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# Information on economic trends

September 2021



## Summary

In the second quarter of 2021, economic activity remained at the level recorded in the beginning of the year. Despite this, due to the significant fall in real GDP in the same period of the previous year followed by a strong recovery since then, a two-digit real growth rate was recorded on an annual basis. The GDP nowcasting model suggests that a high annual real growth rate might also be reached in the third quarter as well as an increase on a quarterly basis. The acceleration of tourist activity resulted in the marked increase in the number of employed persons in June and July 2021, while unemployment, after a decrease in June, remained unchanged in July. Total employment reached the pre-crisis level, accompanied by a very uneven intensity of recovery in individual activities, while the unemployment rate continued to be higher than in the same period of 2019. Inflation in July 2021 rose to 2.8% (from 2.0% in June), largely owing to the acceleration of the annual growth of food prices, mainly attributable to the spillover of the increase in the prices of food raw materials on the global market and unfavourable weather conditions causing poorer domestic yields of individual crops. After several months of continued growth, banks' free reserves decreased in July and August, mostly as a result of higher government kuna deposits with the CNB and an increase in currency outside banks. Despite the decrease, the average daily surplus kuna liquidity of the domestic banking market was HRK 23.0bn higher in August than in the same month of the previous year having risen to HRK 64.0bn. The annual growth of bank placements accelerated in July to 4.1% from 3.8% in June, reflecting primarily an acceleration in the growth of household placements (from 4.0% in June to 4.3% in July), mostly in the segment of housing loans and to a lesser extent also in general-purpose cash loans. Corporate placements, despite the monthly fall, accelerated slightly on an annual level (from 1.3% to 1.4%) due to the base effect, i.e. a slightly larger fall in corporate lending in July last year. The general government budget deficit under ESA 2010 methodology held steady on an annual level in the first quarter of 2021, while the Ministry of Finance data suggest a considerable decrease in the deficit in the second quarter of 2021 from the same period of the previous year.

According to the first CBS results, after three months of strong growth, economic activity stagnated on a quarterly basis in the second quarter of 2021. The slowdown in economic momentum in the mentioned period was a consequence of the weakening of domestic demand and the late start of the tourist season, while the growth in the exports of goods accelerated noticeably. With regard to domestic demand components, personal consumption continued to grow, albeit at a weaker pace than three months earlier, and government consumption also rose. By contrast, investment activity was smaller than in the previous three months. Despite the recovery on an annual level, the exports of services decreased relative to the first quarter, due to the late start of the tourist season. Total imports were larger than in the beginning of the year, with the imports of services growing more strongly than the imports of goods. Thus, net foreign demand made a negative contribution to total economic growth. If viewed on an annual level, real GDP increased by 16.1%, where a high growth rate dominantly reflects the base effect of a very low level of economic activity in the second quarter of 2020 and a strong recovery that followed in the next three quarters.

The GDP nowcasting model for the third quarter suggests real GDP growth on a quarterly level. A high economic activity growth rate will be achieved on an annual level, although lower when compared with the identical indicator for the previous quarter due to the gradual fading of the base effect (Figure 1). Real activity growth will be supported by the very good results of the tourist season and the continued personal consumption growth due to the still favourable developments in the labour market. With regard to the available monthly indicators, real retail trade turnover increased by 1.7% in July relative to the average of the previous three months (Figure 7). On a monthly level, retail trade turnover went up by 2.2% in July from June. By contrast, industrial production was down by 1.3% in July from the average result of the previous three months. If observed according to the main industrial groupings, a decline in production on a quarterly basis was seen in intermediate and non-durable consumer goods, while the production of energy, capital goods and

durable consumer goods increased (Figures 3 and 4).

A favourable epidemiological situation and strengthened activity in tourism related activities<sup>1</sup> strengthened consumer and business confidence indicators. The Consumer Confidence Survey data thus show that the level of household confidence in July and August was slightly better than the average from the April to June period. The improvement was the consequence of a more favourable assessment of the current financial situation of households than 12 months ago. At the same time, expectations regarding the financial situation of households for the next 12 months worsened compared with the current situation. If observed on a monthly basis, consumer expectations in August remained at the level from July, when they worsened relative to June due to the less favourable expectations concerning the overall economic situation in Croatia in the next 12 months compared with the current situation. Business expectations in all activities were above the average level in July and August from the previous three months. The strongest improvement in expectations came in trade and services. Thus the level of optimism in these activities, in addition to industry, almost reached the pre-crisis level (Figure 8). Entrepreneurs' expectations improved in July from June in all activities, except in construction where they remained at the level from the previous month. The most pronounced improvement in confidence was recorded in service activities. In August, expectations continued to improve and were higher in all activities than in July. The strongest growth in indices was again seen in service activities, so that the level of business confidence in these activities reached the highest level since the start of the Survey.

Favourable developments prevailed in the labour market in June and July, benefiting from seasonal employment and a favourable epidemiological situation as well as from the tourist season having proved to be better than expected, despite the late start. In addition, the continued implementation of job preservation measures further stimulated the maintenance of employment in the affected activities, although their scope was reduced in May 2021 to 7.5% of employed persons (from 8.7% in April

<sup>1</sup> Although the tourist season is still ongoing, the highly-frequent indicators suggest that the results might be better than previously expected. According to the latest published data provided by eVisitor, the number of nights of foreign and domestic guests in the current year was 18% lower than in July of the record 2019, while in August it was only 7% lower than two years before. At the same time, the most recent data of the Tax Administration show that the value of fiscalised receipts in hotel and restaurant services activity in July was up by 6% and in the first four weeks of August by 23% from the comparable period in 2019.

and 8.5% in March). In June 2021, the increase in the number of employed persons accelerated slightly. Growth also continued in July, although at a slower pace, with the increase in the number of employed persons being concentrated in the activity of accommodation and food service activities, previously the most affected by the adverse impact of the pandemic. When compared to the pre-crisis period, total employment in June 2021 reached and remained at pre-crisis values in July (Figure 15). Broken down by sectors, employment was higher in the IT sector and construction, while in accommodation and food service activities it was still at lower levels than in the same period of 2019. The later start of the season also had an impact on the acceleration of the fall in the number of unemployed persons in June 2021, leaving the number of unemployed persons almost unchanged in July and still being above the pre-crisis values. The full recovery of total employment and the only partial decline in unemployment suggest that part of the demand for labour has been met by the hiring of workers from third countries.<sup>2</sup> In accordance with the movements in employment and unemployment, the registered unemployment rate (according to seasonally adjusted data) decreased to 8.2% of the labour force in July 2021 from 9% in May (Figure 16). As regards wages, the growth in the average nominal gross wage accelerated moderately in June and continued its growth at a slower pace in July (Figure 17). The average nominal gross wage was 4.6% higher than in July 2020, thus reflecting equally the increase in the wages in the public and the private sector. When compared with July 2019, wages were slightly lower only in the accommodation and food service activities. As regards non-taxable compensations, there were almost none (a situation that began as early as in May 2020). Consequently, the growth in the annual average total income of employed persons (net wages increased by non-taxable compensations) in May and June 2021 followed the increase in the average nominal net wage.

Amid the relaxation of epidemiological measures and continued economic recovery, the annual consumer price inflation rose to 2.8% in July (from 2.0% in June). This was largely owing to the acceleration of the annual growth of food prices (from 0% in June to 2.0% in July), mainly attributable to imported cost pressures, i.e. a time-lagged effect of the price increase in raw materials (in particular, cereals and oilseeds) on the global market, started in mid-2020. In addition, Croatia was hit by adverse weather conditions causing poorer yields of individual crops (for example of fruit and vegetables). Thus, for instance, orchards in the continental part of Croatia were devastated by the frost in spring, while vegetable gardens in Slavonia suffered damage from a prolonged drought followed by thunderstorms in the summer. The largest contribution to the acceleration of annual inflation in July came from vegetables, meat and fats, milk, cheese and eggs as well as bread and cereals (in all, 0.5 percentage points). The slightly less pronounced increase in overall inflation in July was attributed to industrial products (excluding food and energy), mainly of used cars and products for personal care. At the same time, the annual rate of change in consumer prices of industrial products (excluding food and energy) remained very low (0.8%, after the 0% recorded in June). Thus, no significant spillover of the increase in the prices of industrial raw materials, the increase in freight rates and shortages of individual intermediate goods (for example, semiconductors) on the global market to consumer prices has been observed so far. The

annual growth rate of energy prices increased slightly in July (to 8.2%, from 8.1% in June). However, the contribution of energy to overall inflation is still the largest and amounts to 1.3 percentage points. Furthermore, the acceleration of the annual growth of the prices of services was also negligible in July (1.7% from 1.6% in June). The increase in the contribution of hotel and restaurant services, accommodation, communication and financial services was mostly offset by the decline in the contribution of the prices of tourist package holidays and air transport. Since the majority of the mentioned products that made the largest contribution to the acceleration of overall inflation are also included in the calculation of core inflation (excluding vegetables), the annual growth of core inflation reached 1.6% in July, or 0.8 percentage points more than in June. The annual growth rate of industry producer prices in the domestic market, excluding energy, was 2.2% or 0.8 percentage points higher than in June.

After a perceptible growth in the beginning of the year, the growth of goods exports intensified in April and May, while goods imports decreased slightly relative to the average of the first quarter of 2021. Total goods exports rose by 8.0% in April and May (Figure 10), mostly driven by the larger exports of other transport equipment (mostly ships), followed by energy products (primarily electricity) and chemical products. At the same time, total goods imports went down 0.7% (Figure 11). The imports of capital goods (primarily of electric machinery and apparatus and appliances) as well as food products fell sharply (Figure 12), while the imports of energy products (primarily oil and refined petroleum products), chemical products and metal industry products increased. In accordance with these developments, the trade in goods deficit narrowed by 10.4% (Figure 13). If the first results for June are taken into account, in the whole of the second quarter the growth of total goods exports (of 10.0%) accelerated, imports grew slightly (0.7%) and the foreign trade deficit decreased (−7.5%).

The appreciation of the nominal exchange rate of the kuna against the euro, which began in May and June, continued until the first half of July when the exchange rate started to depreciate due to enhanced epidemiological uncertainty and a pronounced demand for foreign currency by the financial and corporate sectors. In early August, the exchange rate stabilised and then slightly appreciated by the end of the month under the influence of stronger foreign currency inflows during the peak of the tourist season (Figure 23). At the end of August, the exchange rate stood at EUR/HRK 7.48, which was 0.1% lower than at the end of June or 0.5% lower than the same period of the previous year. After a moderate appreciation in the first half of July, the nominal effective exchange rate of the kuna depreciated gradually until the end of August and was 0.1% higher than at the end of June. The depreciation of the nominal effective exchange rate of the kuna reflects the weakening of the kuna against the US dollar and the Turkish lira, which was partly offset by the strengthening of the kuna against the euro.

Short-term interest rates on the European money market did not change much in July and August. Thus, EONIA, the overnight interest rate on the banking market in the euro area, increased slightly to the level of −0.49%, while the six-month EURIBOR remained unchanged at the level of −0.52% (Figure 25). The risk premiums for European emerging market economies were stable in July and August (Figure 26). The risk premium for Croatia remained almost unchanged, standing at 79 basis points at the end of August, and, with the exception of Romania, continued to be higher than that in peer CEE countries.

After several months of continued growth, banks' free reserves decreased in July and August, mostly as a result of higher government kuna deposits with the CNB and an increase in

<sup>2</sup> In July 2021, 34 thousand foreign workers were registered with the CPIH in Croatia, or 38% more than the year before, although the registration system probably does not cover all such workers. The largest share of foreign workers was employed in construction, accommodation and food service activities and manufacturing industry.

currency outside banks. Despite the decrease, the average daily surplus kuna liquidity of the domestic banking market was HRK 23.0bn higher in August than in the same month of the previous year and stood at HRK 64.0bn (Figure 55). Amid ample surplus kuna liquidity, there had been no turnover in the domestic interbank overnight market since April of the previous year, while the turnover in other segments of the money market continued to be modest. The implicit interest rate derived from banks' currency swap trading agreements continued to rise and at the end of August reached  $-0.10\%$ , while the overnight interest rate on banks' demand deposit trading and the interest rate on banks' repo transactions showed positive values for the first time in the current year, reaching the levels of  $0.01\%$ , and  $0.05\%$  respectively (Figure 28). At the same time, the interest rate on one-year kuna T-bills without a currency clause fell to  $0.01$  in August from  $0.02\%$  in June (Figure 29).

Bank interest rates on new corporate and household loans, which include pure new loans and renegotiated loans, mostly held steady in July (Figures 29 and 30). In the category of pure new corporate loans, a significant increase was recorded in interest rates on working capital loans in kuna indexed to a foreign currency, while interest rates on investment loans indexed to a foreign currency decreased (Figure 32). As regards households, interest rates on housing loans increased, mostly due to the smaller volume of subsidised housing loans (Figure 33), while the costs of consumer credit fell moderately (Figure 34). The interest rates on corporate and household time deposits decreased from June (Figures 35 and 36). The spread between interest rates on total new loans and deposits and on their balance in July remained at the level of 4.3 basis points and 3.8 basis points respectively (Figure 37).

Monetary developments in July were marked by a sharp increase in net foreign assets (NFA) of credit institutions spurred by the inflows from tourism, while net domestic assets (NDA) decreased slightly, with the total liquid assets (M4) rising by HRK 10.1bn or  $2.6\%$  (transaction-based) in July (Figure 39). Money (M1) rose by HRK 8.6bn ( $4.9\%$ ) from the previous month, with a significant increase in corporate demand deposits, and to a smaller extent an increase in household demand deposits as well as currency outside credit institutions. At the same time, quasi-money increased by HRK 1.4bn ( $0.7\%$ ), reflecting the growth in foreign currency deposits of households as well as corporates. The annual growth of M4 accelerated to  $9.7\%$  in July from  $8.7\%$  in June (Figure 50). The annual growth in money M1, after slowing down in June, accelerated to  $19.6\%$  from  $16.8\%$  (Figure 49), while the annual quasi-money growth slowed down from  $2.8\%$  to  $2.1\%$  (transaction-based).

Total placements of monetary institutions to domestic sectors (except the central government) grew in July by HRK 1.5bn, or  $0.6\%$  (transaction-based) from June, while the annual growth rate of total placements accelerated from  $3.8\%$  in June to  $4.1\%$  in July (Figure 41). Broken down by sectors, the increase in the placements to households (HRK 1.3bn or  $1.0\%$ ) is still based on a strong growth of housing loans (HRK 1.1bn or  $1.7\%$ ), spurred by the government subsidy programme, and the moderate growth of general-purpose cash loans continued (HRK 0.2bn or  $0.4\%$ ). On an annual level, the growth in housing loans continued to accelerate (from  $10.1\%$  to  $10.6\%$ ), as well as general-purpose cash loans (from  $0.2\%$  to  $0.6\%$ ), which resulted in the acceleration of total household placements from  $4.0\%$  to  $4.3\%$  (Figure 43). As regards the currency structure, the share of kuna placements in total household placements decreased slightly to  $55.1\%$  after several months of growth (Figure 48). Corporate placements fell by HRK 0.2bn or  $0.2\%$  on a monthly level. Despite the monthly fall, the annual growth rate of corporate loans

accelerated from  $1.3\%$  to  $1.4\%$  (Figure 42) due to the base effect, i.e. a somewhat steeper fall in corporate lending in the same month of the previous year.

Gross international reserves rose by EUR 1.7bn or  $7.6\%$  in August from the previous month, ending the month at EUR 24.0bn (Figure 57). The increase in reserves was mostly the result of the new SDR allocation, the higher level of agreed repo transactions and the government foreign currency deposits. Gross international reserves rose by EUR 5.1bn or  $26.9\%$  from the end of the previous year. Net usable reserves rose only slightly in August and amounted to EUR 19.5bn at the end of the month.

After the increase in the first quarter, the net external debt decreased by EUR 0.7bn (Figure 61) in the second quarter of 2021, mainly as a result of the improvement in the net foreign position of the central bank due to a rise in banks' funds within the TARGET2 system. The government's net foreign liabilities decreased to a much smaller extent. At the same time, the net debt position of credit institutions weakened only slightly because the decrease in their foreign assets was accompanied by a slightly smaller decline in their liabilities. The net debt liabilities of other domestic sectors also increased slightly, which offset the decline in liabilities to affiliated creditors by a somewhat larger increase in liabilities towards other creditors. The stock of total gross external debt stood at EUR 44.2bn at the end of June (Figure 63), or EUR 0.7bn higher than at the end of March 2021.

The consolidated general government deficit according to the ESA 2010 methodology stagnated in the first quarter of 2021 from the same period of the previous year and stood at HRK 4.4bn. The revenue and expenditure sides of the budget grew strongly, predominantly under the effect of the absorption of EU funds, as indicated by the simultaneous strong growth of revenues from grants and capital expenditures. Tax revenues also increased, mostly due to the rise in VAT revenues, while revenues from direct taxes fell, which may be associated with the lower income tax rates from January this year. The increase in tax revenues was accompanied by an increase in the expenditure side of the budget, mostly due to the payment of subsidies, mainly consisting of subsidies paid to employers for job preservation, increased compensation of employees in public and government services and social benefits. In contrast, expenditures for intermediate consumption and interest expenses moved in the opposite direction, reflecting the favourable conditions of the refinancing of the obligations on the capital market.

In the second quarter of 2021, public finance developments were perceptibly more favourable than in the same period of the previous year. According to Ministry of Finance data,<sup>3</sup> the central government budget deficit stood at HRK 3.2bn, an improvement from the budget deficit in the same period of the previous year (HRK 9bn). These developments reflect a perceptibly higher annual growth of revenues ( $39.1\%$ ) than of expenditures ( $11.2\%$ ), reflecting the recovery in economic activity and a considerable relaxation of restrictive measures against the pandemic relative to the second quarter of 2020. As regards the expenditure side, the perceived surge in expenditures for the use of goods and services may probably in part be associated with the different intra-annual

<sup>3</sup> The budget balance and total revenues and expenditures refer to monthly data for the central government, state government and social security sub-sectors, which are required, under Council Directive 2011/85/EU, to be published by the Ministry of Finance before the end of the following calendar month. The published data refer to general government units according to the scope of ESA 2010 statistical methodology, except for data pertaining to local government, which are published on a quarterly basis. Individual income and expenditure items are based on the data on the state budget according to the national budgetary chart of accounts methodology.

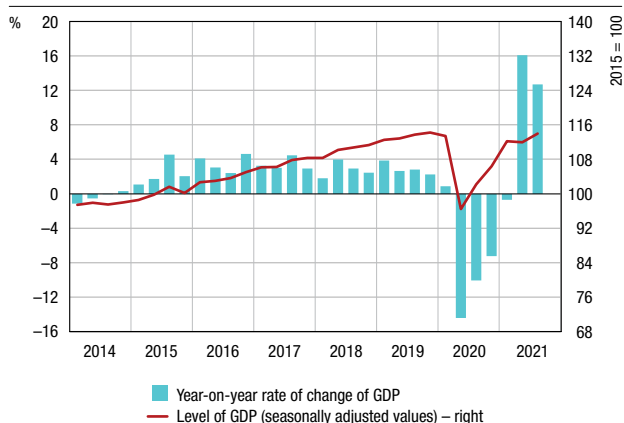


dynamics of their execution, taking into account the annual decline in these expenditures in the first quarter, while expenditures on subsidies quite clearly declined, reflecting the high level of subsidies paid to employers in the second quarter of the previous year. According to the data for July, the budget deficit increased from the same month of the previous year. However, it continued to be much lower in the first seven months of the current year

than in the same period in the previous year.

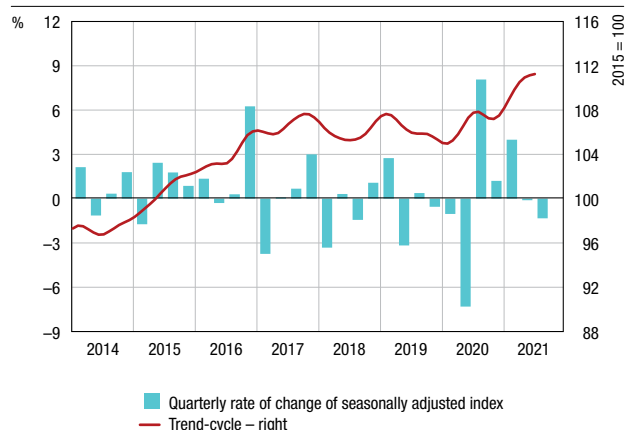
As regards the trends in the general government debt, at the end of May, it stood at HRK 336.7bn, having risen by HRK 7.0 from the end of 2020 (Table 5), while the relative public debt to GDP ratio decreased to 86.4% from 88.7% at the end of 2020, reflecting a favourable effect of the growth in nominal GDP (Figure 64).

**Figure 1 Quarterly gross domestic product**  
seasonally adjusted real values



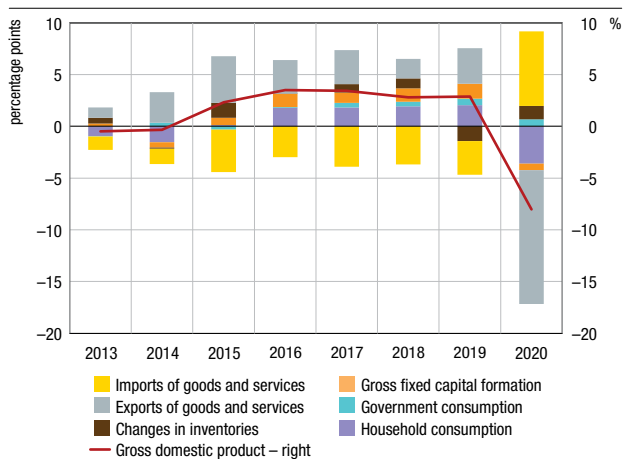
Note: Data for the third quarter of 2021 refers to the CNB's monthly indicator of real economic activity, estimated on the basis of data published until 1 September 2021.  
Sources: CBS data seasonally adjusted by the CNB and CNB calculations.

**Figure 3 Industrial production**



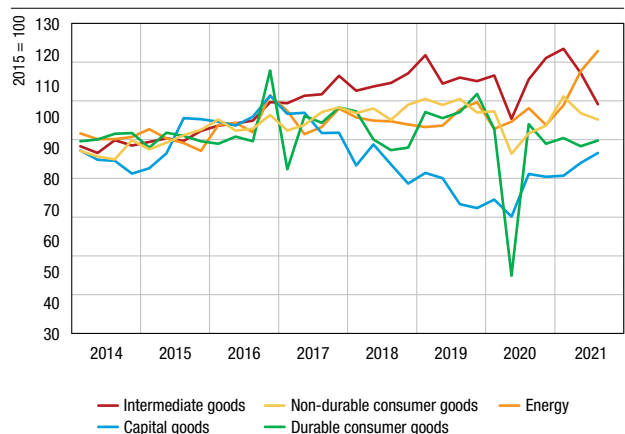
Note: Data for the third quarter of 2021 refers to July.  
Source: CBS data seasonally adjusted by the CNB.

**Figure 2 GDP rate of change**  
contributions by components



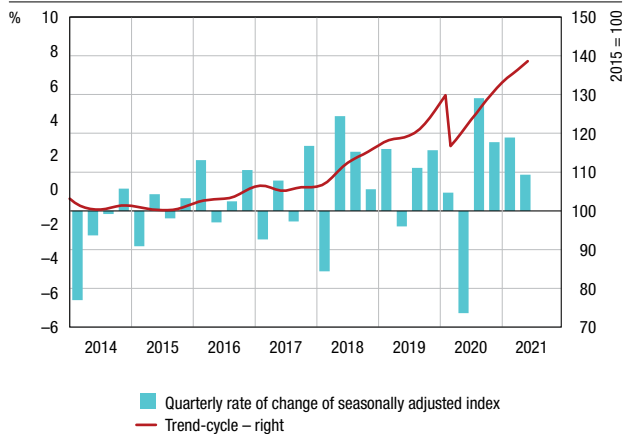
Source: CBS.

**Figure 4 Industrial production by main industrial groupings**  
seasonally adjusted indices



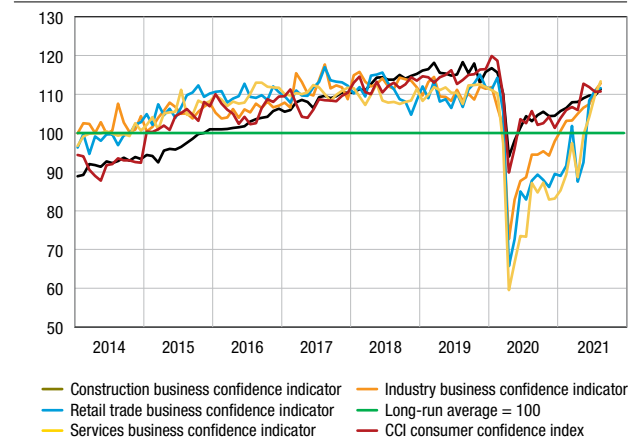
Source: CBS data seasonally adjusted by the CNB.

Figure 5 Total volume of construction works



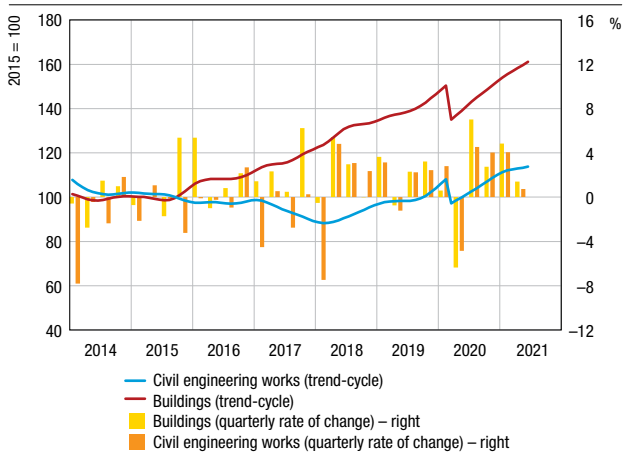
Source: CBS data seasonally adjusted by the CNB.

Figure 8 Consumer and business confidence indicators standardised and seasonally adjusted values



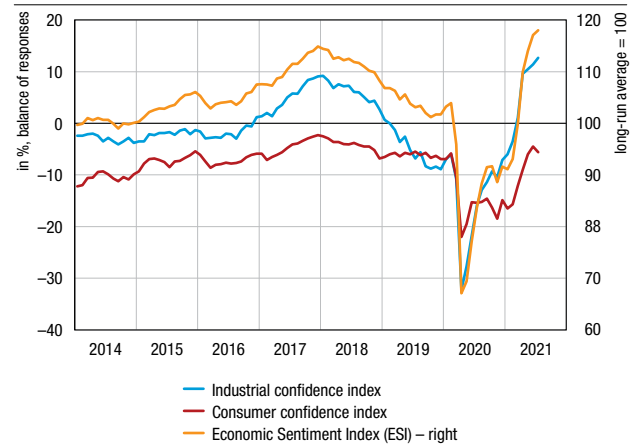
Sources: Ipsos and CNB data seasonally adjusted by the CNB.

Figure 6 Buildings and civil engineering works



Source: CBS data seasonally adjusted by the CNB.

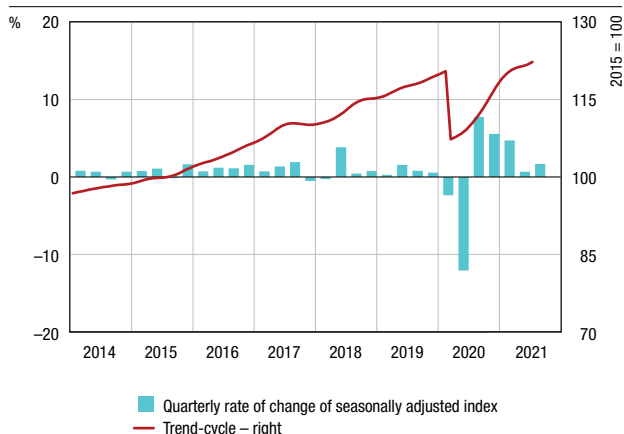
Figure 9 EU confidence indices seasonally adjusted series



Note: Data are up to July 2021.

Source: Eurostat.

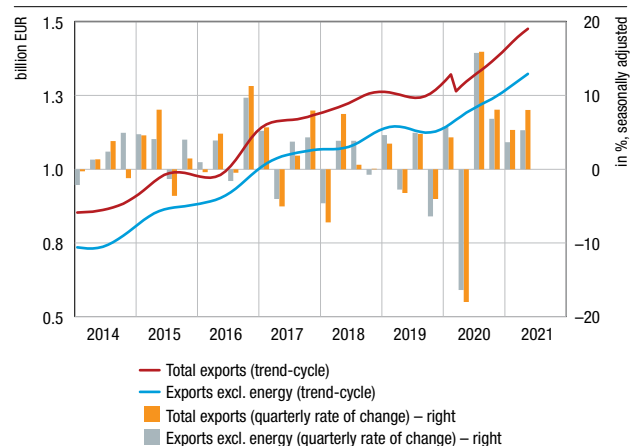
Figure 7 Real retail trade turnover



Note: Data for the third quarter of 2021 refers to July.

Source: CBS data seasonally adjusted by the CNB.

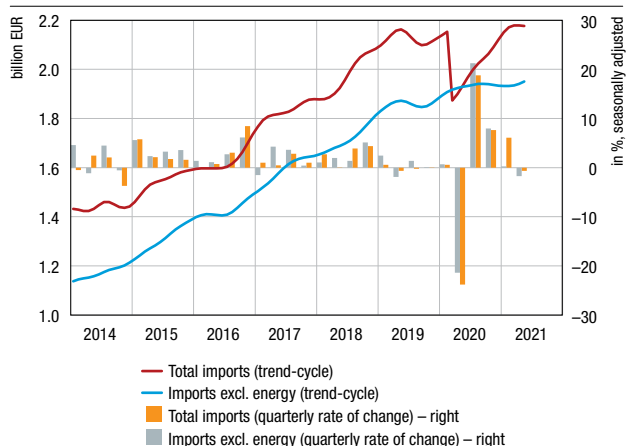
Figure 10 Goods exports (f.o.b.)



Note: Data for the second quarter of 2021 refer to April and May.

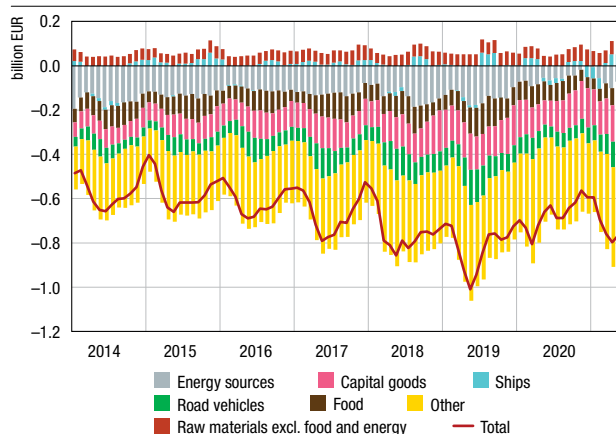
Source: CBS data seasonally adjusted by the CNB.

Figure 11 Goods imports (c.i.f.)



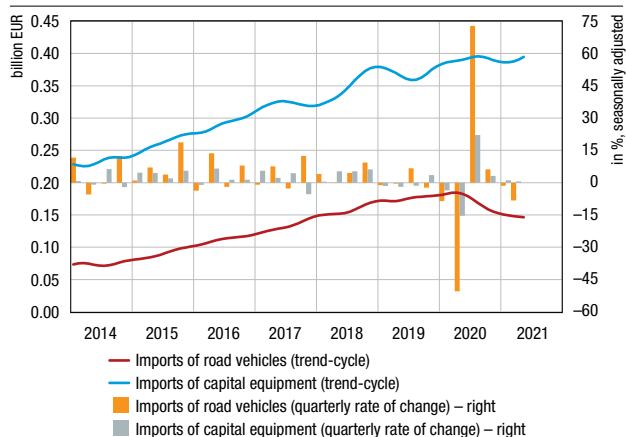
Note: Data for the second quarter of 2021 refer to April and May.  
Source: CBS data seasonally adjusted by the CNB.

Figure 14 Trade in goods balance by product groups



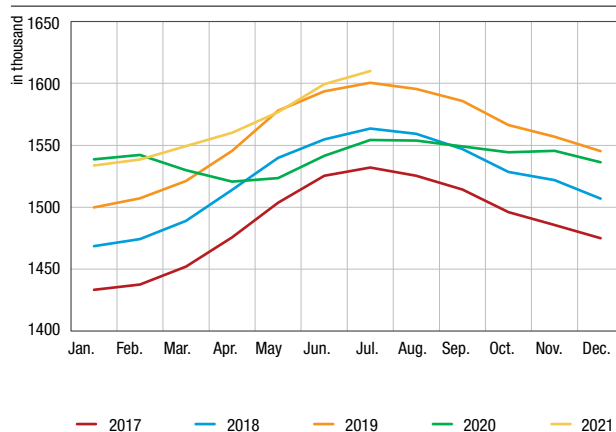
Notes: Series are shown as three-member moving averages of monthly data. Data are up to May 2021.  
Source: CBS.

Figure 12 Imports of capital equipment and road vehicles (c.i.f.)



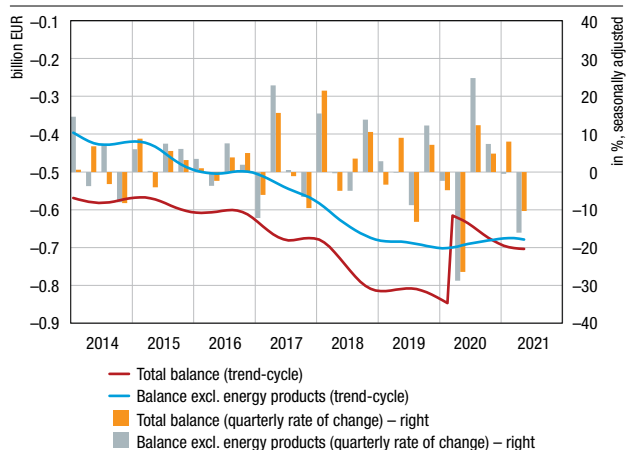
Notes: Imports of capital equipment (SITC divisions 71 – 77). Data for the second quarter of 2021 refer to April and May.  
Source: CBS data seasonally adjusted by the CNB.

Figure 15 Employment original data



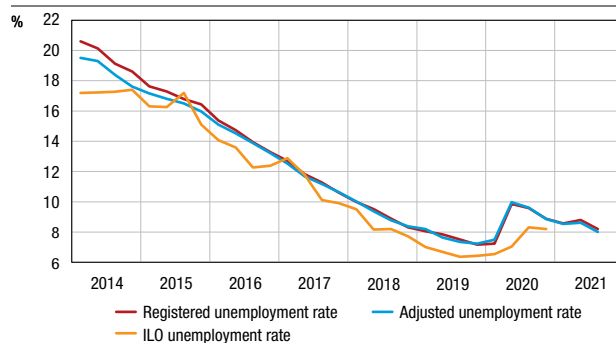
Source: CPII data seasonally adjusted by the CNB.

Figure 13 Trade of goods balance



Note: Data for the second quarter of 2021 refer to April and May.  
Source: CBS data seasonally adjusted by the CNB.

Figure 16 Unemployment rates seasonally adjusted data

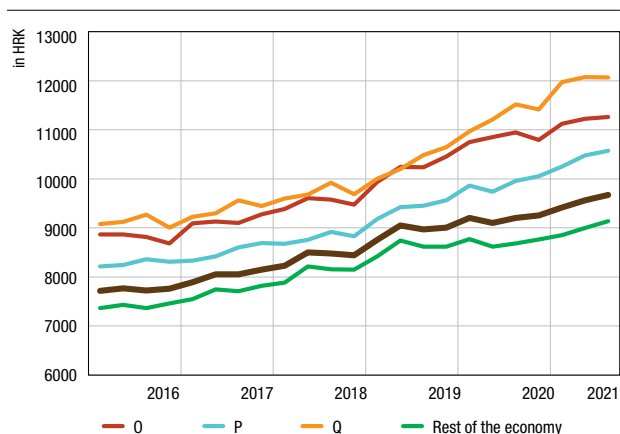


Notes: Since January 2015, the calculation of the registered unemployed rate has used the data on employed persons from the JOPPD form. Data on the number of employed persons have been revised backwards for the period from January 2016 to December 2019. The adjusted unemployment rate is the CNB estimate and is calculated as the share of the number of registered unemployed persons in the working age population (unemployed persons and persons insured with the CPII). Data for the third quarter of 2021 refer to July.

Sources: CBS and CNB calculations (seasonally adjusted by the CNB).



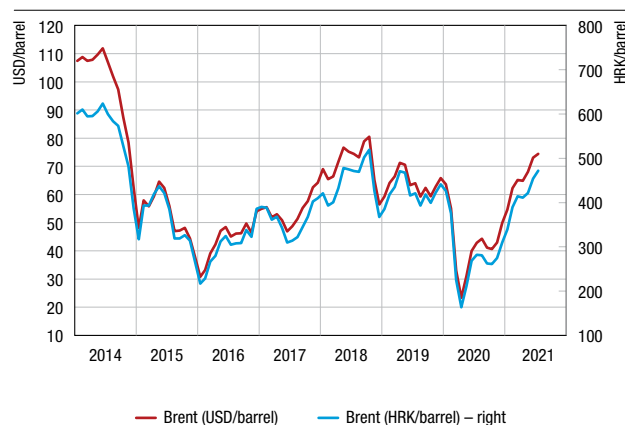
**Figure 17 Average nominal gross wage by NCA activities**  
original data



Note: O – Public administration and compulsory social security, P – Education, Q – Human health.

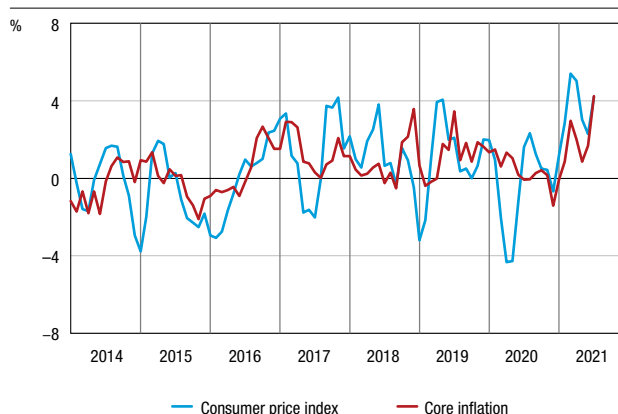
Sources: CBS and CNB calculations (seasonally adjusted by the CNB).

**Figure 20 Crude oil prices (Brent)**



Sources: Bloomberg and CNB calculations.

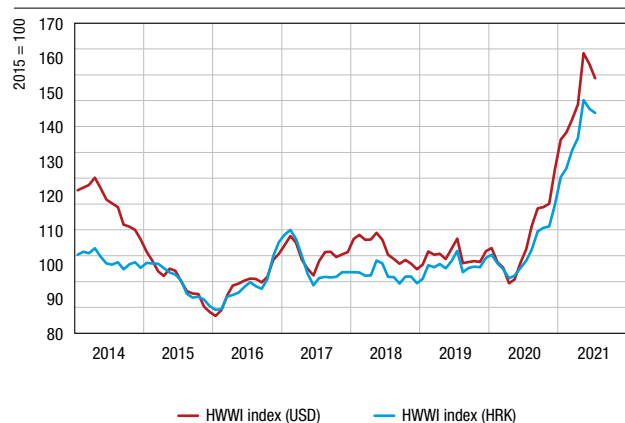
**Figure 18 Consumer price index and core inflation**  
annualised month-on-month rate of change<sup>a</sup>



<sup>a</sup> The month-on-month rate of change is calculated based on the quarterly moving average of seasonally adjusted consumer price indices.

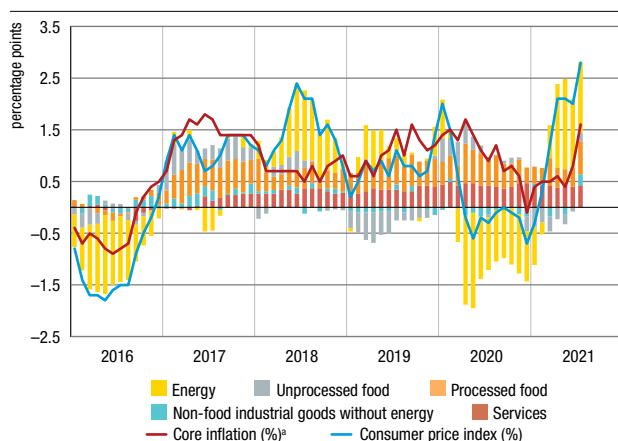
Sources: CBS and CNB calculations.

**Figure 21 HWWI index (excl. energy)**



Sources: HWWI and CNB calculations.

**Figure 19 Year-on-year inflation rate and contributions of components to consumer price inflation**



<sup>a</sup> Core inflation does not include agricultural product prices, energy prices and administered prices.

Sources: CBS and CNB calculations.

**Table 1 Price indicators**

year-on-year and month-on-month rates of change

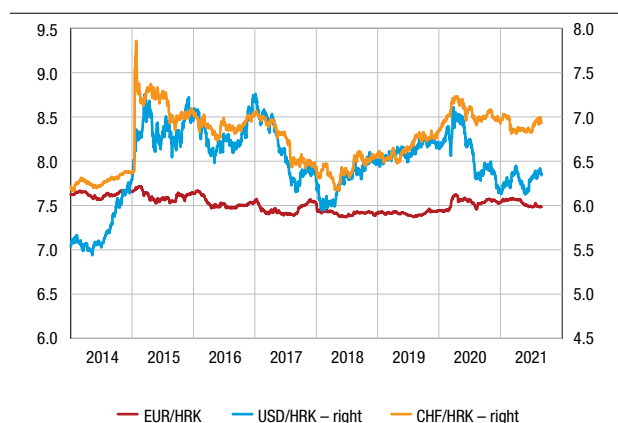
	Year-on-year rates		Month-on-month rates	
	6/21	7/21	7/20	7/21
<b>Consumer price index and its components</b>				
Total index	2.0	2.8	-0.5	0.2
Energy	8.1	8.2	1.3	1.3
Unprocessed food	-0.9	2.0	-3.2	-0.4
Processed food	1.5	2.7	0.2	1.4
Non-food industrial goods without energy	0.0	0.8	-2.7	-1.9
Services	1.6	1.7	0.7	0.8
<b>Other price indicators</b>				
Core inflation	0.8	1.6	-0.8	0.1
Index of industrial producer prices on the domestic market	7.8	8.7	0.7	1.5
Brent crude oil price (USD)	83.0	73.7	7.2	1.8
HWWI index (excl. energy, USD)	71.4	59.0	4.7	-2.9

Note: Processed food includes alcoholic beverages and tobacco.

Sources: CBS, Bloomberg and HWWI.

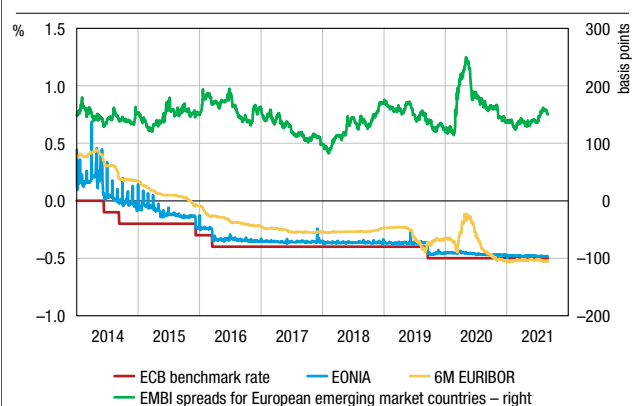
**Figure 22 Daily nominal exchange rate – HRK vs. EUR, USD and CHF**

CNB midpoint exchange rate



Source: CNB.

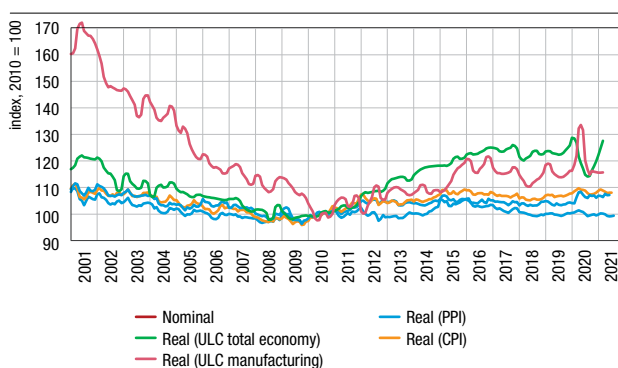
**Figure 25 Interest rates on the euro and the average yield spread on bonds of European emerging market countries**



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: ECB, Bloomberg and J.P. Morgan.

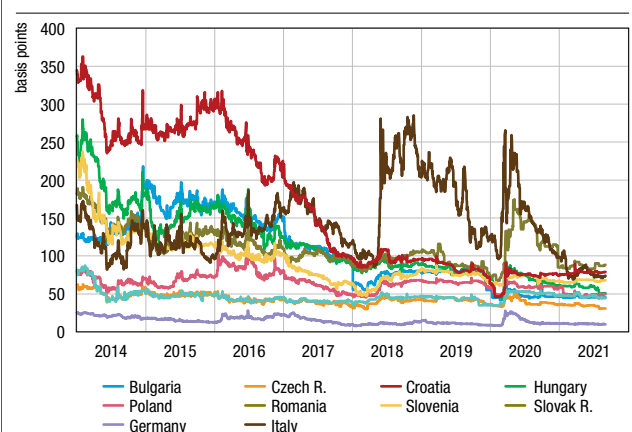
**Figure 23 Nominal and real effective exchange rates of the kuna**



Notes: The real effective exchange rate of the kuna deflated by producer prices includes the Croatian index of industrial producer prices on the total market. The unit labour cost is calculated as the ratio between compensation per employee and labour productivity (defined as GDP per person employed), while the real effective exchange rate of the kuna deflated by unit labour costs is the result of the interpolation of quarterly values. A fall in the index indicates an effective appreciation of the kuna.

Source: CNB.

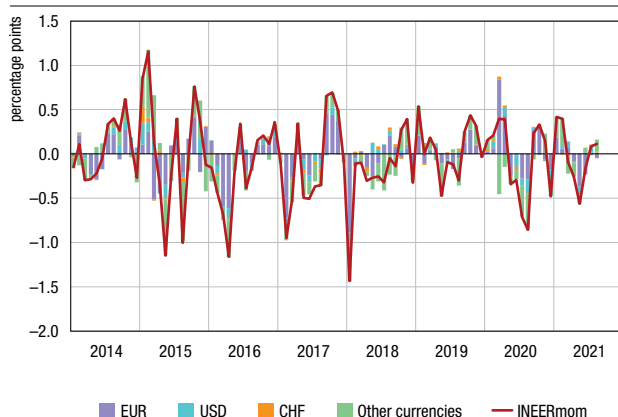
**Figure 26 CDS spreads for 5-year government bonds of selected countries**



Note: Credit default swaps (CDS) spread is an annual premium that a CDS buyer pays for protection against credit risk associated with the issuer of an instrument.

Source: S&P Capital IQ.

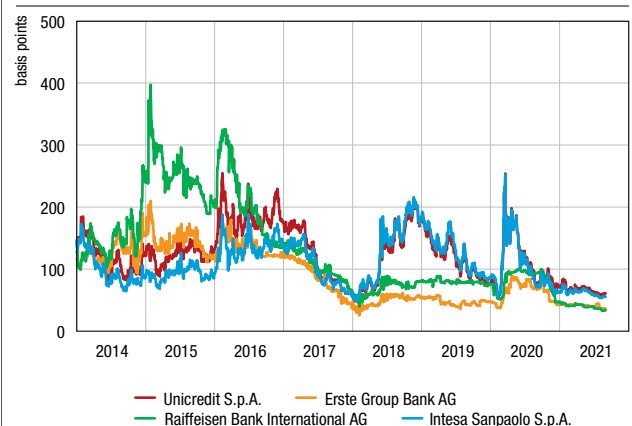
**Figure 24 Contributions<sup>a</sup> of individual currencies to the monthly rate of change of the average index of the nominal effective kuna exchange rate (INEER)**



<sup>a</sup> Negative values indicate contributions to the appreciation of the INEER.

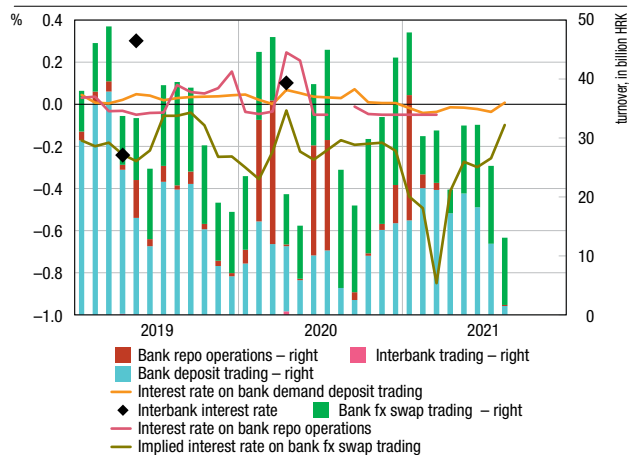
Source: CNB.

**Figure 27 CDS spreads for selected parent banks of domestic banks**



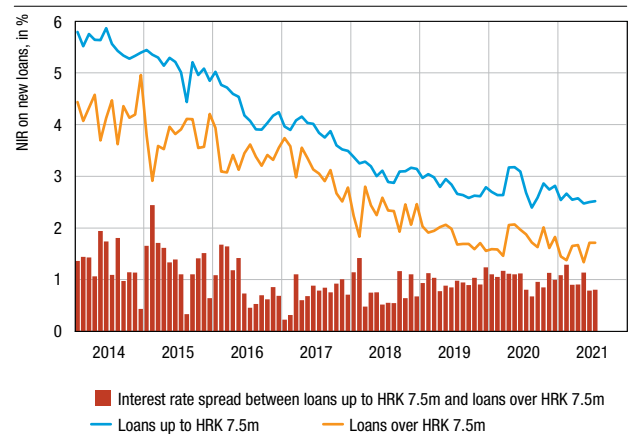
Source: S&P Capital IQ.

Figure 28 Overnight interest rates and turnovers



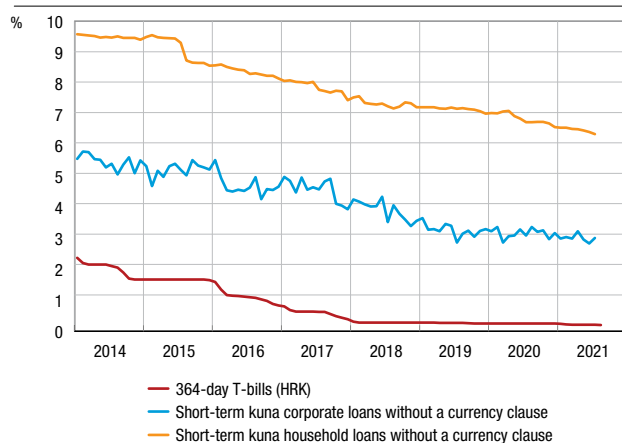
Source: CNB.

Figure 31 Bank interest rates on loans to non-financial corporations by volume



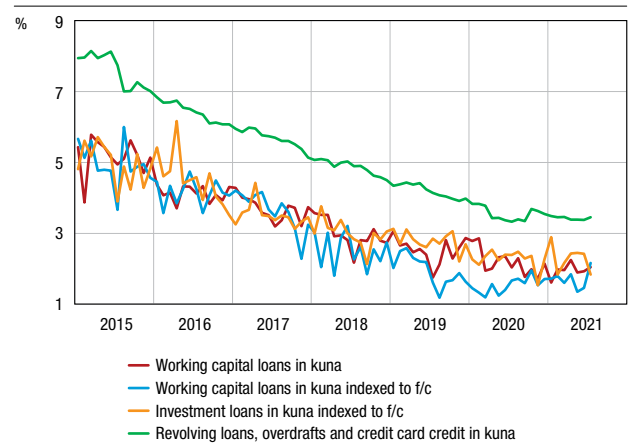
Source: CNB.

Figure 29 Short-term financing costs in kuna without a currency clause



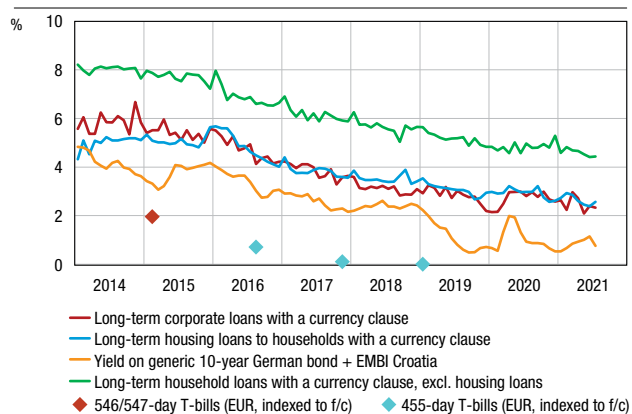
Sources: MoF and CNB.

Figure 32 Interest rates on pure new loans to non-financial corporations



Source: CNB.

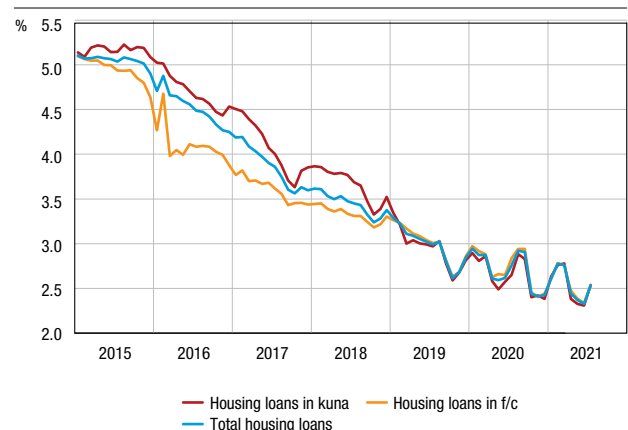
Figure 30 Long-term financing costs in kuna with a currency clause and in foreign currency



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

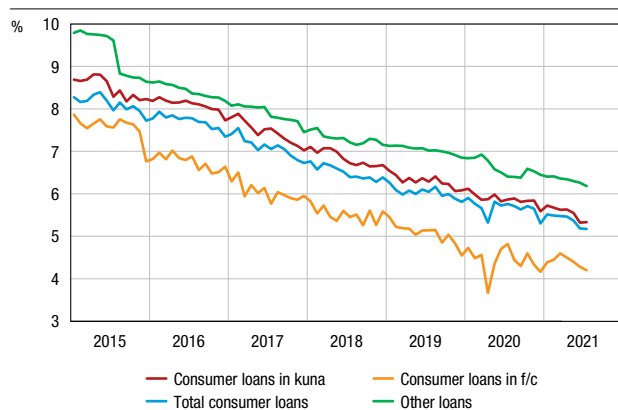
Sources: MoF, Bloomberg and CNB.

Figure 33 Interest rates on pure new housing loans to households



Source: CNB.

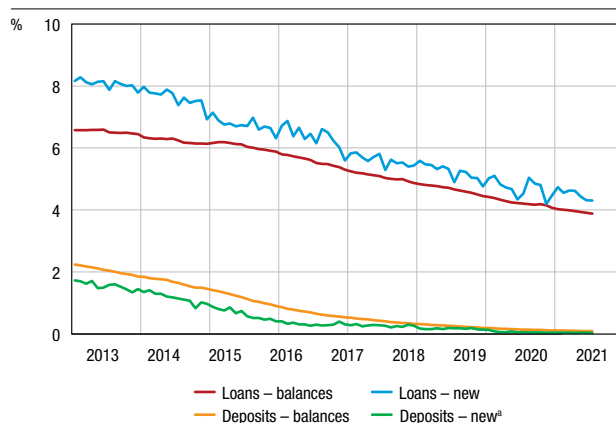
**Figure 34 Interest rates on pure new consumer loans and other loans to households**



Notes: Consumer loans include total loans to households excl. housing and other loans. Other loans to households (denominated almost exclusively in kuna) include credit card loans, overdrafts, revolving loans and receivables on charge cards.

Source: CNB.

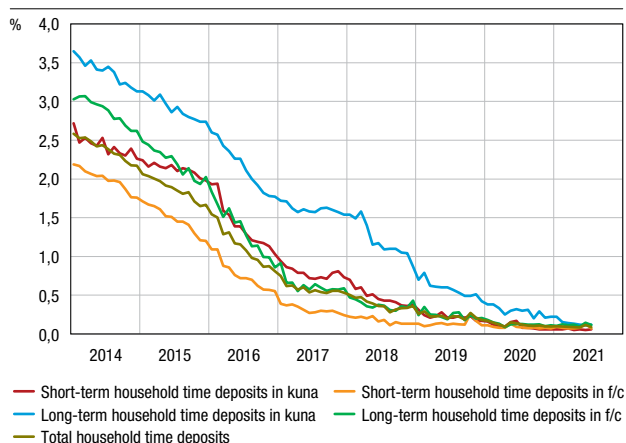
**Figure 37 Average interest rates on loans (excl. revolving loans) and deposits**



<sup>a</sup> For time deposits, interest rates on newly received deposits are weighted by their balances.

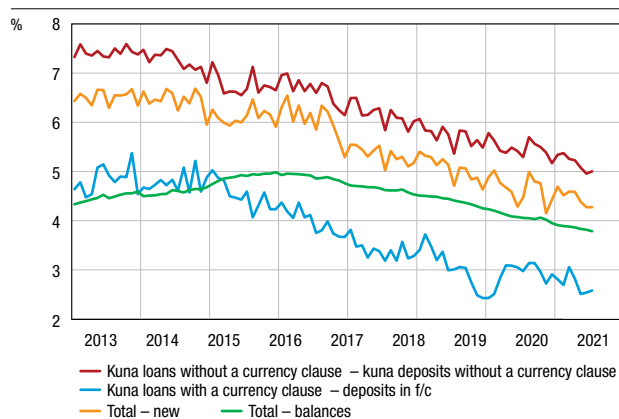
Source: CNB.

**Figure 35 Interest rates on household time deposits**



Source: CNB.

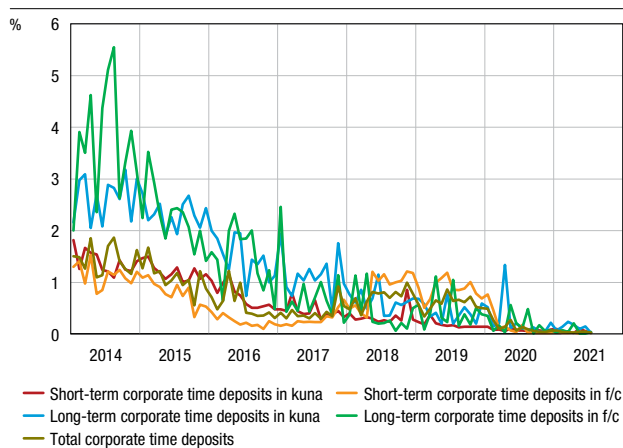
**Figure 38 Spread between interest rates on loans (excl. revolving loans) and interest rates on deposits**



Note: Spread between average interest rates on loans and average interest rates on deposits should be differentiated from net interest margin (the ratio of the difference between interest income and interest expenses to total assets of credit institutions).

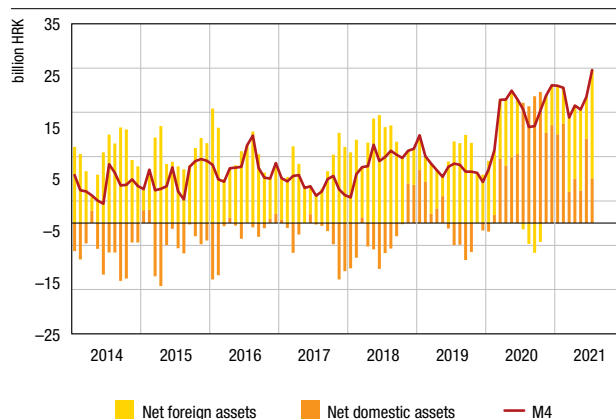
Source: CNB.

**Figure 36 Interest rates on corporate time deposits**



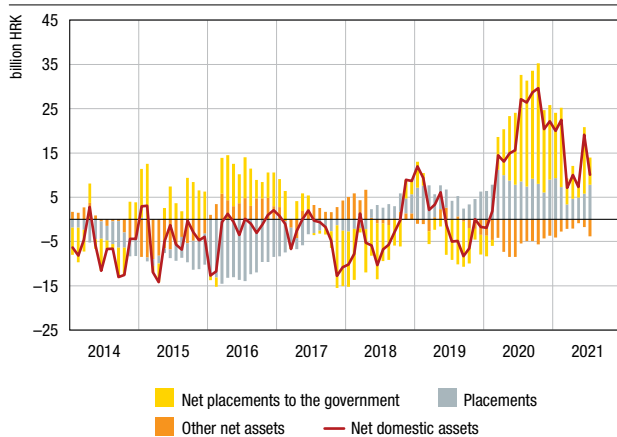
Source: CNB.

**Figure 39 Net foreign assets, net domestic assets and total liquid assets (M4) absolute change in the last 12 months**



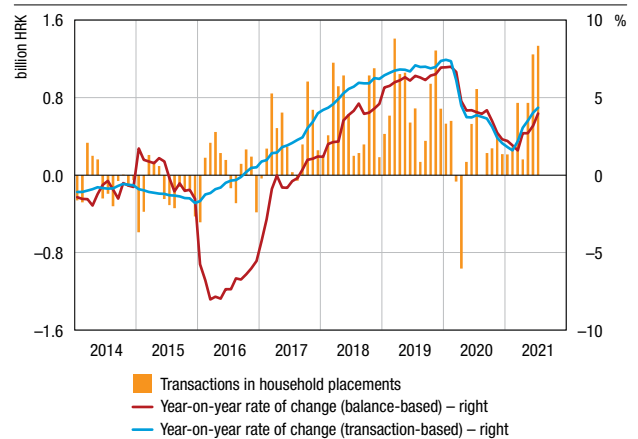
Source: CNB.

**Figure 40 Net domestic assets, structure**  
absolute change in the last 12 months



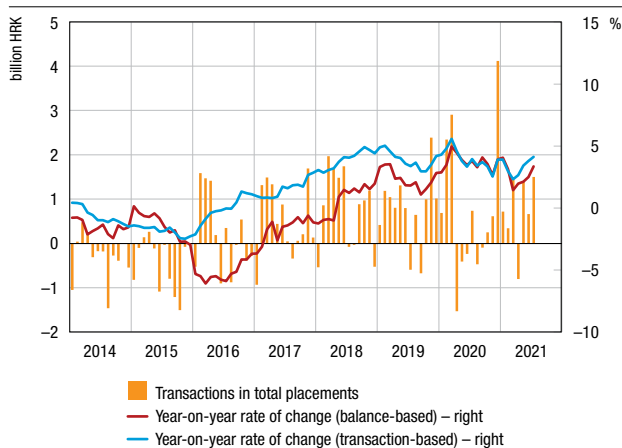
Source: CNB.

**Figure 43 Placements to households**



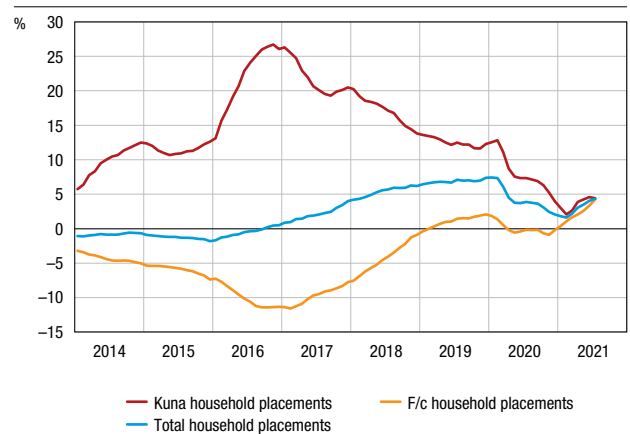
Source: CNB.

**Figure 41 Placements**



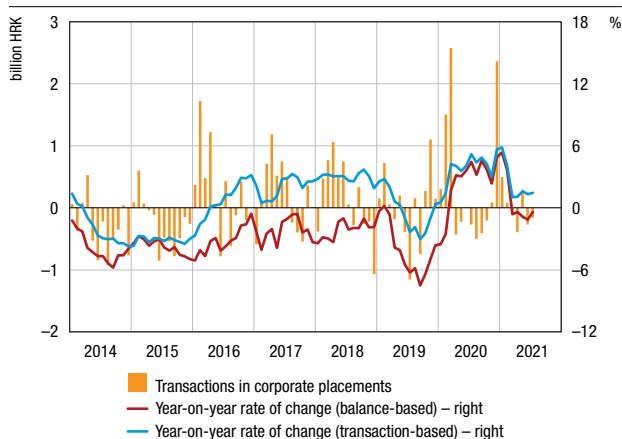
Source: CNB.

**Figure 44 Annual rate of change in household placements**  
transaction-based



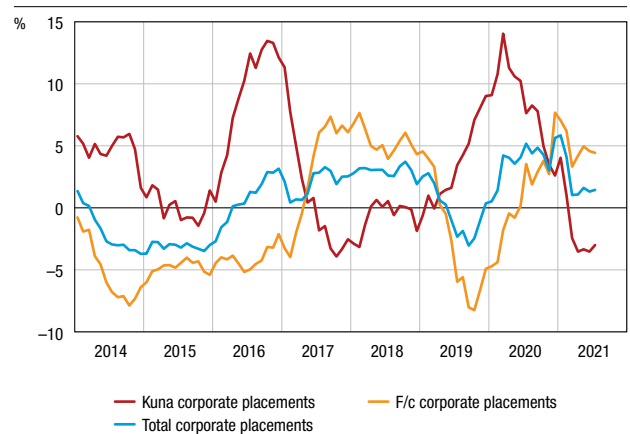
Source: CNB.

**Figure 42 Placements to corporates**



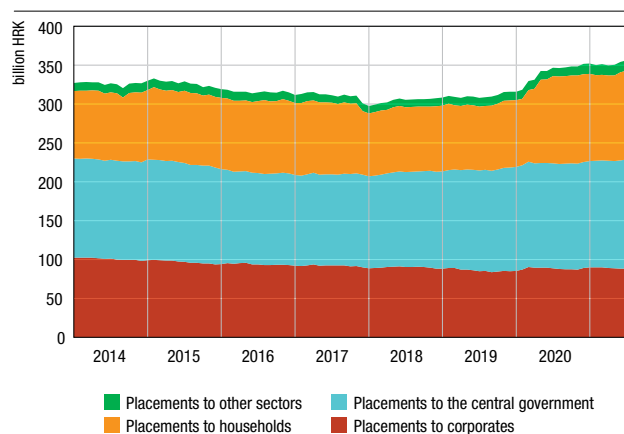
Source: CNB.

**Figure 45 Annual rate of change in corporate placements**  
transaction-based



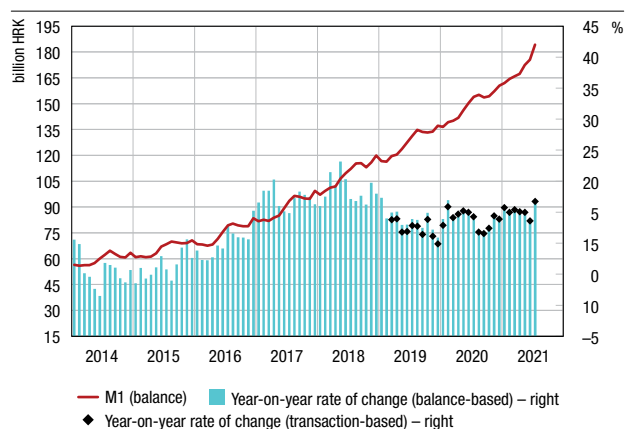
Source: CNB.

**Figure 46 Structure of placements of monetary financial institutions**



Source: CNB.

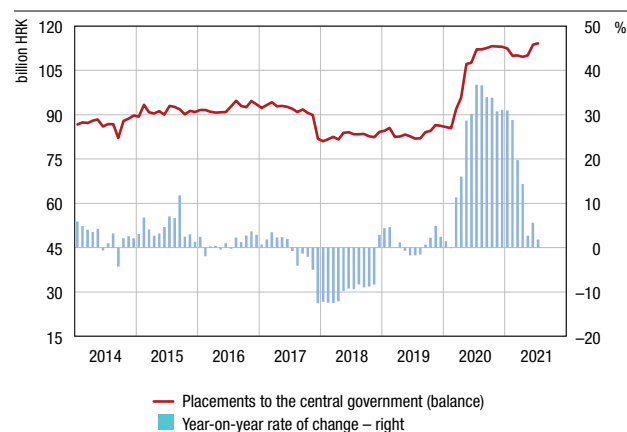
**Figure 49 Money (M1)**



Note: From March 2019, the growth rate (transaction-based) excludes the effect of the reclassification of money market funds.

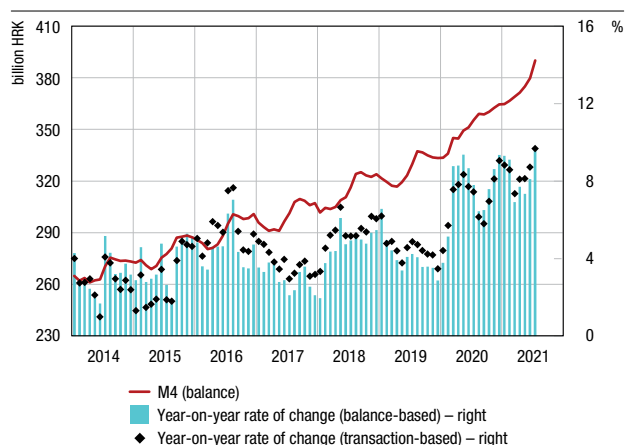
Source: CNB.

**Figure 47 Placements of monetary financial institutions to the central government**



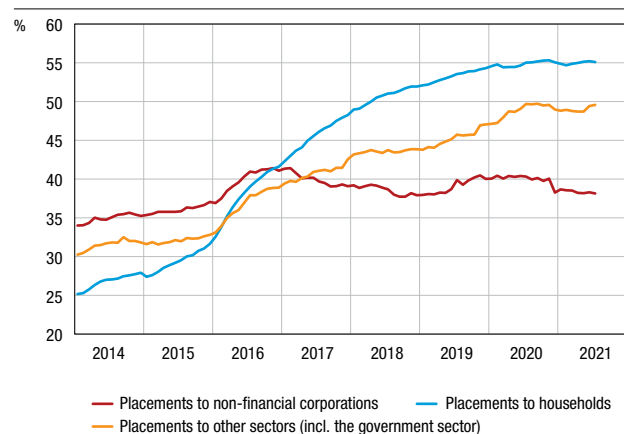
Source: CNB.

**Figure 50 Total liquid assets (M4)**



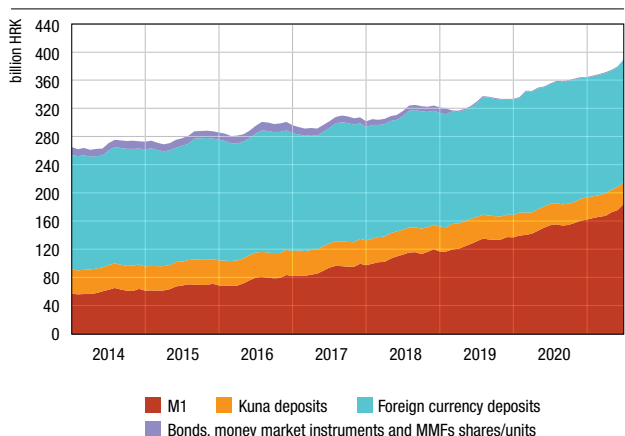
Source: CNB.

**Figure 48 Share of kuna placements in total sector placements**



Source: CNB.

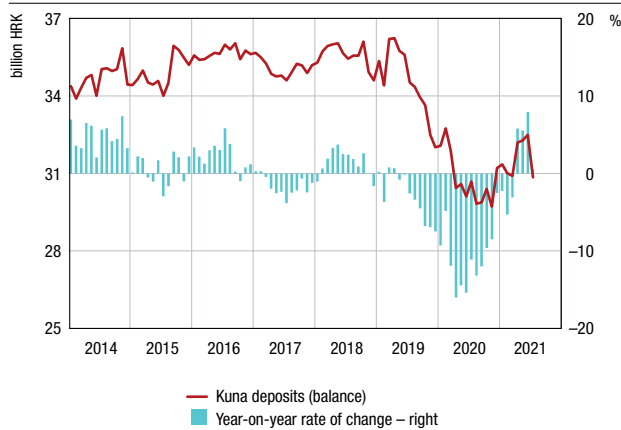
**Figure 51 Structure of M4 monetary aggregate**



Source: CNB.

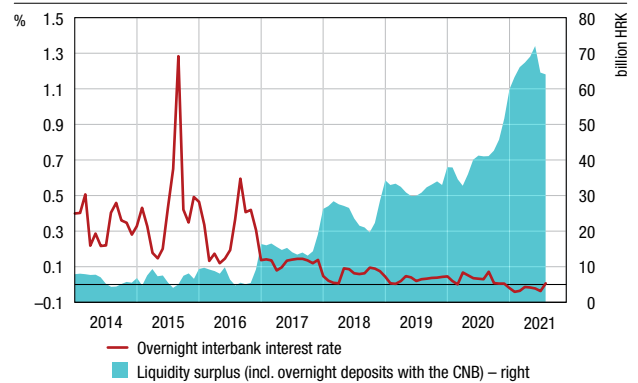


Figure 52 Kuna savings and time deposits



Source: CNB.

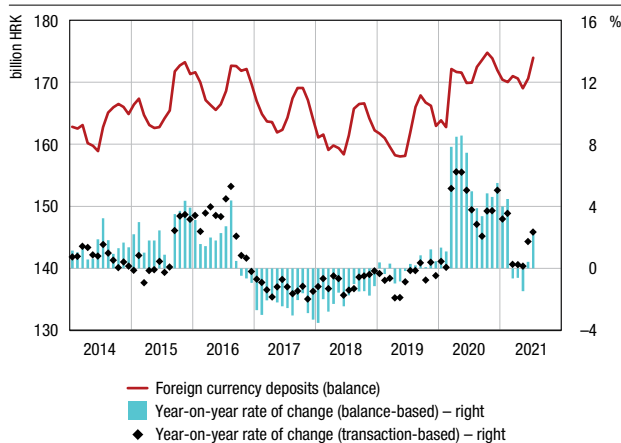
Figure 55 Bank liquidity and overnight interest rate on bank demand deposit trading



Notes: Liquidity surplus is the difference between the balance in bank settlement accounts with the CNB and the amount that banks are required to hold in their accounts after the calculation of reserve requirements. The overnight interest rate until the end of 2015 refers to the overnight interbank interest rate and as of the beginning of 2016 to the overnight interest rate on bank demand deposit trading.

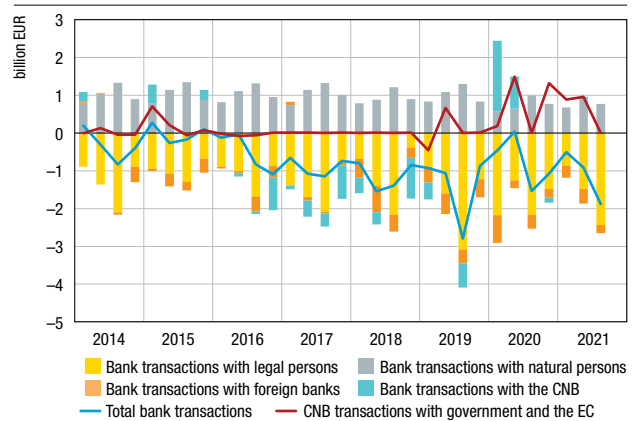
Source: CNB.

Figure 53 Foreign currency deposits



Source: CNB.

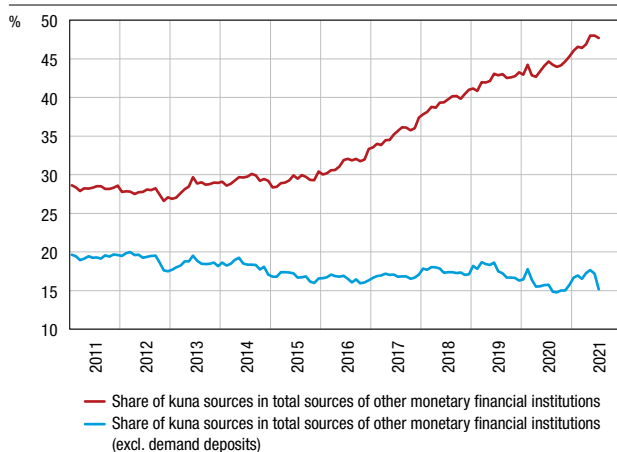
Figure 56 Spot transactions in the foreign exchange market (net turnover)



Notes: Positive values indicate net purchases and negative values indicate net sales. Legal persons include the government. Data for the second quarter of 2021 refer to April and May.

Source: CNB.

Figure 54 Share of kuna sources



Source: CNB.

Figure 57 International reserves of the CNB at current rate of exchange



<sup>a</sup> NUIR = international reserves – foreign liabilities – reserve requirements in f/c – foreign currency government deposits.

Source: CNB.

Table 2 Balance of payments

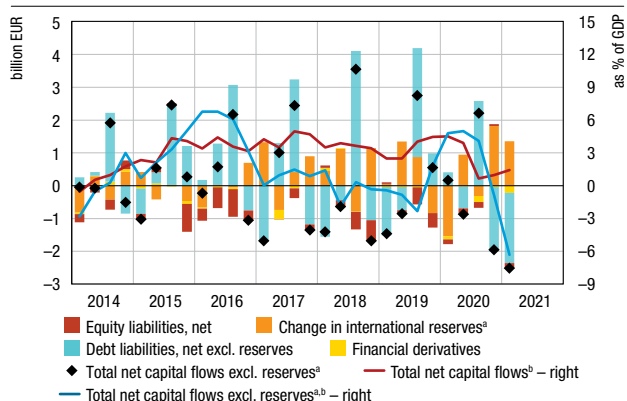
preliminary data, in million EUR

	2019	Q1/2021*	Indices	
			2019/ 2018	Q1/2021/ 2019
Current account	-179	-155.7	-10.9	87.0
Capital account	1,074	1,119.5	120.8	104.2
Financial account (excl. reserves)	-117	-4,176.3	-8.2	3,562.8
International reserves	603	4,881.5	61.0	808.9
Net errors and omissions	-409	-258.6	349.4	63.2

\* Refers to the sum of the last four quarters.

Source: CNB.

Figure 60 Financial account flows by equity to debt ratio

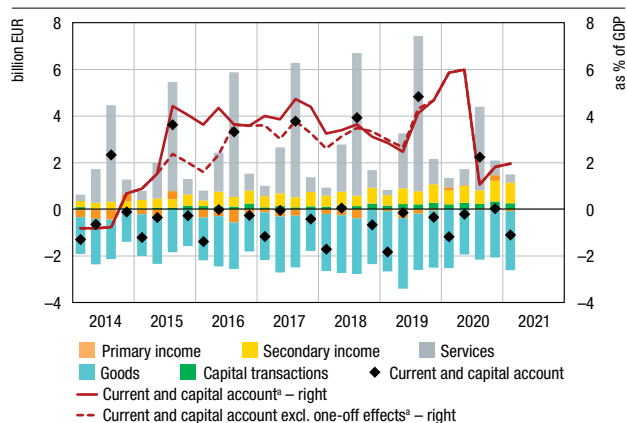


<sup>a</sup> The change in gross international reserves is reported net of foreign liabilities of the CNB. <sup>b</sup> Sum of the last four quarters.

Notes: A positive value indicates net outflow of equity abroad. Net flows represent the difference between the change in assets and the change in liabilities.

Source: CNB.

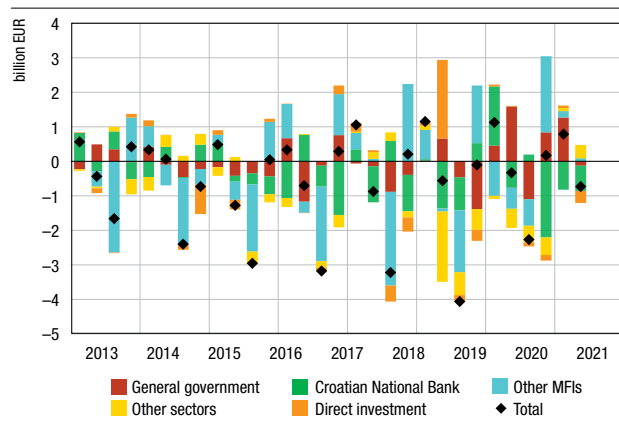
Figure 58 Current and capital account flows

<sup>a</sup> 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 and 2018.

Source: CNB.

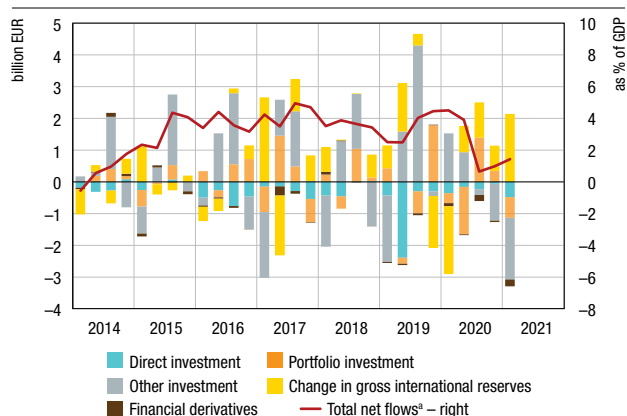
Figure 61 Net external debt transactions



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.

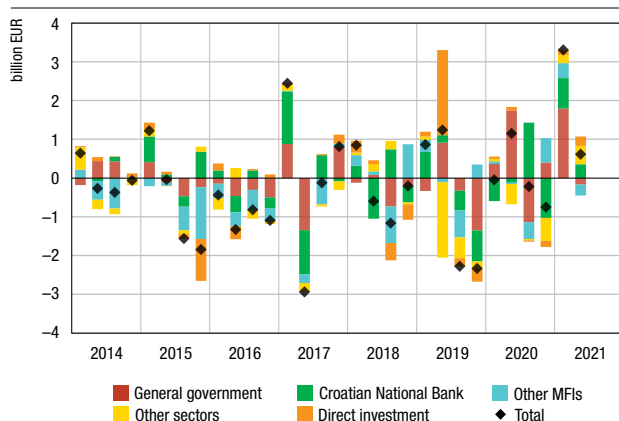
Figure 59 Financial account flows by type of investment

<sup>a</sup> Sum of the last four quarters.

Note: A positive value indicates net outflow of equity abroad (including on the basis of the growth in international reserves).

Source: CNB.

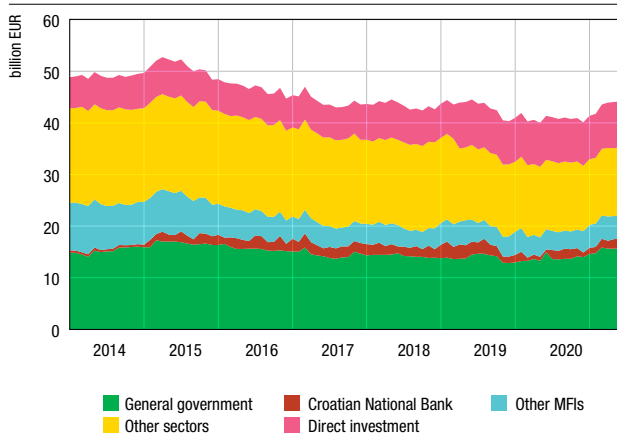
Figure 62 Gross external debt transactions



Note: Transactions refer to the change in debt excl. cross-currency changes and other adjustments.

Source: CNB.

**Figure 63 Gross external debt**  
end of period



Note: Data are up to June 2021.

Source: CNB.

**Table 5 General government debt**

in million HRK

	May 2020	May 2021
Change in total debt stock	20,980	7,033
Change in domestic debt stock	15,913	-4,900
– Securities other than shares, short-term	6,345	-692
– Securities other than shares, long-term	3,843	-1,166
– Loans	7,045	-3,016
Change in external debt stock	5,067	11,934
– Securities other than shares, short-term	0	301
– Securities other than shares, long-term	3,058	7,470
– Loans	2,008	4,162
Memo item:		
Change in total guarantees issued	190	-587

Source: CNB.

**Table 3 Consolidated general government balance**

ESA 2010, in million HRK

	Jan. – Mar. 2020	Jan. – Mar. 2021
<b>Total revenue</b>	<b>41,743</b>	<b>45,344</b>
Direct taxes	6,363	6,010
Indirect taxes	16,201	16,798
Social contributions	11,270	11,753
Other	7,910	10,783
<b>Total expenditure</b>	<b>46,158</b>	<b>49,753</b>
Social benefits	15,616	16,422
Subsidies	1,638	2,021
Interest	1,933	1,741
Compensation of employees	12,218	12,850
Intermediate consumption	8,094	7,324
Investment	3,410	3,720
Other	3,249	5,675
<b>Net lending (+)/borrowing (-)</b>	<b>-4,415</b>	<b>-4,409</b>

Sources: Eurostat and CBS.

**Table 4 Consolidated central government net borrowing**

GFS 2001, in million HRK

	Jan. – Jun. 2020	Jan. – Jun. 2021
1 Revenue	60,077	72,479
2 Disposal of non-financial assets	280	179
3 Expenditure	74,868	81,882
4 Acquisition of non-financial assets	2,214	2,079
5 Net borrowing (1 + 2 – 3 – 4)	-16,726	-11,304

Sources: MoF and CNB calculations.

## Abbreviations and symbols

### Abbreviations

BIS	– Bank for International Settlements
bn	– billion
b.p.	– basis points
BOP	– balance of payments
c.i.f.	– cost, insurance and freight
CBRD	– Croatian Bank for Reconstruction and Development
CBS	– Croatian Bureau of Statistics
CCI	– consumer confidence index
CDCC	– Central Depository and Clearing Company Inc.
CDS	– credit default swap
CEE	– Central and Eastern European
CEFTA	– Central European Free Trade Agreement
CEI	– consumer expectations index
CES	– Croatian Employment Service
CHIF	– Croatian Health Insurance Fund
CLVPS	– Croatian Large Value Payment System
CM	– Croatian Motorways
CNB	– Croatian National Bank
CPF	– Croatian Privatisation Fund
CPI	– consumer price index
CPII	– Croatian Pension Insurance Institute
CR	– Croatian Roads
CSI	– consumer sentiment index
DAB	– State Agency for Deposit Insurance and Bank Resolution
dep.	– deposit
DVP	– delivery versus payment
EC	– European Commission
ECB	– European Central Bank
EFTA	– European Free Trade Association
EMU	– Economic and Monetary Union
ESI	– economic sentiment index
EU	– European Union
excl.	– excluding
f/c	– foreign currency
FDI	– foreign direct investment
Fed	– Federal Reserve System
FINA	– Financial Agency
FISIM	– financial intermediation services indirectly measured
f.o.b.	– free on board
GDP	– gross domestic product
GVA	– gross value added
HANFA	– Croatian Financial Services Supervisory Agency
HICP	– harmonised index of consumer prices
ILO	– International Labour Organization
IMF	– International Monetary Fund
incl.	– including
IPO	– initial public offering
m	– million
MIGs	– main industrial groupings
MM	– monthly maturity
MoF	– Ministry of Finance
NCA	– National Classification of Activities
NCB	– national central bank
NCS	– National Clearing System

n.e.c.	– not elsewhere classified
OECD	– Organisation for Economic Co-Operation and Development
OG	– Official Gazette
R	– Republic
o/w	– of which
PPI	– producer price index
RTGS	– Real-Time Gross Settlement
Q	– quarterly
RR	– reserve requirement
SDR	– special drawing rights
SITC	– Standard International Trade Classification
SGP	– Stability and Growth Pact
VAT	– value added tax
WTO	– World Trade Organization
ZMM	– Zagreb Money Market
ZSE	– Zagreb Stock Exchange

### Three-letter currency codes

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

### Two-letter country codes

BG	– Bulgaria
CZ	– Czech R.
EE	– Estonia
HR	– Croatia
HU	– Hungary
LV	– Latvia
LT	– Lithuania
PL	– Poland
RO	– Romania
SK	– Slovak R.
SI	– Slovenia

### Symbols

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