CROATIAN NATIONAL BANK

Semi-annual Information

Semi-annual Information on the Financial Condition, the Degree of Price Stability Achieved and the Implementation of Monetary Policy in the First Half of 2018

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Contents

1 Summary

After being stagnant in late 2017, economic activity picked up in the first half of 2018, with real GDP being 2.7% larger than in the same period of the previous year. Personal consumption maintained the relatively high growth rates seen in 2017 and, after ten years, again made the largest contribution to economic growth at an annual level. Other components of domestic demand also increased, with investment growth being fuelled by larger capital investment of the private sector, whereas general government investment remained subdued. The growth was also given a strong boost by exports of goods and services, whose growth dynamics, however, continued to slow down on an annual basis. The strong domestic demand resulted in a faster growth in imports than in exports, so that the negative contribution of net foreign demand deepened from the same period of the previous year.

Favourable labour market trends continued. Employment increased further, with the sharpest contribution to the rise in the number of employed persons coming from private sector service activities and construction. At the same time, unemployment continued to decrease, largely due to the shrinking labour force, with the registered unemployment rate falling to 10.4% in the first half of 2018. Wages also grew steadily. The average gross wage was 4.9% larger in the first half of 2018 than in the same period last year, while its real growth was somewhat weaker (2.9%) due to the annual increase in the consumer price index.

Consumer price inflation picked up in the first half of 2018, largely driven by energy prices. Most notable was the increase in the prices of refined petroleum products triggered by the upswing in global crude oil prices and the sharper annual growth in electricity prices due to the base effect, i.e. the notable fall in early 2017. The annual consumer price inflation rate went up from 1.2% in December 2017 to 2.4% in June 2018.

The current and capital account balance deteriorated in the first half of 2018 from the same period of 2017, mostly owing to the widening of the foreign trade deficit, while unfavourable trends were slightly mitigated by the smaller primary income account deficit and a slight improvement in the sum of balances in the secondary income account and in the account of capital transactions. At the same time, the surplus in the international trade in services remained almost the same. On the other hand, the relative indicators of external debt and the international investment position improved steadily.

By pursuing an expansionary monetary policy, the CNB has continued to maintain the stable exchange rate of the kuna against the euro and to support the very high levels of liquidity in the monetary system. The upturn in kuna liquidity was spurred predominantly by reserve money creation through the purchase of foreign exchange from banks, which alleviated appreciation pressures on the domestic currency. In the conditions of high liquidity, there was no interest on the part of banks in short-term kuna funds offered at regular weekly reverse repo auctions. Against this background, interest rates on loans of domestic credit institutions mostly continued to fall. Favourable financing conditions, positive developments in business and consumer confidence and the ongoing economic recovery stimulated an increase in lending to domestic sectors, particularly households.

CNB total international reserves increased by 6.3% from the end of 2017 to the end of June 2018, and net international reserves grew by 6.8% in the same period. The rise in international reserves in the first half of 2018 was fuelled by the purchases of foreign currency from banks, the increase in MoF foreign currency deposits with the CNB, and earnings from reserves management. Despite negative rates of the euro yield curve, the total annual rate of return on the entire euro portfolio was 0.28% in the first six months of 2018, while the annual rate of return on the dollar part totalled 1.59%. The main objective was thus successfully achieved, i.e. liquidity and safety in international reserves management.

Bank assets grew perceptibly in the first half of 2018, largely owing to a merger of a housing savings bank with its parent bank. At the same time, bank profitability improved strongly from the same period of 2017, mostly due to the base effect. In particular, the upsurge in profits was largely the result of the fact that high expenses on impairment and provisions for claims on the Agrokor Group in the first half of 2017 were several times smaller in the same period of 2018. In addition, due to lower risk costs, profitability indicators, i.e. ROAA and ROAE grew to a high 1.8% and 10.1% respectively.

As regards exposure to credit risk, as a result of new lending activity and the sale of claims, the share of loans in B and C risk categories in total loans shrank marginally, from 11.3% to 11.2%, while the loan quality improved in the non-financial corporations sector and the household sector. The total capital adequacy ratio dropped from 23.8% in late 2017 to 22.6% in late June 2018. This interrupted the years-long upward trend in the capital adequacy ratio, which is largely attributable to changes in the risk weighting of exposures to the central government and the associated rise in risk exposure.

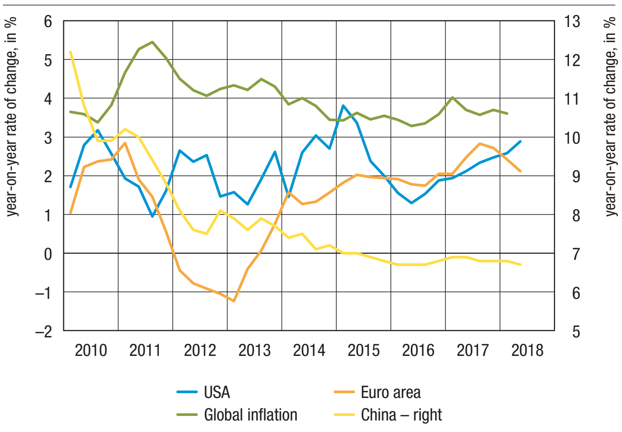
Favourable developments in public finance continued in the first half of 2018. In this period, the general government surplus (ESA 2010) reached HRK 1.1bn, reflecting a performance slightly over HRK 3.5bn better than in the same period of the previous year. The favourable budget outturn was due to the noticeable upturn in tax revenues (5.0%), accompanied by only a slight rise in expenditures on an annual level (0.5%). The general government debt-to-GDP ratio stood at 76.1% at the end of June 2018, or 1.4 percentage points less than in December 2017.

2 Global developments

Global economic activity remained relatively stable in the first half of 2018, but some developed countries recorded slower growth and weaker foreign trade. On the one hand, the US economy remained highly dynamic during the period under review, whereas growth slackened in the euro area and Japan. Among the major emerging market economies, Asian countries performed very well, while Latin American and some European markets were exposed to heightened uncertainty. Global inflation remained relatively low, despite growing energy prices. Accommodative monetary policies, prevailing in the majority of large economies, continued to provide for relatively favourable financing conditions.

The growth of the US economy, the world's largest, has been steadily picking up since early 2016, reaching 2.7% in the first half of 2018. The faster growth was fuelled by stronger exports and public consumption, with personal consumption and investment continuing to be the main drivers of economic activity. The US labour market remained very dynamic in the first half of 2018, with a very low unemployment rate. Against this background, domestic inflationary pressures mounted, so that inflation actually exceeded the Fed's target level, reaching 2.9% in June 2018.

Figure 2.1 Economic growth in selected markets and global inflation



Sources: Eurostat, BEA, NBS and IMF.

After being 2.8% in the second half of 2017, euro area economic growth slowed to 2.3% in the first half of 2018, this trend being widespread across the member states. The strongest individual impact on slower growth was made by the largest members – Germany, Italy and France, but the relative slowdown was mostly felt in the countries that had had above-average growth in previous periods, such as Romania, the Czech Republic and the Baltic countries. Such trends in the euro area were mostly driven by external factors, in particular rising global uncertainty, which adversely affected the export sector and domestic investment activity. In addition, structural deficiencies of the labour market in some countries and sectors and the rise in energy prices curbed to some extent the growth in private sector consumption, though it still remained the main generator of euro area economic growth.

2.1 Croatia's main trading partners

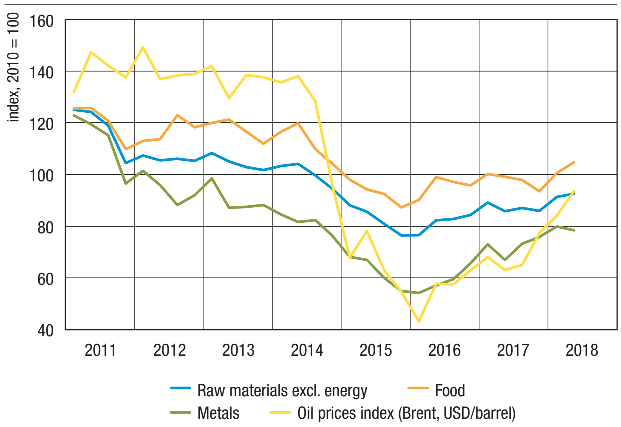
Most of Croatia's major trading partners, particularly those from the euro area, saw slightly slower growth in the first half of 2018. This particularly refers to Germany and Italy, which recorded very good results in late 2017, but whose growth began to weaken, mostly on account of global developments. Nevertheless, despite the slowdown, euro area economic growth continued to exceed its potential, and in some of Croatia's main trading partners, e.g. Slovenia and Austria, it even outstripped the euro area average.

As regards trading partners in the SE region, most of them continued to record stable growth in the first half of 2018, with some of them, e.g. Serbia, seeing perceptibly faster economic activity. Generally speaking, these markets remained among the most dynamic of Croatia's foreign trade partners.

2.2 Prices, exchange rates and financing conditions

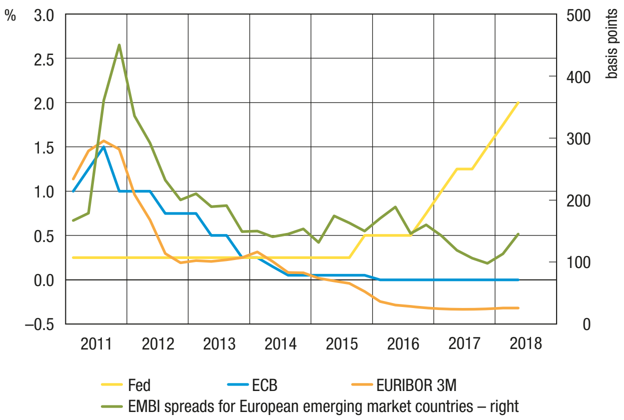
Global raw material prices grew in the first six months of 2018. The average price of a barrel of Brent crude oil stood at USD 75 in June 2018, up by 17% from December and almost one half more than in June 2017. This rise was mainly due to the adjustment of the supply from OPEC and other producers to the agreed production curb, exacerbated geopolitical tensions in the Middle East, reduced stockpiles in the USA and the drop in oil production in Venezuela caused by the political and economic crisis in the country. Furthermore, the growth in oil prices was influenced by the US decision to reintroduce economic sanctions on Iran. Prices of raw materials excluding energy also grew. Prices of food products (cereals, oil and oil seeds) increased the most, driven by the ongoing buoyant

Figure 2.2 Raw material prices in the world market in US dollars



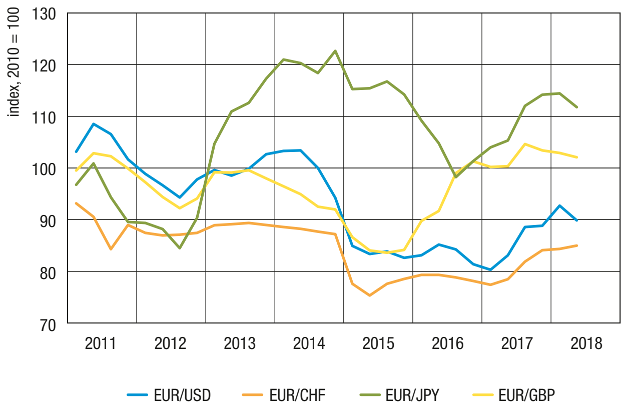
Sources: IMF and Bloomberg.

Figure 2.3 Benchmark interest rates and the average yield spread on bonds of European emerging market countries
end of quarter



Source: Blomberg.

Figure 2.4 Exchange rates of individual currencies against the euro



Note: A growth in the index indicates a depreciation of a currency against the euro.
Source: Eurostat.

demand and somewhat reduced production. Prices of industrial raw materials also grew sharply, in particular the prices of agricultural raw materials, such as cotton, on account of expectations of reduced supply from India. The rise in metal prices was in part triggered by the US decision to impose sanctions on Russia's largest aluminium producer in April.

In the first half of 2018, divergence in the monetary policies of the US and the euro area widened even further. The Fed raised its benchmark interest rate by a total of 0.5 percentage points on two occasions in that period. By contrast, the ECB's benchmark interest rate remained unchanged from the beginning of the year, although the ECB reduced the volume of its bond purchase programme from EUR 60bn to EUR 30bn a month and announced its possible wind-down by the end of the year.

Financing conditions for European emerging market countries deteriorated during the first half of 2018. In that period, the EMBI yield spread for these countries widened by approximately 50 basis points from the end of 2017. The intense uncertainty in financial markets in the first half of 2018 was fuelled by heightened trade and geopolitical tensions, including the imposition of additional US sanctions on Russia and growing concerns about the economic and political situation in Turkey.

The tendency of the euro to strengthen against the US dollar in the world foreign exchange market, present since the beginning of 2017, continued in the first quarter of 2018 but changed its direction afterwards. The major contributors to the strengthening of the euro early in the year included the positive indicators of economic activity in the euro area and expectations of the possible gradual tightening of the ECB's monetary policy. The euro weakened against the US dollar in the second quarter, losing most of the value gained in the quarter before. This was mostly due to rising global uncertainty and political events in Italy. The exchange rate of the US dollar against the euro averaged EUR/USD 1.19 in the second quarter of 2018, a rise of 1.2% from the last quarter of 2017.

3 Aggregate supply and demand

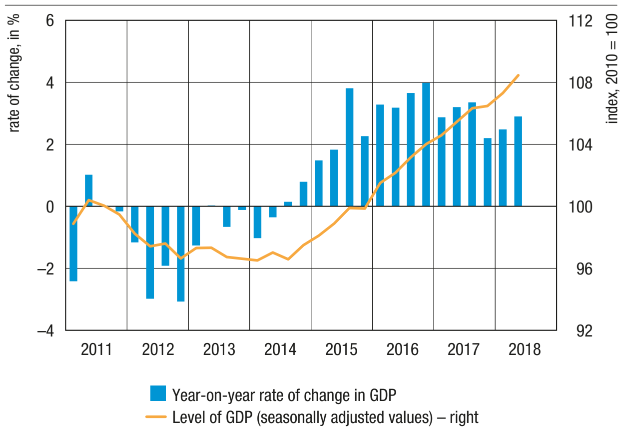
After being stagnant in late 2017, economic activity picked up in the first half of 2018, when real GDP was 2.7% larger than in the same period of the previous year. The rise in personal consumption made the largest individual contribution to economic growth on an annual basis. Other components of domestic demand also increased, with investment growth being mostly driven by larger capital investment of the private sector, whereas general government investment remained subdued. Growth was also strongly boosted by exports of goods and services, whose growth dynamics, however, continued to slow down on an annual basis. Strong domestic demand resulted in a faster growth in imports than in exports, so that the negative contribution of net foreign demand to economic growth deepened from the same period of the previous year.

GDP by the production approach showed that gross value added (GVA) increased at an annual rate of 2.1%. The increase was primarily due to GVA growth in trade, transportation and storage, and accommodation and food service activities. GVA also recorded annual growth in all other categories, with the exception of financial and insurance activities.

3.1 Aggregate demand

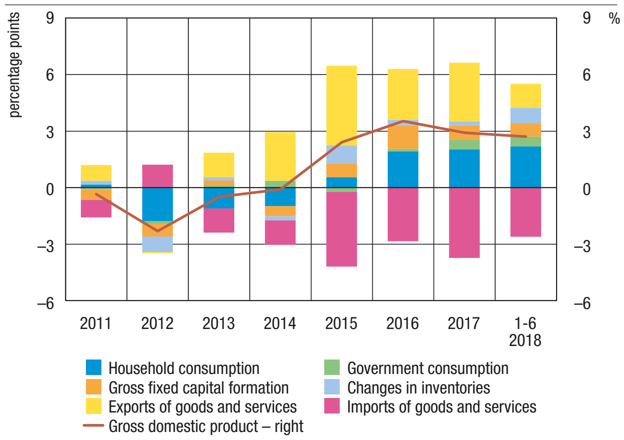
Real exports of goods and services continued to increase in the first half of 2018, growing annually by 2.9%. Total exports edged down (–0.5%) in the first three months of 2018 due to lower exports of goods. Although total exports picked up in the

Figure 3.1 Gross domestic product
real values



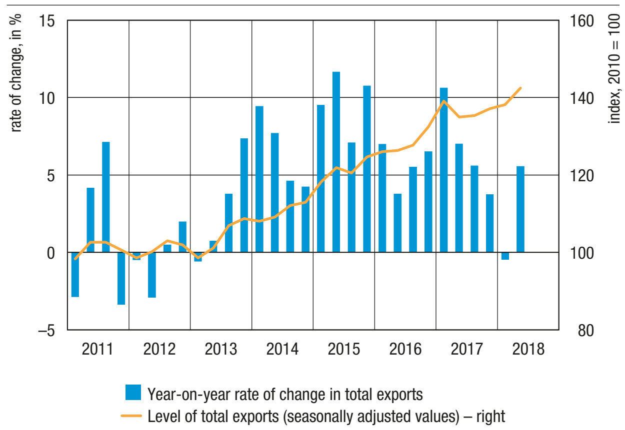
Source: CBS (seasonally adjusted by the CNB).

Figure 3.2 GDP rate of change
contributions by components



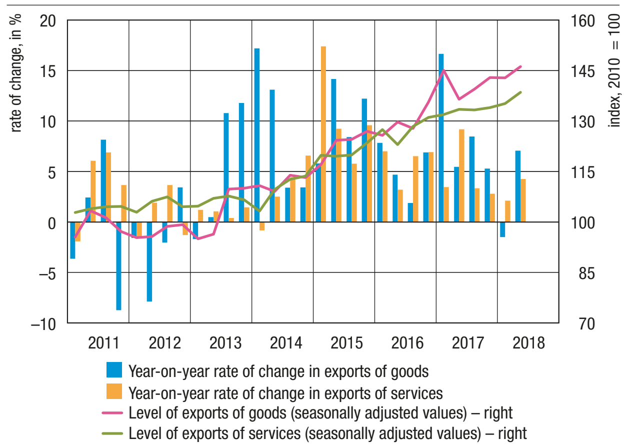
Source: CBS.

Figure 3.3 Exports of goods and services
real values



Source: CBS (seasonally adjusted by the CNB).

Figure 3.4 Real exports of goods and services



Source: CBS (seasonally adjusted by the CNB).

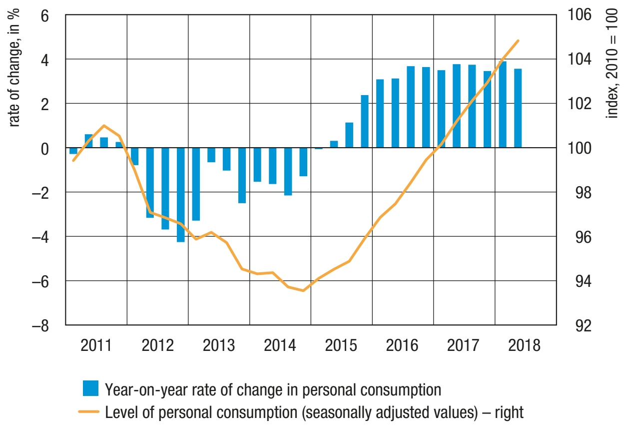
second quarter, their growth was noticeably slower in the first half of 2018 than in the same period of 2017.

The slowdown in total exports largely reflected reduced exports of goods. Goods exports grew by 2.8% on an annual basis from January to June 2018, noticeably less than in the same period of 2017, when they grew by 10.7%. This was the outcome of unfavourable results in the first quarter, when goods exports were 1.5% lower than in the same period of 2017. Such movements were strongly influenced by high base period values, while goods exports held steady on a quarterly basis. Nominal data on the trade in goods broken down by main industrial groupings show that exports of energy and durable and non-durable consumer goods decreased in the first quarter of 2018 an annual basis. However, goods exports grew by 7.1% in the second quarter, with nominal data showing that exports of all MIG components but durable consumer goods increased. At the same time, the quarterly growth in exports of services was relatively dynamic, particularly in the second quarter, which may be attributed to favourable developments in tourism. However, due to somewhat poorer results in the second half of 2017 and the base effect, the annual growth rate of exports of services halved from the same period of 2017 (3.4% vs 6.9%).

Personal consumption continued to grow in the first half of the year at a pace similar to that in 2017, growing annually by 3.7%. The ongoing rise in personal consumption was boosted by the steady increase in real disposable income of households driven by favourable developments in the labour market. Employment continued to grow and the rise in net wages picked up noticeably. Consumer confidence also improved in the first quarter of 2018, reaching the highest level since household expectations started to be measured, and fluctuated around similar levels in the remainder of the year. In addition, consumer credit also increased. As a result, personal consumption, individually the largest component of aggregate demand, contributed the most to real GDP growth.

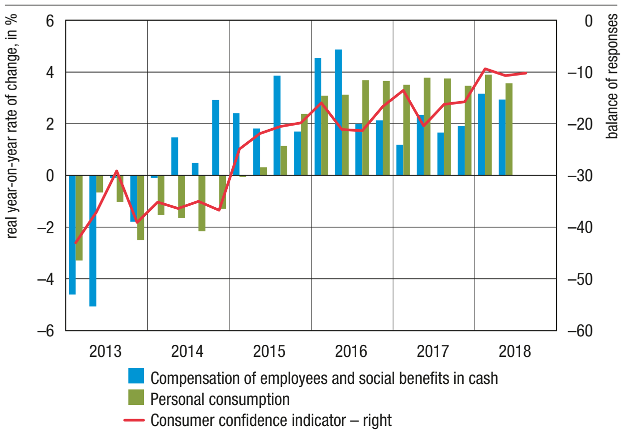
Though gross fixed capital formation continued to increase in the first half of the year, its annual growth rate was much lower (3.3%) than in the same period of 2017 (4.8%). The noticeably slower growth in investment may be explained by

Figure 3.5 Personal consumption
real values



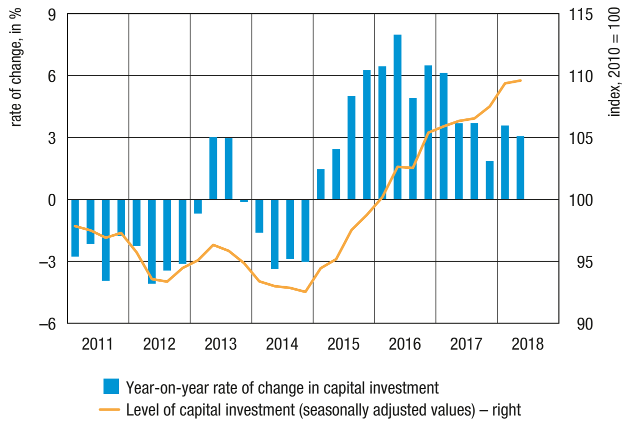
Source: CBS (seasonally adjusted by the CNB).

Figure 3.6 Determinants of personal consumption
real values and index



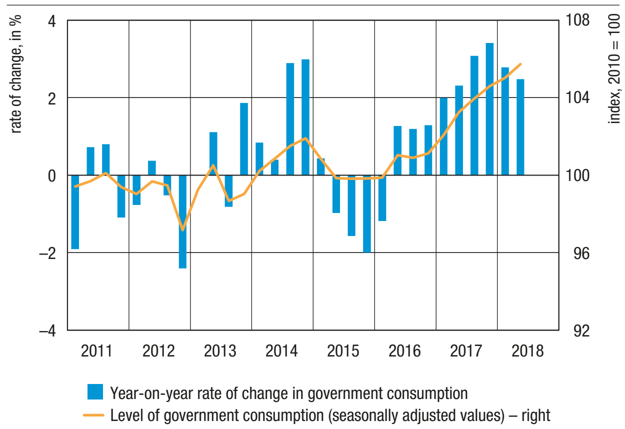
Note: Real values of compensation of employees and social benefits in cash were calculated by deflating nominal values using the personal consumption deflator.
Sources: CBS, Ipsos and CNB (seasonally adjusted by the CNB).

Figure 3.7 Gross fixed capital formation
real values



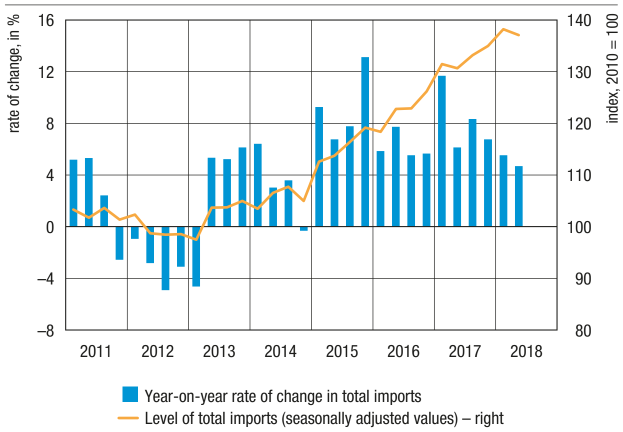
Source: CBS (seasonally adjusted by the CNB).

Figure 3.8 Government consumption
real values



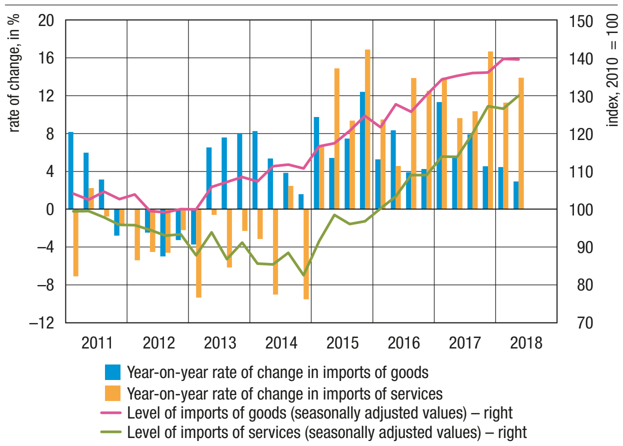
Source: CBS (seasonally adjusted by the CNB).

Figure 3.9 Imports of goods and services
real values



Source: CBS (seasonally adjusted by the CNB).

Figure 3.10 Real imports of goods and services



Source: CBS (seasonally adjusted by the CNB).

sluggish investment activity of the general government as fiscal data compiled in accordance with the ESA 2010 methodology show that general government investment decreased by almost a third in the first half of the year. Reduced capital investment of the general government is also evident from the data on civil engineering works, while construction works on buildings grew in the first half of 2018.

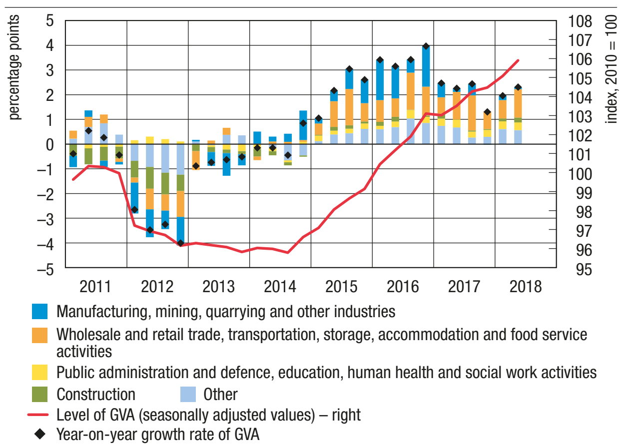
The annual increase in government consumption in the first six months of 2018 accelerated slightly to 2.6% from the same period of 2017 when it stood at 2.2%. It seems that real growth in government consumption may be largely attributed to the increase in the number of civil servants and government employees, while social benefits in kind were perceptibly lower.

The annual growth of imports of goods and services was slower in the first half of 2018 than in the same period of 2017 (8.7% vs 5.1%), reflecting lower growth in goods imports. The slower increase in goods imports may be associated with slacker growth in exports and investment. Nominal data on trade in goods show that imports of energy were lower than in the same period of 2017, and that the increase in imports of capital goods lost momentum, probably due to slower investment activity. At the same time, the increase in imports of services picked up pace on an annual basis thanks to the upsurge in the second quarter, which is in turn attributable to expanded tourist consumption of residents abroad. As exports growth slowed even more, the negative contribution of net foreign demand to total GDP growth deepened in the first half of 2018 from the same period of the previous year (–1.3 percentage points as against –0.6 percentage points).

3.2 Aggregate supply

Gross value added was 2.1% larger in the first half of 2018 than in the same period of 2017. The largest contribution to GVA growth came from retail trade, transportation and storage, accommodation and food service activities, probably driven by expansion of household consumption and the rise in tourist activities. GVA also recorded annual growth in other activities, except financial activities, which recorded a mild decrease.

Figure 3.11 GVA rate of change
contributions to the annual change by components



Source: CBS (seasonally adjusted by the CNB).

4 Labour market

4.1 Employment and unemployment

The upward trend in employment, present from mid-2014, continued into the first half of 2018. Such movements resulted in a 2.4% larger number of employed persons than in the same period of the previous year. The sharpest contribution to the rise in employment figures in the first six months of 2018 came from private sector service activities and construction.

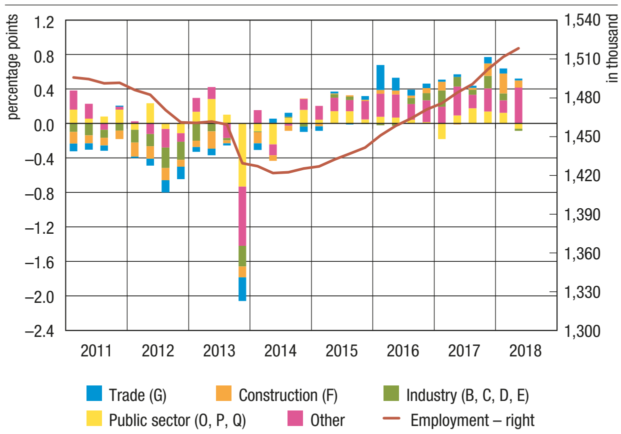
The first half of 2018 was marked by the steady fall in unemployment figures, primarily as a result of intensified removal from the CES register due to non-compliance with legal provisions, cancellation from the register and failure to report regularly. Intensive removal from the CES register was probably related to emigration of the working age population from Croatia to more developed EU countries.

Owing to the steady fall in unemployment, the number of unemployed persons was around 50 thousand lower in the first half of 2018 than in the same period of the previous year.

Such trends led to a further decrease in the unemployment rate. The registered unemployment rate was 10.4% in the first half of 2018, a decrease of 1.1 percentage point from the second half of 2017. In the same period, the average ILO unemployment rate fell by 1.5 percentage points, to 8.7%.

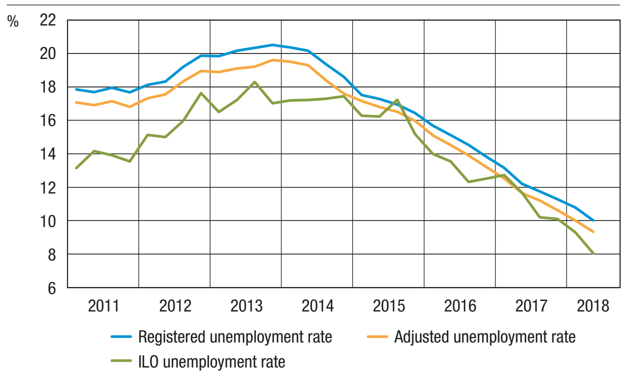
Labour Force Survey data show a further decrease in the participation rate in the Croatian labour market in the first half of the year. However, the rate levelled off on an annual basis thanks to more favourable trends in the second half of 2017. Apart from these negative movements, it should be noted that in the EU the participation rate fell only in Italy in the first six months of 2018. Also, the survey data show that the employment rate grew steadily in the first six months of 2018, albeit at a slower pace than in the preceding half of the year, with the

Figure 4.1 Employment by NCA activities
seasonally adjusted data, contributions to the quarterly rate of change



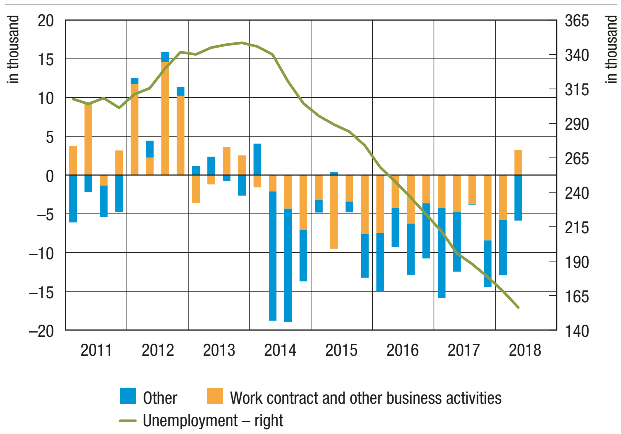
Source: CPII (seasonally adjusted by the CNB).

Figure 4.3 Unemployment rates
seasonally adjusted data



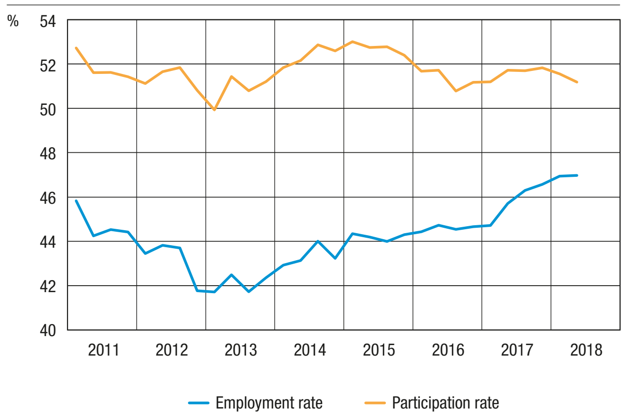
Notes: The adjusted unemployment rate is the CNB estimate and is calculated as the share of the number of registered unemployed persons in the working age population estimated as the sum of unemployed persons and persons insured with the CPII. Since January 2015, the calculation of the registered unemployment rate published by the CBS has been made using the data on employed persons from the JOPPD form.
Sources: CBS, CES and CNB calculations (seasonally adjusted by the CNB).

Figure 4.2 Total unemployment and net unemployment inflows
seasonally adjusted data



Source: CES (seasonally adjusted by the CNB).

Figure 4.4 Labour Force Survey
seasonally adjusted series



Source: CBS (seasonally adjusted by the CNB).

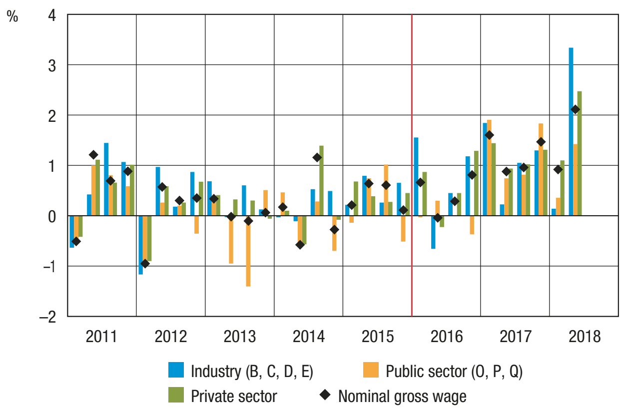
average employment rate standing at 47.0%.

4.2 Wages and unit labour cost

The first half of 2018 was marked by the continued increase in nominal gross wages, with wages growing perceptibly faster in the second quarter. It is noteworthy that the wage growth dynamics was stronger in the private sector than in the public sector. The average nominal gross wage grew by 4.9% on an annual basis in the first six months of 2018 from the same period of 2017. However, the purchasing power of households grew somewhat less as real net wages were 2.9% higher in the first six months of 2018 than in the same period of the previous year due to the parallel annual rise in the consumer price index.

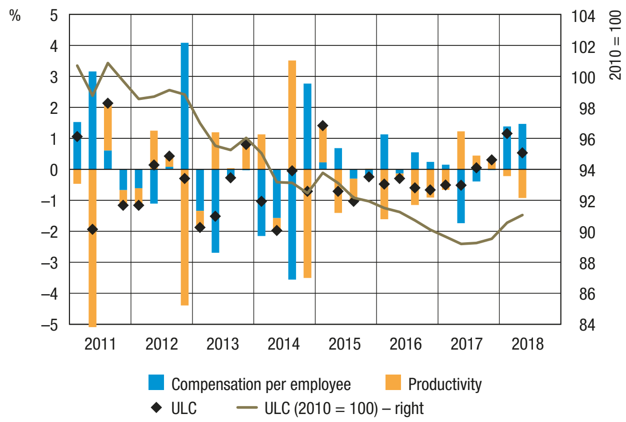
National accounts data also suggest an increase in compensation per employee in the first half of 2018, while labour productivity edged down as the rise in employment was slightly stronger than GDP growth. Such movements pushed unit labour costs up in the first half of 2018 (by 1.6% from the previous half of the year according to seasonally adjusted data and by 1.7% compared with the same period of 2017).

Figure 4.5 Average nominal gross wage by NCA activities
seasonally adjusted data, contributions to the quarterly rate of change



Note: As of January 2016, data refer to the JOPPD form, while earlier data refer to the RAD-1 form.
Sources: CBS and CNB calculations (seasonally adjusted by the CNB).

Figure 4.6 Compensation per employee, productivity and unit labour costs
seasonally adjusted data, quarterly rate of change and levels (2010 = 100)



Note: Productivity growth carries a negative sign.
Sources: CBS and Eurostat (seasonally adjusted by the CNB).

5 Inflation

Consumer price inflation picked up in the first half of 2018. This was mostly due to mounting imported inflationary pressures, primarily fuelled by the increase in the global price of crude oil. The annual consumer price inflation rate went up from 1.2% in December 2017 to 2.4% in June 2018. By contrast, core inflation (which excludes agricultural product prices, energy prices and administered prices) slowed down from 1.4% in December to 0.7% in February, remaining at that level through to June. The slowdown was mostly caused by the fall in the annual rate of change in the prices of clothing and footwear, some food products (particularly meat and milk), catering services and motor vehicles.

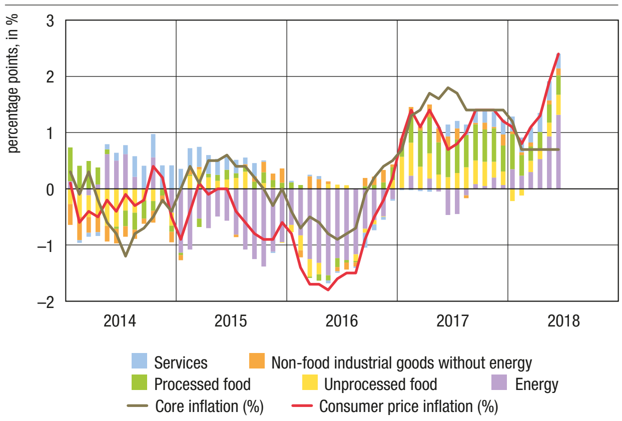
The indicators of current consumer price trends fell sharply in late 2017 and early 2018 but started to rise from March 2018 on, in particular overall consumer price inflation. The inflation diffusion index shrank in the first half of the year to the level almost equal to the average seen last year. While the number of products with increased prices decreased, the prices of most products continued to rise.

When the main components are considered, energy prices made a particular contribution to the acceleration of the annual inflation rate in the first half of 2018. The contribution of energy prices to overall inflation rose from 0.1 percentage point in December to 1.3 percentage points in June. Most notable was the increase in the prices of refined petroleum products triggered by the upturn in global crude oil prices and the sharper annual growth in electricity prices due to the base effect, i.e. the notable fall in these prices in early 2017. Unprocessed food product prices also contributed to inflation acceleration, but to a much smaller extent. Their contribution to the overall annual inflation rate went up from 0.2 percentage points in December to 0.4 percentage points in June, mainly as a result of an increase in vegetable prices. The slowdown in the annual growth rate of meat prices, which may be associated with the steep fall in pork prices in the EU market, had the opposite effect.

The slowdown in core inflation in the first six months of 2018 was influenced by the slackened annual growth in the prices of processed food products and non-food industrial goods without energy. The trends in processed food prices were largely influenced by the waning of the effect of the increase in the prices of milk, oil and fats in the first half of 2017, and the decrease in the prices of butter in the current year. The slower growth in the prices of non-food industrial goods without energy was largely the outcome of the fall in the annual rate of change in the prices of clothing and footwear and motor vehicles. The rise in the prices of services held steady as the faster increase in the annual rate of change in the prices of refuse collection (due to the disappearance of the effect of the fall in these prices in early 2017) was offset by the slower growth in the prices of catering services.

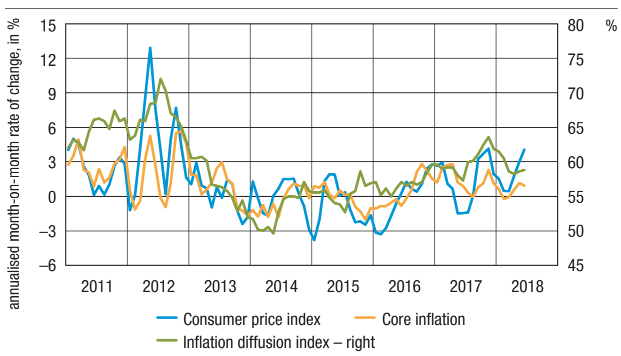
The growth of the implicit deflator of GDP went up from 1.6% in the fourth quarter of 2017 to 2.1% in the second quarter of 2018. Trade conditions continued to improve, albeit at a

Figure 5.1 Year-on-year inflation rate and contributions of components to consumer price inflation



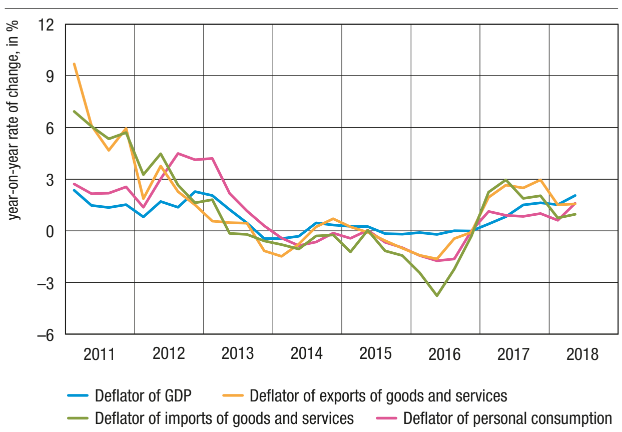
Notes: Core inflation does not include agricultural product prices, energy prices and administered prices. Processed food products include alcoholic beverages and tobacco.
Sources: CBS and CNB calculations.

Figure 5.2 Indicators of current inflation trends



Notes: The month-on-month rate of change is calculated based on the quarterly moving average of seasonally adjusted consumer price indices. The inflation diffusion index shows the share of the number of products whose prices increased in a given month in the total number of products, measured by a 6-month moving average, and is based on the monthly rates of change derived from the seasonally adjusted components of the HICP.
Sources: CBS, Eurostat and CNB calculations.

Figure 5.3 Deflator of GDP and its individual components



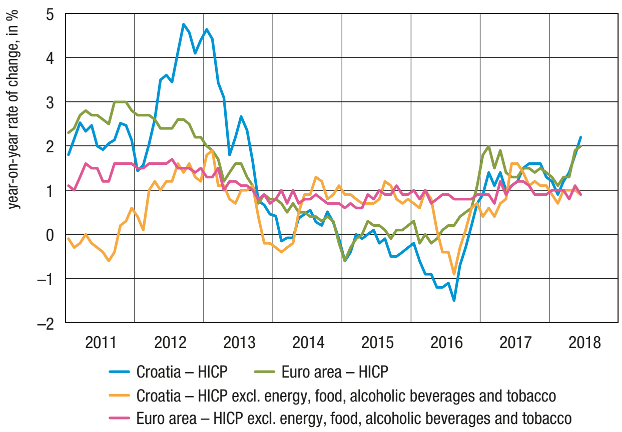
Source: CBS.

Table 5.1 Price indicators
year-on-year rate of change

	6/17	9/17	12/17	3/18	6/18
Consumer price index and its components					
Total index	0.7	1.4	1.2	1.1	2.4
Energy	–2.8	0.5	0.4	1.8	7.9
Unprocessed food	2.2	4.5	2.6	2.1	3.8
Processed food	2.3	2.8	2.0	1.1	1.5
Non-food industrial goods without energy	0.8	0.1	0.8	0.3	0.5
Services	0.8	0.9	1.0	1.0	1.0
Other price indicators					
Core inflation	1.8	1.4	1.4	0.7	0.7
Index of industrial producer prices on the domestic market	0.4	2.2	2.1	1.2	3.4
Index of industrial producer prices on the domestic market (excl. energy)	0.5	0.9	1.0	0.5	–0.1
Harmonised index of consumer prices	1.1	1.6	1.3	1.2	2.2
Harmonised index of consumer prices at constant tax rates	1.0	1.6	1.2	1.1	2.1

Sources: CBS and Eurostat.

Figure 5.4 Indicators of price developments in Croatia and the euro area



Source: Eurostat.

slower pace than in the second half of the previous year. In addition, the annual rate of change of industrial producer prices (excluding energy) also dropped, from 1.0% in December to –0.1% in June. Prices in the production of non-durable consumer goods (food products and beverages) dropped the most, driven probably by the cut in the prices of food raw materials in the global market in the second half of 2017.

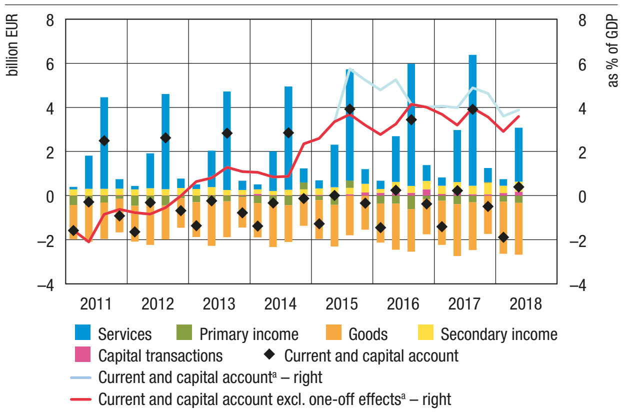
Consumer price inflation in the euro area picked up in the first half of 2018, from 1.4% in December 2017 to 2.0% in June. As in Croatia, this was mostly attributable to energy prices, due to the rise in crude oil prices in the global market. Notwithstanding stronger domestic inflationary pressures in the first half of the year, thanks to the notable growth in wages and the high utilisation of capacities, core inflation (which excludes the prices of energy, food, alcoholic beverages and tobacco) did not rise and was the same in June 2018 as in December 2017, at 0.9%. The annual increase in the prices of services (1.1%) in June was more pronounced than the rise in the prices of industrial products (0.4%).

The annual inflation rate in Croatia, measured by the HICP, rose from 1.3% in December to 2.2% in June. This was mainly due to the faster annual increase in energy prices, primarily spurred by the rise in the prices of refined petroleum products and the disappearance of the effect of the cut in electricity prices in early 2017. In June, inflation in Croatia was 0.2 percentage points lower than in the euro area. Core inflation (excluding energy, food, alcoholic beverages and tobacco prices) edged down in Croatia, from 1.1% in December to 0.9% in June, and was equal to that in the euro area.

6 Current and capital account

The current and capital account balance deteriorated in the first half of 2018 from the same period of the previous year, largely owing to the widening of the foreign trade deficit. On the other hand, unfavourable developments in the current and capital account were only slightly mitigated by the cut in the primary income account deficit and a slight improvement in the sum of balances in the secondary income account and in the account of capital transactions. At the same time, the surplus in the international trade in services remained almost the same. If cumulative values over the past year are observed, the surplus in the current and capital account stood at 3.9% of GDP, which is 0.8 percentage points less than in the entire 2017. However, excluding the one-off effect of lower bank profits due to provisions associated with the Agrokor Group, this surplus stood at 3.6% of GDP, the same as in 2017.

Figure 6.1 Current and capital account balance and its structure



[a] Sum of the last four quarters.
Note: One-off effects include conversion of CHF-linked loans in 2015 and bank provisions for loans to the Agrokor Group in 2017.
Source: CNB.

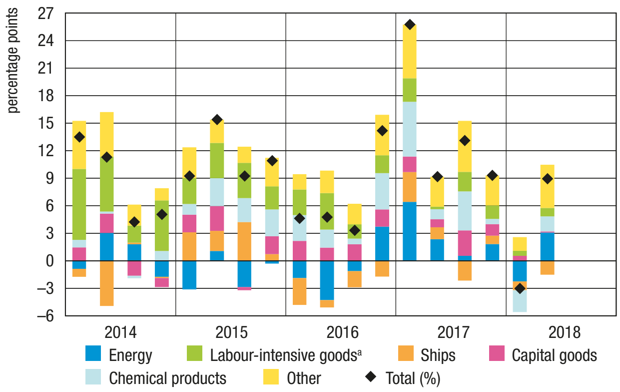
6.1 Foreign trade and competitiveness

According to the balance of payments data, the first six months of 2018 were characterised by a sharp deepening of the foreign trade deficit (of 8.5%) driven by a noticeably stronger growth in imports than in exports (5.4% vs 3.0%). The CBS data, which also provide for a breakdown by products, suggest that the widening of the foreign trade deficit was largely driven by a worsening of the balance of trade in medical and pharmaceutical products and other transport equipment (mainly ships) and, to a lesser extent, larger net imports of road vehicles and electrical machinery, apparatus and appliances.

The growth in total goods exports continued in the first half of 2018 (by 2.9% on an annual basis), but at a much slower pace than in the same period of 2017 (when exports grew by 16.9%). The deceleration was in part due to a slowdown in economic activity in Croatia's main foreign trading partner countries and the base effect. The growth in total exports of goods in the first six months of 2018 was mainly the result of the rise in exports of road vehicles to Germany and Slovenia, metal industry products to Germany, the United Kingdom and Italy, and scientific and controlling instruments to South Korea and China. The only moderate contribution of energy products to the growth of total goods exports is the result of the growth in the exports of oil and refined petroleum products accompanied by a sharp fall in the exports of electricity. At the same time, exports of medical and pharmaceutical products to the US and ship exports plummeted.

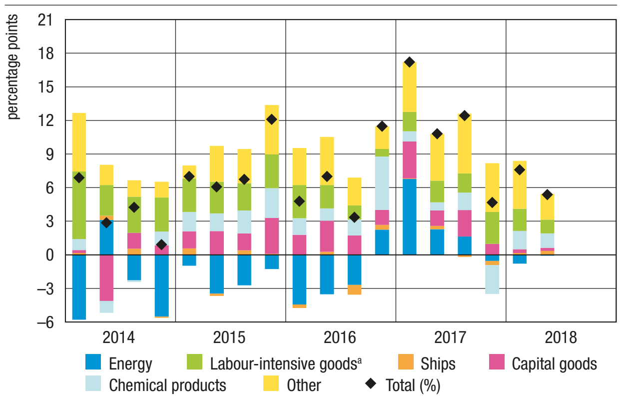
In addition to goods exports, goods imports also grew at a notably slower pace (by 6.4% in the first half of 2018 vs 13.8% in the same period of 2017). The rise in the total imports of goods was strongly influenced by the rise in imports of road vehicles from Germany, France and Slovenia, medical and pharmaceutical products from Germany, Hungary and South Korea, metal industry products from Italy, Bosnia and Herzegovina and Germany, and scientific and controlling

Figure 6.2 Goods exports (f.o.b.)
year-on-year rate of change and contributions



[a] Labour-intensive goods (according to the SITC) include: textile, wearing apparel, footwear, leather, paper, cork and wood, furniture, manufactures of metals and non-metallic mineral manufactures, prefabricated buildings and manufactured articles n.e.c.
Source: CBS.

Figure 6.3 Goods imports (c.i.f.)
year-on-year rate of change and contributions



[a] Labour-intensive goods (according to the SITC) include: textile, wearing apparel, footwear, leather, paper, cork and wood, furniture, manufactures of metals and non-metallic mineral manufactures, prefabricated buildings and manufactured articles n.e.c.
Source: CBS.

instruments from China and Slovenia. At the same time, imports of energy products shrank, as the sharp fall in imports of electricity more than counterbalanced the strong increase in imports of oil and refined petroleum products.

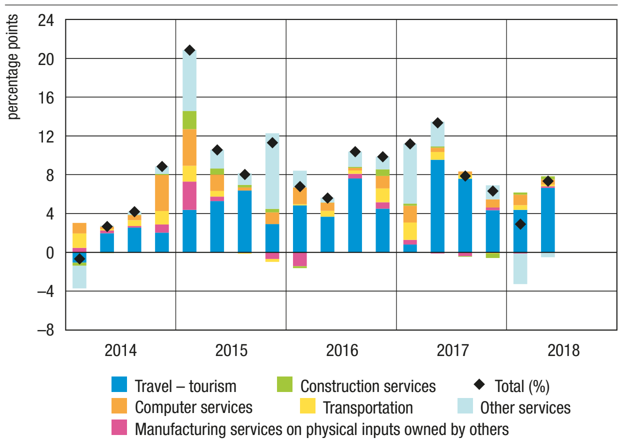
As regards developments in the international trade in services, net exports of services in the first half of 2018 held steady at the same level as in the corresponding period of the previous year. Revenues from tourism grew sharply (by 10.1% on an annual basis), accompanied by a sharp growth in the numbers of arrivals and nights of guests in commercial accommodation, of 12.5% and 8.7% respectively, thanks primarily to guests from Poland, Slovenia, the United Kingdom and the Czech Republic. However, the rise in revenues from tourism was almost completely offset by the substantial increase in tourism consumption abroad by residents and the fall in net exports of other services.

The slower growth in goods exports in the first half of 2018 coincided with a small deterioration in price and cost competitiveness of exports as the real effective exchange rates of the kuna deflated by consumer and producer prices appreciated marginally in the first half of 2018. This was due to the appreciation of the nominal effective exchange rate of the kuna, only slightly mitigated by somewhat more favourable developments in domestic prices compared to the prices of Croatia's main trading partners. At the same time, the movement of unit labour costs in Croatia was slightly less favourable than abroad, so that the appreciation of real effective exchange rates of the kuna deflated by unit labour costs was more pronounced, particularly in manufacturing.

6.2 Income and transactions with the EU

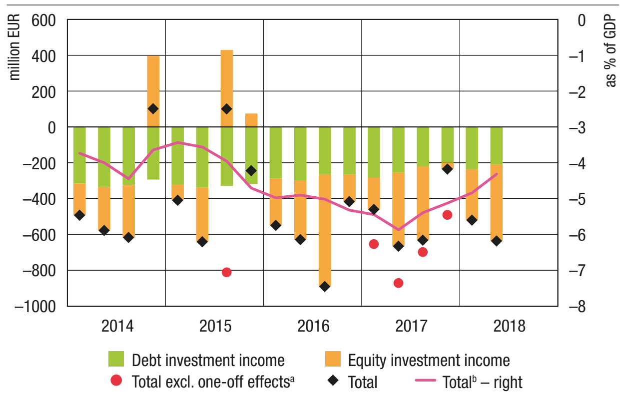
Net expenditures on equity investment in Croatia deteriorated considerably due to better business performance of domestic enterprises owned by non-residents, particularly the recovery of bank profits, which were in 2017 strongly affected by one-off effects of increased loss provisions for loans to the Agrokor Group. At the same time, foreign enterprises owned by residents recorded slightly lower profits than in the same

Figure 6.4 Services exports
year-on-year rate of change and contributions



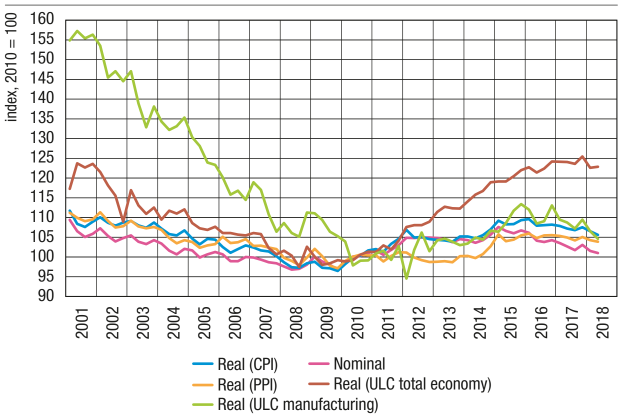
Source: CNB.

Figure 6.6 Investment income



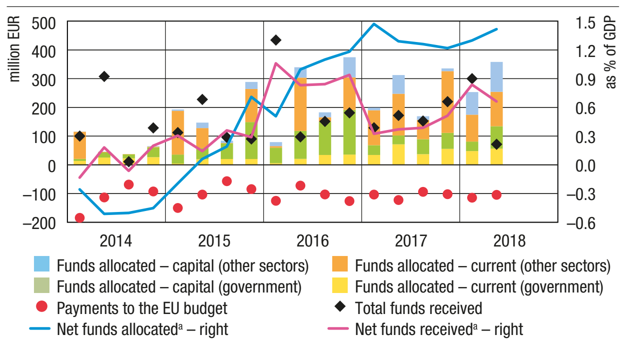
[a] One-off effects include conversion of CHF-linked loans in 2015 and bank provisions for loans to the Agrokor Group in 2017. [b] Sum of the last four quarters, excluding one-off effects.
Source: CNB.

Figure 6.5 Nominal and real effective exchange rates of the kuna



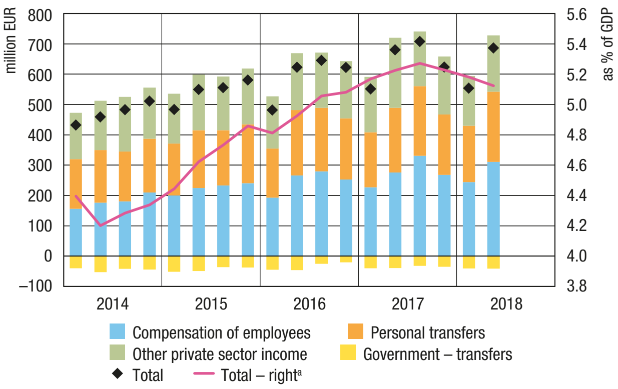
Notes: The unit labour cost is calculated as the ratio between compensation per employee and labour productivity (defined as GDP per person employed). A fall in the index indicates an effective appreciation of the kuna.
Source: CNB.

Figure 6.7 Transactions with the EU budget



[a] Sum of the last four available quarters.
Notes: As regards total funds received from EU funds, only funds allocated and paid out to end beneficiaries are recorded in the current and capital account of the balance of payments, while funds received but not allocated are recorded in the financial account. Payments to the EU budget carry a negative sign in the figure. The positive value of net received and net allocated funds is the surplus over the payments to the EU budget.
Sources: CNB and MoF.

Figure 6.8 Other income, excluding investment income and transactions with the EU



[a] Sum of the last four available quarters
Note: Compensation of employees is recorded in the primary income account, while other series (personal transfers, other private sector income and government transfers) are recorded in the secondary income account.
Source: CNB.

period of 2017. Unfavourable trends in investment income were mitigated by lower net expenditures on debt investments arising from lower interest expenses on external debt of domestic sectors, particularly the government and other domestic sectors.

Net revenues from transactions with the EU budget in the first half of 2018 increased from the same period of the previous year as a result of stronger use of EU funds, while payments to the EU budget remained almost the same. It should be noted that the structure of the funds paid out changed substantially. End users received significantly more capital revenues (mostly to other domestic sectors, excluding the government), while the amount of current revenues decreased. The total annual difference between the funds used and payments to the EU budget grew to 1.4% of GDP at the end of June, up from 1.2% of GDP in the whole of 2017. Other income, excluding income from investments and transactions with the EU budget, held steady.

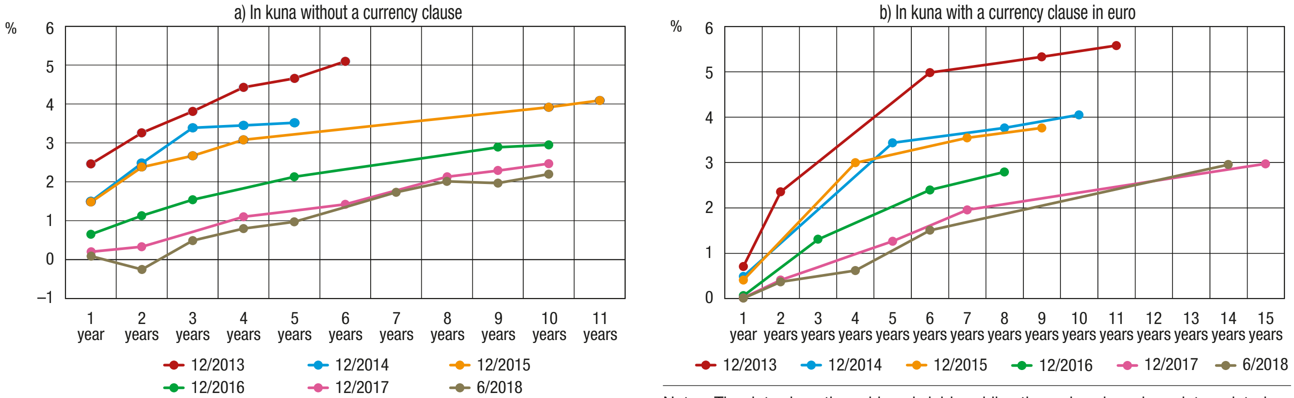
7 Private sector financing

Domestic sectors' financing conditions generally continued to improve in the first half of 2018. The costs of short-term government borrowing were more favourable than in 2017, as suggested by the interest rate on one-year kuna T-bills which dropped from 0.20% in December 2017 to an all-time low of 0.09% in February 2018, remaining at that level until the end of June. The interest rate on one-year euro T-bills also decreased from 0.01% in October 2017 to 0.00% in May 2018. The financing conditions for government long-term borrowing in the domestic market improved in the first half of the current year as well, as evident from the yield curve for kuna bonds without a currency clause (Figure 7.1a), with a negative yield to maturity recorded for a two-year bond in June. No significant change was seen in the yield curve for kuna bonds with a currency clause in euro from the end of 2017 (Figure 7.1b). In June 2018, the government issued a ten-year euro bond of EUR 750m with a yield of 2.9%.

On the other hand, the government's costs of borrowing in the foreign market, estimated by the sum of the EMBI index for Croatia and the yield on the German government bond, increased slightly from 2.2% at the end of 2017 to 2.6% in late June 2018 (Figure 7.3). After narrowing by around 120 basis points in 2017, the CDS for Croatia declined further in the first quarter of 2018, dropping by an additional 10 basis points to a level of around 85 basis points. However, in the second quarter, the risk premium for Croatia increased along with the risk premiums of other European emerging market economies, again exceeding 100 basis points. As regards the credit rating agencies' risk perception of Croatia, in January 2018, Fitch upgraded Croatia's rating from 'BB' to 'BB+' with a stable outlook, while Standard & Poor's did the same in March this year.

Costs of corporate financing mostly continued to decline

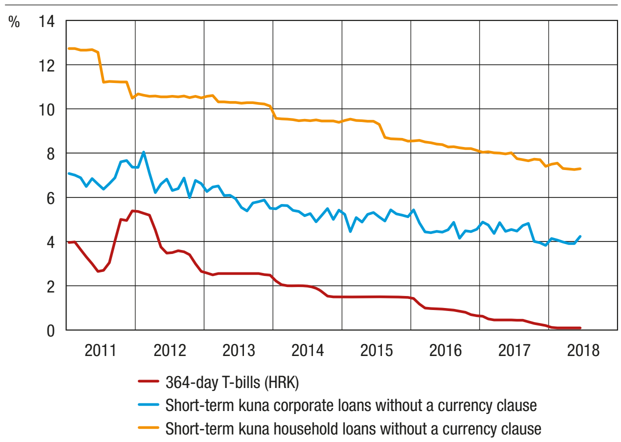
Figure 7.1 Yield-to-maturity on RC bonds



Note: The dots show the achieved yields, while other values have been interpolated. Data for one-year yield refer to the achieved interest rate on one-year kuna T-bills without a currency clause.
Source: CNB.

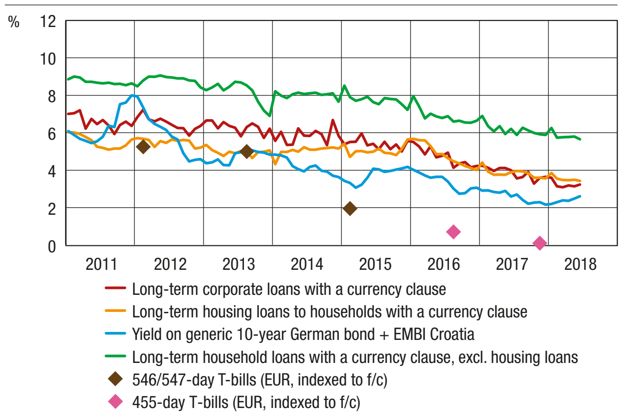
Notes: The dots show the achieved yields, while other values have been interpolated. Data for one-year yield refer to the achieved interest rate on one-year T-bills with a currency clause in euro. Data for the end of 2016 refer to November, while data for the end of 2017 refer to October.
Source: CNB.

Figure 7.2 Short-term financing costs
in kuna without a currency clause



Sources: MoF and CNB.

Figure 7.3 Long-term financing costs
in kuna with a currency clause and in foreign currency



Note: EMBI, or the Emerging Market Bond Index, shows the spread between yields on government securities of emerging market economies, Croatia included, and risk-free securities issued by developed countries.
Sources: MoF, Bloomberg and CNB.

steadily. Compared with the 2017 average, the average interest rate on short-term corporate borrowing in kuna without a currency clause decreased by 0.4 percentage points in the first half of 2018 (Figure 7.2), while the average interest rate on long-term corporate loans in kuna with a currency clause went down by 0.6 percentage points (Figure 7.3). The downward trend was particularly pronounced in interest rates on loans up to HRK 7.5m, although interest rates on loans exceeding HRK 7.5m are still lower than interest rates on loans of smaller amounts as larger amount loans are used mostly by large enterprises with greater collateral potential and better alternative financing options (Figure 7.4).

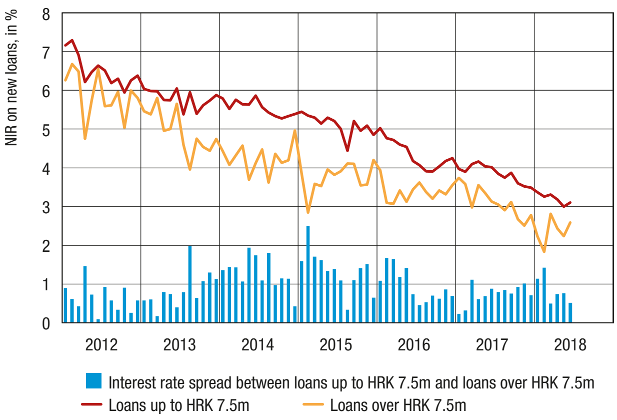
Interest rates on household loans also continued to decline. The average interest rate on short-term household borrowing in kuna without a currency clause decreased by 0.5 percentage points in the first half of 2018 from the 2017 average (Figure 7.2), while the average interest rate on long-term household loans with a currency clause went down by 0.3 percentage points (Figure 7.3).

Favourable trends in interest rates on corporate and household financing were brought about by the exceptionally high liquidity in the domestic and international financial markets and lower funding costs of the Croatian banking system, with the EURIBOR still in negative territory (Figure 2.3) and the national reference rate (NRR)[1] continuously trending down.

The results of the bank lending survey suggest that credit standards for corporate loans were eased in the first half of 2018, particularly in the first quarter (Figure 7.6). With the exception of a slight tightening in the second and third quarter of 2017, lenders have been continuously easing credit standards for corporate lending for almost three years. Banks' financing options on the market and favourable liquidity conditions led to the easing of standards in the first half of 2018, whereas banks cited expenses linked to their capital positions as a factor contributing to the tightening of credit standards. At the same time, corporate demand for loans has been moving up for several years now, particularly that of small and medium-sized enterprises. Demand growth was primarily driven by the need of enterprises to finance inventories and working capital as well as to finance investments.

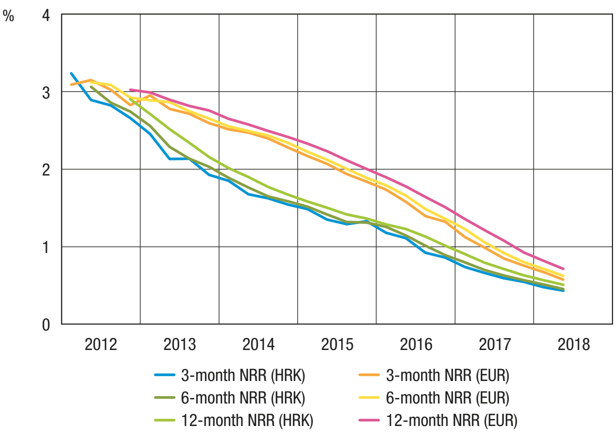
In the first half of 2018, credit standards for household loans were tightened considerably (Figure 7.7), reversing a several-year long trend of credit standard easing in the household sector. This may be attributed to the application of the new Foreclosure Act and the Decision on the additional criteria for the assessment of consumer creditworthiness and on the procedure of collection of arrears and voluntary foreclosure, which had a negative effect on the creditworthiness of a part of the household sector. Nevertheless, the demand for housing and consumer and other loans continued to grow in the first half of 2018, although the growth slowed down in the second quarter. The increased demand for both types of loans was significantly driven by strong consumer confidence. The demand

Figure 7.4 Bank interest rates on loans to non-financial corporations by volume



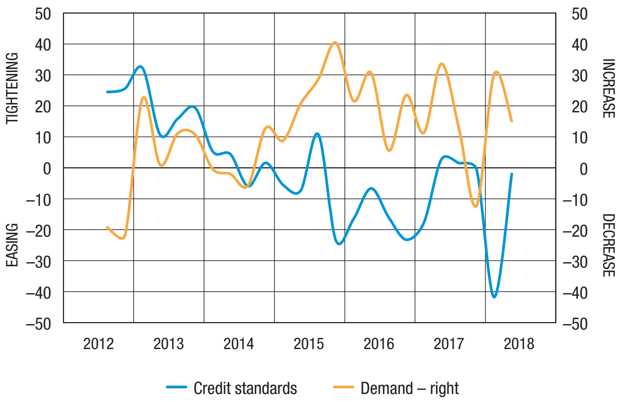
Source: CNB.

Figure 7.5 National reference rate (NRR)



Note: The rates shown refer to rates applicable to all natural and legal persons.
Source: HUB.

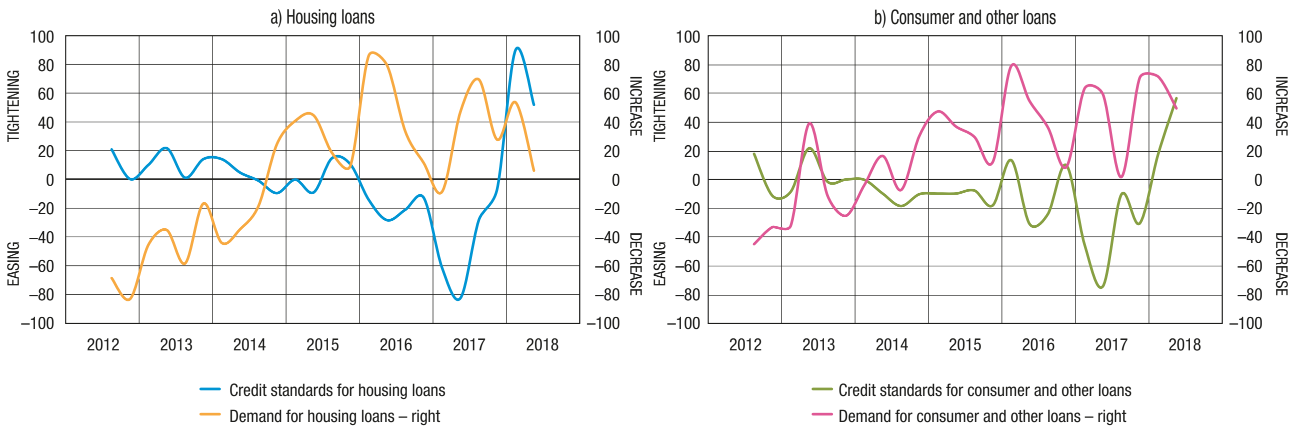
Figure 7.6 Credit standards and corporate demand for loans



Note: Data show the net percentage of banks weighted by the share in total corporate loans.
Source: CNB.

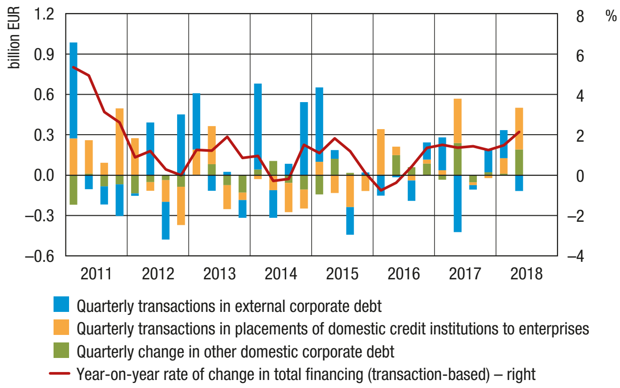
1 The national reference rate (NRR) is the average interest rate paid on deposits by the banking sector. It is used as one of the benchmark interest rates for determining the level of the variable component of the variable interest rate on loans, in accordance with Article 11a of the Consumer Credit Act (pursuant to the Act on Amendments to the Consumer Credit Act, OG 143/2013).

Figure 7.7 Credit standards and household demand for loans



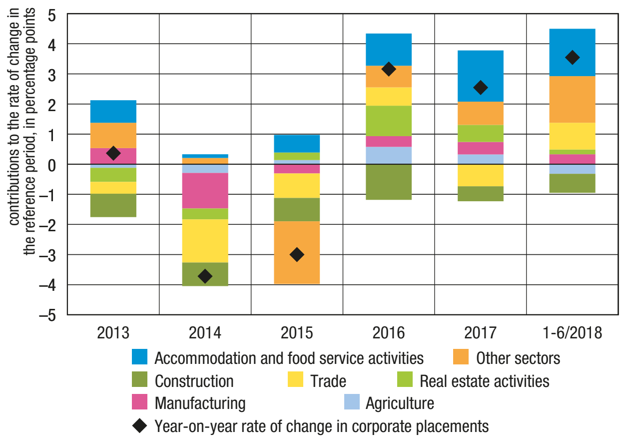
Note: Data show the net percentage of banks weighted by the share in total household loans.
Source: CNB.

Figure 7.8 Corporate financing



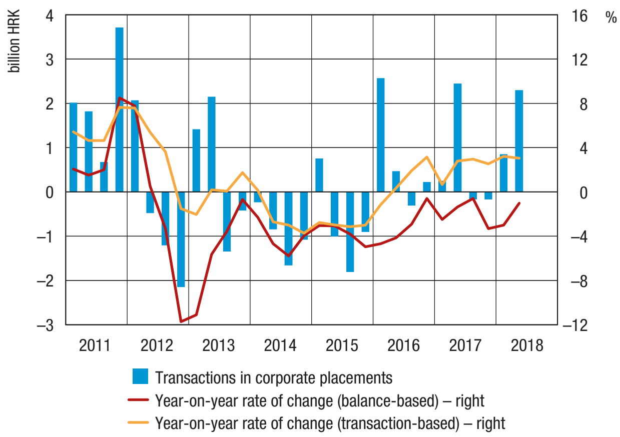
Notes: Other domestic financing includes borrowing from domestic leasing companies and the CBRD. External debt excludes the effect of debt-to-equity transactions. All changes were calculated according to transactions (except for other domestic debt).
Sources: HANFA, CNB and CNB calculations.

Figure 7.10 Growth of corporate placements by activity
transaction-based



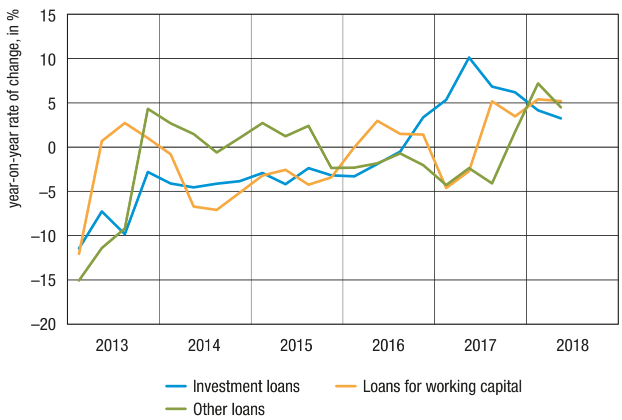
Source: CNB.

Figure 7.9 Corporate domestic placements of credit institutions



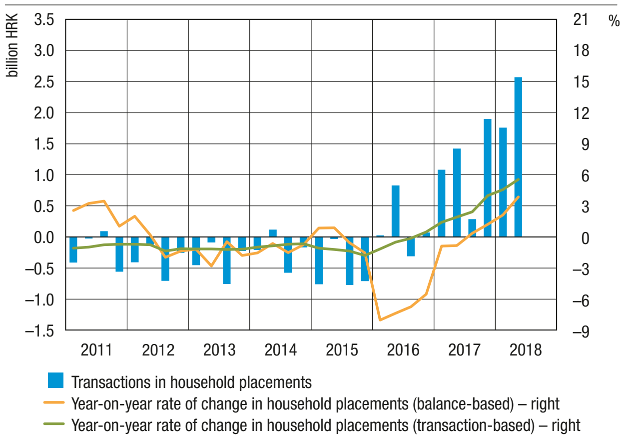
Source: CNB.

Figure 7.11 Growth in corporate loans by purpose
transaction-based



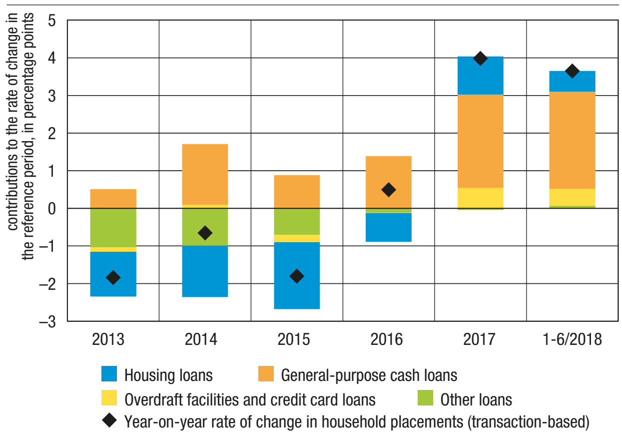
Source: CNB.

Figure 7.12 Household placements



Source: CNB.

Figure 7.13 Growth of household placements by loan type
transaction-based



Source: CNB.

for housing loans was additionally spurred by favourable real estate market conditions, while the consumption of durable consumer goods resulted in a rise in demand for other types of household loans.

The total debt of non-financial corporations[2] increased in the first half of 2018. Both domestic and foreign corporate borrowing increased, particularly borrowing from domestic credit institutions. As for the annual dynamics, at end-June 2018, total corporate debt increased by 2.1% (transaction-based), picking up slightly from the previous years (Figure 7.8). The domestic and foreign borrowing of private enterprises provided the main impetus for annual growth, while some public enterprises reduced both domestic and foreign financing.

Domestic credit institutions' corporate placements increased by HRK 3.2bn in the first six months of 2018 (transaction-based, Figure 7.9), with their annual growth rate standing at 3.1% at the end of June (transaction-based). Still, the annual rate of growth in the nominal stock of corporate placements remained negative (–1.0% at the end of June), which is mainly a result of the sale of non-performing placements.

In the first half of 2018, the rise in corporate placements was widespread across various activities, with the most significant contribution to growth coming from accommodation and food service activities, trade and other activities, notably professional, scientific and technical activities (Figure 7.10). On the other hand, the several-year trend toward deleveraging continued in construction, and a decline in debt was also seen in agriculture, putting an end to the upward trend recorded over the preceding three years. Observing corporate loans by purpose, the annual growth in investment loans slowed down in mid-2018 from 2017, standing at 3.2% at end-June (Figure 7.11). On the other hand, working capital loans and other loans grew by around 5% on an annual basis, accelerating from 2017.

The growth in household placements has been intensifying continuously since October 2016. In the first half of 2018, they rose by HRK 4.3bn, with their annual growth accelerating to 5.6% at the end of June (transaction-based, Figure 7.12). In addition to favourable financing conditions, more vigorous household borrowing may also be accounted for by favourable labour market developments and consumer confidence. Broken down by loan structure, growth was recorded in all main types of household loans in the first six months of 2018 (Figure 7.13), with the most significant positive contribution coming from general-purpose cash loans, whose expansion in the said period exceeded their growth at the entire 2017 level.

2 Non-financial corporations do not include public enterprises included in the general government sector.

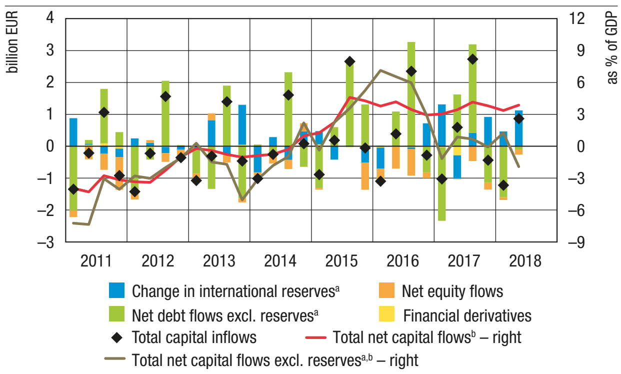
8 Foreign capital flows

In the first six months of 2018, EUR 0.4bn in net foreign capital inflows was recorded in the financial account of the balance of payments, a slight decrease from the same period the year before. However, if the changes in gross international reserves and CNB liabilities are excluded, net foreign liabilities of domestic sectors increased significantly (by EUR 1.9bn versus EUR 1.0bn in 2017). The bulk of net capital inflow may be attributed to a rise in net debt liabilities, while net equity investments exhibited only small changes.

In the first half of 2018, the net inflow of equity investments stood at EUR 0.2bn, as the increase in liabilities exceeded the increase in the assets of domestic sectors. The increase in assets was also a result of foreign direct and portfolio equity investments, although they were noticeably smaller than in the same period in 2017, while reinvested earnings rose, particularly in manufacturing and financial activities. On the other hand, the rise in liabilities was mainly due to higher reinvested earnings of domestic business entities owned by non-residents, mostly banks, while in other activities, reinvested earnings were on average lower than in the same period in the preceding year. At the same time, direct equity investment in Croatia, mostly seen in the real estate sector, was one fifth lower than in the same period in 2017.

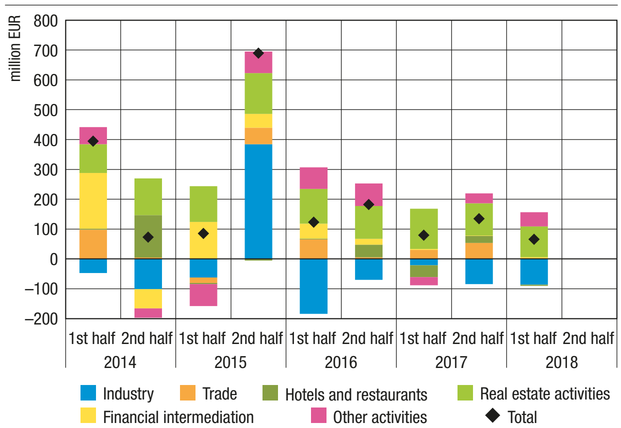
The significant net inflow of debt capital of EUR 1.7bn recorded in the first half of 2018 (excluding the change in international reserves and CNB liabilities) resulted from a substantial decrease of EUR 0.8bn in the banks' assets in the TARGET2[3] system. Furthermore, the net foreign position of credit

Figure 8.1 Flows in the financial account of the balance of payments



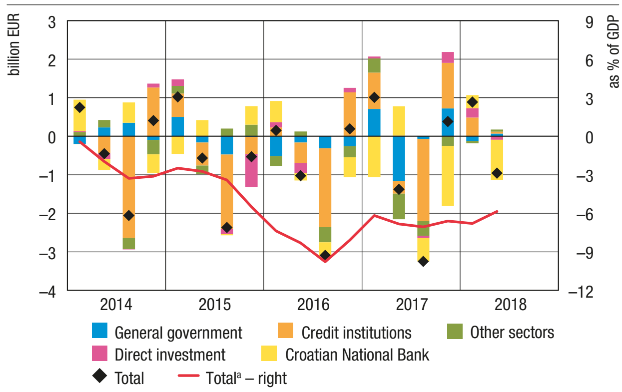
[a] Changes in gross international reserves net of CNB foreign liabilities.
[b] Sum of the previous four quarters.
Notes: Net flows mean the difference between changes in assets and liabilities. Equity flows comprise changes in foreign direct equity investments, reinvested earnings and portfolio equity investment. Positive value means net capital outflow abroad.
Source: CNB.

Figure 8.2 Foreign direct equity investment in Croatia by activities



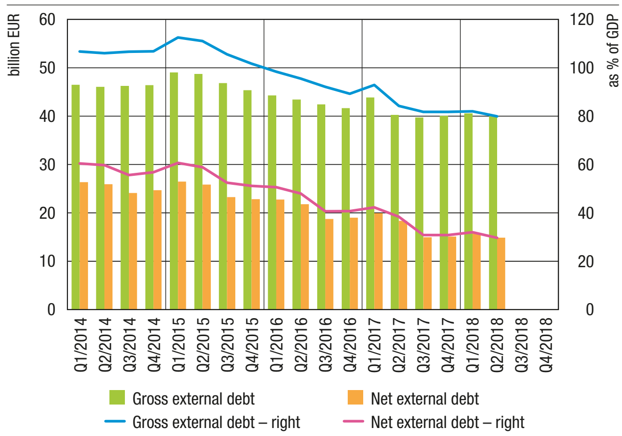
Note: Equity investment net of debt-to-equity transactions and round-tripping investments.
Source: CNB.

Figure 8.3 Net external debt transactions by sectors



[a] Sum of the previous four quarters.
Notes: Transactions refer to the change in debt excl. cross-currency changes and other adjustments. Net external debt is calculated as the gross external debt stock net of foreign debt claims.
Source: CNB.

Figure 8.4 Stock of gross and net external debt



Note: Net external debt is calculated as the gross external debt stock net of foreign debt claims.
Source: CNB.

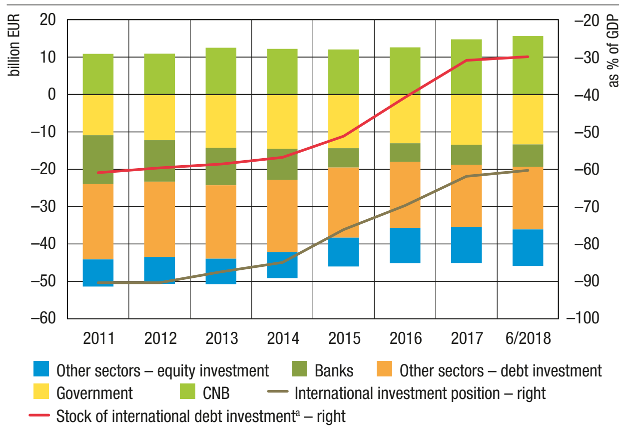
3 Assets within the TARGET2 system are used by banks to settle payment transactions in euro. In balance of payment statistics, they are recorded as a part of CNB foreign assets, but are not included in international reserves.

institutions deteriorated due to a simultaneous decline in foreign assets and a rise in liabilities. The net foreign position of the corporate sector deteriorated as well, mainly as a result of a substantial rise in liabilities to affiliated creditors abroad. Such developments were mitigated by an improvement in the foreign position of the central bank driven by an increase in international reserves following the deposit of central government funds deriving from the new issue of foreign bonds as well as by the purchase of foreign exchange from banks.

Relative indicators of external debt continued to improve in the first half of 2018, albeit at a slower pace than in 2017. In addition to continued moderate deleveraging, nominal GDP growth also contributed to the trend, while cross-currency changes and other adjustments were somewhat unfavourable. Gross external debt was EUR 40.1bn (79.9% of GDP) at the end of June 2018, which is a decrease of 1.8 percentage points from the end of 2017. At the same time, net external debt dropped to slightly below EUR 15.0bn (29.7% of GDP), down by 1.2 percentage points from the end of 2017.

In addition to the relative indicators of external debt, the net international investment position also improved, standing at –60.3% of GDP at the last day of June 2018 compared with –61.9% of GDP at the end of 2017. This is primarily linked to the favourable effect of nominal GDP growth, while in absolute terms, the international investment position improved only slightly.

Figure 8.5 International investment position (net) by sectors



[a] Stock of international debt investments (net) equals the negative value of the net external debt.
Source: CNB.

9 Monetary policy

The CNB continued to pursue an expansionary monetary policy in the first half of 2018, supporting the high liquidity in the monetary system. Due to appreciation pressures on the domestic currency, the central bank purchased from banks a total of EUR 726m from the beginning of 2018 to the end of June. Including the purchase of EUR 16m from the Ministry of Finance, the CNB purchased a net total of EUR 742m in foreign exchange transactions in the first half of 2018, creating HRK 5.5bn (Figure 9.1).

In addition to foreign exchange transactions, the CNB continued to conduct regular weekly reverse repo auctions at a fixed repo rate of 0.3%. However, amid very high levels of kuna liquidity surplus in the monetary system, banks have shown no interest in the short-term kuna funds available through this monetary policy instrument since the beginning of the year.

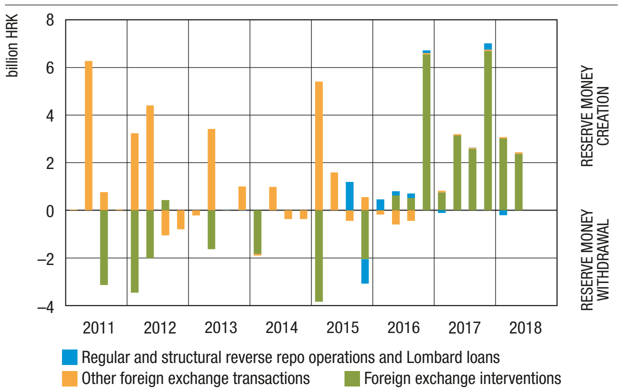
In the first six months of 2018, average surplus kuna liquidity reached HRK 27.1bn, up by HRK 11.9bn from the average surplus recorded in 2017 (Figure 9.2). The rise in kuna liquidity in the system primarily resulted from the creation of reserve money through the purchase of foreign exchange from banks. In such circumstances, the average weighted interest rate in the overnight interbank market remained at exceptionally low levels with very little turnover. In April, the interbank interest rate rose to 0.25%, reflecting the one transaction that was carried out that month, after which no turnover was seen in May and June.

In the first half of 2018, the kuna was predominantly subject to appreciation pressures mitigated by CNB foreign exchange interventions. The exchange rate of the kuna against the euro stood at EUR/HRK 7.38 at the end of June, down by 1.8% from the end of 2017 (Figure 9.3). Appreciation pressures on the kuna were associated with favourable macroeconomic developments such as reduced fiscal risks and recovered economic activity as well as with current account surplus and stronger inflows of EU funds. As regards other important currencies, the kuna strengthened against the US dollar and the Swiss franc in the first four months of the year, after which the trend was reversed. Such developments were a result of the strengthening of the euro against the aforementioned currencies in the global foreign exchange market in the first four months of the year and its depreciation during most of May and June, particularly against the US dollar.

Gross international reserves stood at EUR 16.7bn at the end of June 2018 (Figure 9.4), having grown by EUR 1.0bn or 6.3% from the end of 2017. Net usable reserves went up by EUR 0.9bn in the same period, reaching EUR 14.7bn at the end of June. The increase in gross and net reserves was largely due to the purchase of foreign exchange from banks, and, to a lesser extent, to the strengthening of the US dollar against the euro since a part of international reserves is held in US dollars.

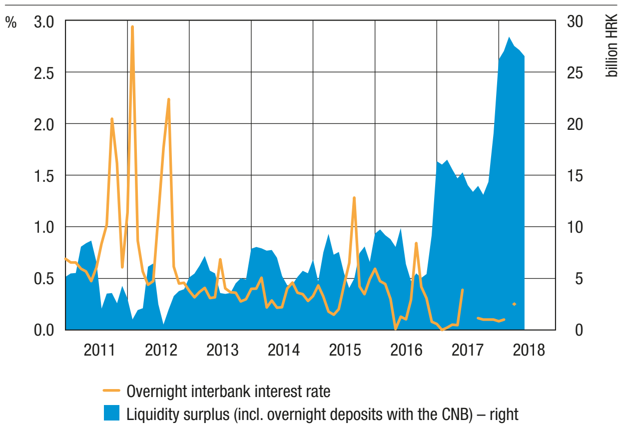
In the first half of 2018, the considerable annual growth in total liquid assets (M4) continued (Figure 9.5). The annual increase in the broadest monetary aggregate is a consequence

Figure 9.1 Flows of reserve money (M0) creation



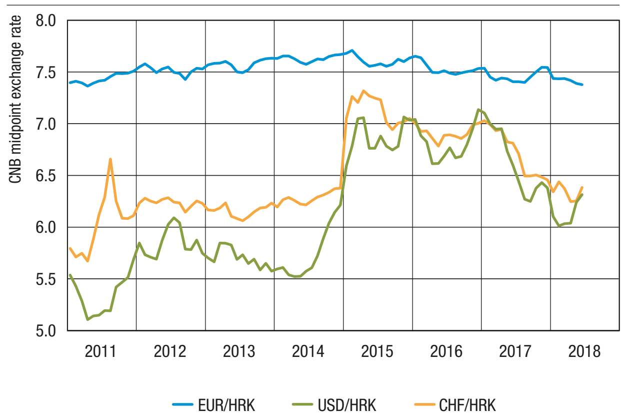
Note: Other foreign exchange transactions include the purchase of foreign exchange from and the sale of foreign exchange to the MoF and the EC and foreign currency swaps with banks, where the positive values refer to the purchase of foreign exchange by the CNB.
Source: CNB.

Figure 9.2 Bank liquidity and overnight interbank interest rate



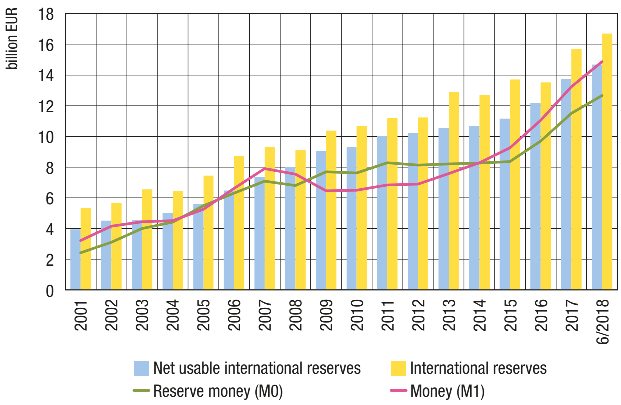
Source: CNB.

Figure 9.3 Nominal exchange rates of the kuna against selected currencies



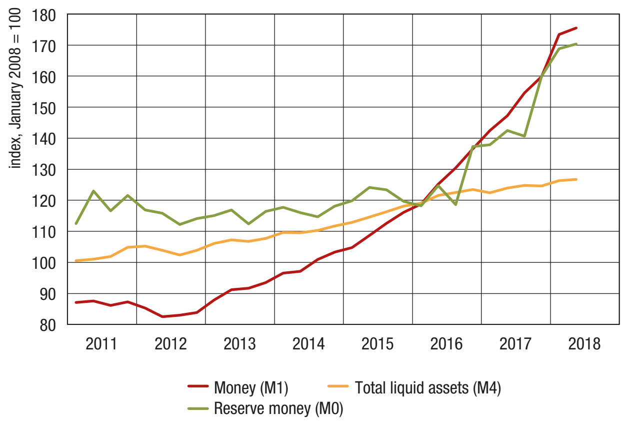
Source: CNB.

Figure 9.4 International reserves of the CNB and monetary aggregates



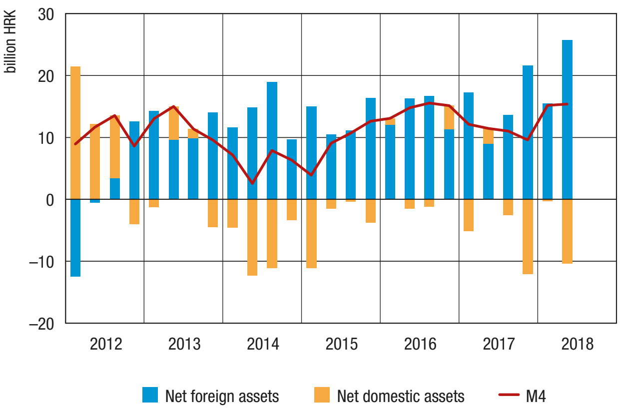
Note: Net usable international reserves are defined as international reserves net of the CNB foreign liabilities, reserve requirements in f/c, government foreign currency deposits and off-balance sheet liabilities (swaps).
Source: CNB.

Figure 9.6 Real monetary aggregates
index of developments in seasonally adjusted values, deflated by the consumer price index



Source: CNB.

Figure 9.5 Net foreign assets, net domestic assets and total liquid assets (M4)
absolute change in the last 12 months



Note: Absolute changes excluding the exchange rate effect.
Source: CNB.

of the continued rise in net foreign assets of the monetary system, while, on the other hand, net domestic assets of the system continued to decline, mostly due to the government's deleveraging vis-a-vis the banks.

The growth in real monetary aggregates, observed for several years now, continued into the first half of 2018 (Figure 9.6.). Real total liquid assets (M4) grew by 2.2% until the end of June, while annual rates of growth in real money (M1) and real reserve money (M0) came close to 20%. The rise in real money (M1) was mainly generated by a surge in the funds deposited in transaction accounts, which is attributable to the fall in savings and time deposits due to low interest rates. The increase in real reserve money primarily reflects the large kuna liquidity surpluses created by CNB foreign exchange transactions.

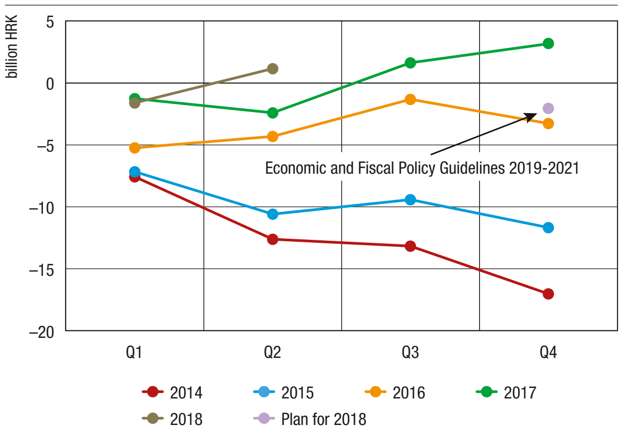
10 Public finance

According to the data on the execution of the consolidated general government budget (ESA 2010), the first half of 2018 saw a budget surplus of HRK 1.1bn (0.3% of GDP[4]), which is a considerable improvement from the same period last year, when a deficit of HRK 2.4bn (0.7% of GDP) was recorded. The positive budget balance recorded in the first half of 2018 particularly reflects favourable developments in the second quarter, while the first quarter witnessed a budget deficit similar to that seen in the same period in 2017.

A detailed analysis of the revenue side of the budget (ESA 2010) shows mostly favourable developments in the first half of 2018, with a considerable increase in total revenues from the same period in 2017 (5.0%). Indirect taxes and social contributions made a noticeable positive contribution, supported by favourable general economic trends. Revenues from direct taxes, primarily income tax revenues, also had a positive effect, although to a slightly lesser extent. On the other hand, other current revenues were slightly lower on an annual basis.

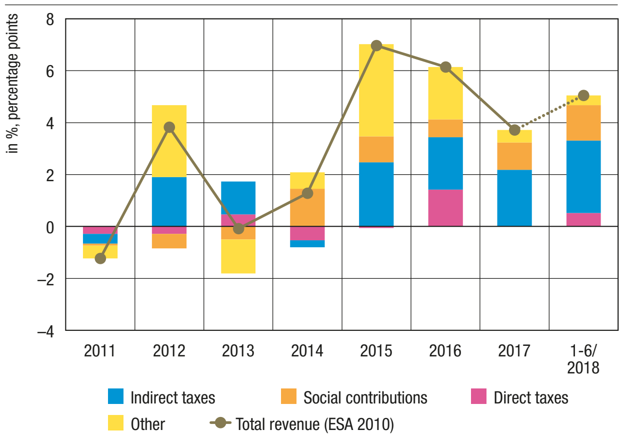
The expenditure side of the consolidated general government budget (ESA 2010) saw a slight increase of 0.5% in the first half of 2018 compared with the same period in 2017. Expenditures for employee compensations rose, probably under the influence of an increase in the number of civil servants and government employees as well as due to the gradual increase in the wage base for public sector employees agreed with trade unions of government services in 2017 and the decision to apply that increase to the wages of public service employees as well. Expenditures for social benefits increased as well (primarily due to pension adjustments), as did the expenditures on government intermediate consumption. On the other hand,

Figure 10.1 General government cumulative balance by quarters (ESA 2010)



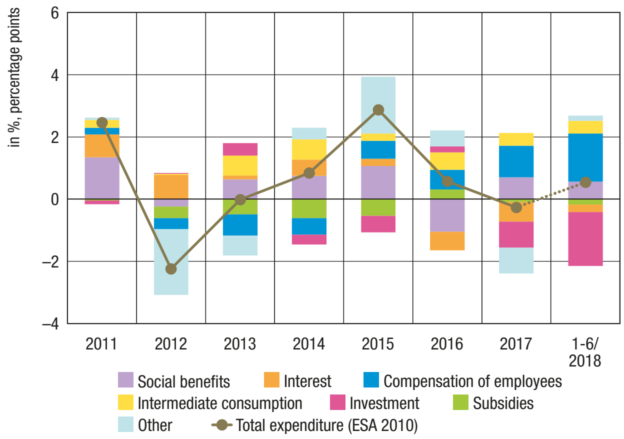
Sources: Eurostat and MoF (CNB calculations).

Figure 10.2 Consolidated general government revenue
ESA 2010, year-on-year rate of change and contributions



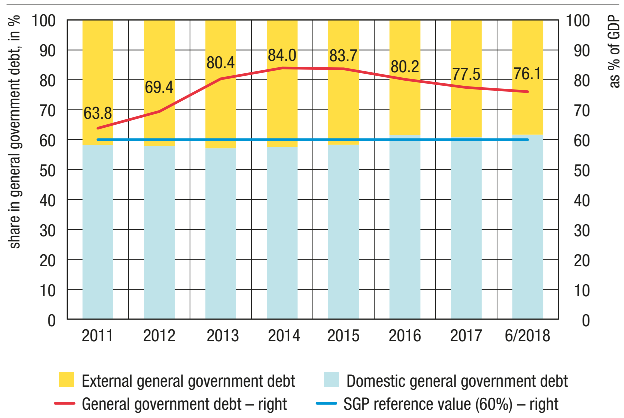
Source: Eurostat (CNB calculations).

Figure 10.3 Consolidated general government expenditure
ESA 2010, year-on-year rate of change and contributions



Source: Eurostat (CNB calculations).

Figure 10.4 General government debt
end-period stock



Note: Nominal GDP for the last four available quarters was used for the calculation of the relative indicator at the end of June 2018.
Source: CNB.

4 In terms of the GDP in the last four available quarters.

expenditures for investments decreased substantially, along with other current expenditures, expenditures for subsidies and interest expenses.

Despite the budget surplus and the favourable effect of the appreciation of the kuna versus the euro, consolidated general government debt totalled HRK 284.1bn at the end of June 2018, which is an increase of about HRK 0.8bn from the end of 2017. The increase in government debt in the first half of 2018 primarily derives from the issue of a foreign bond worth EUR 750m, used to repay the debt security that matured in July. The relative indicator of public debt, the public debt-to-GDP ratio, decreased from 77.5% at the end of 2017 to 76.1% of GDP in the first half of 2018 under the favourable influence of economic growth. The government used the favourable conditions in the domestic and international financial markets that continued into the first half of the current year to repay maturing liabilities. In addition to regular T-bill issues, with zero interest rates recorded for the first time on euro T-bills, at the beginning of the second quarter, the government refinanced CM, ARZ and CR debts totalling EUR 1.8bn with a syndicated loan made by domestic banks under more favourable conditions.

11 International reserves management

In the first six months of 2018, international reserves continued to grow. In strategic and tactical terms, international reserves management adhered to the same principles as in the previous years, with special efforts put in to adjust the structure of net reserves to a prolonged period of low and negative interest rates in the financial market and to the inflows and maturities in the net reserves portfolios in the best possible way, all in line with the objectives of reserves management. Decisions on reserves management adopted in the first six months reflect the adjustment to the new accounting standards for financial reporting. The primary objective of international reserves management remained the same, namely to ensure a high level of liquidity and safety of international reserves and generate adequate levels of earnings.

The Council of the CNB formulates the strategy and policy for international reserves management and specifies the guidelines, criteria and limits on risk exposures. In accordance with the objectives set by the Council of the CNB, the International Reserves Commission develops international reserves investment strategies and adopts tactical decisions taking into account market conditions and the primary objective of international reserves management.

The CNB manages international reserves in two ways: in line with its own guidelines and in accordance with the assumed obligations, depending on the way in which international reserves are formed. The component of international reserves acquired through purchases of foreign currency from banks and the MoF, through IMF membership and through the income derived from the investment of international reserves and other CNB assets, is managed by the CNB in line with its own guidelines (hereinafter referred to as 'net reserves').

The other component of the reserves, formed on the basis of deposits of the MoF, repo agreements with banks, foreign currency swaps in the domestic market, IMF membership and other assets owned by other legal persons, is managed by the CNB in accordance with obligations assumed.

11.1 Structure of and developments in international reserves

International reserves of the CNB stood at EUR 16,694.5m as at 30 June 2018, up by EUR 988.6m or 6.3% from the end of 2017 when they stood at EUR 15,705.9m. Over the same period, net reserves rose by EUR 936.0m, or 6.8%, from EUR 13,735.2m to EUR 14,671.2m.

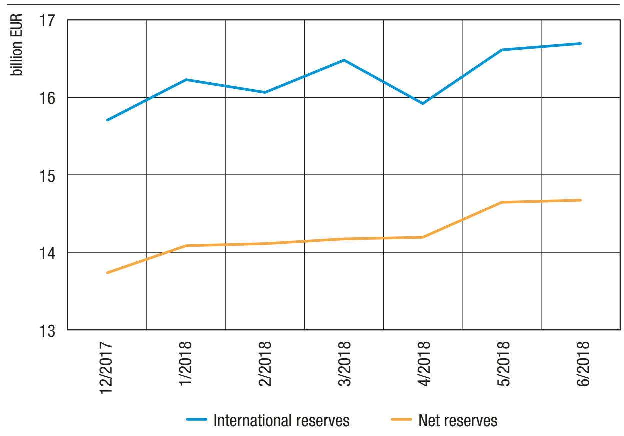
The increase in international reserves in the first six months of 2018 was brought about by the substantial purchase of foreign exchange from banks, securing the stability of the domestic currency's exchange rate, the inflow of foreign exchange to the account of the Ministry of Finance as a result of a foreign bond issue, earnings from reserves management and positive cross-currency changes caused primarily by the strengthening of the US dollar vis-a-vis the euro, which led to a rise in the value of the US dollar share of reserves in euro terms. Net purchases of foreign currency by the CNB amounted to EUR 742.0m in the first half of 2018, thus creating HRK 5.5bn. The bulk of foreign exchange transactions was accounted for by foreign currency purchases from banks (EUR 726.0m), while the remaining smaller share was accounted for by net purchases from the Ministry of Finance (EUR 16.0m).

Securities of governments and government institutions, deposits with central banks and reverse repo agreements accounted for the largest share in the structure of international reserves investment at the end of the first half of 2018.

The CNB invests funds with financial institutions and in countries with an investment grade rating; the assessment of creditworthiness is based on ratings issued by internationally recognised rating agencies (Moody's, Standard & Poor's and FitchRatings) and on an internally-developed creditworthiness assessment model.

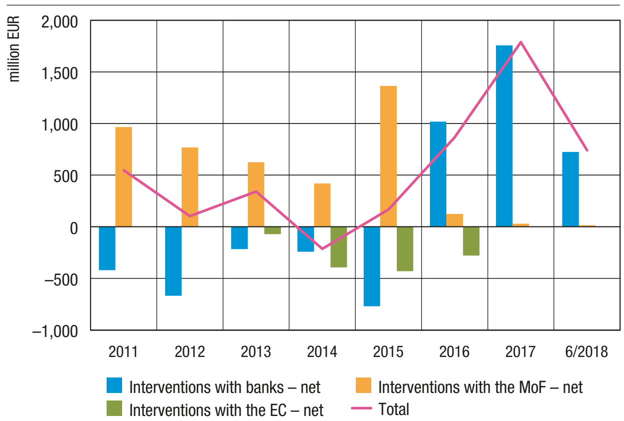
In its management of international reserves, the CNB is governed primarily by the principle of safety and applies

Figure 11.1 Monthly changes in international and net CNB reserves
in the first half of 2018



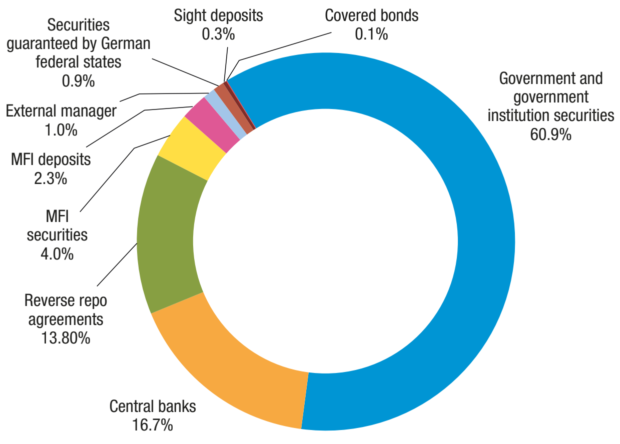
Source: CNB.

Figure 11.2 Foreign exchange interventions of the CNB with the banks, the EC and the MoF
in net amounts



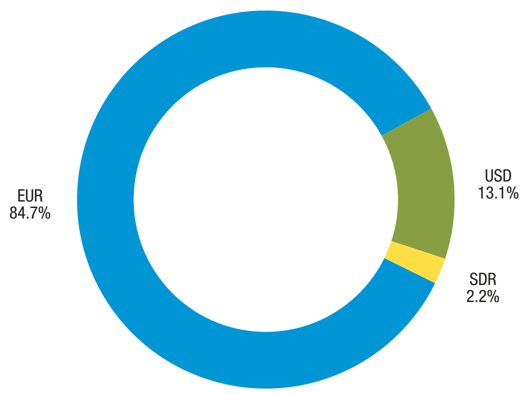
Note: Positive values refer to the purchase and negative to the sale of foreign exchange by the CNB.
Source: CNB.

Figure 11.3 Structure of international reserves investment
as at 30 June 2018



Source: CNB.

Figure 11.4 Currency structure of total international reserves
as at 30 June 2018



Source: CNB.

restrictions on investments in individual financial institutions and countries and individual instruments, which serves to diversify credit risk. At the end of June 2018, approximately 55% of the CNB international reserves were invested in countries, banks and institutions within the two highest credit rating categories or invested in the BIS and the IMF or in foreign cash in the CNB vault.

In the first six months of 2018, the currency structure of international reserves changed slightly in favour of the euro. The share of the euro thus stood at 84.7% at the end of June 2018, amounting to 83.2% at the end of 2017. Over the same period, the share of the US dollar decreased from 14.5% at the end of 2017 to 13.1%. The slightly higher share of the euro is the result of the purchase of euro through foreign exchange interventions and the higher balance of euro funds in the MoF account with the CNB as well as the decision to restrict the size of the US dollar portfolio in international reserves from end-2017. The share of SDRs in international reserves dropped slightly from 2.3% to 2.2%.

11.2 Financial markets and international reserves management results in the first half of 2018

The first half of 2018 witnessed considerable volatility in the financial markets brought about by threats of trade war and geopolitical risks and uncertainties regarding the political situation in Italy. At the same time, US monetary policy was expected to tighten further, and the ECB was expected to show the first signs of the future easing of its expansionary monetary policy.

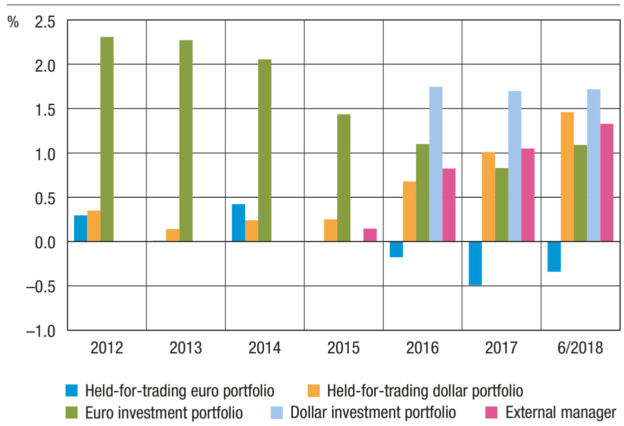
The growth in the euro area slowed down and inflation did not pick up significantly, causing the ECB gradually, patiently and carefully to announce the end of its securities purchase programme planned for the end of the current year and a possible raising of interest rates at the end of the following year. European yields remained low, with more than one third of government securities of all euro area member states still exhibiting negative yields at the end of June 2018, while the yield curve for German bonds for all maturities up to seven years was in negative territory.

On the other hand, the US economy continues to grow at a strong pace, additionally driven by expansionary fiscal measures, while due to accelerated inflation, the Fed maintained its dynamics of raising benchmark interest rates. The interest range was raised two times this year, in April and in June, each time by 25 basis points, reaching 1.75%-2.00%, with two more increases expected by the end of the year. US yields rose across the entire curve in the first six months of 2018, continuing its flattening trend.

International reserves managed by the CNB in line with its own guidelines comprise the held-for-trading portfolios, the investment portfolios, the funds entrusted to an external manager and foreign cash in the vault.

Despite the negative rates of the euro yield curve, in the first half of 2018, the rate of return on the entire euro portfolio of net reserves was 0.28% on an annual basis, while the rate of return on the entire dollar portfolio totalled 1.59% on an annual basis. If held-for-trading and investment portfolios are observed separately, the euro held-for-trading portfolio generated an annual rate of return of –0.34%, while the dollar

Figure 11.5 Annual rates of return on the CNB foreign currency portfolios from 2012 to the first half of 2018



Source: CNB.

held-for-trading portfolio generated an annual rate of return of 1.46% in the first six months of 2018. The euro-denominated investment portfolio yielded an annual rate of return of 1.09% in the observed period, while the dollar-denominated investment portfolio yielded 1.72% on an annual basis.

The held-for-trading portfolios, which account for approximately 54% of net reserves, have short average maturities and are used as a source of liquidity. Investment portfolios, which account for approximately 42% of net reserves, have a longer average maturity and serve as a source of more stable long-term income.

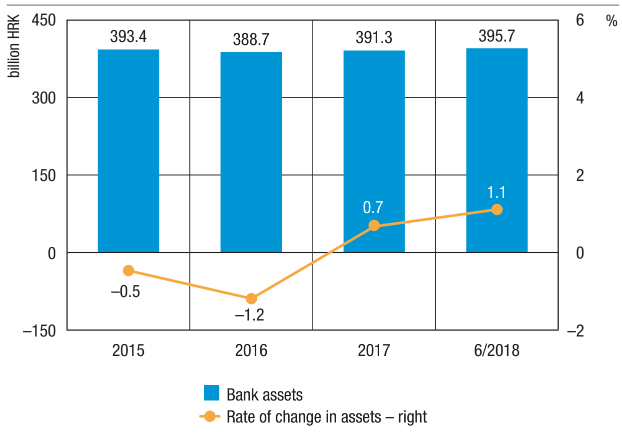
In the first six months of 2018, the annual rate of return on the US dollar funds entrusted for management to an international financial institution was 1.33%. The funds entrusted for management to an external manager enabled additional diversification and exchange of knowledge in the area of financial investment management.

In the first six months of 2018, net reserves investments generated a total income of EUR 33.1m or HRK 245.4m.

12 Business operations of credit institutions

At the end of June 2018, there were 27 credit institutions operating in the Republic of Croatia: 23 banks and four housing savings banks, i.e. three credit institutions fewer than at the end of 2017. The years-long trend towards the decrease in the number of credit institutions continued in the observed period with bankruptcy proceedings being opened against the only savings bank, voluntary winding-up proceedings being initiated against one bank and one housing savings bank merging with its parent bank.[5] In addition to domestic credit institutions, one branch of an EU credit institution operated in Croatia, while almost 150 institutions from the EU (and the EEA[6]) notified the CNB of the direct provision of mutually recognised services.[7]

Figure 12.1 Bank assets



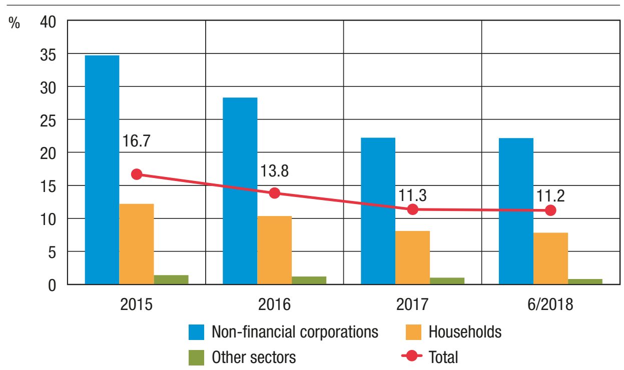
Source: CNB.

12.1 Banks

In the first half of 2018, the assets of banks increased by 1.1% or 0.4% if the effect of the merger of the housing savings bank is excluded. Lending activity intensified, particularly in the second quarter, while on the liability side of the balance sheet, deposits grew noticeably, particularly those of households and majority foreign owners. Such developments were mitigated by the effects of IFRS 9 adoption, dividend payments and the sale of claims. The sale of non-performing claims continued, although the volume of non-performing claims sold was slightly smaller than in 2017. In the first half of 2018, banks sold almost HRK 2.0bn of balance sheet claims, by which their assets were reduced by HRK 0.8bn, which was the net value of sold claims. During the observed period, HRK 1.1bn was paid as dividends, with higher amounts to be paid as dividends from the previous years by the end of 2018. Due to the initial application of IFRS 9, banks recorded a HRK 1.4bn worth of losses in capital on the first day of 2018, primarily caused by increases in impairment of balance sheet exposures.[8] Unfavourable effects of the introduction of IFRS 9 and dividend payments were mainly offset by good business results, resulting in stagnating balance sheet capital of banks.

The improvement in the quality of total credit risk exposure is primarily a result of changes in methodology, i.e. of an increase in exposures classified in the portfolio of assets measured at fair value through other comprehensive income (equivalent to the previously applied portfolio of financial assets available for sale), which mainly comprises high-quality exposures in the form of central government securities. The share of B and C risk category exposures in total exposure thus dropped from 8.5% at the end of 2017 to 7.7% at the end of the first half of 2018. Loans classified into B and C risk categories grew under the influence of stricter rules introduced at the beginning of 2018, i.e. due to the application of new subordinate legislation on the classification of exposures, particularly the provisions according to which exposures to clients in default cannot be classified into risk category A, provisions related to the pulling effect[9] and the provisions on the three-month probation

Figure 12.2 Share of risk category B and C loans in total loans of banks



Note: In the period up to (including) 2017, risk category B and C loans and impairment were governed by the Decision on the classification of placements and off-balance sheet liabilities of credit institutions (OG 41A/2014 and 28/2017, IAS 39), while since 2018 they have been regulated by the Decision on the classification of exposures into risk categories and the method of determining credit losses (OG 114/2017, IFRS 9).
Source: CNB.

5 Bankruptcy proceedings were opened against Tesla štedna banka d.d. on 30 March 2018. Winding-up proceedings were initiated against Primorska banka d.d. on 21 June 2018. Prva stambena štedionica d.d. merged with Zagrebačka banka d.d. on 1 June 2018.

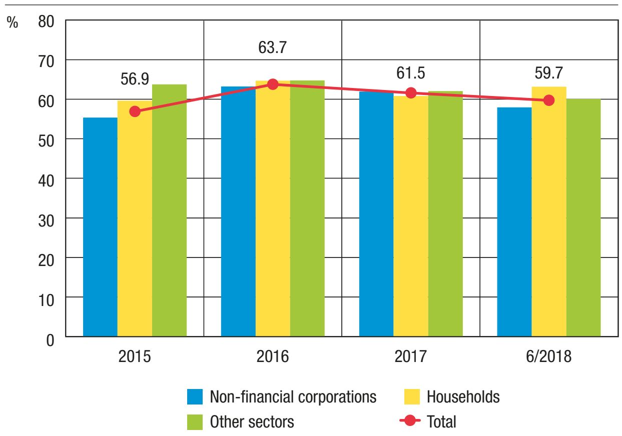
6 The European Economic Area consists of EU member states and Norway, Iceland and Liechtenstein.

7 Updated information on credit institutions operating in the territory of the Republic of Croatia may be found here.

8 As of 2018, IAS 39 has been replaced by IFRS 9 and a new regulation on the classification of bank exposures is being applied – Decision on the classification of exposures into risk categories and the method of determining credit losses (OG 114/2017). For more information on the initial application of IFRS 9 in Croatian credit institutions, see Banks Bulletin 31

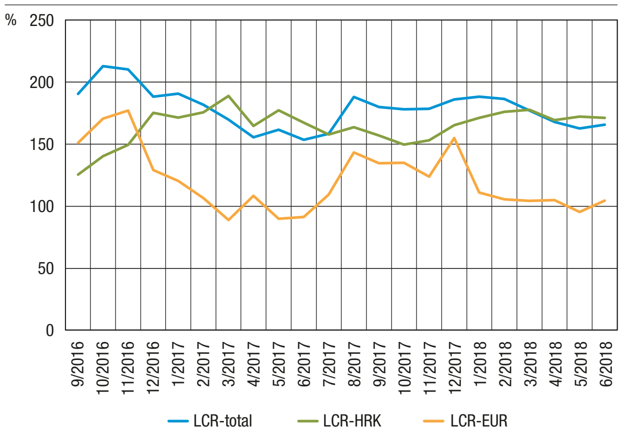
9 Instead of assessing the occurrence of default at debtor level, credit institutions may opt for performing such an assessment based on an individual product for retail exposures. In that case, if balance sheet exposures in default account for over 20% of all balance sheet exposures to that debtor, all exposures to that debtor are considered to be in default and have to be classified into risk category B or C.

Figure 12.3 Coverage of B and C risk category loans by impairment



Note: See note in Figure 12.2.
Source: CNB.

Figure 12.4 Liquidity coverage ratio (LCR)



Source: CNB.

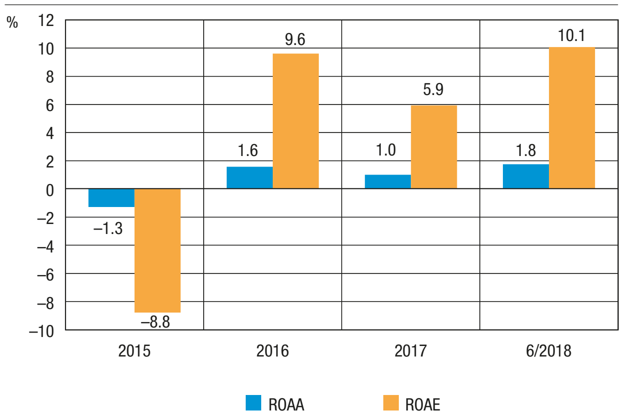
period necessary to re-classify an exposure into risk category A[10]. However, thanks to new lending activity[11] and the sale of claims, the share of B and C risk category loans in total loans dropped slightly, from 11.3% to 11.2%. The improvement in loan quality was seen in both most important sectors. In the non-financial corporate sector, the improvement was small – the share of B and C risk category loans fell from 22.2% to 22.1%. Construction remained the most risky activity, with a share of B and C risk category loans of 53.5% despite the substantial sale of non-performing claims. In the household sector, the share of B and C risk category loans went down from 8.1% to 7.8%, mainly under the influence of an improvement in the quality of housing loans. The share of B and C risk category loans increased to 6.3% in general-purpose cash loans, exceeding the indicator for housing loans (5.9%).

The fall in the coverage of B and C risk category loans by impairment (reflecting the level of losses recognised for such loans), which began in 2017, continued into the first half of 2018. The indicator dropped to 59.7%, returning to the level recorded in June 2016. Such developments were brought about by the sale of claims with above-average coverage and by the inflow of new loans with collection difficulties, where the level of losses is still low.

Bank liquidity reserves were high, with the high level of the liquidity coverage ratio pointing to significant surpluses available to banks for covering liquidity needs even under stress conditions. At the end of the first half of 2018, LCR stood at 165.6% and all banks implemented it in its full scope, with the LCR exceeding the prescribed minimum.[12]

The profit from continuing operations (before tax) amounted to HRK 3.5bn, up by 180% from the first half of 2017. The surge in profits is mainly due to high expenses on impairment and provisions for claims on the Agrokor Group in the first half of 2017, while in the same period in 2018, these expenses were several times lower. Therefore, the reduction of total expenses on impairment and provisions of slightly more than 80% was the main cause of the increase in profits. The most significant item of the income statement, net interest income, fell (4.5%) in spite of the still strong effects of savings on interest expenses. This was due to the stronger effect of a decrease in interest income, caused by a fall in interest income from loans to the road sector (public enterprises from the road sector included in the general government sector made an early repayment of substantial loan amounts in November 2017 as a part of their operational and financial restructuring and refinanced their debt with banks under favourable conditions in April 2018) and lower interest income from the Agrokor Group. Increased net income from fees and commissions (1.1%), primarily based on credit card transactions, and slightly lower operating costs had a favourable effect on the business performance in the first half of 2018. Under the influence of lower risk costs, profitability indicators, the return on average assets (ROAA) and the return on average equity

Figure 12.5 Bank return on average assets (ROAA) and return on average equity (ROAE)



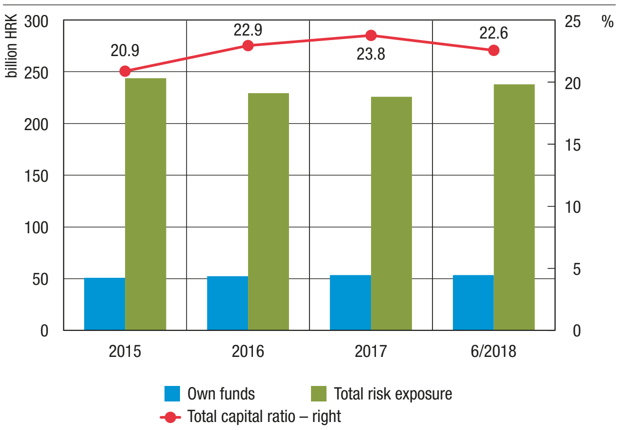
Source: CNB.

10 Exceptionally, in the case of restructured exposures, the probation period amounts to at least 12 months.
11 For more information on private sector financing, see Chapter 7.
12 The LCR is calculated as a ratio of the liquidity buffer and net liquidity outflow during a 30-day stress period. The implementation of the LCR in its full scope of 100% started in 2018.

(ROAE), grew to 1.8% and 10.1% respectively. The last time profitability indicators had higher semi-annual values was in June 2008, that is, before earnings dropped under the effects of the crisis and various regulatory measures (such as changes in regulations governing the classification of exposures, AQR[13] and measures aimed at mitigating the position of debtors with loans in the Swiss franc). Operating profitability, measured by the ratio of net operating income before impairment and provisions to average assets, remained at the high level of 2.0% recorded at the end of the first half of 2017. Four banks operated with losses, and two were operationally non-profitable at the same time, that is, their operating income was not sufficient to cover their general operating expenses.

The long-standing trend towards the increase in the total capital ratio ended[14], with the ratio falling from 23.8% at the end of 2017 to 22.6% at the end of the first half of 2018. The drop may primarily be attributed to changes in the weighting of exposures to the central government and the related increase in risk exposure. According to regulations, a preferential risk weight of 0% was applied until the end of 2017 to exposures to central governments and central banks of EU member states that were not denominated and financed in foreign currencies of respective member states, while as of 2018, a risk weight depending on the credit rating has been applied. For exposures of domestic banks to the Republic of Croatia denominated in a currency other than the kuna, this implies a risk weight increase to 20% in 2018[15]. This change contributed the most to the rise in the average credit risk weight and increased credit risk exposure. Total risk exposure, i.e. the denominator in the calculation of the total capital ratio, increased by 5.3%, while own funds (the numerator) remained the same. The effect of IFRS 9 application in own funds was neutralised by the inclusion of unrealised gains on assets measured at fair value (which were excluded from own funds until the end of 2017) and the application of measures mitigating the impact of the introduction of IFRS 9 on own funds[16]. In the second quarter of 2018, total capital ratio decreased due to stronger lending activity, particularly to non-financial corporations. Since risk exposure grew, unused own funds of banks decreased noticeably in the first half of 2018 (by 13.3%, to 29.6% of total own funds) because of an increase in capital requirements for the total capital ratio and the related rise in other capital requirements. Nevertheless, the system remained very highly capitalised, as witnessed by the total capital ratio calculated in an unlikely unfavourable scenario of complete irrecoverability of B and C risk category exposures (18.0%), as well as by a very high leverage ratio[17] (12.2%).

Figure 12.6 Bank total capital ratio



Source: CNB.

12.2 Housing savings banks

The assets of housing savings banks decreased by one third, mainly due to the exit of one housing savings bank from the system. If that effect is excluded, assets stagnated. Lending activity held steady as well, while loan portfolio quality remained very good, with B and C risk category loans amounting to 1.6% of total loans. Profits dropped substantially, mainly due to the base period effect, i.e. the income from the sale of RC bonds in the first half of 2017. Profitability indicators deteriorated as well – ROAA stood at only 0.2%, whereas ROAE was 1.9%. One housing savings bank operated at a loss, and was at the same time operationally non-profitable. Total capital ratio declined to 25.1% because of a noticeable rise in risk exposure, particularly to market risks.

13 The AQR is the asset quality review of European banks as at 31 December 2013 conducted in 2014 by the European Central Bank (ECB) and the European Banking Authority (EBA) in cooperation with national supervisors. For more information on AQR, see Banks Bulletin 27, Banks Bulletin 28 and CNB's press release.

14 Total capital ratio began to increase in 2009, after which it was interrupted only in 2015 under the effect of losses deriving from the application of legislation regarding the conversion of Swiss franc loans into euro loans.

15 In the transitional period, in 2018 and 2019, a weight constituting 20% or 50% of the risk weight calculated based on the central government's credit rating is applied to such exposures (the full application of the risk weight calculated based on credit rating is set to begin in 2020). Croatia currently has a credit rating corresponding to credit quality step 4, which implies a risk weight of 100%. However, in the transitional period, if the credit rating remains the same, a 20% or a 50% risk weight is applied. A preferential risk weight of 0% will continue to be applied to exposures to the Republic of Croatia denominated in kuna.

16 In the transitional period lasting until 2022, credit institutions may gradually recognise the effects of the introduction of IFRS 9 in their own funds, provided they have previously notified the CNB. Within the time limit set for this purpose (until 1 February 2018), the CNB received such notifications from ten banks and one housing savings bank.

17 The leverage ratio is a simple and non-risky measure of capital adequacy which supplements capital ratio measures (in which exposure enters the denominator weighted by credit risk, depending on the degree of risk). The minimum ratio level is still not defined, but the current regulation proposal sets it at 3%.

Table 12.1 Ownership structure of banks and their share in total bank assets

end of period

	Dec. 2016		Dec. 2017		Jun. 2018	
	Number of banks	Share	Number of banks	Share	Number of banks	Share
Domestic ownership	11	10.3	10	9.9	10	9.9
Domestic private ownership	8	4.0	7	3.7	7	3.6
Domestic state ownership	3	6.3	3	6.1	3	6.3
Foreign ownership	15	89.7	15	90.1	13	90.1
Total	**26**	**100.0**	**25**	**100.0**	**23**	**100.0**

Source: CNB.

Table 12.2 Structure of bank assets

end of period, in million HRK and %

	Dec. 2016		Dec. 2017			Jun. 2018		
	Amount	Share	Amount	Share	Change	Amount	Share	Change
Cash, cash balances at central banks and other demand deposits	56,355.2	14.5	70,735.5	18.1	25.5	56,439.3	14.3	–20.2
Cash on hand	7,706.9	2.0	8,440.2	2.2	9.5	10,545.9	2.7	24.9
Cash balances at central banks	48,648.2	12.5	62,295.3	15.9	28.1	37,130.9	9.4	–40.4
Other demand deposits	....	....	....	....	....	8,762.5	2.2	–
Financial assets held for trading	6,153.1	1.6	3,297.5	0.8	–46.4	3,612.7	0.9	9.6
Derivatives	2,648.2	0.7	1,071.4	0.3	–59.5	1,202.6	0.3	12.2
Equity instruments	82.5	0.0	74.4	0.0	–9.8	162.7	0.0	118.7
Debt securities	3,422.3	0.9	2,151.7	0.5	–37.1	2,247.3	0.6	4.4
Loans and advances	0.0	0.0	0.0	0.0	–	0.0	0.0	–
Non-trading financial assets mandatorily at fair value through profit or loss	6,062.9	1.6	2,121.0	0.5	–65.0	763.5	0.2	–64.0
Equity instruments	6.4	0.0	1.8	0.0	–72.0	642.4	0.2	35,811.1
Debt securities	6,056.6	1.6	2,119.2	0.5	–65.0	0.0	0.0	–100.0
Loans and advances	0.0	0.0	0.0	0.0	–	121.1	0.0	–
Financial assets at fair value through profit or loss	....	....	....	....	....	363.7	0.1	–
Debt securities	....	....	....	....	....	363.7	0.1	–
Loans and advances	....	....	....	....	....	0.0	0.0	–
Financial assets at fair value through other comprehensive income	39,753.3	10.2	45,591.8	11.7	14.7	47,340.6	12.0	3.8
Equity instruments	544.9	0.1	608.3	0.2	11.6	661.3	0.2	8.7
Debt securities	39,208.3	10.1	44,983.5	11.5	14.7	46,679.2	11.8	3.8
Loans and advances	0.0	0.0	0.0	0.0	–	0.2	0.0	–
Financial assets at amortised cost	267,423.0	68.8	252,017.8	64.4	–5.8	270,272.1	68.3	7.2
Debt securities	8,671.0	2.2	4,823.6	1.2	–44.4	3,435.6	0.9	–28.8
Loans and advances	258,751.9	66.6	247,194.2	63.2	–4.5	266,836.4	67.4	7.9
Derivatives – hedge accounting	10.8	0.0	0.0	0.0	–100.0	0.6	0.0	–
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0.0	0.0	0.0	0.0	–	3.9	0.0	–
Investments in subsidiaries, joint ventures and associates	4,365.7	1.1	8,794.7	2.2	101.4	8,605.8	2.2	–2.1
Tangible assets	5,230.8	1.3	4,923.0	1.3	–5.9	4,149.8	1.0	–15.7
Property, plant and equipment	4,964.2	1.3	4,633.3	1.2	–6.7	3,909.8	1.0	–15.6
Investment property	266.6	0.1	289.7	0.1	8.7	239.9	0.1	–17.2
Intangible assets	1,211.4	0.3	1,186.6	0.3	–2.0	1,151.7	0.3	–2.9
Goodwill	74.1	0.0	74.1	0.0	0.0	74.1	0.0	0.0
Other intangible assets	1,137.4	0.3	1,112.6	0.3	–2.2	1,077.6	0.3	–3.1

	Dec. 2016		Dec. 2017			Jun. 2018		
	Amount	Share	Amount	Share	Change	Amount	Share	Change
Tax assets	1,166.9	0.3	1,396.0	0.4	19.6	1,051.8	0.3	–24.7
Current tax assets	229.9	0.1	525.0	0.1	128.3	280.7	0.1	–46.5
Deferred tax assets	936.9	0.2	871.0	0.2	–7.0	771.0	0.2	–11.5
Other assets	575.2	0.1	491.6	0.1	–14.5	1,484.3	0.4	201.9
Non-current assets and disposal groups classified as held for sale	413.5	0.1	780.8	0.2	88.8	442.7	0.1	–43.3
Total assets	**388,721.9**	**100.0**	**391,336.4**	**100.0**	**0.7**	**395,682.6**	**100.0**	**1.1**

Notes: As of 2018, the source of data on bank assets have been the data obtained within the statistical and prudential reporting system, compiled according to the F 01.01 form of the Commission Implementing Regulation (EU) No 680/2014. Based on the economic and accounting essence of each item, the data for previous periods have been adjusted to the asset structure envisaged in the mentioned form. It should be noted that the comparison of data is limited, to an extent, due to methodological differences.
Source: CNB.

Table 12.3 Structure of bank liabilities and equity

end of period, in million HRK and %

	Dec. 2016		Dec. 2017			Jun. 2018		
	Amount	Share	Amount	Share	Change	Amount	Share	Change
Financial liabilities held for trading	2,261.2	0.6	932.3	0.2	–58.8	1,028.9	0.3	10.4
Derivatives	2,261.2	0.6	932.3	0.2	–58.8	1,028.9	0.3	10.4
Short positions	0.0	0.0	0.0	0.0	–	0.0	0.0	–
Deposits	....	....	....	....	....	0.0	0.0	–
Issued debt securities	....	....	....	....	....	0.0	0.0	–
Other financial liabilities	0.0	0.0	0.0	0.0	–	0.0	0.0	–
Financial liabilities at fair value through profit or loss	0.0	0.0	0.0	0.0	–	0.0	0.0	–
Financial liabilities measured at amortised cost	324,827.5	83.6	323,870.5	82.8	–0.3	330,394.2	83.5	2.0
Deposits	324,347.7	83.4	323,316.4	82.6	–0.3	326,935.8	82.6	1.1
Issued debt securities	355.5	0.1	430.4	0.1	21.1	633.0	0.2	47.1
Other financial liabilities	124.3	0.0	123.7	0.0	–0.5	2,825.4	0.7	2,184.0
Derivatives – hedge accounting	9.9	0.0	4.3	0.0	–57.0	7.1	0.0	66.6
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0.0	0.0	0.0	0.0	–	0.0	0.0	–
Provisions	2,243.1	0.6	2,469.6	0.6	10.1	2,362.0	0.6	–4.4
Pensions and other post employment defined benefit obligations	10.9	0.0	13.9	0.0	27.5	13.5	0.0	–2.7
Other long-term employee benefits	349.2	0.1	272.9	0.1	–21.9	249.3	0.1	–8.6
Restructuring	15.8	0.0	166.7	0.0	957.3	174.3	0.0	4.5
Pending legal issues and tax litigation	482.8	0.1	594.6	0.2	23.2	593.5	0.2	–0.2
Commitments and guarantees given	1,147.4	0.3	1,258.2	0.3	9.7	1,149.6	0.3	–8.6
Other provisions	237.0	0.1	163.3	0.0	–31.1	181.7	0.0	11.3
Tax liabilities	726.8	0.2	581.7	0.1	–20.0	219.1	0.1	–62.3
Current tax liabilities	669.3	0.2	488.4	0.1	–27.0	160.1	0.0	–67.2
Deferred tax liabilities	57.6	0.0	93.3	0.0	62.1	59.0	0.0	–36.8
Other liabilities	3,801.6	1.0	5,295.5	1.4	39.3	3,706.2	0.9	–30.0
Liabilities included in disposal groups classified as held for sale	0.0	0.0	0.0	0.0	–	9.8	0.0	–
Total liabilities	**333,870.1**	**85.9**	**333,153.9**	**85.1**	**–0.2**	**337,727.3**	**85.4**	**1.4**
Capital	25,584.9	6.6	26,064.7	6.7	1.9	25,994.7	6.6	–0.3
Paid up capital	25,584.9	6.6	26,064.7	6.7	1.9	25,994.7	6.6	–0.3
Unpaid capital which has been called up	....	....	....	....	....	0.0	0.0	–
Share premium	8,592.5	2.2	8,531.1	2.2	–0.7	8,523.1	2.2	–0.1
Equity instruments issued other than capital	0.0	0.0	0.0	0.0	–	0.0	0.0	–

	Dec. 2016		Dec. 2017			Jun. 2018		
	Amount	Share	Amount	Share	Change	Amount	Share	Change
Other equity	....	....	....	....	....	0.1	0.0	–
Accumulated other comprehensive income	863.8	0.2	1,175.6	0.3	36.1	1,042.1	0.3	–11.4
Retained earnings	11,222.1	2.9	15,473.6	4.0	37.9	15,636.8	4.0	1.1
Other reserves	3,653.0	0.9	3,685.6	0.9	0.9	3,936.9	1.0	6.8
Reserves or accumulated losses of investments in subsidiaries, joint ventures and associates accounted for using the equity method	....	....	....	....	....	0.0	0.0	–
Other	3,653.0	0.9	3,685.6	0.9	0.9	3,936.9	1.0	6.8
(–) Treasury shares	–95.8	0.0	–96.1	0.0	0.2	–101.4	0.0	5.6
Profit or loss attributable to owners of the parent	5,031.3	1.3	3,348.0	0.9	–33.5	2,923.0	0.7	–12.7
(–) Interim dividends	....	....	....	....	....	0.0	0.0	–
Minority interests [Non-controlling interests]	0.0	0.0	0.0	0.0	–	0.0	0.0	–
Total equity	**54,851.8**	**14.1**	**58,182.5**	**14.9**	**6.1**	**57,955.3**	**14.6**	**–0.4**
Total liabilities and total equity	**388,721.9**	**100.0**	**391,336.4**	**100.0**	**0.7**	**395,682.6**	**100.0**	**1.1**

Notes: As of 2018, the source of data on bank liabilities and equity have been the data obtained within the statistical and prudential reporting system, compiled according to the F 01.02 and F 01.03 forms of the Commission Implementing Regulation (EU) No 680/2014. Based on the economic and accounting essence of each item, the data for previous periods have been adjusted to the structure of liabilities and equity envisaged in the mentioned form. It should be noted that the comparison of data is limited, to an extent, due to methodological differences.
Source: CNB.

Table 12.4 Bank income statement

in reference periods, in million HRK and %

	Amount		Change
	Jan. – Jun. 2017	Jan. – Jun. 2018	
Interest income	7,604.0	6,724.3	–11.6
Financial assets held for trading	728.3	595.8	–18.2
Non-trading financial assets mandatorily at fair value through profit or loss	27.6	4.0	–85.6
Financial assets at fair value through profit or loss	0.0	6.4	–
Financial assets at fair value through other comprehensive income	355.7	317.4	–10.8
Financial assets at amortised cost	6,460.0	5,764.3	–10.8
Derivatives – hedge accounting, interest rate risk	0.1	0.9	514.2
Other assets	32.2	25.8	–19.8
Interest income on liabilities	0.0	9.8	–
(Interest expenses)	2,095.7	1,465.9	–30.1
(Financial liabilities held for trading)	672.3	552.4	–17.8
(Financial liabilities designated at fair value through profit or loss)	0.0	0.0	–
(Financial liabilities measured at amortised cost)	1,390.4	860.8	–38.1
(Derivatives – hedge accounting, interest rate risk)	1.1	3.3	199.0
(Other liabilities)	31.9	14.1	–55.9
(Interest expense on assets)	0.0	35.3	–
Net interest income	**5,508.3**	**5,258.4**	**–4.5**
Dividend income	**270.7**	**184.6**	**–31.8**
Fee and commission income	2,243.2	2,325.8	3.7
(Fee and commission expenses)	591.7	655.7	10.8
Net fee and commission income	**1,651.5**	**1,670.1**	**1.1**
Gains (losses)	**446.6**	**753.3**	**68.7**
Other operating income	321.3	161.7	–49.7
(Other operating expenses)	605.7	520.3	–14.1
Total operating income, net	**7,592.7**	**7,507.8**	**–1.1**

	Amount		Change
	Jan. – Jun. 2017	Jan. – Jun. 2018	
(Administrative expenses)	3,324.8	3,285.0	–1.2
(Staff expenses)	1,931.2	1,915.6	–0.8
(Other administrative expenses)	1,393.6	1,369.4	–1.7
(Depreciation)	370.2	349.4	–5.6
Administrative expenses and depreciation	**3,694.9**	**3,634.4**	**–1.6**
Modification gains (–) losses, net	0.0	–14.7	–
Operating profit	**3,897.8**	**3,858.8**	**–1.0**
(Provisions or (–) reversal of provisions)	42.8	9.5	–77.9
(Commitments and guarantees given)	15.9	–48.1	–
(Other provisions)	27.0	57.5	113.4
(Impairment or (–) reversal of impairment on financial assets not measured at fair value through profit or loss)	2,567.9	449.7	–82.5
(Financial assets at fair value through other comprehensive income)	4.8	–6.5	–
(Financial assets at amortised cost)	2,563.1	456.2	–82.2
(Impairment or (–) reversal of impairment of investments in subsidiaries, joint ventures and associates)	17.7	29.7	68.2
(Impairment or (–) reversal of impairment on non–financial assets)	49.7	–3.8	–
Impairment and provisions	**2,678.0**	**485.1**	**–81.9**
Negative goodwill recognised in profit or loss	0.0	0.0	–
Share of the profit or (–) loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	0.0	40.4	–
Profit or (–) loss from non–current assets and disposal groups classified as held for sale not qualifying as discontinued operations	22.0	43.0	95.8
Profit or (–) loss before tax from continuing operations	**1,241.7**	**3,457.0**	**178.4**
(Tax expense or (–) income related to profit or loss from continuing operations)	253.1	532.8	110.5
Profit or (–) loss after tax from continuing operations	**988.6**	**2,924.2**	**195.8**
Profit or (–) loss after tax from discontinued operations	0.0	–1.2	–
Profit or (–) loss before tax from discontinued operations	0.0	–1.2	–
(Tax expense or (–) income related to discontinued operations)	0.0	0.0	–
Profit (loss) for the year	**988.6**	**2,923.0**	**195.7**

Notes: As of 2018, the source of data on the bank income statement have been the data obtained within the statistical and prudential reporting system, compiled according to the F 02.00 form of the Commission Implementing Regulation (EU) No 680/2014. Based on the economic and accounting essence of each item, the data for previous periods have been adjusted to the income statement structure envisaged in the mentioned form. It should be noted that the comparison of data is limited, to an extent, due to methodological differences.
Source: CNB.

Table 12.5 Distribution of total bank exposure by risk categories

end of period, in million HRK and %

Risk (sub) category	Dec. 2016			Dec. 2017			Jun. 2018		
	Total exposure	Impairment and provisions	Coverage (%)	Total exposure	Impairment and provisions	Coverage (%)	Total exposure	Impairment and provisions	Coverage (%)
A	365,032.2	3,344.5	0.9	363,088.8	3,148.2	0.9	413,589.7	3,942.7	1.0
A-1	....	....	....	....	....	....	389,911.6	2,554.9	0.7
A-2	....	....	....	....	....	....	23,678.1	1,387.8	5.9
B	28,608.9	14,274.1	49.9	26,151.7	13,254.0	50.7	26,226.5	12,881.5	49.1
B-1	8,411.0	1,185.9	14.1	7,751.3	963.9	12.4	8,639.2	874.1	10.1
B-2	12,168.7	6,488.8	53.3	9,908.0	5,322.0	53.7	8,680.7	4,421.5	50.9
B-3	8,029.2	6,599.4	82.2	8,492.3	6,968.1	82.1	8,906.6	7,585.8	85.2
C	10,691.5	10,693.2	100.0	7,685.9	7,686.2	100.0	8,116.4	8,106.1	99.9
Total	**404,332.6**	**28,311.7**	**7.0**	**396,926.3**	**24,088.4**	**6.1**	**447,932.7**	**24,930.3**	**5.6**

Note: For the period up to (including) 2017, impairment, provisions and distribution of exposure were prescribed by the Decision on the classification of placements and off-balance sheet liabilities of credit institutions (OG 41A/2014 and 28/2017, IAS 39), while as of 2018, they have been governed by the Decision on the classification of exposures into risk categories and the method of determining credit losses (OG 114/2017, IFRS 9).
Source: CNB.

Table 12.6 Bank loans

end of period, in million HRK and %

	Dec. 2016		Dec. 2017			Jun. 2018		
	Amount	Share	Amount	Share	Change	Amount	Share	Change
Loans								
General government	50,997.2	19.5	39,883.9	16.2	–21.8	40,969.2	16.3	2.7
Non-financial corporations	83,378.8	31.9	81,808.3	33.3	–1.9	83,702.4	33.2	2.3
Construction	9,945.0	3.8	7,626.9	3.1	–23.3	7,295.5	2.9	–4.3
Information and communication	1,769.0	0.7	1,540.8	0.6	–12.9	1,542.9	0.6	0.1
Agriculture	4,972.0	1.9	5,245.7	2.1	5.5	4,960.5	2.0	–5.4
Real estate activities	6,009.9	2.3	5,358.2	2.2	–10.8	5,546.9	2.2	3.5
Manufacturing	19,245.0	7.4	18,849.0	7.7	–2.1	18,773.9	7.5	–0.4
Transportation and storage	3,057.1	1.2	3,055.4	1.2	–0.1	3,125.9	1.2	2.3
Accommodation and food service activities	8,530.8	3.3	9,923.7	4.0	16.3	10,983.5	4.4	10.7
Professional, scientific and technical activities	4,865.8	1.9	5,059.6	2.1	4.0	5,619.3	2.2	11.1
Trade	16,364.2	6.3	15,535.6	6.3	–5.1	15,990.7	6.3	2.9
Other activities	8,619.9	3.3	9,613.5	3.9	11.5	9,863.3	3.9	2.6
Households	113,246.0	43.4	114,531.7	46.6	1.1	118,531.9	47.1	3.5
General-purpose cash loans	40,734.7	15.6	42,940.9	17.5	5.4	45,692.3	18.1	6.4
Mortgage loans	2,207.0	0.8	1,940.5	0.8	–12.1	1,866.7	0.7	–3.8
Credit card loans	3,607.9	1.4	3,528.9	1.4	–2.2	3,625.4	1.4	2.7
Investment loans	2,326.3	0.9	2,314.2	0.9	–0.5	2,400.2	1.0	3.7
Overdrafts	7,422.1	2.8	6,993.3	2.8	–5.8	7,207.9	2.9	3.1
Housing loans	48,236.0	18.5	48,439.3	19.7	0.4	49,520.6	19.7	2.2
Other household loans	8,712.0	3.3	8,374.6	3.4	–3.9	8,218.8	3.3	–1.9
Other sectors	13,577.6	5.2	9,641.3	3.9	–29.0	8,669.9	3.4	–10.1
Total	**261,199.5**	**100.0**	**245,865.3**	**100.0**	**–5.9**	**251,873.4**	**100.0**	**2.4**
B and C risk category loans								
General government	8.6	0.0	7.9	0.0	–8.1	4.6	0.0	–41.8
Non-financial corporations	23,586.3	65.4	18,172.4	65.1	–23.0	18,526.6	65.7	1.9

	Dec. 2016		Dec. 2017			Jun. 2018		
	Amount	Share	Amount	Share	Change	Amount	Share	Change
Construction	6,534.3	18.1	4,226.7	15.2	–35.3	3,903.7	13.9	–7.6
Information and communication	925.6	2.6	296.7	1.1	–67.9	267.1	0.9	–10.0
Agriculture	640.9	1.8	596.7	2.1	–6.9	539.4	1.9	–9.6
Real estate activities	2,154.0	6.0	1,388.5	5.0	–35.5	1,427.8	5.1	2.8
Manufacturing	4,814.3	13.4	3,582.9	12.8	–25.6	3,373.4	12.0	–5.8
Transportation and storage	338.1	0.9	473.0	1.7	39.9	434.7	1.5	–8.1
Accommodation and food service activities	1,333.1	3.7	1,294.8	4.6	–2.9	1,048.9	3.7	–19.0
Professional, scientific and technical activities	1,318.7	3.7	988.2	3.5	–25.1	1,314.7	4.7	33.0
Trade	4,646.5	12.9	3,435.9	12.3	–26.1	3,032.5	10.8	–11.7
Other activities	880.8	2.4	1,889.0	6.8	114.5	3,184.4	11.3	68.6
Households	11,699.9	32.5	9,230.1	33.1	–21.1	9,258.3	32.9	0.3
General-purpose cash loans	3,062.8	8.5	2,560.1	9.2	–16.4	2,863.0	10.2	11.8
Mortgage loans	664.4	1.8	520.1	1.9	–21.7	493.3	1.8	–5.2
Credit card loans	116.4	0.3	80.4	0.3	–30.9	91.8	0.3	14.2
Investment loans	510.9	1.4	386.9	1.4	–24.3	359.3	1.3	–7.1
Overdrafts	741.5	2.1	416.5	1.5	–43.8	441.6	1.6	6.0
Housing loans	3,941.7	10.9	2,990.4	10.7	–24.1	2,919.9	10.4	–2.4
Other household loans	2,662.3	7.4	2,275.8	8.2	–14.5	2,089.4	7.4	–8.2
Other sectors	750.7	2.1	484.1	1.7	–35.5	388.4	1.4	–19.8
Total	**36,045.4**	**100.0**	**27,894.5**	**100.0**	**–22.6**	**28,177.9**	**100.0**	**1.0**
B and C risk category loans impairment								
General government	3.7	0.0	2.2	0.0	–40.1	2.6	0.0	16.4
Non-financial corporations	14,912.5	64.9	11,250.5	65.5	–24.6	10,731.8	63.8	–4.6
Construction	4,405.2	19.2	3,058.9	17.8	–30.6	2,858.0	17.0	–6.6
Information and communication	527.6	2.3	159.1	0.9	–69.8	123.0	0.7	–22.7
Agriculture	390.8	1.7	356.2	2.1	–8.8	358.7	2.1	0.7
Real estate activities	1,364.8	5.9	772.0	4.5	–43.4	779.4	4.6	1.0
Manufacturing	2,903.7	12.6	2,186.0	12.7	–24.7	2,220.2	13.2	1.6
Transportation and storage	186.7	0.8	173.4	1.0	–7.1	148.2	0.9	–14.6
Accommodation and food service activities	615.7	2.7	586.0	3.4	–4.8	421.0	2.5	–28.1
Professional, scientific and technical activities	813.6	3.5	615.7	3.6	–24.3	592.3	3.5	–3.8
Trade	3,152.4	13.7	2,252.0	13.1	–28.6	2,117.2	12.6	–6.0
Other activities	551.9	2.4	1,091.3	6.4	97.7	1,114.0	6.6	2.1
Households	7,566.7	32.9	5,611.1	32.7	–25.8	5,844.8	34.8	4.2
General-purpose cash loans	2,138.3	9.3	1,736.1	10.1	–18.8	1,875.1	11.2	8.0
Mortgage loans	396.7	1.7	320.9	1.9	–19.1	324.6	1.9	1.2
Credit card loans	107.9	0.5	65.4	0.4	–39.4	66.3	0.4	1.4
Investment loans	346.5	1.5	275.1	1.6	–20.6	267.5	1.6	–2.8
Overdrafts	697.9	3.0	379.0	2.2	–45.7	361.7	2.2	–4.5
Housing loans	2,506.4	10.9	1,759.2	10.2	–29.8	1,824.2	10.9	3.7
Other household loans	1,373.0	6.0	1,075.5	6.3	–21.7	1,125.4	6.7	4.6
Other sectors	487.8	2.1	302.8	1.8	–37.9	233.4	1.4	–22.9
Total	**22,970.6**	**100.0**	**17,166.6**	**100.0**	**–25.3**	**16,812.5**	**100.0**	**–2.1**

Notes: Distribution by institutional sectors is performed in line with the European System of National and Regional Accounts 2010 (ESA 2010). The households sector comprises households and non-profit institutions serving households. Data for financial institutions and non-residents is included in the Other sectors item. In the period up to (including) 2017, risk category B and C loans and value impairment were governed by the Decision on the classification of placements and off-balance sheet liabilities of credit institutions (OG 41A/2014 and 28/2017, IAS 39), while since 2018 they have been regulated by the Decision on the classification of exposures into risk categories and the method of determining credit losses (OG 114/2017, IFRS 9).
Source: CNB.

Table 12.7 Own funds, risk exposure and capital ratios of banks

end of period, in million HRK and %

	Dec. 2017			Jun. 2018		
	Amount	Share	Change	Amount	Share	Change
Own funds	**53,645.3**	**100.0**	**2.0**	**53,645.6**	**100.0**	**0.0**
Tier 1 capital	50,447.8	94.0	3.3	50,922.4	94.9	0.9
Common equity tier 1 capital	50,447.8	94.0	3.3	50,922.4	94.9	0.9
Capital instruments eligible as common equity tier 1 capital	34,352.8	64.0	1.3	34,411.5	64.1	0.2
Retained earnings	18,535.6	34.6	29.8	16,314.7	30.4	–12.0
Other items	–2,440.6	–4.5	–	196.1	0.4	–
Additional tier 1 capital	0.0	0.0	–	0.0	0.0	–
Tier 2 capital	3,197.5	6.0	–13.8	2,723.2	5.1	–14.8
Total risk exposure amount	**225,836.3**	**100.0**	**–1.5**	**237,802.9**	**100.0**	**5.3**
Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	199,205.8	88.2	–1.5	211,323.2	88.9	6.1
Standardised approach	170,866.5	75.7	–2.2	177,697.3	74.7	4.0
Internal ratings based approach (IRB)	28,339.2	12.5	2.9	33,625.9	14.1	18.7
Position, foreign exchange and commodities risks	5,148.3	2.3	12.7	4,973.4	2.1	–3.4
Operational risk	21,363.5	9.5	–3.3	21,298.5	9.0	–0.3
Credit valuation adjustment	118.8	0.1	–62.8	207.7	0.1	74.9
Common equity tier 1 capital ratio	**22.3**	**–**	**4.8**	**21.4**	**–**	**–4.1**
Tier 1 capital ratio	**22.3**	**–**	**4.8**	**21.4**	**–**	**–4.1**
Total capital ratio	**23.8**	**–**	**3.6**	**22.6**	**–**	**–5.0**

Source: CNB.

Table 12.8 Structure of housing savings bank assets

end of period, in million HRK and %

	Dec. 2016		Dec. 2017			Jun. 2018		
	Amount	Share	Amount	Share	Change	Amount	Share	Change
Cash, cash balances at central banks and other demand deposits	0.0	0.0	0.0	0.0	–75.0	143.2	2.7	2,386,250.0
Cash on hand	0.0	0.0	0.0	0.0	–75.0	0.0	0.0	100.0
Cash balances at central banks	0.0	0.0	0.0	0.0	–	0.0	0.0	–
Other demand deposits	....	....	....	....	....	143.2	2.7	–
Financial assets held for trading	270.9	3.5	221.3	2.8	–18.3	245.9	4.7	11.1
Derivatives	0.0	0.0	0.0	0.0	–	0.0	0.0	–
Equity instruments	0.0	0.0	0.0	0.0	–	0.0	0.0	–
Debt securities	270.9	3.5	221.3	2.8	–18.3	245.9	4.7	11.1
Loans and advances	0.0	0.0	0.0	0.0	–	0.0	0.0	–
Non-trading financial assets mandatorily at fair value through profit or loss	34.9	0.4	0.0	0.0	–100.0	0.0	0.0	–
Equity instruments	0.0	0.0	0.0	0.0	–	0.0	0.0	–
Debt securities	34.9	0.4	0.0	0.0	–100.0	0.0	0.0	–
Loans and advances	0.0	0.0	0.0	0.0	–	0.0	0.0	–
Financial assets at fair value through profit or loss	....	....	....	....	....	0.0	0.0	–
Debt securities	....	....	....	....	....	0.0	0.0	–
Loans and advances	....	....	....	....	....	0.0	0.0	–
Financial assets at fair value through other comprehensive income	1,965.7	25.2	2,052.8	25.9	4.4	1,037.2	19.7	–49.5
Equity instruments	0.0	0.0	0.0	0.0	–	0.0	0.0	–
Debt securities	1,965.7	25.2	2,052.8	25.9	4.4	1,037.2	19.7	–49.5
Loans and advances	0.0	0.0	0.0	0.0	–	0.0	0.0	–
Financial assets at amortised cost	5,482.7	70.2	5,600.4	70.8	2.1	3,802.9	72.3	–32.1

Debt securities	725.9	9.3	672.7	8.5	–7.3	551.2	10.5	–18.1
Loans and advances	4,756.8	60.9	4,927.7	62.3	3.6	3,251.7	61.8	–34.0
Derivatives – hedge accounting	0.0	0.0	0.0	0.0	–	0.0	0.0	–
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0.0	0.0	0.0	0.0	–	0.0	0.0	–
Investments in subsidiaries, joint ventures and associates	0.0	0.0	0.0	0.0	–	0.0	0.0	–
Tangible assets	1.9	0.0	2.9	0.0	49.0	3.4	0.1	20.0
Property, plant and equipment	1.9	0.0	2.9	0.0	49.0	2.6	0.0	–10.1
Investment property	0.0	0.0	0.0	0.0	–	0.9	0.0	–
Intangible assets	8.0	0.1	9.4	0.1	16.4	8.9	0.2	–5.3
Goodwill	0.0	0.0	0.0	0.0	–	0.0	0.0	–
Other intangible assets	8.0	0.1	9.4	0.1	16.4	8.9	0.2	–5.3
Tax assets	13.8	0.2	11.0	0.1	–20.0	9.9	0.2	–10.6
Current tax assets	5.7	0.1	3.8	0.0	–34.3	2.8	0.1	–26.3
Deferred tax assets	8.0	0.1	7.3	0.1	–9.8	7.1	0.1	–2.5
Other assets	31.2	0.4	15.8	0.2	–49.2	6.2	0.1	–60.9
Non-current assets and disposal groups classified as held for sale	1.9	0.0	1.1	0.0	–40.2	0.5	0.0	–56.4
Total assets	**7,811.1**	**100.0**	**7,914.7**	**100.0**	**1.3**	**5,258.0**	**100.0**	**–33.6**

Note: The source of data on housing savings bank assets is the same as the source specified in Table 12.2.
Source: CNB.

Table 12.9 Structure of housing savings bank liabilities and equity

end of period, in million HRK and %

	Dec. 2016		Dec. 2017			Jun. 2018		
	Amount	Share	Amount	Share	Change	Amount	Share	Change
Financial liabilities held for trading	0.0	0.0	0.1	0.0	–	2.1	0.0	3,332.8
Derivatives	0.0	0.0	0.1	0.0	–	2.1	0.0	3,332.8
Short positions	0.0	0.0	0.0	0.0	–	0.0	0.0	–
Deposits	....	....	....	....	....	0.0	0.0	–
Issued debt securities	....	....	....	....	....	0.0	0.0	–
Other financial liabilities	0.0	0.0	0.0	0.0	–	0.0	0.0	–
Financial liabilities at fair value through profit or loss	0.0	0.0	0.0	0.0	–	0.0	0.0	–
Financial liabilities measured at amortised cost	6,843.1	87.6	6,950.9	87.8	1.6	4,686.3	89.1	–32.6
Deposits	6,842.1	87.6	6,949.6	87.8	1.6	4,685.8	89.1	–32.6
Issued debt securities	0.0	0.0	0.0	0.0	–	0.0	0.0	–
Other financial liabilities	1.0	0.0	1.3	0.0	23.5	0.5	0.0	–64.3
Derivatives – hedge accounting	0.0	0.0	0.0	0.0	–	0.0	0.0	–
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0.0	0.0	0.0	0.0	–	0.0	0.0	–
Provisions	5.4	0.1	11.3	0.1	108.5	3.9	0.1	–65.6
Pensions and other post employment defined benefit obligations	0.0	0.0	0.0	0.0	–	0.0	0.0	–
Other long-term employee benefits	1.7	0.0	2.9	0.0	70.7	2.1	0.0	–27.4
Restructuring	0.0	0.0	4.5	0.1	–	0.0	0.0	–100.0
Pending legal issues and tax litigation	1.2	0.0	1.7	0.0	43.0	0.7	0.0	–60.6
Commitments and guarantees given	0.5	0.0	0.5	0.0	6.6	0.4	0.0	–16.0
Other provisions	2.1	0.0	1.7	0.0	–15.5	0.7	0.0	–61.1
Tax liabilities	29.9	0.4	25.6	0.3	–14.4	7.1	0.1	–72.1
Current tax liabilities	11.6	0.1	9.2	0.1	–20.4	0.2	0.0	–98.1
Deferred tax liabilities	18.3	0.2	16.4	0.2	–10.6	7.0	0.1	–57.5
Other liabilities	95.2	1.2	76.1	1.0	–20.1	39.1	0.7	–48.7
Liabilities included in disposal groups classified as held for sale	0.0	0.0	0.0	0.0	–	0.0	0.0	–

Total liabilities	**6,973.7**	**89.3**	**7,063.9**	**89.3**	**1.3**	**4,738.5**	**90.1**	**–32.9**
Capital	487.9	6.2	487.9	6.2	0.0	407.9	7.8	–16.4
Paid up capital	487.9	6.2	487.9	6.2	0.0	407.9	7.8	–16.4
Unpaid capital which has been called up	0.0	0.0	0.0	0.0	–	0.0	0.0	–
Share premium	0.0	0.0	0.0	0.0	–	0.0	0.0	–
Equity instruments issued other than capital	0.0	0.0	0.0	0.0	–	0.0	0.0	–
Other equity	....	....	....	....	....	0.0	0.0	–
Accumulated other comprehensive income	108.9	1.4	97.5	1.2	–10.4	33.0	0.6	–66.2
Retained earnings	200.5	2.6	221.5	2.8	10.4	64.5	1.2	–70.9
Other reserves	–6.3	–0.1	–5.4	–0.1	–14.0	7.7	0.1	–
Reserves or accumulated losses of investments in subsidiaries, joint ventures and associates accounted for using the equity method	....	....	....	....	....	0.0	0.0	–
Other	–6.3	–0.1	–5.4	–0.1	–14.0	7.7	0.1	–
(–) Treasury shares	0.0	0.0	0.0	0.0	–	0.0	0.0	–
Profit or loss attributable to owners of the parent	46.4	0.6	49.3	0.6	6.3	6.4	0.1	–86.9
(–) Interim dividends	....	....	....	....	....	0.0	0.0	–
Minority interests [Non–controlling interests]	0.0	0.0	0.0	0.0	–	0.0	0.0	–
Total equity	**837.4**	**10.7**	**850.8**	**10.7**	**1.6**	**519.5**	**9.9**	**–38.9**
Total liabilities and total equity	**7,811.1**	**100.0**	**7,914.7**	**100.0**	**1.3**	**5,258.0**	**100.0**	**–33.6**

Note: The source of data on housing savings bank liabilities and equity is the same as the source specified in Table 12.3.
Source: CNB.

Table 12.10 Housing savings bank income statement

in reference periods, in million HRK and %

	Amount		Change
	Jan. – Jun. 2017	Jan. – Jun. 2018	
Interest income	160.0	103.2	–35.5
Financial assets held for trading	6.4	5.8	–9.7
Non-trading financial assets mandatorily at fair value through profit or loss	0.1	0.0	–100.0
Financial assets at fair value through profit or loss	0.0	0.0	–
Financial assets at fair value through other comprehensive income	32.1	14.8	–53.9
Financial assets at amortised cost	120.9	82.0	–32.1
Derivatives – hedge accounting, interest rate risk	0.0	0.0	–
Other assets	0.4	0.6	55.7
Interest income on liabilities	0.0	0.0	–
(Interest expenses)	91.2	56.9	–37.6
(Financial liabilities held for trading)	0.0	0.5	–
(Financial liabilities designated at fair value through profit or loss)	0.0	0.0	–
(Financial liabilities measured at amortised cost)	91.2	56.3	–38.3
(Derivatives – hedge accounting, interest rate risk)	0.0	0.0	–
(Other liabilities)	0.0	0.1	6,350.0
(Interest expense on assets)	0.0	0.0	–
Net interest income	**68.8**	**46.3**	**–32.6**
Dividend income	**0.0**	**0.0**	**–**
Fee and commission income	22.6	17.5	–22.5
(Fee and commission expenses)	2.4	2.7	14.1
Net fee and commission income	**20.2**	**14.8**	**–26.8**
Gains (losses)	**6.6**	**–4.4**	**–**
Other operating income	2.3	2.3	3.1
(Other operating expenses)	11.3	9.1	–19.3

	Amount		Change
	Jan. – Jun. 2017	Jan. – Jun. 2018	
Total operating income, net	**86.6**	**50.0**	**–42.3**
(Administrative expenses)	49.2	42.1	–14.4
(Staff expenses)	26.9	22.5	–16.4
(Other administrative expenses)	22.2	19.6	–11.9
(Depreciation)	1.2	1.3	10.3
Administrative expenses and depreciation	**50.3**	**43.4**	**–13.8**
Modification gains (–) losses, net	0.0	0.0	–
Operating profit	**36.3**	**6.6**	**–81.7**
(Provisions or (–) reversal of provisions)	0.4	0.0	–102.6
(Commitments and guarantees given)	0.0	0.0	–25.0
(Other provisions)	0.4	0.0	–96.9
(Impairment or (–) reversal of impairment on financial assets not measured at fair value through profit or loss)	–1.0	–1.1	11.4
(Financial assets at fair value through other comprehensive income)	0.0	0.2	–
(Financial assets at amortised cost)	–1.0	–1.2	27.4
(Impairment or (–) reversal of impairment of investments in subsidiaries, joint ventures and associates)	0.0	0.0	–
(Impairment or (–) reversal of impairment on non–financial assets)	0.0	0.0	–
Impairment and provisions	**–0.6**	**–1.1**	**90.6**
Negative goodwill recognised in profit or loss	0.0	0.0	–
Share of the profit or (–) loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	0.0	0.0	–
Profit or (–) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	0.0	0.0	–
Profit or (–) loss before tax from continuing operations	**36.8**	**7.7**	**–79.1**
(Tax expense or (–) income related to profit or loss from continuing operations)	4.3	1.3	–70.3
Profit or (–) loss after tax from continuing operations	**32.6**	**6.4**	**–80.2**
Profit or (–) loss after tax from discontinued operations	0.0	0.0	–
Profit or (–) loss before tax from discontinued operations	0.0	0.0	–
(Tax expense or (–) income related to discontinued operations)	0.0	0.0	–
Profit (loss) for the year	**32.6**	**6.4**	**–80.2**

Note: The source of data on the income statement of housing savings banks is the same as the source specified in Table 12.4.
Source: CNB.

Table 12.11 Distribution of housing savings banks total exposure by risk categories

end of period, in million HRK and %

Risk category	Dec. 2016		Dec. 2017			Jun. 2018		
	Amount	Share	Amount	Share	Change	Amount	Share	Change
A	5,544.2	98.7	5,663.5	98.6	2.2	5,040.4	99.0	–11.0
B	65.1	1.2	68.3	1.2	5.0	41.1	0.8	–39.9
C	10.7	0.2	9.6	0.2	–10.3	8.0	0.2	–16.4
Total	**5,619.9**	**100.0**	**5,741.4**	**100.0**	**2.2**	**5,089.4**	**100.0**	**–11.4**

Note: See note in Table 12.5.
Source: CNB.

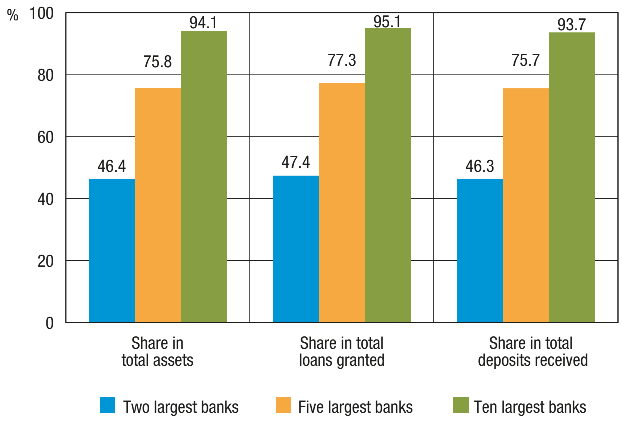
Table 12.12 Coverage of housing savings bank total exposure by impairment and provisions

end of period, in million HRK and %

	Dec. 2017	Jun. 2018
Total impairment and provisions	**77.8**	**61.2**
Impairment and provisions for risk categories B and C	28.8	21.9
Impairment and provisions for risk category A	49.0	39.3
Total exposure	**5,741.4**	**5,089.4**
Coverage (%)	**1.4**	**1.2**

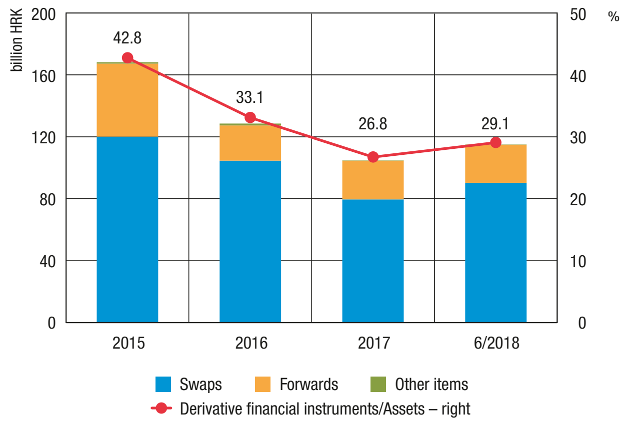
Note: See note in Table 12.5.
Source: CNB.

Figure 12.7 Shares of assets, loans and deposits of the largest banks in total assets, loans and deposits
as at 30 June 2017



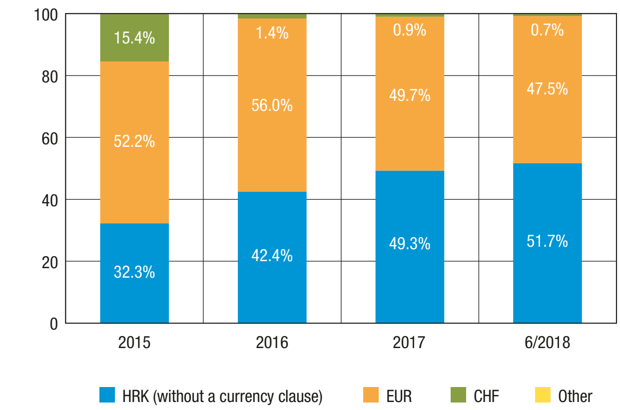
Source: CNB.

Figure 12.11 Bank derivative financial instruments
notional amount



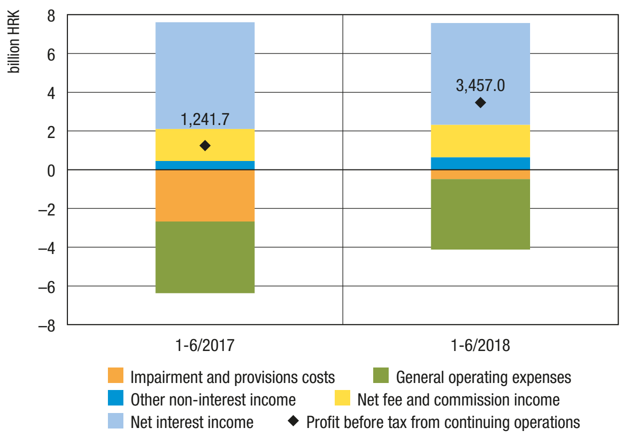
Source: CNB.

Figure 12.8 Currency structure of loans to households



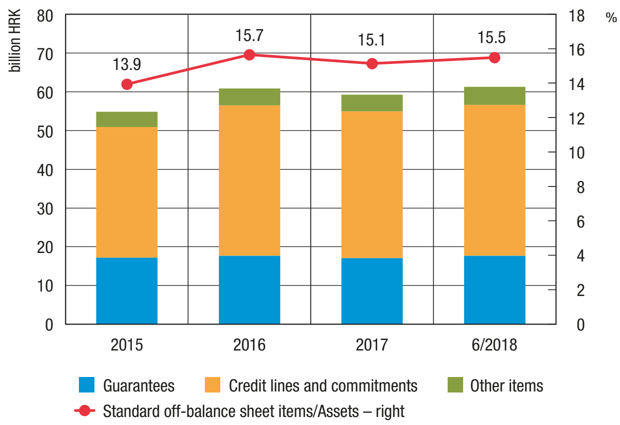
Source: CNB.

12.11 Bank profit (loss) from continuing operations
before taxes



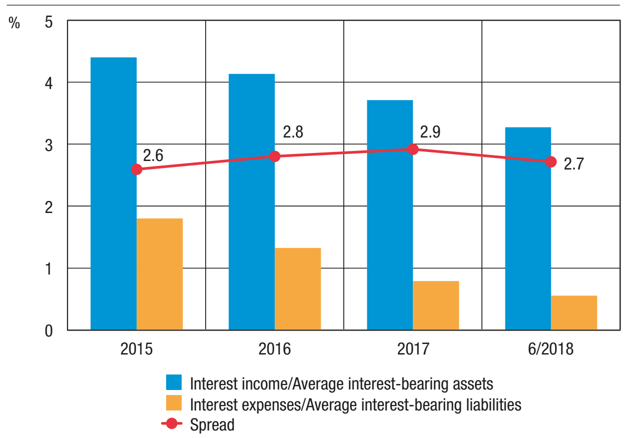
Note: See note in Figure 12.4.
Source: CNB.

Figure 12.9 Bank standard off-balance sheet items



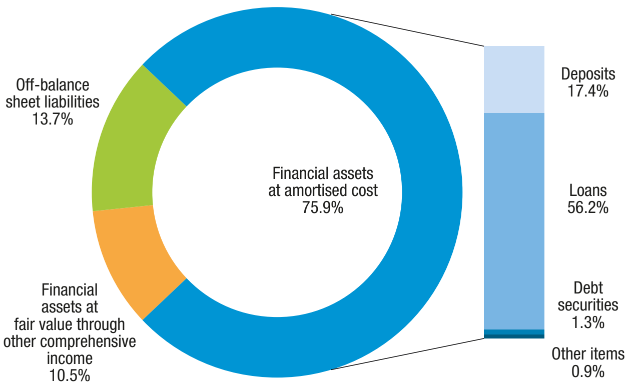
Source: CNB.

Figure 12.12 Spread



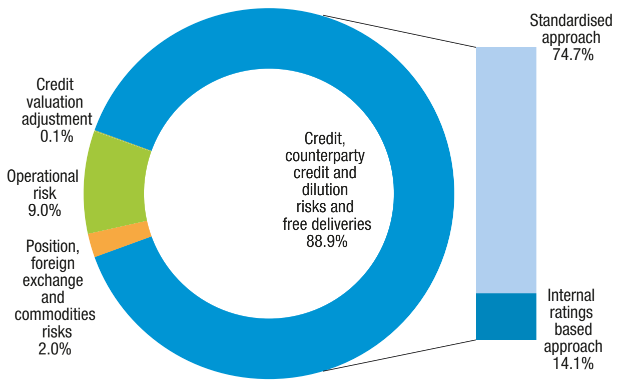
Note: See note in Table 12.4.
Source: CNB.

Figure 12.13 Structure of total bank exposure distributed into risk categories, by portfolio and instruments
as at 30 June 2018



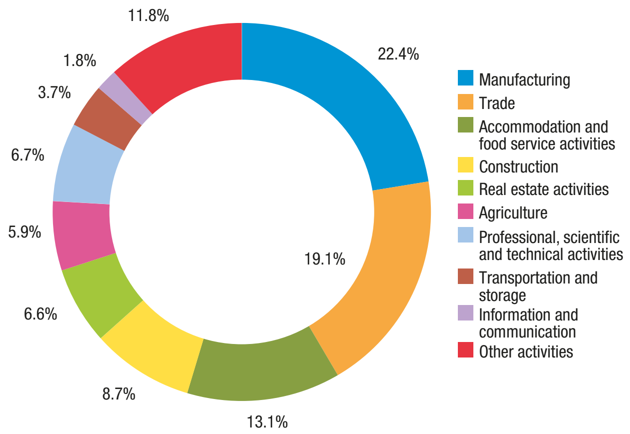
Source: CNB.

Figure 12.16 Structure of bank total risk exposure
as at 30 June 2018



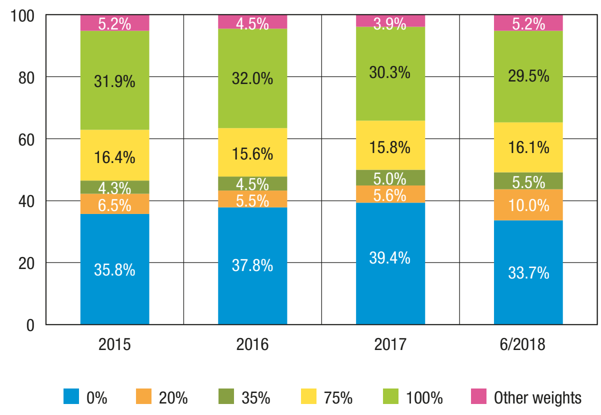
Source: CNB.

Figure 12.14 Structure of bank loans to non-financial corporations by activities
as at 30 June 2018



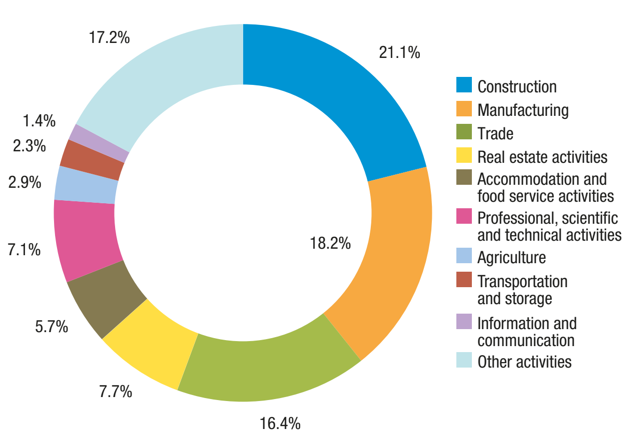
Source: CNB.

Figure 12.17 Structure of bank exposure weighted by credit risk weights according to the standardised approach



Source: CNB.

Figure 12.15 Structure of bank B and C risk category loans to non-financial corporations by activities
as at 30 June 2018



Source: CNB.

Abbreviations and symbols

Abbreviations

bn – billion
b.p. – basis points
BEA – U. S. Bureau of Economic Analysis
BOP – balance of payments
c.i.f. – cost, insurance and freight
CBRD – Croatian Bank for Reconstruction and Development
CBS – Central Bureau of Statistics
CDS – credit default swaps
CEE – Central and Eastern European
CEFTA – Central European Free Trade Agreement
CES – Croatian Employment Service
CHF – Swiss franc
CHIF – Croatian Health Insurance Fund
CHY – Yuan Renminbi
CICR – currency-induced credit risk
CPF – Croatian Privatisation Fund
CPI – consumer price index
CPII – Croatian Pension Insurance Institute
CM – Croatian Motorways
CNB – Croatian National Bank
CR – Croatian Roads
EBA – European Banking Authority
ECB – European Central Bank
EEA – European Economic Area
EFTA – European Free Trade Association
EMU – Economic and Monetary Union
EU – European Union
EUR – euro
excl. – excluding
f/c – foreign currency
FDI – foreign direct investment
Fed – Federal Reserve System
FINA – Financial Agency
f.o.b. – free on board
GDP – gross domestic product
GVA – gross value added
HANFA – Croatian Financial Services Supervisory Agency
HICP – harmonised index of consumer prices
HRK – kuna
HUB – Croatian Banking Association
incl. – including
IMF – International Monetary Fund
JPY – Japanese yen
m – million
MIGs – main industrial groupings
MM – monthly maturity
MoF – Ministry of Finance
NBS – National Bureau of Statistics of China
NCA – National Classification of Activities
n.e.c. – not elsewhere classified
NUIR – net usable international reserves
OECD – Organisation for Economic Co-Operation and Development
OG – Official Gazette
R – Republic
RAMP – Reserves and Advisory Management Program
ROAA – return on average assets
ROAE – return on average equity
o/w – of which
PPI – producer price index
Q – quarter
RR – reserve requirement
SDR – special drawing rights
SE – South-East
SGP – Stability and Growth Pact
SITC – Standard International Trade Classification
USD – US dollar
VAT – value added tax
ZSE – Zagreb Stock Exchange
ZMM – Zagreb Money Market

Symbols

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

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