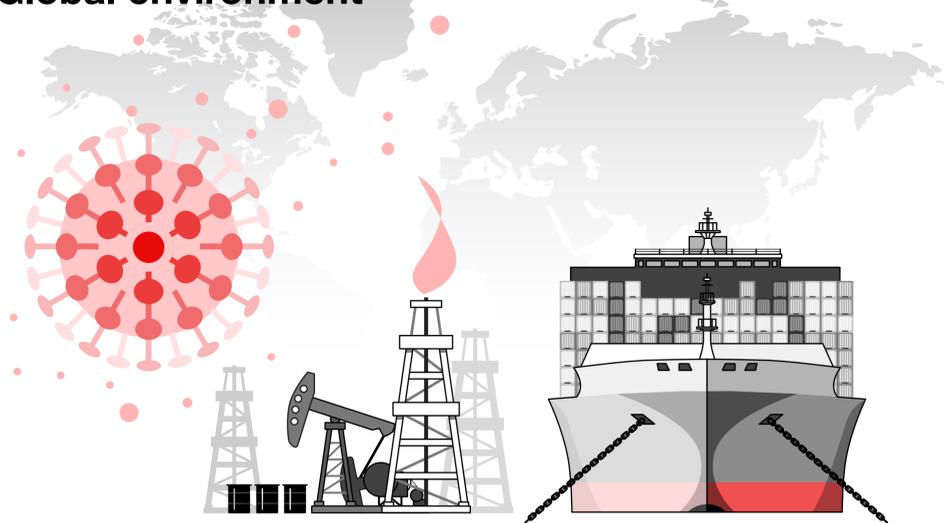


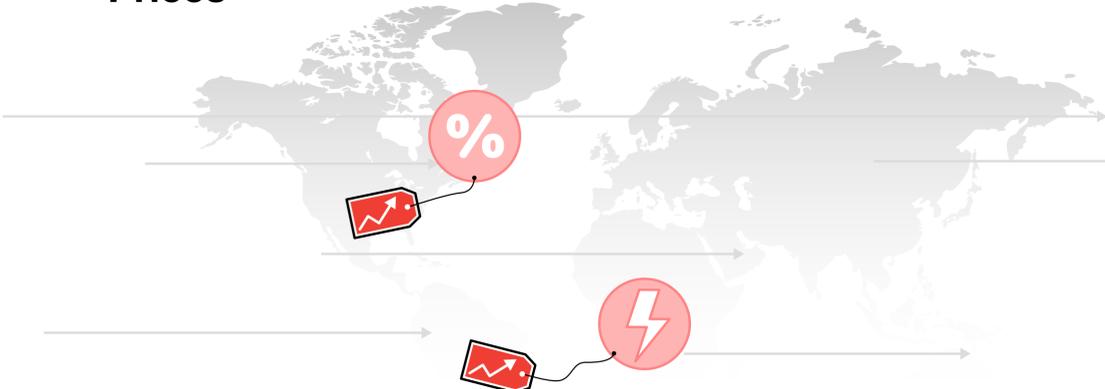
Global environment



The total exposure of the financial system to systemic risks has risen as a result of the war in Ukraine and sanctions imposed on Russia, the effects of which spill over to the Croatian economy mainly through developments in the prices of raw materials and other goods on global and regional markets.

[Box 1 Effects of war in Ukraine on the financial stability in Croatia – failure of a Russian-owned bank prevented](#)

Prices



Rising prices of oil and food products on the global markets, partly influenced by the war in Ukraine, are spilling over to domestic prices of refined petroleum products and food, propelling strong acceleration in inflation.

[1 Macroeconomic environment](#)

[3 Household sector](#)

Real estate



Residential real estate prices continued to grow in 2021, mostly faster than their key macroeconomic fundamentals which increases the probability of a sudden reversal should there be any macroeconomic disruption.

[4 Real estate market](#)

[Box 6 The policies and ways to influence the residential real estate market](#)

Stable banking system

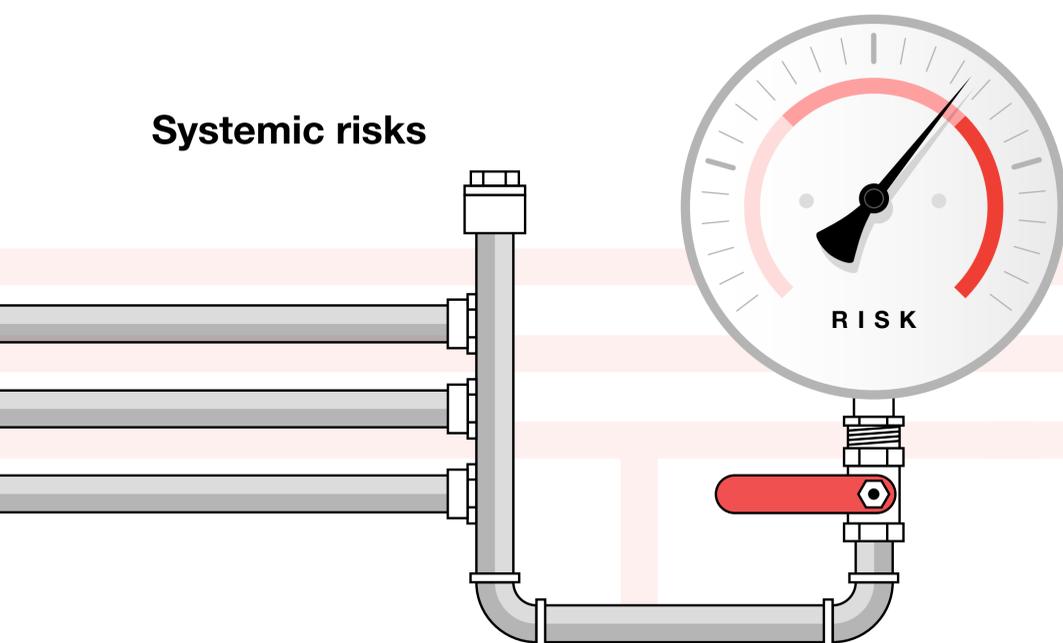


The uncertainties associated with the pandemic and recent geopolitical tensions have thus far not undermined the stability of the financial sector in Croatia. Good liquidity and capitalisation of the banking sector played an important role in this, supported by the accumulated capital buffers.

[6 Credit institutions](#)

[7 Stress testing of credit institutions](#)

Systemic risks



The challenges and risks to the domestic financial system in the forthcoming period in Croatia stem from developments in geopolitical instabilities and inflationary pressures, the effects of the expected monetary policy normalisation and further growth in the prices of residential real estate.

[Box 2 How much would repayment costs grow for users of housing and consumer loans in the event of an interest rate increase](#)

[Box 3 ESRB warnings and recommendations on medium-term vulnerabilities on the residential real estate market](#)