financial statements

of the CNB, which cover international reserves management, are subject to regular annual external audits by authorised external auditors.

## Principles of International Reserves Management and Risks in International Reserves Management

In managing the international reserves of the Republic of Croatia, the central bank is governed by principles of liquidity and safety of investment (Article 17 of the Act on the Croatian National Bank). In that context, it maintains high liquidity of reserves and adequate risk exposure, and with the given restrictions, attempts to ensure favourable rates of return on its investments. Similar principles are observed by other central banks in their international reserves management.

Risks present in international reserves management are primarily financial risks such as credit, interest rate and currency risks though other risks such as liquidity and operational risks also play a role. The CNB can mitigate credit risk exposure by investing into government bonds with a high rating, collateralised deposits and non-collateralised deposits in banks with ultimate credibility. Interest rate risk, or the risk of a fall in the value of international reserves portfolio due to unwanted interest rate changes, can be controlled by means of the so called benchmark portfolios. Currency risk arises from cross-currency fluctuations between the kuna and the euro and the kuna and the American dollar. Currency structure of the international reserves of the CNB is determined in accordance with the currency structure of foreign liabilities of the Republic of Croatia and currency structure of goods and services imports. Liquidity risk can be controlled by investing reserves into easily marketable bonds and partly into short-term deposit instruments. Operational risk can be controlled by strict separation of functions and responsibilities, precisely defined methodologies and procedures and regular internal and external audits.

### Manner of International Reserves Management

As provided by a Decision on international reserves management, the Croatian National Bank manages international reserves in two ways: 1) actively, in accordance with its own guidelines and 2) passively, in accordance with the assumed foreign exchange obligations.

The CNB actively manages that part of international reserves which is formed through outright purchase of foreign currency from the banks and the MoF at foreign exchange interventions of the CNB, in accordance with the set benchmark portfolios, thus achieving an adequate risk-return profile. The other part of the reserves, formed on the basis of allocated foreign currency reserve requirements of banks, deposits of the MoF, repo transactions and special drawing rights (SDR), is managed passively by the CNB, depending on the assumed foreign exchange obligations, and with the aim of ensuring protection against currency and interest rate risks.

The terminology of reporting on international reserves of the CNB includes the terms of gross and net reserves. Gross reserves imply total international reserves. Net reserves imply the share of reserves actively managed by the CNB and SDR and foreign cash.

### 2.2.2 International Reserves in 2007

Total international reserves of the CNB rose by EUR 582.1m in 2007 or by 6.7% compared with 2006. On the last day of December 2007, total international reserves of the CNB were EUR 9.3bn, compared with EUR 8.7bn at the end of 2006.

**Table 2.1 Monthly Changes in Total CNB International Reserves**

end of period, in million EUR

Month	Total reserves
December 2006	8,725.14
January 2007	9,172.39
February 2007	9,565.23
March 2007	9,519.57
April 2007	9,488.24
May 2007	9,451.33
June 2007	9,170.18
July 2007	9,411.93
August 2007	9,222.84
September 2007	8,794.94
October 2007	8,973.60
November 2007	9,112.08
December 2007	9,307.21
<b>Change Dec. 2007 – Dec. 2006</b>	<b>582.08</b>

Note: Differences between balances shown in this Table and in Table H7 of the Statistical Appendix are due to a somewhat different coverage of international reserves, i.e. the exclusion of the reserve position of the Republic of Croatia in the International Monetary Fund from data shown in this Table.  
Source: CNB.

The main factors leading to changes in the level of total international reserves in 2007 on the inflow side were:

- EUR 839m in foreign exchange interventions involving purchases of foreign currency from the banks,
- EUR 364m in income from international reserves investment,

and on the outflow side:

- a fall of EUR 309.5m in total allocated foreign currency reserve requirements (with the marginal reserve requirements falling by EUR 369.6m while the reserve requirements rose by EUR 60.1m),<sup>1</sup>
- EUR 178.8m in foreign currency sale to the Ministry of Finance,
- EUR 138m in cross-currency changes arising from the weakening of the American dollar against the euro at the end of 2007, compared with the end of 2006.

**2.18 International Reserves of the CNB**



### Total CNB Turnover in the Foreign Exchange Market in 2007

In 2007, the central bank engaged in foreign currency purchase and sale transactions with domestic banks, the Ministry of Finance and foreign banks. These transactions led to a net increase in international reserves of the CNB of EUR 665.2m, and an issue of HRK 4.8bn in 2007.

<sup>1</sup> The fall in allocated foreign currency reserve requirements shown in the Monetary Authorities Accounts amounts to EUR 310.5m, while the increase in foreign currency reserve requirements shown in that Account amounts to EUR 59.1m. Differences between data shown in the Monetary Authorities Accounts and in this text can be attributed to differences in data coverage, i.e. inclusion of interest arrears under foreign currency reserve requirements in the Monetary Authorities Accounts.

**Table 2.2 Total CNB Turnover in the Foreign Exchange Market, 1 January – 31 December 2007**

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

	Purchase (1)		Sale (2)		Net (1 - 2)	
	EUR	HRK	EUR	HRK	EUR	HRK
Domestic banks	839.00	6,132.05	0.00	0.00	839.00	6,132.05
Ministry of Finance	5.12	37.32	178.81	1,321.18	-173.70	-1,283.86
Foreign banks	0.00	0.00	0.07	0.55	-0.07	-0.55
<b>Total</b>	<b>844.12</b>	<b>6,169.37</b>	<b>178.89</b>	<b>1,321.73</b>	<b>665.23</b>	<b>4,847.64</b>

Source: CNB.

At its foreign exchange transactions with domestic banks in 2007, the CNB purchased EUR 839m, creating HRK 6.1bn in kuna liquidity. The central bank intervened in the foreign exchange market four times in 2007 by purchasing foreign currency from the banks. Two interventions took place in July, one in October and one in December. It should be noted that the monetary effect of the end-December 2006 foreign exchange intervention followed in early 2007. There were no sales of foreign currency to the banks in 2007.

**Table 2.3 CNB Foreign Exchange Interventions with Domestic Banks, 1 January – 31 December 2007**

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

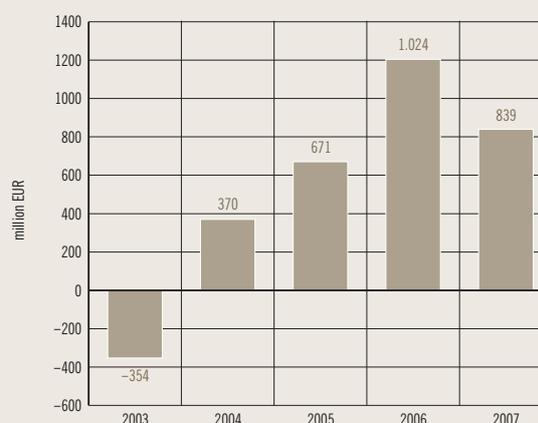
Month (number of interventions)	Purchase (1)		Sale (2)		Net (1 - 2)	
	EUR	HRK	EUR	HRK	EUR	HRK
January (1)	177.00	1,302.25	0.00	0.00	177.00	1,302.25
February	0.00	0.00	0.00	0.00	0.00	0.00
March	0.00	0.00	0.00	0.00	0.00	0.00
April	0.00	0.00	0.00	0.00	0.00	0.00
May	0.00	0.00	0.00	0.00	0.00	0.00
June	0.00	0.00	0.00	0.00	0.00	0.00
July (2)	139.00	1,014.25	0.00	0.00	139.00	1,014.25
August	0.00	0.00	0.00	0.00	0.00	0.00
September	0.00	0.00	0.00	0.00	0.00	0.00
October (1)	355.20	2,588.80	0.00	0.00	355.20	2,588.80
November	0.00	0.00	0.00	0.00	0.00	0.00
December (1)	167.80	1,226.74	0.00	0.00	167.80	1,226.74
<b>Total</b>	<b>839.00</b>	<b>6,132.05</b>	<b>0.00</b>	<b>0.00</b>	<b>839.00</b>	<b>6,132.05</b>

Source: CNB.

In 2007, the CNB sold to the Ministry of Finance EUR 178.8m, withdrawing HRK 1.3bn from the system, and purchased from the Ministry of Finance EUR 5.1m, thus creating HRK 37.3m.

**2.19 CNB Foreign Exchange Interventions with Domestic Banks**

in net amounts



Source: CNB.

## Risks in International Reserves Management and Structure of International Reserves Investment in 2007

### Credit Risk in International Reserves Management

Credit risk is the risk that a counterparty will not settle an obligation in full, either when due or at any time thereafter.

The CNB provides for three levels of protection against credit risk:

- the CNB invests international reserves only in financial institutions and countries with the highest credit rating. When evaluating credit worthiness, special attention is paid to ratings published by internationally recognised rating agencies;
- investments in individual financial institutions and countries are restricted. This ensures credit risk diversification; and
- a large share of investment is collateralised – the CNB requires that security be provided in the form of government bonds of the same or greater market value than the value of the funds placed.

**Table 2.4 Structure of International Reserves Investment According to Credit Risk as at 31 December 2007**

at cost, in million EUR

Investment	Net reserves	Reserve requirements	Marginal reserve requirements	Ministry of Finance	Total reserves	31/12/2007	31/12/2007
						As % of net reserves	As % of total reserves
Government bonds <sup>a</sup>	4,705.07	300.00	95.48	–	5,100.55		
Covered bonds	19.56	–	–	–	19.56	0.27	0.21
International financial institutions	149.69	–	–	–	149.69	2.05	1.62
Central banks	41.32	–	–	0.08	41.39	0.57	0.45
Banks	2,376.36	959.84	590.00	9.93	3,936.13	32.59	42.57
<b>Total</b>	<b>7,291.99</b>	<b>1,259.84</b>	<b>685.48</b>	<b>10.01</b>	<b>9,247.32</b>	<b>100.00</b>	<b>100.00</b>

<sup>a</sup> Also included are reverse repo agreements which are collateralised by government bonds and bonds of German federal states.  
Source: CNB.

According to the degree of credit risk exposure, total international reserves have been divided into funds invested in government bonds, covered bonds, banks, international financial institutions and central banks. In terms of the structure of total international reserves, as at 31 December 2007, investments in government bonds accounted for the largest share of the total (55.16%). These investments are least exposed to credit risk as they comprise investments in bonds of countries with the highest credit rating. The share of total international reserves invested in non-collateralised instruments with the banks stood at 42.57% at the end of 2007 while investments in international financial institutions accounted for 1.62% of the total international reserves. Of the total international reserves, 0.45% were invested in central banks and 0.21% were invested in covered bonds at the end of 2007.

In terms of credit rating, half of the total reserves in 2007 (EUR 4.7bn or 50.56%) were invested in securities of countries and banks with the highest Aaa rating (according to Moody's rating agency), while 23.91% and 19.35% were invested in the banks with Aa1 and Aa2 rating, respectively. Banks rated Aa3 and A1 accounted for a mere 4.57% of international reserves investment while the remaining share (1.62%) of total international reserves was invested in the International Monetary Fund and the Bank for International Settlements. Evidently, over 95% of all international reserves investments of the CNB involved investments in issuers from groups with one of the three highest ratings and the IMF and the BIS.

### Currency Structure of International Reserves

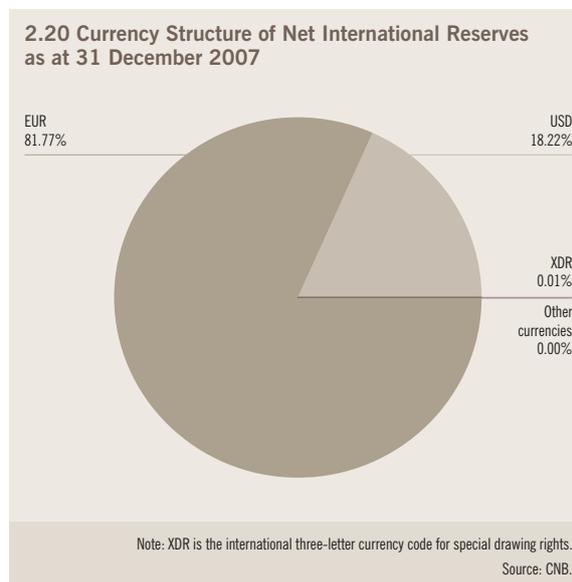
The CNB Council has defined precisely in its Decision on international reserves management the principles for the calculation of currency structure of net international reserves of the CNB as well as currency structure of the part of reserves passively managed by the CNB.

The currency structure of net international reserves is adjusted twice a year with the currency structure of the projected amounts of external debt repayments (principal and interest) of the Republic of Croatia for the following year and with the currency structure of goods and services imports in the past year. International reserves currency risk management by the CNB thus has to be observed in a broader context as the currency structure of international reserves of the CNB is used to reduce exposure to currency risk arising from foreign obligations of the Republic of Croatia.

As at 31 December 2007, the share of reserves in euro in net international reserves was 81.77% and the share of reserves in American dollars was 18.22%.

For the sake of comparison, the share of reserves in American dollars in net international reserves of the CNB stood at over 35% in early 2000 and has fallen steadily ever since. During that period, the dollar weakened against the euro almost 40%.

Part of the reserves generated by allocated foreign currency reserve requirements and marginal reserve requirements, funds of the MoF, repo transactions and funds in SDR are managed passively by the central bank, depending on the currency structure of assumed foreign exchange obligations.



### Interest Rate Risk in International Reserves Management

Interest rate risk is the risk of a fall in the prices of bonds, or the value of foreign currency portfolios of international reserves of the CNB due to unwanted interest rate changes in fixed income instruments. Interest rate risk of international reserves of the CNB is controlled by means of precisely defined benchmark portfolios. Benchmark portfolios meet the required risk-return profile, by reflecting a long-term investment strategy of the reserves.

### Results and Analysis of CNB Foreign Currency Portfolio Management in 2007

In 2007, the yield on net CNB euro portfolio was 3.88% and the yield on net CNB dollar portfolio during the same period was 6.11%. The average size of the CNB euro portfolio that was actively managed by the CNB in 2007 stood at EUR 5.5bn and the average size of the dollar portfolio was USD 1.7bn.

**Table 2.5 Realised Income in 2007 and Average Yields on Net CNB Foreign Currency Portfolios**

at market value, in million EUR and USD and %

Portfolio	Realised income	Average amount invested	Annual yield rate					
	2007	2007	2002	2003	2004	2005	2006	2007
EUR	213.86	5,508.13	3.79	2.58	2.66	2.15	2.42	3.88
USD	105.82	1,731.95	2.38	1.40	1.27	2.74	4.60	6.11

Source: CNB.

The European Central Bank raised its benchmark repo rate on two occasions in 2007, each time by 0.25%. As a result, ECB benchmark interest rate rose from 3.50% to 4.00% in 2007.

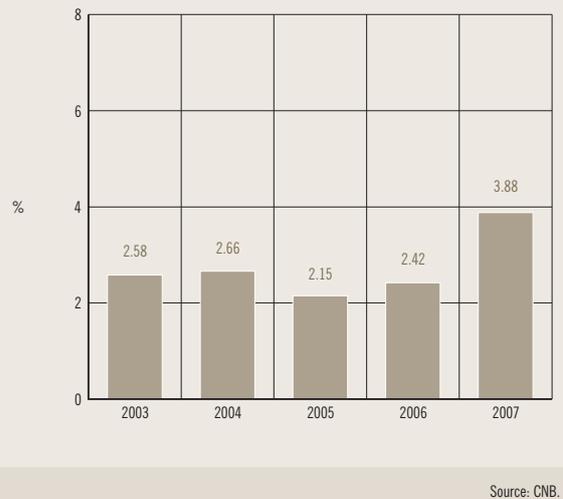
The Fed reduced its benchmark interest rate on three occasions in 2007 (by 50 basis points in September and 25 basis points in October and December), causing it to fall from 5.25% to 4.25% in 2007.

The yield on the CNB euro portfolio in 2007 was due to interest rates level in the eurozone and changes in eurobond prices. Bond prices fell in the first half of the year and rose in the second half of the year under the influence of the

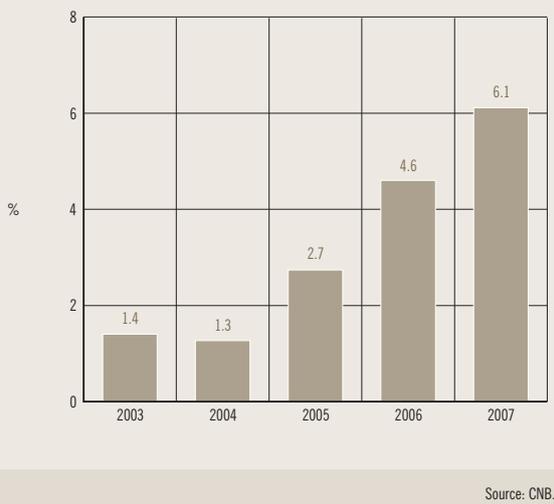
### 2.21 Changes in Key ECB and Fed Rates



### 2.22 Yields on the CNB Euro Portfolio



### 2.23 Yields on the CNB Dollar Portfolio



escalation of crisis associated with US subprime mortgage market. In such an environment, the yield on the CNB euro portfolio was 3.88%.

The yield on the CNB dollar portfolio had been growing for the third consecutive year. This is primarily the result of a sharp fall in yield to maturity on bonds in the second half of 2007. The crisis caused by US subprime mortgage market crash fuelled demand for safe investments such as government bonds, which, together with the reduced Fed key interest rate, led to a fall in yield to maturity and bond prices growth. In such an environment, the yield on the CNB dollar portfolio was 6.11%, the best result since the year 2000.

1

2

3

4

5

6

7

8

# Banking Sector<sup>1</sup>

---

1 All financial data for 2007 are based on the preliminary unaudited reports of banks and housing savings banks. In contrast, data for previous years are based on the audited reports of banks and housing savings banks.

### 3.1 Banks' Business Operations

The number of banks and housing saving banks operating in the Republic of Croatia remained unchanged in 2007 (Table 3.1). At the end of 2007, the share of banks' assets and the share of housing savings banks' assets in total banking sector assets stood at 98.1% and 1.9% respectively. Moreover, for a second consecutive year, banks showed a slight increase in their asset share, while an opposite trend in the asset share was reported by housing savings banks.

**Table 3.1 Number of Banking Institutions**

end of period

Banks	2005	2006	2007
Number of banks at the beginning of the year	37	34	33
Banks that merged with other banks	-2	-1	-
Banks undergoing winding-up proceedings	-1	-	-
Banks whose license was revoked	-	-	-
Number of banks at the end of the year	34	33	33
Housing savings banks			
Number of housing savings banks at the beginning of the year	4	4	5
Housing savings banks that were granted license	-	1	-
Number of housing savings banks (and savings banks) at the end of the year	4	5	5

Source: CNB.

The structure of bank peer groups<sup>2</sup> witnessed no changes in 2007. Including 23 banks, the group of small banks remained the largest peer group. The groups of medium-sized and large banks comprised 4 and 6 banks respectively (Table 3.2).

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

end of period

	Number of banks			Share		
	2005	2006	2007	2005	2006	2007
Large banks	6	6	6	81.9	80.2	79.0
Medium-sized banks	4	4	4	10.4	12.0	12.8
Small banks	24	23	23	7.7	7.8	8.1
<b>Total</b>	<b>34</b>	<b>33</b>	<b>33</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: CNB.

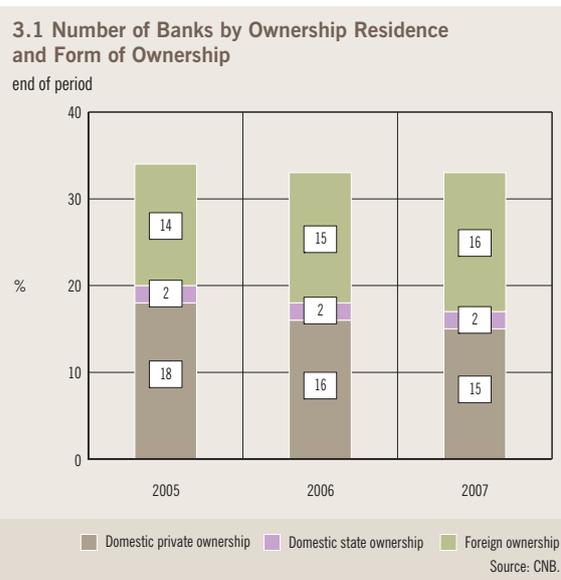
<sup>2</sup> Depending on the size of the relative share of the bank's assets in the total assets of all banks at the end of the reporting period, banks have been divided into three peer groups: large, medium-sized and small banks. Large banks are banks whose assets exceed 5% of the total assets of all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

The asset share of large banks in total bank assets went down by more than 1 percentage point at the end of 2007 relative to the end of 2006 and accounted for, for the first time since 2004, less than four-fifths of total bank assets (79.0%). Consequently, the asset shares of medium-sized and small banks trended up by 0.8 percentage points and 0.3 percentage points respectively in 2007.

In addition, on the downward trend since the end of 2004, the asset share of the two largest banks decreased further to 41.0% at the end of 2007 relative to the end of 2006. The asset shares of the five largest banks and the ten largest banks displayed the same trends, falling to 71.5% and 91.9% respectively. Within this, the decrease in the asset share of the five largest banks was the greatest and stood at 1.1 percentage point.

For the first time since the end of 2002, the number of banks in foreign ownership prevailed over the number of banks in domestic private ownership. With one domestic private bank being acquired by the shareholders from San Marin, the number of banks in majority foreign ownership exceeded by one the number of banks in domestic private ownership (Figure 3.1). The number of banks in state ownership remained stagnant.

Notwithstanding these developments, the asset share of banks in majority foreign ownership in total bank assets went down at the end of 2007 relative to the end of 2006. Standing slightly below one-half of a percentage point, this decrease is attributed to the slower growth of assets in these banks (12.8%) as compared to the growth of banking system assets (13.4%). In addition, the asset share of banks in domestic private ownership fell by 0.1 percentage point or at a rate of 11.4%. In contrast, the asset share of banks in state ownership went up by 0.5 percentage points (Table 3.3), due to the growth rate in the state-owned banks' assets being two times higher than that in the banking system assets (26.1%).



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

in %

Banks by ownership residence and form of ownership	Bank peer groups' share of assets in total bank assets		
	2005	2006	2007
Banks in majority ownership of domestic shareholders	5.3	5.0	4.9
Banks in majority state ownership	3.4	4.2	4.7
Banks in majority ownership of foreign shareholders	91.3	90.8	90.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: CNB.

In terms of ownership, the most important change in 2007 was the transition of two banks from the majority Italian ownership into the majority Austrian ownership. As a result, the Austrian shareholders became the largest majority owners of banks operating in the Republic of Croatia, whereas in 2006 that position was held by the Italian shareholders. Specifically, the Austrian shareholders held seven banks, and the Italian shareholders held five banks. The remaining four banks in majority foreign ownership were held by the shareholders from France, Hungary, San Marin and Luxembourg. In addition, banks in majority Austrian ownership increased their asset share in total bank assets from 35.2% in 2006 to 59.1% in 2007, while the asset share of banks in majority Italian ownership fell from 43.6% to 20.1% (Figure 3.2).

The number of banking groups, on whose business operations the superordinate banks reported to the Croatian National Bank in line with the Decision on consolidated financial reports of a banking group,<sup>3</sup> rose from eight to nine at end of 2007. The superordinate banks of these groups included Erste & Steiermärkische bank d.d., Hrvatska poštanska banka d.d., Hypo Alpe-Adria-Bank d.d., Karlovačka banka d.d., OTP banka Hrvatska d.d., Privredna banka Zagreb d.d., Raiffeisenbank Austria d.d., Slatinska banka d.d. and Zagrebačka banka d.d.

### 3.1.1 Banks' Balance Sheet

#### Structure of Banks' Assets

The total assets of banks amounted to HRK 345.0bn at the end of 2007, an increase of 13.3% over the end of 2006. Compared to the balance at the end of last year, 31 banks reported asset growth, while only two banks reported a decreased in their assets.

#### 3.2 Banks' Assets by Shareholders' Domicile



Table 3.4 Structure of Banks' Assets

end of period, in million HRK and %

	2005			2006			2007		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Money assets and deposits with the CNB	42,900.8	16.5	23.0	49,615.2	16.3	15.7	51,416.0	14.9	3.6
1.1. Money assets	3,347.1	1.3	9.3	3,931.0	1.3	17.4	4,551.9	1.3	15.8
1.2. Deposits with the CNB	39,553.7	15.2	24.3	45,684.2	15.0	15.5	46,864.2	13.6	2.6
2. Deposits with banking institutions	23,155.9	8.9	-30.6	26,005.6	8.5	12.3	35,118.0	10.2	35.0
3. MoF treasury bills and CNB bills	7,007.2	2.7	95.7	8,077.2	2.7	15.3	8,748.7	2.5	8.3
4. Securities and other financial instruments held for trading	8,285.5	3.2	26.2	7,730.4	2.5	-6.7	7,964.4	2.3	3.0
5. Securities and other financial instruments available for sale	11,820.8	4.5	19.2	12,678.2	4.2	7.3	11,318.3	3.3	-10.7
6. Securities and other financial instruments held to maturity	5,106.0	2.0	-22.1	3,311.9	1.1	-35.1	3,539.0	1.0	6.9
7. Securities and other financial instruments not traded in active markets but carried at fair value	1,101.4	0.4	-	460.1	0.2	-58.2	700.0	0.2	52.1
8. Derivative financial assets	147.3	0.1	-3.1	280.9	0.1	90.7	276.0	0.1	-1.8
9. Loans to financial institutions	3,867.3	1.5	17.6	4,035.4	1.3	4.3	7,099.5	2.1	75.9
10. Loans to other clients	148,092.5	56.9	21.5	183,740.0	60.3	24.1	209,327.9	60.7	13.9
11. Investments in subsidiaries, associates and joint ventures	1,595.7	0.6	-5.4	1,675.5	0.6	5.0	1,704.7	0.5	1.7
12. Foreclosed and repossessed assets	356.3	0.1	-0.5	445.6	0.1	25.1	357.4	0.1	-19.8
13. Tangible assets (net of depreciation)	4,198.8	1.6	10.9	4,434.1	1.5	5.6	4,509.0	1.3	1.7
14. Interest, fees and other assets	4,905.3	1.9	15.3	4,787.8	1.6	-2.4	5,786.1	1.7	20.9
15. Net of: Collectively assessed impairment provisions	2,263.1	0.9	13.4	2,672.6	0.9	18.1	2,866.8	0.8	7.3
<b>Total assets</b>	<b>260,277.6</b>	<b>100.0</b>	<b>13.5</b>	<b>304,605.3</b>	<b>100.0</b>	<b>17.0</b>	<b>344,998.0</b>	<b>100.0</b>	<b>13.3</b>

Note: The value of assets is expressed in gross amounts in Chapter 1.2.5 and in net amounts (i.e. net of impaired assets) in the above balance sheet.

Source: CNB.

The annual growth rate of banks' assets was lower at the end of 2007 than at the end of 2006 (17.0%) and the end of 2005 (13.5%). The observed slowdown may to a large extent be attributed to the measure on the compulsory

<sup>3</sup> OG 17/2003 and 149/2005.

purchase of CNB bills. Specifically, in the first six months of 2007, the banks' assets grew at a rate of 6.8%. However, with a further tightening of the measure, they slowed down to 6.1% in the second half of the year. Shown on a quarterly basis, the growth rate of banks' assets was the lowest in the last quarter of 2007 (1.5%), which was not in line with usual movements in balance sheets at business year end.

For a third year in a row, medium-sized banks reported the strongest growth in their assets, up 20.8% at the end of 2007 relative to the end of 2006. The asset growth of small banks amounted to 18.9%, while the lowest asset growth rate was reported by large banks (11.6%).

The most significant change in banks' balance sheets in 2007 was the currency restructuring of their assets and liabilities, i.e. the increase in their kuna denominated items. At the end of 2007, compared to the end of 2006, the assets denominated in kuna went up by HRK 39.9bn or 37.4%, lagging slightly behind the overall asset growth in 2007. In addition, the assets denominated in kuna and indexed to foreign currency fell by HRK 1.7bn or 1.4% over the same period. The major contributors to this were the increase in the kuna denominated share of assets in total assets from 35.0% in 2006 to 42.5 in 2007 and the decrease in the share of foreign currency indexed kuna assets in total assets from 39.4% to 34.3%. Liabilities showed an even more pronounced change in their currency structure, with kuna denominated items increasing by HRK 47.0bn (38.6%) and items denominated in kuna and indexed to foreign currency decreasing by HRK 15.0bn (45.5%). Hence, the share of kuna denominated items in total liabilities went up from 39.9% to 48.9%, and the share of foreign currency indexed items fell from 10.8% to 5.2%.

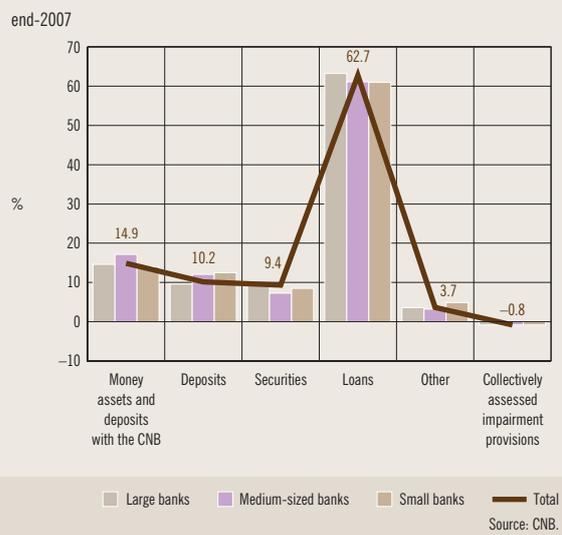
The growth in total loans extended (HRK 28.6bn or 15.3%) was the main driving force behind the overall growth in assets at the end of 2007 relative to the end of 2006. In addition to loans extended to financial institutions, which grew by 75.9% and thus exceeded the overall growth in assets, the year 2007 was also marked by the increase in loans to other clients (13.9%). Together, they contributed more than 1 percentage point to the growth in the share of loans in total bank assets. Moreover, all bank peer groups saw an increase in their shares of loans in assets, amounting to 1 percentage point in large and medium-sized banks and 2 percentage points in small banks. After reporting an increase of 13.4%, large banks had the largest share of loans extended in their assets (63.2%) at the end of 2007 relative to the end of 2006. Medium-sized banks reported an increase of 22.8%, with loans extended accounting for 61.1% of their assets. Finally, after growing by 23.0%, the share of loans extended in the assets of small banks stood at 61.0%.

Deposits with other banks were 35.0% higher at the end of 2007 than at the end of 2006. The second half of 2007 was marked by a considerable increase in total deposits, due mostly to the growth in time deposits and deposits with notice period with foreign banks. This change is attributed to a concurrent increase in foreign currency liabilities of banks. Specifically, in line with the Decision on the minimum required amount of foreign currency claims, banks were required to maintain a 32% coverage ratio between their foreign currency liabilities and foreign currency assets. Money assets and deposits with the CNB rose by 2.6% at the end of 2007 over the end of 2006, while the largest increase within the item of total deposits with the CNB was seen in reserve requirement deposits (7.4%).

Banks' investment in securities, T-bills included, totalled HRK 32.3bn at the end of 2007, with the total amount invested stagnating at its end-2006 level. Investment in debt securities fell by 2.2%, reaching 96.3% at year-end. Concurrently, investment in equity securities, accounting for 3.7% of the total, rose by 135.0%. Broken down by the type of instrument, more than a half of total investment was made in bonds (51.9%), while investment in T-bills accounted for the second largest share of 27.1%.

The household sector was in focus of bank lending activities in 2007. Specifically, 50.6% or more than a half of total net loans was extended to this particular sector. Loans to households reached HRK 109.5bn at the end of 2007, an increase of HRK 16.9bn (18.2%) over

3.3 Structure of Bank Peer Groups' Assets



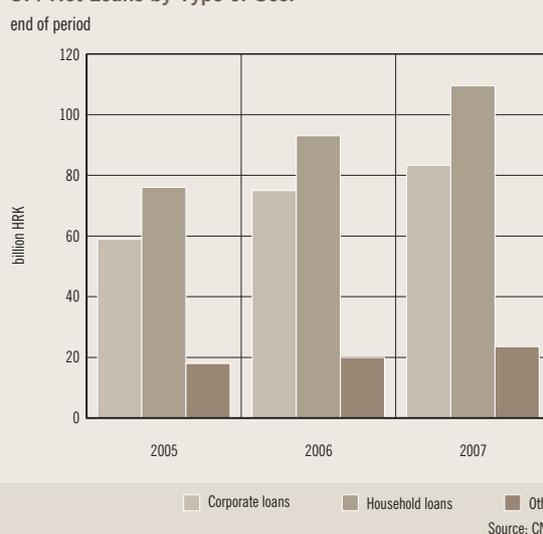
the end of 2006. Accounting for less than a half of that increase, home loans grew by 22.5% in the reference period, while their share in total net loans extended to households and total net loans of banks stood at 41.0% and 20.7% respectively. Other loans extended to households also grew at a high rate (17.6%), in part due to an increase in loans for the purchase of shares of some state-owned enterprises in the second half of 2007.

Loans extended in kuna, up by HRK 15.4bn, made up more than 90% of the total increase in household loans in 2007. Consequently, this changed the currency structure of loans extended to households, with loans indexed to foreign currency decreasing from 78.0% to 67.4% and loans denominated in kuna increasing from 21.7% to 32.4% at the end of 2006 relative to the end of 2007.

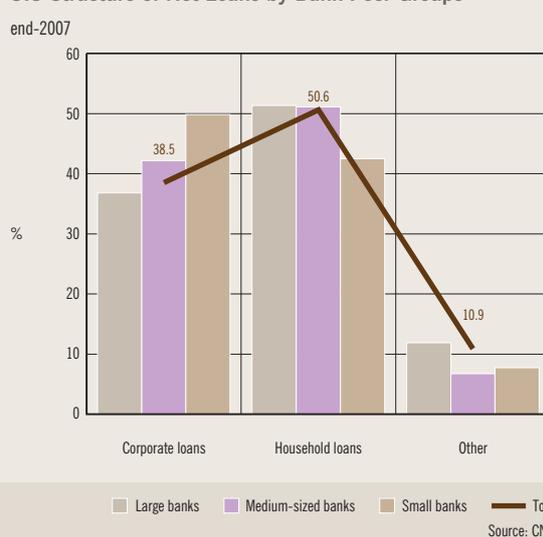
Loans to enterprises rose by HRK 8.3bn or 11.0% in 2007. Growing slower than total net loans of banks, the share of loans to enterprises in total net loans dipped from 40.0% at the end of 2006 to 38.5% at the end of 2007. Loans to other sectors went up by 17.6% in the reference period, due mostly to an increase in loans to financial institutions (75.9%).

Loans extended in foreign currency or indexed to foreign currency accounted for 61.4% of total net loans at the end of 2007, a decrease of over 10 percentage points from the end of 2006. As much as 70.9% of net loans extended in foreign currency or indexed to foreign currency were linked to euro. After declining by 6.5% at the end of 2007, these loans decreased their share in the currency structure of net loans by 4 percentage points. Concurrently, loans indexed to Swiss francs went up by 26.2%, increasing their share in total net loans from 21.0% at the end of 2006 to 26.8% at the end of 2007.

### 3.4 Net Loans by Type of User



### 3.5 Structure of Net Loans by Bank Peer Groups



## Structure of Banks' Liabilities

Banks raised HRK 30.2bn in deposits in 2007, 14.9% more than at the end of 2006. As a result, deposits accounted for almost three-fourths of the overall growth in banks' liabilities. With deposits growing faster than total bank liabilities, the share of deposits in total bank liabilities went up by 1 percentage point at the end of 2007 relative to the end of 2006, reaching a total of 67.6%. Loans received were the second major source of bank financing, accounting for 15.0% of total bank liabilities at the end of 2007. However, as loans received fell by 5.4% at the end of 2007 over the end of 2006, their share in total liabilities fell by almost 3 percentage points. The share of capital in total bank liabilities grew by 2.3 percentage points (12.5%) at the end of 2007 relative to the end of 2006, thus continuing a years-long upward trend.

Deposits made up the largest share in the liabilities of small banks (74.0%) and the smallest in the liabilities of large banks (66.3%). Deposits of medium-sized banks accounted for 71.1% of their liabilities, growing at the highest annual rate in the reference period (20.3%). In 2007, the annual growth rate of deposits of small and medium-sized banks stood at 16.5% and 13.8% respectively.

**Table 3.5 Structure of Banks' Liabilities**

end of period, in million HRK and %

	2005			2006			2007		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Loans from financial institutions	13,844.2	5.3	63.6	15,102.5	5.0	9.1	20,338.6	5.9	34.7
1.1. Short-term loans	7,346.5	2.8	104.5	7,286.7	2.4	-0.8	11,091.6	3.2	52.2
1.2. Long-term loans	6,497.7	2.5	33.4	7,815.8	2.6	20.3	9,247.0	2.7	18.3
2. Deposits	171,742.0	66.0	10.6	202,950.5	66.6	18.2	233,122.1	67.6	14.9
2.1. Giro account and current account deposits	29,175.2	11.2	14.1	37,696.5	12.4	29.2	45,283.6	13.1	20.1
2.2. Savings deposits	26,124.5	10.0	3.6	26,601.4	8.7	1.8	26,874.1	7.8	1.0
2.3. Time deposits	116,442.2	44.7	11.4	138,652.5	45.5	19.1	160,964.3	46.7	16.1
3. Other loans	36,191.2	13.9	15.4	39,762.9	13.1	9.9	31,549.5	9.1	-20.7
3.1. Short-term loans	8,213.9	3.2	56.0	10,028.1	3.3	22.1	5,339.4	1.5	-46.8
3.2. Long-term loans	27,977.3	10.7	7.2	29,734.8	9.8	6.3	26,210.1	7.6	-11.9
4. Derivative financial liabilities and other financial liabilities held for trading	223.7	0.1	-6.3	221.6	0.1	-0.9	367.5	0.1	65.9
5. Debt securities issued	3,396.9	1.3	-3.9	3,583.4	1.2	5.5	3,476.7	1.0	-3.0
5.1. Short-term debt securities issued	0.0	0.0	-	0.0	0.0	-	0.0	0.0	-
5.2. Long-term debt securities issued	3,396.9	1.3	-3.9	3,583.4	1.2	5.5	3,476.7	1.0	-3.0
6. Subordinated instruments issued	770.7	0.3	-5.8	758.1	0.2	-1.6	225.7	0.1	-70.2
7. Hybrid instruments issued	886.6	0.3	-46.0	552.4	0.2	-37.7	636.6	0.2	15.2
8. Interest, fees and other liabilities	9,778.8	3.8	18.1	10,413.5	3.4	6.5	12,057.7	3.5	15.8
<b>Total liabilities</b>	<b>236,834.2</b>	<b>91.0</b>	<b>13.0</b>	<b>273,344.9</b>	<b>89.7</b>	<b>15.4</b>	<b>301,774.4</b>	<b>87.5</b>	<b>10.4</b>
<b>Total capital</b>	<b>23,443.5</b>	<b>9.0</b>	<b>19.1</b>	<b>31,260.3</b>	<b>10.3</b>	<b>33.3</b>	<b>43,223.6</b>	<b>12.5</b>	<b>38.3</b>
<b>Total liabilities and capital</b>	<b>260,277.6</b>	<b>100.0</b>	<b>13.5</b>	<b>304,605.3</b>	<b>100.0</b>	<b>17.0</b>	<b>344,998.0</b>	<b>100.0</b>	<b>13.3</b>

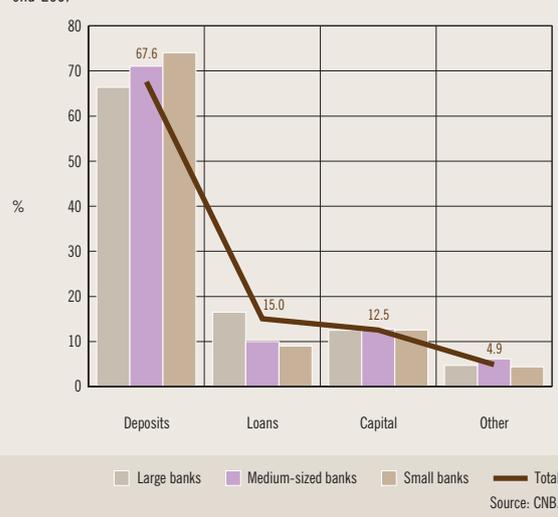
Note: The value of assets is expressed in gross amounts in Chapter 1.2.5 and in net amounts (i.e. net of impaired assets) in the above balance sheet.  
Source: CNB.

Received loans of individual bank peer groups displayed a trend opposite to that observed for deposits. Hence, at the end of 2007, received loans dominated in the liabilities of large banks (16.5%), and accounted for 10.0% and 9.0% respectively in the liabilities of medium-sized and small banks.

Larger at the end of 2007 than at the end of 2006, household deposits and corporate deposits contributed most to the overall increase in received deposits. Although increasing by HRK 11.5bn in the reference period and thus recording the largest change in nominal terms, the growth rate of household deposits (10.4%) was lower than that for other institutional sectors. The exception to this were non-resident deposits which trended downward in 2007. As a result, the share of household deposits in total deposits fell from 54.4% at the end of 2006 to 52.2% at the end of 2007. In nominal terms, the second largest change occurred in corporate deposits, which, after growing by HRK 11.2bn (26.3%) in the reference period, increased their share in total deposits from 21.0% at the end of 2006 to 23.1% at the end of 2007. Deposits of financial institutions showed the largest annual rate of growth (70.2%), rising by a total of HRK 8.0bn. Deposits of non-residents fell by HRK 2.0bn (6.2%) in 2007. As one of the major categories in total non-resident deposits, deposits received from majority foreign owners showed the same trend at the end of 2007, accounting for 9.5% of total deposits.

**3.6 Liability Structure by Bank Peer Groups**

end-2007

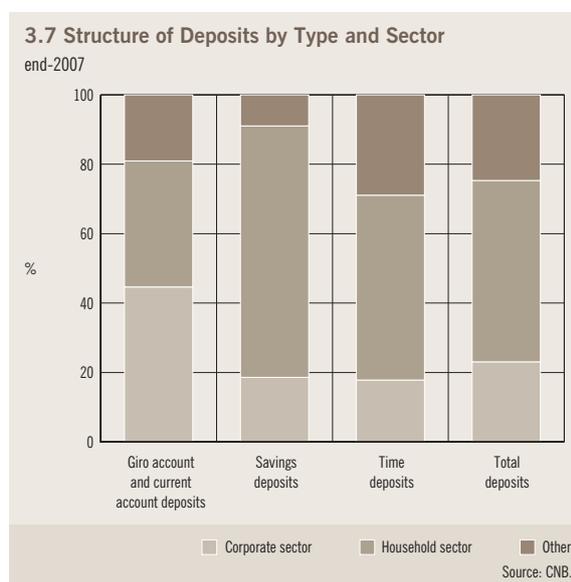


The maturity structure of received deposits saw a modest change at the end of 2007 relative to the end of 2006. The share of savings deposits in total deposits changed most in 2007, and, after declining by 1.6 percentage points, it

accounted for 11.5% of total deposits. The share of giro and current account deposits in total deposits stood 19.4% at the end of 2007, with time deposits making up the largest share of total deposits (69.1%) in the reference period. The observed decline in the share of saving deposits is attributed to their low annual rate of growth of only 1.0%. In contrast, deposits in giro and current accounts rose at the highest annual rate (20.1%), and time deposits went up by 16.1%.

In terms of currency structure, at the end of 2007, relative to the end of 2006, some more significant changes were seen in the shares of kuna deposits and deposits indexed to foreign currency. After growing at a rate of 39.0% and increasing by HRK 28.0bn in nominal terms, the share of kuna deposits in total deposits rose from 35.4% at the end of 2006 to 42.9% at the end of 2007. Concurrently, deposits indexed to foreign currency declined by HRK 11.2bn or 50.5%, and their share in total deposits went down from 10.9% at the end of 2006 to 4.7% at the end of 2007. Foreign currency deposits increased by 12.2%, continuing to account for the largest share in total deposits (52.5%).

Notwithstanding a 20.6% decrease in loans received from non-residents, the share of banks' liabilities owed to non-residents was also the largest in 2007 (60.5%). Specifically, more than a half of loans received from non-residents and 33.7% of total received loans in 2007 were the loans received from majority foreign owners, while liabilities on these loans went down by 23.6% at the end of 2007 relative to the end of 2006. At the peer group level, the group of small banks was the only group to utilise these loans in a larger amount in 2007 relative to 2006.



### 3.1.2 Banks' Capital

The total capital of banks amounted to HRK 43.2bn at the end of 2007, a rise of 38.3% over the end of 2006. The major contributor to this was the increase in share capital, up HRK 8.6bn or 51.8% over the end of 2006, generated by the recapitalisation of three large and three medium-sized banks and six small banks. As a result, the share of share capital in total capital of banks went up from 53.1% at the end of 2006 to 58.3% at the end of 2007. In addition, banks distributed the profit earned in 2006 mostly into capital, increasing thus in 2007 their retained earnings and reserves, and reported the increase in their current year profit of 21.5%.

**Table 3.6 Structure of Banks' Total Capital**

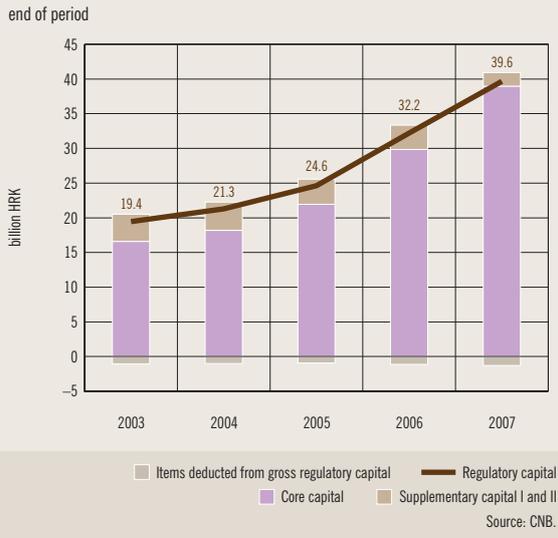
end of period, in million HRK and %

	2005			2006			2007		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Share capital	11,523.3	49.2	13.9	16,584.2	53.1	43.9	25,179.3	58.3	51.8
2. Current year profit/loss	3,247.8	13.9	6.9	3,394.8	10.9	4.5	4,123.7	9.5	21.5
3. Retained earnings/loss	2,499.9	10.7	31.6	3,716.8	11.9	48.7	4,202.6	9.7	13.1
4. Legal reserves	798.4	3.4	11.2	882.4	2.8	10.5	1,054.3	2.4	19.5
5. Total reserves provided for by the articles of association and other capital reserves	5,350.4	22.8	36.6	6,662.0	21.3	24.5	8,647.3	20.0	29.8
6. Unrealised gains/losses on value adjustments of financial assets available for sale	23.5	0.1	–	14.6	0.0	–37.8	30.7	0.1	109.5
7. Reserves arising from hedging transactions	0.0	0.0	–	8.3	0.0	–	–0.8	0.0	–109.4
8. Previous year profit/loss	0.2	0.0	–	–2.7	0.0	–1,300.9	–13.6	0.0	396.3
<b>Total capital</b>	<b>23,443.5</b>	<b>100.0</b>	<b>19.1</b>	<b>31,260.3</b>	<b>100.0</b>	<b>33.3</b>	<b>43,223.6</b>	<b>100.0</b>	<b>38.3</b>

Source: CNB.

After increasing by 23.0% in 2007, the regulatory capital of banks reached a total of HRK 39.6bn. This growth was to a large extent the result of bank recapitalisations in 2007, i.e. a 30.4% increase in their core capital. Following the conversion of some subordinated instruments into share capital and the resultant modest decrease in gross supplementary capital I, the share of supplementary capital I in regulatory capital went down by 44.1% at the end of 2007 relative to the end of 2006. The increase in items deducted from gross supplementary capital I (HRK 1.5bn), which is almost entirely ascribed to the exclusion of a portion of collectively assessed impairment provisions from regulatory capital, was the main contributor to the observed decrease.<sup>4</sup> Two small banks reported a negligible amount of supplementary capital II at the end of 2007. The strong growth in core capital and the concurrent decrease in supplementary capital I triggered a change in the structure of banks' regulatory capital, with the share of core capital increasing from 89.5% at the end of 2006 to 95.2% at the end of 2007.

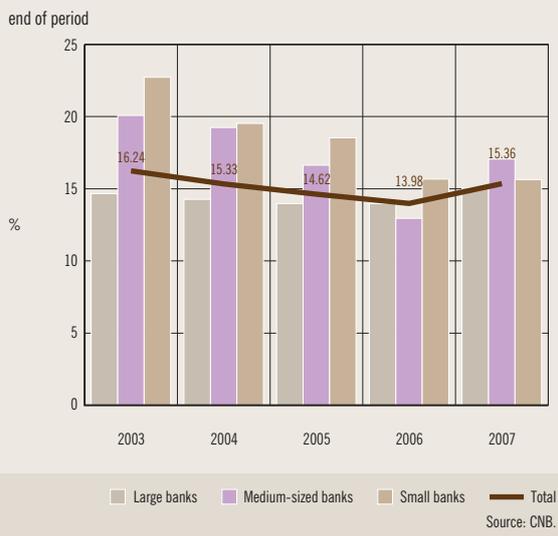
### 3.8 Structure of Banks' Regulatory Capital



The regulatory capital amount for 2007 was calculated on the basis of unaudited preliminary data and it did not include the current year profit. The decision on the inclusion of the current year profit in the regulatory capital for 2007 will be adopted by banks after the audit of their operations is carried out and after the final financial results for 2007 are obtained. As a result, the annual growth rate of regulatory capital is expected to exceed the stated 23.0%.

After trending downward for several years, the capital adequacy ratio rose to 15.36% in 2007 (Figure 3.9). The registered increase in the capital adequacy ratio (in 2006, it stood at 13.98%) was in part the result of monetary policy measures aimed at slowing down the growth of bank placements, prompting banks to increasingly use their capital as a source of growth. As a result, at the end of last year, the growth rate of regulatory capital was almost two times higher (23.0%) than the growth rate of total bank exposures to credit and market risks (12.0%).

### 3.9 Capital Adequacy Ratio by Bank Peer Groups



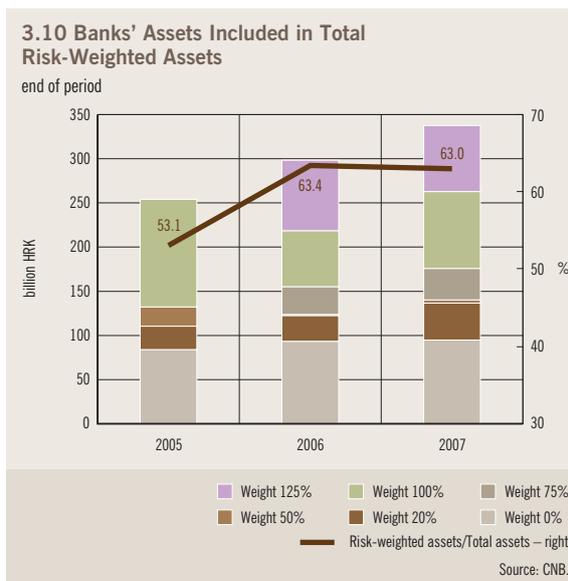
The group of medium-sized banks reported the highest capital adequacy ratio (17.06%) and the highest growth rate of the ratio (4.1 percentage points) at the end of 2007 relative to end of 2006. Although declining negligibly at the end of 2007 relative to the end of 2006, the capital adequacy ratio of small banks stood at 15.63%. After reaching 15.04% in 2007, the capital adequacy ratio of large banks went up by 1.1 percentage points. None of the banks reported the capital adequacy ratio lower than the regulatory prescribed minimum of 10%, while seven bank with the asset share of 20.9% in total bank assets reported the capital adequacy ratio smaller than 11%.

The risk-weighted assets grew by 13.2% in net terms at the end of 2007 relative to the end of 2006. More

<sup>4</sup> The obligation to exclude the collectively assessed impairment provisions from the regulatory capital was set forth by the amendments to the Instruction for the uniform implementation of the decision on the capital adequacy of banks (OG 41/2006). Accordingly, banks undertook to gradually exclude the collectively assessed impairment provisions from their supplementary capital I as of 30 June 2006, and are expected to complete this process by the end of 2008. Hence, their reports relating to 31 December 2008 will not contain a reference to collectively assessed impairment provisions. By contrast, if their collectively assessed impairment provisions exceeded 0.50% of the sum of total credit-risk weighted balance sheet assets, total credit-risk weighted off-balance sheet items and total of other off-balance sheet items weighted by credit risk, banks were required to report these provisions as an item deducted from supplementary capital I in their reports relating to 31 December 2007.

than one half of that increase was accounted for by the rise in kuna claims that are not covered by deposits or other pledged assets and that are assigned a risk weight of 100% (Figure 3.10). The currency restructuring of banks' assets contributed to a decline in claims that are most exposed to currency induced credit risk (weighted by a 125% risk weight). As a result, the inadequately insured foreign currency claims and the foreign currency indexed claims on borrowers with unmatched foreign exchange positions fell by 6.5% at the end of 2007 relative to the end of 2006. In addition, the slower growth in risk-weighted assets than in total assets caused a mild decrease in their ratio, from 63.4% at the end of 2006 to 63.0% at the end of 2007.

Total capital requirements showed only a mild change in the reference period. Specifically, the capital requirement for market risk rose by 26.8%, pushing up its share in total capital requirements from 2.8% at the end of 2006 to 3.2% at the end of 2007. Concurrently, the capital requirement for credit risk rose by 11.6%, due mostly to the increase in risk-weighted assets by 12.5%.



### 3.1.3 Quality of Banks' Assets

Total placements and contingent liabilities of banks increased by 13.5% or HRK 47.3bn, or at a rate that was by almost one half lower than that seen in 2006 (25.5%). Of HRK 396.9bn thus obtained, HRK 328.0bn or 82.6% went to placements (up 13.7% annually) and HRK 68.9bn or 17.4% to contingent liabilities (up 12.5% annually). The main contributor to this was the increase in gross loans and deposits, which accounted for more than three-fourths of total placements and contingent liabilities at the end of 2007 (loans and deposits stood at 56.0% and 20.6% respectively). After growing at a rate of 14.9% (HRK 28.7bn), gross loans participated with 60.8% in the total growth of all placements and contingent liabilities. In addition, after increasing by 15.1%, deposits reached a total of HRK 10.7bn in the reference period. Hence, loans and deposits, as the two single largest components of total placement, increased their shares by an additional 0.65 percentage points and 0.28 percentage points respectively in 2007, while the share of contingent liabilities trended downward by 0.2 percentage points.

The quality of placements and contingent liabilities improved slightly in 2007. The share of fully recoverable placements (category A) rose thus by 0.1 percentage point, while the share of irrecoverable placements (category C) decreased by the same percentage. Moreover, the share of partly recoverable placements and contingent liabilities remained at the level attained at the end of 2006 (Table 3.7).

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

end of period, in million HRK and %

Placements	2005		2006		2007	
	Amount	Share	Amount	Share	Amount	Share
Fully recoverable placements (category A)	267,835.4	96.0	338,327.5	96.8	384,742.9	96.9
Partly recoverable placements (category B)	6,801.6	2.4	7,129.1	2.0	7,879.4	2.0
Irrecoverable placements (category C)	4,238.5	1.5	4,173.1	1.2	4,265.4	1.1
<b>Total</b>	<b>278,875.5</b>	<b>100.0</b>	<b>349,629.8</b>	<b>100.0</b>	<b>396,887.7</b>	<b>100.0</b>

Source: CNB.

The observed shifts in the quality of placements are attributed to substantially faster growth in the category A placements (13.7% or HRK 46.4bn) than in the category B and category C placements (7.5% or HRK 842.5m). Within the latter, the category B placements went up by 10.5% and the category C placements by 2.2%. Although 1.8 percentage points lower at the end of 2007 than at the end of 2006, non-performing loans accounted for almost nine-tenths of non-performing placements (87.6%). The registered decrease in non-performing loans is attributed

to their slower growth as compared to the growth in total non-performing placements (5.3% vs. 7.5%). Debt securities and other available-for-sale assets were the fastest growing items within the categories B and C (97.8%), keeping their share in total non-performing placements and contingent liabilities below one percent (0.7%). The second fastest growing items within the categories B and C were the contingent liabilities that trended up by 41.7% and held a share of 8.6%.

The ratio of total value adjustments and provisions to total placements and contingent liabilities narrowed by an additional 0.1 percentage point in 2007 on the back of faster growth in total placements and contingent liabilities. The value adjustments and provisions rose by 5.7% in the reference period (within this, the value adjustments against placements and provisions for contingent liabilities went up by 1.5% and the collectively assessed impairment provisions by 14.2%). Moreover, the stated growth in total placements and contingent liabilities (13.5%) was more than two times higher at the end of 2007 than at the end of 2006 (Table 3.8).

**Table 3.8 Banks' Value Adjustments and Provisions**

end of period, in million HRK and %

	2005	2006	2007
<b>Total value adjustments against placements and provisions for contingent liabilities</b>	<b>9,002.3</b>	<b>9,246.9</b>	<b>9,774.9</b>
– Value adjustments against placements and provisions for contingent liabilities	6,427.8	6,195.9	6,290.0
– Collectively assessed impairment provisions	2,574.5	3,051.0	3,484.9
<b>Total placements and contingent liabilities</b>	<b>272,447.7</b>	<b>349,629.8</b>	<b>396,887.7</b>
Relative ratio: total value adjustments and provisions/total placements and contingent liabilities	3.3	2.6	2.5

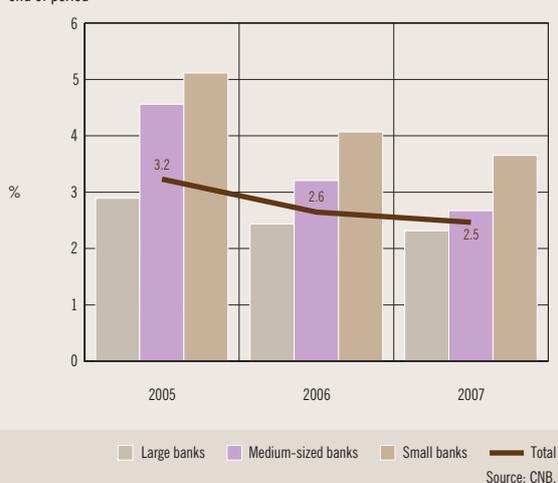
Source: CNB.

The coverage of total placements and contingent liabilities with total value adjustments and provisions, although decreasing annually, remained the highest in the group of small banks (3.7%). With the same downward trend observed in the other two groups of banks, the coverage ratio reached 2.7% in the group of medium-sized banks and 2.4% in the group of large banks, which, at the same time, has the largest influence on the system as a whole.

The exposure of net placements to currency induced credit risk (CICR), the monitoring of which began in mid-2006, narrowed considerably at the end of 2007, with the share of placements exposed to CICR in total net placements declining from 61.0% at the end of 2006 to 54.3% at the end of 2007. In 2007, placements exposed to CICR rose by HRK 2.5bn (1.2%) or at a considerably lower rate than total net placements and contingent liabilities (13.7% or HRK 47.2bn). The share of hedged placements in total net placements also increased in 2007 relative to 2006, from 23.4% to 24.5%.

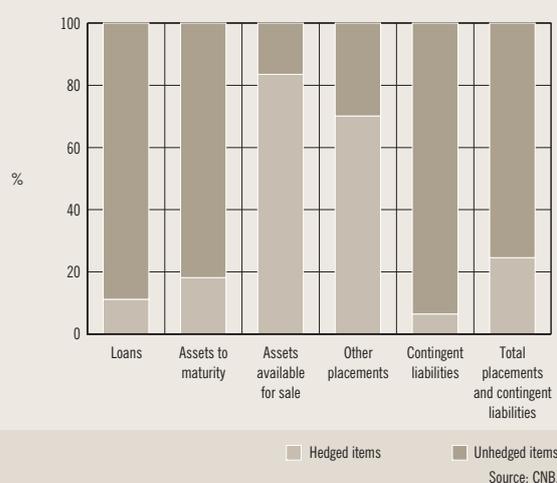
**3.11 Ratio of Placements and Contingent Liabilities to Value Adjustment and Provisions by Bank Peer Groups**

end of period



**3.12 Structure of Net Placements Exposed to CICR**

end-2007



Broken down by the type of placement, contingent liabilities were the least hedged items in the reference period, as well as the only items to see a decrease in their degree of hedge effectiveness (the hedged portion of these liabilities stood at 10.2% at the end of 2006, while it amounted to 6.5% at the end of 2007). The share of hedged loans in total loan exposures rose from 9.8% at the end of 2006 to 11.2% at the end of 2007 (Figure 3.12).

At the end of 2007, like at the end of 2006, non-residents and financial institutions were the most hedged sectors (their share of hedged items in total placements exposed to CICR was higher than 70.0%). By contrast, the hedged items of other sectors did not exceed 10.0%. The household sector became the least hedged sector (the position that was previously held by the sector of non-profit institutions), while its share of hedged placements in total placements exposed to CICR amounted to 4.9%.

The insured amount of total net placements of banks decreased by 1.9 percentage points at the end of 2007, with the share of placements covered by quality insurance instruments amounting to 40.2%. The estimated value of quality insurance instruments accounted for 87.6% of the value of total net placements insured by these instruments. Property insurance accounted for the lion's share of total net placements. Residential and business property accounted for 35.4% and 22.5% respectively, while the remaining portion of net placements was covered by other quality insurance instruments.

### 3.1.4 Quality of Banks' Earnings

Banks reported positive operating financial results for 2007, with a number of sources contributing to an exceptionally high growth of income. Higher lending volume, despite narrower margins, caused a rise in interest income, while positive developments in the financial market resulted in gains on trading book positions. The penetration of new services, especially other banking services<sup>5</sup> (investment and card services, e-banking, etc.), into the market was the key factor contributing to high growth of income from fees and commissions. The cost efficiency, measured as a ratio between general expenses and net income, continued to trend upward. Notwithstanding the exchange rate translation differences, higher expenses on loss provisions were the only item to contribute negatively to final operating results of banks.

In 2007, banks reported HRK 5.1bn in income before taxes (Table 3.9). Compared with the end of 2006, income before taxes grew by 21.3% or to its record high since 2002.<sup>6</sup> Banks reported the increase in income before taxes of 5.1% and 10.9% in 2005 and 2004 respectively, while the growth rate of their income before taxes in 2004 resembled that seen in 2007 (20.7%).

Of 53 banks operating in the system, 30 banks achieved a total income before taxes to the amount of HRK 5,168m, while only three banks declared a loss of HRK 31m. The share of assets of these banks in total bank assets on the date of the report was 0.6%.

At the peer group level, income before taxes of medium-sized banks grew at the highest rate (31.6%) in 2007, while that of small banks grew at the lowest rate (3.7%). In addition, large banks increased their income before taxes by 21.6% and their share in total income of all banks amounted to 84.4%. Medium-sized and small banks had relatively small shares of income, which, standing at 9.3% and 6.3% respectively, were lower than their asset shares in total bank assets.

<sup>5</sup> The acceptance of deposits and the extension of loans from these sources of funds are viewed exclusively as banking services. If duly authorised, other business entities may, in addition to banks, provide other banking services.

<sup>6</sup> The high income before taxes in 2002 (107.1%) is attributed to the low level of income earned in 2001, i.e. to trading losses in Riječka banka.

**Table 3.9 Banks' Income Statement**

in million HRK and %

	2005		2006		2007	
	Amount	Change	Amount	Change	Amount	Change
Total interest income	12,915.2	9.4	14,887.9	15.3	18,245.9	22.6
Total interest expenses	5,910.0	10.2	7,197.2	21.8	9,691.5	34.7
Net interest income	7,005.2	8.8	7,690.7	9.8	8,554.4	11.2
Total income from fees and commissions	3,323.1	7.8	3,598.1	8.3	4,207.5	16.9
Total expenses on fees and commissions	1,385.0	-3.7	1,374.3	-0.8	1,368.4	-0.4
Net income from fees and commissions	1,938.1	17.8	2,223.8	14.7	2,839.1	27.7
Other non-interest income	1,760.9	-4.6	1,897.8	7.8	2,092.3	10.2
Other non-interest expenses	719.0	16.2	899.3	25.1	802.5	-10.8
Net other non-interest income	1,041.9	-15.1	998.5	-4.2	1,289.8	29.2
Net non-interest income	2,980.0	3.8	3,222.2	8.1	4,128.9	28.1
General administrative expenses and depreciation	5,430.1	7.4	5,996.1	10.4	6,608.2	10.2
Net operating income before loss provisions	4,555.1	7.1	4,916.8	7.9	6,075.1	23.6
Expenses on value adjustments and provisions for identified losses	186.3	-53.7	203.9	9.4	503.5	146.9
Expenses on collectively assessed impairment provisions	338.6	56.6	476.6	40.7	434.1	-8.9
Total expenses on loss provisions	524.9	-15.1	680.5	29.6	937.5	37.8
Income/loss before taxes	4,030.2	10.9	4,236.3	5.1	5,137.6	21.3
Income tax	782.4	31.0	841.5	7.6	1,013.9	20.5
Current year profit/loss	3,247.8	6.9	3,394.8	4.5	4,123.7	21.5

Source: CNB.

Net income of banks (calculated as a sum of net interest and net non-interest income) rose by 16.2% in 2007, with the increase in general operating expenses and expenses on loss provisions standing at 10.2% and 37.8% respectively.

More than a half of the overall increase in net income of banks is attributed to the increase in net non-interest income, i.e. to the increase in one-off and less stable sources of income. The major contributor to this was the growth in net income from fees and commission of 27.7%. Income from fees for payment operations services grew by a modest 4.7%, with the increase in total net income from fees and commissions being ascribed to a 30.0% growth in income from fees and commissions for other banking services (investment and card services, e-banking, deposit account services, etc.).

An exceptionally good year in the financial market contributed to the increase in income from trading activities (38.5%), with the growth in net other non-interest income standing at 29.2%. The growth rate of net other non-interest income would have been even more pronounced if banks had not incurred the losses from exchange rate translation differences and reported the decrease in income from available-for-sale assets (80.2%). The decrease in income earned on the available-for-sale portfolio was above all the result of unfavourable developments in debt securities prices in the domestic market in 2007.

Net interest income, as the main and most stable source of banks' income, rose by 11.2% at the end of 2007 relative to the end of 2006. Specifically, notwithstanding the limitation on the permissible growth of placements and contingent liabilities (i.e. the measure triggering the purchase of compulsory CNB bills) and a sizeable increase in net interest income in the reference period, the share of net interest income in net income fell from 70.5% to 67.5%. Moreover, this share fell in all groups of banks, posting the lowest growth rate in the group of

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



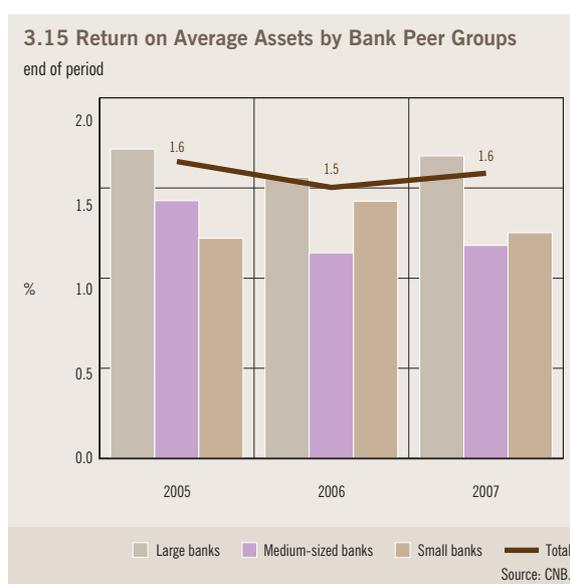
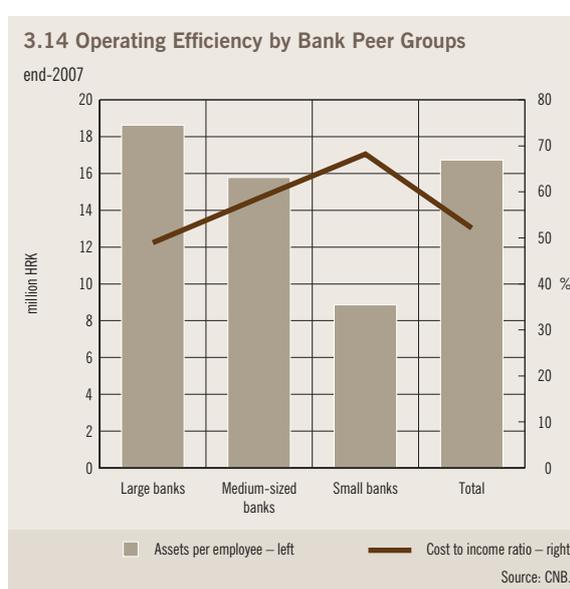
large banks (66.1%). By contrast, owing to their reliance on more traditional banking services, medium-sized and small banks posted higher growth rates of net interest income of 73.1% and 70.7% respectively. Owing to faster growth of net other non-interest income from foreign currency purchase/sale transactions in small banks than in medium-sized banks (12.7% vs. 5.7%), medium-sized banks reported higher share of net interest income than small banks.

Faster growth in interest expenses than in interest income resulted in the widening of their ratio from 48.3% at the end of 2006 to 53.1% at the end of 2007. Larger interest expenses were above all the result of the increase in interest rates on deposits and the growth in deposits. In response to gradual tightening of the marginal reserve requirement measure, banks raised their interest rates on deposits in an effort to expand their domestic sources of growth, while unfavourable developments in the foreign markets spilled over into higher borrowing expenses. The observed rise in interest rates reduced the interest rate spread from 2.8 percentage points in 2006 to 2.6 percentage points in 2007 (Figure 3.13). Although the rise in deposit interest rates began to make larger impact on bank lending interest rates at the end of 2007, the increase in the average interest income was not strong enough to offset the effects of the growth in the average interest expenses.

General operating expenses (general administrative expenses and depreciation) were 10.2% higher at the end of 2007 than at the end of 2006. However, the higher growth rate of net income contributed positively to the cost efficiency of banks, as evidenced in the decline of the cost to income ratio (from 54.9% to 52.1%). In 2007, the cost to income ratio rose in small banks, which usually report the highest ratio value, while it fell in medium-sized and large banks.

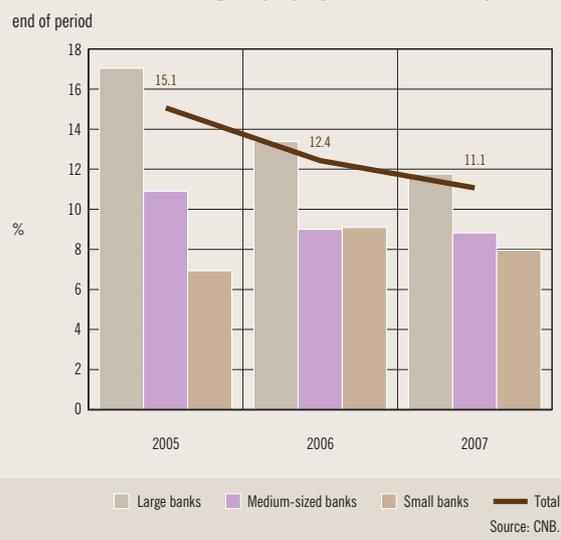
More than a half of the overall increase in general operating expenses was accounted for by higher expenses for bank employees (10.2%), the number of which rose by 7.9% in 2007 (from 19,096 to 20,613). Assets per employee increased from HRK 16.0m at the end of 2006 to HRK 16.7m at the end of 2007, growing annually by 4.9%. Lower than the average, assets per employee rose by 3.3% in large banks. They were the largest in small banks (11.4%) due to the low growth rate of the number of employees in this group of banks (6.8%).

Total expenses on loss provisions were 37.7% higher at the end of 2007 than at the end of 2006. The main reason for this was the increase in provision expenses on identified losses from HRK 204m to HRK 503m. However, collectively assessed impairment provisions dropped by HRK 43m in the reference period. Higher provision expenses for identified losses are attributed to the growth in non-performing placements and contingent liabilities (categories B and C) of 7.5%. As non-performing placements and contingent liabilities fell in medium-sized and small banks in 2007 relative to 2006, the overall growth in non-performing placements and contingent liabilities was the result of their growth in the group of large banks (12.4%). The growth in non-performing loans, especially non-performing household loans (7.0%), made the largest contribution to the rise in non-performing placements and contingent liabilities.



Improved management of expenses and greater profit-making capacity of assets increased the return on average assets (ROAA<sup>7</sup>) to 1.6% in 2007. By contrast, the return on average equity (ROAE) decreased from 12.4% to 11.1%, due mainly to substantial bank recapitalisations in 2007 and the increase in banks' share capital of more than 50%. The income growth rate of small banks stood at a low 3.7% in 2007, decreasing their ROAA from 1.4% to 1.3%. Although higher in 2007 than in 2006, ROAA remained the lowest in the group of medium-sized banks (1.2%), while large banks again reported the highest ROAA (1.7%). ROAE trended downward in all groups of banks. It fell most in the group of large banks (from 13.4% to 11.8%). The main contributor to this was the declined in ROAE in one bank in this group (to 4.4%) due decrease in its income and large recapitalisation in 2007.

**3.16 Return on Average Equity by Bank Peer Groups**



### 3.1.5 Banks' Liquidity

The share of household deposits in total bank deposits decreased further in 2007, with an almost equal rate of growth being recorded in the share of corporate deposits. Owing to a high growth rate of CBRD deposits and deposits of non-banking financial institutions, deposits of financial institutions grew at an exceptionally strong rate in 2007, increasing their share in total deposits.

**Table 3.10 Banks' Liquidity Ratios**

end of period, in %

	2005	2006	2007
Loans extended/Deposits received	88.5	92.5	92.8
Loans received/Total assets	19.2	18.0	15.0
Net interbank position	3.7	3.3	5.3

Source: CNB.

Notwithstanding the rise in interest rates on deposits, the deposit growth rate fell from 18.2% in 2006 to 14.9% in 2007. With (net) loans extended growing at a rate of 15.3%, the loan to deposit ratio continued to trend up in 2007 (Table 3.10), while the share of loans extended in total bank assets reached as much as 62.8%. The narrower room for managing liquidity, higher expenses and tighter limitations on foreign borrowing resulted in larger interbank lending and borrowing from the CNB and were accompanied by a rise in interest rates on the money market.

After a sizable reduction in loans received from non-residents (Table 3.11), total balance of received loans fell additionally in 2007 relative to 2006, contributing to a decrease in the share of received loans in total assets. The decrease in deposits and loans received from non-residents was above all the result of the fall in deposits and loans received from majority foreign owners. Thanks to bank recapitalisations, this reduction in the sources of financing did not cause any major disturbances in banks' operations. Hence, banks kept safe their sources of growth and strengthened their capital positions, i.e. solvency.

<sup>7</sup> ROAA is calculated from income before taxes, and ROAE from income after taxes.

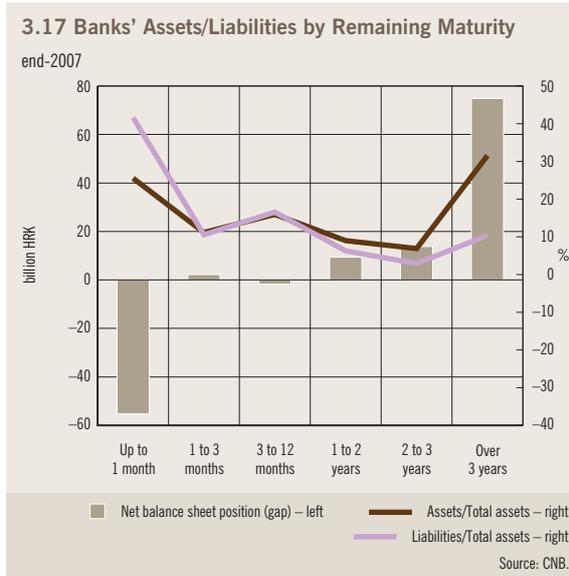
**Table 3.11 Structure of Loans Received by Banks**

end of period, in million HRK and %

	2005			2006			2007		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
Loans from government units	528.0	1.1	-22.3	272.9	0.5	-48.3	183.3	0.4	-32.8
Loans from financial institutions	13,844.2	27.7	63.6	15,102.5	27.5	9.1	20,338.6	39.2	34.7
Loans from enterprises	40.8	0.1	1.2	0.0	0.0	-99.9	0.0	0.0	-2.2
Loans from foreign financial institutions	35,143.1	70.2	16.8	39,489.9	72.0	12.4	31,117.8	60.0	-21.2
Loans from other non-residents	479.3	1.0	-15.4	360.5	0.7	-24.8	248.3	0.5	-31.1
Total loans received by banks	50,035.4	100.0	25.6	54,865.4	100.0	9.7	51,888.1	100.0	-5.4
Loans from majority foreign owners	17,705.0	35.4	45.9	22,925.5	41.8	29.5	17,509.3	33.7	-23.6

Source: CNB.

The analysis of the maturity (mis)match between assets and liabilities<sup>8</sup> showed a characteristic deficiency of assets over liabilities (negative gap) in the category of remaining maturity of up to one month (Figure 3.17). The negative gap in the category of remaining maturity of one to three months, present in 2006 and 2005, shifted into positive territory in 2007, while the negative gap in the category of remaining maturity of three to twelve months was less pronounced in 2007 than 2006. Owing to these developments, the cumulative short-term maturity gap (up to one year; shown as a share in assets) fell modestly. Concurrently, the positive gap in the category of remaining maturity of two to three years and in the category of remaining maturity of more than three years trended up, with the cumulative long-term maturity gap (more than three years) increasing its share in assets from 10.3% to 12.5%. These developments are attributed to the increase in long-term bank placements and, especially, to the growth in home loans.



## 3.2 Housing Savings Banks' Business Operations

At the end of 2007, five housing savings banks operated on the territory of the Republic of Croatia. Total housing savings banks' assets stood at HRK 6.5bn at the end of 2007, a rise of 2.7% over the end of 2006. Compared with the end of 2006, three housing savings banks reported an increase and two housing savings banks reported a decline in their assets.

The share of housing savings banks' assets in total banking sector assets fell by 0.2 percentage points at the end of 2007 relative to the end of 2006, totalling 1.9%. The main contributor to this was slower growth in housing savings banks' assets than in total bank assets. Moreover, the share of housing savings banks' assets in total banking sector assets trended downward after reaching its record high in 2005 (2.3%).

Except for one housing savings bank in majority state ownership, all other housing savings banks were directly or indirectly in majority foreign ownership, accounting for 99.1% of total housing savings banks' assets in 2007. Three housing savings banks were in majority Austrian ownership, and their assets made up 77.9% of total housing savings banks' assets at the end of 2007. The housing savings bank in majority Italian ownership held the second largest share in total housing savings banks' assets (21.2%), while the housing savings bank in state ownership held the remaining share of 0.9%.

<sup>8</sup> It represents the difference between net assets and liabilities (not including capital) with the same period until maturity.

### 3.2.1 Housing Savings Banks' Balance Sheet

In contrast to several previous years when investment in securities accounted for the largest share in housing savings banks' assets, the share of net loans exceeded the share of securities for the first time at the end of 2007. With housing savings deposits trending downward since the first half of 2007, the growth in loans was to a large extent facilitated by lower investment in securities. Hence, the restructuring of placements contributed to a strong annual growth of net loans (82.8%), increasing their share in total housing savings banks' assets from 28.0% at the end of 2006 to 49.8% at the end of 2007.

**Table 3.12 Structure of Housing Savings Banks' Assets**

end of period, in million HRK and %

	2005			2006			2007		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Money assets and deposits with the CNB	0.0	0.0	–	0.0	0.0	–	0.0	0.0	–
1.1. Money assets	0.0	0.0	–	0.0	0.0	–	0.0	0.0	–
1.2. Deposits with the CNB	0.0	0.0	–	0.0	0.0	–	0.0	0.0	–
2. Deposits with banking institutions	720.5	11.7	116.8	111.5	1.8	–84.5	47.1	0.7	–57.8
3. MoF treasury bills and CNB bills	782.0	12.7	0.2	347.7	5.5	–55.5	255.5	3.9	–26.5
4. Securities and other financial instruments held for trading	390.6	6.4	56.1	284.4	4.5	–27.2	176.7	2.7	–37.9
5. Securities and other financial instruments available for sale	706.8	11.5	–67.1	1,058.3	16.6	49.7	1,246.4	19.0	17.8
6. Securities and other financial instruments held to maturity	869.6	14.2	58.6	1,303.3	20.5	49.9	871.2	13.3	–33.2
7. Securities and other financial instruments not traded in active markets but carried at fair value	1,382.5	22.5	–	1,260.6	19.8	–8.8	528.4	8.1	–58.1
8. Derivative financial assets	0.0	0.0	–	5.4	0.1	–	6.7	0.1	23.3
9. Loans to financial institutions	263.7	4.3	–43.8	69.9	1.1	–73.5	86.5	1.3	23.8
10. Loans to other clients	727.6	11.9	95.1	1,713.0	26.9	135.4	3,172.1	48.5	85.2
11. Investments in subsidiaries, associates and joint ventures	0.0	0.0	–	0.0	0.0	–	0.0	0.0	–
12. Foreclosed and repossessed assets	0.0	0.0	–	0.0	0.0	–	0.0	0.0	–
13. Tangible assets (net of depreciation)	8.2	0.1	–6.1	7.0	0.1	–14.4	8.0	0.1	15.0
14. Interest, fees and other assets	323.8	5.3	–16.8	250.8	3.9	–22.5	194.9	3.0	–22.3
15. Net of: Collectively assessed impairment provisions	36.9	0.6	59.9	40.5	0.6	9.5	50.1	0.8	23.9
<b>Total assets</b>	<b>6,138.4</b>	<b>100.0</b>	<b>14.7</b>	<b>6,371.4</b>	<b>100.0</b>	<b>3.8</b>	<b>6,543.4</b>	<b>100.0</b>	<b>2.7</b>

Source: CNB.

Household time deposits predominated in total financing sources of housing savings banks at the end of 2007, making up 92.3% of total housing savings banks' liabilities. After decreasing in the first half of 2007, deposits went up by 4.0% over the end of 2006, with the majority of that increase being materialised in the last quarter of 2007. These developments are attributed to the withdrawal of housing savings deposits in the third quarter of 2007 and the participation in T-HT's IPO, as well as to the increased payments into housing savings deposit accounts at the end of the year for the purpose of utilising the state incentives.

Loans extended to housing savings banks' clients rose by 71.3% at the end of 2007 relative to the end of 2006, accounting for HRK 2.2bn of the total, while the remaining HRK 1.0bn in net loans were extended to central government funds and banks. Accordingly, the share of housing savings banks' loans in total loans of the banking sector stood at 4.7% at the end of 2007.

Housing savings banks' investment in securities were 27.6% lower at the end of 2007 than at the end of 2006, while their share in total housing savings banks' assets stood at 47.0%. At the end of 2007, relative to the end of 2006, the share of securities in housing savings banks' assets declined by 19.7 percentage points. The securities portfolio was composed of two instruments: T-bills, accounting for 8.3%, and government bonds, accounting for 91.7% of total investment in securities.

At the end of 2007, securities were mainly classified in the available-for-sale portfolio (42.6%), which was the only portfolio to show the growth rate at the end of 2007 relative to the end of 2006 (18.3%). Other securities portfolios declined in the reference period, especially the portfolio of securities and other financial instruments carried at fair value through profit and loss and not traded in active markets (down 51.7%), accounting for 23.2% of all securities at the end of 2007. The portfolio of securities and other financial instruments held to maturity went down by 36.6%, making up 28.5% of all securities. Only 5.7% of securities were classified into the held-for-trading portfolio, which decreased by 37.9% at the end of 2007 relative to the end of 2006.

**Table 3.13 Structure of Housing Savings Banks' Liabilities**

end of period, in million HRK and %

	2005			2006			2007		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Loans from financial institutions	0.0	0.0	–	0.0	0.0	–	0.2	0.0	–
1.1. Short-term loans	0.0	0.0	–	0.0	0.0	–	0.0	0.0	–
1.2. Long-term loans	0.0	0.0	–	0.0	0.0	–	0.2	0.0	–
2. Deposits	5,514.7	89.8	16.6	5,803.6	91.1	5.2	6,038.4	92.3	4.0
2.1. Giro account and current account deposits	0.0	0.0	–	0.0	0.0	–	0.0	0.0	–
2.2. Savings deposits	0.0	0.0	–	0.0	0.0	–	0.0	0.0	–
2.3. Time deposits	5,514.7	89.8	16.6	5,803.6	91.1	5.2	6,038.3	92.3	4.0
3. Other loans	0.0	0.0	–	0.0	0.0	–	0.0	0.0	–
3.1. Short-term loans	0.0	0.0	–	0.0	0.0	–	0.0	0.0	–
3.2. Long-term loans	0.0	0.0	–	0.0	0.0	–	0.0	0.0	–
4. Derivative financial liabilities and other financial liabilities held for trading	4.1	0.1	–15.8	0.0	0.0	–	0.0	0.0	–
5. Debt securities issued	0.0	0.0	–	0.0	0.0	–	0.0	0.0	–
5.1. Short-term debt securities issued	0.0	0.0	–	0.0	0.0	–	0.0	0.0	–
5.2. Long-term debt securities issued	0.0	0.0	–	0.0	0.0	–	0.0	0.0	–
6. Subordinated instruments issued	0.0	0.0	–	0.0	0.0	–	0.0	0.0	–
7. Hybrid instruments issued	10.3	0.2	–3.5	61.7	1.0	497.5	39.9	0.6	–35.3
8. Interest, fees and other liabilities	389.0	6.3	–14.1	312.5	4.9	–19.7	222.0	3.4	–29.0
<b>Total liabilities</b>	<b>5,918.1</b>	<b>96.4</b>	<b>13.9</b>	<b>6,177.8</b>	<b>97.0</b>	<b>4.4</b>	<b>6,300.4</b>	<b>96.3</b>	<b>2.0</b>
<b>Total capital</b>	<b>220.2</b>	<b>3.6</b>	<b>42.3</b>	<b>193.6</b>	<b>3.0</b>	<b>–12.1</b>	<b>243.0</b>	<b>3.7</b>	<b>25.5</b>
<b>Total liabilities and capital</b>	<b>6,138.4</b>	<b>100.0</b>	<b>14.7</b>	<b>6,371.4</b>	<b>100.0</b>	<b>3.8</b>	<b>6,543.4</b>	<b>100.0</b>	<b>2.7</b>

Source: CNB.

Assets denominated in kuna and indexed to foreign currency comprised the largest share of housing savings banks' assets, standing at 92.9% at the end of 2007.

The ratio between received deposits and extended loans amounted to 54.0% at the end of 2007. Compared with the end of 2006, it went up by 30.7%, largely due to higher growth in loans than in deposits. At the household sector level, only 36.7% of housing savings deposits were channelled into loans at the end of 2007.

### 3.2.2 Housing Savings Banks' Capital

Total housing savings banks' capital amounted to HRK 243.0m at the end of 2007, trending up by 25.5% over the end of 2006. The share capital of housing savings banks rose by 24.2% in 2007 on account of their recapitalisations and thus made the largest contribution the overall increase in housing savings banks' capital.

Total capital of housing savings banks grew by HRK 49.4m at the end of 2007 relative to the end of 2006. The main contributors to this were the increase in share capital by a total of HRK 69.6m and the decrease in the current year loss by HRK 10.3m. The overall capital trends were negatively impacted by the increase in value adjustment losses on available-for-sale financial assets in three housing savings banks (HRK 43.4m). The rise in total capital of housing savings banks made no significant impact on its share in total housing savings banks' liabilities, which, at the end of 2007, stood at 3.7%.

**Table 3.14 Structure of Housing Savings Banks' Total Capital**

end of period, in million HRK and %

	2005			2006			2007		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Share capital	203.4	92.3	0.0	287.5	148.5	41.4	357.1	147.0	24.2
2. Current year profit/loss	52.3	23.7	358.6	-54.5	-28.2	-204.2	-44.2	-18.2	-18.9
3. Retained earnings/loss	-53.6	-24.4	-15.4	-37.1	-19.2	-30.8	-15.9	-6.6	-57.1
4. Legal reserves	1.9	0.9	-44.5	2.3	1.2	19.6	2.5	1.0	8.1
5. Total reserves provided for by the articles of association and other capital reserves	0.0	0.0	-	0.0	0.0	-	0.0	0.0	-
6. Unrealised gains/losses on value adjustments of financial assets available for sale	29.9	13.6	100.0	-13.1	-6.8	-143.9	-56.5	-23.2	330.5
7. Reserves arising from hedging transactions	0.0	0.0	-	0.0	0.0	-	0.0	0.0	-
8. Previous year profit/loss	-13.6	-6.2	100.0	8.5	4.4	-162.6	0.0	0.0	-100.0
<b>Total capital</b>	<b>220.2</b>	<b>100.0</b>	<b>42.3</b>	<b>193.6</b>	<b>100.0</b>	<b>-12.1</b>	<b>243.0</b>	<b>100.0</b>	<b>25.5</b>

Source: CNB.

Regulatory capital of housing savings banks totalled HRK 29.1m at the end of 2007, increasing by 11.8% over the end of 2006. Following a wave of recapitalisations in 2007, the core capital of housing savings banks rose by 22.7%. In addition, their supplementary capital I fell by 21.6% in 2007 due to the decrease in hybrid instruments and the exclusion of a portion of collectively assessed impairment provisions from regulatory capital.<sup>9</sup> The observed increase in core capital was negatively impacted by a substantial increase in items deducted (16.9%), with unrealised value adjustment losses on available-for-sale assets accounting for a lion's share of HRK 56.5m. The unrealised value adjustment losses on available-for-sale assets were reported by three housing savings banks, including two housing savings banks which showed income before taxes at the end of 2007. Total unrealised losses were for the most part the result of operations of one housing savings bank whose assets were mainly accounted for by investment in securities, predominately classified into the held-for-trading portfolio.

Notwithstanding the increase in regulatory capital, the capital adequacy ratio of housing savings banks fell from 18.66% at the end of 2006 to 17.04% at the end of 2007. The main reason for this was the increase in foreign currency indexed home loans to the household sector, i.e. to the borrowers with unmatched foreign exchange positions. As a result, the exposure of housing savings banks to currency induced credit risk increased in 2007 and the net value of their assets weighted by risk grew by 2.7%. Concurrently, the weighted assets amount rose by 25.6% over the end of 2006, primarily due to a 72.7% increase in net assets weighted by a 75% risk weighting. Total capital requirements of housing savings banks grew at a lower rate in 2007 (22.4%) on account of smaller capital requirements for market risk, i.e. lower investment in securities.

### 3.2.3 Quality of Housing Savings Banks' Assets

Total placements and contingent liabilities of housing savings banks rose by 24.6% at the end of 2007 relative to the end of 2006. Concurrently, the quality of total placements and contingent liabilities of housing savings banks changed only slightly in the reference period. This was due mainly to an increase in fully recoverable placements (mostly loans to households), which also made the largest contribution to the overall growth in placements in 2007. Hence, fully recoverable placements grew by 24.4%, while partly recoverable placements and irrecoverable placements grew by a total of 175.4% at the end of 2007 relative to the end of 2006. Despite high growth in non-performing placements, their share in total placements and contingent liabilities of housing savings banks remained low (0.4%).

<sup>9</sup> Decision on amendments to the Instruction for the uniform implementation of the decision on the capital adequacy of banks (OG 41/2006).

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

end of period, in million HRK and %

Placements	2005		2006		2007	
	Amount	Share	Amount	Share	Amount	Share
Fully recoverable placements (category A)	3,494.0	99.9	4,540.7	99.8	5,646.4	99.6
Partly recoverable placements (category B)	2.1	0.1	5.7	0.1	16.2	0.3
Irrecoverable placements (category C)	0.4	0.0	1.4	0.0	3.4	0.1
<b>Total</b>	<b>3,496.5</b>	<b>100.0</b>	<b>4,547.8</b>	<b>100.0</b>	<b>5,665.9</b>	<b>100.0</b>

Source: CNB.

At the end of 2007, HRK 5.3bn or 94.1% of net placements of housing savings banks were exposed to currency induced credit risk. This is attributed to the sectoral distribution of placements, i.e. to the regulatory provisions providing for that savings banks may place their funds with only two sectors – households and government units. As the foreign exchange positions of these two sectors are largely unmatched, net placements exposed to currency induced credit risk were mainly unhedged (93.0%), i.e. only 7.0% of exposed placements were hedged against that risk.

Like at the end of 2006, the ratio of total value adjustments and provisions to total placements and contingent liabilities stood at 1.0% at the end of 2007. The major contributor to this was a small share of non-performing placements in total placements and thus a small share of value adjustments in total value adjustments and provisions.

**Table 3.16 Housing Savings Banks' Value Adjustments and Provisions**

end of period, in million HRK and %

	2005	2006	2007
<b>Total value adjustments against placements and provisions for contingent liabilities</b>	<b>38.4</b>	<b>44.8</b>	<b>57.8</b>
– Value adjustments against placements and provisions for contingent liabilities	0.9	3.6	6.5
– Collectively assessed impairment provisions	37.5	41.2	51.2
<b>Total placements and contingent liabilities</b>	<b>3,496.5</b>	<b>4,547.8</b>	<b>5,665.9</b>
Relative ratio: total value adjustments and provisions/total placements and contingent liabilities	1.1	1.0	1.0

Source: CNB.

### 3.2.4 Quality of Housing Savings Banks' Earnings

At the end of 2007, housing savings banks had a loss before taxes to the amount of HRK 43.9m. Two housing savings banks reported total income of HRK 11.2m, while three housing savings banks reported total loss of HRK 55.1m.

**Table 3.17 Housing Savings Banks' Income Statement**

in million HRK and %

	2005		2006		2007	
	Amount	Change	Amount	Change	Amount	Change
Total interest income	241.0	17.4	264.9	9.9	301.5	13.8
Total interest expenses	169.7	18.2	186.8	10.1	195.2	4.5
Net interest income	71.3	15.4	78.0	9.5	106.3	36.2
Total income from fees and commissions	75.9	-15.8	78.6	3.5	77.2	-1.8
Total expenses on fees and commissions	8.0	5.0	10.0	25.2	11.4	14.2
Net income from fees and commissions	67.9	-17.8	68.6	1.0	65.8	-4.1
Other non-interest income	65.3	43.2	-50.5	-177.4	-43.5	-13.9
Other non-interest expenses	31.1	-23.7	34.3	10.5	30.4	-11.5
Net other non-interest income	34.2	604.4	-84.8	-347.8	-73.9	-12.9
Net non-interest income	102.2	16.8	-16.2	-115.9	-8.1	-50.2
General administrative expenses and depreciation	108.8	-7.8	113.7	4.5	128.4	12.9
Net operating income before loss provisions	64.6	107.2	-51.9	-180.4	-30.3	-41.7

	2005		2006		2007	
	Amount	Change	Amount	Change	Amount	Change
Expenses on value adjustments and provisions for identified losses	0.7	645.6	2.9	338.5	3.6	22.5
Expenses on collectively assessed impairment provisions	14.2	-15.9	3.8	-73.6	10.0	166.1
Total expenses on loss provisions	14.9	-12.3	6.7	-55.0	13.6	103.0
Income/loss before taxes	49.7	250.2	-58.6	-217.9	-43.9	-25.2
Income tax	-2.6	-191.6	-4.1	61.0	0.4	-108.5
Current year profit/loss	52.3	358.6	-54.5	-204.2	-44.2	-18.9

Source: CNB.

Total loss of housing savings banks was 25.2% lower at the end of 2007 than at the end of 2006. To a large extent, this was due to the restructuring of placements and smaller investment in securities. The loss from trading in securities, the loss from available-for-sale securities and the loss from securities carried at fair value through profit and loss and not traded in active markets amounted to HRK 48.9m at the end of 2007, which is a decrease of 26.2% over the end of 2006. However, the increase in the available-for-sale securities portfolio contributed to a concurrent increase in the unrealised value adjustment losses on available-for-sale assets (up HRK 43.4m or 330.5%). These changes had no negative impact on the operating results of housing savings banks in 2007. Specifically, in line with IAS 39, housing savings banks reported the incurred loss as their loss on capital and recognised it directly in their equity.

Net interest income of housing savings banks was 36.2% higher at the end of 2007 than at the end of 2006. Notwithstanding lower investment in securities and the resultant 13.3% decrease in income, interest income from investment in securities remained the largest source of income for housing savings banks in 2007. Thus, at the end of 2007, interest income from investment in securities amounted to HRK 164.6m and made up more than a half of total interest income (54.6%). In addition, thanks to larger lending volume in 2007, interest income from loans almost doubled in value in 2007. It accounted for 44.4% of total interest income at the end of 2007, up 21 percentage points over the end of 2006.

Total interest expenses went up by 4.5% in 2007, due mainly to higher liabilities on housing savings deposits. Net income from fees and commissions declined by 4.1% at the end of 2007 owing to a decrease in fees from banking services (1.8%) and a concurrent increase in expenses on fees and commissions (14.3%). General administrative expenses and depreciation rose by 12.9% in the reference period on account of larger expenses on employees (17.2%). Total expenses on loss provisions were two times higher at the end of 2007 than at the end of 2006. The main contributor to this was the growth in fully recoverable placements, prompting housing savings banks to increase their expenses on collectively assessed impairment provisions.

### 3.3 Supervision Report

In order to protect the savers and depositors and to maintain the stability and safety of the banking system, the Croatian National Bank supervises banks, savings banks, housing savings banks and credit unions. The supervisory tasks of the CNB also comprise the issuance and withdrawal of operating licences and other authorisations and approvals in accordance with the relevant acts,<sup>10</sup> the adoption of relevant subordinate legislation and the supervision of operations of the stated institutions. The lawfulness and regularity of banks' operations and their capability to manage risks are assessed through on-site supervision, specialised on-site supervision and off-site supervision. The on-site supervision is carried out in accordance with a pre-determined supervision schedule or more frequently if any signs of non-compliance with standards are found or if a bank operating in the market is found to be more risky.

<sup>10</sup> The statutory powers of the CNB in the field of supervision derive from the Act on the Croatian National Bank, the Banking Act, the Act on Housing Savings and State Incentives for Housing Savings and the Credit Unions Act.

### 3.3.1 On-Site Supervision

In 2007, on-site examinations and specialised on-site examinations were performed in 20 banks and 1 housing savings bank. A total of 31 on-site and specialised on-site examinations were carried out in banks and two non-banking financial institutions. In addition, 14 decisions requiring banks to eliminate the established violations and irregularities or to improve their condition were issued in 2007 on the basis of the completed examinations and the reports prepared thereafter.

In 2007, like in the previous years, full-scope on-site examinations were carried out in all small and medium-sized banks, while targeted on-site examinations were carried out only in large banks. Hence, a total of nine targeted on-site examinations were carried out in the course of 2007. The quality of assets was in the focus of six targeted on-site examinations. Liquidity and market risks were evaluated in three targeted on-site examinations, and earnings were examined within one targeted on-site examination. One targeted on-site examination also encompassed the recapitalisation of one bank, and one targeted on-site examination assessed an internal model for managing general interest rate risk, currency risk and risk of investment in equity securities.

In 2007, specialised on-site examinations were conducted in 13 banks. Moreover, in accordance with the statutory powers, on-site examinations were also carried out in two non-banking financial institutions. A total of 18 specialised on-site examinations were carried out in the course of 2007. Within this, four on-site examinations included the oversight of internal control systems, nine on-site examinations focused on the implementation of monetary and foreign exchange policy measures and one on-site examination assessed the AMA framework for operational risk.

### 3.3.2 Off-Site Analysis

The off-site analysis is focused on the monitoring of riskiness of bank operations. The assessment is predominantly based on the analysis of financial reports which banks submit to the Croatian National Bank.

In 2007, like in 2006, banks were obliged to submit quarterly reports on their capital, asset quality, earnings and liquidity. Accordingly, each analysed area was assigned a component rating, and each bank was assigned an overall composite rating. Component ratings for credit risk, liquidity risk and asset quality were also assessed in the light of banks' quality of management, their managing systems and the expertise of their management teams. However, the expertise of management teams was not separately rated. Overall composite ratings for banks also included component ratings for sensitivity to market risk. The implementation of the decisions, taken by the CNB on the basis of the submitted documentation, was also assessed in detail in the course of off-site analyses in 2007. Moreover, the booming non-banking financial sector and its ever increasing impact on banking operations pointed to the need of further development of off-site analysis of banking groups consolidated reports.

17 reports on established violations and 8 decisions requiring the implementation of measures were prepared and submitted in 2007 on the basis of analysed financial reports. Specifically, the stated reports were usually addressed to banks in breach of the limit on exposure to one person or persons in a special relationship with a bank.

In order to ensure timely exchange of information, the CNB held meetings with almost all external bank auditors in the last months of 2007. During the meetings, the external auditors informed the CNB on the results of their pre-audits and were briefed on those areas of bank operations which they were expected to control (audit) more closely in order to be able to design qualitative opinions. The cooperation with foreign supervisors of banking groups, an integral part of which are also domestic banks, continued in 2007 on the basis of the concluded memoranda of understanding.

### 3.3.3 Licensing and Market Competition

A total of 80 decisions on licensing and market competition issues were issued in the course of 2007. These included: prior approvals for performing the function of a member of the bank/savings banks management board, prior approvals for the acquisition of a qualifying holding, decisions on requests for granting a prior approval for

the establishment of a bank, authorisations for the establishment of a branch of a foreign bank, decisions on the permissible concentration level, and the like.

Furthermore, eight procedures covering the areas of market competition and consumer protection were carried out in 2007.

### 3.3.4 New Regulations on Banks' Business Operations and Supervision of Banks and Credit Unions

After entering into force in 2007, the Credit Unions Act<sup>11</sup> and the Act on Amendments to the Banking Act<sup>12</sup> created the necessary preconditions for the incorporation of new financial institutions (savings banks and credit unions) into the banking system of the Republic of Croatia. The supervision of these institutions is entrusted to the CNB. The Savings and Loan Associations Act<sup>13</sup> ceased to have effect on the date of the entry into force of the Credit Unions Act. As a result, savings and loan associations were required to apply for a credit union or saving bank license until 31 December 2007 and 1 March 2008 respectively.

Out of 104 savings and loan associations in operation at the date of the entry into force of the Credit Unions Act, 37 savings and loan associations decided to transform themselves into credit unions, 43 into savings banks, and 20 opted for winding-up. Savings and loan association that opted to transform themselves into credit unions were required to submit their applications for a credit union license to the Croatian National Bank until the end of 2007. 18 applications, in accordance with which the relevant procedures for the issuance of licences were initiated, were received within the prescribed time-limit, while 19 savings and loan association subsequently decided to initiate the voluntary winding-up proceedings. Savings and loan associations that opted to transform themselves into savings banks were required to submit their applications for a saving bank license to the Croatian National Bank until 1 March 2008. After receiving five applications for a saving bank license and one application for the establishment of a new savings bank, the CNB initiate the relevant procedures.

In an effort to contribute to the reduction of operational risk, the CNB adopted the Guidelines for Managing IT Systems in March 2006. The objective of the Guidelines was to promote good practices and to advise banks on adequate IT management practices and procedures. As a step to that direction, the CNB adopted the Decision on adequate information system management in August 2007,<sup>14</sup> regulating the criteria which banks (and savings banks) have to meet in order to adequately manage their information systems. The Act on Amendments to the Banking Act, adopted at the end of 2006 and in force as of 1 January 2007, provided the legal basis for its enactment.

Following the amendments to the Decision on the capital adequacy of banks,<sup>15</sup> endorsed at the end of 2007, the use of unstable (secondary) sources of funds was tied up with the permissible growth rate of placements. In line with the amended Decision, banks with an above-average dependency on the secondary sources of funds are required to hold higher amounts of the primary sources of funds (i.e. capital and long-term household deposits) if they want to increase their placements at a faster rate. In addition, the risk weight on foreign currency loans and foreign currency indexed loans that are fully collateralised by residential mortgage and extended to clients with unmatched foreign exchange positions was increased from 75% to 100%, while the risk weight on foreign currency claims and foreign currency indexed claims on clients with unmatched foreign exchange positions was increased from 100% to 150%.

Activities aimed at harmonising Croatian legislation and subordinate legislation with the *acquis communautaire* continued at an accelerated pace in 2007. Consistent with that objective, the CNB prepared the draft Credit Institutions Act taking into account the relevant EU directives, new developments in the domestic regulatory framework

---

11 OG141/2006.

12 OG 141/2006.

13 OG 84/2002.

14 OG 80/2007.

15 OG 130/2007.

and the manner in which banks operate. When it enters into force, the Credit Institutions Act will replace the current Banking Act. In addition, the Credit Institutions Act will regulate more clearly and unequivocally certain matters, and thus eliminate ambiguities arising from the interpretation of the existing Act.

The CNB opened a public debate on its new regulatory framework in July 2007 by posting on its web site the draft Credit Institutions Act. The Credit Institutions Act is expected to be adopted in the course of 2008.

In November and December 2007, the CNB also posted on its web site the draft subordinate legislation on the matters contained in the draft Credit Institutions Act:

- Decision on the capital adequacy of credit institutions,
- Decision on the management of interest rate risk in the non-trading book,
- Decision on liquidity risk management, and
- Decision on own funds of credit institutions.



1

2

3

4

5

6

7

8

# Payment Operations



## 4.1 Interbank Payment Systems

In 2007, the clearing of interbank payment transactions through the Croatian Large Value Payment System (CLVPS) and the National Clearing System (NCS) was carried out in line with the rules on settlement in bank accounts in interbank payment systems.

The interbank payment systems operated without any major deviations from the payment execution schedule. Deviations from the payment execution schedule totalled 410 minutes, and were most frequently caused by an increased number of orders in the payment systems due to known and expected events in the financial system (public offerings of shares of certain companies).

Last year saw no serious situations that could in any way compromise the operational stability and safety of the interbank systems as the basic payment transaction infrastructure in the country. The accessibility of the CLVPS to payment system participants was as high as 99.34%, whereas minor difficulties in the use of this payment system were due to technical and technological reasons or problems with the SWIFT telecommunication network.

Statistical indicators of domestic interbank payment operations point to an upward trend in the number and value of payment transactions executed through both interbank payment systems in 2007 as compared with 2006.

### Croatian Large Value Payment System

A total of 249,541 payment transactions were settled through the CLVPS in 2007, with the average transaction value standing at HRK 15.1m. Relative to 2006, the number of payment transactions settled through the CLVPS rose by 45.85%, whereas the value of transactions increased by 69.71%. The largest number and value of payment transactions were recorded in October.

Concerning the structure of exchanged payment messages, as much as 56.16% of total messages were payment messages mainly used by bank clients (MT103). Payment messages used by banks (MT202) and direct transfers accounted for 36.55% and 7.29% of the total, respectively. Direct transfers are payment messages used by the central bank for carrying out its legal obligations and managing the payment systems, as well as for executing payments ordered by banks in the cases when they are faced with program or communication difficulties.

**Table 4.1 CLVPS – Payment Transactions Executed in 2007**

Month	CLVPS	
	Transaction number	Transaction value (in million HRK)
January	15,603	205,825
February	16,027	205,855
March	17,573	225,558
April	18,846	262,054
May	21,036	308,672
June	19,501	291,703
July	23,559	339,786
August	21,519	321,339
September	21,874	360,683
October	26,401	522,716
November	24,747	368,104
December	22,855	363,394
<b>Total</b>	<b>249,541</b>	<b>3,775,688</b>

Source: CNB.

**Table 4.2 CLVPS – Overview of Payment Transactions Executed**

	2006	2007
Transaction number	171,092	249,541
Transaction value (in million HRK)	2,224,741	3,775,688
Transaction average value (in million HRK)	13.00	15.13

Source: CNB.

**Table 4.3 CLVPS – Concentration Index**

	Transaction number	Transaction value (in million HRK)
5 banks <sup>a</sup>	140,683	1,908,009
Share	56.38%	50.53%
<b>Total</b>	<b>249,541</b>	<b>3,775,688</b>

<sup>a</sup> Banks accounting for the largest shares in terms of transaction number and value.

Source: CNB.

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

## National Clearing System

A total of 122.4m payment transactions were executed through the NCS in 2007, their average value standing at HRK 6,511. Compared with 2006, the number and value of payment transactions executed through the NCS rose by 6.4% and 4.3% respectively. The largest number of payment transactions (40%) and the largest transaction value (50%) were cleared in the III clearing cycle. The largest number and value of payment transactions cleared through the NCS were recorded in October.

**Table 4.4 NCS – Payment Transactions Executed in 2007**

Month	NCS	
	Transaction number	Transaction value (in million HRK)
January	9,283,936	60,584
February	8,716,941	57,072
March	10,103,190	63,856
April	9,920,070	63,168
May	10,646,029	67,170
June	9,929,740	61,019
July	11,191,193	71,076
August	10,060,441	68,045
September	9,862,237	68,920
October	11,421,193	75,427
November	10,445,181	66,888
December	10,852,324	73,969
<b>Total</b>	<b>122,432,475</b>	<b>797,195</b>

Source: Fina.

Table 4.5 NCS – Overview of Payment Transactions Executed

	2006	2007
Transaction number (in million)	115.05	122.43
Transaction value (in million HRK)	764,591	797,195
Transaction average value (in HRK)	6,646	6,511

Source: Fina.

Table 4.6 NCS – Total Value and Number of Payment Transactions by Clearing Cycles in 2007

	I clearing cycle	II clearing cycle	III clearing cycle	Total
Transaction number	29,991,329	44,196,131	48,245,015	122,432,475
Share	24	36	40	100
Transaction value (in million HRK)	144,974	251,517	400,704	797,195
Share	18	32	50	100

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

II clearing cycle – from 8.30 TO to 12.30 TO

III clearing cycle – from 12.30 TO to 18.15 TO

Source: Fina.

Table 4.7 NCS – Concentration Index

	Transaction number	Transaction value (in million HRK)
5 banks <sup>a</sup>	86,828,044	485,671
Share	70.92%	60.92%
<b>Total</b>	<b>122,432,475</b>	<b>797,195</b>

<sup>a</sup> Banks accounting for the largest shares in terms of transaction number and value.

Source: Fina.

The concentration index shows that five banks accounted for 70.92% of the total number and 60.92% of the total value of payment transactions executed through the NCS.

## 4.2 Interbank/Interinstitutional Cooperation in the Area of Payment Operations

In 2007, each member of the National Payment System Committee (NPSC) appointed an additional representative on the Committee responsible for foreign exchange operations. Specifically, besides domestic payment operations, the future scope of activity of the NPSC will also include international payment transactions. With a view to harmonising the domestic payment system with that of the EU, the CNB and banks agreed on exchanging information relating to the future organisation of a single internal market and the creation of a Single Euro Payments Area (SEPA).

The Council of NCS Participants, consisting of representatives of the CNB, banks and Fina, held one annual theme session in 2007. This session included a presentation of the Council's work and the NCS operation in 2007, preparatory activities for a redesign of and improvements in the current NCS applications, a presentation of functionality upgrades and a projection of the dynamics relating to a migration to a new system. The session also involved a presentation and confirmation of testing dates, the period of parallel operation of the old and new NCSs and the cycle clearing repetition dates. It was envisaged that the new NCS would be put into productive operation in April or May 2008, depending primarily on the results of certification currently in process in all banks participating in the NCS.

## 4.3 Reports on Payment Statistics

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

**Table 4.8 Number of Transaction Accounts as at 31 December 2007**

Business entities' accounts	418,521
Business entities' regular operating accounts	388,105
Business entities' sub-accounts	30,416
Citizens' accounts	4,791,240
Giro accounts	880,019
Current accounts	3,803,343
Other citizens' accounts <sup>a</sup>	107,878
<b>Total</b>	<b>5,209,761</b>

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

Business entities and citizens had a total of 5,209,761 accounts opened with banks. As much as 92.7% of the total number of business entities' accounts opened with banks were accounts for regular operations, whereas only 7.3% were business entities' sub-accounts.

Citizens had 4,791,240 accounts opened with banks, which made up 92% of the total number of accounts opened with banks. Of this, 79.38% were current accounts, 18.37% giro accounts and 2.25% "other citizens' accounts".

**Table 4.9 Number of Bank Operating Units, ATMs and POS (EFTPOS) Terminals as at 31 December 2007**

	Total
1. Operating units	1,191
2. ATMs	2,995
2.1. ATMs owned by banks	2,457
2.2. ATMs owned by other legal persons	538
3. POS (EFTPOS) terminals	70,988
3.1. POS (EFTPOS) owned by banks	49,121
3.2. POS (EFTPOS) owned by other legal persons	21,867

Source: CNB.

As at 31 December 2007, there were 1191 bank operating units in the Republic of Croatia.

Of the total number of ATMs in the country, 82% were owned by banks and the remaining 18% by other legal entities.

Of the total of 70,988 POS (EFTPOS) terminals, 69% were owned by banks and the rest was owned by other legal entities.

**Table 4.10 Number of Users by Type of Service as at 31 December 2007**

Citizens		
Internet		424,298
Telebanking		0
Mobile phones		122,514
Fixed line phones		279,073
Direct debit transfers		348,181
Permanent transfer order		818,532
POS (EFTPOS)		3,599,346
Other		20,176
Business entities		
Internet		130,111
Telebanking		6,854
Mobile phones		1,389
Fixed line phones		12,483
Direct debit transfers		3,975
Permanent transfer order		3,468
POS (EFTPOS)		176,863
Other		55,258

Source: CNB.

Table 4.10 shows the available technical and technological services through which banks enable their clients to use additional methods of payment against their transaction accounts with banks.

**Table 4.11 Issued Payment Cards and Payment Transactions According to Card Types**

Type	Valid general and business payment cards			
	Number of payment cards in circulation <sup>a</sup>	Share	Total transactions <sup>b</sup>	
			Number	Value (in HRK)
Credit card	164,315	2.04%	1,626,750	738,957,660
Revolving card	500,217	6.22%	5,119,260	1,796,238,098
Deferred debit cards	526,820	6.55%	15,602,697	6,519,115,521
Charge card	745,835	9.27%	21,399,598	7,156,466,768
Debit card	6,060,150	75.35%	73,492,200	36,735,446,224
Prepaid card	45,616	0.57%	33,118	11,342,311
<b>Total</b>	<b>8,042,953</b>	<b>100%</b>	<b>117,273,623</b>	<b>52,957,566,582</b>

<sup>a</sup> As at 31 December 2007.

<sup>b</sup> In the second half of 2007.

Source: CNB.

As at 31 December 2007, there were 8,042,953 valid payment cards in circulation in the Republic of Croatia. Of this total, 95% were general payment cards (issued to the names of citizens) and 5% were business cards (issued to the names of business entities). As regards the payment card types, debit cards accounted for the largest share in the total number of cards, 75.35%. In the second half of 2007, debit card transactions participated with 62.67% in the total number of transactions, their value accounting for 69.37% of the total value of payment transactions.

**Table 4.12 Payment Cards by Function as at 31 December 2007**

Function	General		Business	
	Number of payment cards by function	Share of individual cards in total number of payment cards	Number of payment cards by function	Share of individual cards in total number of payment cards
<b>Total number of payment cards in circulation</b>				
Point-of-sale payments	7,632,284	99.89	402,578	100.00
Cash withdrawal	7,523,121	98.47	402,062	99.87
Checking guarantee	4,240,553	55.50	31,439	7.81
E-money	0	0	0	0
Chip	5,376,858	70.37	288,922	71.77
Co-branding	65,401	0.86	2,441	0.61
Affinity	48,843	0.64	0	0.00
International (accepted worldwide)	7,566,119	99.03	267,575	66.47
Other	72,683	0.95	202	0.05

Note: Payment cards may have more than one function.

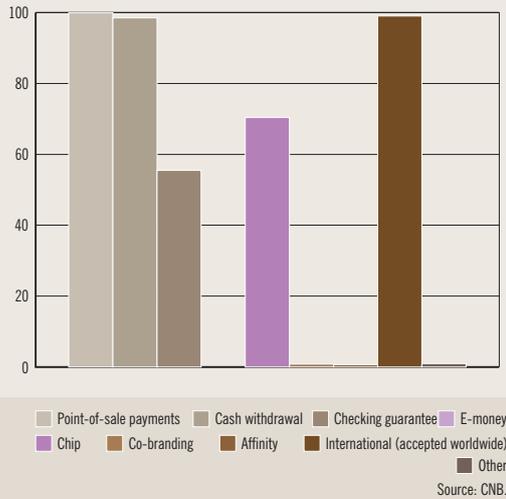
Source: CNB.

At the end of 2007, there were 7,640,375 general payment cards in circulation in the Republic of Croatia. Of the total number of payment cards in circulation, 99.89% enabled point-of-sale payments for goods or services. Likewise, 98.47% of all the payment cards enabled cash withdrawals and almost all (99.03%) were accepted internationally.

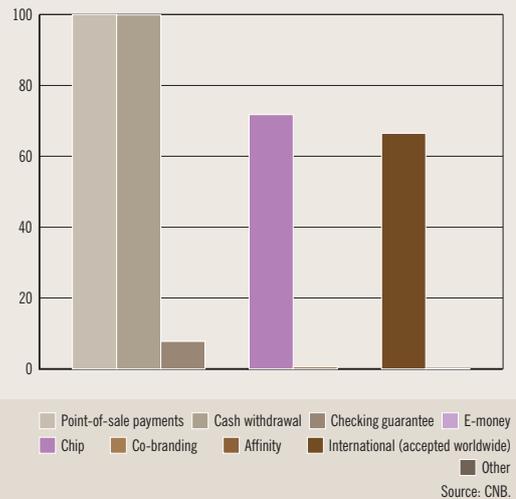
There were no registered payment cards in the Republic of Croatia with the function of e-money.

All (100%) of 402,578 business payment cards in circulation in the Republic of Croatia enabled payments, and almost all (98%) enabled cash withdrawals. Internationally accepted were 66.47% of all business payment cards.

#### 4.1 General Payment Card Functions



#### 4.2 Business Payment Card Functions



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

The Directive 2007/64/EC of the European Parliament and of the Council on payment services in the internal market that entered into force on 25 December 2007 provides a legal basis for the establishment of a single market for payment services within the EU. The deadline for the harmonisation of the legislations of EU Member States with the provisions of this Directive is 1 November 2009.

The harmonisation with this Directive is exceptionally important, as it includes a very broad scope of payment services and regulates in detail payment service providers, payment services, the transparency of conditions and information requirements regarding payment services, rights and obligations of service providers, establishment, operation and supervision of payment institutions, etc. The adoption of these provisions will contribute to the simplicity, success and safety of payments within the EU.

A harmonised legal framework based on the said Directive will provide the necessary legal basis for the creation of the Single Euro Payments Area which will only include payments in euro, whereas the scope of the Payment Services Directive will include payments in the currency of any EU Member State.

In order to harmonise the Croatian legislation with the EU *acquis communautaire*, particularly with the said Directive, a project task force has been established at the CNB, preparing a draft payment services act.

A new Act on Settlement Finality in Payment and Financial Instruments Settlement Systems is also being prepared, by which the solutions of the Directive 98/26/EC of the European Parliament and of the Council of 19 May 1998 on settlement finality in systemically important systems will be introduced into the Croatian legal system. A final draft of the Act is planned for May 2008. The Act will regulate participants in the payment systems, the authorities competent for these systems in the Republic of Croatia, effects of insolvency proceedings against a participant in a system, rights and obligations arising from, or in connection with the participation of a participant in a system, submitting notifications to EU Member States and receiving such notifications from the competent authorities of other EU Member States, etc.

1

2

3

4

5

6

7

8

# Currency Department Operations

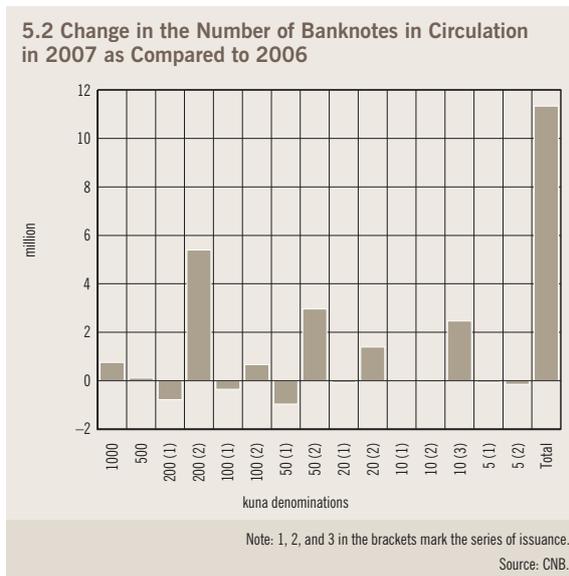
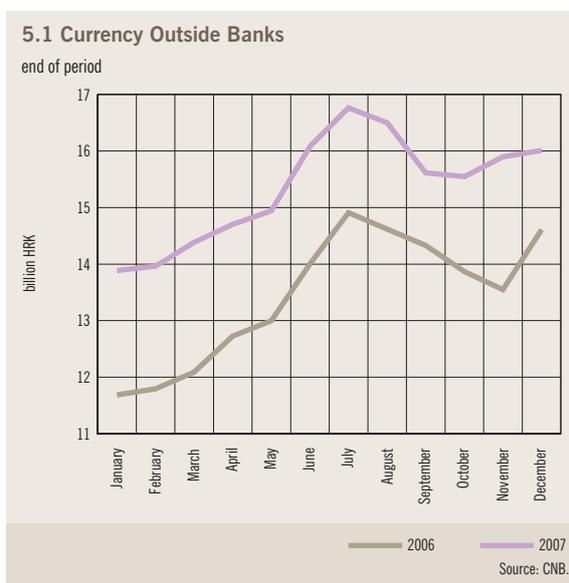


## 5.1 Currency Outside Banks

Currency outside banks amounted to HRK 16.0bn on 31 December 2007. Although 9.6% higher at the end of 2007, the growth rate of the currency outside banks was 10.5 percentage points lower than that observed in 2006.

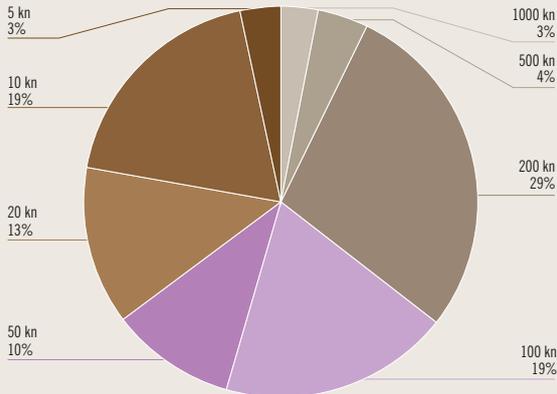
On 31 December 2007, there were 135.2 million banknotes, valued at HRK 15.2bn, outside the vaults of the CNB and cash supply centres. Compared with the end of 2006, the quantity of banknotes outside the vault of the CNB rose by 9.1%, while the total value of all banknotes outside the vaults of the CNB and cash supply centres went up by 9.5%.

The total number of banknotes in circulation increased by 11.3 million in 2007 as compared to 2006, of which banknotes in denomination of 200 kuna accounted for 5.4 million or 47.8%. Concurrently, an increase of 5.9 million or 52.2% was observed in banknotes in denominations of 1000, 500, 100, 50, 20 and 10 kuna, with the number of 50 kuna banknotes rising at the highest rate (2.9 million or 49.2%). The total number of 5 kuna banknotes in circulation declined by 0.1 million because the need for banknotes of this particular denomination was primarily met by coins of the same denomination. Compared with the end of 2006, the number of banknotes issued in 1993 (exclusive of banknotes in denominations of 1000 and 500 kuna) decreased by 2.8 million. Hence, 12.9 million of banknotes issued in 1993 were in circulation at the end of 2007, accounting for 9.5% of the total number of banknotes in circulation (135.2 million). In addition, out of 12.9 million of banknotes issued in 1993, the valid banknotes in denominations of 200, 100 and 50 kuna accounted for 4.3 million, while those that are no longer valid and that are replaced by the CNB accounted for 8.6 million.



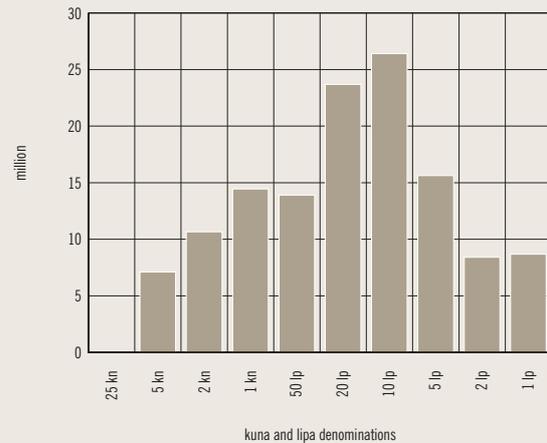
### 5.3 Structure of Total Volume of Banknotes in Circulation by Denomination

end-2007



Source: CNB.

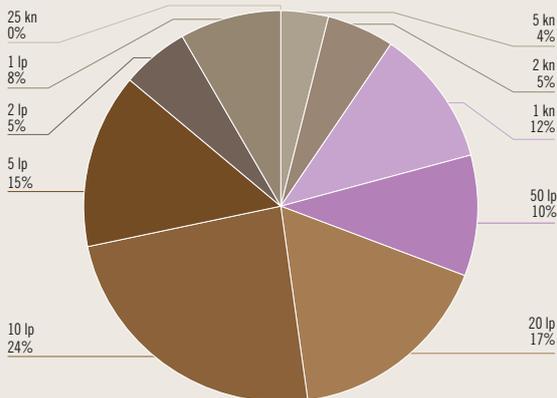
### 5.4 Change in the Number of Coins in Circulation in 2007 as Compared to 2006



Source: CNB.

### 5.5 Structure of Total Volume of Coins in Circulation by Denomination

end-2007



Source: CNB.

Of banknotes in circulation, banknotes in denominations of 200 kuna, with a share of 29%, and of 100 kuna, with a share of 19%, were the most numerous and accounted for HRK 10.2bn or 67% of the total value of banknotes in circulation in 2007. Such a large share of 200 and 100 kuna banknotes in total banknotes in circulation is attributed to their wide-spread presence in ATM payments.

On 31 December 2007, there were 1.38 billion coins outside the central bank's vault, worth HRK 0.76bn. Compared with the end of 2006, the quantity of coins outside the central bank's vault increased by 10.0%, while their total value increased by 12.7%. The total number of coins in circulation increased by 128 million in 2007, with the coin denomination of 10 lipa accounting for the largest share of the increase, up 26.3 million coins or 20.3% from the number of coins registered in 2006.

Of coins in circulation, the most numerous in 2007 were 10 lipa coins, accounting for 327 million or 24% of the total number of coins in circulation. In terms of value, coins in denomination of 5 kuna accounted for the largest share, HRK 264.0m or 34.6% of the total value of coins in circulation.

## 5.2 Cash Supply

In order to meet bank demand and maintain the adequate level of cash in centres, a total of 51.9 million banknotes with a value of HRK 7.4bn and 125.6 million coins with a value of HRK 83m were issued from the central bank's vault to cash supply centres in 2007, which represented a decrease of HRK 1.5bn (28.5%) in terms of value and HRK 12.5m (12.5%) in terms of volume compared with the levels at the end of 2006. However, the total value and total number of issued coins expanded by 62.6% and 15.7% respectively in 2007.

As the requirements of cash supply centres for coins were largely covered by the transfer of excess coin quantities from one cash supply centre to another, 8.2 million coins (with a value of HRK 12m) were transferred among cash supply centres in 2007.

Despite the 9.6% rise in the currency in circulation, the total value of banknotes and coins issued from the central bank's vault fell by 20% at the end of 2007 relative to the end of 2006, while the total number of banknotes decreased by 24.1%.

The observed decrease in the value and volume of banknotes and coins issued from the central bank's vault is attributed to last year's reduction in the number of cash supply centres. Specifically, in the January-May period of 2007, the number of cash supply centres was reduced from 22 to 10. Following the inclusion of banknotes and coins from the closed cash supply centres into circulation, the currency turnover rose by 1.5 times in 2007 relative to 2006, amounting to 7.5 (HRK 120.6bn of total turnover in cash supply centres divided by HRK 16.0bn of total currency in circulation of at the end of 2007).

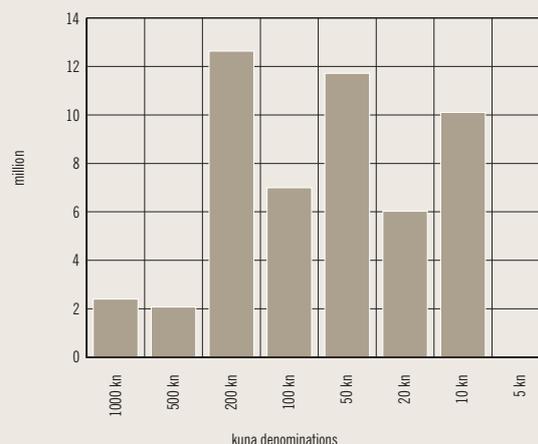
The rationalisation of cash supply centres and the 45.1% decrease in the total amount of fees that banks were obliged to pay for their services (e.g. total fees paid in 2007 and 2006 stood at HRK 58.6m and HRK 85.0m respectively) generated substantial savings that will directly impact the costs of production and handling of banknotes and coins.

### 5.3 Withdrawal and Processing of Worn-Out Banknotes

In 2007, the Currency Department withdrew 45.0 million banknotes with a value of HRK 5.5bn from cash supply centres. The banknote sorting system processed 51.8 million banknotes in 2007 (6.8 million banknotes in 2006), of which 97.1% or 50.3 million banknotes, valued at HRK 6.1bn, were immediately destroyed as they failed to meet the quality standards set for banknotes in circulation.

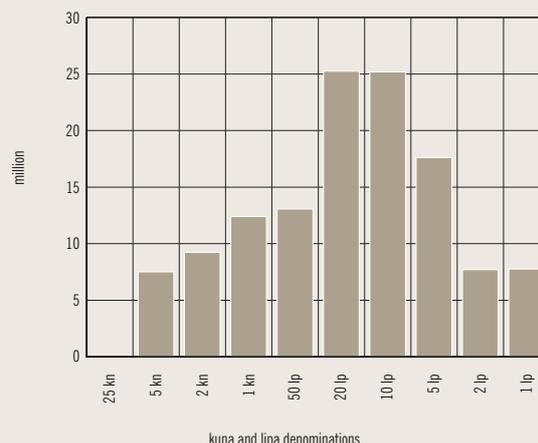
According to the latest data, the renewal index in 2007 was 39 (destroyed banknotes/circulation × 100), with the number of banknotes in circulation and the number of destroyed banknotes totalling 135.2 million and 51.8 million respectively on 31 December 2007.

5.6 Banknotes Issued to Cash Supply Centres in 2007



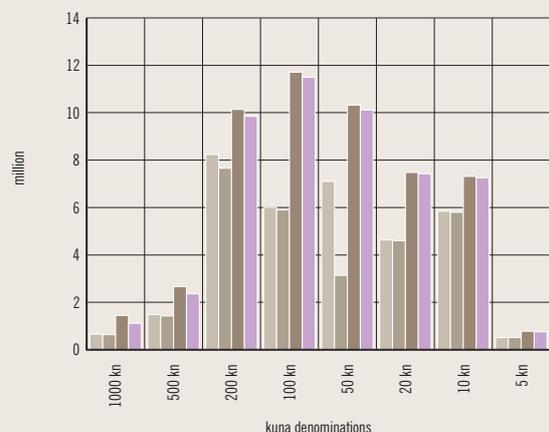
Source: CNB.

5.7 Coins Issued to Cash Supply Centres in 2007

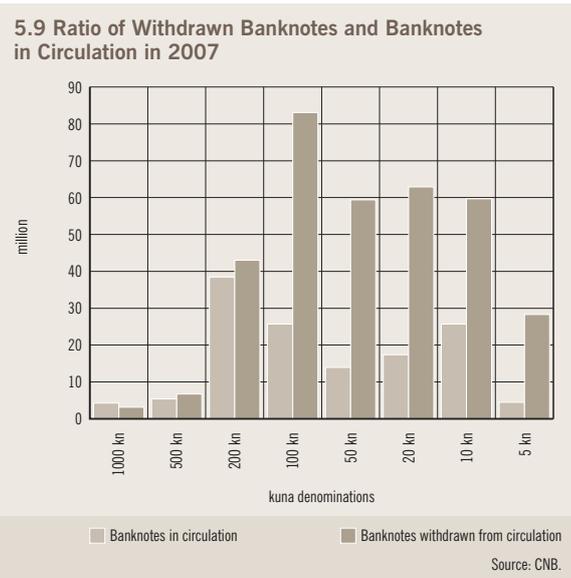


Source: CNB.

5.8 Processed and Destroyed Banknotes



Source: CNB.



## 5.4 Expert Evaluation of Banknotes

In 2007, the expert evaluation of banknotes identified 704 counterfeit banknotes valued at HRK 181,810. Compared with the end of 2006, the number of identified counterfeits fell by 65.7%, with 200 kuna banknotes continuing to account for the largest share of counterfeit banknotes in 2007 (269 or 38.2%). Aimed at preventing the distribution of counterfeit banknotes, the efforts to make the general public and banknote users (especially networks of retail outlets) acquainted with the security features of kuna banknotes continued in 2007 as well. As shown by the relevant indicators, 5 counterfeits were discovered per 1 million banknotes in circulation in 2007. The analysis of received counterfeits showed that in 99% of cases they were produced using computer technology and printed on colour printers. 1% of the counterfeit banknotes were printed in offset technique, and this primarily includes counterfeit 1000 kuna banknotes.

**Table 5.1 Identified Counterfeit Banknotes in 2007**

Denomination	1000	500	200	100	50	20	10	5	Total
Number	48	130	269	97	80	51	29	0	<b>704</b>
Percent	6.8	18.5	38.2	13.8	11.4	7.2	4.1	0.0	<b>100.0</b>

Source: CNB.

## 5.5 Commemorative Coin Issues

In 2007, the CNB issued 1,000 numismatic sets of kuna and lipa circulation coins, with "2007" marking the year of issue.

Also, in cooperation with the Central Bank & Financial Services Authority of Ireland, the CNB issued 3,000 items of the commemorative 150 kuna silver coin dedicated to Ivan Meštrović.

1

2

3

4

5

6

7

8

# Public Relations



## 6.1 Public Relations

The Croatian National Bank continues to devote special attention to informing the public of its goals and methods of operation, through its regular and occasional publications, as well as through public appearances of its officials and employees in the media and at various meetings in the country and abroad.

Moreover, the legal right of access to the information of public interest is strictly honoured. Thus, in 2007, the CNB employees responsible for public relations responded to over two thousand inquiries by journalists, citizens, companies, government institutions, Croatian embassies abroad and foreign embassies in Croatia. In addition to this, numerous inquiries were addressed directly to the central bank departments competent for dealing with particular professional issues.

Another way of informing the public of the work of the central bank and its governing bodies' decisions is by means of press releases and statements to the public. The information on the most important issues is presented at press conferences, or directly to reporters regularly covering banking issues, or in the form of important reports, etc. Moreover, all relevant regulations, press releases on adopted decisions and other relevant information relating to the scope of activity of the central bank are promptly available on the CNB's website: [www.hnb.hr](http://www.hnb.hr) (both in Croatian and English languages).

Also noteworthy is the increasing interest of secondary school and graduate students, as well as some other institutions in organised visits to the central bank, offering an opportunity to become more closely acquainted with the goals, measures for their achievement and activities of the central bank. There were 11 such visits during 2007.

In addition to the stated forms of communication with the broad public, the central bank organised numerous conferences at which its employees directly provided detailed explanation of issues relating to the current or prepared new regulations on bank operations, foreign exchange system, currency exchange transactions and other areas falling within the competence of the central bank.



1

2

3

4

5

6

7

8

# International Relations



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

The accession of Bulgaria and Romania on 1 January 2007 rounded off the fifth wave of EU enlargement, bringing the total number of EU Member States to 27 and the total number of EU population to nearly 500 million. With its total GDP standing at EUR 12,253bn in 2007, the EU economy stands out as the world's largest single economic area. The eurozone also expanded in 2007 to include one more member, Slovenia.

The signing of the Lisbon Treaty in October 2007 amending the Treaty on European Union and the Treaty establishing the European Community is important for Croatia because it removes institutional obstacles to EU enlargement. The Lisbon Treaty is expected to come into force on 1 January 2009, following the process of ratification in all EU Member States.

Further progress was achieved in the process of EU accession negotiations of the Republic of Croatia in 2007. In terms of negotiating chapters which fall under central bank competence, negotiations relating to Economic and Monetary Policy have made most headway. In December 2006, the EU Council adopted its Common Position to open this chapter for negotiations, and set as a closing benchmark the achievement of full legislative alignment of the Act on the CNB, particularly as regards central bank independence. The benchmark is expected to be met and the chapter closed with the entering into force of the amended Act on the Croatian National Bank in 2008.

As regards the chapter Financial Services, the Croatian authorities were invited in January 2007 to submit their negotiating position which they did in March of the same year. The EU Council adopted its Common Position in June, setting five closing benchmarks, largely related to legislative alignment with the *acquis communautaire* in the area of credit institutions, insurance, financial market infrastructure, investment services, and securities market. To meet the set benchmarks, the authorities formed task forces for the adoption of relevant legislation. The operation of savings and loan associations is regulated by the Credit Unions Act adopted in December 2006. The Financial Collateral Act was adopted in August 2007. Other relevant legislation is planned for adoption in 2008.

To open the chapter on the Free Movement of Capital, the authorities have to meet two benchmarks set by the EU Council concerning the purchase of property by non-residents (EU Member States citizens) and the prevention of money laundering and financing of terrorism. In February and March 2008, the Republic of Croatia submitted its reports on the progress made in achieving these benchmarks and expects to receive positive opinion on them in the forthcoming months and an invitation to submit a negotiating position for that chapter.

As regards liberalisation of capital transactions, the 2007 liberalisation plan, submitted to the European Commission, was successfully completed and fully implemented.

As regards alignment of the Croatian legislation with the *acquis communautaire*, all the decisions envisaged under the 2007 National Programme for the Integration of the Republic of Croatia into the European Union have been adopted. CNB experts also participated in the drafting of the part of the 2008 National Programme for the Integration of the Republic of Croatia into the European Union which relates to economic criteria, free movement of capital, financial services, Economic and Monetary Union and financial control. Presenting accession-related activities in the forthcoming period, the Programme focuses especially on measures related to the alignment of Croatian legislation with the *acquis communautaire* in 2008. It was adopted at the session of the Government of the Republic of Croatia on 7 February 2008. At its session on 5 March 2008, the Croatian Parliament adopted an accompanying plan of legislative alignment.

In 2007, the CNB experts participated in the drafting of the part of the fourth Pre-accession Economic Programme 2008-2010 (PEP) relating to current economic developments, macroeconomic programme, and the financial sector. A document prepared annually by each EU candidate state in order to prepare for participation in the procedure of multilateral supervision and EU economic policy coordination.

In 2007, the CNB also participated in the work of, or preparation of materials for the bodies set up pursuant to the Stabilisation and Association Agreement, such as for instance, meetings of the Subcommittee on Economic and Financial Matters and Statistics and the Subcommittee on Internal Market and Competition, where they gave an overview of current macroeconomic developments in the Republic of Croatia, most notably those associated with monetary and exchange rate policies and the external sector, and discussed financial sector developments. CNB experts also prepared relevant materials for the regular meetings of the Stabilisation and Association Council and the Stabilisation and Association Committee.

Evidence of further progress achieved in the process of Croatia's EU accession can be found in the European Commission Croatia 2007 Progress Report issued in November 2007. The Commission views Croatia as a functioning market economy whose economic growth remains robust, although based on strong domestic demand and points to significant widening of the current account deficit and gross external debt growth, albeit at a slower rate. As regards the country's capabilities concerning the assumption of obligations arising from membership and in connection with the chapters with the CNB as the competent authority, the Report points to certain or considerable progress achieved in all the three chapters. As regards each of the chapters individually, the Report points to certain progress in free movement of capital, mainly in terms of liberalisation of capital and financial transactions accounts, and obligations arising under the Stabilisation and Association Agreement in connection with the purchase of property by EU Member States citizens. Further efforts are needed towards legislative alignment, administrative and implementing capacity building relating to anti-money laundering and combating the financing of terrorism. As regards financial services, the Report noted certain progress too. Much headway has been achieved in alignment with the *acquis communautaire* in the areas such as insurance and investment funds. Increased efforts are needed to strengthen bank supervision and authorities of the body responsible for the supervision of the non-banking financial sector to meet the demands of the *acquis communautaire* in the area of financial services. Finally, as regards the chapter dealing with the Economic and Monetary Union, the Report noted considerable progress in alignment with the *acquis communautaire* in the area of monetary policy. The Report noted particularly the December 2006 adoption of the Amendments to the Act on the Croatian National Bank, which provided for considerable strengthening of the CNB independence. However, it also noted that Croatia had not yet completed the necessary alignment, particularly that related to privileged public sector access to financial institutions and full central bank independence.

To ensure the exchange of experiences, the CNB met several times during 2007 with representatives of other EU Member States central banks, including the representatives of the European Central Bank. To ensure as close as possible a contact with EU institutions representatives, the CNB appointed its representative to the Mission of the Republic of Croatia to the European Communities in Bruxelles in early 2006 whose main task is to deal with issues related to the three negotiating positions which fall within central bank competence. Having proved useful and beneficial, after expiry of the term of office of the first representative, the position was filled again with a new representative in Spring 2008.

## 7.2 International Monetary Fund (IMF)

The quota of the Republic of Croatia in the IMF remained unchanged in 2007 (SDR 365.1m), and so did its voting rights (0.18% of total voting rights). The Republic of Croatia continued to realise its interests within the IMF through the Dutch constituency, which in addition to Croatia includes another 12 countries (Armenia, Bosnia and Herzegovina, Bulgaria, Cyprus, Georgia, Israel, Macedonia, Moldova, Montenegro, the Netherlands, Romania and Ukraine). The voting power of the Constituency is 4.8% of the total votes in the IMF, which makes it the seventh strongest constituency out of the total of 24 constituencies. The Constituency is headed by a Dutch representative acting as Executive Director of the Constituency. In accordance with the rules governing the work of the Constituency, the Republic of Croatia appointed in October 2007, for a two-year term, its representative to the post of Advisor to the Executive Director.

The Republic of Croatia continued its cooperation with IMF experts in 2007 through this institution's Representative Office in the Republic of Croatia and multiple visits of IMF representatives to Croatia and visits of representatives of the Republic of Croatia to the IMF. This was also the last year of the work of IMF Representative Office in Croatia, which closed down in June 2007, after 12 years of operation.

Regular annual Article IV consultations with the Republic of Croatia were concluded on 16 February 2007. On this occasion, the Executive Board of the IMF, based on IMF Mission report and the Executive Board discussion, noted that the country's economic growth had been strong, inflation low and that the progress achieved in the context of EU accession activities improved Croatia's investment outlook. However, the Executive Board expressed its concern over external vulnerability as seen in the large external debt to GDP ratio and widening of the current account deficit, and stressed the need for additional efforts towards more ambitious fiscal reforms, faster structural adjustment, and significant improvement in the business environment crucial for attracting foreign direct investment. The Board views as positive the CNB's monetary policy, and noted particularly central bank readiness to address the risks associated with foreign bank borrowing and fast credit growth of banks. The members of IMF Mission also prepared four studies dealing with the promotion of economic growth and reduction of external and financial vulnerabilities in Croatia. To present the contents of their studies to wider audiences in this field, they visited Zagreb again towards the end of May 2007 to hold a presentation.

Bearing in mind the progress achieved and the changes in the Croatian financial system in the period following its assessment in the context of 2002 FSAP, the Croatian authorities have requested that the FSAP Update be carried out. In accordance with that request, the IMF/World Bank FSAP Update missions visited Croatia towards the end of October and early November 2007 and closely cooperated with a European Commission Financial Sector Peer Assessment mission, which focused primarily on alignment of the Croatian regulatory framework in the area of non-banking financial services with international standards. The Executive Board of the IMF discussed the Final FSAP Update report simultaneously with Article IV consultations between the Republic of Croatia and the IMF for 2008.

Visits of central bank representatives to the IMF in 2007 were also marked by discussions regarding Article IV consultations, preparations for the FSAP Update and the activities concerning the participation in the work of IMF management bodies (the Constituency, the International Monetary and Financial Committee and the Board of Governors). Through these visits, the Croatian representatives were able to get acquainted more closely with a range of topics that the IMF deals with in the context of its mid-term development strategy planned in 2006 to adapt as successfully as possible to the new circumstances in the global economy. IMF efforts in this regard in 2007 were also focused on issues such as modernisation of the system of supervision of economic policies of the member countries, crisis prevention, improved cooperation with poorer countries, IMF management reform and development of a new model of long-term financing of IMF operations. In this context, note should be taken of more intensive efforts towards quota and voting power reform in the IMF, as planned under Resolution No. 61-5 of September 2006 of the Board of Governors.

Croatia continued to use IMF technical assistance in 2007. Note in this regard should be taken in particular of technical assistance provided to CNB experts in the area of macroeconomic modelling and forecasting.

As the fiscal agent of the Republic of Croatia and a depository of the International Monetary Fund (as regulated by the Act on Accepting Membership of the Republic of Croatia in the International Monetary Fund and Other International Financial Organisations on the Basis of Succession), the Croatian National Bank is responsible for keeping deposit accounts of the IMF and, in the name and on behalf of the Republic of Croatia, for regular servicing of succession-related obligations arising from the allocation of special drawing rights (total XDR 1.83m in 2007).

### **7.3 Bank for International Settlements (BIS)**

At its Annual General Meeting held on 24 June 2007, which was attended by the CNB Governor, as the representative of the Croatian National Bank, BIS adopted its Annual Report and decided on dividend payouts of XDR 255 per share.

Regular meetings of central bank governors from BIS member states, at which topical issues in the area of international banking and finance are discussed, continue to provide a strong incentive to central bank cooperation in this area. Important in the context of promoting this cooperation are committees and expert bodies which operate within the BIS and which also gather CNB representatives. In this context, the CNB hosted an event from 18-20 February 2007, gathering in Zagreb for the meeting of the BIS working group for monetary policy of Central and Eastern Europe, BIS representatives and representatives of the relevant countries as well as several eurozone central banks representatives and an ECB representative.

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

### **7.4 Cooperation with Other International Financial Institutions**

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

In addition to these legally prescribed tasks, in 2007 the CNB representatives exchanged information at meetings with the representatives of the World Bank and the EBRD on the macroeconomic situation in Croatia and on the planned strategy of these development banks for the Republic of Croatia in the forthcoming period.

In 2007, the CNB cooperated with many other international financial institutions and organisations, such as the European Investment Bank, the Institute of International Finance and the Japan Center for International Finance.

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

The legal basis for the foreign exchange system in the Republic of Croatia is provided by the Foreign Exchange Act.<sup>1</sup> The framework for the instruments and measures for the implementation of the foreign exchange policy is provided by relevant subordinate legislation.

Foreign exchange policy measures are used to determine the degree of restrictions on capital movements between residents and non-residents and the terms and the manner of use of foreign means of payment and kuna between residents and residents and non-residents.

### 7.5.1 Free Movement of Capital

Under the Stabilisation and Association Agreement which entered into force on 1 February 2005, the Republic of Croatia has undertaken to abolish restrictions on payments and transfers of funds associated with current transactions and restrictions on payments and transfers of funds associated with capital transactions. In the context of capital transactions liberalisation, the CNB adopted towards the end of 2007 a Decision on amendments to the Decision on the manner and conditions under which residents may execute or receive payments arising from transactions with non-residents in domestic cash, foreign cash and checks,<sup>2</sup> thus lifting the restriction on the amount of kuna cash which a resident legal person may collect from a non-resident or pay to a non-resident.

In 2007, the CNB adopted a new Decision on collecting data for the compilation of the balance of payments, external debt and international investment position,<sup>3</sup> repealing the obligation of credit transaction reporting as a precondition for the realisation of credit transactions in a bank, a mild form of capital restriction, though maintaining the obligation of reporting to the Croatian National Bank on foreign credit transactions for the purpose of compilation of external debt statistics. Relevant amendments were made accordingly to the Decision governing the conditions for and the manner of performing external payment operations,<sup>4</sup> and to the accompanying Instruction for the implementation of that Decision.

Against the background of the existing capital transactions restrictions, 470 approvals were issued to residents in 2007 for the opening of accounts and for keeping funds in accounts abroad, with the total balance of these accounts standing at approximately USD 200m. Five hundred eighty seven approvals were granted to domestic banks for cross-border transfer of kuna cash for purchase and sale transactions with foreign banks. Ninety eight approvals were granted for cashless transfers of funds related to gifts and grants and 18 approvals were granted for cash payments and collections in cash in transactions with non-residents. Twenty two approvals were granted to resident natural persons in 2007 for taking foreign cash out of the country.

The remaining restrictions on resident capital transactions relate to the granting of short-term financial loans to non-residents, opening of accounts in foreign financial institutions, the taking in and out of the country of cash in cross-border transactions and payments and collections in foreign cash in non-resident transactions.

### 7.5.2 Exchange Transactions

In 2007, 612 authorisations for the conduct of currency exchange transactions were granted to legal persons and crafts. In terms of their legal status, 63% of the applicants for authorisations were limited liability companies, 26% were crafts, 8% were joint stock companies and 3% were other legal persons. Eighteen authorisations were revoked during the same period. Twenty seven administrative procedures were concluded in 2007 with decisions to reject or

1 OG 96/2003, 140/2005 and 132/2006.

2 OG 132/2007.

3 OG 121/2007.

4 OG 132/2007.

suspend applications for authorisation. Seventy nine decisions were issued on the removal from the court register or the register of crafts of currency exchange transaction activities for those who had conducted currency exchange transactions but had not applied for an authorisation.

Given the expanded scope of the Act on Amendments to the Foreign Exchange Act, which came into force in December 2006,<sup>5</sup> in terms of the criminal offences based on which fitness and properness of the craftsmen, management board members and qualified owners of authorised currency exchange offices are evaluated, a revision was made in 2007 of over 500 cases which had been issued approvals before. Authorised currency exchange offices have to use protected computer program certified by the CNB. The use of such programs was introduced for the purpose of strengthening fiscal and financial discipline and is directly related to the pursuit of anti-money laundering policy. Six certificates were issued in 2007.

According to data on the turnover of authorised currency exchange offices, received and processed by the CNB, the total turnover of authorised currency exchange offices in transactions with natural persons was around HRK 29bn in 2007. Of that amount, HRK 18bn went to the purchase of foreign cash and checks denominated in foreign currency and HRK 11bn went to the sale of foreign cash. The bulk of authorised currency exchange offices' transactions (91.1%) was in euro. HRK 7bn worth of the balance between purchase and sale of foreign cash, was sold to the banks.

### 7.5.3 Activities Related to Anti-Money Laundering, Terrorist Financing and Counterfeiting of Foreign Cash

In March 2007, the authorities established a committee of the Croatian National Bank for the prevention of money laundering and terrorist financing, whose main task is to cooperate with other competent government bodies for the purpose of monitoring and implementing *acquis communautaire* in this field. To achieve this objective, an inter-institutional working group for the prevention of money laundering and the financing of terrorism and an inter-departmental working group for the prevention of money laundering and the financing of terrorism, which includes a CNB representative, were established.

To implement measures against counterfeiting of foreign cash, the CNB informed the banks throughout 2007 about withdrawals and putting into circulation of original foreign banknotes and about the characteristics of counterfeit foreign banknotes detected in the Republic of Croatia.

---

<sup>5</sup> OG 132/2006.

1

2

3

4

5

6

7

8

# Financial Statements of the Croatian National Bank





Ernst & Young d.o.o.  
Milana Sachsa 1  
10000 Zagreb  
Hrvatska - Croatia

### Independent Auditor's Report

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

We have audited the accompanying financial statements of Croatian National Bank (the Bank) which comprise the balance sheet as at 31 December 2007 and the statement of income, statement in changes of equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes (as set out on pages 3 to 32). The financial statements of the Bank for the year ended 31 December 2006 were audited by other auditors who have, in their report dated 12 March 2007, expressed an unqualified opinion on those financial statements.

#### Management Responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Croatian accounting regulations and in line with Law on Croatian National Bank. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to the fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis for our audit opinion.

#### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as of 31 December 2007, and of its financial performance and its cash-flows for the year then ended in accordance with the Croatian accounting regulations and in line with Law on Croatian National Bank.

Ernst & Young d.o.o

M. Sachsa 1

Zagreb, Republic of Croatia, March 11, 2008

Ernst & Young KFT

Váci ut 20

Budapest, Republic of Hungary, March 11, 2008

A Member of Ernst & Young Global

## Statement of Income

### Statement of Income

for the year ended 31 December 2007, in thousand HRK

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
Interest and similar income	3	2,510,132	1,712,254
Interest and similar expense	4	(614,766)	(404,974)
<b>Net interest income</b>		<b>1,895,366</b>	<b>1,307,280</b>
Fee and commission income		6,632	6,082
Fee and commission expense		(3,591)	(3,284)
<b>Net fee and commission income</b>		<b>3,041</b>	<b>2,798</b>
Dividend income		5,111	5,022
Net result from investment – equity method		2,416	554
Net result from financial operations	5	756,132	214,819
Precious metals revaluation	5	249	623
		<b>756,381</b>	<b>215,442</b>
Net foreign exchange differences	6	(1,116,607)	(992,543)
Other income	7	6,674	9,383
<b>Operating income</b>		<b>1,552,382</b>	<b>547,936</b>
Operating expenses	8	(319,314)	(284,653)
(Increase)/Decrease in provisions	9	(425)	6,901
<b>Operating surplus</b>		<b>1,232,643</b>	<b>270,184</b>
– Allocated to general reserves		(747,935)	(165,413)
– Allocated to the State Budget		(484,708)	(104,771)

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

## Balance Sheet

### Balance Sheet

as at 31 December 2007, in thousand HRK

	Notes	As at 31 December 2007	As at 31 December 2006
<b>Assets</b>			
Cash and current accounts with other banks	10	8,212	8,253
Deposits with other banks	11	33,130,840	33,188,888
Trading securities	12	34,959,337	30,831,230
Loans	13	4,163,719	3,897,128
Balances with the International Monetary Fund	14	2,878,705	3,069,272
Equity investments	15	55,372	55,626
Accrued interest and other assets	16	227,577	184,108
Tangible and intangible assets	17	557,526	396,385
<b>TOTAL ASSETS</b>		<b>75,981,288</b>	<b>71,630,890</b>
<b>Liabilities</b>			
Banknotes and coins in circulation		19,313,241	17,307,271
Due to banks and other financial institutions	18	46,888,780	45,623,867
Due to the State and State institutions	19	216,468	234,357
Due to the International Monetary Fund	20	2,871,894	3,062,656
Accrued interest and other liabilities	21	624,288	217,466
<b>Total liabilities</b>		<b>69,914,671</b>	<b>66,445,617</b>
<b>Equity</b>			
Initial capital	22	2,500,000	2,500,000
Reserves	22	3,566,617	2,685,273
<b>Total equity</b>		<b>6,066,617</b>	<b>5,185,273</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>75,981,288</b>	<b>71,630,890</b>

The financial statements set out on pages 136 to 153 were approved on March 11, 2008 by:

Director of Accounting Department:

Ivan Branimir Jurković



Governor:

Željko Rohatinski, D.Sc.



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

## Statement of Changes in Equity

### Statement of Changes in Equity

for the year ended 31 December 2007, in thousand HRK

	Initial capital	General reserves	Revaluation reserves	Unrealised gains/losses	Operating surplus	Total equity
<b>Balance at 1 January 2006</b>	<b>2,500,000</b>	<b>2,268,895</b>	<b>246,975</b>	<b>6,459</b>	<b>–</b>	<b>5,022,329</b>
Transferred to general reserves from revaluation reserves		5,102	(5,102)			
Exchange differences on available-for-sale financial assets				(2,469)		(2,469)
Operating surplus					270,184	270,184
Operating surplus transferred to general reserves		165,413			(165,413)	
Operating surplus allocated to the State Budget					(104,771)	(104,771)
<b>Balance at 31 December 2006</b>	<b>2,500,000</b>	<b>2,439,410</b>	<b>241,873</b>	<b>3,990</b>	<b>0</b>	<b>5,185,273</b>
Transferred to general reserves from revaluation reserves		5,390	(5,390)			
Revaluation of buildings			134,620			134,620
Exchange differences on available-for-sale financial assets				(2,672)		(2,672)
Transferred to general reserves from unrealised gains		5,113		(5,113)		
General reserves for apartments sold		1,461				1,461
Operating surplus					1,232,643	1,232,643
Operating surplus transferred to general reserves		747,935			(747,935)	
Operating surplus allocated to the State Budget					(484,708)	(484,708)
<b>Balance at 31 December 2007</b>	<b>2,500,000</b>	<b>3,199,309</b>	<b>371,103</b>	<b>(3,795)</b>	<b>0</b>	<b>6,066,617</b>

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

## Statement of Cash Flows

### Statement of Cash Flows

for the year ended 31 December 2007, in thousand HRK

	2007	2006
<b>Cash flows from operating activities</b>		
Interest received	2,437,797	1,652,435
Interest paid	(624,906)	(413,217)
Fees and commissions received	6,463	5,970
Fees and commissions paid	(3,604)	(3,053)
Dividends received	5,111	5,024
Other receipts	22,077	16,861
Expenses paid	(242,825)	(221,464)
	1,600,113	1,042,556
<b>Changes in operating assets and liabilities</b>		
(Increase) in deposits with other banks	(578,384)	(5,273,761)
(Increase)/decrease in loans	(266,592)	313,450
(Purchases) of trading securities	(4,039,350)	(4,651,382)
Decrease in other assets	360,859	3,025,273
Increase in other liabilities	89	1,148
(Decrease) in amounts due to the International Monetary Fund	(18)	(1,329)
Increase of currency in circulation	2,006,514	2,933,267
(Decrease)/Increase in amounts due to banks and other financial institutions	(439,718)	5,996,082
(Decrease) in amounts due to the State	(437,365)	(3,113,537)
	(3,393,965)	(770,789)
<b>Net cash from operating activities</b>	<b>(1,793,852)</b>	<b>271,767</b>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(42,632)	(41,501)
<b>Net cash from investing activities</b>	<b>(42,632)</b>	<b>(41,501)</b>
<b>Cash flows from financing activities</b>		
Net issuance of CNB bills	1,991,118	0
Payments to the State Budget	(104,911)	(209,367)
<b>Net cash from financing activities</b>	<b>1,886,207</b>	<b>(209,367)</b>
<b>Effect of exchange differences</b>	<b>(49,487)</b>	<b>(22,325)</b>
<b>Net increase/(decrease) in cash</b>	<b>236</b>	<b>(1,426)</b>
<b>Cash at beginning of year</b>	<b>13,552</b>	<b>14,978</b>
<b>Cash at end of year (Note 24)</b>	<b>13,788</b>	<b>13,552</b>

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

# Notes to the Financial Statements for the Year Ended 31 December 2007

## Note 1 – General Information and Accounting Standards

### 1.1 General information

The Croatian National Bank is the central bank of the Republic of Croatia, whose status has been defined by law. The owner of the Croatian National Bank is the Republic of Croatia, which guarantees for the liabilities of the Bank. It is headquartered in Zagreb, Trg hrvatskih velikana 3. Its area of competence comprises the responsibility for achieving and maintaining price stability. The Croatian National Bank is an independent organisation, and reports to the Croatian Parliament. The Governor of the Croatian National Bank represents the Croatian National Bank.

The tasks performed by the Croatian National Bank as provided by the Constitution and law include the following:

- Determining and implementing monetary and foreign currency policy;
- Maintaining and managing international reserves of the Republic of Croatia;
- Issuing banknotes and coins;
- Issuing and withdrawing banking licenses, and supervising the operations of banks;
- Maintaining bank accounts and performing payment transactions on those accounts, issuing loans to other banks and receiving deposit funds from other banks;
- Regulating, improving and supervising payment system;
- Performing other tasks on behalf of the Republic of Croatia as defined by law;
- Promulgating regulations from its area of competence; and
- Performing other tasks specified by law.

### 1.2 Accounting standards

These financial statements are prepared in accordance with the Act on the Croatian National Bank and accounting standards accepted and published by the Croatian Financial Reporting Standards Board. These standards comprise of International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS) and implementation guidance as published by the International Accounting Standards Board (IASB) until 31 March 2004. International Financial Reporting Standards and changes of existing IFRS/IAS approved by the International Accounting Standards Board after the stated date have not been published in the Republic of Croatia and therefore are not applied by the Croatian National Bank.

The financial statements have been prepared under the accruals principle and historical cost basis, except for certain financial instruments and properties that were carried at revalued amounts.

The financial statements are presented in thousands of Croatian kunas.

The preparation of financial reports in accordance with generally accepted accounting standards requires the use of estimates and judgments that influence the amounts of assets and liabilities at the reporting date and the amounts of income and expenditures for the reporting period. Although the estimates are based on the management's best estimate of current events and operations, they may differ from the actual results.

## Note 2 – Summary of Significant Accounting Policies

### 2.1 Interest income and expense

Interest income and expense are recognised in the income statement on an accrual basis.

Interest income includes interest earned on coupons for fixed-yield financial instruments, as well as accrued discount on purchased securities.

## 2.2 Fee and commission income and expense

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

Fee and commission expense is included in the income statement when the services are received.

## 2.3 Dividend income

Dividend income on equity investments is recognised in the income statement when the right to receive dividends is established.

## 2.4 Foreign exchange gains and losses

Transactions in foreign currencies are translated into HRK at the rate of exchange ruling at the date of the transaction. All monetary assets and liabilities denominated in a foreign currency are retranslated at the balance sheet date at the rate effective on that date. Gains and losses on translation are included in the income statement for the period in which they occur. They are translated at the midpoint exchange rate of the Croatian National Bank, except for the Special Drawing Rights (XDRs), which are translated to Croatian kunas at the exchange rate provided by the International Monetary Fund.

Foreign exchange gains and losses arising from fluctuations in exchange rates are recorded in the income statement as unrealised gains or losses in the period when they occur. Foreign exchange gains and losses arising from equity instruments available-for-sale are recognised directly in equity. Gains and losses arising from trading in foreign currencies are included in realised income or expenditure in the period in which they occur.

The exchange rates of major foreign currencies at 31 December 2007 were as follows:

1 USD = 4.985456 HRK (2006: 5.578401 HRK)  
 1 EUR = 7.325131 HRK (2006: 7.345081 HRK)  
 1 XDR = 7.878267 HRK (2006: 8.415317 HRK).

## 2.5 Provision charge and release

Provisions based on value adjustments for identified losses are recognised in the income statement at the end of the related reporting period. If the debt is settled, provisions are decreased and shown as income of the reporting period in which they were settled. There are no provisions for financial assets measured at fair value.

Provisions are also recognised as a potential obligation. The Croatian National Bank recognises a provision when it has a present legal or derivative obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the obligation. No provision is recognised unless all of these conditions are met.

## 2.6 Financial instruments

### 2.6.1 Classification

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

#### a) Financial assets at fair value through profit or loss

This category comprises marketable debt securities in which the Croatian National Bank invests international reserve funds for the purpose of earning interest income or changes in the fair value of the underlying instrument.

b) Loans and receivables

This category comprises loans approved by the Croatian National Bank without the intention of short-term profit taking.

c) Financial assets available-for-sale

This category comprises the Croatian National Bank's investments in equity securities.

### 2.6.2 Recognition and derecognition

The Croatian National Bank recognises and derecognises financial assets on a settlement date basis. Any gains and losses arising from changes in the fair value of financial assets are recognised as of the last day of the reporting period.

The Croatian National Bank derecognises financial assets (in total or partially) when its rights for financial instrument cash receipts expire or when it loses control over the contractual rights over the financial instrument. This occurs when the Croatian National Bank transfers all risks and ownership benefits to a different subject or when this right is realised, is abandoned by the Croatian National Bank or when it expires. The Croatian National Bank derecognises a financial liability only when this financial liability ceases to exist by being settled, cancelled or expired.

### 2.6.3 Measurement

Financial instruments are measured initially at fair value plus, in the case of a financial asset or financial liability not measured at fair value through profit and loss, transaction costs.

Subsequent to initial recognition, financial assets held for trading are measured at fair value, which corresponds to the quoted market price in an active financial market.

Gains and losses from changes in the fair value of financial assets held for trading are recognised in the income statement.

Financial instruments with no quoted market price and with fixed maturities are stated at amortised cost, by applying the effective interest rate method.

Those financial instruments that do not have a fixed maturity and no prices quoted in an active market, and whose fair value cannot be reliably measured, are measured at cost, less any impairment loss.

## 2.7 Impairment of financial assets

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, the asset's recoverable amount is estimated, and an impairment loss is recognised.

## 2.8 Repurchase and reverse repurchase agreements

The Croatian National Bank enters into securities purchase/sale agreements where it contracts to resell/repurchase the same instrument on a specific future date at a fixed price. Securities purchased under reverse repurchase agreements are not recognised in the balance sheet. Outflows arising from these agreements are recognised as due from banks or other financial institutions, and are collateralised by appropriate securities pledged under the repurchase agreement. Securities sold under repurchase agreements are not removed from the balance sheet but are reported in accordance with the accounting policy for such financial assets. Inflows from sales of securities are recognised as due to banks or other financial institutions. The difference between sale and repurchase price is treated as interest income or expense and accrued over the period of transaction.

## 2.9 Deposits with other banks

Deposits with domestic and foreign banks are amounts on non-transactional accounts and are recognised at nominal value.

## 2.10 CNB bills

CNB bills include bills in Croatian kunas and are recognised at nominal value.

## 2.11 Balances with the International Monetary Fund

Balances with the International Monetary Fund ("IMF") are denominated in Special Drawing Rights (XDR).

## 2.12 Gold and other precious metals

Gold and other precious metals are held at the market value. Gains and losses arising from a change in the fair value are recognised in the income statement in the period when they occur.

## 2.13 Cash in circulation

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

## 2.14 Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents are defined as cash and current accounts with foreign banks, and balances with the International Monetary Fund.

## 2.15 Taxation

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

## 2.16 Tangible and intangible assets

Tangible and intangible assets are stated in the balance sheet at cost, except for buildings carried at revalued amounts, less accumulated depreciation. Depreciation is provided under the straight-line method.

Gains on revaluation are included as a separate component of equity. Losses on revaluation are recorded against revaluation reserves to the extent of previously recognised gains. Losses in excess of previously recorded gains are recognised as an impairment charge in the income statement of the reporting period.

The following annual rates are used:

in %

	2007	2006
Business buildings	2.5	2.5
Apartments	5.0	5.0
Garages	2.5	2.5
Air-conditioning system	20.0	20.0
Fire alarm system	20.0	20.0
Mobile phones	50.0	50.0
Fixed telephony	25.0	25.0

	2007	2006
Office equipment	25.0	25.0
Restaurant equipment	25.0	25.0
Machinery and other equipment	20.0	20.0
Furniture	20.0	20.0
Safes	10.0	10.0
Motor vehicles	25.0	25.0
Servers and other hardware	25.0	25.0
Software and PC	33.33	33.33
Intangible assets	25.0	25.0
Security system and video surveillance equipment	25.0	25.0

## 2.17 Appropriations

The surplus of income over expenditures is transferred in accordance with Article 53 of the Act on the Croatian National Bank.

## Note 3 – Interest and Similar Income

in thousand HRK

	2007	2006
Deposits	1,755,621	1,155,804
Trading securities	606,726	506,789
International Monetary Fund	70	46
Loans to domestic banks	141,894	49,338
Other	5,821	277
	<b>2,510,132</b>	<b>1,712,254</b>

## Note 4 – Interest and Similar Expense

in thousand HRK

	2007	2006
Kuna reserve requirements	161,386	138,650
Foreign currency reserve requirements	179,857	125,484
Compulsory CNB bills in kuna	2,016	–
International Monetary Fund	–	1,309
Repurchase arrangements	269,557	137,053
Other	1,950	2,478
	<b>614,766</b>	<b>404,974</b>

## Note 5 – Net Result from Financial Operations and Precious Metal Revaluation

in thousand HRK

	2007	2006
Net result from sale and changes in fair value of trading securities	756,132	214,819
Precious metals revaluation	249	623
	<b>756,381</b>	<b>215,442</b>

## Note 6 – Net Foreign Exchange Differences

Since the international reserves of the Republic of Croatia account for over 90% of the balance sheet of the Croatian National Bank, any changes in foreign exchange rates imminently affect both the balance sheet and the income statement.

The movements in net losses on remeasurement of the balance sheet items according to the fluctuations in foreign exchange rates over the past five years are presented below:

Year	Net loss
2003	609,737
2004	379,155
2005	400,824
2006	992,543
2007	1,116,607

## Note 7 – Other Income

in thousand HRK

	2007	2006
Gains on sales of numismatics	2,549	1,197
Other income	4,125	8,186
	<b>6,674</b>	<b>9,383</b>

## Note 8 – Operating Expenses

in thousand HRK

	2007	2006
Staff costs (Note 8.1)	155,799	136,556
Materials, services and administrative expenses	92,962	84,455
Costs of production of banknotes and coins in Croatian kunas	42,877	39,211
Depreciation and amortisation	27,676	24,431
	<b>319,314</b>	<b>284,653</b>

Operating expenses include staff costs in the amount of HRK 155,799 thousand (2006: HRK 136,556 thousand), out of which HRK 4,689 thousand relates to the Croatian National Bank management (2006: HRK 4,323 thousand). Compensation to the members of the Croatian National Bank Council are HRK 3,054 thousand (2006: HRK 2,999 thousand), out of which HRK 1,303 thousand (2006: HRK 1,249 thousand) relates to the Croatian National Bank management.

### Note 8.1 – Staff Costs

in thousand HRK

	2007	2006
Net salaries	64,847	59,171
Contributions from and on salaries	39,034	34,820
Taxes and local taxes	20,066	16,761
Other staff costs	31,852	25,804
	<b>155,799</b>	<b>136,556</b>

The average number of employees during the year was 593 (2006: 579).

## Note 9 – Increase/Decrease in Provisions

in thousand HRK

	2007	2006
<b>a) Loans</b>		
Amounts collected	–	(9,342)
<b>b) Accrued interest and receivables</b>		
New value adjustment	6,005	–
Amounts collected	(11,425)	–
<b>c) Provisions for risks and charges</b>		
New provisions made	12,332	7,736
Provisions released	(6,487)	(5,295)
	<b>425</b>	<b>(6,901)</b>

## Note 10 – Cash and Current Accounts with Other Banks

in thousand HRK

	31/12/2007	31/12/2006
Cash on hand	4,372	4,481
Current accounts with foreign banks	3,840	3,772
	<b>8,212</b>	<b>8,253</b>

## Note 11 – Deposits with Other Banks

in thousand HRK

	31/12/2007	31/12/2006
Deposits with foreign central banks	298,629	334,146
Deposits with foreign commercial banks	32,817,899	32,840,697
Deposits with domestic commercial banks	14,312	14,045
	<b>33,130,840</b>	<b>33,188,888</b>

## Note 12 – Trading Securities

in thousand HRK

	31/12/2007	31/12/2006
Securities denominated in EUR	28,605,007	24,908,613
Securities denominated in USD	6,354,330	5,922,617
	<b>34,959,337</b>	<b>30,831,230</b>

The nominal value of the securities amounted to HRK 34,629,932 thousand as at 31 December 2007 (2006: HRK 30,648,361 thousand).

## Note 13 – Loans

### a) By type of loan

in thousand HRK

	31/12/2007	31/12/2006
Loans to domestic banks		
– Repo loans	2,814,500	3,897,000
– Lombard loans	1,349,100	–
– Intervention loans	63,228	63,228
Other loans	800	809
<b>Gross loans</b>	<b>4,227,628</b>	<b>3,961,037</b>
Less: provisions for loan impairment	(63,909)	(63,909)
	<b>4,163,719</b>	<b>3,897,128</b>

As collateral for loans given, amounting to HRK 4,163,600 thousand (2006: HRK 3,897,000 thousand), the Croatian National Bank has received securities issued by the Republic of Croatia in the amount of HRK 4,435,717 thousand (2006: HRK 4,086,963 thousand).

### b) Movements in provisions for loan impairment

in thousand HRK

	31/12/2007	31/12/2006
Balance at 1 January	63,909	73,251
Amounts collected	–	(9,342)
<b>Balance at 31 December</b>	<b>63,909</b>	<b>63,909</b>

## Note 14 – Balances with the International Monetary Fund

in thousand HRK

	31/12/2007	31/12/2006
Membership quota	2,873,129	3,063,973
Special Drawing Rights (XDR) and deposits	5,576	5,299
	<b>2,878,705</b>	<b>3,069,272</b>

## Note 15 – Equity Investments

in thousand HRK

	31/12/2007	31/12/2006
Membership in other international institutions	39,235	41,904
Investments in domestic trade companies	16,137	13,722
	<b>55,372</b>	<b>55,626</b>

The membership in other international institutions relates to the shares of the Bank for International Settlements, Basle, and the shares of SWIFT (Society for Worldwide Interbank Financial Telecommunication). Investments in domestic trade companies represent the share of the Croatian National Bank in the equity capital of the Croatian Monetary Institute.

## Note 16 – Accrued Interest and Other Assets

in thousand HRK

	31/12/2007	31/12/2006
Accrued interest	106,782	96,702
Prepaid expenses	94,857	73,045
Numismatics	9,005	9,765
Gold and other precious metals	3,627	3,367
Other assets	80,060	79,117
	<b>294,331</b>	<b>261,996</b>
Impairment allowance	(66,754)	(77,888)
	<b>227,577</b>	<b>184,108</b>

in thousand HRK

	31/12/2007	31/12/2006
<b>Movements in provisions for interest</b>		
Balance at 1 January	(77,888)	(77,888)
New value adjustment	(6,005)	–
Amounts collected	11,426	–
Write-offs	5,713	–
<b>Balance at 31 December</b>	<b>(66,754)</b>	<b>(77,888)</b>

The major portion of prepaid expenses in the amount of HRK 91,704 thousand (2006: HRK 70,069 thousand) relates to the prepaid costs of printing banknotes and minting coins.

## Note 17 – Tangible and Intangible Assets

in thousand HRK

	Land and buildings	Computers	Furniture and equipment	Motor vehicles	Other assets	Investments in course of construction	Software and licenses	Total
<b>Balance at 31 December 2005</b>								
Cost or revaluation	306,138	65,683	34,703	6,999	3,350	52,024	14,450	483,347
Accumulated depreciation	(30,065)	(44,136)	(23,533)	(5,421)	–	–	(6,334)	(109,489)
<b>Net book value</b>	<b>276,073</b>	<b>21,547</b>	<b>11,170</b>	<b>1,578</b>	<b>3,350</b>	<b>52,024</b>	<b>8,116</b>	<b>373,858</b>
<b>Year ended 31 December 2006</b>								
Opening net book amount	276,073	21,547	11,170	1,578	3,350	52,024	8,116	373,858
Additions	–	–	–	–	145	46,851	–	46,996

	Land and buildings	Computers	Furniture and equipment	Motor vehicles	Other assets	Investments in course of construction	Software and licenses	Total
Assets brought into use	2,292	3,425	6,518	353	–	(15,297)	2,709	–
Revaluation	–	–	–	–	–	–	–	–
Net write-offs	–	(32)	(50)	–	–	42	–	(40)
Charge for the year	(5,978)	(9,988)	(3,909)	(697)	–	–	(3,859)	(24,431)
<b>Closing net book amount</b>	<b>272,388</b>	<b>14,952</b>	<b>13,729</b>	<b>1,234</b>	<b>3,495</b>	<b>83,621</b>	<b>6,966</b>	<b>396,385</b>
<b>Balance at 31 December 2006</b>								
Cost or revaluation	308,430	65,665	39,892	7,088	3,495	83,621	17,159	525,350
Accumulated depreciation	(36,042)	(50,713)	(26,163)	(5,854)	–	–	(10,193)	(128,965)
<b>Net book value</b>	<b>272,388</b>	<b>14,952</b>	<b>13,729</b>	<b>1,234</b>	<b>3,495</b>	<b>83,621</b>	<b>6,966</b>	<b>396,385</b>

in thousand HRK

	Land and buildings	Computers	Furniture and equipment	Motor vehicles	Other assets	Investments in course of construction	Software and licenses	Total
<b>Balance at 31 December 2006</b>								
Cost or revaluation	308,430	65,665	39,892	7,088	3,495	83,621	17,159	525,350
Accumulated depreciation	(36,042)	(50,713)	(26,163)	(5,854)	–	–	(10,193)	(128,965)
<b>Net book value</b>	<b>272,388</b>	<b>14,952</b>	<b>13,729</b>	<b>1,234</b>	<b>3,495</b>	<b>83,621</b>	<b>6,966</b>	<b>396,385</b>
<b>Year ended 31 December 2007</b>								
Opening net book amount	272,388	14,952	13,729	1,234	3,495	83,621	6,966	396,385
Additions	–	–	–	–	162	54,051	–	54,213
Assets brought into use	234	9,834	4,292	4,827	94	(27,281)	8,000	–
Revaluation	134,620	–	–	–	–	–	–	134,620
Net write-offs	–	(9)	(7)	–	–	–	–	(16)
Charge for the year	(6,277)	(10,481)	(4,388)	(1,738)	–	–	(4,792)	(27,676)
<b>Closing net book amount</b>	<b>400,965</b>	<b>14,296</b>	<b>13,626</b>	<b>4,323</b>	<b>3,751</b>	<b>110,391</b>	<b>10,174</b>	<b>557,526</b>
<b>Balance at 31 December 2007</b>								
Cost or revaluation	403,921	73,992	43,717	9,798	3,751	110,391	25,160	670,730
Accumulated depreciation	(2,956)	(59,696)	(30,091)	(5,475)	–	–	(14,985)	(113,204)
<b>Net book value</b>	<b>400,965</b>	<b>14,296</b>	<b>13,626</b>	<b>4,323</b>	<b>3,751</b>	<b>110,391</b>	<b>10,174</b>	<b>557,526</b>

Assets (land and buildings) were last revalued by independent experts in 2007. Fair values were determined based on market values. If land and buildings were carried at cost less depreciation, their net book value as at 31 December 2007 would be HRK 29,862 thousand. The tangible fixed assets of the Bank are neither subject to a mortgage nor to a fiduciary relationship.

## Note 18 – Due to Banks and Other Financial Institutions

in thousand HRK

	31/12/2007	31/12/2006
Kuna reserve requirements	22,275,561	20,478,212
Foreign currency reserve requirements	14,249,760	16,570,612
Other deposits of domestic banks	8,352,233	8,552,488
Foreign banks and other financial institutions	17,210	18,890
Court-mandated deposits	2,898	3,665
Compulsory CNB bills in kuna	1,991,118	–
	<b>46,888,780</b>	<b>45,623,867</b>

## Note 19 – Due to the State and State Institutions

in thousand HRK

	31/12/2007	31/12/2006
Domestic currency account balances	143,151	220,882
Foreign currency account balances	73,317	13,475
	<b>216,468</b>	<b>234,357</b>

## Note 20 – Due to the International Monetary Fund

in thousand HRK

	31/12/2007	31/12/2006
Bills of exchange denominated in HRK	2,864,694	3,054,978
Other IMF's accounts	7,200	7,678
	<b>2,871,894</b>	<b>3,062,656</b>

The bills of exchange denominated in the Croatian kuna relate to the membership of the Republic of Croatia in the International Monetary Fund.

## Note 21 – Accrued Interest and Other Liabilities

in thousand HRK

	31/12/2007	31/12/2006
Accrued interest	24,044	19,157
Due to employees	5,924	5,305
Taxes and contributions	5,668	4,775
Due to the Ministry of Finance	490,160	110,573
Amounts due to suppliers	20,320	9,990
Other liabilities	78,172	67,666
	<b>624,288</b>	<b>217,466</b>

Other liabilities include long-term provisions for risks and charges, out of which HRK 18,310 thousand (2006: HRK 15,310 thousand) are in respect of legal actions and HRK 16,180 thousand (2006: HRK 13,334 thousand) in respect of provisions for employee benefits.

## Note 22 – Equity

The equity funds of the Croatian National Bank consist of the initial capital and reserves. The initial capital in the amount of HRK 2,500,000 thousand is held by the Republic of Croatia. The capital is non-transferable and cannot be encumbered by any guarantees.

Reserves comprise general and specific reserves. General reserves are formed for the purpose of covering general risks of operations of the Croatian National Bank, their size is not limited, and they are formed in accordance with the Act on the Croatian National Bank. Specific reserves are formed for the purpose of covering identified losses in accordance with decisions of the Council of the Croatian National Bank.

The increase in the general reserves of the Croatian National Bank in 2007 resulted from the transfer of operating surplus in the amount of HRK 747,935 thousand.

## Note 23 – Contingencies and Commitments and Treasury Inventory System

**Legal actions:** As at 31 December 2007, there were several legal actions outstanding against the Bank. In the opinion of the management and internal legal advisors of the Croatian National Bank, there is a possibility that the Bank will lose certain cases, and, consequently, provisions for potential losses on such cases were made by the Bank in the amount of HRK 18,310 thousand (see Note 21).

**Capital commitments:** As at 31 December 2007, the Croatian National Bank had capital commitments in the amount of HRK 33,414 thousand (2006: HRK 39,318 thousand).

## Treasury inventory system:

in thousand HRK

	31/12/2007	31/12/2006
Non-issued banknotes and coins	84,762,350	85,105,450
Stamp duties and bills of exchange	244,349	244,310
	<b>85,006,699</b>	<b>85,349,760</b>

## Note 24 – Cash

in thousand HRK

	31/12/2007	31/12/2006
Cash on hand	4,372	4,481
Current account balances with foreign banks	3,840	3,772
Special Drawing Rights (XDR) and deposits with the IMF	5,576	5,299
	<b>13,788</b>	<b>13,552</b>

## Note 25 – Appropriations

in thousand HRK

	31/12/2007	31/12/2006
Operating surplus	1,232,643	270,184
Transfer of surplus to general reserves	(747,935)	(165,413)
Transfer of surplus to the State Budget	(484,708)	(104,771)
	–	–

## Note 26 – Risk Management

The Bank maintains active trading positions in financial instruments that are appropriate for central banks. The Bank pays special attention to the monitoring of credit, foreign exchange and interest rate risks, as well as other types of risks. The Bank's investment gain corresponds to assumed risks and reflects its basic investment principles – safety and liquidity.

## Note 27 – Credit Risk

The Bank is subject to credit risk that may arise as a result of counterparties' default on their obligations to the Bank. Therefore, the Bank monitors the credit ratings of governments and financial institutions with which it places its international reserve funds on an ongoing basis.

The Croatian National Bank only deals with counterparties of the highest credit standing, by setting limits for placements with individual countries and financial institutions.

## Geographical concentration of assets and liabilities:

in thousand HRK

	Total assets	Total liabilities
<b>Balance at 31 December 2007</b>		
Croatia	4,895,365	67,042,725
OECD countries	65,107,550	52
USA	5,978,000	2,871,894
Other countries	373	–
	<b>75,981,288</b>	<b>69,914,671</b>

in thousand HRK

	Total assets	Total liabilities
<b>Balance at 31 December 2006</b>		
Croatia	4,441,191	63,380,723
OECD countries	60,940,124	2,238
USA	6,249,178	3,062,656
Other countries	397	–
	<b>71,630,890</b>	<b>66,445,617</b>

## Note 28 – Foreign Exchange Risk

The majority of the Bank's assets is held in foreign currencies (international reserves). Therefore, the Bank has a large exposure to foreign exchange risk. As a result, there are high fluctuations in the income statement, primarily because of the effects of exchange differences on the financial result of the Bank for the year.

The analysis of significant items of assets and liabilities by currency is provided below:

in thousand HRK

	EUR	USD	XDR	Other foreign currencies	HRK	Total
<b>Balance at 31 December 2007</b>						
<b>Assets</b>						
Cash and current accounts with other banks	3,484	1,718	–	2,958	52	8,212
Deposits with other banks	29,506,939	3,575,584	–	34,005	14,312	33,130,840
Trading securities	28,605,007	6,354,330	–	–	–	34,959,337
Loans	–	–	–	–	4,163,719	4,163,719
Balances with the IMF	–	–	2,878,705	–	–	2,878,705
Equity investments	77	–	39,158	–	16,137	55,372
Accrued interest and other assets	77,285	10,606	9	5	139,672	227,577
Tangible and intangible assets	–	–	–	–	557,526	557,526
<b>Total assets</b>	<b>58,192,792</b>	<b>9,942,238</b>	<b>2,917,872</b>	<b>36,968</b>	<b>4,891,418</b>	<b>75,981,288</b>
<b>Liabilities</b>						
Banknotes and coins in circulation	–	–	–	–	19,313,241	19,313,241
Due to banks and other financial institutions	14,184,516	65,245	–	–	32,639,019	46,888,780
Due to the State and State institutions	37,155	573	–	35,588	143,152	216,468
Due to the IMF	–	–	2,871,894	–	–	2,871,894
Accrued interest and other liabilities	7,752	64	–	–	616,472	624,288
<b>Total liabilities</b>	<b>14,229,423</b>	<b>65,882</b>	<b>2,871,894</b>	<b>35,588</b>	<b>52,711,884</b>	<b>69,914,671</b>
<b>Net balance sheet position</b>	<b>43,963,369</b>	<b>9,876,356</b>	<b>45,978</b>	<b>1,380</b>	<b>(47,820,466)</b>	<b>6,066,617</b>
<b>Balance at 31 December 2006</b>						
Total assets	54,780,608	9,299,255	3,111,105	2,793	4,437,129	71,630,890
Total liabilities	16,451,199	133,174	3,062,656	1,952	46,796,636	66,445,617
Net balance sheet position	38,329,409	9,166,081	48,448	841	(42,359,506)	5,185,273

## Note 29 – Interest Rate Risk

The Croatian National Bank has an exposure to market interest rates on its financial position and cash flows. As a result of the application of clearly set guidelines, the Bank's exposure to interest rate risk is low and in compliance with its basic principles of international reserves investment – safety and liquidity.

in thousand HRK

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Non-interest bearing	Total
<b>Balance at 31 December 2007</b>						
<b>Assets</b>						
Cash and current accounts with other banks	–	–	–	–	8,212	8,212
Deposits with other banks	26,240,588	6,875,940	–	–	14,312	33,130,840
Trading securities	34,959,337	–	–	–	–	34,959,337
Loans	4,163,719	–	–	–	–	4,163,719
Balances with the IMF	1,486	–	–	–	2,877,219	2,878,705
Equity investments	–	–	–	–	55,372	55,372
Accrued interest and other assets	–	–	–	–	227,577	227,577
Tangible and intangible assets	–	–	–	–	557,526	557,526
<b>Total assets</b>	<b>65,365,130</b>	<b>6,875,940</b>	<b>–</b>	<b>–</b>	<b>3,740,218</b>	<b>75,981,288</b>
<b>Liabilities</b>						
Banknotes and coins in circulation	–	–	–	–	19,313,241	19,313,241
Due to banks and other financial institutions	37,282,101	–	1,991,118	–	7,615,561	46,888,780
Due to the State and State institutions	13,206	–	–	–	203,262	216,468
Due to the IMF	–	–	–	–	2,871,894	2,871,894
Accrued interest and other liabilities	–	–	–	–	624,288	624,288
<b>Total liabilities</b>	<b>37,295,307</b>	<b>–</b>	<b>1,991,118</b>	<b>–</b>	<b>30,628,246</b>	<b>69,914,671</b>
<b>Net balance sheet position</b>	<b>28,069,823</b>	<b>6,875,940</b>	<b>(1,991,118)</b>	<b>–</b>	<b>(26,888,028)</b>	<b>6,066,617</b>
<b>Balance at 31 December 2006</b>						
Total assets	62,214,572	5,689,559	–	–	3,726,759	71,630,890
Total liabilities	37,073,429	–	–	–	29,372,188	66,445,617
Net balance sheet position	25,141,143	5,689,559	–	–	(25,645,429)	5,185,273

The table below summarises the average effective interest rate by major currencies for monetary financial instruments at 31 December 2007:

in %

Balance at 31 December 2007	EUR	USD	XDR	HRK
<b>Assets</b>				
Current accounts with other banks	3.00	1.49	–	–
Special Drawing Rights (XDR)	–	–	3.50	–
Deposits with other banks	4.15	4.56	–	–
Trading securities	3.98	3.24	–	–
Loans	–	–	–	7.5
<b>Liabilities</b>				
Due to domestic banks	2.00	2.13	–	0.75
Due to the IMF	–	–	–	–
Due to foreign banks	–	–	–	–

in %

Balance at 31 December 2006	EUR	USD	XDR	HRK
<b>Assets</b>				
Current accounts with other banks	–	–	–	–
Special Drawing Rights (XDR)	–	–	4.07	–
Deposits with other banks	3.55	5.22	–	–
Trading securities	3.82	4.96	–	–
Loans	–	–	–	3.50
<b>Liabilities</b>				
Due to domestic banks	1.75	2.63	–	0.75
Due to the IMF	–	–	–	–
Due to foreign banks	–	–	–	–

### Note 30 – Liquidity Risk

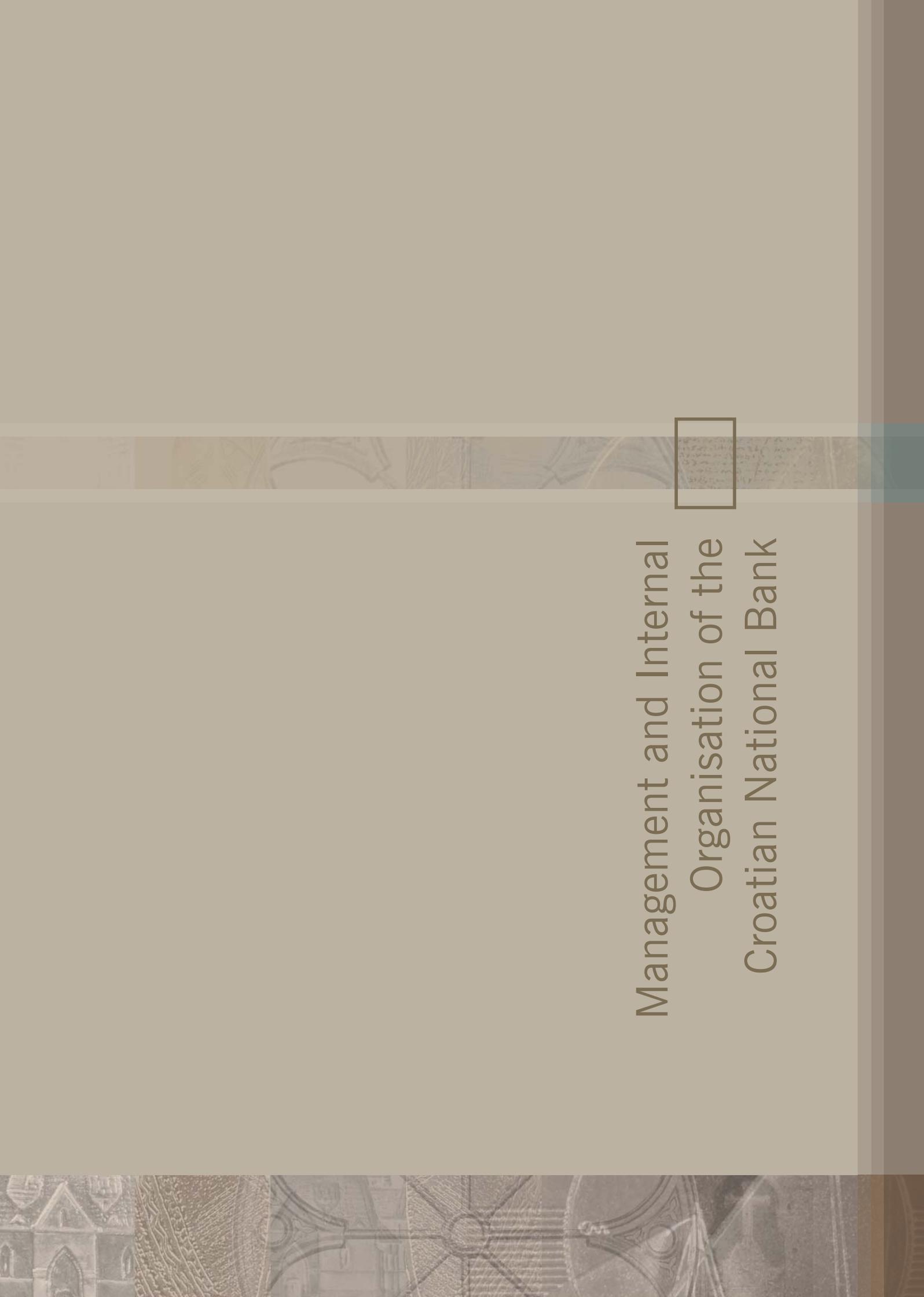
Liquidity risk arises in the general funding of the liabilities due or of other activities of the Croatian National Bank. Therefore, the Croatian National Bank has to ensure sufficient funds available on a daily basis to meet all of its liabilities and contractual commitments.

The following table provides an analysis of the financial assets and liabilities of the Croatian National Bank into relevant maturity groupings based on the remaining period to repayment.

in thousand HRK

Balance at 31 December 2007	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Non-interest bearing	Total
<b>Assets</b>						
Cash and current accounts with other banks	8,212	–	–	–	–	8,212
Deposits with other banks	26,240,588	6,875,940	–	–	14,312	33,130,840
Trading securities	34,959,337	–	–	–	–	34,959,337
Loans	4,163,600	–	–	–	119	4,163,719
Balances with the IMF	1,486	–	–	–	2,877,219	2,878,705
Equity investments	–	–	–	–	55,372	55,372
Accrued interest and other assets	58,647	51,253	12,159	101,328	4,190	227,577
Tangible and intangible assets	–	4,191	–	–	553,335	557,526
<b>Total assets</b>	<b>65,431,870</b>	<b>6,931,384</b>	<b>12,159</b>	<b>101,328</b>	<b>3,504,547</b>	<b>75,981,288</b>
<b>Liabilities</b>						
Banknotes and coins in circulation	–	–	–	–	19,313,241	19,313,241
Due to banks and other financial institutions	46,871,570	–	–	–	17,210	46,888,780
Due to the State and State institutions	216,468	–	–	–	–	216,468
Due to the IMF	–	–	–	–	2,871,894	2,871,894
Accrued interest and other liabilities	55,957	493,141	34,490	38,126	2,574	624,288
<b>Total liabilities</b>	<b>47,143,995</b>	<b>493,141</b>	<b>34,490</b>	<b>38,126</b>	<b>22,204,919</b>	<b>69,914,671</b>
<b>Net liquidity gap</b>	<b>18,287,875</b>	<b>6,438,243</b>	<b>(22,331)</b>	<b>63,202</b>	<b>(18,700,372)</b>	<b>6,066,617</b>
<b>Balance at 31 December 2006</b>						
Total assets	62,291,333	5,713,284	8,138	70,068	3,548,067	71,630,890
Total liabilities	45,879,456	110,573	28,645	38,126	20,388,817	66,445,617
Net liquidity gap	16,411,877	5,602,711	(20,507)	31,942	(16,840,750)	5,185,273



The background features a collage of architectural and historical elements. On the left, there are Gothic-style buildings with pointed arches. In the center and right, there are intricate patterns and details from a banknote, including a large, ornate architectural structure. The overall color palette is muted, with shades of beige, brown, and grey.

# Management and Internal Organisation of the Croatian National Bank





## Members of the Council and Management of the Croatian National Bank

### Members of the Council of the Croatian National Bank

Chairman of the Council

ŽELJKO ROHATINSKI

BORIS COTA

DAVOR HOLJEVAC

VLADO LEKO

BRANIMIR LOKIN

ŽELJKO LOVRINČEVIĆ

RELJA MARTIĆ

ADOLF MATEJKA

SILVIJE ORSAG

TOMISLAV PRESEČAN

JURE ŠIMOVIĆ

SANDRA ŠVALJEK

MLADEN VEDRIŠ

BORIS VUJČIĆ

### Management of the Croatian National Bank

ŽELJKO ROHATINSKI, Governor

BORIS VUJČIĆ, Deputy Governor

DAVOR HOLJEVAC, Vicegovernor

RELJA MARTIĆ, Vicegovernor

ADOLF MATEJKA, Vicegovernor

TOMISLAV PRESEČAN, Vicegovernor

### Executive Directors

Research and Statistics Area – LJUBINKO JANKOV

Central Banking Operations Area – IRENA KOVAČEC

Foreign Exchange Operations Area –

Prudential Regulation and Bank Supervision Area – ŽELJKO JAKUŠ

Planing, Analysis and Accounting Area – DIANA JAKELIĆ

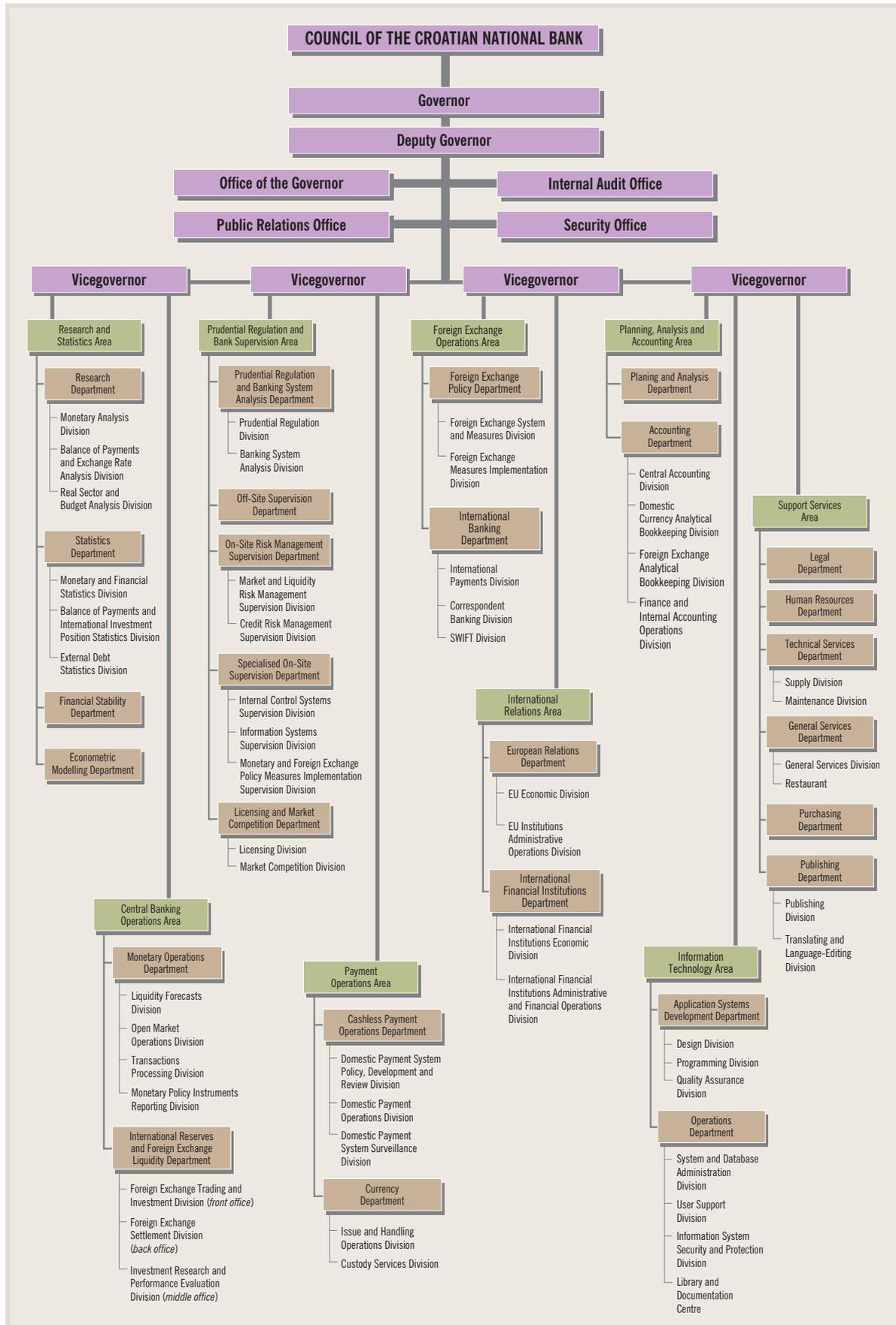
Payment Operations Area – NEVEN BARBAROŠA

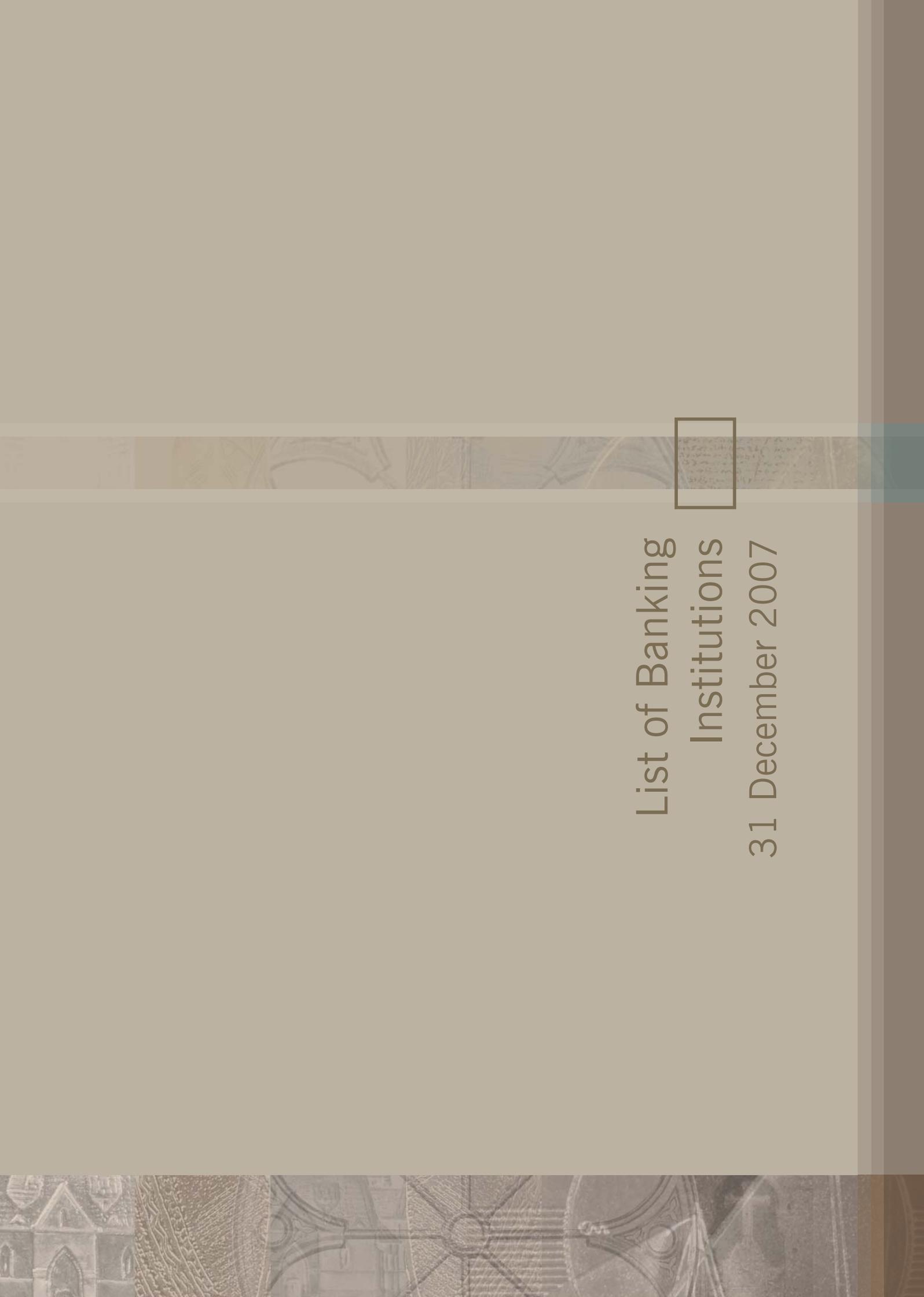
Information Technology Area – MARIO ŽGELA

Support Services Area – BORIS NINIĆ

International Relations Area – MICHAEL FAULEND

# Internal Organisation of the Croatian National Bank





List of Banking  
Institutions

31 December 2007



## Licensed Banks

### **BANCO POPOLARE CROATIA d.d.**

Savska 131  
10000 Zagreb  
Phone: ++ 385 1/6345-666  
Fax: ++ 385 1/6190-615  
SWIFT: BPCRHR22

### **BANKA BROD d.d.**

I. pl. Zajca 21  
35000 Slavonski Brod  
Phone: ++ 385 35/ 445-711  
Fax: ++ 385 35/ 445-755  
SWIFT: BBRDHR22

### **BANKA KOVANICA d.d.**

P. Preradovića 29  
42000 Varaždin  
Phone: ++ 385 42/403-403  
Fax: ++ 385 42/212-148  
SWIFT: SKOVHR22

### **BANKA SPLITSKO-DALMATINSKA d.d.**

114. brigade 9  
21000 Split  
Phone: ++ 385 21/540-280  
Fax: ++ 385 21/540-290  
SWIFT: DALMHR22

### **CENTAR BANKA d.d.**

Amruševa 6  
10000 Zagreb  
Phone: ++ 385 1 /4803-444  
Fax: ++ 385 1/4803-441  
SWIFT: CBZGHR2X

### **CREDO BANKA d.d.**

Zrinsko-Frankopanska 58  
21000 Split  
Phone: ++ 385 21/380-655  
Fax: ++ 385 21/380-682  
SWIFT: CDBSHR22

### **CROATIA BANKA d.d.**

Kvaternikov trg 9  
10000 Zagreb  
Phone: ++ 385 1/2391-111  
Fax: ++ 385 1/2332-470  
SWIFT: CROAHR2X

### **ERSTE & STEIERMÄRKISCHE BANK d.d.**

Jadranski trg 3a  
51000 Rijeka  
Phone: ++ 385 51/208-211  
Fax: ++ 385 51/330-525  
SWIFT: ESBCHR22

### **HRVATSKA POŠTANSKA BANKA d.d.**

Jurišićeva 4  
10000 Zagreb  
Phone: ++ 385 1/4804-539  
Fax: ++ 385 1/4804-528  
SWIFT: HPBZHR2X

### **HYPOTHEK-BANK d.d.**

Slavonska avenija 6  
10000 Zagreb  
Phone: ++ 385 1/6030-063  
Fax: ++ 385 1/6035-100  
SWIFT: HAABHR22

### **IMEX BANKA d.d.**

Tolstojeva 6  
21000 Split  
Phone: ++ 385 21/406-100  
Fax: ++ 385 21/348-453  
SWIFT: IMXXHR22

### **ISTARSKA KREDITNA BANKA UMAG d.d.**

Ernesta Miloša 1  
52470 Umag  
Phone: ++ 385 52/702-300  
Fax: ++ 385 52/702-388  
SWIFT: ISKBHR2X

**JADRANSKA BANKA d.d.**

A. Starčevića 4  
22000 Šibenik  
Phone: ++ 385 22/242-242  
Fax: ++ 385 22/335-881  
SWIFT: JADRHR2X

**KARLOVAČKA BANKA d.d.**

I. G. Kovačića 1  
47000 Karlovac  
Phone: ++ 385 47/614-200  
Fax: ++ 385 47/614-206  
SWIFT: KALCHR2X

**KREDITNA BANKA ZAGREB d.d.**

Ul. grada Vukovara 74  
10000 Zagreb  
Phone: ++ 385 1/6167-300  
Fax: ++ 385 1/6116-466  
SWIFT: KREZHR2X

**KVARNER BANKA d.d.**

Mljekarski trg 3  
51000 Rijeka  
Phone: ++ 385 51/353-555  
Fax: ++ 385 51/353-566  
SWIFT: BFKKHR22

**MEĐIMURSKA BANKA d.d.**

V. Morandinija 37  
40000 Čakovec  
Phone: ++ 385 40/370-500  
Fax: ++ 385 40/370-623  
SWIFT: MBCKHR2X

**NAVA BANKA d.d.**

Tratinska 27  
10000 Zagreb  
Phone: ++ 385 1/3656-777  
Fax: ++ 385 1/3656-700  
SWIFT: NAVBHR22

**OTP BANKA HRVATSKA d.d.**

Domovinskog rata 3  
23000 Zadar  
Phone: ++ 385 23/201-500  
Fax: ++ 385 23/201-859  
SWIFT: OTPVHR2X

**PARTNER BANKA d.d.**

Vončinina 2  
10000 Zagreb  
Phone: ++ 385 1/4602-260  
Fax: ++ 385 1/4602-288  
SWIFT: PAZGHR2X

**PODRAVSKA BANKA d.d.**

Opatička 1a  
48300 Koprivnica  
Phone: ++ 385 48/65-50  
Fax: ++ 385 48/622-542  
SWIFT: PDKCHR2X

**PRIMORSKA BANKA d.d.**

Scarpina 7  
51000 Rijeka  
Phone: ++ 385 51/355-704  
Fax: ++ 385 51/332-762  
SWIFT: SPRMHR22

**PRIVREDNA BANKA ZAGREB d.d.**

F. Račkoga 6  
10000 Zagreb  
Phone: ++ 385 1/4723-344  
Fax: ++ 385 1/4723-131  
SWIFT: PBZGHR2X

**RAIFFEISENBANK AUSTRIA d.d.**

Petrinjska 59  
10000 Zagreb  
Phone: ++ 385 1/4566-466  
Fax: ++ 385 1/4566-481  
SWIFT: RZBHHR2X

**SAMOBORSKA BANKA d.d.**

Trg kralja Tomislava 8  
10430 Samobor  
Phone: ++ 385 1/3362-530  
Fax: ++ 385 1/3361-523  
SWIFT: SMBRHR22

**SLATINSKA BANKA d.d.**

Vladimira Nazora 2  
33520 Slatina  
Phone: ++ 385 33/551-526  
Fax: ++ 385 33/551-138  
SWIFT: SBSLHR2X

**SLAVONSKA BANKA d.d.**

Kapucinska 29  
31000 Osijek  
Phone: ++ 385 31/231-231  
Fax: ++ 385 31/201-039  
SWIFT: SLBOHR2X

**SOCIÉTÉ GÉNÉRALE – SPLITSKA BANKA d.d.**

R. Boškovića 16  
21000 Split  
Phone: ++ 385 21/304-304  
Fax: ++ 385 21/312-586  
SWIFT: SOGEHR22

**ŠTEDBANKA d.d.**

Slavonska avenija 3  
10000 Zagreb  
Phone: ++ 385 1/6306-666  
Fax: ++ 385 1/6187-016  
SWIFT: STEDHR22

**VABA d.d. BANKA VARAŽDIN**

Aleja kralja Zvonimira 1  
42000 Varaždin  
Phone: ++ 385 42/659-400  
Fax: ++ 385 42/659-401  
SWIFT: VBZVHR22

**VENETO BANKA d.d.**

Draškovićeveva 58  
10000 Zagreb  
Phone: ++ 385 1/4802-666  
Fax: ++ 385 1/4802-685  
SWIFT: CCBZHR2X

**ZAGREBAČKA BANKA d.d.**

Paromlinska 2  
10000 Zagreb  
Phone: ++ 385 1/6104-000  
Fax: ++ 385 1/6110-555  
SWIFT: ZABAHR2X

**VOLKSBANK d.d.**

Varšavska 9  
10000 Zagreb  
Phone: ++ 385 1/4801-300  
Fax: ++ 385 1/4801-365  
SWIFT: VBCRHR22

## Representative Offices of Foreign Banks

**BANK FÜR KÄRNTEN UND STEIERMARK AG**, Zagreb

**COMMERZBANK AKTIENGESELLSCHAFT**, Zagreb

**DEUTSCHE BANK AG**, Zagreb

**KOMERCIJALNA BANKA A.D.**, Zagreb

**LHB INTERNATIONALE HANDELSBANK AG**, Zagreb

**UNION DE BANQUES ARABES ET FRANÇAISES–UBAF**, Zagreb

## Licensed Housing Savings Banks

**HPB – STAMBENA ŠTEDIONICA d.d.**

Praška 5  
10000 Zagreb  
Phone: ++ 385 1/4805-008  
Fax: ++ 385 1/4888-164

**PBZ STAMBENA ŠTEDIONICA d.d.**

Radnička cesta 44  
10000 Zagreb  
Phone: ++ 385 1/6363-730  
Fax: ++ 385 1/6363-731

**PRVA STAMBENA ŠTEDIONICA d.d.**

Savska 60  
10000 Zagreb  
Phone: ++ 385 1/6065-111  
Fax: ++ 385 1/6065-120

**RAIFFEISEN STAMBENA****ŠTEDIONICA d.d.**

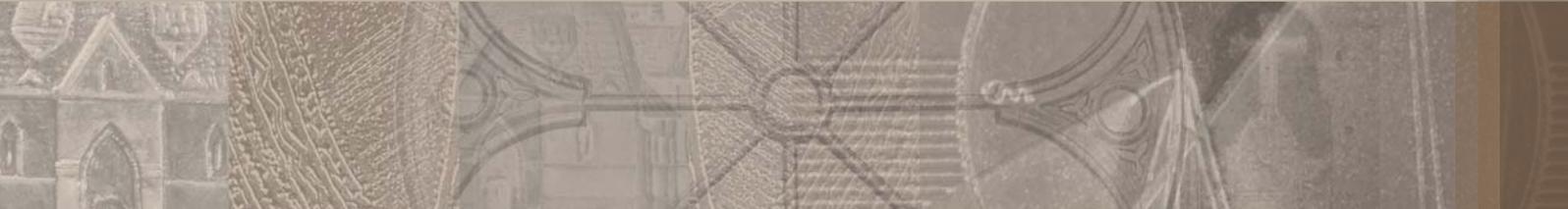
Radnička cesta 47  
10000 Zagreb  
Phone: ++ 385 1/6006-100  
Fax: ++ 385 1/6006-199

**WÜSTENROT STAMBENA****ŠTEDIONICA d.d.**

Heinzlova 33a  
10000 Zagreb  
Phone: ++ 385 1/4803-788  
Fax: ++ 385 1/4803-798



# Statistical Appendix





### Classification and Presentation of Data on Claims and Liabilities

Data on financial institutions' claims and liabilities are classified according to institutional sectors and financial instruments. Institutional sectors are: financial institutions, central government and funds, other domestic sectors and foreign sector.

The financial institutions sector includes the following subsectors: 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 (e.g. insurance companies, pension funds).

The central government and funds consists of two subsectors, the Republic of Croatia and central government funds. Until December 2003, the subsector Republic of Croatia included government authorities, comprising the Croatian Roads, the Croatian Motorways and the State Agency for Deposit Insurance and Bank Rehabilitation, and the subsector central government funds included the Croatian Institute for Health Insurance, the Croatian Pension Insurance Administration, the Croatian Employment Service, the Croatian Privatisation Fund, the Croatian Waters and the Croatian Bank for Reconstruction and Development.

Since January 2004, the Croatian Roads, the Croatian Motorways, and the State Agency for Deposit Insurance and Bank Rehabilitation have been reclassified, from the subsector Republic of Croatia to the subsector 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 subsector other enterprises also comprises banks undergoing bankruptcy proceedings. In some tables other domestic sectors are divided into the following subsectors: 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 currency items are reported in their kuna equivalent at the CNB's midpoint exchange rate at the end of the reporting period.

**Table A1: Monetary and Credit Aggregates**

end of period, million kuna and %

Year	Month	Reserve money	Money M1	Money M1a	Broadest money M4	Net domestic assets	Domestic credit	Monthly rates of growth					
								Reserve money	Money M1	Money M1a	Broadest money M4	Net domestic assets	Domestic credit
1998	December	9,954.2	13,531.4	13,615.2	57,340.3	44,626.8	59,792.0	7.24	6.92	6.59	2.51	3.73	0.25
1999	December <sup>a</sup>	10,310.0	13,858.9	13,965.7	56,659.3	40,003.8	55,875.8	4.53	5.46	5.48	2.28	0.35	-4.58
2000	December	11,717.3	18,030.3	18,256.4	73,061.1	44,043.9	60,883.8	7.32	10.04	9.89	3.66	10.46	2.66
2001	December	17,803.2	23,703.5	23,936.5	106,071.4	57,410.0	74,964.5	8.01	13.00	11.96	11.65	3.40	1.16
2002	December	23,027.9	30,869.8	31,876.7	116,141.8	83,324.4	97,463.7	10.72	6.11	6.79	1.65	7.92	2.15
2003	December	30,586.2	33,888.7	34,630.9	128,893.1	96,121.7	111,661.4	8.90	1.78	1.93	0.14	3.11	0.66
2004	December	33,924.4	34,562.1	35,186.5	139,947.7	108,205.1	127,308.6	8.69	2.86	2.68	0.23	2.15	1.99
2005	December	40,390.8	38,817.1	39,855.4	154,647.0	131,343.2	149,168.3	9.38	4.34	3.87	-0.02	1.84	1.94
2006	December	46,331.2	48,521.0	49,141.7	182,458.6	154,844.1	183,379.5	3.17	4.75	4.07	1.57	3.38	2.99
2007	January	43,729.2	45,965.6	46,605.6	183,027.9	154,799.8	184,322.9	-5.62	-5.27	-5.16	0.31	-0.03	0.51
	February	44,284.7	45,410.8	46,089.0	182,698.5	154,776.8	186,515.0	1.27	-1.21	-1.11	-0.18	-0.01	1.19
	March	45,565.2	46,753.3	47,411.2	185,021.5	155,897.7	191,582.3	2.89	2.96	2.87	1.27	0.72	2.72
	April	45,589.9	47,852.4	48,495.5	187,054.2	156,417.0	194,132.5	0.05	2.35	2.29	1.10	0.33	1.33
	May	46,564.7	48,677.0	49,327.4	189,643.1	159,479.1	196,560.0	2.14	1.72	1.72	1.38	1.96	1.25
	June	48,416.1	51,560.7	52,188.8	194,446.1	162,586.3	199,620.1	3.98	5.92	5.80	2.53	1.95	1.56
	July	48,931.4	54,142.1	54,918.2	201,254.3	163,498.0	199,132.8	1.06	5.01	5.23	3.50	0.56	-0.24
	August	48,791.2	53,735.4	54,528.0	207,386.8	163,275.5	200,401.2	-0.29	-0.75	-0.71	3.05	-0.14	0.64
	September	50,941.0	49,909.0	50,584.4	197,707.5	152,725.9	202,290.3	4.41	-7.12	-7.23	-4.67	-6.46	0.94
	October	48,280.0	53,183.8	53,952.0	204,409.6	158,467.2	204,273.4	-5.22	6.56	6.66	3.39	3.76	0.98
	November	50,055.2	54,237.8	55,022.9	207,629.0	160,693.7	205,380.1	3.68	1.98	1.98	1.57	1.41	0.54
	December	51,923.9	57,878.3	58,663.4	215,822.1	166,375.5	210,828.4	3.73	6.71	6.62	3.95	3.54	2.65

<sup>a</sup> 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 HRK 259.3m and in monetary aggregate M4 amounted to HRK 4,035.8m. Data for June 1999 are comparable with data for July 1999 if Domestic credit is increased by HRK 3,513.5m.

**Table B1: Monetary Survey**

end of period, million kuna

	2006	2007											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
<b>ASSETS</b>													
1. Foreign assets (net)	27,614.5	28,228.1	27,921.7	29,123.8	30,637.2	30,164.1	31,859.8	37,756.3	44,111.3	44,981.5	45,942.5	46,935.3	49,446.5
2. Domestic credit	200,328.9	201,829.7	202,306.8	209,243.1	208,975.9	211,326.8	215,740.2	218,028.5	219,778.8	221,613.8	218,920.7	220,429.4	226,076.1
2.1. Claims on central government and funds (net)	16,949.4	17,506.8	15,791.8	17,660.8	14,843.4	14,766.9	16,120.0	18,895.7	19,377.6	19,323.5	14,647.2	15,049.4	15,247.7
2.2. Claims on other domestic sectors	181,031.9	182,620.3	184,725.1	189,738.0	192,275.2	194,671.9	197,749.9	197,408.8	198,568.8	200,517.6	202,503.7	203,595.2	207,398.7
2.3. Claims on other banking institutions	1,029.5	559.2	659.9	675.0	813.7	493.0	476.8	454.8	570.4	449.8	477.5	561.0	1,640.0
2.4. Claims on non-banking financial institutions	1,318.1	1,143.4	1,130.1	1,169.3	1,043.6	1,395.1	1,393.5	1,269.1	1,262.1	1,322.9	1,292.2	1,223.8	1,789.7
<b>Total (1+2)</b>	<b>227,943.3</b>	<b>230,057.8</b>	<b>230,228.5</b>	<b>238,366.9</b>	<b>239,613.0</b>	<b>241,490.9</b>	<b>247,599.9</b>	<b>255,784.8</b>	<b>263,890.1</b>	<b>266,595.3</b>	<b>264,863.2</b>	<b>267,364.7</b>	<b>275,522.6</b>
<b>LIABILITIES</b>													
1. Money	48,521.0	45,965.6	45,410.8	46,753.3	47,852.4	48,677.0	51,560.7	54,142.1	53,735.4	49,909.0	53,183.8	54,237.8	57,878.3
2. Savings and time deposits	44,836.8	45,964.9	46,568.7	46,765.9	47,247.1	48,559.8	49,832.0	50,364.3	51,297.6	47,519.0	50,330.3	51,873.9	53,644.9
3. Foreign currency deposits	88,256.7	90,133.9	89,601.2	90,699.6	90,932.6	91,192.1	92,041.8	95,950.9	101,717.9	99,688.1	99,793.4	100,904.1	103,090.1
4. Bonds and money market instruments	844.1	963.6	1,117.7	802.7	1,022.1	1,214.3	1,011.6	797.1	635.8	591.3	1,102.2	613.2	1,208.8
5. Restricted and blocked deposits	2,504.5	2,539.3	2,574.3	2,753.5	2,596.0	2,811.0	2,757.9	2,499.2	2,401.0	15,113.4	4,525.0	2,593.3	2,280.9
6. Other items (net)	42,980.2	44,490.6	44,955.7	50,592.0	49,962.9	49,036.7	50,396.0	52,031.3	54,102.3	53,774.5	55,928.5	57,142.4	57,419.6
<b>Total (1+2+3+4+5+6)</b>	<b>227,943.3</b>	<b>230,057.8</b>	<b>230,228.5</b>	<b>238,366.9</b>	<b>239,613.0</b>	<b>241,490.9</b>	<b>247,599.9</b>	<b>255,784.8</b>	<b>263,890.1</b>	<b>266,595.3</b>	<b>264,863.2</b>	<b>267,364.7</b>	<b>275,522.6</b>

**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
1998	December	60	3	26	8	11	10	2	33	4	25	4
1999	December	53	4	23	7	7	10	2	30	5	21	4
2000	December	45	3	15	9	6	10	2	29	5	19	5
2001	December	44	3	13	7	7	10	4	21	4	12	5
2002	December	46	4	13	7	9	8	5	10	3	5	2
2003	December	42	2	13	8	5	8	6	7	3	2	2
2004	December	39	1	12	9	6	5	6	6	3	3	–
2005	December	36	1	10	6	8	5	6	3	2	1	–
2006	December	35	2	6	5	10	4	8	3	2	1	–
2007	January	35	2	7	4	10	4	8	3	2	1	–
	February	35	2	7	4	10	4	8	3	2	1	–
	March	35	2	6	5	10	4	8	3	2	1	–
	April	35	2	6	5	10	4	8	3	2	1	–
	May	35	2	5	5	11	4	8	3	2	1	–
	June	35	2	5	5	11	3	9	2	1	1	–
	July	35	2	5	5	10	4	9	2	1	1	–
	August	35	2	5	5	9	5	9	2	1	1	–
	September	35	2	5	5	9	5	9	2	1	1	–
	October	35	2	6	3	10	5	9	2	1	1	–
	November	35	2	5	4	10	5	9	2	1	1	–
	December	35	2	5	2	12	5	9	2	1	1	–

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

The table shows the total number of banks and savings banks during the transition period which report monthly to the CNB. Their operations are shown in the Banks' Accounts. Monetary statistics includes reporting institutions under winding-up and, until February 2005, institutions whose operating licences have been revoked, but which have not initiated winding-up 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.

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

	2006	2007											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
<b>ASSETS</b>													
<b>1. Foreign assets</b>	<b>64,088.2</b>	<b>67,633.1</b>	<b>70,260.7</b>	<b>70,279.2</b>	<b>69,956.6</b>	<b>69,077.7</b>	<b>66,973.2</b>	<b>68,683.3</b>	<b>67,507.0</b>	<b>64,042.8</b>	<b>65,957.8</b>	<b>66,644.0</b>	<b>68,177.8</b>
1.1. Gold	–	–	–	–	–	–	–	–	–	–	–	–	–
1.2. Holdings of SDRs	5.3	9.6	5.7	5.7	9.7	5.9	5.9	9.2	5.3	5.2	9.2	5.6	5.6
1.3. Reserve position in the IMF	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
1.4. Currency and demand deposits with foreign banks	7.2	26.8	26.5	26.3	26.1	26.0	26.4	26.1	26.1	5.4	5.7	5.4	7.2
1.5. Time deposits with foreign banks	33,243.0	36,171.4	38,690.7	38,638.0	38,530.5	37,771.7	35,769.7	36,863.8	35,280.8	32,067.2	32,048.9	32,632.0	33,204.4
1.6. Securities in f/c	30,831.2	31,423.9	31,536.6	31,607.9	31,388.9	31,272.7	31,169.8	31,782.9	32,193.4	31,963.8	33,892.7	33,999.8	34,959.3
1.7. Non-convertible foreign exchange	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>2. Claims on central government and funds</b>	<b>0.9</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>0.0</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>0.8</b>	<b>–</b>	<b>0.8</b>	<b>1.7</b>	<b>1.0</b>
2.1. Claims in kuna	0.9	–	–	–	0.0	–	–	–	0.8	–	0.8	1.7	1.0
2.2. Claims in f/c	–	–	–	–	–	–	–	–	–	–	–	–	–
<b>3. Claims on other domestic sectors</b>	<b>64.0</b>	<b>68.0</b>	<b>68.0</b>	<b>68.0</b>	<b>68.0</b>	<b>67.9</b>							
<b>4. Claims on banks</b>	<b>3,911.5</b>	<b>457.2</b>	<b>1,202.2</b>	<b>2,639.5</b>	<b>2,821.4</b>	<b>3,788.9</b>	<b>5,670.4</b>	<b>4,954.3</b>	<b>4,915.6</b>	<b>7,090.8</b>	<b>1,897.4</b>	<b>3,514.0</b>	<b>4,178.3</b>
4.1. Credits to banks	3,911.5	457.1	1,202.2	2,639.5	2,821.4	3,788.9	5,670.4	4,954.3	4,915.6	7,090.8	1,897.4	3,514.0	4,178.3
Lombard credits	–	–	–	–	–	–	372.6	–	–	876.2	1,882.7	–	1,349.1
Short-term liquidity credits	–	–	–	–	–	–	–	–	–	–	–	–	–
Other credits	14.5	14.6	14.5	14.7	14.8	14.7	14.7	14.5	14.5	14.4	14.7	14.6	14.7
Reverse repo transactions	3,897.0	442.5	1,187.7	2,624.8	2,806.6	3,774.2	5,283.1	4,939.8	4,901.1	6,200.3	–	3,499.4	2,814.5
4.2. Overdue claims	–	0.2	–	–	–	–	–	–	–	–	–	–	–
<b>5. Claims on other banking institutions</b>	<b>–</b>												
<b>Total (1+2+3+4+5)</b>	<b>68,064.6</b>	<b>68,154.3</b>	<b>71,527.0</b>	<b>72,982.8</b>	<b>72,842.1</b>	<b>72,930.6</b>	<b>72,707.6</b>	<b>73,701.7</b>	<b>72,491.5</b>	<b>71,201.7</b>	<b>67,924.0</b>	<b>70,227.7</b>	<b>72,425.1</b>
<b>LIABILITIES</b>													
<b>1. Reserve money</b>	<b>46,331.2</b>	<b>43,729.2</b>	<b>44,284.7</b>	<b>45,565.2</b>	<b>45,589.9</b>	<b>46,564.7</b>	<b>48,416.1</b>	<b>48,931.4</b>	<b>48,781.2</b>	<b>50,941.0</b>	<b>48,280.0</b>	<b>50,055.2</b>	<b>51,923.9</b>
1.1. Currency outside banks	14,609.3	13,887.0	13,962.2	14,381.9	14,703.9	14,941.0	16,079.8	16,763.3	16,497.8	15,611.9	15,544.6	15,894.4	16,007.5
1.2. Banks' cash in vaults	2,698.0	2,148.0	2,395.8	2,318.8	2,537.2	2,410.5	2,996.6	2,864.7	2,949.1	3,243.4	2,878.8	2,820.6	3,305.8
1.3. Banks' deposits	29,023.9	27,694.1	27,926.7	28,864.5	28,348.8	29,213.3	29,339.7	29,303.4	29,344.3	32,085.7	29,856.6	31,340.2	32,610.6
Settlement accounts	8,535.7	6,888.2	6,763.6	7,652.1	6,970.6	7,701.3	7,722.5	7,511.4	7,356.6	8,129.6	7,130.4	7,512.3	7,553.9
Statutory reserves	20,478.2	20,791.9	21,163.1	21,212.4	21,378.1	21,483.2	21,433.7	21,784.5	21,843.2	21,986.4	22,073.1	22,355.5	22,275.6
CNB bills on obligatory basis	–	–	–	–	0.0	28.8	167.4	0.0	144.5	269.6	653.1	1,272.4	1,991.1
Overnight deposits	10.0	14.0	–	–	–	–	16.0	7.5	–	1,700.0	–	200.0	790.0
1.4. Deposits of other banking institutions	–	–	–	–	–	–	–	–	–	–	–	–	–
1.5. Deposits of other domestic sectors	–	–	–	–	–	–	–	–	–	–	–	–	–
<b>2. Restricted and blocked deposits</b>	<b>16,633.5</b>	<b>18,787.0</b>	<b>21,536.7</b>	<b>21,683.8</b>	<b>21,666.5</b>	<b>20,887.2</b>	<b>18,771.0</b>	<b>19,322.0</b>	<b>17,499.9</b>	<b>14,590.4</b>	<b>13,425.9</b>	<b>14,263.8</b>	<b>14,286.0</b>
2.1. Statutory reserve in f/c	16,576.7	18,720.5	21,473.7	21,616.1	21,598.5	20,821.4	18,711.0	19,285.6	17,470.9	14,546.9	13,399.8	14,239.5	14,257.5
2.2. Restricted deposits	56.9	66.4	63.0	67.7	68.1	65.8	60.0	36.4	29.0	43.6	26.1	24.3	28.6
2.3. Escrow deposits	–	–	–	–	–	–	–	–	–	–	–	–	–
<b>3. Foreign liabilities</b>	<b>18.9</b>	<b>19.1</b>	<b>17.0</b>	<b>15.7</b>	<b>14.0</b>	<b>18.1</b>	<b>17.0</b>	<b>15.6</b>	<b>15.7</b>	<b>14.3</b>	<b>14.3</b>	<b>18.4</b>	<b>17.2</b>
3.1. Use of IMF credit	–	–	–	–	–	–	–	–	–	–	–	–	–
3.2. Liabilities to international organisations	18.9	19.1	17.0	15.7	14.0	18.1	17.0	15.6	15.7	14.3	14.3	18.4	17.2
3.3. Liabilities to foreign banks	–	–	–	–	–	–	–	–	–	0.0	–	–	–
<b>4. Central government and funds' deposits</b>	<b>188.0</b>	<b>252.1</b>	<b>472.3</b>	<b>175.0</b>	<b>238.1</b>	<b>327.5</b>	<b>288.0</b>	<b>115.1</b>	<b>351.4</b>	<b>249.0</b>	<b>261.3</b>	<b>134.0</b>	<b>199.1</b>
4.1. Demand deposits	174.5	218.9	439.6	143.3	206.5	225.3	262.1	90.8	202.7	213.9	227.2	100.0	125.8
Central government demand deposits	138.6	169.3	333.3	134.1	177.3	79.1	160.6	75.3	81.0	202.9	134.8	85.7	100.3
Central government funds' demand deposits	35.9	49.6	106.3	9.1	29.2	146.2	101.6	15.5	121.6	10.9	92.4	14.3	25.4
4.2. Central government f/c deposits	13.5	33.2	32.7	31.8	31.7	102.2	25.8	24.3	148.7	35.1	34.1	33.9	73.3
4.3. CNB bills	–	–	–	–	–	–	–	–	–	–	–	–	–
<b>5. CNB bills</b>	<b>–</b>												
5.1. CNB bills in kuna	–	–	–	–	–	–	–	–	–	–	–	–	–
5.2. CNB bills in f/c	–	–	–	–	–	–	–	–	–	–	–	–	–
<b>6. Capital accounts</b>	<b>5,408.8</b>	<b>5,889.9</b>	<b>5,741.0</b>	<b>6,066.1</b>	<b>5,855.6</b>	<b>5,655.0</b>	<b>5,760.5</b>	<b>5,866.5</b>	<b>6,365.5</b>	<b>6,067.9</b>	<b>6,605.3</b>	<b>6,432.1</b>	<b>6,664.5</b>
<b>7. Other items (net)</b>	<b>–515.8</b>	<b>–522.8</b>	<b>–524.8</b>	<b>–523.0</b>	<b>–522.1</b>	<b>–521.9</b>	<b>–545.0</b>	<b>–549.0</b>	<b>–532.1</b>	<b>–661.0</b>	<b>–662.7</b>	<b>–675.7</b>	<b>–665.6</b>
<b>Total (1+2+3+4+5+6+7)</b>	<b>68,064.6</b>	<b>68,154.3</b>	<b>71,527.0</b>	<b>72,982.8</b>	<b>72,842.1</b>	<b>72,930.6</b>	<b>72,707.6</b>	<b>73,701.7</b>	<b>72,491.5</b>	<b>71,201.7</b>	<b>67,924.0</b>	<b>70,227.7</b>	<b>72,425.1</b>

## Table C1: Monetary Authorities Accounts

The table reports data on claims and liabilities by monetary authorities.

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

Claims on central government and funds are loans and overdue claims on the budget of the Republic of Croatia. In accordance with the Croatian National Bank Act that entered into force in April 2001, the Croatian National Bank may not extend credit to the Republic of Croatia. Hence, this item comprises only overdue claims on the budget of the Republic of Croatia based on the payment system operations and the liabilities to the IMF and foreign banks. Until April 2001, 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 regulations by the government of the Republic of Croatia, and overdue claims on the budgetary central government, while Claims in foreign currency was a counter-entry to the liability to the IMF based on the succession of membership in that institution.

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

Claims on banks are credits to banks and overdue claims on banks. Credits to banks comprise Lombard credits, short-term liquidity credits, other credits and reverse repo transactions. 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), due but unpaid credits and deposits of the CNB with banks. From April 2005 on, reverse repo transactions are conducted on a weekly basis. 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 subsector other banking institutions to the subsector 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 (including, from March 2006, special reserve requirement on liabilities arising from issued securities), CNB bills on an obligatory basis and overnight deposits. Deposits by other 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 are deposited with the Croatian National Bank in accordance with law or other regulation.

Restricted and blocked deposits include required foreign currency reserves and accrued interest, restricted deposits and blocked foreign currency deposits. Banks are required to set aside the reserve requirements against certain foreign currency 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 regulations, 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 currency 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 subsector other banking institutions to the subsector 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

	2006			2007									
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
<b>ASSETS</b>													
<b>1. Reserves with the CNB</b>	48,384.7	48,561.7	51,804.1	52,798.5	52,483.4	52,444.3	51,043.8	51,463.0	49,757.8	49,970.8	46,129.2	48,399.0	50,178.9
1.1. In kuna	31,814.1	29,848.7	30,335.0	31,188.9	30,892.3	31,631.7	32,339.4	32,185.7	32,296.6	35,431.0	32,738.1	34,165.6	35,929.1
1.2. In f/c	16,570.6	18,713.0	21,469.1	21,609.6	21,591.1	20,812.7	18,704.4	19,277.3	17,461.2	14,539.8	13,391.1	14,233.4	14,249.8
<b>2. Foreign assets</b>	39,621.2	38,471.0	35,827.9	35,925.8	34,779.8	34,735.6	37,419.8	36,344.3	38,841.2	42,425.8	43,373.7	44,540.0	46,438.5
<b>3. Claims on central government and funds</b>	27,936.8	28,193.8	27,215.0	28,349.3	26,826.9	26,912.1	29,216.2	31,341.1	32,050.3	32,624.0	29,575.8	29,693.6	28,971.5
<b>4. Claims on other domestic sectors</b>	180,967.8	182,556.2	184,661.0	189,674.0	192,211.2	194,607.8	197,685.9	197,344.8	198,500.7	200,449.6	202,435.7	203,527.2	207,330.7
4.1. Claims on local government	1,892.0	1,917.7	1,942.8	1,902.7	1,879.2	1,909.1	2,074.7	2,045.2	2,064.2	2,024.5	2,122.0	2,121.8	2,140.8
4.2. Claims on enterprises	83,386.5	83,631.9	84,570.9	87,190.4	88,379.1	89,380.2	90,980.4	89,291.0	88,748.2	88,677.5	89,115.9	89,429.6	92,265.1
4.3. Claims on households	95,689.3	97,006.6	98,147.3	100,580.9	101,952.9	103,318.6	104,630.7	106,008.6	107,688.4	109,747.6	111,197.8	111,975.9	112,924.9
<b>5. Claims on other banking institutions</b>	1,029.5	559.2	659.9	675.0	813.7	493.0	476.8	454.8	570.4	449.8	477.5	561.0	1,640.0
<b>6. Claims on non-banking financial institutions</b>	1,318.1	1,143.4	1,130.1	1,169.3	1,043.6	1,395.1	1,393.5	1,269.1	1,262.1	1,322.9	1,292.2	1,223.8	1,789.7
<b>Total (1+2+3+4+5+6)</b>	299,258.1	299,485.4	301,298.1	308,591.8	308,158.6	310,588.0	317,235.9	318,217.1	320,982.5	327,242.9	323,284.1	327,944.7	336,349.4
<b>LIABILITIES</b>													
<b>1. Demand deposits</b>	33,911.7	32,078.5	31,448.6	32,371.4	33,148.4	33,736.0	35,480.8	37,378.7	37,237.6	34,297.1	37,639.2	38,343.4	41,870.8
<b>2. Savings and time deposits</b>	44,836.8	45,964.9	46,568.7	46,765.9	47,247.1	48,559.8	49,832.0	50,364.3	51,297.6	47,519.0	50,330.3	51,873.9	53,644.9
<b>3. Foreign currency deposits</b>	88,256.7	90,133.9	89,601.2	90,699.6	90,932.6	91,192.1	92,041.8	95,950.9	101,717.9	99,688.1	99,793.4	100,904.1	103,090.1
<b>4. Bonds and money market instruments</b>	844.1	963.6	1,117.7	802.7	1,022.1	1,214.3	1,011.6	797.1	635.8	591.3	1,102.2	613.2	1,208.8
<b>5. Foreign liabilities</b>	76,076.0	77,857.0	78,149.9	77,065.5	74,085.3	73,631.1	72,516.2	67,255.7	62,221.3	61,472.8	63,374.8	64,230.4	65,152.6
<b>6. Central government and funds' deposits</b>	10,800.4	10,434.9	10,950.9	10,513.4	11,745.4	11,817.8	12,808.2	12,330.3	12,322.2	13,051.5	14,668.0	14,512.0	13,525.8
<b>7. Credit from central bank</b>	3,911.4	457.1	1,202.2	2,639.5	2,821.4	3,788.9	5,670.4	4,954.3	4,915.6	7,090.9	1,897.4	3,514.0	4,178.3
<b>8. Restricted and blocked deposits</b>	2,447.6	2,472.9	2,511.3	2,685.7	2,527.9	2,745.3	2,697.9	2,462.8	2,372.0	15,069.8	4,498.9	2,569.0	2,252.3
<b>9. Capital accounts</b>	40,805.1	41,687.4	42,036.6	45,886.2	46,653.5	46,807.8	46,901.3	48,475.0	50,276.1	50,732.8	51,269.8	52,694.0	53,178.9
<b>10. Other items (net)</b>	-2,631.7	-2,564.6	-2,289.3	-838.2	-2,025.1	-2,905.1	-1,724.3	-1,751.9	-2,013.7	-2,270.3	-1,289.9	-1,309.3	-1,753.2
<b>Total (1+2+3+4+5+6+7+8+9+10)</b>	299,258.1	299,485.4	301,298.1	308,591.8	308,158.6	310,588.0	317,235.9	318,217.1	320,982.5	327,242.9	323,284.1	327,944.7	336,349.4

Table D1: Banks' Accounts

Banks' Accounts include data on banks' claims and liabilities. Banks' mutual claims and liabilities are consolidated.

Required reserves held at the central bank include kuna and foreign currency reserves. Kuna reserves include vault cash and kuna funds held in accounts at the central bank. Foreign currency reserves include foreign currency held in the CNB's foreign currency accounts.

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

Claims on central government and funds are the following forms of claims in kuna and foreign currency: securities and loans.

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

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

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

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

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

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

Bonds and money market instruments are banks' liabilities for securities issued (net) and loans received. 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 col-

lateral), 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 received from the CNB and deposits by the CNB with banks. Repurchase of securities is also considered and treated as a loan.

Restricted and blocked deposits comprise the following banks' liabilities: kuna and foreign currency restricted deposits by other domestic sectors, other banking institutions, non-banking financial institutions, central government and funds as well as foreign legal and natural persons, and households' blocked foreign currency deposits, regulated by the Act on Converting Households' Foreign Currency 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 collectively assessed impairment provisions.

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

## Tables: D2 – D12

This group of tables (with the exception of Table D5) provides a detailed analysis of the relevant asset and liability items from Table D1 (Banks' Accounts).

### Table D2: Banks' Foreign Assets

end of period, million kuna

	2006	2007											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
<b>1. Foreign assets in f/c</b>	<b>39,454.5</b>	<b>38,262.2</b>	<b>35,667.7</b>	<b>35,731.3</b>	<b>34,473.5</b>	<b>34,410.7</b>	<b>36,988.8</b>	<b>35,910.6</b>	<b>38,401.5</b>	<b>41,848.1</b>	<b>42,902.9</b>	<b>44,045.9</b>	<b>45,837.2</b>
1.1. Claims on foreign financial institutions	30,404.1	29,103.1	26,955.7	26,688.4	25,606.7	25,686.0	28,160.2	27,813.0	31,206.1	33,791.8	34,925.1	36,031.8	37,824.9
Foreign currencies	1,232.1	984.7	979.0	1,022.9	1,202.8	1,142.7	1,509.6	1,591.6	1,376.6	2,185.2	1,238.8	1,064.8	1,245.5
Demand deposits	870.1	890.5	1,270.8	930.6	1,194.7	1,027.8	1,157.0	906.4	799.9	1,156.9	952.9	1,264.9	1,305.2
Time and notice deposits	23,509.4	22,991.8	20,344.6	20,355.5	18,877.0	19,246.1	21,235.1	21,075.2	24,837.3	26,703.2	28,934.4	30,179.5	31,726.1
Securities	4,441.5	3,879.9	4,099.4	4,099.5	4,085.6	4,023.1	4,019.1	4,001.3	3,954.1	3,420.2	3,473.8	3,209.0	3,210.4
Loans and advances	339.2	344.4	250.1	268.0	234.8	234.6	227.7	223.1	222.9	214.2	212.0	201.0	195.9
Shares and participations	11.8	11.8	11.8	11.8	11.8	11.7	11.7	15.4	15.4	112.2	113.2	112.7	141.9
1.2. Claims on foreign non-banks	9,050.4	9,159.1	8,711.9	9,042.9	8,866.8	8,724.7	8,828.6	8,097.6	7,195.4	8,056.3	7,977.8	8,014.2	8,012.3
Claims on foreign governments	8,217.0	8,258.1	7,803.5	8,067.5	7,881.9	7,760.8	7,892.6	7,196.6	6,245.4	6,845.9	6,804.1	6,732.2	6,696.1
Claims on other non-residents	798.1	860.8	867.3	933.5	961.8	941.5	913.8	879.4	928.4	1,190.3	1,151.8	1,262.6	1,295.2
Securities	141.5	144.7	156.1	180.7	174.8	152.7	159.4	178.4	176.2	182.7	168.7	178.5	180.9
Loans and advances	656.6	716.1	711.2	752.8	787.0	788.8	754.4	701.0	752.2	1,007.6	983.1	1,084.1	1,114.3
Shares and participations	35.3	40.2	41.1	41.9	23.1	22.4	22.2	21.6	21.6	20.1	21.9	19.4	20.9
<b>2. Foreign assets in kuna</b>	<b>166.7</b>	<b>208.8</b>	<b>160.2</b>	<b>194.5</b>	<b>306.3</b>	<b>324.9</b>	<b>430.9</b>	<b>433.6</b>	<b>439.7</b>	<b>577.7</b>	<b>470.7</b>	<b>494.1</b>	<b>601.3</b>
2.1. Claims on foreign financial institutions	96.9	138.0	88.1	120.8	232.9	239.2	348.7	305.1	314.8	450.8	344.3	298.8	408.1
2.2. Claims on foreign non-banks	69.8	70.8	72.1	73.6	73.5	85.7	82.3	128.5	124.9	126.9	126.4	195.3	193.3
o/w: Loans and advances	69.2	70.2	71.5	73.0	72.8	85.1	81.7	127.9	124.3	126.3	125.8	194.7	192.7
<b>Total (1+2)</b>	<b>39,621.2</b>	<b>38,471.0</b>	<b>35,827.9</b>	<b>35,925.8</b>	<b>34,779.8</b>	<b>34,735.6</b>	<b>37,419.8</b>	<b>36,344.3</b>	<b>38,841.2</b>	<b>42,425.8</b>	<b>43,373.7</b>	<b>44,540.0</b>	<b>46,438.5</b>

### Table D2: Banks' Foreign Assets

This table shows banks' claims on foreign legal and natural persons.

Foreign assets of banks' comprise foreign assets in kuna and foreign currency.

Claims on foreign banks and Claims on foreign non-banks (total and by financial instruments) are shown separately within both foreign assets in kuna and in foreign currency.

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

end of period, million kuna

	2006	2007											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
<b>1. In kuna</b>	<b>22,703.0</b>	<b>23,019.3</b>	<b>22,069.8</b>	<b>23,159.6</b>	<b>21,787.8</b>	<b>21,927.4</b>	<b>24,225.0</b>	<b>24,668.5</b>	<b>25,339.7</b>	<b>25,964.2</b>	<b>24,683.4</b>	<b>24,804.6</b>	<b>24,081.8</b>
1.1. Claims on central government	18,361.2	18,660.6	17,818.9	18,665.8	17,156.7	17,272.0	19,668.2	20,056.0	20,631.3	21,242.4	19,867.5	19,884.6	19,057.3
Securities	14,546.7	15,322.6	15,215.6	15,839.5	14,435.4	14,472.9	15,598.9	15,963.9	16,505.3	16,585.2	16,951.5	17,010.2	16,099.8
o/w: Bonds (c/part to f/c savings deposits)	8.3	7.8	7.2	6.6	6.2	7.5	6.9	6.4	6.1	5.7	5.3	6.7	6.4
Loans and advances	3,814.5	3,338.0	2,603.3	2,826.4	2,721.3	2,799.1	4,069.3	4,092.0	4,126.0	4,657.2	2,916.1	2,874.3	2,957.5
1.2. Claims on central government funds	4,341.9	4,358.7	4,250.9	4,493.8	4,631.2	4,655.4	4,556.8	4,612.5	4,708.3	4,721.8	4,815.8	4,920.1	5,024.5
Securities	–	–	–	1.7	1.4	–	–	9.2	3.0	9.0	–	–	–
Loans and advances	4,341.9	4,358.7	4,250.9	4,492.0	4,629.7	4,655.4	4,556.8	4,603.3	4,705.4	4,712.9	4,815.8	4,920.1	5,024.5
<b>2. In f/c</b>	<b>5,233.8</b>	<b>5,174.5</b>	<b>5,145.2</b>	<b>5,189.7</b>	<b>5,039.1</b>	<b>4,984.7</b>	<b>4,991.2</b>	<b>6,672.6</b>	<b>6,710.7</b>	<b>6,659.7</b>	<b>4,892.4</b>	<b>4,889.0</b>	<b>4,889.7</b>
2.1. Claims on central government	4,624.4	4,589.8	4,562.4	4,604.3	4,446.3	4,403.9	4,417.7	6,160.9	6,203.2	6,155.9	4,388.4	4,375.9	4,388.6
Securities	429.0	399.1	394.2	393.5	279.1	269.2	267.5	257.6	276.1	249.9	251.9	267.7	268.4
Loans and advances	4,195.4	4,190.7	4,168.3	4,210.8	4,167.2	4,134.8	4,150.2	5,903.3	5,927.1	5,906.0	4,136.5	4,108.3	4,120.1
2.2. Claims on central government funds	609.4	584.7	582.8	585.4	592.7	580.7	573.5	511.7	507.5	503.9	504.0	513.0	501.2
Securities	109.2	109.1	109.2	109.5	111.0	109.4	115.9	74.2	74.5	73.8	74.7	79.4	82.1
Loans and advances	500.2	475.6	473.6	475.9	481.7	471.3	457.6	437.5	433.0	430.0	429.3	433.6	419.1
<b>Total (1+2)</b>	<b>27,936.8</b>	<b>28,193.8</b>	<b>27,215.0</b>	<b>28,349.3</b>	<b>26,826.9</b>	<b>26,912.1</b>	<b>29,216.2</b>	<b>31,341.1</b>	<b>32,050.3</b>	<b>32,624.0</b>	<b>29,575.8</b>	<b>29,693.6</b>	<b>28,971.5</b>

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

The table shows banks' kuna and foreign currency claims on the central government and funds. The item Securities, shown under Claims in kuna on the Republic of Croatia, also comprises bonds arising from blocked foreign currency savings deposits issued in accordance with the Act on Converting Households' Foreign Currency Deposits into the Public Debt of the Republic of Croatia.

**Table D4: Banks' Claims on Other Domestic Sectors**

end of period, million kuna

	2006	2007											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
<b>1. Claims in kuna</b>	<b>166,755.1</b>	<b>168,199.6</b>	<b>170,398.6</b>	<b>175,605.5</b>	<b>178,100.4</b>	<b>180,582.7</b>	<b>183,820.8</b>	<b>183,395.6</b>	<b>184,807.6</b>	<b>187,068.2</b>	<b>189,506.7</b>	<b>190,808.9</b>	<b>194,476.7</b>
1.1. Money market instruments	1,980.7	1,904.3	1,889.5	1,902.5	1,877.6	1,930.5	1,959.6	1,945.3	1,887.6	1,847.4	1,913.9	1,981.3	2,147.4
1.2. Bonds	1,088.8	1,081.3	1,120.9	1,102.8	1,120.8	1,155.4	895.0	830.4	672.7	704.7	802.4	860.3	1,366.0
1.3. Loans and advances	161,694.2	163,205.5	165,369.7	170,520.1	173,035.3	175,374.6	178,827.5	178,471.4	180,130.3	182,330.7	184,382.5	185,535.7	188,462.5
1.4. Shares and participations	1,991.4	2,008.6	2,018.6	2,080.0	2,066.6	2,122.2	2,138.7	2,148.5	2,117.1	2,185.4	2,408.0	2,431.6	2,500.8
<b>2. Claims in f/c</b>	<b>14,212.8</b>	<b>14,356.6</b>	<b>14,262.4</b>	<b>14,068.5</b>	<b>14,110.8</b>	<b>14,025.2</b>	<b>13,865.0</b>	<b>13,949.1</b>	<b>13,693.1</b>	<b>13,381.4</b>	<b>12,929.0</b>	<b>12,718.3</b>	<b>12,854.0</b>
2.1. Securities	221.1	218.5	210.7	214.8	211.2	197.3	194.6	246.7	218.6	171.3	203.0	201.6	249.2
2.2. Loans and advances	13,991.6	14,138.1	14,051.7	13,853.7	13,899.6	13,827.9	13,670.4	13,702.4	13,474.5	13,210.1	12,726.0	12,516.7	12,604.9
<b>Total (1+2)</b>	<b>180,967.8</b>	<b>182,556.2</b>	<b>184,661.0</b>	<b>189,674.0</b>	<b>192,211.2</b>	<b>194,607.8</b>	<b>197,685.9</b>	<b>197,344.8</b>	<b>198,500.7</b>	<b>200,449.6</b>	<b>202,435.7</b>	<b>203,527.2</b>	<b>207,330.7</b>

**Table D4: Banks' Claims on Other Domestic Sectors**

The table shows banks' kuna and foreign currency claims on other domestic sectors, classified according to financial instruments: money market instruments (including factoring and forfaiting since January 2004), loans and advances (including acceptances and purchased claims), and equities.

**Table D5: Distribution of Banks' Loans by Domestic Institutional Sectors**

end of period, million kuna

	2006		2007										
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
<b>LOANS IN KUNA</b>													
1. Loans to central government and funds	8,156.4	7,696.7	6,854.2	7,318.4	7,351.0	7,454.5	8,626.1	8,695.3	8,831.4	9,370.0	7,731.9	7,794.4	7,982.0
1.1. Loans to central government	3,814.5	3,338.0	2,603.3	2,826.4	2,721.3	2,799.1	4,069.3	4,092.0	4,126.0	4,657.2	2,916.1	2,874.3	2,957.5
1.2. Loans to central government funds	4,341.9	4,358.7	4,250.9	4,492.0	4,629.7	4,655.4	4,556.8	4,603.3	4,705.4	4,712.9	4,815.8	4,920.1	5,024.5
2. Loans to local government	1,720.3	1,737.8	1,774.4	1,728.4	1,703.6	1,694.0	1,859.2	1,838.4	1,853.4	1,817.2	1,853.0	1,854.7	1,867.5
3. Loans to enterprises	64,666.3	64,853.2	65,851.0	68,619.5	69,790.3	70,764.6	72,708.9	70,992.1	70,947.5	71,103.0	71,662.9	72,036.6	74,001.7
4. Loans to households	95,307.6	96,614.5	97,744.3	100,172.2	101,541.4	102,916.0	104,259.4	105,640.9	107,329.4	109,410.5	110,866.6	111,644.4	112,593.3
o/w: Housing loans	36,927.3	37,597.9	38,233.5	39,266.0	39,821.5	40,454.2	41,083.2	41,944.6	42,849.9	43,066.3	43,828.4	44,528.8	45,218.6
5. Loans to other banking institutions	304.4	96.6	194.6	100.5	277.0	79.2	63.3	62.2	29.7	58.8	35.4	75.7	213.6
6. Loans to non-banking financial institutions	854.4	611.1	620.7	675.0	618.1	721.0	773.9	673.4	644.6	714.4	672.9	642.0	947.6
<b>A. Total (1+2+3+4+5+6)</b>	<b>171,009.4</b>	<b>171,609.8</b>	<b>173,039.2</b>	<b>178,614.0</b>	<b>181,281.4</b>	<b>183,629.3</b>	<b>188,290.8</b>	<b>187,902.3</b>	<b>189,635.9</b>	<b>192,473.9</b>	<b>192,822.7</b>	<b>194,047.8</b>	<b>197,605.7</b>
<b>LOANS IN F/C</b>													
1. Loans to central government and funds	4,695.6	4,666.4	4,641.8	4,686.7	4,648.9	4,606.1	4,607.8	6,340.9	6,360.1	6,336.0	4,565.8	4,541.9	4,539.2
1.1. Loans to central government	4,195.4	4,190.7	4,168.3	4,210.8	4,167.2	4,134.8	4,150.2	5,903.3	5,927.1	5,906.0	4,136.5	4,108.3	4,120.1
1.2. Loans to central government funds	500.2	475.6	473.6	475.9	481.7	471.3	457.6	437.5	433.0	430.0	429.3	433.6	419.1
2. Loans to local government	11.3	10.1	10.0	10.1	10.1	10.0	10.0	8.7	8.7	8.7	8.8	8.7	8.7
3. Loans to enterprises	13,598.5	13,736.0	13,638.7	13,435.0	13,478.1	13,415.4	13,289.1	13,326.0	13,106.8	12,864.3	12,386.0	12,176.5	12,264.5
4. Loans to households	381.8	392.1	403.0	408.7	411.4	402.5	371.3	367.7	359.0	337.1	331.2	331.5	331.6
5. Loans to other banking institutions	68.1	133.6	128.7	220.5	150.3	26.0	27.9	3.0	122.7	21.5	40.4	102.4	74.0
6. Loans to non-banking financial institutions	360.5	425.5	398.0	378.0	301.4	548.8	469.0	444.4	462.2	450.8	460.5	428.7	668.0
<b>B. Total (1+2+3+4+5+6)</b>	<b>19,115.9</b>	<b>19,363.6</b>	<b>19,220.2</b>	<b>19,139.0</b>	<b>19,000.3</b>	<b>19,008.8</b>	<b>18,775.1</b>	<b>20,490.7</b>	<b>20,419.5</b>	<b>20,018.4</b>	<b>17,792.7</b>	<b>17,589.6</b>	<b>17,886.0</b>
<b>TOTAL (A+B)</b>	<b>190,125.3</b>	<b>190,973.4</b>	<b>192,259.4</b>	<b>197,753.0</b>	<b>200,281.7</b>	<b>202,638.1</b>	<b>207,065.9</b>	<b>208,393.0</b>	<b>210,055.5</b>	<b>212,492.4</b>	<b>210,615.4</b>	<b>211,637.4</b>	<b>215,491.7</b>

**Table D5: Distribution of Banks' Loans by Domestic Institutional Sectors**

The table shows data on kuna and foreign currency loans granted by banks to domestic sectors, including acceptances, financial leases, payments made on the basis of guarantees and similar instruments, purchased claims, and until December 2003 factoring and forfaiting.

**Table D6: Demand Deposits with Banks**

end of period, million kuna

	2006		2007										
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Local government	1,803.8	1,550.2	1,483.0	1,528.8	1,718.1	1,619.1	1,689.2	1,688.1	1,911.1	1,901.9	2,150.8	2,463.2	2,689.4
2. Enterprises	16,668.6	14,691.2	13,974.3	14,586.5	14,614.2	14,859.5	15,628.9	16,984.7	16,656.9	15,678.8	15,936.5	16,041.5	19,599.3
3. Households	14,257.8	14,191.0	14,477.3	14,813.8	15,219.0	15,476.3	16,780.2	17,190.2	17,227.1	15,362.7	17,493.2	18,469.2	17,896.7
4. Other banking institutions	485.1	579.1	508.4	446.3	466.2	600.4	344.4	385.0	317.0	351.2	520.5	297.9	481.1
5. Non-banking financial institutions	697.6	1,067.8	1,006.7	996.8	1,132.9	1,181.5	1,039.6	1,131.7	1,126.3	1,003.8	1,539.7	1,072.5	1,205.2
6. Less: Checks of other banks and checks in collection	-1.2	-0.8	-1.0	-0.8	-2.0	-0.9	-1.5	-0.8	-0.7	-1.3	-1.5	-0.9	-0.9
<b>Total (1+2+3+4+5+6)</b>	<b>33,911.7</b>	<b>32,078.5</b>	<b>31,448.6</b>	<b>32,371.4</b>	<b>33,148.4</b>	<b>33,736.0</b>	<b>35,480.8</b>	<b>37,378.7</b>	<b>37,237.6</b>	<b>34,297.1</b>	<b>37,639.2</b>	<b>38,343.4</b>	<b>41,870.8</b>

**Table D6: Demand Deposits with Banks**

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

Demand deposits are the sum of other domestic sectors', other banking institutions' and non-banking financial institutions' giro and current accounts balances, minus currency in the payment system (i.e. 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

	2006		2007										
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
<b>1. Savings deposits</b>	<b>2,905.6</b>	<b>2,874.7</b>	<b>2,920.4</b>	<b>2,919.9</b>	<b>2,933.5</b>	<b>2,943.8</b>	<b>3,145.7</b>	<b>3,151.4</b>	<b>3,077.0</b>	<b>2,868.6</b>	<b>2,984.6</b>	<b>3,116.9</b>	<b>3,086.1</b>
1.1. Local government	2.8	2.5	2.6	2.9	2.9	2.1	2.1	2.9	2.8	2.9	3.6	3.9	2.5
1.2. Enterprises	110.3	94.2	105.2	131.9	135.2	144.3	148.8	193.8	168.9	132.4	133.2	137.3	154.7
1.3. Households	2,792.4	2,778.0	2,812.5	2,785.0	2,795.3	2,797.3	2,989.7	2,949.7	2,900.3	2,725.3	2,839.8	2,970.7	2,929.0
1.4. Other banking institutions	–	–	–	–	–	–	5.0	5.0	5.0	5.0	5.0	5.0	–
1.5. Non-banking financial institutions	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.0	0.0	3.0	3.0	–	–
<b>2. Time and notice deposits</b>	<b>41,931.3</b>	<b>43,090.2</b>	<b>43,648.3</b>	<b>43,846.0</b>	<b>44,313.6</b>	<b>45,616.0</b>	<b>46,686.3</b>	<b>47,212.9</b>	<b>48,220.6</b>	<b>44,650.4</b>	<b>47,345.7</b>	<b>48,757.0</b>	<b>50,558.8</b>
2.1. Local government	491.8	871.0	917.3	865.8	921.0	1,023.9	1,012.7	1,136.9	1,210.3	1,272.0	1,311.8	1,271.3	549.5
2.2. Enterprises	14,715.4	15,490.8	16,008.9	15,837.4	15,930.9	16,297.4	16,805.2	17,139.0	18,574.9	16,481.6	17,371.2	18,157.2	18,414.8
2.3. Households	20,755.0	20,691.9	20,322.2	20,052.5	19,788.8	19,682.4	19,616.9	19,694.0	19,419.3	18,288.4	18,728.8	19,967.3	20,479.1
2.4. Other banking institutions	2,697.9	2,923.2	3,372.0	4,092.5	4,360.3	4,580.8	5,487.8	5,734.9	4,462.0	4,586.0	5,373.6	4,077.7	6,386.5
2.5. Non-banking financial institutions	3,271.3	3,113.3	3,027.8	2,997.7	3,312.6	4,031.5	3,763.6	3,508.1	4,554.1	4,022.4	4,560.2	5,283.4	4,728.9
<b>Total (1+2)</b>	<b>44,836.8</b>	<b>45,964.9</b>	<b>46,568.7</b>	<b>46,765.9</b>	<b>47,247.1</b>	<b>48,559.8</b>	<b>49,832.0</b>	<b>50,364.3</b>	<b>51,297.6</b>	<b>47,519.0</b>	<b>50,330.3</b>	<b>51,873.9</b>	<b>53,644.9</b>

**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

	2006		2007										
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
<b>1. Savings deposits</b>	<b>22,698.6</b>	<b>22,545.7</b>	<b>22,142.6</b>	<b>22,177.8</b>	<b>21,766.5</b>	<b>22,100.3</b>	<b>22,030.7</b>	<b>22,969.0</b>	<b>24,198.4</b>	<b>23,232.2</b>	<b>22,444.3</b>	<b>22,711.4</b>	<b>22,845.0</b>
1.1. Local government	30.8	17.1	12.5	13.5	13.5	13.4	26.9	13.6	13.5	13.8	14.0	14.0	27.5
1.2. Enterprises	4,589.7	4,664.6	4,550.9	4,625.3	4,367.8	4,505.2	4,414.8	5,038.5	5,323.6	5,370.8	5,184.9	5,461.0	5,543.6
1.3. Households	17,609.9	17,360.5	17,030.2	16,970.0	16,824.4	17,014.4	17,054.7	17,352.2	18,131.3	16,935.8	16,827.8	16,688.7	16,720.8
1.4. Other banking institutions	276.7	146.9	195.3	170.1	237.2	182.0	184.3	269.0	332.5	185.5	211.6	283.4	251.7
1.5. Non-banking financial institutions	191.4	356.5	353.7	399.0	323.6	385.2	350.0	295.7	397.4	726.4	206.0	264.2	301.5
<b>2. Time deposits</b>	<b>65,558.1</b>	<b>67,588.2</b>	<b>67,458.6</b>	<b>68,521.8</b>	<b>69,166.1</b>	<b>69,091.8</b>	<b>70,011.0</b>	<b>72,981.8</b>	<b>77,519.5</b>	<b>76,455.9</b>	<b>77,349.1</b>	<b>78,192.7</b>	<b>80,245.1</b>
2.1. Local government	1.9	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.1	2.1	2.1	2.1
2.2. Enterprises	7,086.2	7,307.6	7,099.6	7,210.4	7,196.8	7,304.0	7,620.3	9,297.9	10,322.7	10,510.4	10,319.9	10,210.9	10,391.9
2.3. Households	57,210.8	58,756.9	59,099.0	59,952.2	60,283.3	59,929.6	60,459.0	61,602.3	63,577.3	62,749.2	63,965.9	64,972.7	66,465.7
2.4. Other banking institutions	366.2	535.6	383.2	449.3	422.0	497.9	565.1	667.5	1,234.5	1,209.1	1,116.9	954.3	1,038.6
2.5. Non-banking financial institutions	892.9	985.9	874.6	907.7	1,261.8	1,358.2	1,364.4	1,412.0	2,382.8	1,985.2	1,944.3	2,052.8	2,346.8
<b>Total (1+2)</b>	<b>88,256.7</b>	<b>90,133.9</b>	<b>89,601.2</b>	<b>90,699.6</b>	<b>90,932.6</b>	<b>91,192.1</b>	<b>92,041.8</b>	<b>95,950.9</b>	<b>101,717.9</b>	<b>99,688.1</b>	<b>99,793.4</b>	<b>100,904.1</b>	<b>103,090.1</b>

**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

	2006	2007											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
<b>1. Money market instruments (net)</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>
<b>2. Bonds (net)</b>	<b>340.9</b>	<b>379.6</b>	<b>377.0</b>	<b>395.2</b>	<b>385.0</b>	<b>383.6</b>	<b>582.8</b>	<b>579.0</b>	<b>548.6</b>	<b>504.0</b>	<b>509.1</b>	<b>532.9</b>	<b>632.0</b>
<b>3. Other domestic borrowing</b>	<b>502.5</b>	<b>583.2</b>	<b>739.9</b>	<b>406.7</b>	<b>636.3</b>	<b>830.0</b>	<b>428.0</b>	<b>217.3</b>	<b>86.4</b>	<b>86.6</b>	<b>592.3</b>	<b>79.5</b>	<b>576.0</b>
3.1. Local government	–	–	–	–	–	–	–	–	–	–	–	–	–
3.2. Enterprises	0.0	23.6	23.6	44.2	233.9	243.2	25.6	0.0	0.0	0.0	0.0	0.0	152.9
3.3. Other banking institutions	492.8	238.8	395.2	321.2	359.2	519.4	360.8	203.7	66.3	69.2	87.5	79.5	266.4
3.4. Non-banking financial institutions	9.6	320.8	321.1	41.3	43.2	67.4	41.6	13.5	20.0	17.4	504.8	0.0	156.6
<b>Total (1+2+3)</b>	<b>844.1</b>	<b>963.6</b>	<b>1,117.7</b>	<b>802.7</b>	<b>1,022.1</b>	<b>1,214.3</b>	<b>1,011.6</b>	<b>797.1</b>	<b>635.8</b>	<b>591.3</b>	<b>1,102.2</b>	<b>613.2</b>	<b>1,208.8</b>

**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, which are reported in the total amount and classified by institutional sectors.

**Table D10: Banks' Foreign Liabilities**

end of period, million kuna

	2006	2007											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
<b>1. Foreign liabilities in f/c</b>	<b>55,114.3</b>	<b>55,854.0</b>	<b>55,818.5</b>	<b>55,275.1</b>	<b>52,710.5</b>	<b>52,693.2</b>	<b>51,520.3</b>	<b>49,280.1</b>	<b>45,565.9</b>	<b>45,355.9</b>	<b>46,842.2</b>	<b>47,200.5</b>	<b>48,461.3</b>
1.1. Liabilities to foreign financial institutions	48,561.3	49,411.9	49,272.7	48,641.3	45,722.1	45,655.1	44,355.7	41,829.3	38,840.6	38,658.5	40,098.2	40,514.1	41,483.1
Demand deposits	195.0	108.3	124.7	149.5	168.5	125.1	137.9	158.9	196.2	219.7	217.1	237.2	258.8
Time and notice deposits	12,174.1	12,669.7	12,479.9	13,011.8	11,081.8	13,806.6	13,204.3	12,767.9	11,409.9	11,311.4	11,906.2	12,770.7	10,562.9
Loans and advances	32,903.9	33,328.1	33,374.5	32,169.3	31,164.9	28,444.7	27,736.8	25,628.1	23,950.0	23,859.5	24,676.1	24,223.4	27,373.0
o/w: Subordinated and hybrid instruments	820.7	823.9	820.7	824.9	823.8	816.6	816.0	163.6	164.1	163.2	164.8	164.0	405.9
Bonds	3,288.3	3,305.8	3,293.5	3,310.7	3,306.9	3,278.6	3,276.8	3,274.5	3,284.6	3,267.9	3,298.9	3,282.9	3,288.4
1.2. Liabilities to foreign non-banks	6,553.0	6,442.2	6,545.8	6,633.8	6,988.4	7,038.1	7,164.5	7,450.9	6,725.2	6,697.4	6,744.0	6,686.4	6,978.2
Savings and time deposits	6,192.4	6,128.0	6,234.4	6,322.7	6,679.6	6,731.4	6,857.3	7,195.9	6,469.6	6,446.0	6,491.4	6,437.1	6,729.9
Sight deposits	1,635.8	1,379.5	1,350.6	1,393.4	1,543.7	1,602.0	1,806.9	2,221.8	1,622.7	1,596.8	1,601.9	1,543.8	1,537.2
Time and notice deposits	4,556.7	4,748.5	4,883.8	4,929.3	5,135.9	5,129.4	5,050.3	4,974.2	4,846.9	4,849.2	4,889.4	4,893.3	5,192.7
Loans and advances	360.5	314.2	311.5	311.1	308.8	306.7	307.3	254.9	255.6	251.4	252.6	249.3	248.3
o/w: Subordinated and hybrid instruments	–	–	–	–	–	–	–	–	–	–	–	–	–
<b>2. Foreign liabilities in kuna</b>	<b>20,961.8</b>	<b>22,003.0</b>	<b>22,331.5</b>	<b>21,790.4</b>	<b>21,374.7</b>	<b>20,938.0</b>	<b>20,995.9</b>	<b>17,975.6</b>	<b>16,655.4</b>	<b>16,116.9</b>	<b>16,532.5</b>	<b>17,029.8</b>	<b>16,691.3</b>
2.1. Liabilities to foreign financial institutions	20,087.0	21,129.5	21,448.3	20,961.5	20,583.3	20,079.5	20,310.0	17,224.6	15,758.6	15,254.3	15,812.6	16,281.8	16,093.8
Demand deposits	1,438.1	1,502.4	1,352.4	1,443.0	1,842.9	1,403.9	1,083.6	509.7	423.0	807.9	581.6	449.0	519.0
Time and notice deposits	11,198.8	13,438.7	14,444.8	14,949.2	14,184.1	14,122.8	14,674.0	12,564.2	11,184.8	10,295.6	11,080.2	11,681.6	11,423.7
Loans and advances	7,450.2	6,188.4	5,651.2	4,569.3	4,556.3	4,552.8	4,552.5	4,150.8	4,150.8	4,150.8	4,150.8	4,151.2	4,151.2
o/w: Subordinated and hybrid instruments	404.0	405.5	404.0	406.0	405.5	402.0	401.7	0.0	0.0	0.0	0.0	0.4	0.4
2.2. Liabilities to foreign non-banks	874.8	873.5	883.1	828.9	791.4	858.5	685.8	750.9	896.8	862.6	720.0	748.1	597.5
Demand deposits	170.1	298.0	326.2	274.9	280.5	379.5	229.0	326.0	218.8	224.5	260.9	269.1	253.2
Time and notice deposits	703.3	574.1	554.1	551.1	508.0	477.4	455.3	421.9	675.0	635.2	456.1	475.5	340.6
Loans and advances	1.4	1.4	2.9	2.9	2.9	1.5	1.5	3.0	3.0	3.0	3.0	3.5	3.7
o/w: Subordinated and hybrid instruments	1.4	1.4	2.9	2.9	2.9	1.5	1.5	3.0	3.0	3.0	3.0	3.5	3.7
<b>Total (1+2)</b>	<b>76,076.0</b>	<b>77,857.0</b>	<b>78,149.9</b>	<b>77,065.5</b>	<b>74,085.3</b>	<b>73,631.1</b>	<b>72,516.2</b>	<b>67,255.7</b>	<b>62,221.3</b>	<b>61,472.8</b>	<b>63,374.8</b>	<b>64,230.4</b>	<b>65,152.6</b>

**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

	2006		2007										
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
<b>1. In kuna</b>	<b>9,030.0</b>	<b>8,824.7</b>	<b>9,540.8</b>	<b>9,097.7</b>	<b>10,463.0</b>	<b>10,345.3</b>	<b>10,322.0</b>	<b>10,367.5</b>	<b>10,419.1</b>	<b>11,152.4</b>	<b>12,821.6</b>	<b>12,540.8</b>	<b>11,535.0</b>
1.1. Central government deposits	497.5	533.8	1,241.9	620.1	1,871.4	1,645.6	1,257.7	991.1	881.2	1,539.1	2,843.0	2,401.3	666.4
Demand deposits	366.2	401.1	398.0	430.6	438.2	462.0	438.6	423.4	417.5	427.3	488.4	507.5	454.9
Savings deposits	2.1	2.0	2.0	1.9	1.8	1.8	1.7	1.5	1.5	1.4	1.4	1.3	1.2
Time and notice deposits	128.1	129.6	840.9	186.5	1,430.3	1,180.8	816.4	565.2	461.2	1,109.4	2,352.2	1,891.5	209.3
Loans and advances	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
1.2. Central government funds' deposits	8,532.6	8,290.8	8,298.8	8,477.5	8,591.6	8,699.7	9,064.3	9,376.4	9,537.9	9,613.3	9,978.6	10,139.6	10,868.6
Demand deposits	254.6	238.9	280.2	227.2	204.9	188.4	189.5	352.8	375.1	248.1	279.9	277.6	330.1
Savings deposits	14.6	4.4	4.4	4.4	4.3	4.3	4.3	2.3	2.3	2.3	2.3	2.3	2.4
Time and notice deposits	496.7	209.7	169.8	229.9	221.5	254.7	331.3	251.8	204.9	284.7	366.9	221.1	413.6
Loans and advances	7,766.7	7,837.9	7,844.5	8,016.0	8,160.8	8,252.3	8,539.2	8,769.6	8,955.6	9,078.2	9,329.5	9,638.5	10,122.4
<b>2. In f/c</b>	<b>1,770.4</b>	<b>1,610.3</b>	<b>1,410.1</b>	<b>1,415.8</b>	<b>1,282.4</b>	<b>1,472.5</b>	<b>2,486.2</b>	<b>1,962.7</b>	<b>1,903.1</b>	<b>1,899.1</b>	<b>1,846.4</b>	<b>1,971.2</b>	<b>1,990.8</b>
2.1. Central government deposits	811.7	733.4	735.2	760.3	766.1	748.2	696.6	650.0	632.9	633.6	579.1	635.7	759.4
Savings deposits	264.8	233.9	246.6	318.7	345.8	374.2	317.4	305.0	300.6	338.5	270.6	341.9	527.4
Time and notice deposits	275.0	256.8	251.3	205.1	189.4	142.0	148.0	149.8	135.9	107.2	121.8	112.3	49.7
Refinanced loans and advances	271.9	242.7	237.3	236.4	230.9	232.0	231.3	195.2	196.4	187.8	186.7	181.4	182.3
2.2. Central government funds' deposits	958.6	876.8	674.9	655.5	516.3	724.3	1,789.6	1,312.7	1,270.2	1,265.5	1,267.4	1,335.5	1,231.4
Savings deposits	93.4	156.6	82.3	104.7	63.3	134.4	151.5	207.5	203.4	170.0	134.0	148.5	85.7
Time and notice deposits	356.2	186.4	207.8	163.9	140.4	280.1	474.7	232.1	195.4	140.5	415.3	234.0	153.8
Loans and advances	509.0	533.8	384.9	386.8	312.6	309.9	1,163.4	873.1	871.4	955.0	718.1	953.0	991.8
<b>Total (1+2)</b>	<b>10,800.4</b>	<b>10,434.9</b>	<b>10,950.9</b>	<b>10,513.4</b>	<b>11,745.4</b>	<b>11,817.8</b>	<b>12,808.2</b>	<b>12,330.3</b>	<b>12,322.2</b>	<b>13,051.5</b>	<b>14,668.0</b>	<b>14,512.0</b>	<b>13,525.8</b>

**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 received from the central government and funds. Foreign currency deposits comprise savings deposits, time and notice deposits, and refinanced loans and advances.

**Table D12: Restricted and Blocked Deposits with Banks**

end of period, million kuna

	2006		2007										
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
<b>1. Restricted deposits</b>	<b>2,447.6</b>	<b>2,472.9</b>	<b>2,511.3</b>	<b>2,685.7</b>	<b>2,527.9</b>	<b>2,745.3</b>	<b>2,697.9</b>	<b>2,462.8</b>	<b>2,372.0</b>	<b>15,069.8</b>	<b>4,498.9</b>	<b>2,569.0</b>	<b>2,252.3</b>
1.1. In kuna	1,427.0	1,454.2	1,414.5	1,551.1	1,462.9	1,451.2	1,440.6	1,335.2	1,348.9	13,872.4	3,265.5	1,403.5	1,322.8
1.2. In f/c	1,020.5	1,018.7	1,096.8	1,134.6	1,065.0	1,294.1	1,257.3	1,127.6	1,023.1	1,197.5	1,233.4	1,165.5	929.5
<b>2. Blocked f/c deposits of households</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>									
<b>Total (1+2)</b>	<b>2,447.6</b>	<b>2,472.9</b>	<b>2,511.3</b>	<b>2,685.7</b>	<b>2,527.9</b>	<b>2,745.3</b>	<b>2,697.9</b>	<b>2,462.8</b>	<b>2,372.0</b>	<b>15,069.8</b>	<b>4,498.9</b>	<b>2,569.0</b>	<b>2,252.3</b>

**Table D12: Restricted and Blocked Deposits with Banks**

The table shows households' restricted (kuna and foreign currency) deposits and blocked deposits.

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

**Table E1: Housing Savings Banks' Accounts**

end of period, million kuna

	2006	2007											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
<b>ASSETS</b>													
1. Reserves with the CNB	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Claims on central government and funds	4,674.8	4,595.3	4,434.1	4,350.3	4,272.1	4,164.9	4,111.1	4,102.1	4,085.6	3,991.7	3,885.2	3,927.7	4,036.5
3. Claims on other domestic sectors	1,296.0	1,353.7	1,405.6	1,492.0	1,561.6	1,642.4	1,712.4	1,799.6	1,877.4	1,942.8	2,051.0	2,124.2	2,220.4
o/w: Claims on households	1,296.0	1,353.7	1,405.6	1,492.0	1,561.6	1,642.4	1,712.4	1,799.6	1,877.4	1,942.8	2,051.0	2,124.2	2,220.4
4. Claims on banks	181.4	59.6	59.7	52.2	46.6	46.6	88.8	58.3	52.1	55.2	76.5	87.5	133.6
5. Claims on other banking institutions	-	-	-	-	-	-	-	-	-	-	-	-	-
Total (1+2+3+4+5)	6,152.3	6,008.7	5,899.5	5,894.6	5,880.3	5,853.9	5,912.2	5,960.0	6,015.1	5,989.7	6,012.7	6,139.4	6,390.5
<b>LIABILITIES</b>													
1. Time deposits	5,803.6	5,711.4	5,579.7	5,588.1	5,577.6	5,531.0	5,555.4	5,589.1	5,643.9	5,610.9	5,656.4	5,798.8	6,037.9
2. Bonds and money market instruments	61.7	66.0	65.7	66.1	66.0	65.4	76.3	76.3	76.5	76.1	76.8	76.4	40.1
3. Capital accounts	244.7	237.1	230.6	223.0	235.7	236.5	242.5	254.7	231.6	244.8	238.0	194.6	303.0
4. Other items (net)	42.2	-5.9	23.4	17.5	1.0	21.0	37.9	40.0	63.1	57.9	41.5	69.5	9.6
Total (1+2+3+4)	6,152.3	6,008.7	5,899.5	5,894.6	5,880.3	5,853.9	5,912.2	5,960.0	6,015.1	5,989.7	6,012.7	6,139.4	6,390.5

**Table E1: Housing Savings Banks' Accounts**

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

Housing savings banks' required reserves held at the central bank include funds in vaults. Until September 2003, they also included kuna funds held in accounts at the central bank.

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

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

Claims on banks include loans to banks, as well as deposits with banks, including, from October 2003 on, accounts for regular operations with banks.

Claims on other banking institutions include investments in investment funds.

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

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

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

**Table F1: Credit Rates of the Croatian National Bank**

in percentage, on annual basis

Year	Month	CNB discount rate	CNB repo rate <sup>a</sup>	Credit rates					
				On Lombard credits <sup>b</sup>	On intervention credits	On intra-day refinance facility <sup>b</sup>	On short-term liquidity credits	On inaccurately calculated statutory reserves <sup>b</sup>	On arrears
1	2	3	4	5	6	7	8	9	10
1998	December	5.90	–	12.00	19.00	7.00	14.00	19.00	18.00
1999	December	7.90	–	13.00	19.00	–	14.00	19.00	18.00
2000	December	5.90	–	12.00	18.00	–	13.00	18.00	18.00
2001	December	5.90	–	10.00	–	–	11.00	15.00	18.00
2002	December	4.50	–	9.50	–	–	10.50	15.00	15.00
2003	December	4.50	–	9.50	–	–	10.50	15.00	15.00
2004	December	4.50	–	9.50	–	–	10.50	15.00	15.00
2005	December	4.50	3.50	7.50 <sup>c</sup>	–	–	8.50	15.00	15.00
2006	December	4.50	3.50	7.50	–	–	8.50	15.00	15.00
2007	January	4.50	3.50	7.50	–	–	8.50	15.00	15.00
	February	4.50	3.50	7.50	–	–	8.50	15.00	15.00
	March	4.50	3.50	7.50	–	–	8.50	15.00	15.00
	April	4.50	3.51	7.50	–	–	8.50	15.00	15.00
	May	4.50	3.50	7.50	–	–	8.50	15.00	15.00
	June	4.50	3.50	7.50	–	–	8.50	15.00	15.00
	July	4.50	3.50	7.50	–	–	8.50	15.00	15.00
	August	4.50	3.50	7.50	–	–	8.50	15.00	15.00
	September	4.50	3.50	7.50	–	–	8.50	15.00	15.00
	October	4.50	3.51	7.50	–	–	8.50	15.00	15.00
	November	4.50	3.86	7.50	–	–	8.50	15.00	15.00
	December	9.00 <sup>d</sup>	4.06	7.50	–	–	8.50	15.00	15.00

<sup>a</sup> Weighted averages of weighted repo rates achieved at regular reverse repo auctions of the CNB in the reporting month.<sup>b</sup> Breaks in the series of data are explained in notes on methodology.<sup>c</sup> Since 14 December 2005.<sup>d</sup> Since 31 December 2007.**Table F1: Credit Rates of the Croatian National Bank**

The table shows interest rates used by the CNB to calculate and charge interest on credits from the primary issue and on all other claims.

Credit rates of the CNB are set by decisions of the Council of the Croatian National Bank, on a yearly basis. Exceptionally, from June 1995 interest rate charged by the CNB on Lombard credits was 1.5 percentage points higher than the weighted average interest rate on CNB bills on a voluntary basis (which serve as collateral for Lombard credits) in cases when the weighted average interest rate was higher than 16.5%. Congruently, from June 1995 to August 1996 the table reports the weighted average interest rate on Lombard credits.

Time series presented in the table contain certain breaks, due to changes in the CNB's monetary policy instruments.

Data shown in column 4 refer to the weighted averages of the weighted repo rates achieved at regular reverse repo auctions of the CNB in the reporting month.

Data shown in column 7 refer, until September 1994, to interest rates on special credits for savings deposits' payments and for payments from households' current accounts, and from October 1994 until September 1997 to interest rates on daily credits for savings deposits and households' current accounts in kuna. Daily credits, as opposed to special credits, are paid back on the same day. In October 1997, this instrument was replaced by daily credits for overcoming short-term liquidity problems that are collateralised by CNB bills. From December 1998 to April 1999, this credit is incorporated in Lombard credit, applying different interest rate for its usage within one day.

Data shown in column 8 refer, until December 1994, to interest rate on initial credits, and since 18 March 1998, to credits for overcoming liquidity problems of banks under evaluation for entry into rehabilitation and restructuring procedures and since February 1999, to interest rates on short-term liquidity credits. From December 1999 on, data show interest rates on short-term liquidity credit with a maturity over 3 months which is 1 percentage point higher than interest rate on Lombard credits. Interest rate on short-term liquidity credit up to 3 months is 0.5 percentage point higher than interest rate on Lombard credits.

**Table F2: Deposit Rates of the Croatian National Bank**

in percentage, on annual basis

Year	Month	Interest rates on statutory reserves dep. with the CNB <sup>a</sup>	Interest rates on CNB bills on an obligatory basis	Interest rates on CNB bills on a voluntary basis <sup>a</sup>				Interest rates on f/c CNB bills on a voluntary basis					Interest rates on overnight deposits
				Due in 7 days	Due in 35 days	Due in 70 days	Due in 105 days	Due in 35 days	Due in 63 days	Due in 91 days	Due in 182 days	Due in 364 days	
1	2	3	4	5	6	7	8	9	10	11	12	13	14
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	December	1.25	–	–	–	–	–	–	–	–	–	–	–
2005	December	0.75	–	–	–	–	–	–	–	–	–	–	0.50
2006	December	0.75	–	–	–	–	–	–	–	–	–	–	0.50
2007	January	0.75	0.75	–	–	–	–	–	–	–	–	–	0.50
	February	0.75	0.75	–	–	–	–	–	–	–	–	–	0.50
	March	0.75	0.75	–	–	–	–	–	–	–	–	–	0.50
	April	0.75	0.75	–	–	–	–	–	–	–	–	–	0.50
	May	0.75	0.75	–	–	–	–	–	–	–	–	–	0.50
	June	0.75	0.75	–	–	–	–	–	–	–	–	–	0.50
	July	0.75	0.75	–	–	–	–	–	–	–	–	–	0.50
	August	0.75	0.75	–	–	–	–	–	–	–	–	–	0.50
	September	0.75	0.75	–	–	–	–	–	–	–	–	–	0.50
	October	0.75	0.75	–	–	–	–	–	–	–	–	–	0.50
	November	0.75	0.75	–	–	–	–	–	–	–	–	–	0.50
	December	0.75	0.75	–	–	–	–	–	–	–	–	–	0.50

<sup>a</sup> Breaks in the series of data are explained in notes on methodology.**Table F2: Deposit Rates of the Croatian National Bank**

The table shows interest rates used by the CNB to calculate and pay interest on funds deposited with the CNB and on issued securities.

Interest rates paid by the CNB for appropriated statutory reserve funds are set by a decision of the Council of the Croatian National Bank. Until April 2005, the appropriated statutory reserve funds included the calculated statutory reserve funds that were deposited in a special statutory reserve account with the CNB, or maintained (in average) in banks' settlement accounts, or deposited in a special account with the CNB for the settlement of net positions in the National Clearing System (NCS). From April 2005, they include the calculated statutory reserve funds allocated to a special statutory reserve account with the CNB (column 3).

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

Interest rates on CNB bills on a voluntary basis are set at CNB bills' auction sales. Congruently, columns 5, 6 and 7 report the weighted average interest rates attained at auctions of CNB bills. From November 1994 through January 2001, columns 7 and 8 report interest rates on CNB bills on a voluntary basis due in 91 and 182 days respectively.

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

Column 14 reports the interest rate on overnight deposits with the CNB.

**Table F3: Banks' Reserve Requirements**

daily averages and percentages, million kuna and %

Year	Month	Weighted average res. requirement in % on res. base	Reserve requirement (RR)			Other obligatory deposits with the CNB	Statutory reserves deposited with the CNB		Weighted avg. remuneration rate on immobilised 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
1998	December	29.57	13,112.7	3,967.2	9,145.4	57.4	3,469.8	1,467.6	5.28	....
1999	December	30.50	13,579.0	4,210.1	9,368.9	37.3	3,695.1	4,606.5	5.62	....
2000	December	23.22	16,245.8	4,646.8	11,599.0	5.0	4,191.6	5,544.6	4.05	....
2001	December	19.67	21,187.1	8,691.5	12,495.5	–	6,287.8	5,950.0	1.97	2.73
2002	December	19.00	25,985.1	11,447.1	14,538.0	–	8,156.7	7,139.9	1.72	2.16
2003	December	19.00	31,009.4	18,023.8	12,985.6	109.4	12,459.8	6,850.2	1.17	1.47
2004	December	18.00	33,615.7	20,040.9	13,574.8	430.1	14,664.1	10,171.3	1.22	1.36
2005	December	18.00	37,424.5	24,997.9	12,426.6	3,940.2	17,497.7	9,271.4	0.52	0.92
2006	December	17.00	40,736.4	28,966.1	11,770.4	7,332.5	20,257.0	8,780.9	0.52	1.06
2007	January	17.00	41,476.3	29,458.6	12,017.7	8,882.2	20,612.0	8,995.3	0.52	0.80
	February	17.00	42,175.6	29,856.1	12,319.6	10,594.0	20,899.2	9,262.3	0.52	0.96
	March	17.00	42,639.1	30,136.3	12,502.8	12,195.6	21,095.3	9,415.0	0.52	0.79
	April	17.00	42,852.8	30,325.7	12,527.1	12,307.9	21,227.9	9,422.4	0.52	0.82
	May	17.00	43,037.4	30,522.2	12,515.3	11,873.1	21,365.5	9,386.5	0.52	0.76
	June	17.00	42,911.2	30,522.2	12,389.0	10,858.6	21,365.6	9,250.8	0.52	1.03
	July	17.00	43,245.7	30,834.9	12,410.8	9,914.5	21,584.4	9,245.3	0.52	0.97
	August	17.00	43,516.6	31,062.2	12,454.4	9,068.2	21,743.6	9,212.6	0.52	0.93
	September	17.00	43,710.7	31,214.4	12,496.3	7,230.6	21,850.1	9,149.0	0.52	1.30
	October	17.00	44,001.4	31,402.4	12,599.0	5,244.5	21,981.7	9,133.8	0.53	1.19
	November	17.00	44,318.8	31,692.2	12,626.7	5,500.1	22,184.5	9,162.5	0.53	1.55
	December	17.00	44,465.9	31,809.1	12,656.8	6,641.1	22,266.4	9,203.5	0.53	1.29

**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 requirements (column 4) 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 currency claims (which include foreign cash and checks in foreign currency, liquid foreign currency 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. From September 2001 on, column 5 includes also the f/c component of reserve requirements that is set aside/maintained in kuna.

Column 6 shows the amount of foreign currency reserve requirements, i.e. the prescribed amount of funds banks are required to deposit in the CNB's foreign currency accounts, or to maintain (in average) in accounts of liquid claims. Until November 2000, the calculation base consisted of the average daily balances of household foreign currency savings deposits with a remaining maturity of up to 3 months, while starting from December 2000 the base consists of foreign currency sources of funds, including: ordinary foreign currency accounts, special foreign currency accounts, foreign currency accounts and foreign currency sight deposits, received foreign currency deposits and received foreign currency loans, as well as obligations arising from securities issued in foreign currency (excluding banks' equity securities). From November 2001 on, the base includes also hybrid and subordinated instruments.

Column 7 shows the total amount of other obligatory deposits with the CNB, including CNB bills on an obligatory basis, those CNB bills on a voluntary basis used by banks to maintain the prescribed minimal liquidity (LAR), special statutory reserves until July 1995, special reserve requirement on liabilities arising from issued securities from March 2006, statutory reserves on f/c deposits, f/c credits from foreign banks and guarantees for such credits and marginal reserve requirement (from August 2004).

Column 8 shows the portion of the kuna reserve requirement which banks deposit in a statutory reserve account with the CNB (until December 1994, this amount corresponded with the statutory reserve instrument, while since

January 1995 a minimum percentage of the total reserve requirement banks are required to deposit in a special statutory reserve account with the CNB has been prescribed). In April 2005, this percentage was set at 70%.

Column 9 shows the portion of the foreign currency reserve requirement which banks deposit in the CNB's foreign currency accounts. The percentage for allocating the foreign currency component of reserve requirements calculated on the basis of foreign currency funds of non-residents and foreign currency funds received from legal persons in a special relationship with a bank amounts to 100%, while the percentage for allocating the remaining portion of the foreign currency component of reserve requirements amounts to 60%.

Column 10 shows the weighted average remuneration rate on all forms of immobilised kuna funds which include reserve requirements and other obligatory deposits with the CNB.

Column 11 shows the weighted average remuneration rate on allocated funds in foreign currency, including the marginal reserve requirement funds (from August 2004 on). From June 2005 on, the CNB pays remuneration equalling 50% of the US Federal Funds Target Rate for the funds allocated in US dollars and 50% of the ECB Minimum Bid Refinance Rate for the funds allocated in euros. In both cases the rate in effect on the day of allocation is applied.

**Table F4: Banks' Liquidity Indicators**

daily averages and percentages, million kuna and %

Year	Month	Free reserves		Primary liquidity ratio	Secondary liquidity sources	Kuna CNB bills	F/c CNB bills	Kuna MoF treasury bills
		In kuna	In f/c					
1	2	3	4	5	6	7	8	9
1998	December	221.9	....	1.65	445.5	850.4	1,377.4	141.3
1999	December	179.6	....	1.30	1,183.6	1,311.1	1,507.6	373.9
2000	December	638.8	10,721.4	3.32	80.1	2,485.3	1,692.7	2,006.5
2001	December	794.4	17,247.4	3.23	2.6	2,656.2	2,630.8	3,360.9
2002	December	1,225.0	10,398.0	3.53	0.6	4,965.5	1,273.9	4,279.5
2003	December	451.6	20,561.4	0.98	501.6	0.0	4,316.0	3,073.2
2004	December	1,495.5	26,126.1	2.64	0.0	0.0	0.0	4,581.7
2005	December	672.5	20,493.4	0.96	0.2	0.0	0.0	4,163.3
2006	December	840.8	20,239.1	0.83	0.0	0.0	0.0	5,993.7
2007	January	560.9	19,754.3	0.55	0.1	0.0	0.0	6,830.1
	February	465.9	17,987.7	0.45	5.8	0.0	0.0	5,731.7
	March	599.2	17,066.6	0.58	5.7	0.0	0.0	4,954.9
	April	523.5	17,941.3	0.50	5.8	0.0	0.0	3,990.1
	May	604.4	18,619.1	0.57	5.7	0.0	0.0	2,954.1
	June	862.0	20,836.6	0.81	30.6	0.0	0.0	3,629.0
	July	948.2	22,189.3	0.87	61.0	0.0	0.0	2,502.7
	August	756.4	24,793.4	0.69	5.7	0.0	0.0	3,766.6
	September	1,253.9	26,547.4	1.14	93.3	0.0	0.0	3,999.5
	October	847.6	28,521.0	0.77	708.6	0.0	0.0	5,542.9
	November	694.8	29,523.2	0.62	1,195.3	0.0	0.0	6,642.4
	December	1,161.5	30,412.6	1.03	330.4	0.0	0.0	4,449.4

**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 cash and checks in foreign currency, liquid foreign currency claims maintained in the accounts with the high-grade foreign banks and foreign currency CNB bills) decreased by the minimal required balance of these funds in the same period.

Column 5 shows the primary liquidity ratio as a percentage of monthly day-to-day kuna free reserves averages (column 3) in monthly day-to-day averages of deposits which constitute the reserve base.

Column 6 shows the monthly average of day-to-day balances of secondary liquidity sources used. Secondary liquidity sources comprise: Lombard credits (since December 1994), short-term liquidity credits (since February 1999) and overdue liabilities to the CNB.

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

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

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

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

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

Year	Month	Money market interest rates		Interest rates on kuna credits not indexed to foreign currency									
		On overnight credits	On other credits	Total average	On short-term credits						On long-term credits		
					Total average	Enterprises	Households			Total average	Enterprises	Households	
1	2	3	4	5	6	7	8	9	10	11	12	13	
1998	December	10.00	15.91	16.06	16.22	14.89	20.77	20.80	19.92	11.73	11.48	13.16	
1999	December	9.92	12.78	13.54	13.52	10.55	20.83	20.84	20.39	15.14	15.31	14.16	
2000	December	2.39	4.45	10.45	10.45	6.81	20.30	20.33	19.05	9.90	9.64	12.97	
2001	December	2.49	2.18	9.51	9.49	5.43	18.81	18.85	14.88	11.42	10.06	13.14	
2002	December	1.58	1.89	10.91	11.24	7.44	15.16	15.28	9.84	7.32	6.48	7.88	
2003	December	5.47	7.02	11.45	11.80	8.02	14.89	15.01	12.38	8.51	6.14	10.69	
2004	December	3.55	6.02	11.44	11.71	8.33	14.19	14.27	12.29	9.31	6.90	11.16	
2005	December	2.29	3.61	9.91	9.99	7.71	11.26	13.18	5.35	8.75	6.48	10.35	
2006	December	2.02	3.52	9.07	9.37	6.75	11.84	13.21	4.67	7.53	5.86	9.44	
2007	January	1.79	3.57	9.56	9.72	6.92	11.96	13.10	4.54	8.54	6.35	9.45	
	February	2.19	3.79	9.59	9.83	7.03	12.10	13.18	4.71	8.40	6.79	9.39	
	March	2.68	3.60	8.99	9.45	6.68	12.14	13.17	4.82	7.44	5.79	9.17	
	April	3.24	3.76	9.36	9.64	6.80	12.22	13.16	5.08	8.11	6.38	9.07	
	May	3.84	4.27	9.21	9.52	6.74	12.23	13.16	5.55	7.96	6.54	8.79	
	June	5.11	5.54	9.28	9.69	7.03	12.29	13.18	5.12	7.84	6.52	8.77	
	July	4.87	6.50	9.13	9.51	6.77	12.30	13.17	5.34	7.75	6.64	8.45	
	August	2.85	4.25	9.46	10.02	7.12	12.16	13.23	4.95	7.42	6.53	7.95	
	September	4.05	5.27	9.53	10.06	7.04	12.27	13.22	5.72	7.80	6.53	8.17	
	October	6.25	7.75	9.02	9.33	7.23	10.80	13.22	4.55	7.60	6.84	7.87	
	November	6.41	7.47	9.52	10.00	7.24	12.36	13.22	4.97	7.43	6.83	7.74	
	December	5.33	6.71	9.32	9.74	7.39	12.34	13.19	4.95	7.50	6.66	8.01	
	<b>Relative significance<sup>a</sup></b>	–	–	<b>77.78</b>	<b>63.39</b>	<b>33.38</b>	<b>30.01</b>	<b>26.93</b>	<b>3.08</b>	<b>14.39</b>	<b>5.43</b>	<b>8.96</b>	

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

Note: A break in the time series occurred due to changes in the methodology used in interest rate statistics as of 1 January 2001. This especially refers to interest rates shown in columns 5, 6 and 7. Interbank credits, which bear relatively low interest rates, were, among others, excluded from short-term credits to enterprises. The increase in interest rates was also caused by the weighting method: all categories are weighted by the amounts of newly-granted credits, except credit lines whose relative share grew in the new coverage, which are weighted by book balances.

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

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

Up to December 2001, data refer to the 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.

From January 2002 on, data refer to the weighted averages of 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 show interest rates on the interbank money market, according to information published by the Zagreb Money Market (ZMM). From March 1996 on, interest rates on the money market are calculated as the weighted monthly averages of the weighted daily interest rates and shown separately for trading in overnight credits and trading in other credits on the ZMM. In the period between May 1998 and January 2001, the repayment of credits granted on the interbank overnight market was guaranteed by banks' required reserves with the CNB.

Columns 5 through 13 show the weighted averages of 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' interest rates on kuna credits not indexed to f/c are based on banks' periodic reports. The basis for the calculation of the 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 the weighted averages were calculated based on the balance of these loans at the end of the reporting month.

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

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

Year	Month	Interest rates on kuna credits indexed to foreign currency									Interest rates on credits in euros		
		Total average	On short-term credits			On long-term credits					Total average	On short-term credits	On long-term credits
			Total average	Enterprises	Households	Total average	Enterprises	Households					
								Total average	Housing credits	Other			
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1998	December	13.04	14.28	14.25	13.64	11.15	10.55	12.12	....	....	6.95	8.37	5.71
1999	December	12.53	13.66	13.54	17.21	10.81	10.46	11.65	....	....	6.75	7.43	6.07
2000	December	10.74	11.17	11.10	13.59	10.52	9.41	11.64	....	....	7.70	7.49	8.05
2001	December	9.29	9.45	9.45	11.30	9.20	7.52	10.79	....	....	5.94	5.70	7.27
2002	December	8.25	9.34	8.72	11.37	7.98	6.37	9.50	7.42	10.11	5.91	6.66	5.44
2003	December	7.07	7.21	7.00	8.66	7.03	5.76	8.04	6.02	9.70	5.62	6.22	5.18
2004	December	6.89	7.25	7.09	8.47	6.77	5.55	7.73	5.71	8.79	5.34	5.92	4.83
2005	December	6.18	6.52	6.34	7.91	6.07	5.18	6.98	4.95	8.10	5.29	5.28	5.30
2006	December	6.30	6.56	6.29	8.33	6.22	6.21	6.22	4.75	7.57	5.65	6.19	5.34
2007	January	6.15	6.39	6.11	7.75	6.10	5.84	6.28	4.75	7.73	6.00	6.31	5.64
	February	6.31	6.33	6.06	7.60	6.31	6.11	6.40	4.80	7.80	6.01	6.05	5.93
	March	6.33	6.53	6.44	6.80	6.30	6.03	6.44	4.87	7.69	6.12	6.15	6.09
	April	6.11	6.69	6.51	7.15	6.01	5.93	6.06	4.85	7.39	6.15	6.17	6.12
	May	6.12	6.56	6.59	6.49	6.05	6.32	5.91	4.90	7.11	6.28	6.41	6.03
	June	5.98	6.54	6.53	6.59	5.89	5.81	5.97	4.86	7.11	6.32	6.32	6.32
	July	6.11	6.33	6.20	7.17	6.05	5.96	6.15	4.92	7.26	6.52	6.58	6.44
	August	6.46	6.86	6.96	6.19	6.37	6.28	6.46	4.92	7.71	6.71	6.82	6.40
	September	6.86	6.74	6.80	6.55	6.89	6.56	7.07	4.96	8.16	6.73	6.74	6.69
	October	6.64	6.80	6.82	6.69	6.60	6.04	7.15	5.13	8.36	6.81	6.66	7.10
	November	6.37	5.85	5.84	6.19	6.88	6.37	7.23	5.23	8.59	6.63	6.96	6.34
	December	6.73	6.86	6.86	6.84	6.66	6.51	6.80	5.12	8.24	6.79	6.59	7.10
	Relative significance <sup>a</sup>	16.58	5.86	5.35	0.51	10.71	5.04	5.67	2.62	3.05	5.65	3.42	2.22

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

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

The table contains the weighted averages of 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 the 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.

From January 2002 on, data refer to the weighted averages of 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' interest rates on kuna credits indexed to f/c and on credits in euros are based on banks' periodic reports. The basis for the calculation of the weighted averages are amounts of credits bearing corresponding interest rates, which were disbursed during the reporting month.

Columns 3 through 11 show the weighted averages of 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 the weighted averages are calculated based on their kuna equivalent using the current exchange rate. Credits released in other currencies are not included in this table.

**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
1998	December	4.11	2.31	7.73	7.63	9.47	7.15	10.19	10.72	9.56
1999	December	4.27	2.24	8.87	8.79	9.62	8.38	10.96	11.56	10.18
2000	December	3.40	1.64	7.20	7.13	7.44	7.03	8.89	9.19	8.63
2001	December	2.76	1.40	5.68	5.60	6.35	5.38	7.35	7.93	6.70
2002	December	1.55	0.94	3.64	3.53	4.39	2.86	6.05	7.24	3.23
2003	December	1.66	0.75	4.46	4.46	3.62	4.69	4.58	4.90	2.82
2004	December	1.83	0.74	4.11	4.11	3.93	4.13	4.10	4.65	3.30
2005	December	1.58	0.61	3.36	3.34	3.89	3.23	4.12	5.04	3.49
2006	December	1.91	0.56	2.98	2.94	4.10	2.69	4.32	4.98	3.11
2007	January	2.06	0.54	3.56	3.43	4.15	3.12	4.07	4.72	3.97
	February	2.07	0.53	3.46	3.41	4.13	3.12	4.46	4.85	3.65
	March	2.05	0.54	3.48	3.34	4.04	3.10	4.13	4.82	4.02
	April	2.06	0.54	3.58	3.44	4.03	3.24	4.28	5.20	4.14
	May	2.16	0.55	3.75	3.65	4.12	3.50	4.32	5.20	4.16
	June	2.40	0.55	4.55	4.52	4.12	4.63	4.75	5.15	4.68
	July	2.45	0.49	4.95	4.86	4.20	5.02	5.88	5.30	6.03
	August	2.37	0.48	4.25	4.14	4.31	4.10	5.20	5.51	5.13
	September	2.50	0.49	4.82	4.69	4.29	4.77	6.04	5.44	6.23
	October	2.60	0.47	5.65	5.57	4.43	5.77	6.36	5.66	6.54
	November	2.64	0.47	5.94	5.91	4.41	6.21	6.24	5.40	6.45
	December	2.67	0.49	5.42	5.34	4.47	5.48	6.28	5.45	6.45
<b>Relative significance<sup>a</sup></b>		<b>62.38</b>	<b>34.45</b>	<b>24.98</b>	<b>22.68</b>	<b>3.16</b>	<b>19.52</b>	<b>2.30</b>	<b>0.37</b>	<b>1.93</b>

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

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

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

Up to December 2001, data refer to the 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.

From January 2002 on, data refer to the weighted averages of 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' interest rates on kuna deposits not indexed to f/c are based on banks' periodic reports.

Column 3 reports the 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 the 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 the weighted averages of monthly interest rates on total time deposits not indexed to f/c.

The basis for the calculation of the 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 the calculation of the weighted averages for deposits in giro and current accounts are the end-of-month book balances of those deposits. The 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 the weighted averages.

**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
1998	December	7.47	7.67	5.58	3.98	2.09	2.38	2.40	0.72	0.74
1999	December	6.62	6.91	1.10	4.23	1.80	1.95	2.04	0.78	1.30
2000	December	5.54	5.94	2.16	3.47	1.03	0.99	1.23	0.65	1.29
2001	December	4.58	4.92	2.56	2.60	0.71	0.71	0.81	0.82	0.40
2002	December	2.92	3.45	1.48	2.55	0.50	0.52	0.41	0.52	0.38
2003	December	3.48	3.74	5.55	2.22	0.31	0.35	0.23	0.23	0.15
2004	December	4.17	3.61	5.19	2.65	0.31	0.34	0.22	0.22	0.21
2005	December	3.99	3.63	4.77	2.61	0.27	0.27	0.17	0.27	0.76
2006	December	3.67	3.30	4.07	2.94	0.25	0.23	0.17	0.32	0.44
2007	January	3.85	3.98	4.22	2.99	0.25	0.23	0.16	0.37	0.40
	February	3.96	3.56	4.31	3.01	0.25	0.23	0.17	0.34	0.46
	March	4.15	3.52	4.46	3.04	0.25	0.23	0.16	0.33	0.45
	April	3.85	3.54	4.37	3.13	0.25	0.23	0.16	0.35	0.43
	May	3.71	3.58	4.51	3.11	0.25	0.24	0.17	0.36	0.40
	June	3.89	3.74	4.58	3.08	0.26	0.24	0.17	0.35	0.59
	July	3.68	3.89	4.76	3.22	0.25	0.23	0.17	0.34	0.48
	August	3.96	3.79	4.74	3.33	0.26	0.23	0.17	0.33	0.60
	September	4.12	3.74	4.64	3.28	0.25	0.23	0.16	0.32	0.58
	October	4.13	3.80	4.56	3.38	0.25	0.23	0.16	0.32	0.63
	November	3.85	4.18	4.30	3.41	0.27	0.22	0.15	0.41	0.65
	December	3.98 <sup>b</sup>	3.76	4.35	3.44	0.25	0.22	0.15	0.36	0.43
	Relative significance <sup>a</sup>	0.77	0.66	0.09	36.86	19.52	13.44	1.55	3.99	0.53

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

<sup>b</sup> Of the total amount of deposits to which this interest rate refers, 17.20% 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 the weighted averages of 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 the 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.

From January 2002 on, data refer to the weighted averages of 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' interest rates on kuna deposits indexed to f/c and on foreign currency deposits are based on banks' periodic reports.

Column 3 reports the 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 the weighted averages of monthly interest rates on time deposits are shown in column 4 (short-term deposits) and column 5 (long-term deposits) respectively.

Up to December 2001, interest rates on foreign currency deposits refer to deposits received in German marks or US dollars, and starting from January 2002, they refer to deposits received in euros and US dollars, while the weighted averages are calculated based on their kuna equivalent using the current exchange rate. Deposits received in other currencies are not included in this table.

The basis for the calculation of the 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 the calculation of the weighted averages for savings deposits indexed to f/c are the end-of-month book balances of those deposits. From January 2002 on, the 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.

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

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

Year	Month	Interest rates on foreign currency deposits										
		Total average	On time deposits									
			Total average	On short-term deposits				Total average	On long-term deposits			
				Households		Enterprises			Households		Enterprises	
1	2	12	13	14	15	16	17	18	19	20	21	22
1998	December	4.89	4.49	5.42	6.16	2.84	5.37	7.29	7.68	8.59	4.93	6.92
1999	December	5.43	5.17	4.93	6.39	3.97	6.00	6.59	6.64	8.09	3.66	6.77
2000	December	4.57	4.36	3.65	5.15	4.59	6.62	5.56	5.17	6.61	5.97	8.53
2001	December	3.54	3.35	3.42	3.23	3.60	2.44	4.59	4.72	4.42	4.58	0.23
2002	December	3.13	2.96	3.27	2.21	2.89	1.43	4.59	4.69	3.84	3.46	2.30
2003	December	2.64	2.46	2.83	1.65	2.29	1.08	3.69	4.71	3.13	2.85	1.64
2004	December	2.85	2.65	3.01	1.69	2.46	2.28	4.20	4.85	3.13	3.61	2.65
2005	December	3.07	2.94	2.99	1.76	2.63	4.34	3.69	4.25	0.48	4.39	–
2006	December	3.82	3.76	3.16	2.05	4.24	5.84	4.25	4.47	2.26	4.79	4.61
2007	January	3.80	3.71	3.19	2.14	4.39	5.78	4.44	4.51	3.32	3.79	6.29
	February	3.86	3.77	3.21	2.15	4.50	5.88	4.45	4.54	3.97	2.65	2.00
	March	3.87	3.77	3.16	2.08	4.59	5.89	4.47	4.56	3.71	3.95	1.81
	April	3.92	3.84	3.16	2.10	4.74	5.96	4.53	4.59	3.89	4.24	–
	May	4.00	3.93	3.21	2.09	4.51	5.57	4.52	4.58	3.64	4.17	5.17
	June	4.05	4.02	3.20	2.16	4.80	5.72	4.30	4.31	3.71	4.94	–
	July	4.23	4.17	3.28	2.11	4.87	6.02	4.69	4.71	3.84	5.25	2.96
	August	4.16	4.05	3.43	2.24	4.67	5.89	4.79	4.80	3.90	5.49	–
	September	4.16	4.09	3.37	2.16	4.76	5.92	4.67	4.72	3.48	4.85	4.85
	October	4.30	4.25	3.39	2.52	4.95	5.95	4.72	4.77	3.80	4.92	0.00
	November	4.34	4.28	3.50	2.49	5.00	5.61	4.74	4.79	3.58	4.84	3.11
	December	4.32	4.25	3.47	2.60	5.10	5.33	4.80	4.83	3.84	5.13	2.19
<b>Relative significance<sup>a</sup></b>		<b>17.34</b>	<b>15.11</b>	<b>7.36</b>	<b>0.47</b>	<b>5.98</b>	<b>1.30</b>	<b>2.23</b>	<b>2.07</b>	<b>0.08</b>	<b>0.08</b>	<b>0.00</b>

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

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 indexed to f/c, which are weighted by the end-of-month balances of all categories included in the calculation.

The basis for the calculation of the 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 the calculation of the 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 the 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).

**Table G5: Banks' Trade with Foreign Exchange**

million euros, current exchange rate

	2006		2007										
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
<b>A. Purchase of foreign exchange</b>													
1. Legal persons	1,505.1	2,055.5	1,157.5	1,362.0	1,534.5	1,947.7	1,511.1	2,339.2	1,663.7	1,790.3	4,063.7	3,721.8	3,217.9
2. Natural persons	398.0	376.1	403.3	418.0	634.8	586.1	452.6	639.3	589.2	901.0	673.6	321.8	292.1
2.1. Residents	379.5	361.4	379.7	393.0	593.8	537.8	385.0	533.3	486.4	810.5	643.8	306.6	281.1
2.2. Non-residents	18.5	14.8	23.6	25.0	40.9	48.3	67.6	106.0	102.9	90.5	29.8	15.3	11.0
3. Domestic banks	1,530.6	1,375.2	1,219.7	1,518.0	1,572.8	1,493.7	1,536.5	1,308.3	1,026.7	1,443.3	2,939.8	1,844.4	2,862.9
4. Foreign banks	618.2	673.5	545.0	614.0	597.7	293.7	282.1	346.4	202.0	212.6	641.8	269.1	516.3
5. Croatian National Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total (1+2+3+4)	4,051.8	4,480.4	3,325.6	3,912.0	4,339.8	4,321.2	3,782.3	4,633.1	3,481.6	4,347.1	8,318.9	6,157.2	6,889.2
<b>B. Sale of foreign exchange</b>													
1. Legal persons	1,960.8	1,911.8	1,669.6	1,795.5	1,803.7	2,117.9	1,989.3	2,154.4	2,116.2	2,376.4	4,072.6	3,532.8	3,023.8
2. Natural persons	331.1	257.0	228.1	274.3	480.5	261.5	197.9	402.2	390.9	264.1	508.6	371.8	320.1
2.1. Residents	327.9	255.2	226.2	271.6	477.8	259.3	192.0	397.6	386.5	261.2	505.9	368.4	318.6
2.2. Non-residents	3.2	1.7	1.9	2.7	2.8	2.3	5.9	4.6	4.5	2.9	2.6	3.4	1.5
3. Domestic banks	1,530.6	1,375.2	1,219.7	1,518.0	1,572.8	1,493.7	1,536.5	1,308.3	1,026.7	1,443.3	2,939.8	1,844.4	2,862.9
4. Foreign banks	267.2	360.2	191.1	168.4	159.8	581.9	371.7	529.4	251.2	359.3	418.9	284.9	395.9
5. Croatian National Bank	0.0	177.0	0.0	0.0	0.0	0.0	0.0	139.0	0.0	0.0	355.2	0.0	167.8
Total (1+2+3+4)	4,089.6	4,081.1	3,308.6	3,756.1	4,016.8	4,455.0	4,095.5	4,533.3	3,785.0	4,443.0	8,295.1	6,034.0	6,770.5
<b>C. Net purchase (A-B)</b>													
1. Legal persons	-455.6	143.8	-512.1	-433.4	-269.2	-170.2	-478.2	184.7	-452.5	-586.2	-8.9	189.0	194.1
2. Natural persons	66.9	119.2	175.3	143.8	154.3	324.6	254.7	237.1	198.3	636.9	165.1	-50.0	-28.0
2.1. Residents	51.6	106.2	153.5	121.4	116.1	278.5	193.0	135.7	99.9	549.3	137.9	-61.8	-37.5
2.2. Non-residents	15.3	13.0	21.7	22.4	38.2	46.0	61.7	101.4	98.4	87.6	27.2	11.9	9.6
3. Foreign banks	351.0	313.3	353.9	445.6	437.9	-288.1	-89.6	-183.0	-49.2	-146.7	222.8	-15.8	120.4
4. Croatian National Bank	0.0	-177.0	0.0	0.0	0.0	0.0	0.0	-139.0	0.0	0.0	-355.2	0.0	-167.8
Total (1+2+3)	-37.8	399.3	17.0	155.9	323.0	-133.8	-313.2	99.9	-303.4	-96.0	23.8	123.2	118.7
Memo items: Other Croatian National Bank transactions													
Purchase of foreign exchange	3.1	0.0	0.0	0.2	0.0	0.3	0.6	0.2	0.0	0.3	0.2	0.8	2.5
Sale of foreign exchange	415.9	57.0	0.0	64.9	30.8	0.0	5.0	0.0	0.0	3.3	10.9	0.0	5.0

**Table G5: Banks' Trade with Foreign Exchange**

Data on trade with foreign exchange between banks comprise the spot purchase and sale of foreign exchange in domestic foreign exchange 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 external 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	2005	2006	2007 <sup>a</sup>	2007			
						Q1	Q2	Q3	Q4 <sup>a</sup>
<b>A. CURRENT ACCOUNT (1+6)</b>	-1,888.8	-1,433.7	-1,975.6	-2,692.4	-3,206.4	-2,021.3	-1,380.7	2,087.2	-1,891.7
<b>1. Goods, services, and income (2+5)</b>	-3,133.3	-2,625.5	-3,159.5	-3,798.6	-4,251.4	-2,266.8	-1,650.5	1,824.0	-2,158.1
1.1. Credit	13,590.1	14,952.8	15,990.2	17,888.9	19,660.9	3,130.0	4,849.4	7,721.2	3,960.3
1.2. Debit	-16,723.5	-17,578.3	-19,149.7	-21,687.5	-23,912.3	-5,396.8	-6,499.9	-5,897.2	-6,118.4
<b>2. Goods and services (3+4)</b>	-2,038.1	-1,955.3	-2,200.2	-2,633.8	-3,114.0	-2,060.5	-1,003.1	2,015.7	-2,066.1
2.1. Credit	13,140.6	14,243.5	15,272.9	16,997.7	18,371.5	2,817.8	4,517.7	7,407.7	3,628.2
2.2. Debit	-15,178.7	-16,198.8	-17,473.2	-19,631.5	-21,485.5	-4,878.4	-5,520.8	-5,392.0	-5,694.4
<b>3. Goods</b>	-6,971.2	-6,724.2	-7,518.0	-8,344.2	-9,434.0	-2,159.1	-2,528.1	-2,310.6	-2,436.2
3.1. Credit	5,574.7	6,606.8	7,220.3	8,463.6	9,192.5	2,046.3	2,308.9	2,360.8	2,476.5
3.2. Debit	-12,545.9	-13,330.9	-14,738.3	-16,807.8	-18,626.5	-4,205.5	-4,837.0	-4,671.4	-4,912.6
<b>4. Services</b>	4,933.0	4,768.9	5,317.7	5,710.4	6,319.9	98.6	1,525.0	4,326.3	370.0
4.1. Credit	7,565.9	7,636.7	8,052.6	8,534.1	9,179.0	771.5	2,208.8	5,046.9	1,151.7
4.2. Debit	-2,632.8	-2,867.8	-2,734.9	-2,823.7	-2,859.1	-672.9	-683.8	-720.6	-781.7
<b>5. Income</b>	-1,095.2	-670.2	-959.2	-1,164.8	-1,137.4	-206.3	-647.4	-191.7	-92.0
5.1. Credit	449.5	709.3	717.3	891.2	1,289.4	312.1	331.7	315.5	332.1
5.2. Debit	-1,544.7	-1,379.6	-1,676.5	-2,056.0	-2,426.8	-518.4	-979.1	-505.2	-424.1
<b>6. Current transfers</b>	1,244.5	1,191.8	1,183.8	1,106.2	1,045.0	245.5	269.8	263.2	266.5
6.1. Credit	1,538.7	1,584.6	1,628.4	1,638.3	1,573.9	356.1	403.2	387.9	426.8
6.2. Debit	-294.2	-392.8	-444.6	-532.1	-529.0	-110.6	-133.4	-124.7	-160.4
<b>B. CAPITAL AND FINANCIAL ACCOUNT</b>	2,716.9	2,483.6	2,929.9	3,583.9	4,144.0	1,309.0	1,417.4	126.7	1,290.9
<b>B1. Capital account</b>	101.9	31.4	53.8	-133.8	34.2	7.0	9.0	12.7	5.4
<b>B2. Financial account, excl. reserves</b>	3,850.5	2,495.3	3,697.9	5,129.9	4,831.4	2,110.1	1,072.5	-196.5	1,845.3
<b>1. Direct investment</b>	1,656.9	670.8	1,275.8	2,561.2	3,419.4	1,261.4	950.6	500.3	707.1
1.1. Abroad	-105.5	-278.8	-192.1	-176.7	-206.5	-99.2	-64.0	-33.8	-9.4
1.2. In Croatia	1,762.4	949.6	1,467.9	2,737.9	3,625.9	1,360.6	1,014.6	534.1	716.6
<b>2. Portfolio investment</b>	867.6	287.1	-1,177.9	-547.3	-34.8	-387.4	36.3	184.8	131.5
2.1. Assets	121.6	-736.1	-571.2	-472.5	-404.6	-314.5	-328.9	69.5	169.3
2.2. Liabilities	746.0	1,023.2	-606.7	-74.9	369.8	-72.9	365.2	115.3	-37.8
<b>3. Financial derivatives</b>	0.0	0.0	-88.4	0.0	0.0	0.0	0.0	0.0	0.0
<b>4. Other investment</b>	1,326.0	1,537.4	3,688.4	3,116.0	1,446.8	1,236.1	85.6	-881.6	1,006.7
4.1. Assets	-2,216.9	-575.1	898.7	-774.5	-1,613.3	331.5	-340.2	-1,042.4	-562.3
4.2. Liabilities	3,542.9	2,112.4	2,789.7	3,890.6	3,060.1	904.6	425.8	160.7	1,569.0
<b>B3. Reserve assets</b>	-1,235.5	-43.0	-821.8	-1,412.2	-721.6	-808.1	335.9	310.5	-559.8
<b>C. NET ERRORS AND OMISSIONS</b>	-828.1	-1,049.9	-954.2	-891.4	-937.5	712.3	-36.7	-2,213.9	600.7

<sup>a</sup> Preliminary data.

Note: The item net errors and omissions also comprises the counter-entry of a part of revenues from travel services which relates to such revenues not stated in the banks' records.

Table: H1-H6: Balance of Payments

The balance of payments of the Republic of Croatia represents a systematic overview of the value of economic transactions performed by the Croatian residents with foreign countries within a particular period. It is compiled in accordance with the recommendations of the International Monetary Fund (Balance of Payments Manual, Fifth Edition, 1993). Data sources include: 1. reports of the government institutions (Central Bureau of Statistics and Croatian Institute for Health Insurance), 2. special reports of the Croatian National Bank (International Transaction Reporting System (ITRS), external debt relations, monetary statistics and reserve assets) and 3. estimates and statistical research carried out by the Croatian National Bank.

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

- by applying the midpoint exchange rate on the date of the transaction;
- by applying the average monthly or quarterly midpoint exchange rate in the case the transaction date is not available;
- by applying the end-of-period exchange rate for the calculation of a change in the transaction value between the two periods; the end-of-period balances reported in the original currency serve as a basis for calculating the change in the original currency value, which is converted, by applying the average midpoint exchange rate in the observed period, into the value of change in the reporting currency.

Table H2: Balance of Payments – Goods and Services

million euros

	2003	2004	2005	2006	2007 <sup>a</sup>	2007			
						Q1	Q2	Q3	Q4 <sup>a</sup>
<b>Goods</b>	<b>-6,971.2</b>	<b>-6,724.2</b>	<b>-7,518.0</b>	<b>-8,344.2</b>	<b>-9,434.0</b>	<b>-2,159.1</b>	<b>-2,528.1</b>	<b>-2,310.6</b>	<b>-2,436.2</b>
<b>1. Credit</b>	<b>5,574.7</b>	<b>6,606.8</b>	<b>7,220.3</b>	<b>8,463.6</b>	<b>9,192.5</b>	<b>2,046.3</b>	<b>2,308.9</b>	<b>2,360.8</b>	<b>2,476.5</b>
1.1. Exports (f.o.b.) in trade statistics	5,464.4	6,453.8	7,069.4	8,251.6	9,001.6	2,009.8	2,265.5	2,301.5	2,424.8
1.2. Adjustments for coverage	110.4	153.0	150.9	212.0	191.0	36.5	43.4	59.3	51.7
<b>2. Debit</b>	<b>-12,545.9</b>	<b>-13,330.9</b>	<b>-14,738.3</b>	<b>-16,807.8</b>	<b>-18,626.5</b>	<b>-4,205.5</b>	<b>-4,837.0</b>	<b>-4,671.4</b>	<b>-4,912.6</b>
2.1. Imports (c.i.f.) in trade statistics	-12,538.0	-13,354.4	-14,949.5	-17,104.7	-18,826.6	-4,270.2	-4,888.2	-4,704.3	-4,963.9
2.2. Adjustments for coverage	-475.6	-474.7	-346.4	-341.1	-370.4	-64.6	-96.9	-109.7	-99.2
2.3. Adjustments for classification	467.7	498.1	557.6	638.0	570.4	129.4	148.1	142.5	150.4
<b>Services</b>	<b>4,933.0</b>	<b>4,768.9</b>	<b>5,317.7</b>	<b>5,710.4</b>	<b>6,319.9</b>	<b>98.6</b>	<b>1,525.0</b>	<b>4,326.3</b>	<b>370.0</b>
<b>1. Transportation</b>	<b>252.2</b>	<b>299.3</b>	<b>376.1</b>	<b>424.7</b>	<b>449.5</b>	<b>89.2</b>	<b>114.3</b>	<b>154.4</b>	<b>91.6</b>
1.1. Credit	696.3	791.3	880.3	987.9	1,084.3	226.6	275.7	326.5	255.6
1.2. Debit	-444.1	-492.0	-504.2	-563.2	-634.8	-137.4	-161.4	-172.0	-164.0
<b>2. Travel</b>	<b>4,976.6</b>	<b>4,822.3</b>	<b>5,394.9</b>	<b>5,708.7</b>	<b>6,034.0</b>	<b>101.1</b>	<b>1,457.9</b>	<b>4,133.3</b>	<b>341.6</b>
2.1. Credit	5,572.7	5,505.6	5,998.9	6,293.3	6,747.9	262.4	1,629.6	4,316.5	539.4
2.1.1. Business	260.9	328.2	504.0	388.4	389.2	56.5	125.7	120.2	86.6
2.1.2. Personal	5,311.8	5,177.4	5,494.9	5,904.9	6,358.8	205.9	1,503.9	4,196.3	452.7
2.2. Debit	-596.1	-683.3	-604.1	-584.6	-714.0	-161.3	-171.7	-183.2	-197.8
2.2.1. Business	-292.3	-297.3	-267.4	-229.5	-266.9	-44.5	-60.2	-71.9	-90.3
2.2.2. Personal	-303.8	-386.0	-336.7	-355.1	-447.0	-116.8	-111.4	-111.2	-107.5
3. Other services	-295.8	-352.7	-453.3	-422.9	-163.5	-91.7	-47.3	38.5	-63.1
3.1. Credit	1,296.9	1,339.8	1,173.4	1,252.9	1,346.7	282.5	303.5	403.9	356.8
3.2. Debit	-1,592.7	-1,692.5	-1,626.6	-1,675.8	-1,510.3	-374.2	-350.8	-365.4	-419.9

<sup>a</sup> Preliminary data.

The Report of the Central Bureau of Statistics on foreign trade in goods 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 importers), while from 2002 on it has amounted to 3.73%. The same research study, conducted by the CNB at the end of 2006 (comprising the imports in the previous year), showed that the share of transportation and insurance costs, after continuing to decrease, has reached 3.03%. This share was first applied in the calculations for the first quarter of 2007. 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. From 1996 on, goods exports and imports are modified by the data on repairs on goods and goods procured in ports by carriers. In addition, since 1999, based on the Survey on Consumption of Foreign Travellers in Croatia and Domestic Travellers Abroad, the item of goods exports has been modified by the estimated value of goods sold to foreign travellers and tourists and taken out of the Republic of Croatia. The item of goods imports is adjusted for the estimated value of goods imported personally by the Croatian citizens from the neighbouring countries (shopping expenditures).

Transportation, travel and other services are reported separately under service account. Revenues and expenditures on the basis of transportation, in the 1993-1998 period, were adopted from the ITRS. From 1999 on, revenues and expenditures arising from transportation of goods and passengers, as well as the value of accompanying services, which together constitute the total value of these services, are compiled on the basis of the results of the Research on transactions related to international transportation services, carried out by the CNB. Owing to an exceptionally large population of road carriers, revenues and expenditures on the basis of road transportation are not adopted from this research. They are compiled by using ITRS data. As regards transportation of goods, expenditures are supplemented by a portion of transportation and insurance costs related to imports of goods which belongs to non-residents and which is estimated by adjusting the value of imports at c.i.f. parity to the value of imports f.o.b.

Revenues from services rendered to foreign travellers and tourists, as well as expenditures incurred by domestic travellers and tourists abroad are shown under the position Travel. In the 1993-1998 period, this position was assessed by using various data sources which did not provide for a full coverage in accordance with the recommended methodology. Accordingly, in the second half of 1998, the Croatian National Bank started to carry out the Survey on Consumption of Foreign Travellers in Croatia and Domestic Travellers Abroad and use its results for compiling the Travel position. Since early 1999, the results of this Survey, based on carrying out a survey of

Table H3: Balance of Payments – Income and Current Transfers

million euros

	2003	2004	2005	2006	2007 <sup>a</sup>	2007			
						Q1	Q2	Q3	Q4 <sup>a</sup>
<b>Income</b>	<b>-1,095.2</b>	<b>-670.2</b>	<b>-959.2</b>	<b>-1,164.8</b>	<b>-1,137.4</b>	<b>-206.3</b>	<b>-647.4</b>	<b>-191.7</b>	<b>-92.0</b>
<b>1. Compensation of employees</b>	<b>183.9</b>	<b>233.9</b>	<b>259.7</b>	<b>373.2</b>	<b>494.2</b>	<b>118.1</b>	<b>122.7</b>	<b>125.5</b>	<b>127.9</b>
1.1. Credit	217.3	268.3	289.2	404.3	527.8	125.4	130.5	133.4	138.5
1.2. Debit	-33.4	-34.4	-29.5	-31.1	-33.6	-7.3	-7.8	-7.9	-10.6
<b>2. Direct investment income</b>	<b>-854.7</b>	<b>-441.6</b>	<b>-739.0</b>	<b>-983.8</b>	<b>-936.2</b>	<b>-171.6</b>	<b>-598.7</b>	<b>-135.3</b>	<b>-30.6</b>
2.1. Credit	35.2	175.6	112.7	79.2	170.4	57.9	58.1	34.4	19.9
o/w: Reinvested earnings	31.7	165.8	63.8	63.7	119.6	47.0	48.0	26.5	-1.9
2.2. Debit	-889.9	-617.3	-851.8	-1,063.0	-1,106.6	-229.5	-656.8	-169.7	-50.6
o/w: Reinvested earnings	-587.9	-291.7	-570.5	-697.9	-495.6	-60.6	-322.4	-104.0	-8.5
<b>3. Portfolio investment income</b>	<b>-238.7</b>	<b>-250.0</b>	<b>-217.6</b>	<b>-175.9</b>	<b>-158.6</b>	<b>-39.5</b>	<b>-40.2</b>	<b>-43.9</b>	<b>-35.1</b>
3.1. Credit	0.0	32.7	46.2	57.4	75.1	15.2	21.2	16.0	22.6
3.2. Debit	-238.7	-282.7	-263.8	-233.3	-233.7	-54.7	-61.4	-59.9	-57.7
<b>4. Other investment income</b>	<b>-185.7</b>	<b>-212.5</b>	<b>-262.3</b>	<b>-378.2</b>	<b>-536.7</b>	<b>-113.2</b>	<b>-131.2</b>	<b>-138.1</b>	<b>-154.2</b>
4.1. Credit	197.0	232.6	269.1	350.4	516.1	113.6	121.9	129.6	151.0
4.2. Debit	-382.7	-445.2	-531.5	-728.6	-1,052.8	-226.8	-253.1	-267.7	-305.3
<b>Current transfers</b>	<b>1,244.5</b>	<b>1,191.8</b>	<b>1,183.8</b>	<b>1,106.2</b>	<b>1,045.0</b>	<b>245.5</b>	<b>269.8</b>	<b>263.2</b>	<b>266.5</b>
<b>1. General government</b>	<b>70.5</b>	<b>2.6</b>	<b>9.7</b>	<b>-8.6</b>	<b>-16.7</b>	<b>-6.0</b>	<b>-4.2</b>	<b>-13.8</b>	<b>7.4</b>
1.1. Credit	213.1	180.1	219.6	255.7	260.2	54.6	65.6	53.7	86.3
1.2. Debit	-142.6	-177.5	-209.9	-264.4	-276.8	-60.7	-69.7	-67.5	-78.9
<b>2. Other sectors</b>	<b>1,174.0</b>	<b>1,189.2</b>	<b>1,174.1</b>	<b>1,114.8</b>	<b>1,061.7</b>	<b>251.5</b>	<b>274.0</b>	<b>277.0</b>	<b>259.1</b>
2.1. Credit	1,325.6	1,404.5	1,408.8	1,382.5	1,313.8	301.4	337.6	334.2	340.6
2.2. Debit	-151.6	-215.3	-234.6	-267.7	-252.1	-49.9	-63.6	-57.1	-81.5

<sup>a</sup> Preliminary data.

travellers (stratified sample) at border crossings, have been combined with the Ministry of the Interior data on total number of foreign and domestic travellers, along with the data on distribution of foreign travellers by countries contained in the CBS Report on tourism, in order to assess the corresponding balance of payment items.

Other services position is compiled by using different data sources: apart from revenues and expenditures related to insurance and communication services, which have been determined by the CNB special statistical research since 2001, the values of all other services are adopted from the ITRS.

Transactions in the income account are classified into four main groups. Compensation of employees item is compiled on the basis of the ITRS. Income from direct investment, portfolio investment and other investment are reported separately. Data on reinvested earnings are reported separately, under direct investment income, calculated on the basis of the CNB Research on direct and other equity investment. In contrast to data on dividends, these data are not available for the 1993-1996 period, since at that time they were not reported separately. On the basis of statistical data on external debt relations, starting from 1997, income from direct investment includes data on interest arising from credit relations between residents and non-residents directly related through ownership. Income from equity portfolio investment is compiled on the basis of the same research, whereas data on debt portfolio investment income have been compiled since 1999, based on statistics on foreign credit relations, which also encompass income related to debt securities owned by non-residents. Income from other investments includes the calculation of interest in accordance with the foreign credit relations statistics. The methodology for compiling the statistics on debt investment income has been changed in 2007 to include the reporting of income on an accrual basis. This basically means that income from debt investment and interest are reported at the point in time when they accrue and not at the point in time when they mature or when they are paid. As a result, the historical data for the 1999-2006 period have been revised.

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 cooperation, whereas other sectors include data on workers' remittances. Current transfers of the general government sector also include data on exports and imports of goods without a payment obligation, provided by the CBS. In the 1993-1998 period, current transfers of other sectors also encompassed an estimate of unregistered foreign currency remittances, which accounted for 15% of the positive difference between unclassified inflows and outflows of the household sector. From 1993 to the second quarter of 1996, the CNB also assessed a portion of the outflow based on current transfers. From 2002 on, 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.

**Table H4: Balance of Payments – Direct and Portfolio Investments**

million euros

	2003	2004	2005	2006	2007 <sup>a</sup>	2007			
						Q1	Q2	Q3	Q4 <sup>a</sup>
<b>Direct investment</b>	<b>1,656.9</b>	<b>670.8</b>	<b>1,275.8</b>	<b>2,561.2</b>	<b>3,419.4</b>	<b>1,261.4</b>	<b>950.6</b>	<b>500.3</b>	<b>707.1</b>
<b>1. Abroad</b>	<b>-105.5</b>	<b>-278.8</b>	<b>-192.1</b>	<b>-176.7</b>	<b>-206.5</b>	<b>-99.2</b>	<b>-64.0</b>	<b>-33.8</b>	<b>-9.4</b>
1.1. Equity capital and reinvested earnings	-101.9	-259.6	-121.0	-190.4	-228.4	-82.0	-68.0	-52.2	-26.2
1.1.1. Claims	-101.9	-260.0	-122.2	-190.4	-230.4	-82.0	-68.0	-52.2	-28.2
1.1.2. Liabilities	0.0	0.4	1.3	0.0	1.9	0.0	0.0	0.0	1.9
1.2. Other capital	-3.6	-19.2	-71.2	13.7	22.0	-17.2	4.0	18.4	16.8
1.2.1. Claims	-15.3	-23.6	-59.8	-3.9	-11.9	-21.0	0.0	17.3	-8.2
1.2.2. Liabilities	11.7	4.4	-11.4	17.5	33.9	3.8	4.0	1.1	25.0
<b>2. In Croatia</b>	<b>1,762.4</b>	<b>949.6</b>	<b>1,467.9</b>	<b>2,737.9</b>	<b>3,625.9</b>	<b>1,360.6</b>	<b>1,014.6</b>	<b>534.1</b>	<b>716.6</b>
2.1. Equity capital and reinvested earnings	1,349.8	611.4	1,363.5	2,435.0	2,594.2	1,089.5	436.6	515.4	552.7
2.1.1. Claims	-1.2	-22.4	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
2.1.2. Liabilities	1,351.1	633.8	1,363.5	2,435.1	2,594.2	1,089.5	436.6	515.4	552.7
2.2. Other capital	412.5	338.2	104.4	302.9	1,031.7	271.2	578.0	18.7	163.9
2.2.1. Claims	-1.5	-17.8	0.0	16.6	-2.6	-1.7	0.0	-0.9	0.0
2.2.2. Liabilities	414.0	356.0	104.4	286.3	1,034.3	272.8	578.0	19.6	163.9
<b>Portfolio investment</b>	<b>867.6</b>	<b>287.1</b>	<b>-1,177.9</b>	<b>-547.3</b>	<b>-34.8</b>	<b>-387.4</b>	<b>36.3</b>	<b>184.8</b>	<b>131.5</b>
<b>1. Assets</b>	<b>121.6</b>	<b>-736.1</b>	<b>-571.2</b>	<b>-472.5</b>	<b>-404.6</b>	<b>-314.5</b>	<b>-328.9</b>	<b>69.5</b>	<b>169.3</b>
1.1. Equity securities	-57.8	-39.1	-193.0	-320.5	-834.3	-431.4	-278.2	-241.7	116.8
1.1.1. General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.1.1. Banks	0.3	0.0	0.0	2.6	-0.6	-0.6	0.0	0.1	-0.2
1.1.2. Other sectors	-58.1	-39.1	-193.0	-323.1	-833.7	-430.8	-278.2	-241.8	117.0
1.2. Debt securities	179.4	-696.9	-378.2	-152.0	429.7	116.8	-50.7	311.2	52.4
1.2.1. Bonds	165.9	-567.1	-396.5	98.7	323.0	136.2	-37.5	151.4	72.9
1.2.1.1. General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.2.1.2. Banks	180.1	-575.0	-360.2	142.4	261.1	89.3	33.5	56.9	81.3
1.2.1.3. Other sectors	-14.1	7.9	-36.3	-43.7	61.9	46.9	-71.0	94.4	-8.4
1.2.2. Money market instruments	13.5	-129.9	18.3	-250.6	106.7	-19.4	-13.3	159.8	-20.5
1.2.2.1. General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.2.2.2. Banks	7.3	-129.9	18.3	-250.6	106.7	-19.4	-13.3	159.8	-20.5
1.2.2.3. Other sectors	6.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>2. Liabilities</b>	<b>746.0</b>	<b>1,023.2</b>	<b>-606.7</b>	<b>-74.9</b>	<b>369.8</b>	<b>-72.9</b>	<b>365.2</b>	<b>115.3</b>	<b>-37.8</b>
2.1. Equity securities	13.0	141.6	89.2	320.7	306.1	25.8	57.0	88.1	135.1
2.1.1. Banks	-2.6	0.8	-12.8	37.3	9.8	8.8	12.2	-3.7	-7.5
2.1.2. Other sectors	15.6	140.7	102.0	283.4	296.3	17.0	44.8	91.8	142.7
2.2. Debt securities	733.1	881.6	-695.9	-395.6	63.7	-98.7	308.2	27.1	-172.9
2.2.1. Bonds	698.8	915.6	-695.9	-395.6	63.7	-98.7	308.2	27.1	-172.9
2.2.1.1. General government	525.9	429.6	-690.5	-321.9	-30.2	-111.6	297.4	-248.2	32.2
2.2.1.2. Banks	0.0	453.2	3.2	1.2	1.0	5.3	5.3	-14.3	4.8
2.2.1.3. Other sectors	173.0	32.8	-8.6	-74.9	92.9	7.6	5.5	289.7	-209.9
2.2.2. Money market instruments	34.2	-34.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.2.1. General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.2.2. Banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.2.3. Other sectors	34.2	-34.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

<sup>a</sup> Preliminary data.

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. From 2007 on, the CNB Statistics Department conducts the research on the purchase and sale of the real estate

Table H5: Balance of Payments – Other Investment

million euros

	2003	2004	2005	2006	2007 <sup>a</sup>	2007			
						Q1	Q2	Q3	Q4 <sup>a</sup>
<b>Other investment (net)</b>	<b>1.326,3</b>	<b>1.537,4</b>	<b>3.688,4</b>	<b>3.116,0</b>	<b>1.446,8</b>	<b>1.236,1</b>	<b>85,6</b>	<b>-881,6</b>	<b>1.006,7</b>
<b>1. Assets</b>	<b>-2.216,9</b>	<b>-575,1</b>	<b>898,7</b>	<b>-774,5</b>	<b>-1.613,3</b>	<b>331,5</b>	<b>-340,2</b>	<b>-1.042,4</b>	<b>-562,3</b>
1.1. Trade credits	-169,7	-188,1	-134,8	-33,4	-124,4	-71,0	-38,7	-4,2	-10,4
1.1.1. General government	0,0	0,0	-0,3	0,2	0,1	0,0	0,0	0,0	0,0
1.1.1.1. Long-term	0,0	0,0	-0,3	0,2	0,1	0,0	0,0	0,0	0,0
1.1.1.2. Short-term	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
1.1.2. Other sectors	-169,7	-188,1	-134,6	-33,5	-124,5	-71,1	-38,8	-4,3	-10,4
1.1.2.1. Long-term	-25,6	18,1	10,7	-5,1	-59,7	-5,9	-10,3	-14,3	-29,1
1.1.2.2. Short-term	-144,1	-206,1	-145,3	-28,4	-64,9	-65,2	-28,4	10,0	18,7
1.2. Loans	-85,1	43,8	-116,8	-153,1	-4,5	-17,6	15,8	-68,3	65,6
1.2.1. General government	-1,0	-1,8	-1,5	-1,3	-7,3	0,5	-4,4	-0,7	-2,8
1.2.1.1. Long-term	-1,0	-1,8	-1,5	-1,3	-7,3	0,5	-4,4	-0,7	-2,8
1.2.1.2. Short-term	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
1.2.2. Banks	4,3	3,7	-28,5	-80,4	-32,2	-2,0	1,3	-31,4	-0,1
1.2.2.1. Long-term	5,1	-0,1	-20,5	-58,9	-24,6	-13,9	-10,4	4,6	-4,9
1.2.2.2. Short-term	-0,8	3,9	-8,0	-21,5	-7,7	11,9	11,7	-36,0	4,7
1.2.3. Other sectors	-88,5	41,8	-86,8	-71,4	35,1	-16,1	18,8	-36,2	68,5
1.2.3.1. Long-term	-88,5	43,2	-87,8	-71,7	35,0	-15,4	19,3	-31,0	62,0
1.2.3.2. Short-term	0,1	-1,3	1,0	0,3	0,0	-0,7	-0,5	-5,2	6,5
1.3. Currency and deposits	-1.962,1	-430,8	1.150,3	-588,1	-1.484,4	420,1	-317,3	-969,8	-617,5
1.3.1. General government	30,3	72,7	-44,4	26,5	25,0	25,0	0,0	0,0	0,0
1.3.2. Banks	-1.964,5	-523,4	1.230,3	-544,3	-1.460,4	424,1	-297,2	-969,8	-617,5
1.3.3. Other sectors	-27,9	19,8	-35,6	-70,2	-49,1	-29,0	-20,0	0,0	0,0
1.4. Other assets	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
<b>2. Liabilities</b>	<b>3.543,3</b>	<b>2.112,4</b>	<b>2.789,7</b>	<b>3.890,6</b>	<b>3.060,1</b>	<b>904,6</b>	<b>425,8</b>	<b>160,7</b>	<b>1.569,0</b>
2.1. Trade credits	-225,6	-54,5	15,1	11,4	390,5	56,4	247,1	158,4	-71,4
2.1.1. General government	1,5	-0,3	0,4	-0,7	-0,3	-0,2	-0,1	0,0	-0,1
2.1.1.1. Long-term	1,5	-0,3	0,4	-0,7	-0,3	-0,2	-0,1	0,0	-0,1
2.1.1.2. Short-term	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
2.1.2. Other sectors	-227,1	-54,2	14,7	12,1	390,8	56,6	247,3	158,4	-71,4
2.1.2.1. Long-term	-46,2	-16,7	27,4	-3,7	164,6	7,1	82,9	27,9	46,7
2.1.2.2. Short-term	-181,0	-37,5	-12,7	15,8	226,2	49,4	164,3	130,5	-118,0
2.2. Loans	2.890,0	1.676,4	2.405,8	3.059,2	2.864,0	214,6	119,5	902,7	1.627,1
2.2.1. Croatian National Bank	358,2	-367,7	0,0	0,0	0,0	0,0	0,0	0,0	0,0
2.2.1.1. o/w: IMF	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
2.2.1.1.1. Drawings	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
2.2.1.1.2. Repayments	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
2.2.1.2. Short-term	358,2	-367,7	0,0	0,0	0,0	0,0	0,0	0,0	0,0
2.2.2. General government	500,4	425,8	248,1	133,5	158,6	-23,7	1,3	47,2	133,8
2.2.2.1. Long-term	500,4	425,8	248,1	133,5	158,6	-23,7	1,3	47,2	133,8
2.2.2.1.1. Drawings	764,8	795,5	590,1	560,4	643,4	66,0	158,5	130,1	288,8
2.2.2.1.2. Repayments	-264,5	-369,7	-342,0	-426,9	-484,8	-89,7	-157,2	-83,0	-155,0
2.2.2.2. Short-term	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
2.2.3. Banks	1.007,7	650,4	826,0	541,2	-1.067,0	-512,6	-554,0	-430,5	430,1
2.2.3.1. Long-term	929,1	741,7	281,1	419,5	-632,8	-378,1	-388,0	-22,4	155,7
2.2.3.1.1. Drawings	1.722,8	1.260,0	1.236,1	2.833,6	1.213,8	536,9	46,5	267,8	362,6
2.2.3.1.2. Repayments	-793,7	-518,3	-955,0	-2.414,1	-1.846,6	-915,0	-434,5	-290,2	-206,9
2.2.3.2. Short-term	78,6	-91,2	544,9	121,7	-434,2	-134,4	-166,1	-408,2	274,4
2.2.4. Other sectors	1.023,9	967,9	1.331,7	2.384,5	3.772,4	750,9	672,2	1.286,1	1.063,2
2.2.4.1. Long-term	977,0	932,4	1.277,2	2.295,6	3.162,9	532,0	605,8	1.032,5	992,5
2.2.4.1.1. Drawings	2.140,3	2.232,5	2.686,4	4.183,9	5.816,0	979,4	1.284,0	1.672,9	1.879,7
2.2.4.1.2. Repayments	-1.163,3	-1.300,1	-1.409,2	-1.888,3	-2.653,1	-447,4	-678,2	-640,4	-887,1
2.2.4.2. Short-term	46,9	35,5	54,5	88,9	609,5	218,9	66,5	253,6	70,6
2.3. Currency and deposits	879,6	487,5	366,1	817,2	-197,1	633,0	58,4	-901,0	12,4
2.3.1. General government	0,1	0,0	0,0	0,1	9,5	9,2	0,2	-0,3	0,4
2.3.2. Banks	879,5	487,5	366,1	817,1	-206,6	623,8	58,2	-900,7	12,0
2.4. Other liabilities	-0,7	3,0	2,8	2,7	2,7	0,5	0,7	0,6	0,8

<sup>a</sup> Preliminary data.

**Table H6: Balance of Payments – Summary**

million kuna

	2003	2004	2005	2006	2007 <sup>a</sup>	2007			
						Q1	Q2	Q3	Q4 <sup>a</sup>
<b>A. CURRENT ACCOUNT (1+6)</b>	-14,637.6	-11,167.9	-14,828.6	-19,884.3	-23,751.4	-14,882.8	-10,178.6	15,247.2	-13,937.3
<b>1. Goods, services, and income (2+5)</b>	-24,051.3	-20,094.6	-23,586.7	-27,984.3	-31,329.2	-16,690.1	-12,161.9	13,324.2	-15,801.4
1.1. Credit	102,483.3	111,525.2	117,995.0	130,798.9	144,084.4	23,043.4	35,632.3	56,396.7	29,012.0
1.2. Debit	-126,534.6	-131,619.8	-141,581.7	-158,783.2	-175,413.6	-39,733.5	-47,794.2	-43,072.5	-44,813.4
<b>2. Goods and services (3+4)</b>	-15,671.7	-15,083.2	-16,508.1	-19,478.8	-22,958.2	-15,171.5	-7,383.3	14,724.2	-15,127.6
2.1. Credit	99,192.2	106,225.6	112,693.7	124,269.8	134,626.8	20,745.7	33,195.4	54,106.3	26,579.4
2.2. Debit	-114,863.9	-121,308.8	-129,201.8	-143,748.6	-157,585.1	-35,917.2	-40,578.7	-39,382.1	-41,707.0
<b>3. Goods</b>	-52,759.8	-50,327.5	-55,568.1	-61,083.9	-69,218.6	-15,897.7	-18,589.6	-16,884.4	-17,846.9
3.1. Credit	42,190.2	49,507.8	53,397.7	61,988.6	67,424.8	15,065.4	16,972.5	17,243.2	18,143.9
3.2. Debit	-94,949.9	-99,835.3	-108,965.8	-123,072.5	-136,643.4	-30,963.0	-35,562.1	-34,127.6	-35,990.8
<b>4. Services</b>	37,088.0	35,244.3	39,060.0	41,605.1	46,260.3	726.1	11,206.3	31,608.6	2,719.3
4.1. Credit	57,002.0	56,717.8	59,296.0	62,281.2	67,202.0	5,680.4	16,222.9	36,863.2	8,435.5
4.2. Debit	-19,914.0	-21,473.5	-20,236.0	-20,676.1	-20,941.6	-4,954.2	-5,016.6	-5,254.5	-5,716.2
<b>5. Income</b>	-8,379.5	-5,011.4	-7,078.6	-8,505.5	-8,371.0	-1,518.6	-4,778.6	-1,400.0	-673.8
5.1. Credit	3,291.2	5,299.6	5,301.3	6,529.1	9,457.5	2,297.7	2,436.9	2,290.3	2,432.6
5.2. Debit	-11,670.7	-10,311.0	-12,379.9	-15,034.5	-17,828.5	-3,816.3	-7,215.4	-3,690.3	-3,106.4
<b>6. Current transfers</b>	9,413.6	8,926.8	8,758.1	8,100.0	7,577.8	1,807.3	1,983.3	1,923.0	1,864.2
6.1. Credit	11,639.9	11,872.9	12,047.2	11,996.6	11,458.2	2,621.5	2,964.0	2,833.8	3,038.8
6.2. Debit	-2,226.3	-2,946.1	-3,289.1	-3,896.5	-3,880.4	-814.2	-980.7	-910.8	-1,174.7
<b>B. CAPITAL AND FINANCIAL ACCOUNT</b>	20,752.3	18,810.9	22,097.1	26,971.7	31,561.9	9,929.0	10,627.0	1,215.3	9,790.6
<b>B1. Capital account</b>	771.3	235.5	396.8	-980.5	250.7	51.7	66.1	92.9	39.9
<b>B2. Financial account, excl. reserves</b>	29,333.4	18,911.9	27,775.7	38,285.5	36,626.3	15,829.4	8,099.0	-1,153.3	13,851.1
<b>1. Direct investment</b>	12,706.4	4,452.8	9,093.0	18,761.7	25,127.2	9,283.9	7,007.6	3,655.6	5,180.2
1.1. Abroad	-801.9	-2,077.2	-1,415.4	-1,293.6	-1,518.3	-730.6	-469.9	-248.2	-69.5
1.2. In Croatia	13,508.3	6,530.0	10,508.5	20,055.3	26,645.4	10,014.5	7,477.5	3,903.8	5,249.7
<b>2. Portfolio investment</b>	6,593.2	2,097.8	-8,725.0	-4,054.2	-273.3	-2,851.7	264.4	1,349.5	964.5
2.1. Assets	938.6	-5,563.8	-4,195.8	-3,483.1	-2,983.9	-2,315.1	-2,416.8	507.5	1,240.6
2.2. Liabilities	5,654.5	7,661.6	-4,529.2	-571.1	2,710.6	-536.6	2,681.2	842.0	-276.1
<b>3. Financial derivatives</b>	0.0	0.0	-659.4	0.0	0.0	0.0	0.0	0.0	0.0
<b>4. Other investment</b>	10,033.7	12,361.3	28,067.2	23,558.0	11,772.4	9,397.2	827.1	-6,158.4	7,706.5
4.1. Assets	-16,854.7	-3,680.4	7,419.8	-5,121.7	-10,750.5	2,662.6	-2,275.6	-7,374.3	-3,763.3
4.2. Liabilities	26,888.4	16,041.7	20,647.4	28,679.8	22,523.0	6,734.6	3,102.8	1,215.9	11,469.8
<b>B3. Reserve assets (CNB)</b>	-9,352.4	-336.5	-6,075.4	-10,313.4	-5,315.1	-5,952.1	2,461.8	2,275.7	-4,100.5
<b>C. NET ERRORS AND OMISSIONS</b>	-6,114.7	-7,643.0	-7,268.5	-7,087.4	-7,810.5	4,953.7	-448.4	-16,462.4	4,146.7

<sup>a</sup> Preliminary data.

Note: The item net errors and omissions also comprises the counter-entry of a part of revenues from travel services which relates to such revenues not stated in the banks' records.

by non-residents on the territory of the Republic of Croatia. Persons obliged to submit reports are the public notaries who learn about these transactions in the course of their business. Data on the purchase and sale of the real estate by Croatian non-residents abroad are compiled on the basis of the ITRS. These purchase and sale transactions are also a constituent part of direct investments.

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 resi-

dents' claims on foreign countries for foreign cash and deposits with foreign banks, as well as obligations of the Croatian banks for deposits owned by non-residents. Monetary statistics represent a data source for the general government sector and banks sector. Data on balance and currency structure of foreign assets and liabilities, contained in monetary statistics, are used to assess transactions from which the exchange rate effect was eliminated. In the 1993-1998 period, data on other sectors' claims under this position were compiled on the basis of the CNB estimate of a portion of net foreign currency inflows of the household sector which is not classified under current transfers. Since 1999, this position has included only the data based on the Bank for International Settlement quarterly data, while data in the fourth quarter of 2001 and in the first two quarters of 2002 relate to the effect of the EMU countries' currencies changeover to the euro.

In the period from 1993 to 1998, the estimate of reserve assets transactions was made by converting the changes in the original currencies into the US dollars by applying the average monthly exchange rate of the currencies contained in the reserves. Since 1999, the changes in reserve assets balance have been calculated on the basis of the CNB accounting data.

**Table H7: International Reserves and Banks' Foreign Currency Reserves<sup>a</sup>**

end of period, million euros

Year	Month	International reserves of the Croatian National Bank							Banks' foreign currency reserves
		Total	Special drawing rights	Reserve position in the Fund	Gold	Foreign currency			
						Total	Currency and deposits	Bonds and notes	
1998	December	2,400.2	197.1	0.1	–	2,203.0	1,642.6	560.4	1,607.0
1999	December	3,012.7	188.7	0.2	–	2,823.7	2,449.8	373.9	1,344.7
2000	December	3,783.2	158.5	0.2	–	3,624.5	2,763.0	861.5	2,310.7
2001	December	5,333.6	122.9	0.2	–	5,210.5	3,469.7	1,740.7	4,056.0
2002	December	5,651.3	2.3	0.2	–	5,648.8	3,787.8	1,861.0	2,581.6
2003	December	6,554.1	0.7	0.2	–	6,553.2	3,346.0	3,207.2	3,927.1
2004	December	6,436.2	0.6	0.2	–	6,435.4	3,173.3	3,262.0	4,220.1
2005	December	7,438.4	0.9	0.2	–	7,437.3	3,834.5	3,602.8	2,938.4
2006	December	8,725.3	0.7	0.2	–	8,724.4	4,526.9	4,197.5	3,315.0
2007	January	9,172.6	1.3	0.2	–	9,171.1	4,909.3	4,261.8	3,237.7
	February	9,565.4	0.8	0.2	–	9,564.5	5,271.0	4,293.4	2,936.8
	March	9,519.7	0.8	0.2	–	9,518.8	5,237.3	4,281.5	2,882.6
	April	9,488.4	1.3	0.2	–	9,486.9	5,229.6	4,257.4	2,743.7
	May	9,451.5	0.8	0.2	–	9,450.5	5,171.7	4,278.9	2,705.4
	June	9,170.4	0.8	0.2	–	9,169.4	4,901.4	4,268.0	3,084.8
	July	9,412.1	1.3	0.2	–	9,410.7	5,055.3	4,355.4	3,025.1
	August	9,223.0	0.7	0.2	–	9,222.1	4,823.7	4,398.4	3,418.5
	September	8,795.1	0.7	0.2	–	8,794.2	4,404.6	4,389.6	3,839.8
	October	8,973.8	1.3	0.2	–	8,972.3	4,361.1	4,611.2	3,946.8
	November	9,112.3	0.8	0.2	–	9,111.3	4,462.5	4,648.8	4,180.6
	December	9,307.4	0.8	0.2	–	9,306.5	4,533.9	4,772.5	4,388.9

<sup>a</sup> International reserves of the Republic of Croatia consist only of the Croatian National Bank's foreign currency reserves.

**Table H7: International Reserves and Banks' Foreign Currency Reserves**

Data on the international reserves of the Croatian National Bank are compiled in accordance with the methodology set out 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 Fund, gold, foreign currency and deposits with foreign banks, as well as bonds and debt instruments.

The foreign currency reserves of banks include foreign currency and deposits of domestic banks with foreign banks. These foreign currency 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

	2006	2007											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
<b>I. Official reserve assets and other f/c assets (approximate market value)</b>													
<b>A. Official reserve assets</b>	<b>8,725.3</b>	<b>9,172.6</b>	<b>9,565.4</b>	<b>9,519.7</b>	<b>9,488.4</b>	<b>9,451.5</b>	<b>9,170.4</b>	<b>9,412.1</b>	<b>9,223.0</b>	<b>8,795.1</b>	<b>8,973.8</b>	<b>9,112.3</b>	<b>9,307.4</b>
1) Foreign currency reserves (in convertible f/c)	8,162.8	8,371.1	8,564.5	8,513.9	8,486.9	8,451.0	8,249.2	8,610.6	8,322.1	7,994.2	8,272.3	8,311.3	8,911.0
a) Securities	4,197.5	4,261.8	4,293.4	4,281.5	4,257.4	4,278.9	4,268.0	4,355.4	4,398.4	4,389.6	4,611.2	4,648.8	4,772.5
o/w: Issuer headquartered in reporting country but located abroad	–	–	–	–	–	–	–	–	–	–	–	–	–
b) Total currency and deposits with:	3,965.3	4,109.3	4,271.0	4,232.4	4,229.6	4,172.1	3,981.2	4,255.2	3,923.7	3,604.6	3,661.1	3,662.5	4,138.4
i) Other national central banks, BIS and IMF	198.7	199.8	198.4	197.8	196.1	197.1	196.9	195.9	196.1	195.9	194.8	193.2	190.7
ii) Banks headquartered in the reporting country	–	–	–	–	–	–	–	–	–	–	–	–	–
o/w: Located abroad	–	–	–	–	–	–	–	–	–	–	–	–	–
iii) Banks headquartered outside the reporting country	3,766.6	3,909.5	4,072.6	4,034.6	4,033.5	3,975.0	3,784.3	4,059.4	3,727.7	3,408.6	3,466.3	3,469.3	3,947.7
o/w: Located in the reporting country	–	–	–	–	–	–	–	–	–	–	–	–	–
2) IMF reserve position	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
3) SDRs	0.7	1.3	0.8	0.8	1.3	0.8	0.8	1.3	0.7	0.7	1.3	0.8	0.8
4) Gold	–	–	–	–	–	–	–	–	–	–	–	–	–
5) Other reserve assets	561.6	800.0	1,000.0	1,004.9	1,000.0	999.6	920.2	800.0	900.0	800.0	700.0	800.0	395.5
– Reverse repo	561.6	800.0	1,000.0	1,004.9	1,000.0	999.6	920.2	800.0	900.0	800.0	700.0	800.0	395.5
<b>B. Other foreign currency assets (specify)</b>	<b>–</b>												
– Time deposits	–	–	–	–	–	–	–	–	–	–	–	–	–
<b>C. Total (A+B)</b>	<b>8,725.3</b>	<b>9,172.6</b>	<b>9,565.4</b>	<b>9,519.7</b>	<b>9,488.4</b>	<b>9,451.5</b>	<b>9,170.4</b>	<b>9,412.1</b>	<b>9,223.0</b>	<b>8,795.1</b>	<b>8,973.8</b>	<b>9,112.3</b>	<b>9,307.4</b>
<b>II. Predetermined short-term net drains on f/c assets (nominal value)</b>													
<b>1. F/c loans, securities, and deposits (total net drains up to one year)</b>	<b>–650.5</b>	<b>–657.1</b>	<b>–643.4</b>	<b>–644.9</b>	<b>–638.3</b>	<b>–640.5</b>	<b>–779.4</b>	<b>–535.4</b>	<b>–541.3</b>	<b>–529.6</b>	<b>–505.7</b>	<b>–529.0</b>	<b>–521.1</b>
a) Croatian National Bank	–1.6	–2.1	–1.8	–1.9	–1.9	–2.3	–2.0	–2.0	–2.5	–1.9	–2.4	–1.9	–2.0
Up to 1 month	–	–	–	–	–	–	–	–	–	–	–	–	–
Principal	–	–	–	–	–	–	–	–	–	–	–	–	–
Interest	–1.6	–2.1	–1.8	–1.9	–1.9	–2.3	–2.0	–2.0	–2.5	–1.9	–2.4	–1.9	–2.0
More than 1 and up to 3 months	–	–	–	–	–	–	–	–	–	–	–	–	–
Principal	–	–	–	–	–	–	–	–	–	–	–	–	–
Interest	–	–	–	–	–	–	–	–	–	–	–	–	–
More than 3 months and up to 1 year	–	–	–	–	–	–	–	–	–	–	–	–	–
Principal	–	–	–	–	–	–	–	–	–	–	–	–	–
Interest	–	–	–	–	–	–	–	–	–	–	–	–	–
b) Central government (excl. central government funds)	–648.9	–655.0	–641.6	–643.0	–636.5	–638.1	–777.5	–533.4	–538.9	–527.7	–503.3	–527.0	–519.1
Up to 1 month	–48.3	–1.0	–9.8	–11.3	–1.6	–27.2	–292.7	–2.5	–7.7	–11.0	–0.8	–25.4	–47.6
Principal	–	–	–	–	–	–	–	–	–	–	–	–	–
Interest	–48.3	–1.0	–9.8	–11.3	–1.6	–27.2	–292.7	–2.5	–7.7	–11.0	–0.8	–25.4	–47.6
More than 1 and up to 3 months	–138.4	–150.0	–101.4	–78.7	–360.6	–347.3	–69.8	–80.5	–93.5	–119.8	–130.7	–163.4	–133.2
Principal	–	–	–	–	–	–	–	–	–	–	–	–	–
Interest	–138.4	–150.0	–101.4	–78.7	–360.6	–347.3	–69.8	–80.5	–93.5	–119.8	–130.7	–163.4	–133.2
More than 3 months and up to 1 year	–399.8	–445.4	–433.7	–415.1	–127.4	–128.5	–291.2	–333.5	–336.2	–308.4	–307.2	–276.2	–284.5
Principal	–	–	–	–	–	–	–	–	–	–	–	–	–
Interest	–399.8	–445.4	–433.7	–415.1	–127.4	–128.5	–291.2	–333.5	–336.2	–308.4	–307.2	–276.2	–284.5
2. Aggregate short and long positions in forwards and futures in f/c vis-a-vis the domestic currency (including the forward leg of currency swaps)	–	–	–	–	–	–	–	–	–	–	–	–	–
a) Short positions (–)	–	–	–	–	–	–	–	–	–	–	–	–	–
Up to 1 month	–	–	–	–	–	–	–	–	–	–	–	–	–
More than 1 and up to 3 months	–	–	–	–	–	–	–	–	–	–	–	–	–
More than 3 months and up to 1 year	–	–	–	–	–	–	–	–	–	–	–	–	–
b) Long positions (+)	–	–	–	–	–	–	–	–	–	–	–	–	–
Up to 1 month	–	–	–	–	–	–	–	–	–	–	–	–	–
More than 1 and up to 3 months	–	–	–	–	–	–	–	–	–	–	–	–	–
More than 3 months and up to 1 year	–	–	–	–	–	–	–	–	–	–	–	–	–
<b>3. Other</b>	<b>–</b>												
– Outflows related to repos (–)	–	–	–	–	–	–	–	–	–	–	–	–	–
Up to 1 month	–	–	–	–	–	–	–	–	–	–	–	–	–
Principal	–	–	–	–	–	–	–	–	–	–	–	–	–
Interest	–	–	–	–	–	–	–	–	–	–	–	–	–
More than 1 and up to 3 months	–	–	–	–	–	–	–	–	–	–	–	–	–
Principal	–	–	–	–	–	–	–	–	–	–	–	–	–
Interest	–	–	–	–	–	–	–	–	–	–	–	–	–
More than 3 months and up to 1 year	–	–	–	–	–	–	–	–	–	–	–	–	–
Principal	–	–	–	–	–	–	–	–	–	–	–	–	–
Interest	–	–	–	–	–	–	–	–	–	–	–	–	–
<b>4. Total predetermined short-term net drains on f/c assets (1+2+3)</b>	<b>–650.5</b>	<b>–657.1</b>	<b>–643.4</b>	<b>–644.9</b>	<b>–638.3</b>	<b>–640.5</b>	<b>–779.4</b>	<b>–535.4</b>	<b>–541.3</b>	<b>–529.6</b>	<b>–505.7</b>	<b>–529.0</b>	<b>–521.1</b>
<b>III. Contingent short-term net drains on f/c assets (nominal value)</b>													
<b>1. Contingent liabilities in foreign currency</b>	<b>–2,734.9</b>	<b>–3,093.5</b>	<b>–3,385.4</b>	<b>–3,364.5</b>	<b>–3,519.3</b>	<b>–3,448.7</b>	<b>–3,110.8</b>	<b>–3,201.0</b>	<b>–2,946.0</b>	<b>–2,604.9</b>	<b>–2,442.0</b>	<b>–2,530.2</b>	<b>–2,607.4</b>
a) Collateral guarantees on debt falling due within 1 year	–478.9	–455.6	–462.6	–437.4	–590.8	–601.0	–549.7	–559.3	–560.4	–608.1	–620.1	–584.1	–662.1
– Croatian National Bank	–	–	–	–	–	–	–	–	–	–	–	–	–
– Central government (excl. central government funds)	–478.9	–455.6	–462.6	–437.4	–590.8	–601.0	–549.7	–559.3	–560.4	–608.1	–620.1	–584.1	–662.1
Up to 1 month	–71.9	–6.1	–56.1	–20.5	–14.6	–39.8	–51.6	–8.6	–15.4	–31.7	–3.5	–36.6	–54.3
More than 1 and up to 3 months	–84.8	–116.7	–67.7	–76.5	–130.1	–99.5	–38.3	–69.2	–79.2	–101.0	–86.2	–99.0	–42.4
More than 3 months and up to 1 year	–322.2	–332.8	–338.8	–340.4	–446.1	–461.7	–459.8	–481.6	–465.8	–475.4	–530.4	–448.5	–565.3
b) Other contingent liabilities	–2,256.0	–2,637.9	–2,922.8	–2,927.2	–2,928.5	–2,847.7	–2,561.1	–2,641.7	–2,385.6	–1,996.8	–1,821.9	–1,946.1	–1,945.3
– Croatian National Bank	–2,256.0	–2,637.9	–2,922.8	–2,927.2	–2,928.5	–2,847.7	–2,561.1	–2,641.7	–2,385.6	–1,996.8	–1,821.9	–1,946.1	–1,945.3
Up to 1 month	–	–	–	–	–	–	–	–	–	–	–	–	–
More than 1 and up to 3 months	–2,256.0	–2,637.9	–2,922.8	–2,927.2	–2,928.5	–2,847.7	–2,561.1	–2,641.7	–2,385.6	–1,996.8	–1,821.9	–1,946.1	–1,945.3
More than 3 months and up to 1 year	–	–	–	–	–	–	–	–	–	–	–	–	–

– Central government (excl. central government funds)	–	–	–	–	–	–	–	–	–	–	–	–	–	–
<b>2. Foreign currency securities issued with embedded options (puttable bonds)</b>	–	–	–	–	–	–	–	–	–	–	–	–	–	–
<b>3. Undrawn, unconditional credit lines provided by:</b>	–	–	–	–	–	–	–	–	–	–	–	–	–	–
– BIS (+)	–	–	–	–	–	–	–	–	–	–	–	–	–	–
– IMF (+)	–	–	–	–	–	–	–	–	–	–	–	–	–	–
<b>4. Aggregate short and long positions of options in f/c vis-a-vis the domestic currency</b>	–	–	–	–	–	–	–	–	–	–	–	–	–	–
<b>5. Total contingent short-term net drains on f/c assets (1+2+3+4)</b>	<b>-2,734.9</b>	<b>-3,093.5</b>	<b>-3,385.4</b>	<b>-3,364.5</b>	<b>-3,519.3</b>	<b>-3,448.7</b>	<b>-3,110.8</b>	<b>-3,201.0</b>	<b>-2,946.0</b>	<b>-2,604.9</b>	<b>-2,442.0</b>	<b>-2,530.2</b>	<b>-2,607.4</b>	
<b>IV. Memo items</b>														
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 repaid and included in Section I	–	–	-0.4	–	–	–	–	-6.3	-9.1	–	-1.3	-1.3	–	–
– Lent or repaid but not included in Section I	–	–	–	–	–	–	–	–	–	–	–	–	–	–
– Borrowed or acquired and included in Section I	–	–	–	–	–	–	–	–	–	–	–	–	–	–
– Borrowed or acquired but not included in Section I	559.5	785.8	1,002.9	972.4	978.9	973.8	900.7	840.3	883.5	791.4	676.9	774.5	389.7	
e) Financial derivative assets (net, marked to market)	–	–	–	–	–	–	–	–	–	–	–	–	–	–
f) Currency composition of official reserves assets														
– Currencies in SDR basket	8,725.0	9,172.3	9,565.1	9,519.5	9,488.1	9,451.2	9,170.1	9,411.8	9,222.7	8,794.8	8,973.5	9,112.0	9,307.1	
– Currencies not in SDR basket	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
– By individual currencies														
USD	1,266.0	1,248.5	1,242.1	1,239.2	1,235.0	1,254.9	1,254.2	1,285.0	1,294.8	1,272.5	1,339.8	1,332.5	1,357.2	
EUR	7,458.0	7,919.6	8,319.4	8,276.7	8,249.0	8,192.7	7,912.2	8,122.7	7,924.3	7,518.8	7,629.7	7,776.0	7,944.2	
Other	1.3	4.5	3.9	3.9	4.4	3.9	4.0	4.4	3.9	3.8	4.3	3.8	6.0	

**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 transactions 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 with the CNB. (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 currency sources of funds, including ordinary foreign currency accounts, special foreign currency accounts, foreign currency accounts and foreign currency sight deposits, received foreign currency deposits and received foreign currency loans, as well as obligations arising from securities issued in foreign currency (excluding banks' 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 Currency 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 used as collateral. Repo transactions with securities show the value of collateral that is subject to repo and reverse repo transactions with securities as well as how these transactions are registered in the Template.

**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
1998		7.139159	0.514631	1.080018	0.366853	4.396452	10.537622	6.362284	3.620795
1999		7.581823	0.550993	1.155840	0.391568	4.739965	11.514804	7.122027	3.876528
2000		7.633852	0.554774	1.163773	0.394256	4.903244	12.530514	8.287369	3.903127
2001		7.471006	0.542939	1.138947	0.385845	4.946810	12.010936	8.339153	3.819865
2002		7.406976				5.049125	11.793108	7.872490	
2003		7.564248				4.978864	10.943126	6.704449	
2004		7.495680				4.854986	11.048755	6.031216	
2005		7.400047				4.780586	10.821781	5.949959	
2006		7.322849				4.656710	10.740292	5.839170	
2007		7.336019				4.468302	10.731537	5.365993	
2007	January	7.367082				4.562119	11.096595	5.662532	
	February	7.362568				4.540010	11.033457	5.639683	
	March	7.356923				4.563893	10.825095	5.559130	
	April	7.396197				4.520671	10.892890	5.482475	
	May	7.329989				4.442055	10.756935	5.422621	
	June	7.328786				4.430674	10.840476	5.467952	
	July	7.291804				4.400808	10.816511	5.321551	
	August	7.311674				4.464012	10.788705	5.366679	
	September	7.313069				4.440287	10.637593	5.275187	
	October	7.320799				4.384000	10.512950	5.149405	
	November	7.339884				4.453499	10.365513	5.004536	
	December	7.315282				4.410997	10.172190	5.022677	

**Table H9: Midpoint Exchange Rates of the Croatian National Bank (period average)**

The annual averages of CNB midpoint exchange rates are calculated based on the midpoint exchange rates effective on the working days in a year, using CNB exchange rate lists whose application dates pertain to the calculation period.

The monthly averages of CNB midpoint exchange rates are calculated based on the midpoint exchange rates effective on the working days in a month, using CNB exchange rate lists whose application dates pertain to the calculation period.

The data show the annual and monthly averages of CNB midpoint exchange rates for selected currencies from 1992 to date, in kuna terms. The averages related to the calculation periods from the beginning of 1992, when the legal tender in the Republic of Croatia was the Croatian dinar, until the introduction of the kuna on 30 May 1994, are shown in kuna equivalent, and are denominated by dividing their values by one thousand (1,000).

The annual and monthly averages of midpoint exchange rates for the euro from 1992 until end 1998 are the averages of midpoint exchange rates applied for the ECU.

**Table H10: Midpoint Exchange Rates of the Croatian National Bank (end of period)**

Year	Month	HRK/EUR	HRK/ATS	HRK/FRF	HRK/100 ITL	HRK/CHF	HRK/GBP	HRK/USD	HRK/DEM
1998		7.329100	0.531546	1.114954	0.377700	4.567584	10.451000	6.247500	3.739700
1999		7.679009	0.558055	1.170657	0.396588	4.784268	12.340257	7.647654	3.926215
2000		7.598334	0.552192	1.158359	0.392421	4.989712	12.176817	8.155344	3.884966
2001		7.370030	0.535601	1.123554	0.380630	4.977396	12.101856	8.356043	3.768237
2002		7.442292				5.120256	11.451442	7.145744	
2003		7.646909				4.901551	10.860544	6.118506	
2004		7.671234				4.971314	10.824374	5.636883	
2005		7.375626				4.744388	10.753209	6.233626	
2006		7.345081				4.571248	10.943208	5.578401	
2007		7.325131				4.412464	9.963453	4.985456	
2007	January	7.373400				4.541390	11.185376	5.691108	
	February	7.345292				4.540016	10.923992	5.562929	
	March	7.382466				4.543615	10.853375	5.542808	
	April	7.372840				4.486060	10.797950	5.414438	
	May	7.308634				4.439430	10.752735	5.439591	
	June	7.303218				4.407494	10.859804	5.422645	
	July	7.297330				4.435528	10.817269	5.337427	
	August	7.319403				4.458972	10.787624	5.372433	
	September	7.281634				4.388906	10.418707	5.136955	
	October	7.350060				4.380250	10.543767	5.106691	
	November	7.313666				4.435482	10.227473	4.962455	
	December	7.325131				4.412464	9.963453	4.985456	

**Table H10: Midpoint Exchange Rates of the Croatian National Bank (end of period)**

The table shows CNB midpoint exchange rates applied on the last day of the observed period.

The data show CNB midpoint exchange rates for selected currencies from 1992 to date, in kuna terms. The end of period midpoint exchange rates related to the periods from the beginning of the time series in 1992 until the introduction of the kuna on 30 May 1994 are shown in kuna equivalent and are denominated by dividing their values by one thousand (1,000).

The midpoint exchange rates for the euro applied on the last days of the observed periods from 1992 until end 1998 are the end of period midpoint exchange rates applied for the ECU.

**Table H11: Indices of the Effective Exchange Rate of the Kuna**

indices 2001 = 100

Year	Month	Nominal effective exchange rate of the kuna	Real effective exchange rate of the kuna; deflator	
			Producer price index	Consumer price index
1998	December	91.09	95.99	95.39
1999	December	99.25	102.78	102.09
2000	December	101.63	100.07	101.91
2001	December	99.07	98.63	98.89
2002	December	95.99	95.65	96.26
2003	December	94.18	94.55	94.71
2004	December	90.42	90.61	90.85
2005	December	91.52	94.33	90.99
2006	December	88.42	92.44	87.96
2007	January	88.97	92.14	88.21
	February	88.82	92.45	88.17
	March	88.41	92.13	87.82
	April	88.41	92.39	87.65
	May	87.56	91.67	86.76
	June	87.75	91.62	87.35
	July	86.79	90.81	86.78
	August	87.17	90.16	86.71
	September	86.75	89.62	85.58
	October	86.23	89.29	85.16
	November	85.72	89.52	84.31
	December	85.58	88.97	83.10

Note: From 1 January 2001, the eurozone related price series includes Greece as well. Slovenia became an EMU member on 1 January 2007. Accordingly, the weight assigned to the Slovenian tolar (0.2%) has been added to the euro weight (70.6%), which now amounts to 70.8%. The weights assigned to the US dollar, pound sterling and Swiss franc have been kept at 27.2%, 1.0% and 1.0% respectively.

**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 rates (see Box 2, Bulletin No. 64, October 2001), were first published in the CNB Bulletin No. 94 (June 2004). The weights are determined on the basis of the average share of a particular foreign currency in the structure of the current account – ITRS data between January 2000 and December 2005 (i.e. between July 1996 and January 2000 in the previous version of the 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 of 66.2%, 30.7%, 1.6% and 1.2% for the euro, US dollar, Swiss franc and pound sterling respectively. The weight assigned to the Slovenian tolar remained unchanged at 0.2%. The year 2001 is a base period for calculating the indices of the effective exchange rate of the kuna (1995 in the previous version of the 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 corresponding indices of relative price (the ratio of price indices in partner countries and domestic prices). Producer price and consumer price indices, and the total harmonised consumer price index for the eurozone countries are used as deflators. The time series for consumer prices in Croatia is constructed in the following manner: retail price indices are used until December 1997 inclusive, and consumer price indices are used as of January 1998. Data for the last two months are preliminary. The historical data may be corrected for the subsequent changes in the data published by the statistical offices of the countries whose prices are included in the calculation of the index of the real effective exchange rate of the kuna.

Table H12: Gross External Debt by Domestic Sectors

million euros

	2006	2007											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
<b>1. Government</b>	<b>6,667.7</b>	<b>6,624.4</b>	<b>6,562.0</b>	<b>6,521.3</b>	<b>6,449.2</b>	<b>6,531.9</b>	<b>6,779.0</b>	<b>6,511.0</b>	<b>6,581.4</b>	<b>6,531.9</b>	<b>6,561.6</b>	<b>6,573.7</b>	<b>6,663.0</b>
Short-term	1.3	1.6	1.4	1.1	1.7	1.3	2.9	3.1	2.5	1.9	2.0	1.8	5.3
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	1.3	1.6	1.4	1.1	1.7	1.3	2.9	3.1	2.5	1.9	2.0	1.8	5.3
Principal arrears	0.0	0.5	0.5	0.5	0.7	0.7	1.1	1.3	1.0	1.0	1.1	1.1	1.1
Interest arrears	1.2	1.1	0.9	0.6	1.0	0.6	1.8	1.8	1.5	0.9	0.9	0.7	4.2
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	6,666.5	6,622.8	6,560.6	6,520.2	6,447.5	6,530.6	6,776.2	6,507.9	6,578.9	6,530.0	6,559.6	6,571.9	6,657.7
Bonds	3,640.5	3,618.0	3,562.0	3,528.6	3,509.8	3,525.8	3,793.7	3,535.3	3,554.6	3,540.6	3,550.3	3,562.9	3,563.6
Credits	3,024.1	3,003.1	2,996.9	2,990.0	2,936.1	3,003.1	2,980.9	2,971.2	3,023.0	2,988.0	3,008.0	3,007.8	3,093.0
Trade credits	1.9	1.7	1.7	1.7	1.7	1.7	1.5	1.4	1.4	1.4	1.3	1.3	1.2
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>2. Croatian National Bank</b>	<b>2.6</b>	<b>2.6</b>	<b>2.3</b>	<b>2.1</b>	<b>1.9</b>	<b>2.5</b>	<b>2.3</b>	<b>2.1</b>	<b>2.1</b>	<b>2.0</b>	<b>1.9</b>	<b>1.9</b>	<b>2.3</b>
Short-term	2.6	2.6	2.3	2.1	1.9	2.5	2.3	2.1	2.1	2.0	1.9	1.9	2.3
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	2.6	2.6	2.3	2.1	1.9	2.5	2.3	2.1	2.1	2.0	1.9	1.9	2.3
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>3. Banks</b>	<b>10,222.6</b>	<b>10,425.6</b>	<b>10,516.6</b>	<b>10,313.9</b>	<b>9,877.7</b>	<b>9,958.8</b>	<b>9,805.5</b>	<b>9,213.2</b>	<b>8,510.9</b>	<b>8,456.0</b>	<b>8,640.7</b>	<b>8,809.7</b>	<b>8,879.1</b>
Short-term	3,362.7	3,597.8	3,693.5	3,447.7	3,219.2	3,419.7	2,961.9	2,607.3	2,157.6	1,889.9	2,019.1	2,048.1	2,361.2
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	1,150.4	1,213.1	1,243.5	1,013.7	910.2	937.2	844.6	642.7	391.2	437.2	529.0	485.6	710.8
Currency and deposits	2,211.1	2,383.2	2,448.4	2,432.8	2,307.9	2,481.3	2,116.2	1,963.5	1,765.5	1,451.9	1,489.3	1,561.6	1,648.8
Other debt liabilities	1.2	1.4	1.5	1.3	1.1	1.2	1.1	1.1	0.8	0.8	0.9	0.8	1.7
Principal arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.3	0.0	0.0	0.0	0.1
Interest arrears	1.2	1.4	1.5	1.3	1.1	1.1	1.1	0.8	0.6	0.8	0.9	0.8	1.5
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	6,859.9	6,827.8	6,823.1	6,866.2	6,658.5	6,539.1	6,843.6	6,605.9	6,353.3	6,566.1	6,621.6	6,761.6	6,517.9
Bonds	457.9	460.1	461.6	463.2	464.8	466.4	468.5	451.0	452.6	454.2	455.8	457.4	459.0
Credits	4,217.3	4,012.9	3,942.3	3,830.0	3,752.9	3,448.5	3,440.6	3,432.3	3,452.5	3,415.6	3,400.1	3,404.1	3,565.1
Currency and deposits	2,184.7	2,354.8	2,419.2	2,572.9	2,440.8	2,624.3	2,934.4	2,722.7	2,448.1	2,696.3	2,765.8	2,900.2	2,493.9
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
<b>4. Other sectors</b>	<b>9,502.5</b>	<b>9,797.7</b>	<b>9,971.1</b>	<b>10,240.0</b>	<b>10,388.6</b>	<b>10,761.9</b>	<b>11,007.6</b>	<b>12,067.5</b>	<b>12,354.0</b>	<b>12,554.0</b>	<b>12,757.8</b>	<b>12,995.5</b>	<b>13,451.9</b>
Short-term	700.9	816.8	845.2	923.0	922.8	951.5	1,022.9	1,208.9	1,242.8	1,310.5	1,350.2	1,393.8	1,478.2
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	155.0	279.4	292.6	365.7	357.9	384.2	410.3	600.8	621.3	649.9	693.5	721.1	681.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	35.9	35.6	37.8	33.9	32.5	35.7	37.9	31.2	28.8	31.8	31.0	31.1	31.1
Other debt liabilities	510.0	501.9	514.9	523.5	532.5	531.7	574.8	576.9	592.7	628.7	625.7	641.6	766.0
Principal arrears	460.6	457.7	474.4	469.5	486.7	488.0	513.3	527.1	545.3	574.9	569.6	587.2	683.4
Interest arrears	49.4	44.2	40.5	54.0	45.8	43.7	61.5	49.9	47.4	53.9	56.1	54.4	82.6
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	8,801.6	8,980.9	9,125.8	9,317.0	9,465.7	9,810.3	9,984.6	10,858.6	11,111.2	11,243.5	11,407.6	11,601.7	11,973.7
Bonds	306.4	308.5	310.2	314.0	315.9	317.6	319.5	623.1	620.9	609.3	612.9	604.8	401.6
Credits	8,349.8	8,523.2	8,667.2	8,851.8	8,989.2	9,277.7	9,429.5	9,999.1	10,246.6	10,377.6	10,527.1	10,708.4	11,282.3
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	145.4	149.2	148.5	151.1	160.6	215.0	235.6	236.4	243.6	256.6	267.5	288.5	289.8
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>5. Direct investment</b>	<b>2,878.4</b>	<b>2,933.9</b>	<b>3,002.9</b>	<b>3,072.1</b>	<b>3,242.2</b>	<b>3,319.8</b>	<b>3,464.0</b>	<b>3,415.3</b>	<b>3,631.8</b>	<b>3,683.4</b>	<b>3,751.1</b>	<b>3,856.1</b>	<b>3,932.8</b>
Short-term	233.9	263.7	282.5	288.2	292.9	305.9	359.7	369.2	366.6	390.8	415.8	463.6	540.4
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	51.2	84.1	98.8	93.9	99.8	106.3	141.9	165.2	162.1	154.3	174.7	212.1	216.8
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	182.7	179.6	183.7	194.4	193.0	199.7	217.8	204.0	204.5	236.5	241.1	251.4	323.6
Principal arrears	158.2	161.0	164.9	171.7	173.8	180.0	189.1	182.4	183.3	213.2	217.5	229.3	293.9
Interest arrears	24.5	18.7	18.9	22.7	19.2	19.7	28.7	21.6	21.2	23.3	23.7	22.2	29.7
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	2,644.5	2,670.2	2,720.3	2,783.8	2,949.3	3,013.8	3,104.4	3,046.1	3,265.2	3,292.6	3,335.3	3,392.6	3,392.5
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	2,618.1	2,644.3	2,694.5	2,759.0	2,924.7	2,989.3	3,081.2	3,023.1	3,242.8	3,270.8	3,314.6	3,372.8	3,374.5
Trade credits	26.4	25.9	25.9	24.8	24.6	24.5	23.2	23.0	22.4	21.8	20.6	19.8	18.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total (1+2+3+4+5)</b>	<b>29,273.9</b>	<b>29,784.2</b>	<b>30,054.8</b>	<b>30,149.4</b>	<b>29,959.6</b>	<b>30,574.8</b>	<b>31,058.4</b>	<b>31,209.2</b>	<b>31,080.2</b>	<b>31,227.2</b>	<b>31,713.1</b>	<b>32,237.0</b>	<b>32,929.2</b>

**Table H12: Gross External Debt by Domestic Sectors**

External debt is defined as the external debt liabilities of residents on the basis of debt securities issued in the 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 the external debt of the general government, comprising the Republic of Croatia, central government funds (including the Croatian Bank for Reconstruction and Development, the State Agency for Deposit Insurance and Bank Rehabilitation, the Croatian Roads and the Croatian Motorways), and local government. Item Croatian National Bank shows the debt of the central bank. Item Banks shows the debt of banks. Item Other sectors shows the debt 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% of the other).

Each sector data are further shown by contractual (short-term or long-term) maturity and by debt instrument. From the beginning of 2004, instruments included in item Currency and deposits (3. Banks) are reported in accordance with their maturity. Data for the previous periods are reported only on a long-term basis.

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

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

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

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

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

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

	2006	2007											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
<b>1. Public sector</b>	<b>8,256.8</b>	<b>8,206.7</b>	<b>8,240.8</b>	<b>8,186.2</b>	<b>8,090.8</b>	<b>8,315.6</b>	<b>8,578.7</b>	<b>8,694.7</b>	<b>8,770.2</b>	<b>8,764.3</b>	<b>8,866.4</b>	<b>8,939.6</b>	<b>9,259.5</b>
Short-term	41.7	39.4	37.3	34.8	31.8	34.8	34.1	34.3	33.6	34.3	63.2	61.1	72.5
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	15.2	15.5	15.3	12.4	12.9	16.9	12.2	13.6	14.4	13.8	43.2	42.9	35.4
Currency and deposits	2.6	2.6	2.3	2.1	1.9	2.5	2.3	2.1	2.1	2.0	1.9	1.9	2.3
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	23.9	21.2	19.7	20.3	17.0	15.4	19.5	18.5	17.0	18.6	18.1	16.2	34.7
Principal arrears	20.6	19.2	18.7	18.3	14.7	14.7	15.8	15.3	15.3	15.2	15.3	15.1	29.9
Interest arrears	3.3	2.0	1.0	2.0	2.2	0.6	3.7	3.2	1.7	3.4	2.7	1.2	4.8
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	8,213.6	8,165.8	8,202.0	8,150.0	8,057.5	8,279.3	8,543.0	8,658.6	8,734.7	8,728.2	8,801.4	8,876.7	9,185.2
Bonds	3,640.5	3,618.0	3,562.0	3,528.6	3,509.8	3,525.8	3,793.7	3,836.3	3,851.9	3,835.4	3,847.4	3,860.4	3,859.7
Credits	4,485.2	4,456.5	4,543.0	4,519.0	4,434.2	4,611.7	4,588.0	4,660.3	4,717.5	4,719.3	4,752.3	4,799.4	5,120.3
Currency and deposits	0.0	0.0	4.8	9.6	14.7	7.4	7.4	11.0	7.3	4.2	19.5	10.2	0.0
Trade credits	87.9	91.3	92.1	92.8	98.8	134.4	154.0	151.0	158.0	169.3	182.3	206.7	205.2
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Direct investment	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.8	1.8	1.8	1.8	1.8	1.8
<b>2. Publicly guaranteed private sector</b>	<b>204.2</b>	<b>180.3</b>	<b>179.0</b>	<b>177.6</b>	<b>172.3</b>	<b>173.6</b>	<b>170.7</b>	<b>145.6</b>	<b>146.5</b>	<b>143.7</b>	<b>143.1</b>	<b>142.8</b>	<b>139.9</b>
Short-term	17.2	16.9	15.9	16.4	11.7	11.8	11.9	11.8	11.8	12.1	11.4	11.2	11.3
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	17.2	16.9	15.9	16.4	11.7	11.8	11.9	11.8	11.8	12.1	11.4	11.2	11.3
Principal arrears	14.4	14.4	13.5	13.9	9.3	9.4	9.4	9.9	9.9	10.2	9.5	9.4	9.4
Interest arrears	2.8	2.6	2.4	2.4	2.4	2.4	2.5	1.9	1.9	1.9	1.9	1.8	1.9
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	187.0	163.3	163.2	161.3	160.6	161.8	158.8	133.8	134.6	131.7	131.7	131.6	128.6
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	187.0	163.3	163.2	161.3	160.6	161.8	158.8	133.8	134.6	131.7	131.7	131.6	128.6
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Direct investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>3. Non-publicly guaranteed private sector</b>	<b>20,812.9</b>	<b>21,397.2</b>	<b>21,635.0</b>	<b>21,785.5</b>	<b>21,696.5</b>	<b>22,085.6</b>	<b>22,309.1</b>	<b>22,368.9</b>	<b>22,163.5</b>	<b>22,319.3</b>	<b>22,703.6</b>	<b>23,154.7</b>	<b>23,529.9</b>
Short-term	4,008.7	4,362.4	4,489.2	4,322.8	4,102.2	4,328.5	3,944.0	3,775.3	3,359.5	3,157.9	3,298.7	3,373.3	3,763.3
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	1,290.2	1,476.9	1,520.8	1,366.9	1,255.2	1,304.5	1,242.6	1,229.9	998.1	1,073.3	1,179.3	1,163.9	1,356.4
Currency and deposits	2,211.1	2,383.2	2,448.4	2,432.8	2,307.9	2,481.3	2,116.2	1,963.5	1,765.5	1,451.9	1,489.3	1,561.6	1,648.8
Trade credits	35.9	35.6	37.8	33.9	32.5	35.7	37.9	31.2	28.8	31.8	31.0	31.1	31.1
Other debt liabilities	471.5	466.7	482.3	489.2	506.6	507.0	547.3	550.7	567.1	600.9	599.1	616.7	727.0
Principal arrears	425.6	424.6	442.8	437.7	463.4	464.6	489.2	503.4	521.4	550.5	545.8	563.8	645.4
Interest arrears	45.8	42.1	39.5	51.5	43.2	42.4	58.1	47.3	45.8	50.4	53.3	52.9	81.7
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	13,927.4	14,102.4	14,144.4	14,392.1	14,353.6	14,438.9	14,902.5	15,180.1	15,174.0	15,479.7	15,655.7	15,927.0	15,835.5
Bonds	764.3	768.6	771.8	777.3	780.7	784.0	788.0	773.2	776.2	768.7	771.6	764.6	564.4
Credits	10,919.0	10,919.3	10,895.4	10,982.0	11,068.7	10,948.3	11,096.8	11,597.5	11,862.7	11,926.0	12,031.8	12,179.1	12,691.4
Currency and deposits	2,184.7	2,354.8	2,419.2	2,572.9	2,440.8	2,624.3	2,934.4	2,722.7	2,448.1	2,696.3	2,765.8	2,900.2	2,493.9
Trade credits	59.4	59.6	58.1	60.0	63.4	82.3	83.2	86.7	87.0	88.7	86.5	83.0	85.8
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Direct investment	2,876.9	2,932.4	3,001.4	3,070.6	3,240.7	3,318.3	3,462.5	3,413.5	3,630.0	3,681.6	3,749.3	3,854.3	3,931.1
<b>Total (1+2+3)</b>	<b>29,273.9</b>	<b>29,784.2</b>	<b>30,054.8</b>	<b>30,149.4</b>	<b>29,959.6</b>	<b>30,574.8</b>	<b>31,058.4</b>	<b>31,209.2</b>	<b>31,080.1</b>	<b>31,227.2</b>	<b>31,713.1</b>	<b>32,237.0</b>	<b>32,929.2</b>

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

million euros

	Gross external debt 31/12/2007	Immediate	Projected future principal payments												
			Q1/08	Q2/08	Q3/08	Q4/08	2008	2009	2010	2011	2012	2013	2014	2015	Other
<b>1. Government</b>	<b>6,663.0</b>	<b>5.3</b>	<b>231.6</b>	<b>407.0</b>	<b>76.7</b>	<b>142.1</b>	<b>857.5</b>	<b>1,056.9</b>	<b>858.8</b>	<b>1,492.2</b>	<b>302.4</b>	<b>231.8</b>	<b>692.2</b>	<b>335.8</b>	<b>830.0</b>
Short-term	5.3	5.3	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
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	5.3	5.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal arrears	1.1	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	4.2	4.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	6,657.7	0.0	231.6	407.0	76.7	142.1	857.5	1,056.9	858.8	1,492.2	302.4	231.8	692.2	335.8	830.0
Bonds	3,563.6	0.0	153.3	148.8	25.4	17.4	345.0	714.5	563.2	1,054.5	45.8	28.4	512.8	28.4	270.9
Credits	3,093.0	0.0	78.1	258.0	51.3	124.6	511.9	342.3	295.6	437.5	256.5	203.4	179.3	307.4	559.1
Trade credits	1.2	0.0	0.2	0.2	0.1	0.1	0.5	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>2. Croatian National Bank</b>	<b>2.3</b>	<b>0.0</b>	<b>2.3</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>2.3</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Short-term	2.3	0.0	2.3	0.0	0.0	0.0	2.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	2.3	0.0	2.3	0.0	0.0	0.0	2.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>3. Banks</b>	<b>8,879.1</b>	<b>1.7</b>	<b>2,366.7</b>	<b>455.0</b>	<b>485.1</b>	<b>372.5</b>	<b>3,679.2</b>	<b>1,445.6</b>	<b>578.1</b>	<b>786.3</b>	<b>372.5</b>	<b>91.7</b>	<b>73.9</b>	<b>38.5</b>	<b>1,811.7</b>
Short-term	2,361.2	1.7	2,072.8	153.2	67.8	65.7	2,359.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	710.8	0.0	625.3	85.4	0.0	0.0	710.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	1,648.8	0.0	1,447.5	67.8	67.8	65.7	1,648.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	1.7	1.7	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
Principal 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
Interest arrears	1.5	1.5	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
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	6,517.9	0.0	293.8	301.8	417.3	306.7	1,319.7	1,445.6	578.1	786.3	372.5	91.7	73.9	38.5	1,811.7
Bonds	459.0	0.0	9.0	0.0	0.0	0.0	9.0	450.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	3,565.1	0.0	67.8	192.2	307.6	194.6	762.2	855.1	423.7	786.3	372.5	91.7	73.9	38.5	161.3
Currency and deposits	2,493.9	0.0	217.1	109.7	109.7	112.1	548.6	140.5	154.4	0.0	0.0	0.0	0.0	0.0	1,650.4
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>4. Other sectors</b>	<b>13,451.9</b>	<b>766.0</b>	<b>1,002.6</b>	<b>501.2</b>	<b>739.0</b>	<b>668.0</b>	<b>2,910.7</b>	<b>1,784.2</b>	<b>1,633.4</b>	<b>1,505.0</b>	<b>1,214.0</b>	<b>376.4</b>	<b>362.3</b>	<b>397.1</b>	<b>2,502.8</b>
Short-term	1,478.2	766.0	360.0	138.7	151.0	62.4	712.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	681.0	0.0	360.0	138.7	119.9	62.4	681.0	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
Trade credits	31.1	0.0	0.0	0.0	31.1	0.0	31.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	766.0	766.0	0.0	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	683.4	683.4	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	82.6	82.6	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	11,973.7	0.0	642.5	362.5	588.0	605.5	2,198.6	1,784.2	1,633.4	1,505.0	1,214.0	376.4	362.3	397.1	2,502.8
Bonds	401.6	0.0	7.6	0.0	0.0	0.0	7.6	0.0	0.0	105.4	0.0	0.0	0.0	0.0	288.6
Credits	11,282.3	0.0	610.4	336.1	558.5	552.3	2,057.3	1,686.6	1,583.8	1,393.7	1,212.6	376.1	362.0	396.9	2,213.4
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	289.8	0.0	24.6	26.5	29.5	53.2	133.7	97.6	49.6	5.9	1.5	0.3	0.3	0.2	0.8
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>5. Direct investment</b>	<b>3,932.8</b>	<b>323.6</b>	<b>245.7</b>	<b>142.5</b>	<b>111.8</b>	<b>332.1</b>	<b>832.1</b>	<b>497.0</b>	<b>408.0</b>	<b>403.0</b>	<b>342.6</b>	<b>61.5</b>	<b>101.1</b>	<b>300.5</b>	<b>663.5</b>
Short-term	540.4	323.6	58.5	41.1	34.8	82.5	216.8	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	216.8	0.0	58.5	41.1	34.8	82.5	216.8	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	323.6	323.6	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
Principal arrears	293.9	293.9	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	29.7	29.7	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	3,392.5	0.0	187.2	101.5	77.0	249.7	615.3	497.0	408.0	403.0	342.6	61.5	101.1	300.5	663.5
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	3,374.5	0.0	185.4	100.9	76.4	248.1	610.7	492.4	401.7	401.8	342.0	61.4	100.7	300.5	663.4
Trade credits	18.0	0.0	1.8	0.6	0.6	1.6	4.6	4.6	6.3	1.1	0.6	0.2	0.5	0.1	0.1
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total (1+2+3+4+5)</b>	<b>32,929.2</b>	<b>1,096.6</b>	<b>3,848.9</b>	<b>1,505.8</b>	<b>1,412.5</b>	<b>1,514.7</b>	<b>8,281.8</b>	<b>4,783.8</b>	<b>3,478.4</b>	<b>4,186</b>					

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

The Table shows outstanding gross external debt, projected principal payments and estimated interest payments according to the CNB's midpoint exchange rate at the end of the period. Principal payments on Currency and deposits of non-residents are projected according to the available monetary statistics data on original and remaining maturity.

Estimated interest payments do not include interest on deposits from non-residents, repo transactions and hybrid and subordinated instruments, as well as late interest on these instruments. Future interest payments are estimated on the basis of contractual interest rates 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: Gross External Debt by Other Sectors

million euros

	2006	2007											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
<b>1. Other sectors</b>	<b>9,502.5</b>	<b>9,797.7</b>	<b>9,971.1</b>	<b>10,240.0</b>	<b>10,388.6</b>	<b>10,761.9</b>	<b>11,007.6</b>	<b>12,067.5</b>	<b>12,354.0</b>	<b>12,554.0</b>	<b>12,757.8</b>	<b>12,995.5</b>	<b>13,451.9</b>
Short-term	700.9	816.8	845.2	923.0	922.8	951.5	1,022.9	1,208.9	1,242.8	1,310.5	1,350.2	1,393.8	1,478.2
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	155.0	279.4	292.6	365.7	357.9	384.2	410.3	600.8	621.3	649.9	693.5	721.1	681.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	35.9	35.6	37.8	33.9	32.5	35.7	37.9	31.2	28.8	31.8	31.0	31.1	31.1
Other debt liabilities	510.0	501.9	514.9	523.5	532.5	531.7	574.8	576.9	592.7	628.7	625.7	641.6	766.0
Principal arrears	460.6	457.7	474.4	469.5	486.7	488.0	513.3	527.1	545.3	574.9	569.6	587.2	683.4
Interest arrears	49.4	44.2	40.5	54.0	45.8	43.7	61.5	49.9	47.4	53.9	56.1	54.4	82.6
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	8,801.6	8,980.9	9,125.8	9,317.0	9,465.7	9,810.3	9,984.6	10,858.6	11,111.2	11,243.5	11,407.6	11,601.7	11,973.7
Bonds	306.4	308.5	310.2	314.0	315.9	317.6	319.5	623.1	620.9	609.3	612.9	604.8	401.6
Credits	8,349.8	8,523.2	8,667.2	8,851.8	8,989.2	9,277.7	9,429.5	9,999.1	10,246.6	10,377.6	10,527.1	10,708.4	11,282.3
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	145.4	149.2	148.5	151.1	160.6	215.0	235.6	236.4	243.6	256.6	267.5	288.5	289.8
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>1.1. Other banking institutions</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
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
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>1.2. Non-banking financial institutions</b>	<b>1,873.7</b>	<b>1,975.2</b>	<b>1,991.7</b>	<b>2,088.1</b>	<b>2,110.4</b>	<b>2,159.8</b>	<b>2,270.7</b>	<b>2,514.0</b>	<b>2,552.1</b>	<b>2,562.4</b>	<b>2,572.4</b>	<b>2,565.3</b>	<b>2,630.7</b>
Short-term	60.1	55.3	64.8	85.5	79.1	86.7	104.8	109.5	115.5	134.2	139.4	149.6	201.6
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	46.5	52.2	47.6	67.1	68.6	80.7	86.3	99.9	106.2	125.6	133.5	143.2	184.5
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	13.6	3.1	17.2	18.4	10.5	6.0	18.4	9.6	9.3	8.6	5.9	6.4	17.1
Principal arrears	6.4	1.6	15.7	8.0	7.3	3.4	6.7	5.5	5.3	5.5	2.1	2.8	2.9
Interest arrears	7.2	1.5	1.6	10.3	3.3	2.5	11.7	4.1	4.0	3.2	3.8	3.7	14.2
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	1,813.7	1,919.8	1,926.8	2,002.6	2,031.3	2,073.1	2,166.0	2,404.5	2,436.6	2,428.2	2,433.0	2,415.6	2,429.2
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	1,813.6	1,919.8	1,926.8	2,002.6	2,031.3	2,073.1	2,166.0	2,404.5	2,436.6	2,428.2	2,433.0	2,415.6	2,429.1
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	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
<b>1.3. Public enterprises</b>	<b>1,168.5</b>	<b>1,155.5</b>	<b>1,186.3</b>	<b>1,173.9</b>	<b>1,162.3</b>	<b>1,233.1</b>	<b>1,243.0</b>	<b>1,560.1</b>	<b>1,561.5</b>	<b>1,624.1</b>	<b>1,695.4</b>	<b>1,764.0</b>	<b>1,997.4</b>
Short-term	31.6	29.0	27.4	25.4	25.8	28.6	26.6	26.7	25.7	26.6	49.2	47.5	48.3
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	15.2	15.5	15.3	12.4	12.9	16.9	12.3	13.6	13.8	13.1	35.8	35.5	35.4
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	16.4	13.5	12.1	13.0	12.9	11.7	14.3	13.0	11.9	13.5	13.4	12.0	12.9
Principal arrears	14.5	12.6	12.1	11.7	11.7	11.7	12.4	11.7	11.7	11.7	11.7	11.7	12.5
Interest arrears	1.9	0.9	0.0	1.3	1.2	0.0	1.9	1.4	0.2	1.9	1.7	0.3	0.5
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	1,136.9	1,126.5	1,158.9	1,148.5	1,136.5	1,204.5	1,216.4	1,533.5	1,535.8	1,597.5	1,646.2	1,716.5	1,949.0
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	301.0	297.3	294.8	297.1	297.5	296.2
Credits	1,066.8	1,053.1	1,084.4	1,077.5	1,058.8	1,093.2	1,087.9	1,106.4	1,105.7	1,158.2	1,194.2	1,241.2	1,470.2
Trade credits	70.1	73.4	74.5	71.0	77.6	111.3	128.6	126.1	132.7	144.6	154.9	177.8	182.7
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

<b>1.4. Mixed enterprises</b>	<b>416.5</b>	<b>422.7</b>	<b>488.7</b>	<b>487.4</b>	<b>475.8</b>	<b>546.6</b>	<b>552.8</b>	<b>619.6</b>	<b>623.3</b>	<b>604.5</b>	<b>605.7</b>	<b>598.2</b>	<b>594.9</b>
Short-term	6.3	6.2	6.2	6.2	2.3	2.4	2.4	2.4	3.3	3.8	10.1	9.8	16.5
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7	0.7	7.4	7.4	0.0
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	6.3	6.2	6.2	6.2	2.3	2.4	2.4	2.4	2.6	3.1	2.7	2.5	16.5
Principal arrears	6.1	6.2	6.1	6.1	2.3	2.3	2.3	2.4	2.6	2.5	2.6	2.3	16.4
Interest arrears	0.2	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.6	0.1	0.1	0.1
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	410.2	416.5	482.5	481.3	473.5	544.3	550.5	617.2	620.0	600.7	595.6	588.3	578.4
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	394.3	400.4	466.6	461.1	453.9	522.8	526.6	593.7	596.1	577.3	569.5	560.6	557.1
Trade credits	15.9	16.2	15.9	20.2	19.6	21.5	23.8	23.5	23.9	23.4	26.1	27.7	21.3
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>1.5. Other enterprises</b>	<b>5,929.1</b>	<b>6,127.1</b>	<b>6,185.7</b>	<b>6,370.0</b>	<b>6,523.1</b>	<b>6,673.1</b>	<b>6,786.3</b>	<b>7,217.6</b>	<b>7,456.8</b>	<b>7,605.8</b>	<b>7,725.9</b>	<b>7,908.8</b>	<b>8,062.2</b>
Short-term	578.8	699.4	719.1	776.9	791.8	809.9	860.2	1,041.9	1,069.1	1,117.9	1,120.6	1,156.1	1,174.3
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	86.9	202.4	220.0	275.4	271.6	282.2	302.6	479.0	492.1	504.8	510.6	528.8	451.2
Trade credits	35.9	35.6	37.8	33.9	32.5	35.7	37.9	31.2	28.8	31.8	31.0	31.1	31.1
Other debt liabilities	456.0	461.4	461.4	467.6	487.7	492.1	519.8	531.7	548.2	581.3	579.1	596.2	692.0
Principal arrears	420.3	424.0	426.9	429.1	450.4	454.9	476.2	491.6	509.4	537.7	534.1	551.5	630.2
Interest arrears	35.7	37.4	34.5	38.5	37.3	37.2	43.6	40.1	38.8	43.6	45.0	44.7	61.8
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	5,350.3	5,427.8	5,466.6	5,593.2	5,731.3	5,863.2	5,926.1	6,175.8	6,387.7	6,487.9	6,605.2	6,752.8	6,887.9
Bonds	306.4	308.5	310.2	314.0	315.9	317.6	319.5	322.2	323.6	314.5	315.8	307.3	105.4
Credits	4,989.1	5,064.2	5,103.2	5,224.2	5,357.1	5,469.0	5,528.8	5,772.2	5,982.7	6,090.2	6,208.3	6,367.7	6,701.7
Trade credits	54.8	55.0	53.3	55.0	58.2	76.6	77.7	81.4	81.4	83.2	81.2	77.8	80.8
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>1.6. Non-profit institutions</b>	<b>5.3</b>	<b>5.3</b>	<b>5.3</b>	<b>5.3</b>	<b>5.3</b>	<b>5.3</b>	<b>5.4</b>						
<b>1.7. Craftsmen and sole traders</b>	<b>26.8</b>	<b>28.2</b>	<b>29.0</b>	<b>28.6</b>	<b>28.2</b>	<b>28.4</b>	<b>28.2</b>	<b>28.1</b>	<b>28.7</b>	<b>25.3</b>	<b>24.6</b>	<b>23.9</b>	<b>24.1</b>
<b>1.8. Households</b>	<b>82.7</b>	<b>83.7</b>	<b>84.4</b>	<b>86.7</b>	<b>83.5</b>	<b>115.5</b>	<b>121.2</b>	<b>122.7</b>	<b>126.1</b>	<b>126.5</b>	<b>128.4</b>	<b>130.0</b>	<b>137.2</b>

Table H16: International Investment Position – Summary

million euros

	2003	2004	2005	2006	2007 <sup>a</sup>	2007			
						Q1	Q2	Q3	Q4 <sup>a</sup>
<b>1. International investment position (net)</b>	<b>-10,716.7</b>	<b>-15,371.6</b>	<b>-20,229.0</b>	<b>-29,971.2</b>	<b>-39,670.2</b>	<b>-36,024.5</b>	<b>-39,218.3</b>	<b>-38,856.5</b>	<b>-39,670.2</b>
<b>2. Assets</b>	14,347.6	15,117.6	16,042.7	18,243.8	21,110.5	19,099.7	19,707.2	20,265.8	21,110.5
2.1. Direct investment abroad	1,626.7	1,563.4	1,729.8	1,833.8	2,378.5	2,069.9	2,348.5	2,347.3	2,378.5
2.2. Portfolio investment	737.4	1,506.0	2,136.8	2,575.9	3,017.2	2,875.0	3,243.4	3,194.8	3,017.2
2.2.1. Equity securities	141.3	176.8	418.0	720.4	1,595.5	1,147.5	1,457.0	1,728.0	1,595.5
2.2.2. Debt securities	596.1	1,329.1	1,718.8	1,855.4	1,421.7	1,727.5	1,786.4	1,466.7	1,421.7
Bonds	593.7	1,168.7	1,571.6	1,464.0	1,141.4	1,322.4	1,364.8	1,210.7	1,141.4
Money market instruments	2.4	160.4	147.1	391.4	280.3	405.1	421.5	256.1	280.3
2.3. Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.4. Other investment	5,429.5	5,612.1	4,737.7	5,108.8	6,407.4	4,635.1	4,945.0	5,928.6	6,407.4
2.4.1. Trade credits	253.4	221.6	263.0	230.7	227.4	222.8	223.9	225.2	227.4
2.4.2. Loans	102.1	102.2	146.2	239.5	293.2	246.9	248.0	324.7	293.2
2.4.3. Currency and deposits	5,074.0	5,288.2	4,328.5	4,638.3	5,886.8	4,165.4	4,473.1	5,378.7	5,886.8
2.4.4. Other assets	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0
2.5. Reserve assets (CNB)	<b>6,554.1</b>	<b>6,436.1</b>	<b>7,438.4</b>	<b>8,725.3</b>	<b>9,307.4</b>	<b>9,519.7</b>	<b>9,170.3</b>	<b>8,795.1</b>	<b>9,307.4</b>
<b>3. Liabilities</b>	25,064.3	30,489.1	36,271.6	48,215.0	60,780.6	55,124.2	58,925.5	59,122.3	60,780.6
3.1. Direct investment in Croatia	6,808.6	9,114.2	12,332.4	20,782.0	30,375.0	26,966.5	30,072.1	30,263.5	30,375.0
3.2. Portfolio investment	4,918.4	5,981.6	5,530.4	5,442.4	5,833.4	5,386.3	5,840.8	5,919.0	5,833.4
3.2.1. Equity securities	233.4	488.1	646.5	1,037.5	1,409.3	1,080.4	1,259.0	1,315.0	1,409.3
3.2.2. Debt securities	4,685.1	5,493.5	4,883.9	4,404.8	4,424.2	4,305.8	4,581.8	4,604.1	4,424.2
Bonds	4,651.4	5,493.5	4,883.9	4,404.8	4,424.2	4,305.8	4,581.8	4,604.1	4,424.2
Money market instruments	33.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.3. Financial derivatives									
3.4. Other investment	13,337.3	15,393.4	18,408.7	21,990.6	24,572.2	22,771.5	23,012.6	22,939.7	24,572.2
3.4.1. Trade credits	179.5	155.1	194.2	183.3	322.1	186.7	275.0	289.8	322.1
3.4.2. Loans	10,027.9	11,578.7	14,035.5	16,896.6	19,332.1	17,051.1	17,105.9	17,868.2	19,332.1
3.4.3. Currency and deposits	2,738.8	3,242.7	3,635.6	4,398.3	4,145.0	5,007.8	5,053.0	4,150.2	4,145.0
3.4.4. Other assets	391.2	417.0	543.5	512.5	773.0	525.8	578.7	631.5	773.0

<sup>a</sup> Preliminary data.

Table H16: International Investment Position

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

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 the 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 currency assets of banks authorised to do business abroad reduced by the amount of foreign currency 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 currency 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 H17: International Investment Position – Direct Investment**

million euros

	2003	2004	2005	2006	2007 <sup>a</sup>	2007			
						Q1	Q2	Q3	Q4 <sup>a</sup>
<b>Direct investment (net)</b>	<b>-5,181.9</b>	<b>-7,550.8</b>	<b>-10,602.7</b>	<b>-18,948.2</b>	<b>-27,996.5</b>	<b>-24,896.5</b>	<b>-27,723.6</b>	<b>-27,916.2</b>	<b>-27,996.5</b>
<b>1. Abroad</b>	<b>1,626.7</b>	<b>1,563.4</b>	<b>1,729.8</b>	<b>1,833.8</b>	<b>2,378.5</b>	<b>2,069.9</b>	<b>2,348.5</b>	<b>2,347.3</b>	<b>2,378.5</b>
1.1. Equity capital and reinvested earnings	1,587.0	1,502.3	1,610.4	1,725.0	2,269.1	1,944.8	2,222.8	2,236.6	2,269.1
1.1.1. Claims	1,587.0	1,502.3	1,610.4	1,725.0	2,269.1	1,944.8	2,222.8	2,236.6	2,269.1
1.1.2. Liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.2. Other capital	39.7	61.2	119.3	108.9	109.5	125.2	125.7	110.7	109.5
1.1.1. Claims	63.4	89.6	138.0	145.5	174.4	165.6	170.7	154.3	174.4
1.2.2. Liabilities	23.7	28.4	18.7	36.6	64.9	40.4	44.9	43.6	64.9
1.3. Financial derivatives (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>2. In Croatia</b>	<b>6,808.6</b>	<b>9,114.2</b>	<b>12,332.4</b>	<b>20,782.0</b>	<b>30,375.0</b>	<b>26,966.5</b>	<b>30,072.1</b>	<b>30,263.5</b>	<b>30,375.0</b>
2.1. Equity capital and reinvested earnings	4,972.7	7,116.4	9,920.6	17,961.3	26,819.3	23,957.5	26,637.9	26,792.8	26,819.3
2.1.1. Claims	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.1.2. Liabilities	4,972.7	7,116.4	9,920.6	17,961.3	26,819.3	23,957.5	26,637.9	26,792.8	26,819.3
2.2. Other capital	1,835.9	1,997.8	2,411.8	2,820.8	3,555.7	3,009.0	3,434.2	3,470.7	3,555.7
2.2.1. Claims	1.8	19.9	20.1	21.1	24.2	22.7	23.2	24.1	24.2
2.2.2. Liabilities	1,837.7	2,017.7	2,431.9	2,841.8	3,579.9	3,031.7	3,457.4	3,494.8	3,579.9
2.3. Financial derivatives (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

<sup>a</sup> Preliminary data.

**Table H18: International Investment Position – Portfolio Investment**

million euros

	2003	2004	2005	2006	2007 <sup>a</sup>	2007			
						Q1	Q2	Q3	Q4 <sup>a</sup>
<b>Portfolio investment (net)</b>	<b>-4,183.3</b>	<b>-4,475.6</b>	<b>-3,393.6</b>	<b>-2,866.5</b>	<b>-2,816.9</b>	<b>-2,511.3</b>	<b>-2,597.4</b>	<b>-2,724.3</b>	<b>-2,816.9</b>
<b>1. Assets</b>	<b>735.1</b>	<b>1,506.0</b>	<b>2,136.8</b>	<b>2,575.9</b>	<b>3,016.5</b>	<b>2,875.0</b>	<b>3,243.4</b>	<b>3,194.8</b>	<b>3,016.5</b>
1.1. Equity securities	139.0	1,176.8	418.0	720.4	1,594.8	1,147.5	1,457.0	1,728.0	1,594.8
1.1.1. Banks	4.7	5.1	5.9	6.7	8.3	8.3	8.6	8.3	8.3
1.1.2. Other sectors	134.2	171.8	412.1	713.7	1,586.6	1,139.2	1,448.4	1,719.7	1,586.6
1.2. Debt securities	596.1	1,329.1	1,718.8	1,855.4	1,421.7	1,727.5	1,786.4	1,466.7	1,421.7
<b>2. Liabilities</b>	<b>4,918.4</b>	<b>5,981.6</b>	<b>5,530.4</b>	<b>5,442.4</b>	<b>5,833.4</b>	<b>5,386.3</b>	<b>5,840.8</b>	<b>5,919.0</b>	<b>5,833.4</b>
2.1. Equity securities	233.4	488.1	646.5	1,037.5	1,409.3	1,080.4	1,259.0	1,315.0	1,409.3
2.1.1. Banks	46.3	64.7	84.0	156.7	168.0	182.7	192.5	187.9	168.0
2.1.2. Other sectors	187.1	423.4	562.6	880.8	1,241.2	897.7	1,066.5	1,127.1	1,241.2
2.2. Debt securities	4,685.1	5,493.5	4,883.9	4,404.8	4,424.2	4,305.8	4,581.8	4,604.1	4,424.2
2.2.1. Bonds	4,651.4	5,493.5	4,883.9	4,404.8	4,424.2	4,305.8	4,581.8	4,604.1	4,424.2
2.2.1.1. General government	4,306.6	4,662.4	4,052.1	3,640.5	3,563.6	3,528.6	3,793.7	3,540.6	3,563.6
2.2.1.2. Banks	0.0	453.2	456.6	457.9	459.0	463.2	468.5	454.2	459.0
2.2.1.3. Other sectors	344.8	377.9	375.3	306.4	401.6	314.0	319.5	609.3	401.6
2.2.2. Money market instruments	33.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.2.1. Other sectors	33.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

<sup>a</sup> Preliminary data.

Table H19: International Investment Position – Other Investment

million euros

	2003	2004	2005	2006	2007 <sup>a</sup>	2007			
						Q1	Q2	Q3	Q4 <sup>a</sup>
<b>Other investment (net)</b>	<b>-7,907.9</b>	<b>-9,781.4</b>	<b>-13,671.0</b>	<b>-16,881.8</b>	<b>-18,164.8</b>	<b>-18,136.4</b>	<b>-18,067.6</b>	<b>-17,011.1</b>	<b>-18,164.8</b>
<b>1. Assets</b>	<b>5,429.5</b>	<b>5,612.1</b>	<b>4,737.7</b>	<b>5,108.8</b>	<b>6,407.4</b>	<b>4,635.1</b>	<b>4,945.0</b>	<b>5,928.6</b>	<b>6,407.4</b>
1.1. Trade credits	253.4	221.6	263.0	230.7	227.4	222.8	223.9	225.2	227.4
1.1.1. General government	0.0	0.0	0.3	0.1	0.0	0.1	0.0	0.0	0.0
Long-term	0.0	0.0	0.3	0.1	0.0	0.1	0.0	0.0	0.0
1.1.2. Other sectors	253.4	221.6	262.7	230.5	227.4	222.7	223.8	225.2	227.4
Long-term	211.5	181.4	190.6	177.5	224.7	182.2	191.8	200.2	224.7
Short-term	41.9	40.2	72.1	53.1	2.7	40.5	32.0	25.0	2.7
1.2. Loans	102.1	102.2	146.2	239.5	293.2	246.9	248.0	324.7	293.2
1.2.1. Croatian National Bank	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Long-term	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
1.2.2. General government	5.3	7.0	8.7	9.5	15.5	9.0	12.6	12.9	15.5
Long-term	5.3	7.0	8.7	9.5	15.5	9.0	12.6	12.9	15.5
1.2.3. Banks	87.1	81.6	113.2	188.6	212.1	189.6	187.0	215.9	212.1
Long-term	63.1	62.6	85.3	140.1	157.4	153.1	162.4	155.7	157.4
Short-term	23.9	19.0	27.9	48.5	54.8	36.5	24.6	60.2	54.8
1.2.4. Other sectors	9.1	13.0	23.6	40.9	65.0	47.7	47.9	95.3	65.0
Long-term	9.1	11.7	23.3	40.7	64.9	46.7	46.5	88.7	64.9
Short-term	0.0	1.3	0.3	0.2	0.1	1.0	1.4	6.6	0.1
1.3. Currency and deposits	5,074.0	5,288.2	4,328.5	4,638.3	5,886.8	4,165.4	4,473.1	5,378.7	5,886.8
1.3.1. General government	81.9	8.9	54.2	26.4	69.8	1.4	43.4	55.1	69.8
1.3.2. Banks	3,916.8	4,319.7	3,112.2	3,499.9	4,715.1	3,036.2	3,294.4	4,181.5	4,715.1
1.3.3. Other sectors	1,075.4	959.7	1,162.1	1,111.9	1,101.9	1,127.7	1,135.3	1,142.2	1,101.9
1.4. Other assets	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0
<b>2. Liabilities</b>	<b>13,337.3</b>	<b>15,393.4</b>	<b>18,408.7</b>	<b>21,990.6</b>	<b>24,572.2</b>	<b>22,771.5</b>	<b>23,012.6</b>	<b>22,939.7</b>	<b>24,572.2</b>
2.1. Trade credits	179.5	155.1	194.2	183.3	322.1	186.7	275.0	289.8	322.1
2.1.1. General government	2.3	2.1	2.6	1.9	1.2	1.7	1.5	1.4	1.2
Long-term	2.3	2.1	2.6	1.9	1.2	1.7	1.5	1.4	1.2
Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.1.2. Other sectors	177.2	153.0	191.6	181.3	320.9	185.0	273.5	288.4	320.9
Long-term	155.0	129.8	163.8	145.4	289.8	151.1	235.6	256.6	289.8
Short-term	22.2	23.2	27.8	35.9	31.1	33.9	37.9	31.8	31.1
2.2. Loans	10,027.9	11,578.7	14,035.5	16,896.6	19,332.1	17,051.1	17,105.9	17,868.2	19,332.1
2.2.1. Croatian National Bank	363.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w: IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.2. General government	2,260.5	2,590.2	2,990.6	3,024.1	3,093.0	2,990.0	2,980.9	2,988.0	3,093.0
Long-term	2,260.5	2,590.2	2,990.6	3,024.1	3,093.0	2,990.0	2,980.9	2,988.0	3,093.0
Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.3. Banks	3,403.0	4,037.3	4,887.5	5,367.8	4,275.8	4,843.7	4,285.2	3,852.7	4,275.8
Long-term	2,798.5	3,517.4	3,822.7	4,217.3	3,565.1	3,830.0	3,440.6	3,415.6	3,565.1
Short-term	604.6	519.9	1,064.8	1,150.4	710.8	1,013.7	844.6	437.2	710.8
2.2.4. Other sectors	4,001.0	4,951.3	6,157.3	8,504.8	11,963.3	9,217.5	9,839.7	11,027.5	11,963.3
Long-term	3,933.0	4,852.7	6,017.1	8,349.8	11,282.3	8,851.8	9,429.5	10,377.6	11,282.3
Short-term	68.1	98.5	140.2	155.0	681.0	365.7	410.3	649.9	681.0
2.3. Currency and deposits	2,738.8	3,242.7	3,635.6	4,398.3	4,145.0	5,007.8	5,053.0	4,150.2	4,145.0
2.3.1. Croatian National Bank	2.6	2.4	2.6	2.6	2.3	2.1	2.3	2.0	2.3
2.3.2. Banks	2,736.2	3,240.3	3,632.9	4,395.7	4,142.6	5,005.7	5,050.7	4,148.2	4,142.6
2.4. Other liabilities	391.2	417.0	543.5	512.5	773.0	525.8	578.7	631.5	773.0

<sup>a</sup> Preliminary data.

**Table I1: Consolidated Central Government According to the Government Level**

million kuna

	2006	2007										
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.
<b>1. REVENUE (A + B)</b>	<b>9,124.2</b>	<b>8,548.4</b>	<b>8,143.3</b>	<b>8,076.5</b>	<b>10,701.2</b>	<b>9,219.6</b>	<b>8,996.5</b>	<b>9,855.2</b>	<b>10,259.8</b>	<b>10,133.8</b>	<b>9,679.7</b>	<b>9,538.9</b>
A) Budgetary central government	8,362.3	8,250.8	7,797.0	7,800.9	10,345.3	8,757.0	8,607.4	9,334.2	9,699.3	9,703.0	9,210.3	9,033.7
B) Extrabudgetary users	761.9	297.5	346.4	275.6	356.0	462.6	389.1	521.0	560.5	430.8	469.4	505.2
1. Croatian Pension Insurance Administration	181.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Croatian Institute for Health Insurance	97.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. Croatian Employment Service	12.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. Croatian Waters	270.4	141.9	88.0	161.3	154.7	145.8	156.5	198.6	163.7	187.2	208.9	154.9
5. Fund for Environmental Protection and Energy Efficiency	83.5	38.3	82.3	53.9	53.6	125.4	62.7	104.7	115.4	79.3	104.5	163.5
6. Croatian Motorways Ltd.	92.5	87.7	95.9	54.1	124.2	108.0	123.6	196.9	195.8	139.1	120.1	96.3
7. Croatian Roads Ltd.	12.6	4.5	4.0	3.3	3.7	3.9	36.0	6.4	3.1	16.4	3.3	5.8
8. State Agency for Deposit Insurance and Bank Rehabilitation	7.4	15.6	73.7	2.4	16.2	78.1	5.5	12.3	80.4	5.4	28.1	69.2
9. Croatian Privatisation Fund	4.6	9.5	2.5	0.6	3.5	1.4	4.8	2.2	2.1	3.4	4.4	15.5
<b>2. EXPENSE (A + B)</b>	<b>10,668.7</b>	<b>7,851.1</b>	<b>8,698.2</b>	<b>8,811.9</b>	<b>8,659.3</b>	<b>8,272.0</b>	<b>8,387.0</b>	<b>8,734.9</b>	<b>9,581.0</b>	<b>9,172.4</b>	<b>9,358.2</b>	<b>10,088.8</b>
A) Budgetary central government	9,568.0	7,477.1	8,336.9	8,481.0	8,270.9	7,804.2	7,884.4	8,258.3	9,048.4	8,729.9	8,772.0	9,414.4
B) Extrabudgetary users	1,100.6	374.0	361.3	331.0	388.4	467.8	502.6	476.6	532.6	442.4	586.2	674.4
1. Croatian Pension Insurance Administration	201.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Croatian Institute for Health Insurance	70.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. Croatian Employment Service	14.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. Croatian Waters	372.6	142.0	86.4	104.1	103.9	117.4	157.7	150.7	219.7	184.0	187.9	275.8
5. Fund for Environmental Protection and Energy Efficiency	102.5	47.0	74.4	72.9	59.8	102.5	60.3	86.5	68.1	110.1	125.2	161.1
6. Croatian Motorways Ltd.	181.6	79.1	123.2	72.2	135.7	147.3	182.6	116.7	66.7	78.4	139.4	151.5
7. Croatian Roads Ltd.	142.9	79.6	70.3	75.6	76.9	92.0	83.1	113.0	170.2	61.2	125.2	76.2
8. State Agency for Deposit Insurance and Bank Rehabilitation	2.9	19.8	1.2	1.1	2.8	2.2	9.3	4.1	1.3	1.4	1.6	1.6
9. Croatian Privatisation Fund	11.7	6.5	5.9	5.0	9.2	6.4	9.6	5.7	6.7	7.3	6.8	8.2
<b>NET/GROSS OPERATING BALANCE (1–2)</b>	<b>-1,544.4</b>	<b>697.3</b>	<b>-554.8</b>	<b>-735.4</b>	<b>2,041.9</b>	<b>947.6</b>	<b>609.5</b>	<b>1,120.3</b>	<b>678.8</b>	<b>961.4</b>	<b>321.5</b>	<b>-549.9</b>
<b>3. CHANGE IN NET WORTH: TRANSACTIONS (3.1. + 3.2. - 3.3.)</b>	<b>-1,544.4</b>	<b>697.3</b>	<b>-554.8</b>	<b>-735.4</b>	<b>2,041.9</b>	<b>947.6</b>	<b>609.5</b>	<b>1,120.3</b>	<b>678.8</b>	<b>961.4</b>	<b>321.5</b>	<b>-549.9</b>
<b>3.1. CHANGE IN NET ACQUISITION OF NON-FINANCIAL ASSETS</b>	<b>1,061.8</b>	<b>215.8</b>	<b>283.2</b>	<b>412.3</b>	<b>450.4</b>	<b>564.0</b>	<b>520.2</b>	<b>957.3</b>	<b>967.2</b>	<b>590.7</b>	<b>800.1</b>	<b>676.8</b>
Acquisition	1,408.0	420.0	328.7	459.0	484.3	587.9	540.8	981.7	985.3	616.5	825.5	709.7
A) Budgetary central government	556.7	88.5	142.2	101.7	173.2	130.4	126.7	146.4	447.9	191.6	407.7	369.9
B) Extrabudgetary users	851.3	331.5	186.5	357.3	311.1	457.4	414.1	835.4	537.4	424.9	417.8	339.7
Disposals	346.2	204.2	45.5	46.8	33.9	23.8	20.7	24.4	18.1	25.9	25.4	32.9
A) Budgetary central government	44.1	170.3	45.4	32.3	33.3	23.7	20.5	24.2	17.9	23.6	23.2	31.8
B) Extrabudgetary users	302.2	33.8	0.1	14.5	0.6	0.1	0.1	0.3	0.2	2.3	2.2	1.1
<b>NET LENDING/BORROWING (1–2–3.1.)</b>	<b>-2,606.2</b>	<b>481.5</b>	<b>-838.0</b>	<b>-1,147.7</b>	<b>1,591.5</b>	<b>383.6</b>	<b>89.3</b>	<b>163.0</b>	<b>-288.5</b>	<b>370.8</b>	<b>-478.6</b>	<b>-1,226.8</b>
<b>TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES (FINANCING) (3.3.–3.2.)</b>	<b>2,606.2</b>	<b>-481.5</b>	<b>838.0</b>	<b>1,147.7</b>	<b>-1,591.5</b>	<b>-383.6</b>	<b>-89.3</b>	<b>-163.0</b>	<b>288.5</b>	<b>-370.8</b>	<b>478.6</b>	<b>1,226.8</b>
<b>3.2. CHANGE IN NET ACQUISITION OF FINANCIAL ASSETS</b>	<b>-3,355.6</b>	<b>-71.4</b>	<b>974.6</b>	<b>-755.0</b>	<b>1,267.8</b>	<b>-5.0</b>	<b>-193.9</b>	<b>-546.5</b>	<b>771.4</b>	<b>560.4</b>	<b>-1,175.4</b>	<b>-1,277.8</b>
3.2.1. Domestic	-3,362.6	-71.4	974.6	-755.0	1,267.8	-10.3	-196.7	-546.5	771.4	560.4	-1,175.4	-1,283.1
A) Budgetary central government	-3,553.8	150.0	981.6	-785.6	1,306.8	-181.7	-235.8	-683.7	568.2	690.4	-1,177.5	-1,377.3
B) Extrabudgetary users	191.2	-221.4	-6.9	30.6	-39.0	171.4	39.2	137.2	203.2	-130.0	2.1	94.2
3.2.2. Foreign	7.0	0.0	0.0	0.0	0.0	5.3	2.7	0.0	0.0	0.0	0.0	5.3
A) Budgetary central government	7.0	0.0	0.0	0.0	0.0	5.3	2.7	0.0	0.0	0.0	0.0	5.3
B) Extrabudgetary users	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.2.3. Monetary gold and SDRs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>3.3. CHANGE IN NET INCURRENCE OF LIABILITIES</b>	<b>-749.4</b>	<b>-552.8</b>	<b>1,812.7</b>	<b>392.6</b>	<b>-323.7</b>	<b>-388.5</b>	<b>-283.3</b>	<b>-709.5</b>	<b>1,059.8</b>	<b>189.6</b>	<b>-696.8</b>	<b>-51.0</b>
3.3.1. Domestic	-803.0	6.2	1,822.5	472.3	-79.2	-745.5	-390.7	1,327.5	706.1	185.3	-843.6	-193.1
A) Budgetary central government	-1,463.0	12.4	1,824.5	277.8	-222.3	-819.2	-388.0	918.9	605.0	193.5	-848.2	-269.7
B) Extrabudgetary users	659.9	-6.3	-1.9	194.5	143.2	73.7	-2.6	408.5	101.1	-8.2	4.6	76.6
3.3.2. Foreign	53.6	-559.0	-9.9	-79.6	-244.5	357.0	107.4	-2,037.0	353.8	4.3	146.8	142.1
A) Budgetary central government	48.2	-468.5	-9.9	-93.6	-166.3	68.1	-195.6	-2,215.7	130.0	-30.7	-0.3	-24.4
B) Extrabudgetary users	5.4	-90.5	0.0	14.0	-78.2	288.8	303.0	178.7	223.7	35.1	147.1	166.5

Note: On a cash basis.

The Notes on Methodology can be found in the Ministry of Finance Monthly Statistical Review.

Source: MoF.

Table I2: Budgetary Central Government Operations

million kuna

	2006	2007										
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.
<b>1. REVENUE</b>	<b>8,362.3</b>	<b>8,250.8</b>	<b>7,797.1</b>	<b>7,803.2</b>	<b>10,346.8</b>	<b>8,757.8</b>	<b>8,607.4</b>	<b>9,334.3</b>	<b>9,705.4</b>	<b>9,702.8</b>	<b>9,210.3</b>	<b>9,034.6</b>
1.1. Taxes	4,784.4	5,020.2	4,495.4	4,502.2	6,813.9	5,315.2	5,157.1	5,772.1	6,045.6	5,256.5	5,655.9	5,524.6
1.2. Social contributions	3,161.9	2,891.1	2,921.3	2,929.4	3,117.3	3,069.0	3,116.4	3,200.9	3,261.9	3,149.9	3,172.6	3,164.0
1.3. Grants	155.6	1.0	0.5	10.8	43.1	18.4	40.8	7.8	46.6	29.3	73.8	53.2
1.4. Other revenue	260.4	338.6	379.9	360.7	372.6	355.2	293.1	353.5	351.2	1,267.1	308.1	292.8
<b>2. EXPENSE</b>	<b>9,981.7</b>	<b>7,726.6</b>	<b>8,533.3</b>	<b>8,703.5</b>	<b>8,511.5</b>	<b>8,076.3</b>	<b>8,150.7</b>	<b>8,599.0</b>	<b>9,442.2</b>	<b>9,007.1</b>	<b>9,154.8</b>	<b>9,774.4</b>
2.1. Compensation of employees	2,214.5	2,183.5	2,171.8	2,152.2	2,441.1	2,209.9	2,224.9	2,504.4	2,355.7	2,250.1	2,235.2	2,261.2
2.2. Use of goods and services	1,217.5	387.4	541.4	521.9	603.6	494.3	486.7	505.6	598.2	546.0	651.9	737.7
2.3. Consumption of fixed capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.4. Interest	413.1	362.5	602.3	715.5	291.8	273.7	370.6	393.0	333.3	373.7	174.6	324.7
2.5. Subsidies	678.6	418.1	652.2	582.6	479.7	436.8	349.2	372.2	458.3	731.3	645.7	703.1
2.6. Grants	924.4	512.6	325.2	379.6	450.5	486.4	495.2	557.3	644.7	511.4	725.0	846.2
2.7. Social benefits	3,928.7	3,699.7	3,843.0	4,013.5	3,755.7	3,803.4	3,851.3	3,788.5	4,683.2	4,251.6	4,112.4	3,899.2
2.8. Other expense	604.9	162.9	397.4	338.2	489.1	371.9	372.7	478.0	368.7	343.1	610.0	1,002.1
<b>3. CHANGE IN NET WORTH: TRANSACTIONS</b>	<b>-1,619.4</b>	<b>524.2</b>	<b>-736.2</b>	<b>-900.3</b>	<b>1,835.3</b>	<b>681.4</b>	<b>456.7</b>	<b>735.2</b>	<b>263.2</b>	<b>695.6</b>	<b>55.5</b>	<b>-739.8</b>
3.1. Change in net acquisition of non-financial assets	512.6	-81.9	96.8	69.5	139.9	106.7	106.2	122.2	430.0	168.0	384.5	338.2
3.1.1. Fixed assets	510.0	66.7	120.3	62.1	133.1	101.5	99.3	119.2	426.8	159.8	362.0	324.3
3.1.2. Inventories	-18.1	-148.9	-23.6	-1.3	-3.4	1.5	0.0	-1.7	-0.3	0.0	14.5	8.8
3.1.3. Valuables	2.1	0.1	0.3	0.9	0.9	0.9	2.6	1.1	0.0	0.3	1.1	0.9
3.1.4. Non-produced assets	18.6	0.3	-0.3	7.8	9.2	2.8	4.3	3.6	3.4	7.9	6.9	4.1
3.2. Change in net acquisition of financial assets	-3,546.8	150.0	981.6	-785.6	1,306.8	-176.3	-233.1	-683.7	568.2	690.4	-1,177.5	-1,372.0
3.2.1. Domestic	-3,553.8	150.0	981.6	-785.6	1,306.8	-181.7	-235.8	-683.7	568.2	690.4	-1,177.5	-1,377.3
3.2.2. Foreign	7.0	0.0	0.0	0.0	0.0	5.3	2.7	0.0	0.0	0.0	0.0	5.3
3.2.3. Monetary gold and SDRs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.3. Change in net incurrence of liabilities	-1,414.7	-456.1	1,814.6	184.2	-388.7	-751.1	-583.6	-1,296.7	735.0	162.8	-848.4	-294.0
3.3.1. Domestic	-1,463.0	12.4	1,824.5	277.8	-222.3	-819.2	-388.0	918.9	605.0	193.5	-848.2	-269.7
3.3.2. Foreign	48.2	-468.5	-9.9	-93.6	-166.3	68.1	-195.6	-2,215.7	130.0	-30.7	-0.3	-24.4

Note: On a cash basis.

The Notes on Methodology can be found in the Ministry of Finance Monthly Statistical Review.

Source: MoF.

**Table I3: Central Government Debt**

end of period, million kuna

	2006		2007										
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
<b>1. Domestic debt of central government</b>	<b>59,732.5</b>	<b>59,799.6</b>	<b>61,527.9</b>	<b>62,292.6</b>	<b>62,408.6</b>	<b>61,536.6</b>	<b>62,437.5</b>	<b>63,801.0</b>	<b>64,106.3</b>	<b>64,484.3</b>	<b>63,086.9</b>	<b>62,870.7</b>	<b>63,029.8</b>
1.1 Domestic debt of the Republic of Croatia	54,216.7	54,290.6	56,049.6	56,553.6	56,525.6	55,645.5	56,616.2	57,622.1	57,811.7	58,174.9	56,675.2	56,352.0	56,506.5
Treasury bills	12,662.2	13,163.4	13,376.1	13,556.6	13,806.0	13,230.1	12,956.3	12,129.6	12,326.3	12,170.6	11,847.5	11,846.0	11,975.3
Money market instruments	–	–	–	–	–	–	–	–	–	–	–	–	–
Bonds	34,827.9	34,871.0	37,193.1	37,256.9	37,117.9	36,774.6	36,732.6	36,788.8	36,733.1	36,750.7	39,102.9	38,852.6	38,795.2
Credits from the CNB	0.9	–	–	–	0.0	–	–	–	0.8	–	0.8	1.7	1.0
Credits from banks	6,725.7	6,256.2	5,480.4	5,740.1	5,601.7	5,640.9	6,927.4	8,703.7	8,751.4	9,253.6	5,724.1	5,651.7	5,735.0
1.2. Domestic debt of central government funds	5,515.8	5,509.0	5,478.3	5,739.0	5,882.9	5,891.0	5,821.2	6,179.0	6,294.6	6,309.4	6,411.7	6,518.8	6,523.4
Money market instruments	–	–	–	–	–	–	–	–	–	–	–	–	–
Bonds	253.1	253.0	253.2	277.1	278.6	277.0	202.4	160.7	182.7	203.3	204.2	208.9	121.5
Credits from banks	5,262.6	5,256.0	5,225.1	5,461.9	5,604.3	5,614.0	5,618.8	6,018.2	6,111.9	6,106.1	6,207.4	6,309.8	6,401.8
<b>2. External debt of central government</b>	<b>48,833.5</b>	<b>48,674.8</b>	<b>48,030.3</b>	<b>47,974.5</b>	<b>47,383.2</b>	<b>47,574.1</b>	<b>49,347.2</b>	<b>47,360.5</b>	<b>48,024.1</b>	<b>47,424.8</b>	<b>48,021.4</b>	<b>47,891.4</b>	<b>48,976.9</b>
2.1 External debt of the Republic of Croatia	32,556.6	32,450.6	31,956.9	31,798.3	31,444.8	31,431.8	31,219.2	29,076.2	29,470.1	29,051.0	29,375.0	29,258.5	29,363.1
Money market instruments	–	–	–	–	–	–	–	–	–	–	–	–	–
Bonds	22,836.9	22,741.9	22,330.8	22,203.9	22,022.7	21,933.0	21,950.0	20,032.0	20,235.8	20,032.3	20,270.8	20,248.7	20,397.5
Credits	9,719.7	9,708.7	9,626.2	9,594.4	9,422.0	9,498.8	9,269.2	9,044.2	9,234.4	9,018.7	9,104.2	9,009.8	8,965.5
2.2 External debt of central government funds	16,276.9	16,224.2	16,073.4	16,176.2	15,938.4	16,142.4	18,127.9	18,284.3	18,554.0	18,373.8	18,646.4	18,632.9	19,613.9
Money market instruments	–	–	–	–	–	–	–	–	–	–	–	–	–
Bonds	3,903.0	3,935.4	3,833.1	3,845.7	3,854.4	3,835.9	5,756.5	5,767.2	5,787.0	5,758.2	5,837.5	5,826.0	5,908.9
Credits	12,373.9	12,288.8	12,240.2	12,330.5	12,084.0	12,306.4	12,371.4	12,517.1	12,767.0	12,615.6	12,808.8	12,806.9	13,705.0
<b>3. Total (1+2)</b>	<b>108,566.0</b>	<b>108,474.4</b>	<b>109,558.2</b>	<b>110,267.1</b>	<b>109,791.7</b>	<b>109,110.7</b>	<b>111,784.6</b>	<b>111,161.6</b>	<b>112,130.4</b>	<b>111,909.1</b>	<b>111,108.3</b>	<b>110,762.1</b>	<b>112,006.7</b>
Supplement: Central government guaranteed debt													
– guarantees for domestic debt	7,312.8	7,581.9	7,543.7	8,216.3	8,184.3	8,141.3	8,106.8	8,031.1	8,112.5	8,065.3	8,193.4	8,021.4	7,919.9
– guarantees for external debt	6,965.0	6,802.1	6,834.6	6,913.5	6,868.0	7,050.7	6,966.2	6,846.8	6,895.7	7,182.5	7,237.2	7,475.6	9,435.5

**Table I3: Central Government Debt**

Data on the central government debt are based on the available data and are not reconciled with the Ministry of Finance of the Republic of Croatia. The central government debt comprises the domestic and external debt. The Ministry of Finance Monthly Statistical Review, Monetary Authorities Accounts and Banks' Accounts are the sources of data on the domestic central government debt. The external debt statistics compiled by the CNB is the source of data on the central government external debt. The supplement contains the data on the central government guaranteed debt. Banks are the source of data on domestic debt guarantees, while the external debt statistics compiled by the CNB is the source of data on external debt guarantees.

Table J1: Consumer Price and Producer Price Indices

Year	Month	Basic indices, 2005 = 100			Chain indices				Monthly year-on-year indices			
		Consumer price indices			Consumer price indices <sup>a</sup>			Producer prices	Consumer price indices <sup>b</sup>			Producer prices
		Total	Goods	Services	Total	Goods	Services		Total	Goods	Services	
1998	December	82.1	84.6	73.7	100.3	100.4	100.0	100.0	105.4	104.3	109.2	97.9
1999	December	85.3	87.2	78.5	100.6	100.8	100.0	100.3	103.9	103.1	106.5	105.9
2000	December	90.0	92.0	82.8	100.4	100.4	100.1	100.2	105.5	105.5	105.5	111.2
2001	December	92.1	93.2	88.5	100.4	100.4	100.5	99.0	102.4	101.3	106.8	96.9
2002	December	93.8	94.2	92.6	100.4	100.6	99.6	99.9	101.8	101.1	104.6	102.3
2003	December	95.4	95.7	94.6	100.3	100.2	100.5	100.0	101.7	101.6	102.2	101.0
2004	December	98.0	98.0	98.0	100.7	100.9	100.2	99.3	102.7	102.5	103.6	104.8
2005	December	101.6	101.4	102.0	100.5	100.5	100.5	99.7	103.6	103.5	104.1	102.7
2006	December	103.7	102.8	106.4	100.0	100.0	100.2	100.0	102.0	101.4	104.2	101.9
2007	January	104.0	102.7	107.8	100.3	100.0	101.4	100.8	101.8	100.9	104.4	102.2
	February	104.3	102.9	108.5	100.3	100.2	100.6	100.2	101.2	100.4	103.7	101.7
	March	104.9	103.8	108.6	100.6	100.8	100.1	100.6	101.8	101.1	103.7	102.0
	April	105.7	104.8	108.3	100.7	101.0	99.7	100.4	102.3	101.8	103.5	102.3
	May	106.2	105.5	108.1	100.5	100.6	99.9	100.4	102.2	101.9	103.0	102.3
	June	105.8	104.9	108.3	99.6	99.4	100.2	100.4	101.9	101.6	102.7	102.9
	July	105.1	103.8	109.3	99.4	98.9	100.8	100.2	102.1	101.9	102.8	103.0
	August	105.7	104.4	109.9	100.6	100.6	100.5	100.8	102.6	102.6	102.6	103.6
	September	107.0	106.4	108.7	101.2	101.9	98.9	100.6	103.9	104.3	102.2	104.5
	October	107.3	107.0	108.3	100.3	100.5	99.7	100.4	104.3	104.8	102.3	104.9
	November	108.4	108.3	108.6	101.0	101.2	100.2	100.6	104.6	105.3	102.4	105.4
	December	109.7	109.5	110.0	101.2	101.2	101.3	100.4	105.8	106.6	103.4	105.8

<sup>a</sup> Data from January 1992 to December 1997 relate to the retail price index. <sup>b</sup> Data from January 1992 to December 1998 relate to the retail price index.

Source: CBS.

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 ceased to publish 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 features of the CPI are described in the CNB Bulletin No. 91 (see Box 1). The data on the average year-on-year consumer price inflation rate are shown in the Bulletin table on Economic Indicators.

**Table J2: Core Consumer Price Indices**

Year	Month	Basic indices, 2005 = 100 <sup>a</sup>			Chain indices			Monthly year-on-year indices		
		Total	Goods	Services	Total	Goods	Services	Total	Goods	Services
1998	December	87.3	88.6	80.0	99.9	99.9	100.0	....	....	....
1999	December	89.8	91.1	82.3	100.1	100.1	100.1	102.9	102.9	103.0
2000	December	92.8	93.9	86.5	100.4	100.4	100.2	103.3	103.0	105.0
2001	December	93.9	94.6	89.8	99.8	99.7	100.3	101.2	100.8	103.8
2002	December	95.0	95.6	91.9	100.0	100.1	99.4	101.2	101.0	102.4
2003	December	96.2	96.4	94.7	100.2	100.1	101.0	101.2	100.9	103.0
2004	December	98.4	98.5	97.4	100.1	100.1	100.4	102.3	102.2	102.9
2005	December	101.3	101.4	101.0	100.1	100.0	100.5	103.0	102.9	103.7
2006	December	103.6	103.6	103.6	99.8	99.7	100.3	102.3	102.2	102.5
2007	January	103.2	103.0	104.3	99.6	99.4	100.7	102.4	102.3	103.0
	February	103.5	103.2	104.9	100.2	100.2	100.6	102.3	102.1	103.2
	March	104.0	103.7	105.1	100.5	100.5	100.2	102.5	102.2	104.0
	April	104.6	104.5	104.9	100.6	100.8	99.9	102.6	102.5	103.5
	May	105.4	105.3	105.7	100.7	100.8	100.7	102.8	102.7	103.4
	June	105.5	105.2	106.7	100.1	99.9	101.0	102.4	102.2	103.1
	July	105.0	104.3	108.9	99.6	99.1	102.1	102.4	102.1	103.4
	August	105.6	104.7	110.1	100.6	100.5	101.1	103.0	102.8	104.1
	September	106.3	106.1	107.6	100.7	101.3	97.7	103.0	102.9	103.3
	October	107.2	107.3	106.4	100.8	101.1	98.9	103.4	103.4	103.1
	November	108.0	108.2	106.7	100.8	100.9	100.3	104.0	104.2	103.4
	December	108.8	109.1	107.2	100.8	100.8	100.4	105.0	105.3	103.5

<sup>a</sup> Since January 2007, the CPI has been calculated and published by the CBS on the new base 2005 = 100.

Source: CBS.

**Table J2: Core Consumer Price Indices**

The core consumer price index is calculated by the Central Bureau of Statistics (CBS) 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 index. These two groups of products accounted for a total of 30.06% in the basket in 2005 (agricultural products 6.93 percentage points, and administrative products 23.13 percentage points). A total of 111 goods and services are excluded from the coverage of the CPI basket and assigned a zero weight.

**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
1998	December	2,935.0	104.6	115.4	112.8
1999	December	3,262.0	100.9	111.2	114.0
2000	December	3,499.0	99.9	107.3	108.9
2001	December	3,582.0	96.6	102.4	106.5
2002	December	3,839.0	98.0	107.2	105.0
2003	December	4,045.0	99.8	105.4	105.9
2004	December	4,312.0	99.1	106.6	105.9
2005	December	4,473.0	97.3	103.7	104.9
2006	December	4,735.0	97.0	105.9	105.2
2007	January	4,739.0	100.1	106.3	106.3
	February	4,649.0	98.1	105.6	105.9
	March	4,788.0	103.0	104.0	105.3
	April	4,750.0	99.2	105.7	105.4
	May	4,875.0	102.6	104.0	105.1
	June	4,848.0	99.5	104.5	105.0
	July	4,855.0	100.1	106.6	105.2
	August	4,869.0	100.3	105.1	105.2
	September	4,743.0	97.4	104.4	105.1
	October	4,871.0	102.7	106.3	105.2
	November	5,131.0	105.3	105.1	105.2
	December	4,958.0	96.6	104.7	105.2

Source: CBS.

**Table J4: Consumer Confidence Index, Consumer Expectations Index and Consumer Sentiment Index**

index points, original data

Year	Month	Composite indices			Response indices (I)						
		Consumer confidence index	Consumer expectations index	Consumer sentiment index	I1	I2	I3	I4	I7	I8	I11
1999	December	-33.7	-14.9	-46.3	-38.4	-12.1	-49.9	-17.6	35.5	-50.7	-69.7
2000	December	-20.9	3.5	-32.2	-26.2	1.2	-22.0	5.7	26.9	-48.3	-63.6
2001	December	-27.0	-11.4	-35.6	-29.6	-10.0	-35.9	-12.7	22.9	-41.3	-62.3
2002	December	-25.2	-8.3	-29.3	-22.6	-5.1	-31.2	-11.5	20.1	-34.1	-64.0
2003	December	-22.2	-4.5	-25.0	-21.5	-2.6	-26.5	-6.4	14.7	-27.1	-65.2
2004	December	-23.9	-7.9	-22.0	-19.1	-4.1	-30.5	-11.6	22.5	-16.5	-57.3
2005	December	-26.4	-13.7	-25.6	-16.4	-5.9	-34.4	-21.5	27.6	-25.9	-50.6
2006	December	-18.9	-4.7	-15.4	-10.9	1.1	-22.4	-10.5	16.9	-12.9	-49.4
2007	January	-14.6	-0.5	-15.1	-12.6	1.3	-20.2	-2.2	11.0	-12.5	-46.3
	February	-15.9	-3.4	-16.5	-13.8	-0.1	-18.6	-6.6	11.5	-17.0	-45.3
	March	-16.7	-5.0	-17.8	-13.0	-1.4	-21.7	-8.6	9.7	-18.7	-47.2
	April	-14.5	-1.6	-15.6	-11.7	1.8	-18.9	-4.9	5.6	-16.2	-49.4
	May	-16.8	-2.2	-18.1	-15.5	0.5	-21.0	-4.8	10.1	-17.7	-52.7
	June	-15.6	-3.5	-14.2	-12.2	-0.5	-18.0	-6.5	9.3	-12.5	-46.2
	July	-13.9	0.3	-12.7	-12.3	2.5	-13.8	-2.0	8.3	-11.9	-47.8
	August	-14.7	-1.6	-13.0	-9.9	0.2	-15.9	-3.4	9.6	-13.2	-45.8
	September	-17.9	-4.5	-18.6	-14.4	-1.2	-22.0	-7.8	14.4	-19.5	-48.2
	October	-15.3	-1.0	-15.8	-12.8	1.3	-17.2	-3.2	12.1	-17.3	-47.2
	November	-15.3	-2.5	-16.3	-13.0	0.9	-18.7	-5.8	6.9	-17.1	-49.4
	December	-24.7	-15.5	-24.5	-16.8	-9.8	-31.8	-21.2	12.8	-25.0	-54.8

**Table J4: Consumer Confidence Index, Consumer Expectations Index and Consumer Sentiment Index**

The CNB Consumer Confidence Survey has been carried out regularly since April 1999 in accordance with the methodology of the European Commission, the Joint Harmonised EU Programme of Business and Consumer Surveys. Until April 2005, the CNB conducted the survey once a quarter (in January, April, July and October). As of May 2005, the CNB carries out the survey in monthly frequency in cooperation with the European Commission, using its technical and financial assistance. The Croatian National Bank bears sole responsibility for the creation and conduct of the survey.

The questionnaire contains 23 questions, examining consumer perception of the changes as regards every-day economic issues. The value of the response index is determined in line with the set methodology, based on the responses to the questions from the Consumer Confidence Survey. The movements of three composite indices, consumer confidence index (CCI), consumer sentiment index (CSI) and consumer expectations index (CEI), are calculated and monitored based on the value of the response indices. Each of the said composite indices is calculated as the arithmetic average of the response indices (I), i.e. as the average of previously quantified responses to individual questions from the survey:

$$I_i = \sum_z^k r_i \cdot w_i$$

where:  $r$  is the value of the response,  $w$  is the share of respondents opting for a particular response (weight),  $i$  question from the questionnaire,  $z$  is the offered/chosen response,  $k$  is the number of offered responses to a particular question.

The value of the said indices ranges  $-100 < I_i < 100$ . Higher index values than those recorded over the previous period point to an increase in expectations (optimism) as regards the specific segment covered by the particular question.

The table shows the values of chosen response indices for the following questions:

- I1: How has the financial situation of your household changed over the last 12 months?
- I2: How do you expect the financial position of your household to change over the next 12 months?
- I3: How do you think the general economic situation in Croatia has changed over the past 12 months?
- I4: How do you expect the general economic situation in Croatia to develop over the next 12 months?
- I7: How do you expect the number of people unemployed in Croatia to change over the next 12 months?
- I8: In view of the general economic situation, do you think now is the right moment for people to make major purchases such as furniture, electrical/electronic devices, etc.?
- I11: Over the next 12 months, how likely is it that you will save any money?

The components of composite indices are as follows:

CCI: I2, I4, I7×(-1), I11

CEI: I2, I4

CSI: I1, I3, I8.



## Concluding Notes

In 2007, the macroeconomic environment was marked by a sharp increase in real GDP of the Croatian economy, positive labour market trends and a slowdown in external debt. However, the inflation rate accelerated and the current account deficit increased. The sharp acceleration of real GDP growth resulted from the accelerated growth in household disposable income and strong corporate foreign borrowing, which drove up personal consumption and kept investments at a high level. As regards the labour market, employment continued to rise and unemployment dropped further. In contrast, significant supply-side shocks led to sharp increase in consumer price inflation in 2007, especially in the second half of the year.

Against this background, the CNB continued to focus its monetary policy on ensuring the stability of the nominal exchange rate of the kuna versus the euro and enacted measures which considerably slowed down the growth of bank placements.

A stable kuna exchange rate has been the main anchor of domestic inflationary expectations and a key precondition for domestic price stability. In overall, the kuna exchange rate appreciated only to a slight extent against the euro in 2007. Appreciation pressures, persisting for most part of the year, primarily resulted from the seasonal foreign exchange inflow from tourism, foreign exchange supply generated by corporate foreign borrowing and inflow of foreign exchange aimed at bank recapitalisation. In addition, the appreciation of the kuna/euro exchange rate was also due to the growth of demand for the kuna for securities investments in the domestic market, which in 2007 registered a record high annual share turnover, twice as many transactions as in 2006 and highest value of the ZSE index, CROBEX, on record. The central bank mitigated these appreciation pressures by foreign exchange interventions and managing liquidity through reverse repo operations.

In addition to the marginal reserve requirement rate of 55% and the minimum foreign currency ratio of 32%, the CNB's Decision on the purchase of compulsory CNB bills also contributed to curbing the increase in bank placements by prescribing the purchase of CNB bills for banks whose placement growth in 2007 exceeded 12%. These central bank measures were effective in decelerating the growth of bank placements, with banks remaining oriented to household lending and adjusting to the said Decision by moderating corporate lending. However, companies responded to these conditions by making use of other financing sources, with the result that the annual growth of their total debt failed to slow down.

The external debt of the economy as a whole slightly decelerated in 2007. This was also a result of monetary policy measures, as the sharp slowdown in bank placement growth led to a high drop in banks' external debt.

The imbalance in international trade in goods worsened in 2007. In contrast, other current transactions accounts, especially the services account, improved compared with the previous year, but not to a degree sufficient to halt the current account deficit growth. The capital and financial transactions account recorded a sharp increase in net foreign direct investments in the RC, whose amount exceeded the current account deficit. International reserves of the RC continued to grow in 2007.

## List of Abbreviations and Symbols

AMA	– Advanced Measurement Approach	MRR	– marginal reserve requirement
BIS	– Bank for International Settlements	NCEA	– National Classification of Economic Activities
bn	– billion	NCS	– National Clearing System
b.p.	– basis points	n.e.c.	– not elsewhere classified
c.i.f.	– cost, insurance and freight	NPSC	– National Payment System Committee
CBRD	– Croatian Bank for Reconstruction and Development	NUIR	– net usable international reserves
CBS	– Central Bureau of Statistics	OG	– Official Gazette
CEE	– Central East European	o/w	– of which
CES	– Croatian Employment Service	OPEC	– Organization of the Petroleum Exporting Countries
CICR	– currency induced credit risk	PPI	– producer price index
CIHI	– Croatian Institute for Health Insurance	R	– Republic
CLVPS	– Croatian Large Value Payment System	RC	– Republic of Croatia
CM	– Croatian Motorways	RR	– reserve requirement
CNB	– Croatian National Bank	SEPA	– Single Euro Payments Area
CPF	– Croatian Privatisation Fund	SDR	– special drawing rights
CPI	– consumer price index	SITC	– Standard International Trade Classification
CPIA	– Croatian Pension Insurance Administration	SWIFT	– Society for Worldwide Interbank Financial Payments
CR	– Croatian Roads	VSE	– Varaždin Stock Exchange
EBRD	– European Bank for Reconstruction and Development	ZMM	– Zagreb Money Market
EC	– European Commission	ZSE	– Zagreb Stock Exchange
ECB	– European Central Bank		
EFTA	– European Free Trade Association		
EMU	– Economic and Monetary Union		
EU	– European Union		
excl.	– excluding		
f/c	– foreign currency		
FDI	– foreign direct investment		
Fed	– Federal Reserve System		
Fina	– Financial Agency		
FISIM	– financial intermediation services indirectly measured		
f.o.b.	– free on board		
GDP	– gross domestic product		
GVA	– gross value added		
HANFA	– Croatian Financial Services Supervisory Agency		
IAS	– International Accounting Standards		
IASB	– International Accounting Standards Board		
IBRD	– International Bank for Reconstruction and Development		
IDB	– Inter-American Development Bank		
IEMP	– index of exchange market pressure		
IFRS	– International Financial Reporting Standards		
ILO	– International Labour Organization		
IMF	– International Monetary Fund		
incl.	– including		
IPO	– initial public offering		
kn	– kuna		
lp	– lipa		
m	– million		
MM	– monthly maturity		
MoF	– Ministry of Finance		

### Abbreviations for currencies

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

### Symbol

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



