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# Summary

In 2002, the Croatian National Bank met its primary and legally prescribed goal of achieving and maintaining price stability. Retail price growth in Croatia amounted to 2.2% in 2002, which is less than in 2001 when year-on-year price growth reached 4.9%. Inflation in Croatia thus corresponds to inflation in the area of the European Economic and Monetary Union in 2002. The inflation rate was low over the entire 2002 and was on the decline until the very end of the year, which contributed to a 0.1 percentage point reduction in the average year-on-year inflation compared to December 2002.

Core inflation rate, which is calculated by excluding from the basket of goods and services, used for the calculation of the retail price index, prices of agricultural products and administrative prices, fell during 2002 even more than inflation measured by retail price growth, reaching 1.2% in December. Since the rate of core inflation encompasses prices of products that are set by the market, it reflects better a change in the prices that can be controlled by the central bank's monetary policy. Core inflation was lower than an increase in retail prices, which shows that inflationary pressure was caused by a price increase of energy products and administrative prices, whereas demand-pull inflationary pressures were contained.

The achievement of the central bank's primary goal – price stability maintenance – requires a restriction on the kuna exchange rate extensive fluctuations. Although during 2002, the kuna exchange rate was not under such a strong pressure as in 2001, the appreciation pressures during the entire 2002 were generated by significant foreign exchange inflows from tourism, along with foreign borrowing of the government and banks, foreign loans used for the financing of major infrastructure projects, privatization of domestic enterprises, restructuring of banks' foreign assets into domestic assets, as well as the expectations of market participants. The Croatian National Bank responded to the appreciation pressures by purchasing foreign exchange, which prevented excess volatility of the kuna exchange rate. The average exchange rate in 2002 was 7.41 HRK/EUR, which is only a 0.83 percent increase compared to the exchange rate recorded in the previous year.

In the conditions of a strong capital inflow, the Croatian National Bank generated liquidity by purchasing foreign exchange from deposit money banks and the government in order to mitigate the appreciation pressures on the kuna exchange rate. In 2002, the Croatian National Bank thus purchased foreign exchange, net worth USD 604m, by issuing HRK 4.8bn. A direct sterilization of the generated surplus liquidity by means of a rise in the kuna reserve requirement calculation base was not sufficient by itself, so that issuance of CNB bills increased, reaching HRK 5.2bn in late 2002, which is HRK 1.7bn more than at end-2001.

Monetary developments in 2002 were marked by a strong credit activity growth of deposit money banks. A growth in domestic placements began in early 2002, following a strong growth in banks' sources of funds as a result of foreign exchange deposit inflow due to the euro banknote introduction. However, domestic sources were not sufficient

and banks increasingly used foreign sources for financing very profitable domestic loans. Bank placements to non-banking sector in 2002 increased by as much as 30%, which can primarily be accounted for by household loans, which rose by 43%, whereas corporate loans rose by 22.6%. In order to slow down a growth in domestic placements and foreign borrowing, the Croatian National Bank issued two decisions within its competence at the beginning of 2003. One of the decisions imposes financial penalties for banks if their domestic placement growth exceeds 16% in the entire 2003, allowing a three-month growth dynamics of 4%. The other decision prescribes a requirement for banks to maintain on a daily basis foreign exchange claims at a minimum level of 35% relative to their foreign exchange sources of funds.

Following a breakout of crisis in Riječka banka in March 2002, the Croatian National Bank, as a lender of last resort, provided for that bank the required kuna and foreign exchange liquidity. By a successful action of the CNB and the Government of the Republic of Croatia the crisis in Riječka banka was resolved and it did not spill over into other banks.

Monetary policy pursued by the Croatian National Bank in 2002 stimulated economic growth, so that according to the quarterly report prepared by the Central Bureau of Statistics (CBS), GDP increased by 5.2% in 2002. In that year, GDP stood at HRK 176bn in nominal terms, a HRK 13.5bn growth compared to the previous year. Such an accelerated growth relative to the previous year was parallel to the overall global growth deceleration – in the USA, EU and Japan. Nevertheless, the Central European transition countries managed to maintain the economic growth at a high level and even to accelerate it to a certain extent (as was the case in Croatia), as a result of acceleration of structural reforms and EU accession processes.

GDP growth was influenced by an increase in personal consumption and gross capital formation, whereas a contribution of net export of goods and services to economic growth was negative in 2002, as well as the influence of government consumption decline. Growth can mostly be accounted for by personal consumption which rose by 6.6% in 2002. Its growth was stimulated by a wage bill increase as a result of the average wage growth, slightly increased employment and new household borrowing from deposit money banks. Investment in inventories also significantly contributed to growth, together with investments in gross fixed capital formation which increased by 10.0% in 2002. Naturally, it should be noted that investment growth contributed not only to private sector activity but also to public investment in infrastructure (road construction), which has a long payback period.

Although a fiscal contraction continued in 2002, after the adjustments for a statistical impact of the exclusion of Croatian Highways (CH) and Croatian Roads (CR) from the consolidated central government, it is evident that public consumption increased in nominal terms and that its reduction in real terms was less pronounced than in the previous years. 2002 budget was marked by a shift from transfers to households, subsidies and expenditures for the public sector employees wages to capital expenditures. Nevertheless, as a result of lower expenditures of CH and CR than expected, the general government deficit amounted to HRK 8.3bn, or 4.7% of GDP, which is approximately HRK 2bn less than planned.

Positive effects of the economic growth spilled over into the labor market in 2002 as well. For the second consecutive year, employment growth, amounting to 0.6%, was thus recorded in 2002. Early in that year, registered unemployment also started to decline, additionally accelerating in the second half of the year and particularly by the end of the year. Although employment growth was one of the reasons for registered unemployment reduction, employment intermediation reform was the key factor for its acceleration. Labor Force Survey also confirms that employment growth continued in 2002, along with the unemployment reduction.

The average real gross wage increased less than 4% in 2002, which is slightly less than the GDP growth, which points that this was also one of the factors that contributed to the employment growth. Nevertheless, the average wage increase accelerated in the second half of the year and restrictive public sector wage policy weakened at the same time.

International transactions in 2002 were marked by a deterioration of the merchandise trade balance. According to the CBS data, goods exports, in terms of USD, amounted to USD 4.9bn, a 5% increase, while goods imports reached USD 10.7bn, an increase of 17.1%.

As a result of this deterioration, and to a smaller extent, due to pronounced cross-currency changes of the US dollar against the euro and kuna, the current account deficit increased by 3.2 percentage points, compared to 2001, standing at 6.9% of GDP, according to the preliminary data. Deficit growth was caused by foreign trade liberalization together with consumption increase triggered by credit expansion. Nevertheless, the fact that a significant part of the merchandise trade balance deterioration was caused by an increase of USD 467m, or 16.7%, in capital goods imports, is encouraging.

As regards balance of payments capital account, foreign direct investments decreased by 37% relative to 2001, to the level of USD 886m, of which EUR 500m can be accounted for by HT privatization alone. Other investments recorded the most significant changes in the capital and financial account in 2002, increasing from USD 490m to USD 2.7bn. These investments are mostly related to bank portfolio adjustments.

Following a 2001 stagnation, external debt grew by USD 4bn, or 35.1%, during 2002. The largest contribution to the increase in total external debt was made by banks, whose share in total increase was 42.3%. External debt increased by 14% of GDP during 2002, reaching 68% of GDP at the end of the year, which is a margin separating moderately indebted from highly indebted countries.

In April 2002, the National Payment System Act, adopted in late 2001, began to be applied, which implies the implementation of the final and most demanding stage of the national payment system reform. This stage involves closing of transaction accounts of business entities and households with the Financial Agency (FINA) and opening of these accounts with banks. In July 2002, the new Banking Act came into effect, aimed, to a large extent, at achieving compliance with the EU regulations.

At the end of 2002, a total of 50 banking institutions operated in the Republic of Croatia: 46 deposit money banks, 3 housing savings banks and 1 savings bank, 12 less than at end-2001. This reduction was a result of merger of individual banks and savings banks with other banks and the initiation of liquidation or bankruptcy proceedings in several savings banks. Such developments indicate a continuation of a banking system consolidation process. In 2002, market concentration was also reduced. While 3 banking groups, with a share of 57.9% in total assets of the banking system, operated at the end of 2001, there were 6 banking groups, with a share of 79.5% in total assets of the system, at end-2002. Competition strengthening among banking groups led to a further reduction in interest rates. Total bank assets stood at HRK 174.4bn at the end of 2002, which is 17.5% more than at the end of 2001, when bank assets amounted to HRK 148.4bn. This increase is mainly a result of net credit growth to the non-banking sector. Sources of asset growth included a rise in deposits and increased borrowing. A rise in taken loans, reaching HRK 26.4bn, was, however, more significant than deposit growth, which amounted to HRK 19.7bn. The share of bank assets in majority foreign ownership in total bank assets increased by somewhat less than 1 percentage point, whereas the share of banks in majority domestic ownership in total bank assets was on the decrease despite a rise in their number from 16 to 21 bank. At end-2002, bank capital amounted to HRK 14.6bn, an 11.1% increase relative to end-2001, but capital adequacy ratio was reduced from 18.5% to 16.6% as a result of a more rapid asset growth. Asset quality of banks improved, and their total after-tax profit increased by 160% in 2002 compared to 2001.



# Macroeconomic Developments

# 1.1 International Environment

## 1.1.1 World

The world economic developments in 2002 were marked by the Afghanistan war, a recovery of the American economy owing to the improved security situation in the USA and the uncertainty about the beginning of the war in Iraq.

In late 2001, the economic activity in the United States of America was suspended owing to the terrorist attacks. However, stricter security measures taken in the USA (which helped to restore consumer confidence) and the beginning of the Afghanistan war (that contributed to the growth of military-industrial complex and a more expansive fiscal policy in the USA) resulted in a mild recovery of the American economy at end-2002.

Despite indications of economic recovery in Japan in 2000, the terrorist attack against the USA in September 2001 destroyed the encouraging prospects and pushed Japan back into recession.

A suspended economic growth in the USA, which used to be the fastest growing economy in the world, followed by its moderate recovery, as well as a continuing recession in Japan and a very slow growth in Europe seriously jeopardize the prospects for further world economic growth. More specifically, a continuing recession in Japan destroyed the prospects for a faster economic growth in the countries of East and South-East Asia, while a downturn in the American economic activity jeopardizes the growth in the Latin American countries, whose future outlook is additionally spoiled by the financial crisis in Argentina, one of the strongest economies in the region. A continuation of growth is only expected in the transition countries due to the positive effects of accelerated reforms in the candidate countries for EU membership.

Owing to the arrested economic growth in the USA, the country's closing for security reasons and a small or zero growth of economic activity in the EU and Japan the world trade remained almost stagnant in 2001. A modest recovery of the world trade was recorded in 2002 as a result of a slight upturn in the US economy.

Figure 1.1

### Real GDP Growth in the USA

at 1996 prices, rate of change compared to the same quarter of the previous year

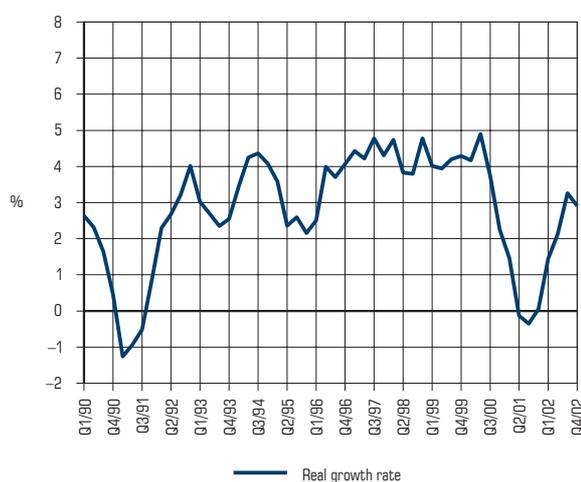
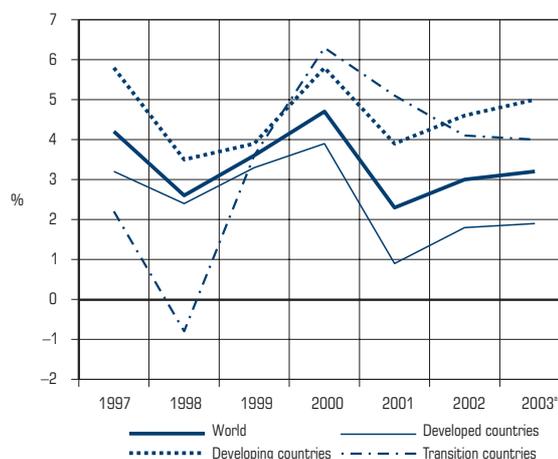
Source: IMF, *International Financial Statistics*.

Figure 1.2

### Changes in Output Rate

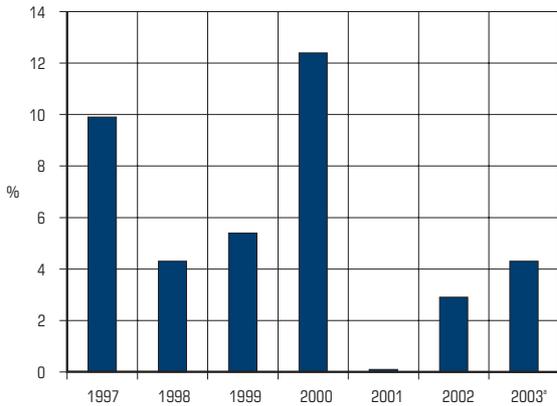


\* IMF estimate.

Source: IMF, *World Economic Outlook*, various issues.

Figure 1.3

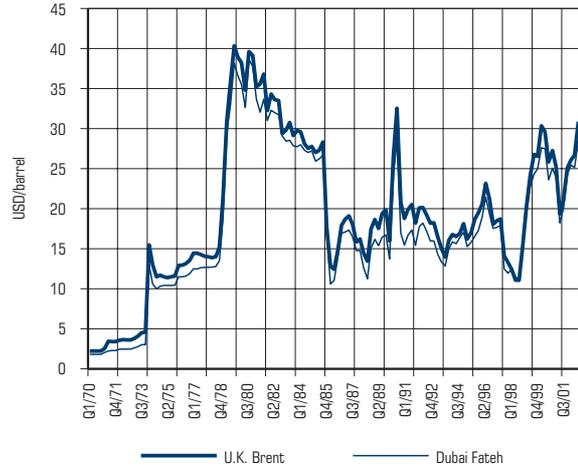
Rates of Change of the World Trade in Goods and Services



\* IMF estimate. Source: IMF, World Economic Outlook, various issues.

Slika 1.4

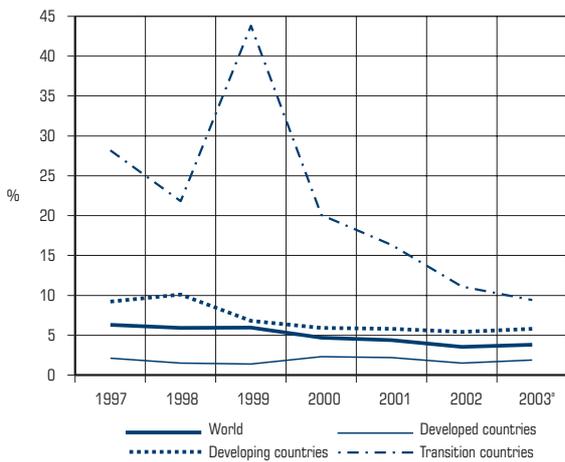
Movements in Crude Oil Prices on the World Market



Source: IMF, International Financial Statistics.

Figure 1.5

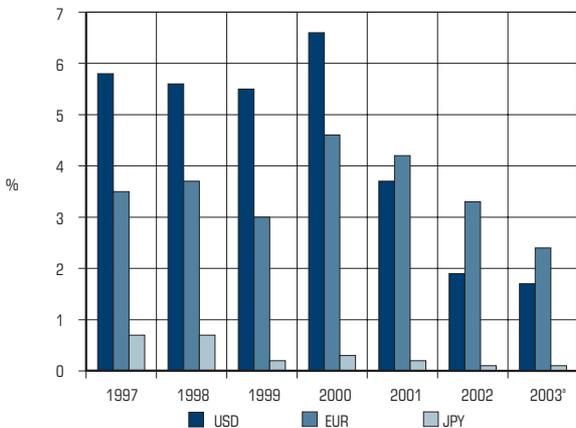
CPI Inflation



\* IMF estimate. Source: IMF, World Economic Outlook, various issues.

Figure 1.6

LIBOR on Six-Month Deposits in Various Currencies on annual level



\* IMF estimate. Source: IMF, World Economic Outlook, various issues.

As a result of the arrested growth of leading world economies accompanied by a stagnation in the world trade, crude oil prices on the world market stabilized at around USD 30 a barrel in late 2001 and early 2002. However, the uncertainty about new terrorist attacks, escalation of the Middle East crisis and war threats against Iraq if it obstructs the inspection of arms production facilities at end-2002 again pushed up crude oil prices towards USD 30 a barrel.

A decline in crude oil prices recorded in the first half of 2002, accompanied by a long-time low inflation in the developed countries and stagnant economic growth in 2002, additionally contributed to world inflation control in that year.

Owing to the reform measures and a continued implementation of sound macroeconomic policies in the transition countries (particularly the candidate countries for EU membership) inflation also declined in these countries.

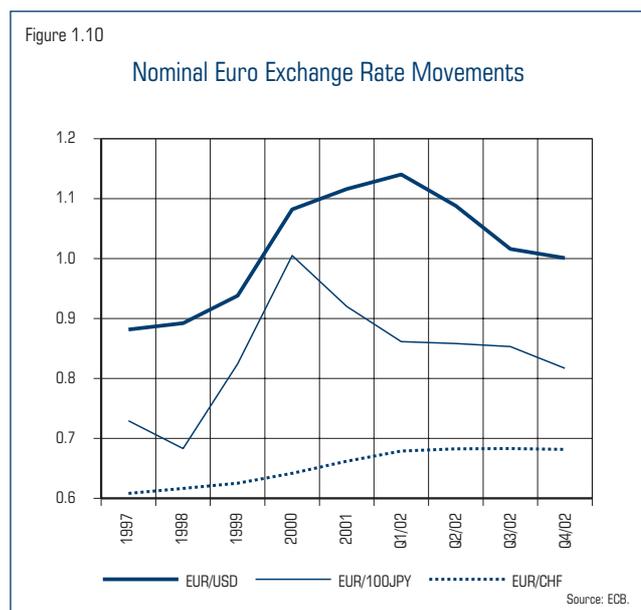
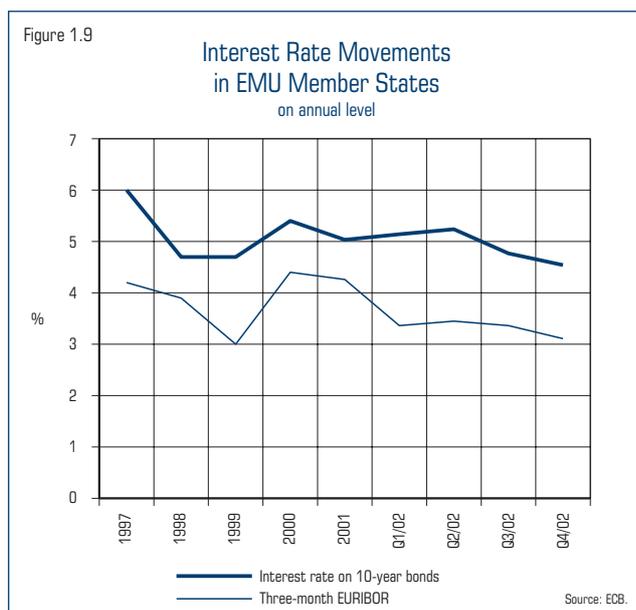
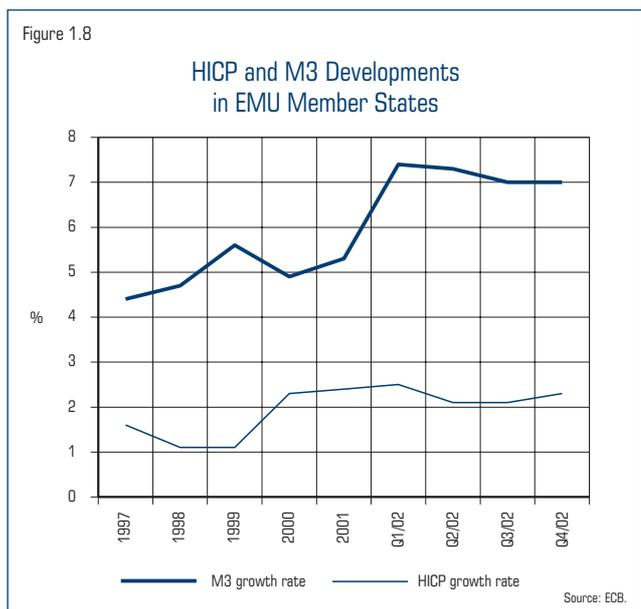
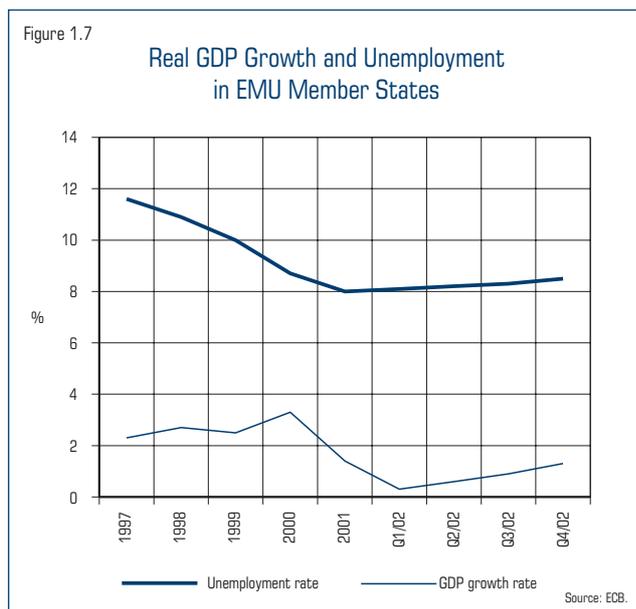
In order to prevent an economic slowdown, the American central bank (Federal Reserves, the Fed) and the European Central Bank (ECB) repeatedly reduced their discount rates in 2002. As a result, the discount rates in these two leading world economies dropped below 3% approaching a zero interest rate that the central bank of Japan has implemented for several years now.

## 1.1.2 European Union and the Eurozone

The European Union and eurozone have experienced a sharp economic slowdown as a result of a stagnant economic growth in the USA and continued recession in Japan (being their main foreign trading partners).

The economic slowdown is also reflected in a growth of unemployment in the eurozone (measured by the ILO survey unemployment rate), which rose from the average of 8% in 2001 (the lowest average annual unemployment rate recorded in the EU over the last 40 years) to 8.5% in the last quarter of 2002.

The decline in crude oil prices in late 2001 and early 2002 and the economic slowdown in the eurozone allowed the ECB to increase the total amount of currency in cir-

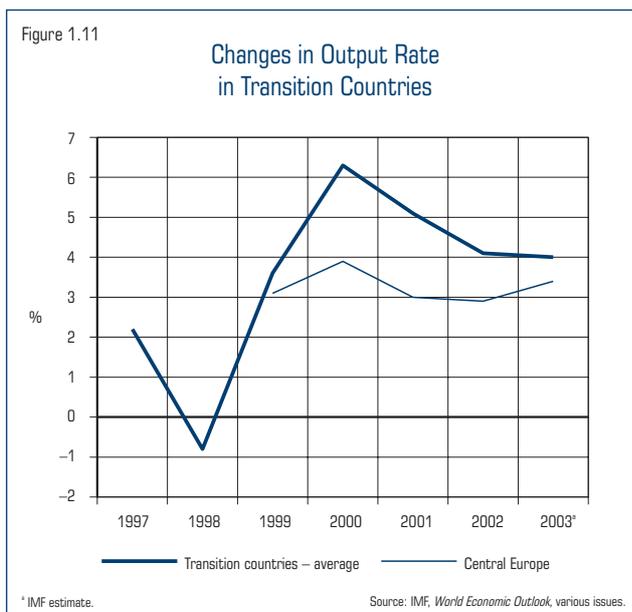


ulation in order to improve liquidity and thus increase investment and GDP growth without threatening its main goal. The HICP ranged from 2 to 2.5% per annum in 2002, while the M3 monetary aggregate grew by about 7% over the whole 2002.

The ECB reduced its interest rate by 0.5 percentage points at end-2001 and by additional 0.5 percentage points at end-2002 to improve liquidity and encourage investment. However, additional reductions in interest rates were expected on the market, which resulted in a further convergence between short-term and long-term interest rates in the eurozone.

Owing to a greater uncertainty in the USA than in the eurozone and a less serious decline in economic activity in the eurozone than in the USA, many investors gave priority to investment in securities from the eurozone. Such developments resulted in strengthening of the euro against the US dollar since mid-2002.

### 1.1.3 Transition Countries



In 2001 and 2002, a mild economic slowdown was recorded in the East European countries. In the following period, the slower economic growth in the EU Member States, reflected in reduced export opportunities, will probably contribute to the economic slowdown in the region, which used to be less affected by turbulence in the USA and Japan. However, through their approaching Europe and the reforms carried out to this effect, the candidate countries for EU membership and other countries from South-Eastern Europe could increase their foreign trade and total economic activity.

A growing uncertainty on the world markets usually has adverse effects on capital inflow into the emerging markets, because in times like that investors usually choose safe places to invest like the US financial markets, or they invest in gold. A decline in inflow accompanied by higher risk premiums will primarily affect high-risk debtors who still have access to the market.

## 1.2 General Characteristics of Economic and Monetary Developments

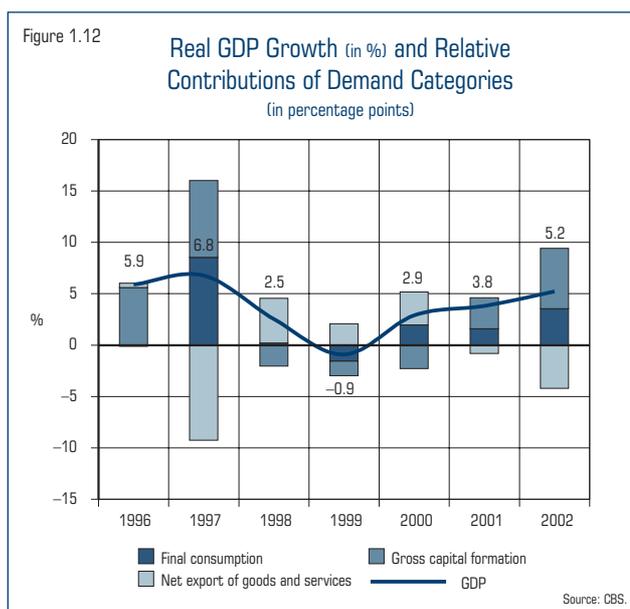
### 1.2.1 Economic Activity

#### Demand

The upward trend in economic growth that began in 2000 after recovering from the 1999 recession continued in 2002. Since 2000, the GDP growth rate has increased each year to reach 5.2% in 2002. The greatest source of growth in 2002 was an exceptionally strong domestic demand that offset the lack of foreign demand in slowed-down economies of the EU member countries.

In 2002, the rate of change in the general level of prices measured by the growth of the GDP deflator was 2.9%. A low rate of change in prices was recorded in most consumption categories, while a significant increase in nominal value as a result of a price growth was only observed in investments in gross fixed capital formation. Given the achieved real economic growth and the overall growth in prices, nominal GDP in 2002 amounted to HRK 176bn, which is HRK 13.5bn more than the previous year. It is worth noting that this is just a preliminary quarterly GDP estimate, while the actual value of GDP for 2002 will only be known after the final annual calculation<sup>1</sup>.

In 2002, GDP growth was mostly fuelled by personal consumption. With its annual growth rate of 6.6%, personal consumption contributed 4.0 percentage points to GDP growth. Following a significant growth in the first half of 2002, consumption rose additionally in the third and fourth quarters, which resulted in a 7.6% increase in personal consumption in the second half of the year compared with the same period of the previous year. A boost in consumption in 2002 was mainly financed by new household sector borrowing from banks. Commercial bank credits to households rose at the average rate of 35.5% in nominal terms or by 43.0% at the December level. At the same time, household income from regular sources remained almost stagnant. The average



<sup>1</sup> The quarterly calculation of GDP is based on a smaller number and volume of the available data, and it only reflects the GDP trend. The annual calculation also includes additional data that are only available on the annual basis providing for a more accurate estimation of economic developments and establishment of the GDP level. However, while the quarterly calculation results in faster and more frequent GDP estimates, the annual calculation provides more reliable data but with a time lag that sometimes exceeds 1 year.

net wage paid rose slightly in real terms, with a somewhat stronger growth recorded in the private sector. The net wage bill of the consolidated central government including CH and CR in 2002 remained the same nominal level as in the previous year. In the same period, government transfers to households declined by 3.0% in real terms.

For the third consecutive year, government consumption continued its downward trend in 2002. The consolidated central government expenditure on wages and salaries remained the same in nominal terms as in the previous year, while outlays for goods and services declined significantly. The overall analysis of these two consumption categories shows that the consolidated central government expenditure on goods and services decreased by 3.4% in nominal terms in 2002 compared with the previous year, which, after adjustment for the change in prices, reflects an even sharper real decline in government consumption. However, the consolidated central government expenditure, adjusted for the expenditures of CH and CR<sup>2</sup>, points to a 1.5% increase in expenditure on goods and services in nominal terms in 2002 compared with the previous year, which is an indication of a slower decline in government consumption in real terms. According to the quarterly GDP estimate, in 2002 government consumption decreased by 1.8% in real terms relative to the previous year. However, an accurate estimate will only be available after the final annual calculation based on the annual reports of all parts of the consolidated general government.

Investments in gross fixed capital formation that grew at the annual rate of 10.0% contributed markedly to the domestic demand growth in 2002. Apart from investments in gross fixed capital formation, substantial investment in inventory was recorded in 2002<sup>3</sup>. Such developments were identical to those in the previous year, but significant differences are reflected in the sectoral structure of investments. The 2001 increase in gross fixed capital formation was mostly the result of activities in the private sector, while government investment fell sharply in order to reduce the budget deficit. On the other hand, significant investment in road construction began in 2002. Thus, in 2002 capital expenditures of the consolidated central government, adjusted for CH and CR expenditures, were two times higher in nominal terms than in the previous year. Heightened road construction activities contributed to the recovery of construction and additionally stimulated the growth of production in the construction-related industrial branches. However, despite the positive effects of these investments, the private sector investment in production modernization is much more successful and delivers return on investment in a shorter period than investment in infrastructure.

A strong domestic demand resulted in high imports of goods and services in 2002, which grew by 8.8% in real terms compared with the previous year. At the same time, weakened foreign demand influenced a slight growth of exports, 1.2% compared with the previous year. As a result, the negative contribution of net foreign demand to GDP growth was 4.0 percentage points in 2002.

<sup>2</sup> In 2002, the agencies for the construction and maintenance of roads (CR) and highways (CH) were excluded from the government budget.

<sup>3</sup> It is worth noting that the change in inventory, which is one of the components used for GDP calculation made by the expenditure method, also includes a statistical discrepancy. The discrepancy arises from the adjustment between GDP calculation made by the expenditure and the production method. The contribution of the above-mentioned component to the 5.2% GDP growth was 3.5 percentage points.

According to the balance of payments data, a merchandise trade deficit of USD 5.3bn was recorded in 2002, with a services trade surplus of USD 3.1bn. Exports of goods did not rise significantly, owing to a marginal economic growth in the countries, which are Croatia's main trading partners. In addition, the effects of the free trade agreements concluded with other transition countries have not yet been fully shown. No major breakthroughs were achieved in exports of services either. Thus, income from tourism grew slower than expected (14.3% expressed in US dollars, where the dollar exchange rate movements accounted for an important share in this growth).

A strong economic growth fuelled demand, which both stimulated domestic production and the growth of imports. Among the main industrial groupings, imports of durable consumer goods grew at the highest rate, although high import growth rates were also recorded in all other groupings. Extremely high investment consumption resulted in a significant increase in imports of machinery and equipment, while the growth of personal consumption led to increased imports of motor vehicles, food products and beverages and furniture.

## Output

According to GDP calculation made by the production method, gross value added grew by 5.2% in 2002 compared with the previous year. The strongest growth in gross value added was recorded in trade and construction, which significantly contributed to the growth of total gross value added, together with industry and financial sector.

## Industry

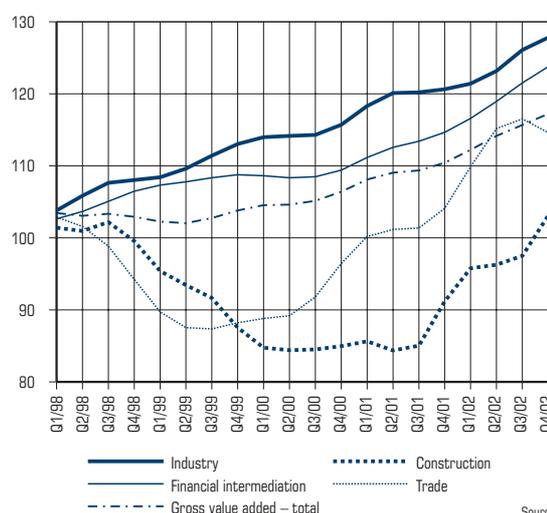
In 2002, gross value added in industry as the largest production sector, which includes mining, manufacturing and electricity, gas and water supply, grew by 4.0% in real terms. In early 2002, gross value added in industrial production grew at a very slow rate, until the third quarter when a major increase in gross value added was recorded. Given a very large share of gross value added in industry in the total gross value added, a strong upward trend observed in the second half of 2002 contributed significantly to the upturn in total gross value added in that period.

The total volume of industrial production grew by 5.7% in 2002 compared with the previous year. An analysis according to the main industrial groupings shows that the highest annual growth rate of 8.3% in 2002 was recorded in intermediate goods. Production of capital goods, as well as durable and non-durable consumer goods grew at the average rate of growth in the total industrial production, with an only modest growth recorded in energy supply.

Figure 1.13

### Trend Cycles in Gross Value Added

constant prices, 1997=100



Looking at the total industrial production according to the NCEA, production grew in all the three sections in 2002. The strongest growth was achieved in mining and quarrying (17.0%), which, despite its minor relative importance, contributed 0.9 percentage points to the total 5.7% growth of industrial production. Such high growth resulted from a strong construction activity, which contributed to a high increase in other mining and quarrying. In manufacturing, which accounts for 83.0% of total industrial production, production grew by 5.7% compared with the previous year. In contrast to this, electricity, gas and water supply recorded a very slow production growth of 1.6% compared with the previous year.

In the first half of 2002, production in manufacturing grew at a slower rate compared with the second half of the year. The growth of production began in July and accelerated in the following months. However, in the first half of 2002, production stagnated or fell in some divisions to start growing as late as in the second half of the year. In other divisions production grew throughout the year 2002, so that these divisions made the largest contribution to the growth of total production in manufacturing. This relates to: manufacture of food products and beverages, publishing and printing, manufacture of other non-metallic mineral products and manufacture of machinery and equipment. The growth of production was the result of a stronger domestic demand and, as concerns the three specified divisions (except for the manufacture of non-metallic products) an increased foreign demand for these products, which was reflected in stronger exports. However, some parts of industry saw a significant decline in production over

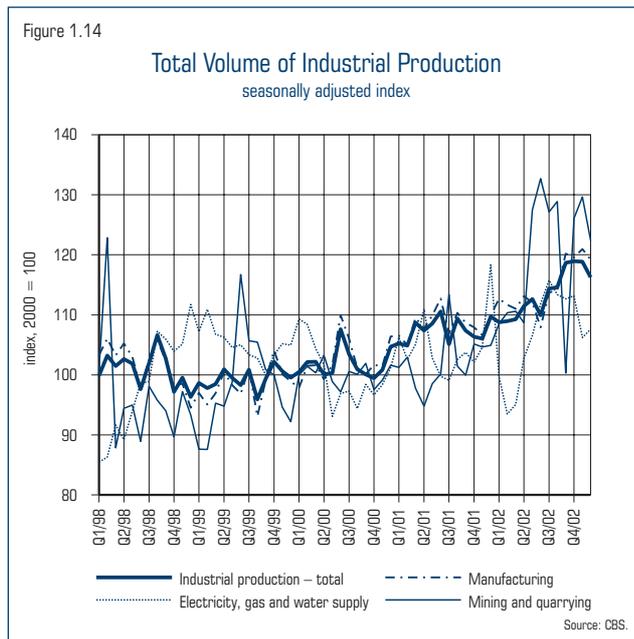
the whole 2002. The sharpest decline was recorded in textile and metal-working industry, and, among the manufacturing divisions, in manufacture of wearing apparel, dressing and dyeing of fur, tanning and dressing of leather and manufacture of basic metals, but also in manufacture of medical, precision and optical instruments, watches and clocks.

In 2002, stocks of finished industrial products were much higher, 7.3% on average compared with the previous year. They went up parallel with the production growth, which was most expressed in mining and quarrying where the highest production growth rates were recorded (stocks grew by 26.1% on average compared with the previous year). However, trends in stocks in manufacturing industry had the strongest impact on total stocks movements. In the first half of 2002, a shortfall in foreign demand resulted in reduced exports and a growth in stocks. In mid-2002 stocks stabilized and, following a significant growth in production towards

the year-end, in November and December stocks were 10.0% higher compared with the same months of the previous year.

## Trade

In 2002, wholesale and retail trades were the main contributors to the growth of gross value added in the economy, with a real annual growth rate of 12.7%. This enormous



increase in gross value added is an indication of an accelerated upward trend in these activities that followed a 4.0% increase in gross value added in 2000 and another 10.6% increase in 2001.

The described developments show that an easier access of foreign business subjects to the domestic market and foreign trade liberalization encourage competition, which results in increased supply and lower prices. As a consequence, domestic consumption increased, while grey market activities and shopping abroad were curbed. On the other hand, a more extensive coverage of domestic consumption within official statistics resulted in overestimated data on the growth in trade turnover compared with the previous year. The largest contributor to the growth in trade turnover in 2002 was the increased sale of cars. According to the preliminary data, in 2002 there were 94.8 thousand cars with new registrations, still somewhat less than in the previous year.

### Construction

With a 13.9% real growth of gross value added, construction was the fastest growing activity in 2002. The value of construction projects completed rose by 30.9% in nominal terms in 2002 compared with the previous year, while the value of net construction project orders grew even more. Of the total value of completed construction projects, one third relates to the construction of buildings and the rest to other projects, primarily roads. Irrespective of the usually strong seasonal impact on construction, such developments are mainly the result of large-scale infrastructure projects carried out during the year. However, it should be emphasized that the upward trend also continued in housing construction with a 19.6% growth in the number of completed dwellings in 2002 compared with the previous year.

The index of total volume of construction projects, measuring the working hours of construction workers at building sites, rose by 12.9% compared with the previous year. Thus, for the third consecutive year this index continued its upward trend, following sharp falls in 1998 and 1999. Apart from the growth in construction, these developments also had an indirect impact on other economic sectors. Specifically, a rise in investments in roads stimulated the growth of industrial production through increased mining of ores and quarrying of stone, as well as through a higher demand for products from the manufacturing industry, like machinery and equipment and other non-metallic mineral products.

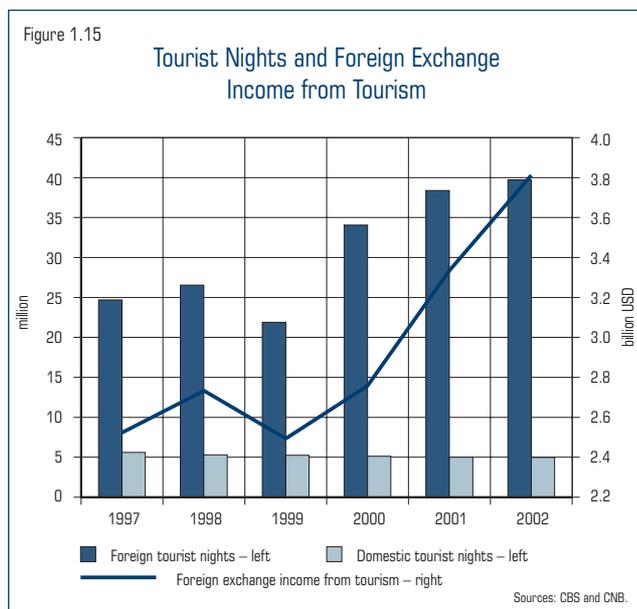
### Tourism

In 2002, there were 44.7 million tourist nights, i.e. 3.0% more than in the previous year, while tourist arrivals rose by 5.9%. A particularly rapid growth of tourist nights was recorded in the period February-May and in October, which is a sign of a good pre-season and after-season. In the third quarter when the tourist season reaches its peak, night stays rose by only 2.3% compared with the same period in the previous year. The increase in overall tourist nights in 2002, with a slight decrease in domestic tourist nights, can be attributed to the growth of foreign tourist nights. In this connection, a significant growth was recorded in the nights stayed by tourists from Western Europe, while nights stayed by tourist from Eastern European countries fell. However, it is worth mentioning that a decline in these tourists' arrivals to the Adriatic Coast is probably the result of un-

favorable weather conditions in August and September, as well as of disastrous floods in some neighboring countries. Thus, nights stayed by Czech and Slovak and Slovene tourists decreased at the rates of  $-7.3\%$ ,  $-8.4\%$  and  $-2.5\%$  respectively. On the other hand, nights stayed by tourists from Germany and Italy grew by  $11.4\%$  and  $3.4\%$  respectively, and a significant increase was also recorded in nights stayed by tourists from

the Netherlands, Great Britain, Russia and France. Such developments affected the structure of foreign tourists by reducing the share of tourists from most represented countries (except Germany) and increasing the arrivals and nights of tourists from less represented countries.

In 2002, gross value added in hotels and restaurants grew by  $7.5\%$  in real terms compared with the previous year when the annual growth rate was  $5.7\%$ . The growth in physical indicators is not confirmed by the growth in financial indicators. Thus, in 2002, foreign exchange income from tourism was lower than expected and amounted to USD 3.8bn or  $14.3\%$  more in nominal terms compared with the previous year. However, income from tourism expressed in US dollars was strongly affected by weakening of the dollar against the kuna, particularly in the second half of the year. A marked growth in income from tourism was only recorded in the second quarter of 2002 (pre-season), while the third quarter, when more than  $60\%$  of the total income from tourism was received, saw a decline in the income compared with the same period of the previous year, adjusted for the change in the euro exchange rate.



total income from tourism was received, saw a decline in the income compared with the same period of the previous year, adjusted for the change in the euro exchange rate.

### Transport and Communication

In 2002, gross value added in transport, storage and telecommunications rose by  $6.8\%$  compared with the previous year, which corresponds to the relative growth of gross value added recorded in 2001. Like in the previous years, the strongest growth was recorded in telecommunications services. However, in the same period, there were no significant changes in transport. Goods transport went up slightly, while the number of transported passengers fell compared with the previous year.

An improved network coverage and a wider range of services resulted in a business expansion and an exceptional growth of telecommunications services utilization. In 2002, minutes spent in mobile network rose by  $38.1\%$  compared with the previous year, which corresponds to the relative growth recorded in the previous year. Minutes spent in fixed network also rose, reaching the annual growth rate of  $6.2\%$ . In addition to telecommunications services, better results were also recorded in postal services. On the other hand, the available physical indicators of performance point to a slower upward trend in transport compared with telecommunications. In 2002, the quantity of transported goods (in thousands of tons) rose by  $4.5\%$ , with the strongest growth recorded in

road transport. As opposed to goods transport, the number of transported passengers fell slightly compared with the previous year, with a better performance recorded in less frequent types of passengers transport, sea and air transport.

## 1.2.2 Labor Market

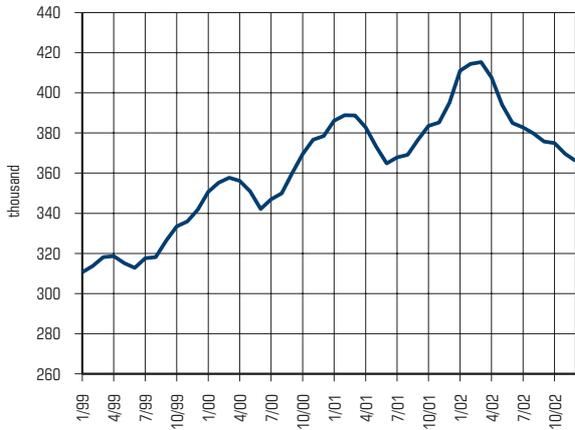
The changes in the labor market in 2001, which resulted in a growth of total employment recorded by the CBS for the first time in the last decade, were a sign of an upturn in employment that continued in 2002. Such developments were encouraged by a strong economic growth and a continuation of the restrictive wage policy in the public sector, which reduced the pressures on the wage growth in other sectors. In the second half of the year, the restrictive wage policy relaxed and wages grew at somewhat higher rates both in the public sector and other sectors of the economy. As a result of the growth in employment in 2002, registered unemployment declined, which was not the case in the previous year. However, the decrease in registered unemployment can be attributed to the employment intermediation reform rather than the growth in employment. The legal framework for the reform was laid down in early 2002, when the new Act on Employment Intermediation and Rights during Unemployment was enacted, while some key elements of the reform were implemented by the CEI in the second half of the year.

In 2002, outflow from the CEI register to employment continued to grow at somewhat lower rates than in 2001, when a strong growth of employment increased the labor market dynamics. Over 2002, outflow from the register to employment totaled 166,000. This is a 12.3% increase in employment compared with 2001, when employment rose by almost one-quarter relative to 2000. A slower growth in employment in 2002 can be mainly attributed to reduced employment in the fourth quarter, while in the first three quarters employment rose by 21%, almost the same as in the previous year. The decline in employment in the last quarter of 2002 was the result of a slowdown in new employment in the public administration, where the number of the newly employed was high in the last quarter of 2001, and a reduced CEI intermediation. The employment intermediation reform encouraged private initiative in employment intermediation, so that a number of private intermediation agencies have been registered since the beginning of 2002. Moreover, as employers are no more obliged to report vacancies to the CEI (as from September 2002), they increasingly use additional methods, like advertising vacancies in public communications media without using the CEI services.

Despite the decline in outflow from the CEI register to employment in 2002, the second half of the year, which is usually marked by a seasonal growth in registered unemployment, saw a reversal in the growth of registered unemployment and the beginning of its downward trend. Although unusual for this time of the year, this decline in registered unemployment coincided with the beginning of the employment intermediation reform. Therefore, the rise in clearing from the records of persons who have either been identified as non-job seekers or have not attended the obligatory interviews and group consultative meetings, and, to some extent, the growth of total employment, can be considered the main reasons for a decline in registered unemployment.

Figure 1.16

Registered Unemployment



Source: CEI.

The purpose of the employment intermediation reform was to finally separate social rights, which are general rights, from the status of the unemployed person, and to encourage private initiative in employment intermediation. As registered unemployment was almost 50% higher than the Labor Force Survey unemployment, the implementation of the new rules for the registration with the CEI, which converge with the ILO criteria and provide a better picture of the actual level of unemployment and active job-seeking, should result in the converging of registered unemployment rate with the Labor Force Survey unemployment rate and focusing of employment services on actual job-seekers. As a result of the described institutional reforms, registered unemployment dropped by 29,000 or 7.3% over 2002. Given that the registered unemployment rate remained much higher than the Labor Force Survey unemployment rate at end-2002, its decline is likely to continue in 2003.

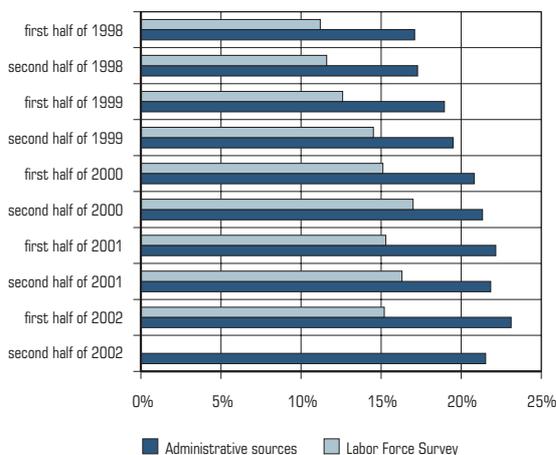
According to the final CBS data, in 2002 the average employment stood at 1,356,000, which is about 8,000 or 0.6% more than in 2001. The annual rate of growth in total employment was 0.1 percentage point higher in 2002 than in 2001. The largest growth in employment was again recorded in crafts and trades and free-lances, where the average employment was 12,000 (5.7%) higher in 2002 than in 2001. Employment in legal entities also grew, by 4,000 or 0.4%, which is a much slower rate. Like in the previous years, the decline in the number of actively insured private farmers with the CPII, who are considered as employees according to the CBS criteria, continued in 2002. There were about 70,000 such farmers in 2002, which is 5,000 or 7.4% less than in 2001. The

decline in the number of farmers insured with the CPII actually reflects the decline in the number of farmers paying pension insurance contributions, which does not necessarily include the termination of their activities. Excluding the change in the number of farmers insured with the CPII, which is not a reliable indicator of the change in employment, total employment rose by 16,000 or 1.3% in 2002. Along with a further acceleration of the economic growth in 2002, the restrictive wage policy in the public sector also contributed to the growth of employment.

Labor force rose by an average 1% in 2002 compared with 2001 primarily due to its high level in early 2002, brought about by an increased inflow of war veterans into the CEI register pursuant to the new Act on Croatian Defenders and Their Family Members' Rights enacted in late 2001. However, persons who were considered as non-job seekers started to be cleared from

Figure 1.17

Labor Force Survey and Administrative Unemployment



Source: CBS.

the CEI register in the last quarter of 2002, which resulted in a 1% decrease in labor force in late 2002 compared with late 2001. This indicator is in support of the assumption that the clearing of persons who do not meet legal requirements from the CEI register was the main cause of the decrease in registered unemployment.

As shown by the Labor Force Survey, employment increased since early 2001, after having stood at its lowest level in late 2000. The Labor Force Survey unemployment rate trended downwards in the same period, preceding the reversal of trend in registered unemployment, but following both administrative and Labor Force Survey employment trends. However, the Labor Force Survey unemployment rate should be analyzed in view of the fact that the said methodological changes and the incentives to register with the CEI made no impact on the Survey, whereas they contributed to the strong upward trend in registered unemployment at end-2001 and its reversal in the second half of 2002. Developments in the second half of 2002 could not be analyzed, since the latest Labor Force Survey data available at the time of writing this report referred to the first half of the year.

Subsequent to the lifting of restrictions on the wage bill in public administration, implemented from late 2000 to mid-2002, the average wage grew in late 2002. The average real gross wage paid in the public sector rose in the third quarter of 2002, having decreased by an approximate 7% in real terms over two consecutive years. The average real gross wage in public administration and defense and compulsory social insurance rose by a significant 3.1% in the last quarter of 2002. Nevertheless, as its overall annual performance was not strongly affected either by developments in the second half of the year or in the last quarter, the annual rate of change of the average real gross wage in public administration was negative in 2002.

While wage policy in the public sector became less restrictive in the second half of 2002, wages in industry grew at an accelerated rate of 7.6% in real terms in that period. Brought about by heightened economic activity, this growth rate outstripped the rates from the previous years. However, the growth of gross wages in industry was somewhat lower than the growth of productivity in industry and is therefore unlikely to result in significant inflationary pressures.

Other than the less restrictive wage policy in the public sector and the economic upturn, several other factors accelerated the average gross wage growth in 2002. Firstly, in contrast with the average gross wage, which grew by almost 4% in real terms in 2002, after having decreased in 2001, the average real net wage generally held steady in 2002. The average net wage thus rose by 2.8% in 2002, the same as in the previous year. Secondly, the gross wage grew at a faster pace in 2002 owing to the fact that tax and contribution rates and personal deduction remained unaltered since 2001.

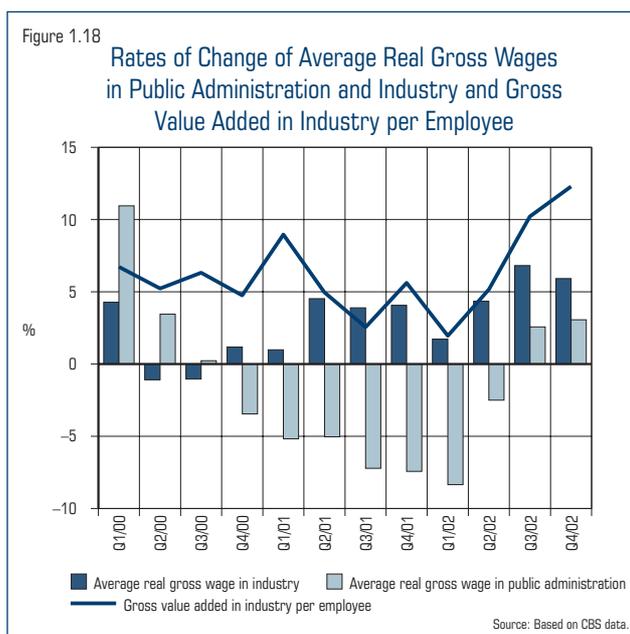


Figure 1.19

## Rates of Change of Average Real Wages

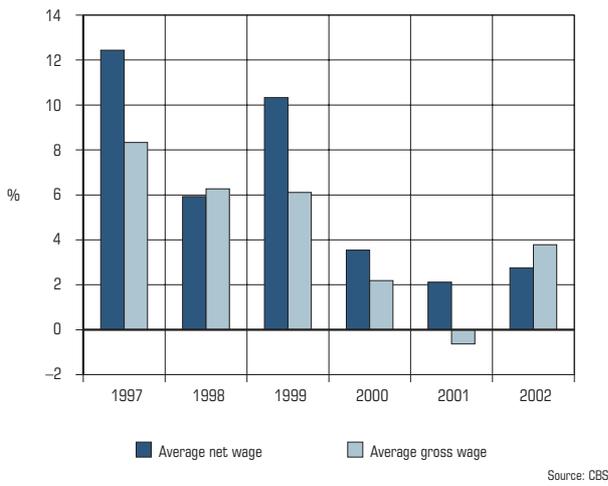
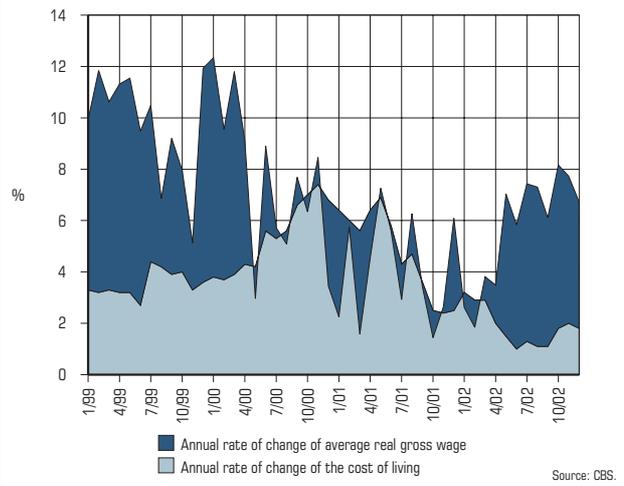


Figure 1.20

## Annual Rates of Change of the Cost of Living and Average Real Gross Wages



Under such conditions, the nominal growth of the average net wage increased the income tax burden and accelerated the average gross wage growth. The introduction of an additional lower tax bracket in early 2001 eased the tax pressure on the labor cost, accounting for the fact that the net wage growth in that year was accompanied by the decrease in the overall labor cost. As personal deduction was raised in early 2003, as well as the limits for the application of higher tax rates, expectations are that the overall labor cost will grow at a slower pace than the net wage.

Finally, the accelerated growth of the average real gross wage in the second half of 2002 can also be ascribed to the decrease in the cost of living rate of growth. The cost of living index grew at a rate of 1.5% for the year in the second half of 2002, which is only a third of its 2001 rate. Owing to the nominal rigidity of employment contracts, concluded for longer periods, a lower than expected inflation rate growth can accelerate the real growth of wages. However, the second half of 2002 was marked by the 7.6% nominal growth of the average gross wage in the last quarter, a considerable increase over its 5.7% annual rate of growth.

## 1.2.3 Prices and the Exchange Rate

### Prices

The year-on-year inflation rate measured by the retail price index (RPI) has remained below 3.0% for the second successive year, standing at a low of 2.3% in December 2002, a decrease of 0.3 percentage points compared with the same month in 2001. These trends in the aggregate retail price level are proof of the central bank's continued success in maintaining a low inflation rate.

The inflation rate fall in 2002 compared with the previous year resulted from the core inflation rate decreasing from 1.7% in December 2001 to 1.2% in December 2002 and

the rate of change of agricultural products prices falling from 4.9% in December 2001 to -7.9% in December 2002. These trends outstripped the increased contribution of administrative prices (which include energy prices) brought about by the increase in their year-on-year rate of change, from 5.9% in December 2001 to 7.5% in December 2002.

The core inflation rate continuously trended downwards in the first eight months of 2002, from 1.9% in January to a low of 0.3% in August, to rise to 0.6% and 1.2% late in the third and fourth quarters respectively. Goods prices covered by the core RPI rose from 0.3% year-on-year in September to 1.4% year-on-year in December. Services prices covered by the core RPI decreased from 2.7% year-on-year in September to 0.2% year-on-year in December, the lowest year-on-year rate of change of market set services prices since early 1994. Excluding the components whose trends are outside monetary authorities' control from the RPI (agricultural products, administrative prices, including electricity and refined petroleum product prices)<sup>4</sup>, the core inflation indicator more clearly shows inflationary pressures resulting from imbalances between demand and supply in the labor market and in the market of final products. Low core inflation is an indication of subdued pressures from the demand side.

Having reached 4.9% in 2001, the average year-on-year growth rate of retail prices declined to 2.2% in 2002, while the average year-on-year core inflation rate declined from 3.6% in 2001 to 1.1% in 2002. The average rate of change of producer prices went down from 3.6% in 2001 to -0.4% in 2002.

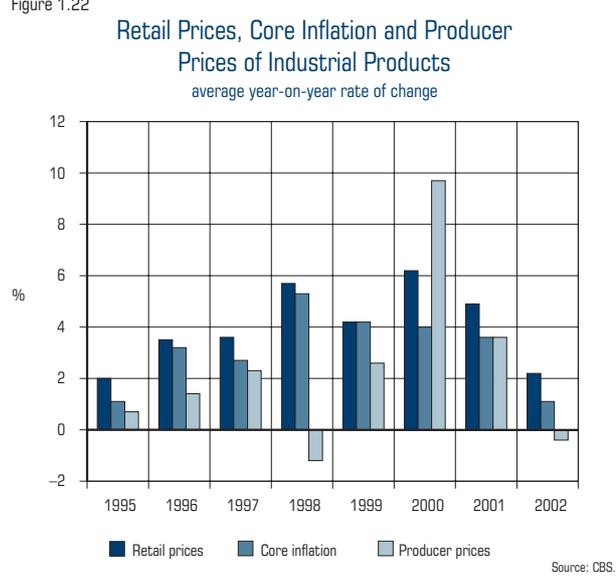
Croatia has maintained a relatively stable level of prices for the tenth consecutive year, which further enhanced the credibility of the central bank. The stability of the nominal exchange rate of the kuna against the euro has remained the nominal anchor. Central bank's interventions in the foreign exchange market contributed to the stability of the kuna/euro exchange rate, which is a crucial determinant of inflationary expectations in the heavily euroized Croatian economy. In addition to the stability of the kuna/euro exchange rate, numerous other factors contributed to the stability of retail prices in 2002: the moderate wage growth, a decrease in tariff rates brought about by trade liberalization, increased competition in retail trade and relatively low rates of

<sup>4</sup> A total of 88 products and services were excluded, accounting for 23.04% in the RPI basket in 2002 (of this percentage, 2.24 percentage points went to agricultural products and 20.80 percentage points to administrative prices).

Figure 1.21



Figure 1.22

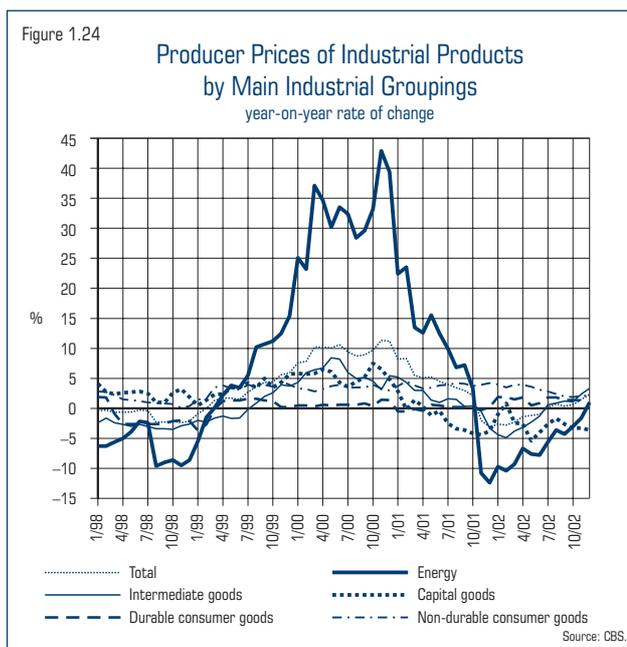
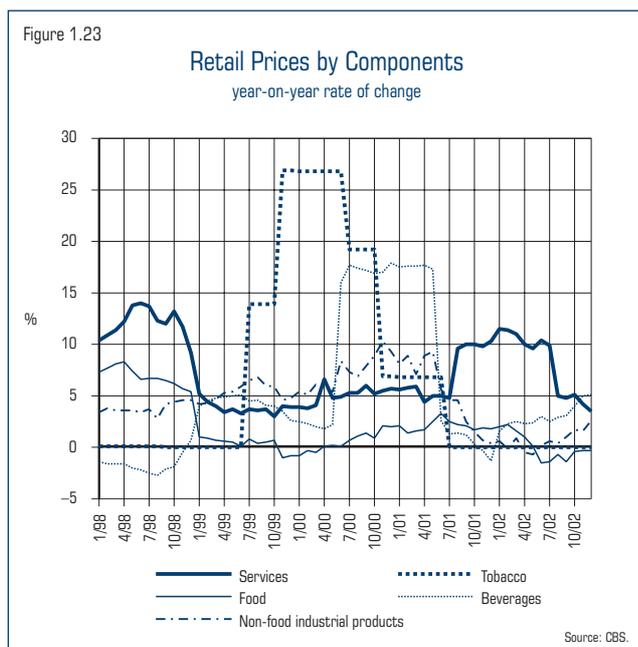


change of producer prices of industrial products in Croatia and in its most important trading partners. Furthermore, the kuna appreciated strongly against the US dollar over 2002, creating room for a decrease in prices of a large number of import inputs and imported final products. Electricity and gas prices rose only moderately following the introduction of the new tariff system in September 2002, so that they failed to influence the growth of other goods and services prices and make a strong indirect impact on the inflation rate growth. However, in contrast to their downward trend in 2001, crude oil prices in the world market were rising for the most part of 2002, generating pressures on the growth of domestic prices.

The rise in crude oil prices in 2002 primarily resulted from expectations of the U.S. military intervention in Iraq accounting for the "war premium" embedded in the price of crude oil as a safeguard against the impending crisis and serious market disturbances. Moreover, the Venezuelan oil strike caused a shortage in oil supplies, in parallel with a growing demand typical of winter months and a growth-inducing build-up of strategic oil reserves. The price of crude oil in the world market averaged USD 24.94 a barrel in 2002; an increase of 2.4% compared with 2001. The average price of a crude oil barrel in kuna dropped by 3.9% in 2002 compared with the previous year. The average retail prices of liquid fuels and lubricants in Croatia declined by 0.2% in 2002 in comparison with 2001. However, the increase in oil prices becomes more evident when prices at year-end are compared. The price of crude oil thus averaged USD 27.9 a barrel in December 2002, rising by 50.6% compared with the same period last year. Retail prices of liquid fuels and lubricants were 6.4% higher in December 2002 than in the same period the year before.

Inflation trends in the main RPI components in 2002 differed greatly compared with the previous year. The year-on-year growth rate of goods prices, standing at 7.8% in December 2000, thus came down to 0.6% in the same month in 2001. Retail prices of refined petroleum products made a markedly lower contribution to the overall year-on-year rate of change of goods covered by the RPI, in consequence of the fall of crude oil prices in the world market and the negative impact of the reference base period. The year-on-year growth rate of services prices concurrently went up from 5.7% in December 2000 to 10.3% in the same month in 2001. Other than by a considerable increase in telecommunications prices, this was also brought about by the rise in prices of some utility services, compulsory motor vehicle insurance and city transport. Prices that are not administratively regulated also rose considerably. Services prices covered by the core RPI rose by 5.6% year-on-year in December 2001, 2.1 percentage points over the same rate from late 2000. In contrast, the annual growth rate of goods prices covered by the RPI went up by 1.3 percentage points over 2002, standing at 1.9% in December, while that of services prices decreased by 6.8 percentage points over that period, standing at 3.5% in the same month.

Looking at the components of the goods price index comprised in the RPI, the year-on-year rates of change of prices of non-food industrial products and beverages rose by 2.2 and 6.4 percentage points respectively in December 2002 in comparison with December 2001. The rise in the year-on-year rate of change of non-food industrial products can mostly be ascribed to the rise in prices of liquid fuels and lubricants, lighting and fuel, textile products and medicines. The increased contribution of these com-



ponents to the goods prices index was partly offset by the year-on-year growth of food prices (agricultural products and industrial food products), decreasing by 2.1 percentage points in December 2002 compared with the same month last year.

In 2002, services prices grew at a considerably slower pace mainly due to a noticeably restrained growth in prices of transport, postal and telecommunications services. Transport and telecommunications services prices rose by 8.8% and 54.4% respectively over 2001 to grow only by a slight 2.0% in 2002 in comparison with late 2001.

Price pressures related to movements in producer prices in industry were subdued. The year-on-year rates of change of producer prices of industrial products were negative from November 2001 to June 2002 and positive from July 2002 onwards, when producer prices slightly recovered. The year-on-year rate of change of producer prices of industrial products rose by a total of 5.4% percentage points over 2002, from -3.1% in December 2001 to 2.3% in December 2002, suggesting possible light pressures on the growth of retail prices.

Concerning industrial groupings, producer prices of energy rose the most year-on-year over 2002, from -12.4% in December 2001 to 1.0% in December 2002, followed by producer prices of intermediate goods, rising from -3.3% in December 2001 to 3.3% in the same month in 2002.

## Exchange Rate

The kuna/euro exchange rate was exposed to appreciation pressures for the most part of 2002. These were accounted for by an increased foreign exchange supply, generated by strong income from tourism, an increase in the government and banks foreign borrowings, foreign loans used for the financing of major infrastructure projects, the privatization of domestic companies, the transfer of banks foreign assets into domestic as-

sets and the appreciation expectations of market participants. The central bank intervened in the foreign exchange market to alleviate these pressures, purchasing EUR 524.75m (net) from commercial banks and creating kuna liquidity amounting to a considerable HRK 3,837.10m. This prevented excessive fluctuations of the kuna/euro exchange rate, which moved within a relatively narrow band, between 7.31<sup>5</sup> HRK/EUR and 7.58<sup>6</sup> HRK/EUR. Standing at an average of 7.41 HRK/EUR in 2002, the exchange rate strengthened by 0.83% compared with 7.47 HRK/EUR in 2001. The kuna/euro exchange rate was 7.44 HRK/EUR on 31 December 2002, a decrease of 0.98% compared with 7.37 HRK/EUR recorded on 31 December 2001. It was somewhat stronger than usual in late December 2001 due to substantial inflows of foreign exchange in the banking system generated by the euro conversion.

In the first quarter of 2002, the kuna depreciated against the euro by 2.69% in nominal terms in January and gradually strengthened over February and March. The central bank intervened in the foreign exchange market to alleviate the seasonally common depreciation of the kuna in January caused by the current account deficit and the increased demand for foreign exchange required for the repayment of external debt. EUR 140.65m was sold to banks at three auctions held in January. In consequence, the kuna/euro exchange rate started to appreciate, strengthening by 2.19 % in nominal terms over February and March (31 March to 31 January), with the euro falling from 7.57 kuna to 7.40 kuna. In an effort to stabilize the kuna/euro exchange rate, the central bank purchased EUR 305.0m from commercial banks at foreign exchange auctions held in February and March. The CNB purchased a total of EUR 164.35m (net) from commercial banks over the first quarter. The appreciation pressures on the kuna exchange rate had been anticipated due to the substantial foreign exchange supply and expectations of its further growth, accounted for by the foreign borrowing planned both by the government and CH, as well as by privatization receipts and exports of tourist services.

The developments in the domestic foreign exchange market in the second quarter of 2002 were marked by continued appreciation pressures necessitating even stronger interventions of the central bank with the resultant purchase of a total of EUR 342.2m from commercial banks. Appreciation pressures on the kuna eased in April as a result of central bank interventions in the previous month. April thus saw only one foreign exchange auction of a limited volume, at which a total of EUR 27.8m was purchased from commercial banks. However, appreciation pressures on the domestic currency increased again over May. In an effort to stabilize the kuna exchange rate, the central bank held two foreign exchange auctions that month, purchasing a total of EUR 141.3m from commercial banks. In the second half of May, the kuna exchange rate fell below 7.37 HRK/EUR recorded at end-2001. In order to slow down the appreciation of the domestic currency, the central bank intervened four times in the foreign exchange market in June, purchasing from banks a total of EUR 173.1m. The kuna/euro exchange rate steadied somewhat as a result of these interventions and the kuna exchange rate appreciated by 1.11% in nominal terms over the second quarter, whereas the euro fell from 7.40 kuna at end-March to 7.32 kuna at end-June.

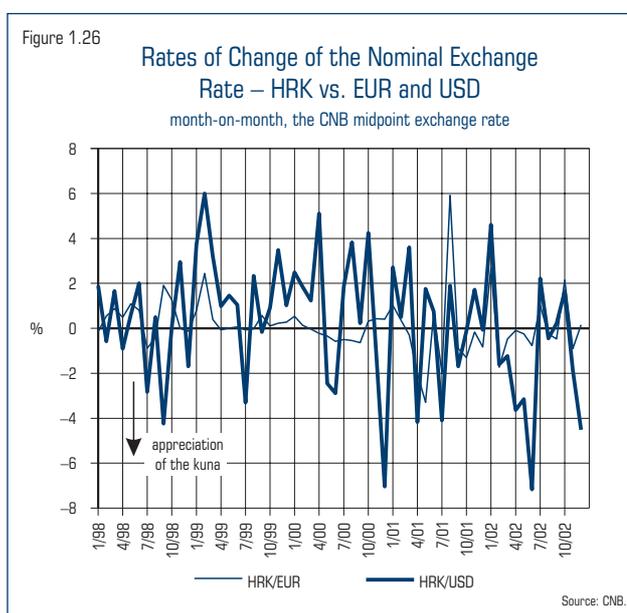
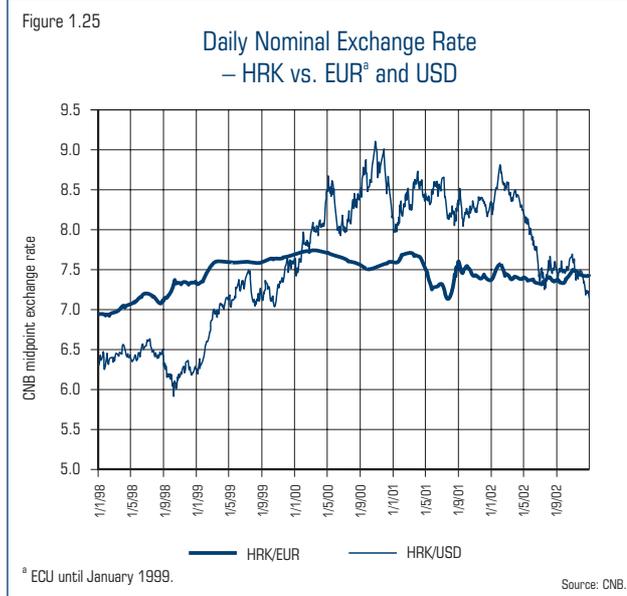
<sup>5</sup> An increase of 1.4% compared with the average kuna/euro exchange rate in 2002.

<sup>6</sup> A decrease of 2.3% compared with the average kuna/euro exchange rate in 2002.

Boosted by income from tourism during summer months, the foreign exchange supply was absorbed by companies and banks' increased demand for foreign exchange. Consequently, the kuna/euro exchange rate held steady in the third quarter, requiring no substantial central bank interventions. The only foreign exchange auction was held in August in this period and EUR 47.2m was purchased from banks. The exchange rate of the kuna against the euro weakened by a slight 0.28% late in the third quarter compared with the same period in the previous quarter.

Increased demand for foreign exchange brought about depreciation pressures in the foreign exchange market in October and in the second half of December, while the kuna depreciated nominally against the euro by 1.38% over the fourth quarter (31 December to 30 September). The central bank intervened twice in the second half of October selling a total of EUR 79.8m to banks at foreign exchange auctions. The CNB purchased a considerable EUR 197.5m from the government in the fourth quarter. Of this amount, EUR 60.0m, deriving from CH foreign borrowing, was purchased in October, and EUR 137.5m, generated by the sale of the remaining 25% of shares of Privredna banka, in December.

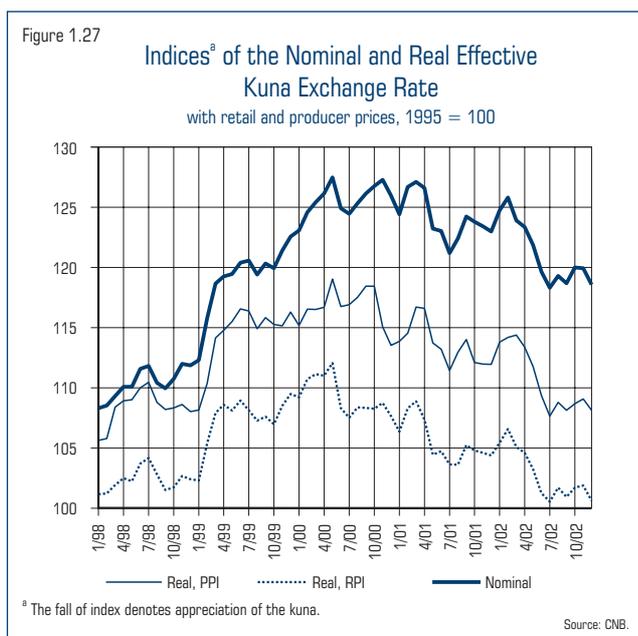
Due to the stability of the kuna exchange rate against the euro (which is the basic currency for the compilation of the CNB exchange rate list) and the strong depreciation of the US dollar against the euro in the international foreign exchange market in 2002, the kuna appreciated strongly against the US dollar. The kuna/US dollar exchange rate strengthened late in the year, from 8.36 HRK/USD on 31 December 2001 to 7.14 HRK/USD on 31 December 2002, bringing about a considerable appreciation of the kuna against the US dollar, 14.50% in nominal terms. The average exchange rate of the kuna against the US dollar was 7.86 HRK/USD in 2002, an increase of 5.70% compared with 8.34 HRK/USD in the previous year. The US dollar exchange rate weakened nominally against the euro by 18.10% on international foreign currency exchanges, with the euro rising in value from 0.88 US dollars in late December 2001 to 1.04 US dollars late in the same month in 2002. The weakening of the US dollar against the euro was a consequence of geopolitical disturbances and growing insecurity related to the planned US military intervention in Iraq and a lower than expected performance of the US economy, especially concerning widening current account and fiscal deficits.



The kuna depreciated by a significant 4.61% in nominal terms against the US dollar in January 2002 on account of the weakening of the kuna against the euro and the parallel weakening of the euro against the US dollar on international foreign currency exchanges. In consequence, the value of the US dollar appreciated from 8.35 kuna on 31 December 2001 to 8.74 kuna on 31 January 2002. The kuna started to appreciate nominally against the US dollar in early February and continued this trend to the end of the first quarter and into the second quarter of 2002. The kuna exchange rate appreciated by a considerable 13.36% against the US dollar in the second quarter, with the dollar falling from 8.50 kuna on 31 March to 7.36 kuna on 30 June. The appreciation of the kuna against the US dollar was especially pronounced in June when the kuna strengthened by a significant 7.17%. The euro/US dollar exchange rate fluctuated less markedly over the third quarter of 2002, enhancing the stability of the kuna/US dollar exchange rate. The exchange rate of the kuna weakened by 1.97% against the US dollar in the third quarter. The kuna appreciated strongly against the US dollar over the fourth quarter, especially in December, in consequence of cross-currency movements of the euro against the US dollar on international foreign currency exchanges. The kuna exchange rate strengthened by 4.80% against the US dollar, while the dollar fell in value from 7.51 kuna on 30 September to 7.14 kuna on 31 December 2002.

The index of the daily nominal effective exchange rate of the kuna appreciated by a total of 4.11% over 2002 (31 December 2002 to 31 December 2001) as the kuna depreciated nominally by 0.98% and 2.87% against the euro and the Swiss franc respectively and appreciated nominally by 14.50% against the US dollar, 5.37% against the pound sterling and 5.56% against the Slovene tolar. The exchange rate of the kuna appreciated strongly against the basket of currencies, mostly due to the considerable strengthening of the kuna against the US dollar.

The index of the real effective exchange rate of the kuna, deflated by retail prices and producer prices, appreciated by a total of 3.53% and 3.42% respectively over 2002 (December 2002 to December 2001). These trends were similar in intensity to the appreciation of the index of the nominal effective exchange rate of the kuna in the said period, as Croatia's year-on-year inflation rate in 2002 remained close to that in the countries whose currencies are included in the calculation of the real effective exchange rate of the kuna. The kuna exchange rate appreciated the most in real terms during the second quarter.



## 1.2.4 Monetary Developments and International Reserves

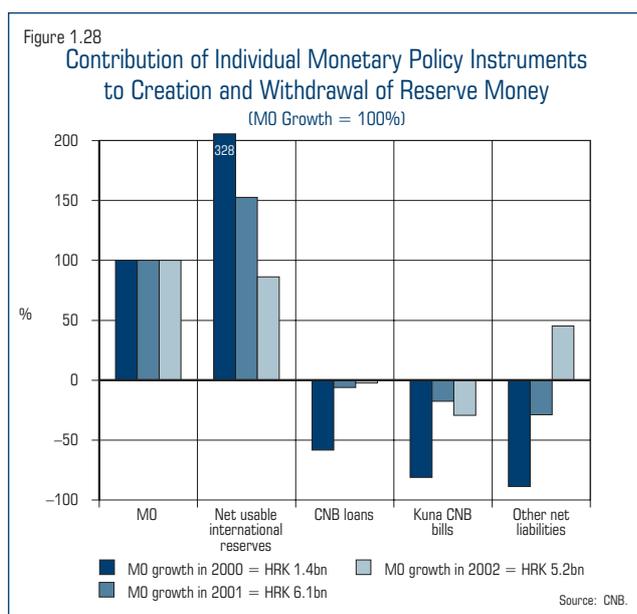
The environment within which the Croatian National Bank operated in 2002 was favorable. The central bank's main objective, price stability, was successfully achieved, and at 2.3%, the retail price inflation was equal to that of the European Economic and Monetary Union. Economic growth from 2000 continued, reaching 5.2% in 2002. The foreign exchange market was stable and there were no signs of foreign exchange speculation that was present in 2001. Deposit money banks intensified their credit activities in 2002 and thus contributed to such developments. Banks entered 2002 with increased sources of funding due to the foreign exchange inflows in connection with the introduction of the euro. The outflow of foreign exchange deposits following the conversion was smaller than expected, while deposits' withdrawal during the Riječka banka crisis was successfully contained and limited to that bank only. Credit activities of banks intensified in the second quarter of 2002 and stepped up further towards the end of the year. Bank placements increased by 30.0% in 2002, of which credits to households increased by 42.8% and corporate credits by 22.7%. Domestic sources of funds were insufficient to finance such large credit expansion, prompting banks to increasingly turn to foreign borrowing in the second half of 2002 to finance its domestic credit activities, leading to an increase in total external debt that reached over USD 15bn at the end of the year. Heightened credit activities of banks also led to increased imports and a deficit in the balance of payments current account that reached a high 6.9% of GDP in 2002. The possible negative impact of the increased balance of payments deficit on the stability of the exchange rate and prices over a medium term prompted the central bank to issue decisions at the beginning of 2003 to help curb credit expansion and lead to lesser foreign borrowing on the part of deposit money banks.

The area of monetary regulation underwent several significant changes in 2002. Firstly, with the completion of the payment system reform in April 2002, the responsibility for conducting payment operations was transferred to deposit money banks. Secondly, the new Banking Act, adopted in July 2002, was prompted by banking development, entry of foreign banks into the domestic market and domestic banks' entry into foreign markets, and in particular, Croatia's association with the European integration processes.

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

With low inflation and the exchange rate stability, the monetary policy was tailored to accommodate capital inflows and to create the needed kuna liquidity that facilitated further rapid economic growth. As a result, reserve money growth from the previous year continued into 2002. Changes in monetary policy instruments were less significant and included a change to weekly 35-day CNB bill auctions. The regulation of the financial and payment systems was brought into focus instead. The Croatian National Bank reacted promptly to the outbreak of the crisis in Riječka banka in March 2002, by ensuring to the bank adequate kuna and foreign exchange liquidity before the entry of the new owner. That the intervention provided was successful can be seen in the fact that the crisis did not spread to other banks.

**Flows of creating and withdrawing reserve money** in 2002 were largely aimed at foreign exchange transactions with banks and the government. In light of the high liquidity of the banking system, kuna sources of liquidity remained largely unused, except on a few occasions, such as for example, the crisis in Riječka banka. Instead, the CNB again had to sterilize the surplus liquidity. Direct sterilization of a portion of surplus liquidity through an increased kuna reserve requirement base proved insufficient, prompting the CNB to increase the issuing of its kuna CNB bills. As shown in Figure 1.28, a part of the increase in M0 may indirectly be attributed to a decline in other net liabilities, primarily government deposits with the CNB and negative foreign exchange translation differences.



**Foreign exchange transactions with the banks and the government** were the main instrument of CNB's monetary policy. In light of large capital inflows from privatization, foreign investments and foreign borrowing by all domestic sectors, the CNB was forced to purchase foreign exchange and at the same time issue kuna to alleviate the appreciation pressures on the foreign exchange market. Thus, in 2002 the central bank purchased net USD 604m, to issue HRK 4.8bn<sup>7</sup>. This is slightly below the record 2001, when over one billion USD was purchased due to increased foreign exchange inflows related to the euro conversion and the succession, producing a net positive monetary effect of HRK 7.3bn. Net purchases in 2000 amounted to USD 433m, producing a monetary effect of HRK 3.6bn.

Foreign exchange interventions accounted for a major share (78%) of CNB's foreign exchange transactions in 2002. The central bank sold to banks HRK 1.7bn worth of foreign exchange and purchased from banks HRK 5.5bn worth of foreign exchange, producing a net monetary effect of HRK 3.8bn. The largest foreign exchange purchases took place in the first half of 2002 when the central bank purchased foreign exchange every month, while in the second half of the year the CNB purchased foreign exchange only once (in August). The central bank sold foreign exchange in January and in August. It intervened in the foreign exchange market 16 times, purchasing 11 and selling foreign exchange 5 times. Foreign exchange interventions in 2002 also included an extraordinary sale of foreign exchange to Riječka banka during this bank's crisis amounting to HRK 546m.

Another significant form of CNB's foreign exchange transactions are foreign exchange transactions with the Ministry of Finance. In 2002, HRK 1.5bn worth of foreign exchange was purchased from the government, while only HRK 25m were sold to the government.

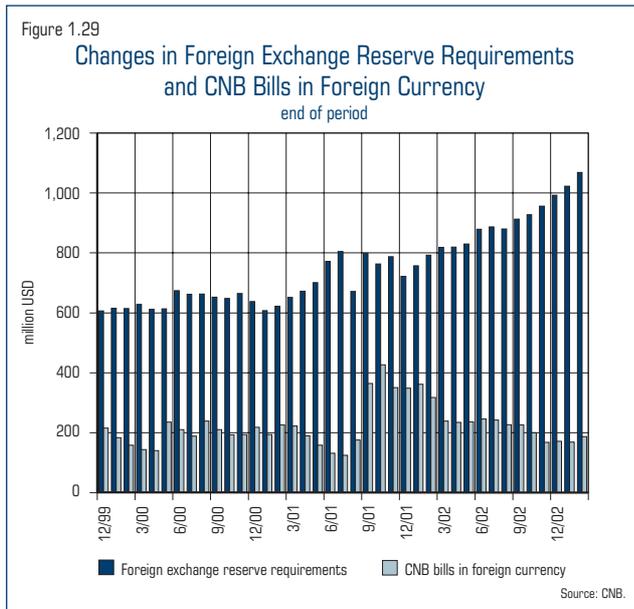
<sup>7</sup> Foreign exchange transactions in 2002 also include a transaction conducted on 28 December 2001, with value date 3 January 2002, at which EUR 50.8m (issuing HRK 373.6m) were purchased. For more information on foreign exchange transactions, see 2.2 International Reserves Management in 2002.

The first, direct instrument used to sterilize surplus kuna liquidity is the **reserve requirement**. Unlike previous years, this instrument did not undergo any significant changes in 2002. The growth of reserve requirements in 2002 was thus primarily due to the growth in the calculation base. High liquidity of the banking system temporarily slowed down the process of gradual reduction of the reserve requirement calculation rate so the rate did not change and remained 19% throughout the year. The growth of reserve requirements in 2002 was also due to the rapid growth in household foreign exchange deposits towards the end of 2001. Under the regulation in force, reserve requirements on those deposits were calculated at the beginning of 2002. The December increase in the calculation base aside, the increase in reserve requirements in 2002 was much more moderate than in the previous year, particularly in the first half of 2002 which saw a slight decline in foreign exchange deposits. Renewed growth of household foreign exchange deposits and increased foreign borrowing of banks (foreign liabilities of banks are also included in the reserve requirement calculation base) led to a somewhat faster growth of reserve requirements later on in the year. The kuna reserve requirement calculation base grew by 40%, or faster than the foreign exchange reserve requirement calculation base that grew by approximately 18% in 2002 (however, account should be taken of the fact that 1/4 of foreign exchange reserve requirements are met in kuna). Total kuna reserve requirements calculated in December stood at HRK 11.5bn, of which HRK 8.2bn were set aside with the CNB. This amount includes the portion of foreign exchange reserve requirements met in kuna. Foreign exchange reserve requirements were HRK 14.3bn, of which, in addition to the portion allocated in kuna, HRK 3.8bn worth of foreign exchange was set aside with the Croatian National Bank.

As the instrument of reserve requirements is not sufficient to sterilize all surplus liquidity, the CNB uses its **CNB bills** to withdraw from the market any remaining surplus. High liquidity of the banking system throughout 2000 made CNB bills purchases attractive despite low interest rates offered. Subscriptions of kuna CNB bills grew rapidly in 2002, reaching their record level in October (HRK 5.8bn). Larger CNB bills purchases particularly marked the beginning of the third quarter of 2002, probably partly as a result of a decision to change from monthly to weekly auctions and to keep 35-day CNB bills only. This measure helped avoid overlapping with T-bills of the Ministry of Finance of close maturities and the competition between these two securities and provided to the CNB a better means of managing surplus liquidity. The last two months of 2002 saw a slight decline in CNB bills subscriptions as a result of the lower liquidity of the banking system and growing subscriptions of 364-day T-bills of the Ministry of Finance, introduced in September. Kuna CNB bills stood at HRK 5.2bn at the end of the year, which is an annual increase of HRK 1.7bn. By comparison, the annual increase in CNB bills subscriptions in the previous two years ranged around one billion.

By contrast, foreign currency CNB bills subscriptions declined considerably during 2002, following their increase in the last quarter of 2001. Largest redemptions took place in the first and the fourth quarters of 2002. Clearly, foreign currency CNB bills are not as significant an instrument of monetary policy as kuna CNB bills. The role of the central bank is only that of an intermediary that helps place banks' foreign exchange funds abroad and it does not play an active role in dictating either the quantity or the price of these securities. At end-December, foreign currency CNB bills subscriptions stood at HRK1.2bn, which is a decline of HRK 1.7bn annually.

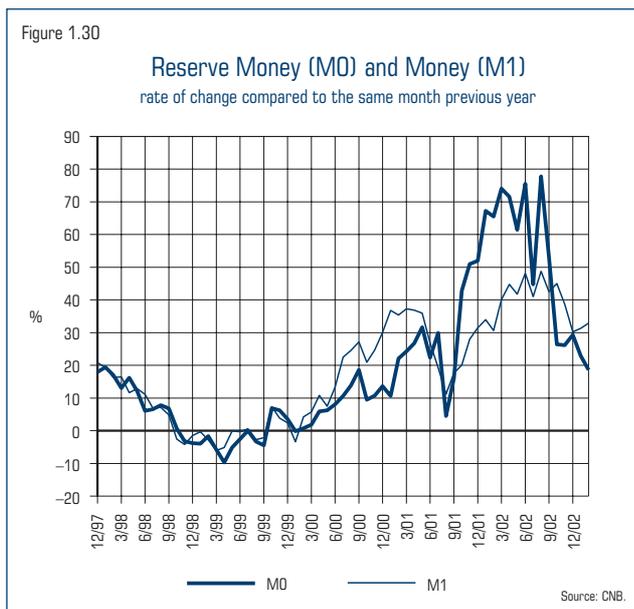
Given the banking system's high liquidity, kuna liquidity instruments were not much in demand except in the case of CNB's response to the crisis in Riječka banka. As shown in Figures 1.28 and 1.32, the banks have hardly used CNB's liquidity loans, which can be explained by their increased liquidity. Apparently, highly liquid banks can hardly be expected to use the relatively expensive CNB loans, if they can turn to the money market for the needed funds at significantly lower interest rates. Thus, the Lombard loans, the first recourse of banks when CNB liquidity support is needed, were used only 24 days and their average amount was HRK 87.9m. The use of the Lombard facility was even scarcer in the second half of 2002, when only three daily uses of the facility were recorded.



The activities of the central bank during the crisis in Riječka banka<sup>8</sup>, in March and April 2002 should be particularly stressed because they show the role of the central bank as a lender of last resort. Following the announcement of losses and the ensuing run on the bank, Riječka banka made use of the Lombard facility, that was replaced on the following day by a short-term liquidity loan, designed exactly for such cases. HRK 320m worth of CNB bills and HRK 494m worth of T-bills of the MoF were repurchased from Riječka banka before maturity, later partly sold at an extraordinary auction. To provide the bank with foreign exchange liquidity, HRK 546m worth of foreign exchange was sold to Riječka banka. The bank repaid its short-term loan at the beginning of April 2002.

### Reserve Money and International Reserves

Year 2002 was the second consecutive year marked by a rapid growth in **reserve money**. However, at 29.3%, this growth was much slower in 2002 than in 2001 when M0 grew by as much as 51.9% due to increased foreign exchange purchases in that year. By comparison, reserve money grew by a mere 13.6% in 2000. At end-2002, M0 stood at HRK 23.0bn.



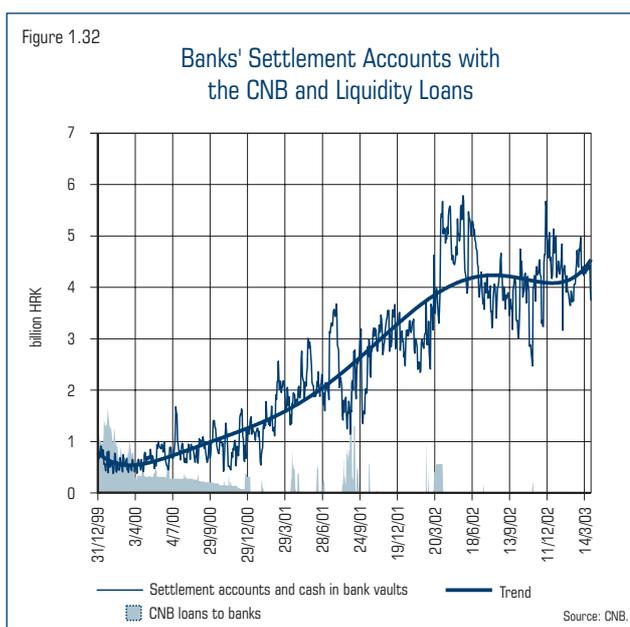
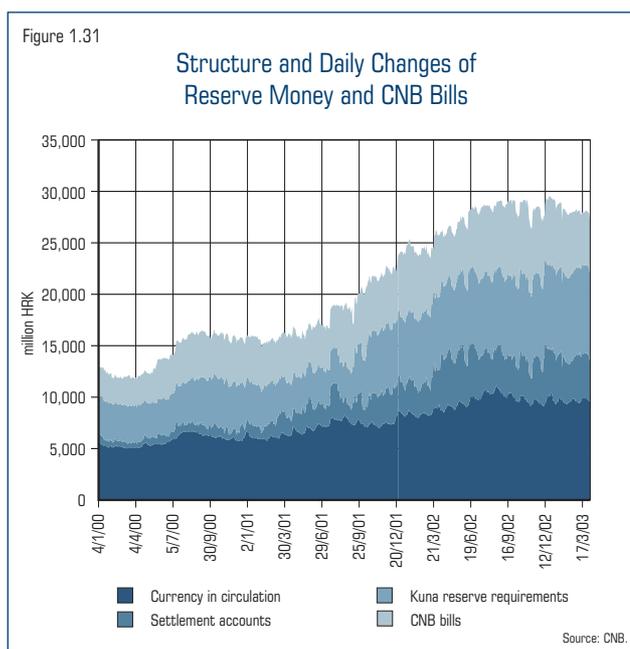
Looking at the structure of reserve money, it can be observed that its growth, as in the previous year, was mostly fuelled by the growth in banks' deposits with the CNB, which accounted for nearly 2/3 of the total growth in M0. While kuna reserve requirements, as usual, accounted for the largest share of growth in reserve money (36.3%), oscillations in reserve money in 2002 were mostly caused by fluctuations in the settlement accounts of banks. Balances in the settlement ac-

<sup>8</sup> For a more detailed account of the CNB's activities in Riječka banka, see the CNB Annual Report for 2001.

counts of banks grew considerably in the second quarter of 2002 following the payment system reform to fall again at the beginning of the third quarter. The high amount of government funds held in the accounts with the CNB at the end of September, October and November caused further oscillations in reserve money as the balances in the settlement accounts, and hence reserve money, declined by the equivalent amount during the same period. Cash in bank vaults grew the most, doubling in comparison with 2001 due to the payment system changes. Thus, the growth in cash in vaults accounted for 12.9% of the growth in M0, while the contribution of currency in circulation to M0 growth fell from 30.7% to 22.5% due to the cash level adjustment following its rapid growth in 2001 and the absence of its seasonal growth at end-2002.

Of all the categories of M0, **DMBs' cash in vaults** grew the most, or more than double, in 2002 (125.5%). However, due its relatively low share in total reserve money, its contribution to reserve money growth amounted to a mere 12.9%. The changed role of banks in payments systems caused two large increases in the level of DMB's cash in vaults last year. The first increase took place at the end of the first quarter 2002 following the transformation of the Institute for Payment Transactions, when the average balance in DMBs' cash in vaults doubled to nearly one billion kuna and held steady until the end of the year. In the last days of December 2002, DMBs' cash in vaults increased additionally as a result of further changes in the system of supply of banks with cash. The number of FINA's cash supply centers was reduced to its 22 branches. The average balance of DMBs' cash in vaults stood at HRK 831m in 2002, which is almost double compared with the 2001 average. At the end of the year, the balance of DMBs' cash in vaults stood at HRK 1,215m, which is a high annual growth of 125.5%.

Of all the categories of reserve money, **settlement accounts** that account for the largest share of reserve money, fluctuated the most. Balances in the settlement accounts grew rapidly in 2001 as a result of the high liquidity of the banking system. Unlike their continuous growth in 2001, their increase in 2002 was primarily due to the payment system reform in April. Balances in the settlement accounts declined as the banks gradually got adjusted to their active role in the payment system while CNB bills subscriptions increased in the third quarter. High level of the settlement accounts in 2002 was the result of the high liquidity of the banking system. The average balance in the settlement accounts in 2002 was HRK 3.2bn, which is an increase of 78.3%,

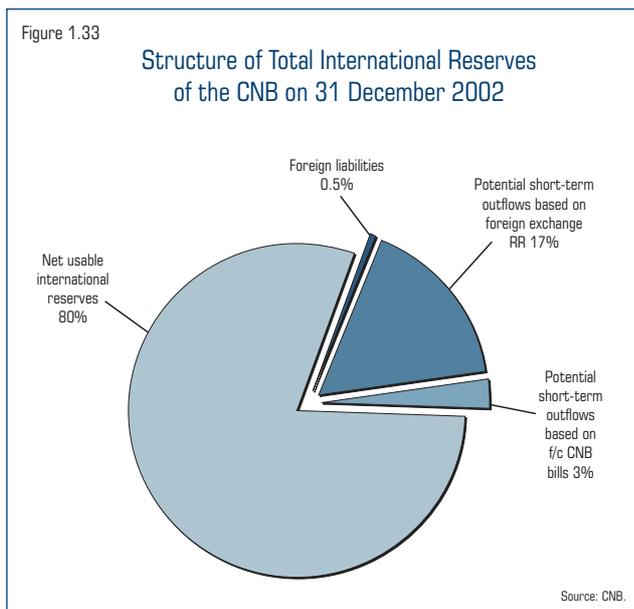


compared with the average recorded in 2001. At the end of the year, the settlement accounts stood at HRK 3.9bn, which is an annual increase of 60.1%.

The increase in the settlement accounts is partly due to the increase in the reserve requirement calculation base. Under current regulation, deposit money banks have to lodge a minimum of 40% of their reserve requirements in a special account with the CNB while the remaining part of their reserve requirements can be met by maintaining the needed reserves in the settlement account and in the cash vault. The interest paid to DMBs for the kuna reserve requirements kept in the special account with the central bank encourages regular use of this facility on the part of DMBs in excess of the prescribed amount. As a result, kuna reserve requirements at end-2002 stood at HRK 8.2bn, which is an annual increase of 30.1% (the increase in 2001 amounted to 54.2%).

The growth in currency slowed down in 2002 compared with the previous year when it was fuelled by increased conversions prior to the introduction of the euro (the increase in 2001 was 28.2%). At end-2002, currency in circulation stood at HRK 9.7bn, which is an annual increase of 13.8% (for more details, see Monetary and Credit Aggregates).

Movements in **government deposits** with the CNB directly influence the movements in reserve money, so that the funds held in the accounts of banks, which are included in reserve money, are transferred to the government account with the CNB, which is not included in reserve money. This is particularly important if the balance of reserve money is observed at end-month when VAT payments are due and when, as a result, there is often a short-term increase in government deposits, as shown in end-of-period data published by the CNB. Such increases took place at the end of several months in 2002. Unlike end-2001, the government made increased payments towards the end of 2002, causing government deposits on an annual level to fall by 1 billion kuna. Average government deposits also fell from HRK 1.4bn in 2001 to HRK 0.9bn in 2002 as a result of a transfer of a portion of central government deposits from the CNB to HPB in March 2002. The government held foreign exchange deposits with the central bank on two occasions in 2002 (in February and in December).



**International reserves of the Croatian National Bank** increased by USD 1.2bn in 2002, which is an increase equal to that reported in 2001. However, a part of the increase in 2002 can be attributed to the strengthening of the euro against the dollar as close to 3/4 of total international reserves of the Republic of Croatia are held in euro. As mentioned previously, the amount of foreign exchange purchased from the banks and the government in 2002 was USD 604m, which is a decrease compared with the previous year when foreign exchange purchases totaled over USD 1bn. The increase in total international reserves was also due to an increase in reserve requirements lodged with the CNB of HRK 1.3bn while they declined by HRK 1.7bn in terms of the amount of CNB bills redeemed. A further de-

cline in international reserves took place in December as a result of Croatia's early repayment of USD 96m of IMF credit. At the end of the year, international reserves stood at USD 5,886m, which is an annual increase of 25.1%. Net usable international reserves stood at USD 4,665m, which is an annual increase of 33.9% (in absolute terms they increased by USD 1.2m).

## Monetary Policy at the Beginning of 2003

The beginning of the year was marked by two decisions adopted by the CNB to slow down banks' domestic placements and their foreign borrowing. The rationale behind these decisions was that slower credit activity would help reduce the balance of payment disequilibrium that could otherwise threaten to jeopardize the exchange rate and price stability. Developments in the first quarter of 2003 indicate that domestic placements of banks slowed down.

In accordance with the Decision on the Compulsory Purchase of CNB Bills, banks with placements growth exceeding 16% during 2003, based on a quarterly growth dynamics of 4%, have to subscribe 3-month kuna CNB bills in the amount that is two times bigger than the amount exceeding the quarterly limit of 4%. In addition to on-balance sheet items, the placements comprise a number of contingent liabilities related to off-balance sheet items (guarantees, letters of credit, bills of exchange and lines of credit). The placements do not include credits granted to other banks and the Republic of Croatia. Under the Decision, banks are remunerated at a rate of 0.50% for the CNB bills subscribed. The subscriptions take place quarterly; in April, July, October and January.

The Decision on the Minimum Required Amount of Foreign Exchange Claims provides for a daily obligation of banks to maintain their foreign exchange claims at a minimum level of 35% of their foreign exchange sources. This Decision replaces the previous decision under which banks were obliged to have at least 53% of their short-term foreign exchange liabilities covered by short-term foreign exchange claims. As the previous decision did not clearly specify the period that the obligation related to, many banks maintained the prescribed ratio only on the last day of the month when they submitted their reports to the CNB, often turning to short-term foreign borrowing to meet the prescribed obligation. In addition to providing a clear definition of the daily obligation of banks with respect to their minimum foreign exchange claims, the new Decision also provides for an alignment of the foreign exchange base with the reserve requirement calculation base, so it can be seen as a step forward towards the unification of the instrument of reserve requirement.

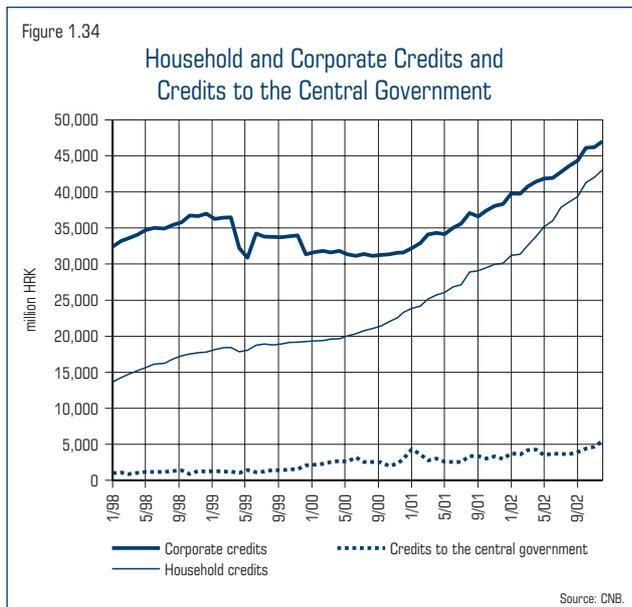
The first quarter of 2003 was marked by a depreciation of the exchange rate of the kuna against the euro, common for the beginning of the year and this time additionally fuelled by the increased demand of banks for foreign exchange in fulfillment of their minimum foreign exchange liquidity obligation. The central bank responded by intervening in the foreign exchange market, selling to banks a total of EUR 315.2m. A total of HRK 2.4bn was thus withdrawn, causing large CNB bills redemptions (HRK 1.1bn). However, the system's liquidity remained high and CNB's loans were not much in demand.

## Monetary and Credit Aggregates

Monetary developments in 2002 were marked by a rapid growth in credit activities of banks. In the absence of sufficient growth in domestic sources of funds, banks mostly turned to foreign borrowing to finance their credit activities. This led to a fast growth in foreign liabilities of banks. Rapid credit expansion caused a significant increase in demand deposits (37.4%), compared with the previous year (26.7%). The increase in demand deposits particularly determined the dynamics of developments in money (M1), that grew steadily and rapidly for the third consecutive year. Developments in M4 were mostly influenced by foreign exchange deposits, which stagnated, compared with the previous year. Following the conversion of EMU member countries' currencies into the euro, household foreign exchange deposits started falling in the first and the second quarter of 2002 as a result of the post-euro effects and the crisis in Riječka banka. The decline in foreign exchange deposits was halted by end-June and the end of the year saw their full recovery to levels recorded at end-January 2002.

### Bank Placements

Increased growth of bank placements to the non-banking sector that started in 2000, accelerated additionally in 2002. Bank placements increased steadily during the year, reaching a 30.0% growth at the end of the year, compared with end-2001. Fast credit growth can be attributed to large inflows of foreign exchange deposits in 2001 and inflows of banking capital from abroad, prompted by low yields in the EU member countries and aspirations of banks to acquire larger stakes on the domestic banking market. All this led to further foreign borrowing of banks and rapid growth of their foreign exchange liabilities.



Marked credit expansion of banks led to increased personal consumption and imports growth that contributed to a widening of the current account balance of payments deficit. Credit growth in 2002 can largely be attributed to credits to households that grew at the rate of 43%, or almost twice the growth rate of credits to companies (22.6%). At end-2002, credits to households were HRK 43.1bn and credits to companies HRK 47bn. The explanation for such an exceptional growth in household credits can be found in their interest rates and the income they generate for the banks. Commonly higher (average rates in 2002 were 8.51 percentage points on short-term credits without a currency clause and 3 percentage points on long-term credits with a currency clause) than rates on credits to companies, they also involve a low level of risk exposure as claims on households are generally well secured.

## Money

Credit activities of banks led to a growth of monetary aggregates. Demand deposits' growth from 2000 accelerated additionally in 2002. This component of money was particularly affected by a growth in corporate demand deposits that account for approximately one half of total demand deposits. In addition to the corporate sector, local government and other financial institutions also had high growth rates of demand deposits. Developments in demand deposits in 2002 reflect heightened credit activities of banks and total economic growth that took place in that year.

The growth of cash declined considerably in 2002, compared with the previous year that saw its additional increase due to the conversion of EMU member countries' currencies into the euro. Cash movements in the first half of 2002 were influenced by the crisis in Riječka banka and the payment system reform. During the second half of 2002, cash fluctuated around its new level.

Money (M1) grew robustly and steadily for the third consecutive year. Its annual growth rate in 2002 was 30.2%, equaling those in the previous two years. Developments in M1 during the year reflected the changes in demand deposits that mostly affected this monetary aggregate.

## Total Liquid Assets

The increase in the broadest monetary aggregate, total liquid assets (M4), was smaller in 2002, compared with 2001. The main reason for this deceleration were developments in foreign exchange deposits, the most significant component of quasi-money. After their significant increase at the end of 2001 because of the euro conversion, foreign exchange deposits declined in the first and the second quarter of 2002 as a result of post-euro effects and events in Riječka banka. Foreign exchange deposits almost fully recovered towards the end of 2002, reaching levels reported at the beginning of the year.

## Foreign Assets and Liabilities

Following their sudden increase at end-2001 due to large foreign exchange inflows, foreign assets of banks started declining considerably in the first four months

Figure 1.35

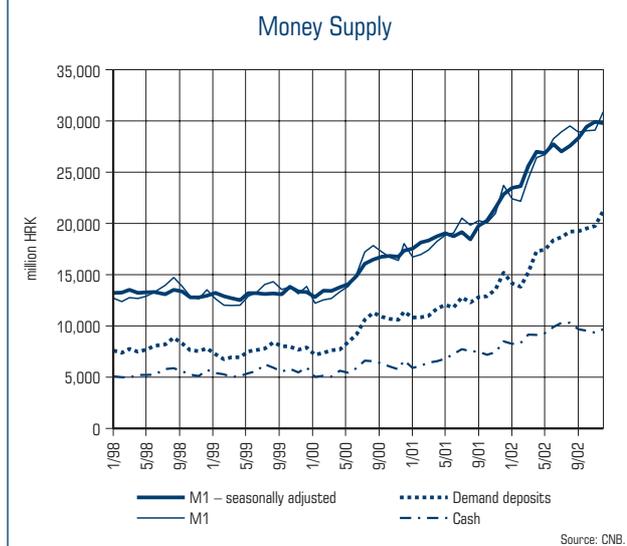


Figure 1.36

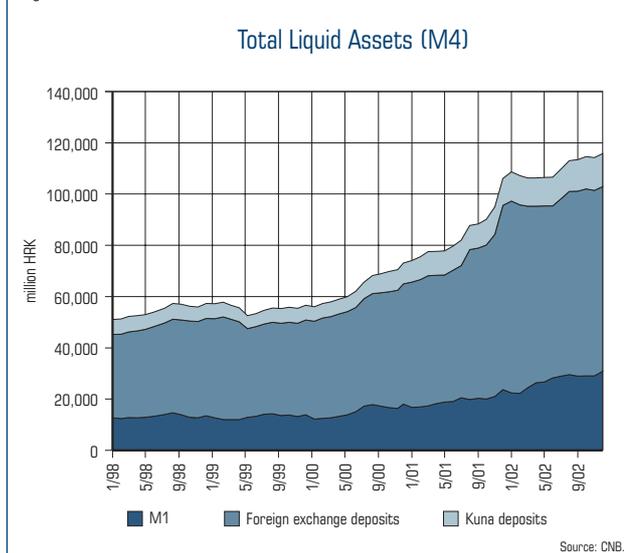
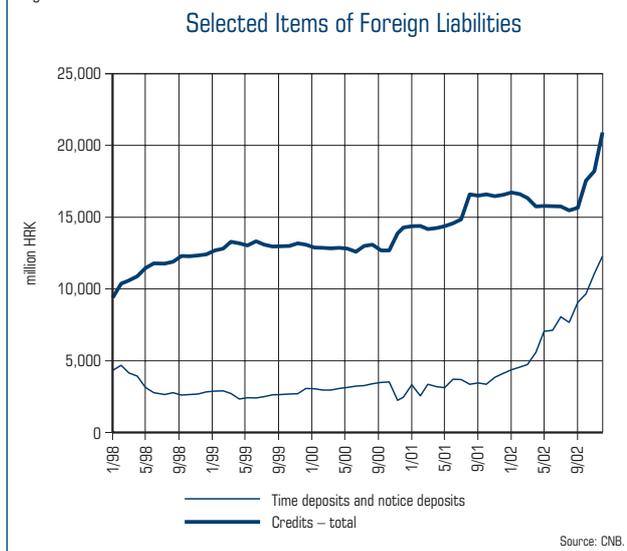


Figure 1.37



of 2002 due to heightened credit activities of banks and partial outflows of foreign exchange deposits. The existing sources of funds were not sufficient to support further increased credit activities of banks, turning the banks towards foreign borrowing. The banks started borrowing abroad in April whereas a particularly large increase in foreign liabilities of banks took place in the fourth quarter of 2002. Annual growth of foreign liabilities in 2002 was HRK 13.2bn, with the banks' funding primarily coming from foreign banks' and foreign persons' deposits (HRK 8.2bn) and from foreign banks' credits (HRK 4.3bn).

### Government

As regards the relations between the government and DMBs, year 2002 was characterized by increased government borrowing from the banks and a mild increase in government deposits with the banks, resulting in a 9.7% net increase in banks' claims on the government. The increase in banks' net claims on the government was particularly pronounced in December, following a decline in government deposits with the banks because of the settlement of its obligations towards other sectors towards the end of the year.

## 1.2.5 Money Market

A strong growth in foreign exchange supply in the domestic market over the entire 2002 forced the central bank to intervene by regular and extensive purchases of foreign exchange in order to mitigate the kuna appreciation pressures. A substantial kuna liquidity was thus generated which resulted in an increase in already high primary liquidity of the banking system. The latter was additionally effected, in the first part of the year, by a deliberate decision of banks to double their cash in vaults as a precautionary measure in view of uncertainty related to the introduction of the new national payment system in the second quarter. In accordance with such developments, banks' primary liquidity growth in 2002 caused a significant reduction in demand and lower interest rates in the money market. Consequently, the Croatian National Bank liquidity loans were scarcely used throughout the entire year and a turnover fall on the Zagreb Money Market (ZMM) was also recorded relative to the previous year.

A low demand in the money market forced banks to place their cash surpluses in the primary market of short-term CNB bills and Ministry of Finance T-bills. This led to an increase in the total stock of subscribed short-term securities of the government and the central bank by the end of the year. Since the supply of these securities for the purpose of government financing and central bank monetary operations was somewhat lower than the banks' demand, increased interest of banks contributed to the interest rate fall on these securities over the year. More specifically, following a strong fall in the first part of 2002, interest rates on short-term securities of the government and the central bank hit their bottom which was almost twice lower than that at the end of the previous year, so that interest rates did not significantly change in the second half of the year.

High banking system liquidity in 2002 can be accounted for by a strong growth in kuna deposits on the one hand and increased bank foreign exchange borrowing abroad on

the other, whereas foreign exchange deposits stagnated. Increased interest of natural and legal persons in kuna deposits has created conditions allowing banks to significantly reduce their deposit interest rates on the kuna sources of funds. Furthermore, cheaper foreign borrowing of banks has allowed them to continue market share competition, which started in 2000, by a strong credit expansion. Such developments, along with a still relatively high interest rate spread in the Croatian banking market, have contributed to a reduction in all lending rates of banks, which has been recorded, to a smaller or larger extent, since the beginning of 1999.

## Money Market Interest Rates

ZMM interest rates, particularly in the second half of the year, fluctuated significantly less than in 2001. In early 2002, the interest rate downward trend, which started as early as in mid-2001, was curbed. A slight increase followed in the first few months of 2002, so that the weighted monthly interest rate on overnight loans reached its highest 2002 level in May (2.19%). The weighted monthly interest rate on other loans reached its peak in April (2.46%). A new fall in money market interest rates followed, so that the ZMM trading involved exceptionally low interest rates during summer months, often below 1%. In the third quarter, a growth in average daily interest rates resumed, only to be curbed in December when the weighted monthly interest rate on overnight loans stood at 1.37%, compared with 1.71% on other loans.

Total ZMM turnover in 2002 was HRK 17.6bn, which is slightly more than two thirds of the total turnover recorded in the previous year. The ZMM turnover reached its record low in May, when the average daily turnover in overnight loans and other loans amounted to HRK 15.6m and HRK 14.3m respectively. By end-July, banks' primary liquidity fell to the level recorded at the beginning of the year, which contributed to a temporary trading revival in the money market. However, in the last quarter, as a result of banks' primary liquidity growth trading slumped again to the level close to that at the beginning of the year (in December, HRK 24.7m worth of overnight loans and HRK 18m worth of other loans were traded).

Figure 1.38

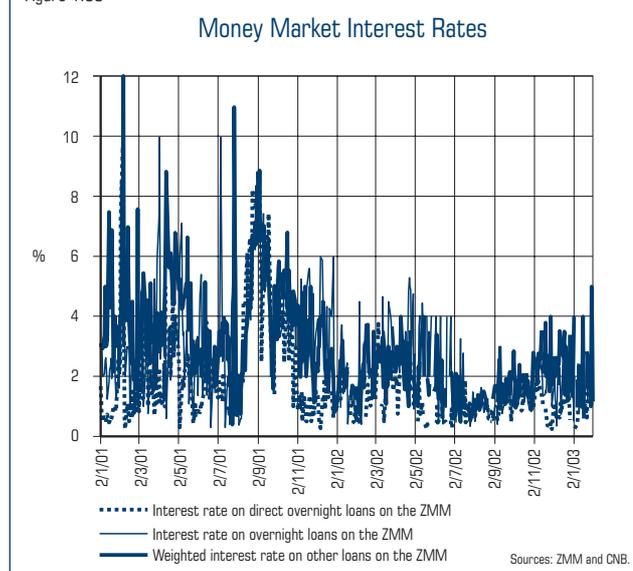
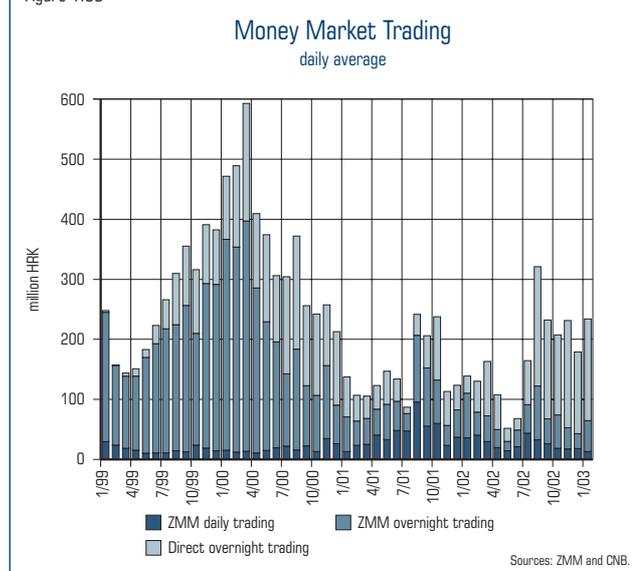
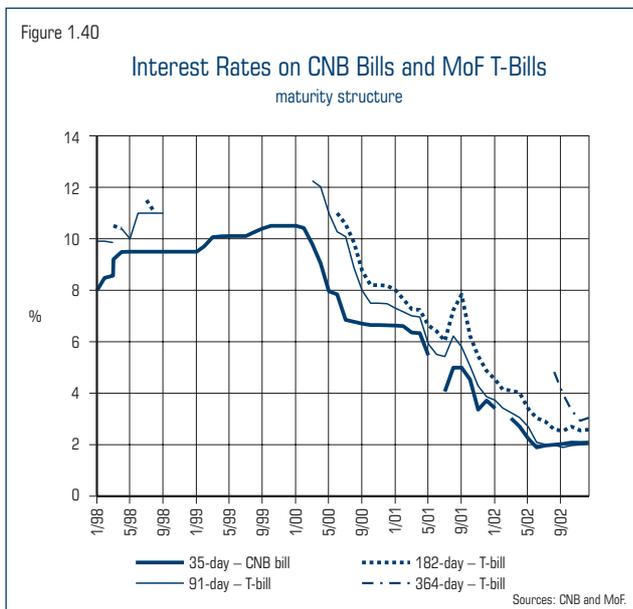


Figure 1.39



## Interest Rates in the Short-Term Securities Market

By adjusting the auction strategies between the Croatian National Bank and the Ministry of Finance, maturities of short-term securities of the government and the central bank were completely separated in 2002 for the first time, so that these securities no longer compete against each other in the market. More specifically, according to the Decision of the Croatian National Bank which has been applied since 26 June 2002, kuna CNB bills are issued with a single maturity of 35 days, and auctions are again held every week, which has allowed a more precise pursuit of monetary policy by the central bank. On the other hand, the Ministry of Finance has decided to issue T-bills with longer maturities in order to assure more stable sources of short-term government financing. After 17 September, 42-day T-bills are thus no longer being issued, 91-day and 182-day maturities remained. A T-bill with a new maturity of 364 days was introduced, which has become a short-term kuna security with the longest maturity in the Croatian market.



With respect to the developments that marked the kuna CNB bills primary market, the year 2002 may be divided into two periods: the first period, which ended on 26 June, and the second period after 26 June. The first period was marked by a continuation of the interest rate downward trend at auctions, which started in early 2001, while the subscription of CNB bills was mainly on the increase. The weighted average of monthly interest rates on 35-day, 70-day and 105-day bills fell from January to June 2002 by 147, 140 and 139 basis points respectively to 2.25%, 2.76% and 3.39% respectively. After 26 June 2002, the weighted monthly interest rate on CNB bills first reached its lowest level in July (1.90%), and then grew moderately until December when it stood at 2.08%. The total stock of subscribed CNB bills in that period continued to grow, although not at the same pace as in the first six months, so that it reached HRK 5.2bn at year-end – HRK 1.7bn more than at the end of 2001.

At the Ministry of Finance auctions, the interest rate downward trend, which started in the last quarter of 2001, continued over the entire 2002. From January to December, weighted average interest rates on 91-day and 182-day T-bills fell by 187 and 232 basis points respectively (they stood at 2.0% and 2.55% respectively in December 2002), while the weighted average interest rate on 364-day T-bills dropped from 4.83% to 2.93% in only four months of their issuance (from September to December 2002). During 2002, the stock of subscribed T-bills ranged from HRK 4.6bn to 5.2bn, amounting to HRK 4.9bn in late December.

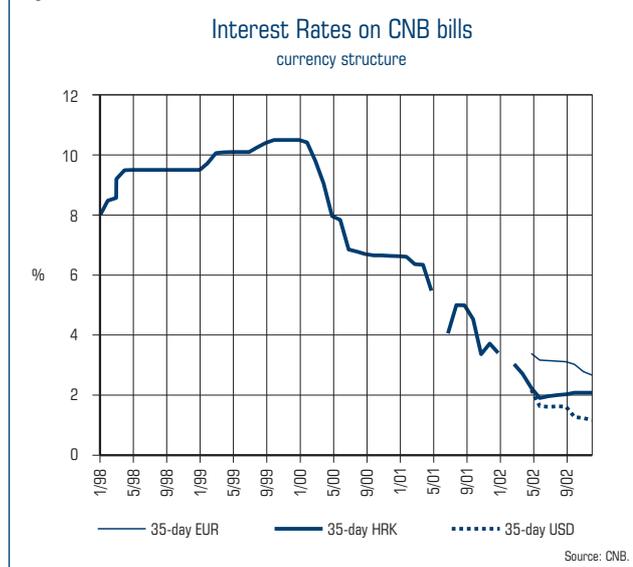
As an instrument of sterilization of banks' surplus foreign exchange liquidity, the Croatian National Bank issues foreign currency CNB bills denominated in euro and US dollar, with maturities of 35 and 63 days (35-day maturity was introduced on 26 June by

the CNB Decision, whereas 91-day, 182-day and 364-day maturities were abolished). In contrast to kuna CNB bills and T-bills, interest rates on foreign currency CNB bills and T-bills are not set in the primary market (at auctions), but are calculated by deducting 1/16 percentage points from the LIBID rate for the corresponding maturity at the auction date.

As a result of such a method, the price setting of foreign currency CNB bills depends on the monetary policy of the European or American central bank since LIBID is very sensitive to the changes in the key interest rates of these central banks. The downward trend in interest rates on foreign currency CNB bills thus continued throughout 2001, along with increasingly more expansive monetary policy of the above mentioned central banks. In the following period, in accordance with predominantly neutral monetary policy of the European and American central bank in 2002, these interest rates were relatively stable over the first nine months, with only mild fluctuations. In the last quarter of 2002, they started to decline again, which contributed to a reduced interest in these bills.

Together with a gradual lessening of the euro effect on the increased foreign exchange liquidity of banks in early 2002, low interest rates caused a continuous reduction in the subscription of foreign currency CNB bills throughout the year, since banks purchased only the amounts required for maintaining foreign exchange liquidity. In late December, the purchased amount of foreign currency CNB bills amounted to USD 166.3m, which is more than double the amount in early 2002.

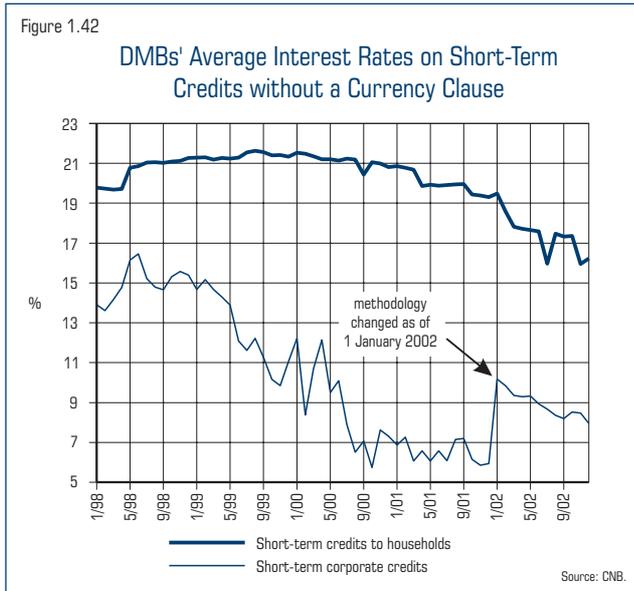
Figure 1.41



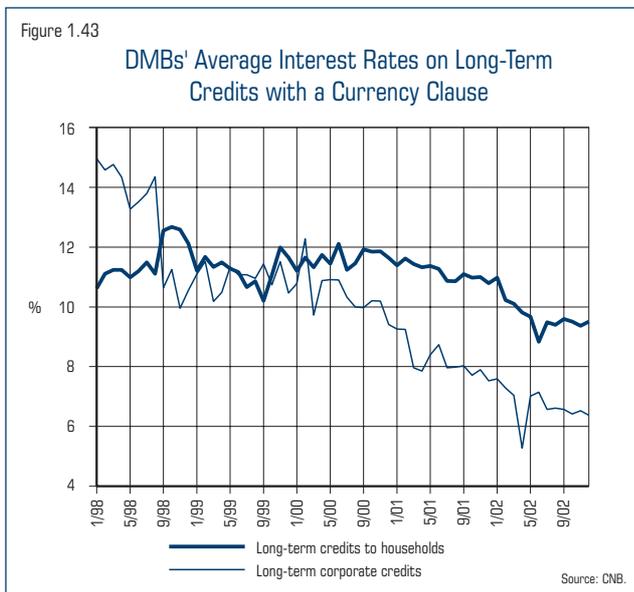
## Deposit Money Banks' Interest Rates

On 1 January 2002, the Croatian National Bank reporting methodology on deposit money banks' interest rates changed. Accordingly, since then deposit money banks have been reporting only on their interest rates in retail and corporate operations. Previously, they reported on their interest rates in operations with households and legal persons, the latter including, apart from companies, government and financial institutions. As a result of the new method of reporting on interest rates earned or incurred, a one-off increase in the level of interest rates on short-term credits without a currency clause granted to legal persons (i.e. companies) was recorded. Consequently, the spread between interest rates on credit and deposit without a currency clause also increased. This increase can be accounted for by the exclusion of the effect of a large share of short-term credits to government and financial institutions and a significantly lower interest rates on these credits in calculating the average weighted interest rate on short-term credits without a currency clause granted to legal persons.

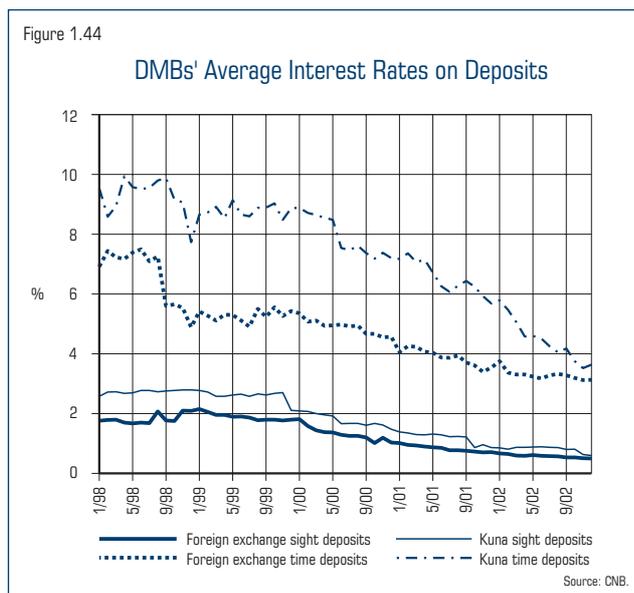
2002 saw a continuation of the downward trend in all credit and deposit interest rates of deposit money banks, which started in 1999. Interest rates on bank corporate credits



were reduced somewhat faster than interest rates on household credits, particularly in the second half of the year. The average interest rate on short-term kuna corporate credits without a currency clause fell from 9.68% in January to 7.44% in December. In the same period, the average interest rate on short-term household credits without a currency clause, of which almost 97% constituted current account overdraft facilities, declined from 18.98% to 15.72%.

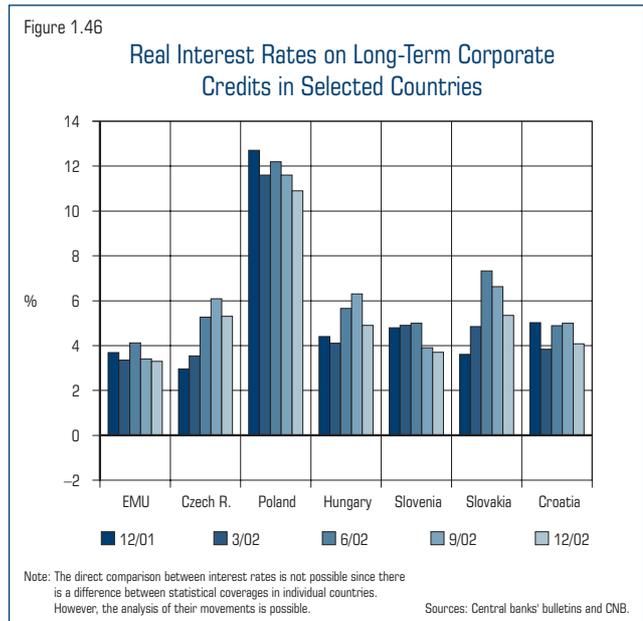
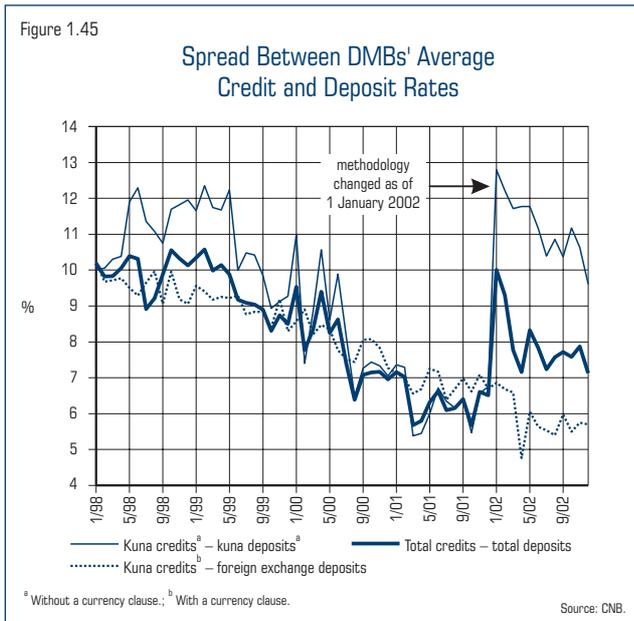


The average interest rate on long-term corporate credits with a currency clause stood at 7.59% in early 2002 and fell to 6.37% by December. The average interest rate on long-term household credits with a currency clause fell by 1.47 percentage points in the January-December period, to 9.50%. This fall was partly caused by an increase in the share of housing credits in total long-term household credits and a reduction in the average interest rate on housing credits, from the initial 8.80% to 7.42% in December.

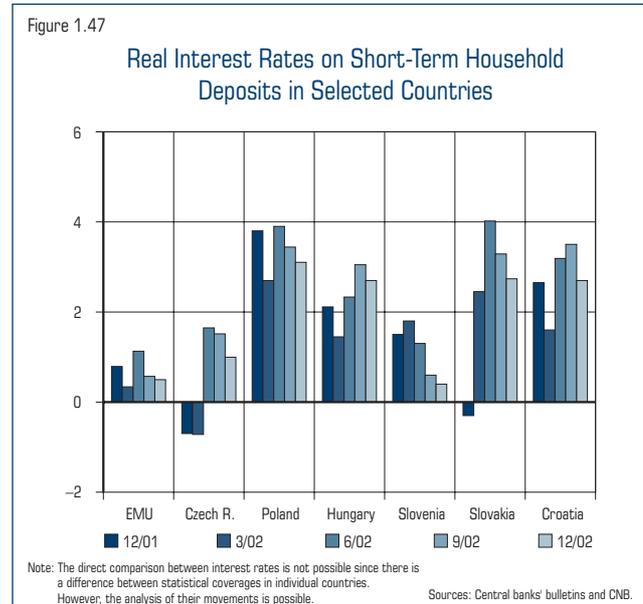


Despite a strong fall in credit rates, the fall in deposit rates on kuna 3-month time deposits was the most intensive, in relative terms. These deposit rates were almost halved in the January-December period of 2002 when they fell from 5.46% to 3.15%. In the same period, the average interest rate on foreign currency 3-month time deposits fell by 17 basis points, standing at 2.70% in December. As a result, the implicit currency risk premium required by natural and legal persons on kuna deposits, arising from the spread between these two deposit rates, decreased significantly, from 259 basis points in January to only 45 basis points in December.

Since the credit rate fall in absolute terms was larger than the fall in deposit rates, the spread between credit and deposit rates continued to decrease at a slower rate than the credit rate fall. The spread between interest rates on total credits and total deposits decreased from 10 percentage points in January to 7.13 percentage points in December. In the same period, the fall in the spread between interest rates on kuna credits with a currency clause and foreign exchange deposits was slightly above 1 percentage point, standing at 5.7 percentage points.



As a result of low inflation rates, the fall in bank credit rates in 2002 was not so significant in real terms, as it was in nominal terms. The movements in bank nominal interest rates deflated by the consumer price index in the selected transition countries and EMU countries had different trends in 2002, and movements in Croatia's interest rates resemble most the interest rate movements in EMU: apart from slight fluctuations, deflated credit rates of banks in Croatia did not change significantly. In contrast to such movements, Slovenia and Poland recorded a continuous fall in deflated credit and deposit rates of banks. In the Czech Republic, Hungary and Slovakia, deflated interest rates on long-term corporate credits increased relative to end-2001.



## 1.2.6 Capital Market

Last year was marked by several important events in the capital market. First, as a result of the pension system reform, new big institutional investors entered the capital market – pension funds. Partly for this reason and partly because of the introduction of an obligation to report direct trading, bond trading increased severalfold. The volume of trading on the Zagreb Stock Exchange (ZSE) thus totaled HRK 5.9bn, which is 3.5 times more than in 2001. Furthermore, the Varaždin Securities Market transformed into the Varaždin Stock Exchange (VSE) in July. Trading in the new trading system developed in cooperation with the Ljubljana Stock Exchange started in early December. A significant growth in trading was also recorded on the VSE in 2002, reaching HRK 1.36bn, 28.3% more than in 2001.

## Equities Market

Following an exceptionally high turnover in the first quarter of 2002, the volume of trading in shares on the ZSE was at a low level until the end of the year. 66 shares were actively traded and shares traded in Quotation I (shares of Pliva, Podravka and

Brodogradilište Viktor Lenac) continued to play the major role with regard to trading volume, although their share in total trading fell from 71% in 2001 to 59% in 2002. In 2002, total trading in shares grew by 20% relative to the previous year, amounting to HRK 1.17bn (of which almost half was realized in the first three months). Market capitalization of ZSE shares in 2002 stood at HRK 28.3bn, which is an increase from 15.9% of GDP in 2001 to 17.6% of GDP at the end of 2002.

The value of the ZSE index, CROBEX, grew, despite some fluctuations, from 1035 points at the end of the previous year to 1172 points at end-2002. This index currently includes 11 ordinary shares, of which those with the largest market capitalization in 2002 accounted for the largest part: shares of Pliva, Podravka and Croatia osiguranje. The rise in prices of these shares in 2002, ranging from 24% to 44%, mostly contributed to the rise in the CROBEX. In 2002, price movements of the shares of Croatian companies, including the CROBEX value, were in line with the movements in the stock exchange indices of other transition countries (a combined index of the Central European stock exchanges, CESI, increased by 20% compared to the end of 2001).

In 2002, the trading volume of shares on the VSE was somewhat higher than that recorded on the ZSE, amounting to HRK 1.22bn. In comparison with the previous year, the trading volume of shares grew by 28.4%. Since November, the trading on the VSE has been carried out in 4 market segments (of the total of 5): Quotation I (1 share),

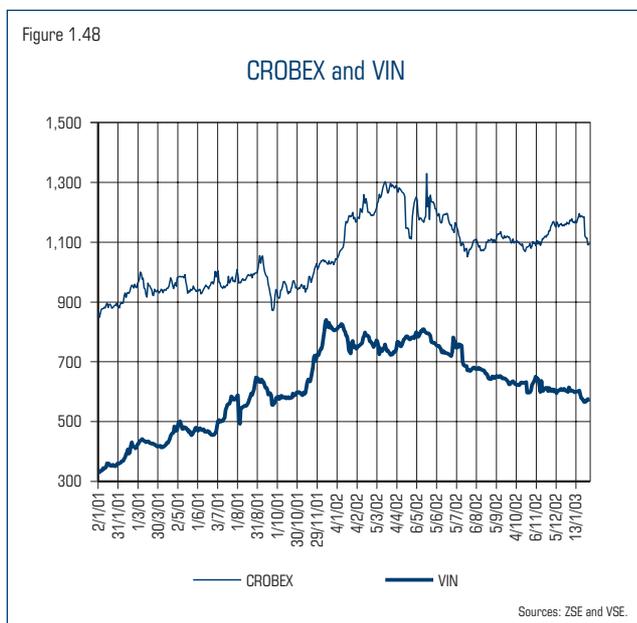


Table 1.1 Comparison of Capital Markets Indicators

December 2002	Bratislava	Budapest	Ljubljana	Prague	Warsaw	Zagreb
Average daily turnover, shares (million USD)	9.5	38.4	7.4	31.5	48.9	0.8
Average daily turnover, bonds (million USD)	241.5	12.3	5.5	169.9	6.7	8.2
Turnover <sup>a</sup> /GDP <sup>c</sup> , annual level (%)	8.5	17.4	8.5	12.1	6.3	0.9
Turnover <sup>b</sup> /GDP <sup>c</sup> , annual level (%)	217.9	5.6	6.3	65.0	0.9	9.0
Turnover velocity <sup>d</sup>	66.2	70.4	28.9	42.9	39.3	4.6
Market capitalization <sup>a</sup> (million USD), end month	2,575	13,089	5,553	15,860	28,326	3,964
Market capitalization <sup>b</sup> (million USD), end month	7,134	20,332	3,111	12,358	...	1,269
Market capitalization <sup>a</sup> /GDP <sup>c</sup> , end month (%)	12.9	24.8	29.5	28.1	16.1	20.3
Market capitalization <sup>b</sup> /GDP <sup>c</sup> , end month (%)	35.8	38.5	16.5	21.9	...	6.5
Index movement from the beginning of the year (%)	15.9	9.4	55.2	16.8	5.3	13.3
Index movement from the beginning of the month (%)	0.2	-1.8	-0.1	-0.8	13.6	0.3

<sup>a</sup> Shares. <sup>b</sup> Bonds. <sup>c</sup> 2001. <sup>d</sup> Monthly volume of trading in shares x 100/market capitalization of shares. Sources: Reports from BSSE, BSE, PSE, LJSE, WSE, ZSE and FIBV Statistics Reports ([www.fibv.org](http://www.fibv.org)).

Quotation II (1 share), Free Market, where the largest portion of share trading was carried out, and PIF Quotation, where the shares of the two remaining privatization investment funds were traded. 70% of the total trading on the VSE in 2002 took place in the Free Market segment.

The Varaždin Stock Exchange index (VIN) has been slightly declining since April 2002, standing at 609 points in late December. The VIN has been structured so as to reflect trading on the VSE exclusively and cannot be considered an indicator of price movements on the overall domestic capital market. Shares of 7 former privatization investment funds are included in the VIN index calculation (at end-2002, these encompassed two privatization funds, four closed-end investment funds and SN Holding) and one joint stock company (Ericsson Nikola Tesla).

A comparison of movements on the Croatian capital market with the movements on the capital markets in the selected transition countries shows resemblance in 2002. In all the observed countries, a growth in stock exchange trading was recorded, especially in bond trading which increased severalfold in individual countries. In comparison with December 2001, market capitalization also grew on all the observed stock exchanges in late 2002. The CESI also rose, as well as individual indices of the stock exchanges in the transition countries, apart from the Polish Stock Exchange index. The Ljubljana Stock Exchange index, SBI-20, recorded the largest growth, increasing by 55.5% relative to the end of 2001, whereas other indices rose by 10% to 20% in the same period.

## Debt Securities Market

8 issues of bonds were quoted on the domestic debt securities market at end-2002: 2 corporate bonds (Plava Laguna and Belišće) and 6 government bonds. All the bonds on the domestic market are denominated in euro, but payments are made in kuna. Otherwise poor debt securities supply was improved in 2002 by the so-called pension fund bonds, issued by the government in three tranches (in May 2002, September 2002 and January 2003), totaling EUR 500m.

Along with an increased demand as a result of the entrance of pension funds, an improved supply led to a strong growth in bond trading on the ZSE in 2002. Total bond trading in 2002 reached HRK 4.7bn, 6.6 times more than in the previous year, and almost half of the total bond trading was realized in the last quarter. The most frequently traded bond was the bond of the Republic of Croatia maturing in 2012 (HRK 1.3bn) and the bond of the State Agency for Deposit Insurance and Bank Rehabilitation maturing in 2003 (HRK 788.8m).

Market capitalization of government bonds stood at HRK 10.1bn (EUR 1.4bn) at end-December, or 6.5% of GDP in 2002. Market capitalization of the only two corporate bonds reached HRK 216.7m (EUR 29.1m) in late December.

Figure 1.49

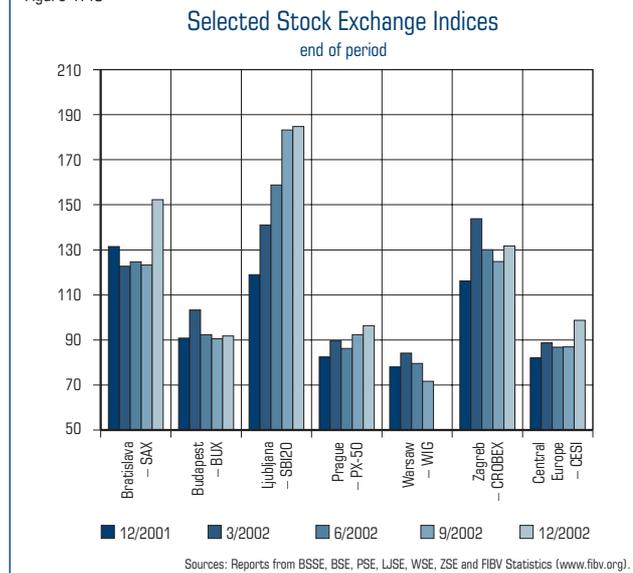


Table 1.2 Issue of Bonds in the Domestic Market

Series	Issued by	Issue day	Maturity	Currency	Nominal value of the issue	Nominal interest rate	Last price	Current yield 31/1/2003
DAB-O-03CA	DAB	19/12/2000	19/12/2003	EUR	105,000,000	8.000%	105.00	7.619%
DAB-O-05CA	DAB	19/12/2000	19/12/2005	EUR	225,000,000	8.375%	112.50	7.444%
HZZO-O-047A	CIHI	19/7/2000	19/7/2004	EUR	222,000,000	8.500%	107.20	7.929%
RHMF-O-049A	Republic of Croatia	20/9/2001	20/9/2004	EUR	200,000,000	6.500%	104.50	6.220%
RHMF-O-08CA	Republic of Croatia	14/12/2001	14/12/2008	EUR	200,000,000	6.875%	110.30	6.233%
RHMF-O-125A	Republic of Croatia	23/5/2002	23/5/2012	EUR	500,000,000	6.875%	110.40	6.227%
BLSC-O-051A	Belišće d.d.	17/1/2002	17/1/2005	EUR	17,000,000	7.375%	100.25	7.357%
PLAG-O-048A	Plava laguna d.d.	25/2/2002	25/8/2004	EUR	12,000,000	6.750%	100.50	6.716%

Source: ZSE.

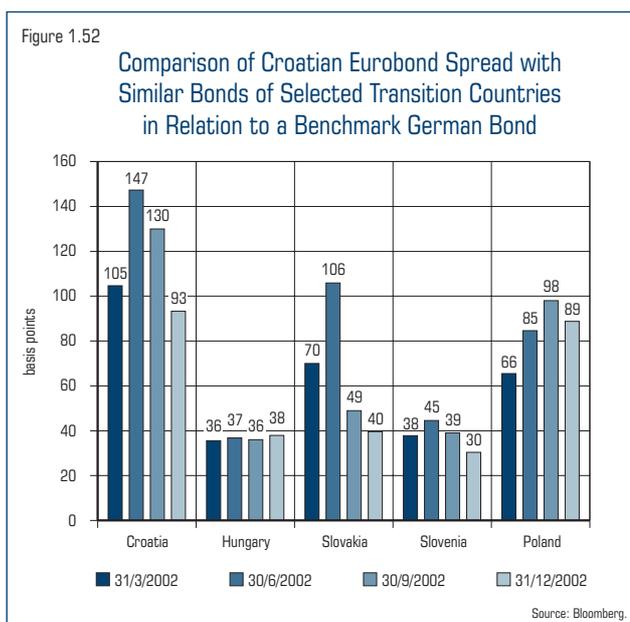
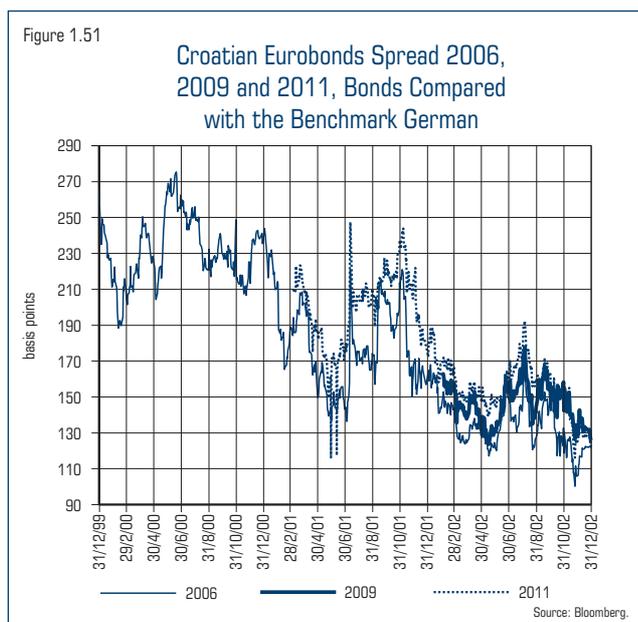


In 2002, the official bond price index of the Zagreb Stock Exchange (CROBIS) began to be published. It is calculated by taking the price of the most important bond issues of the government and state agencies, with a remaining maturity of more than 18 months. 30 September 2002 was determined as the base date. The initial index calculation included five bonds and the base value was set at 100 points. A one-off fall in the CROBIS index below 100 points, as at 4 December, was caused by technical omissions in calculation, rather than by market developments. Until the end of 2002, the CROBIS index rose to 101.3 points and continued to grow in January 2003. In the conditions of the stable exchange rate, such developments in the Croatian bond index were in line with a yield fall on the benchmark bonds denominated in euro on the international market in the same period.

Table 1.3 Issues of International Bonds of the Republic of Croatia

Bond	Currency	Amount	Nominal interest rate	Yield on issue day	Spread <sup>a</sup> 31/3/2002	Spread <sup>a</sup> 30/6/2002	Spread <sup>a</sup> 30/9/2002	Spread <sup>a</sup> 30/12/2002
London Club A	USD	857,796,000	6-month LIBOR + 81.25 b.p.	0	161	143	149	138
London Club B	USD	604,426,000	6-month LIBOR + 81.25 b.p.	0	157	142	139	135
Euro-DEM bonds, 2004	DEM	300,000,000	6.125%	6.20%	104	147	130	93
Eurobonds, 2006	EUR	300,000,000	7.375%	7.45%	124	150	150	123
Samurai bonds, 2004	JPY	25,000,000,000	4.00 %	4.00%	...	...	105	117
Eurobonds, 2005	EUR	500,000,000	7.00 %	7.06%	124	147	152	118
Samurai bonds, 2007	JPY	40,000,000,000	3.00 %	3.00%	159 <sup>b</sup>	159 <sup>b</sup>	112	131
Samurai bonds, 2006	JPY	25,000,000,000	2.50 %	2.50%	160 <sup>b</sup>	160 <sup>b</sup>	99	125
Eurobonds, 2011	EUR	750,000,000	6.75 %	6.90%	148	158	164	122
Eurobonds, 2009	EUR	500,000,000	6.25 %	6.45%	139	153	158	126
Samurai bonds, 2008	JPY	25,000,000,000	2.15 %	2.15%		144 <sup>b</sup>	114	140

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



At the end of 2002, a total of 11 Croatian government bonds were issued on world markets. In February 2002, EUR 500m worth of eurobonds was issued, maturing in 2009, and USD 300m worth of USD bonds fell due. In June a new issue of Samurai bonds maturing in 2008 was placed (JPY 25bn or USD 206m). Total nominal value of all 11 issues of the Croatian eurobonds amounted to HRK 31.7bn (USD 4.4bn or EUR 4.3bn) at end-December 2002.

The spread between the Croatian eurobonds and benchmark German bonds, despite occasional fluctuations, has been on the decline since early 2002, falling by approximately 50 basis points at the end of the year compared to the end of 2001. Together with the increasingly lower interest rate on every issue of the Croatian eurobonds, such developments show that confidence growth of foreign investors has continued and that their interest in investments in Croatia has increased.

Nevertheless, comparison with the bonds of the selected transition countries shows that the spread on Croatian bonds is still the broadest. This may be explained by the current political and economic situation in the developed countries, which has positively influenced the interest of foreign investors in government bonds of almost all transition countries. The spread on bonds of other transition countries thus declined.

## 1.2.7 Balance of Payments

A deterioration in the merchandise trade balance marked Croatia's international transactions in 2002 and resulted in an upsurge of the current account deficit and a further expansion of total external debt. Although the country experiences no difficulty in repaying or refinancing its international financial obligations, its debt to GDP ratio reached 68.1% in 2002, which is a margin separating moderately indebted from highly

indebted countries. A continued fall in income from net FDI and larger principal payments in 2004-2006 period call for precaution or the external debt service might become burdensome in the future.

## Current Account

According to the preliminary 2002 data on the balance of payment, the current account deficit stood at USD 1.5bn or 6.9% of GDP for 2002 (annual increase of 3.2 percentage points). To a large extent, it resulted from the worsened trend in the merchandise trade balance and the pronounced cross-currency movements of the dollar against the euro and the kuna.

**Table 1.4 Current Account of the Republic of Croatia**  
current prices, in million USD and %

	2000	2001	2002 <sup>a</sup>	Rate of change 2002/2001
A. CURRENT ACCOUNT (1 + 6)	-459.4	-725.1	-1,546.7	113.3
1. Goods, services and income (2+5)	-1,342.6	-1,690.8	-2,639.7	56.1
1.1. Credit	9,008.9	10,053.1	11,006.0	9.5
1.2. Debit	-10,351.4	-11,743.8	-13,645.7	16.2
2. Goods and services (3 + 4)	-935.9	-1,174.3	-2,161.2	84.0
2.1. Credit	8,663.1	9,634.2	10,544.9	9.5
2.2. Debit	-9,598.9	-10,808.5	-12,706.0	17.6
3. Goods	-3,203.8	-4,101.3	-5,279.3	28.7
3.1. Credit	4,567.2	4,758.7	4,994.6	5.0
3.2. Debit	-7,770.9	-8,860.0	-10,273.9	16.0
4. Services	2,267.9	2,927.0	3,118.1	6.5
4.1. Credit	4,095.9	4,875.5	5,550.3	13.8
4.2. Debit	-1,828.0	-1,948.5	-2,432.1	24.8
5. Income	-406.7	-516.5	-478.5	-7.3
5.1. Credit	345.8	418.9	461.1	10.1
5.2. Debit	-752.5	-935.3	-939.7	0.5
6. Current transfers	883.2	965.7	1,093.0	13.2
6.1. Credit	1,101.0	1,174.5	1,357.4	15.6
6.2. Debit	-217.8	-208.8	-264.3	26.6

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

Goods for 2002 recorded a deficit of USD 5.3bn, an increase of USD 1.2bn or 28.7% compared to 2001. According to the CBS data, total goods imports, expressed in US dollars, reached thus 10.7bn, which corresponds to the annual growth of 17.1% (contributions of individual sectors and divisions are analyzed in the section on Merchandise Trade). A robust growth of goods imports in 2002 was stimulated by banks' credit expansion, with only household credits standing at HRK 43.1bn in 2002 (a 43% increase compared to 2001).

Total goods exports were USD 4.9bn in 2002 or much lower than goods imports (a 5% growth compared to 2001). Two reasons behind lower annual growth of goods exports

are: 1) Croatian exporters have not yet made full use of privileged approach to EU and CEFTA countries, and 2) slowed-down economies and reduced demand of the EU member countries for Croatia's exports in 2001 and early 2002. However, the data on the prolonged annual growth of capital goods imports (expressed in US dollars, they grew at an annual rate of 467m or 16.7%) encourage, since they suggest a continuation of specific investment cycle which started in the second half of 2000. As movements in Croatia's goods exports are greatly determined by changes in manufacturing (it accounted for 94.8% of total goods exports in 2002), its annual growth is certainly an indication of somewhat slower but continued restructuring of the Croatian economy, which is evidenced by technological upgrades in certain manufacturing divisions, widened production capacity and increased labor productivity.

According to the quarterly analysis of the current account balance, poorer performance results were registered in the first, third and fourth quarters of 2002 in relation to same periods last year.

The annual growth in the current account deficit, recorded in the first quarter of 2002, was partly a result of foreign trade liberalization. Due to the implementation of a numerous free trade agreements concluded with the EU member countries and the reduction in tariff rates as of 1 January 2002, some import orders were transferred from the fourth quarter of 2001 to the first quarter of 2002.

Poorer performance in the third and fourth quarters of 2002 was chiefly caused by strong goods imports and cross-currency movements of the dollar against the euro and the kuna. According to the currency structure of merchandise trade, the euro accounted for 77% of goods imports and 70% of goods exports in 2002. As the balance of payments data are expressed in the domestic currency and in US dollars (for compar-

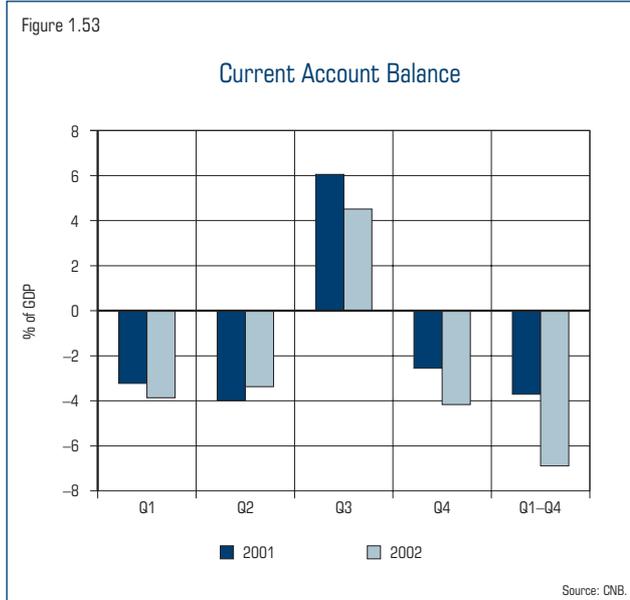


Table 1.5 Free Trade Agreements (concluded and in force)

Economic groupings/country	Signed on	Entered into force on
EU	29/10/2001	1/1/2002
EFTA	22/6/2001	1/8/2002 (most recent)
CEFTA	5/12/2002	1/3/2003
Macedonia	9/5/1997	9/6/1997
Bosnia and Herzegovina	19/12/2000	1/1/2001
Turkey	13/3/2002	pending ratification
Albania	27/9/2002	pending ratification
Lithuania	24/10/2002	pending ratification
Serbia and Montenegro	23/12/2002	pending ratification
Moldova	negotiations completed	

Source: Ministry of the Economy.

bility needs), the weakening of the average US dollar/euro exchange rate of 10.6% in the third quarter and of 11.6% in the fourth quarter of 2002 in relation to the same quarters last year increased merchandise values in US dollars.

A mitigating effect of the inflow from services on the merchandise trade deficit has been present for some years now. Services balance stood at USD 3.1bn in 2002. As a result, its annual growth, which to a large extent can be attributed to the increase in income from tourism and to a smaller extent to the income from other services rendered, amounted to USD 191m or 6.5%. Despite bad weather conditions in August and September and severe floods in Germany, Austria and Central European countries, net inflow from tourism-travel was USD 3bn and USD 302m or 11.1% over that in 2001. As far as other services are concerned, net income from construction services grew the most, recording an annual growth of USD 82m or 51.2%. Increased inflow from these services resulted from a higher income from construction projects completed in Croatia and ordered by foreign contractors (a USD 55m increase) and construction projects completed abroad (a USD 31m increase).

Current transfers' growth of USD 127m (13.2%) in 2002 was chiefly stimulated by higher income (annual increase in income from worker's remittances from abroad stood at USD 97m). Positive developments also marked the income account in 2002. The annual fall in net outflow, standing at USD 38m or 7.3% in 2002, was largely determined by the decrease in net outflows based on ownership investments (annual decrease in outflows based on reinvested earnings and dividends paid out to foreign direct investors was about USD 48m).

## Merchandise Trade

Expressed in US dollars and at a constant exchange rate<sup>9</sup>, seasonally adjusted data on goods exports (other transport equipment excluded)<sup>10</sup> show an annual growth of 4.7% in 2002. Exports trend also indicates that the growth was far more pronounced in the second half of 2002 when the growth in seasonally adjusted values stood at 7.5%.

The largest contribution to the growth in total exports in 2002 came from increased exports of electrical machinery, apparatus and equipment (29.7% according to CBS data), general purpose machinery (37.8%), other fabricated metal products (18.8%), special purpose machinery (29.2%), furniture and parts (16.3%) and wearing apparel (3.8%). The value of exported ships contracted by about USD 110m in 2002 in comparison with 2001. The fall in total exports of goods in 2002 was impacted by the fall in exports of oil and refined petroleum products (6.2% according to the CBS), organic chemical products (39%) and footwear (11.1%).

<sup>9</sup> The reporting of data at a constant exchange rate excludes the impact of cross-currency changes between the dollar and the euro on merchandise trade values.

<sup>10</sup> Exports and imports of other transport equipment (SITC section) include to a large extent exports and imports of ships. Due to an uneven distribution of ships exports throughout a year and relatively high amount of funds that accompany them, developments in this SITC section are marked by the noise in the data series on total goods exports and imports and impede their economic analysis. Moreover, the methodology on which the collection of the data on exports and imports of ships is based overestimates (partly repeats) the exports/imports values of ships. Accordingly, a significant portion of ships exports includes the semi-finished goods whose value equals the sum of previously imported ship and the value of services rendered by a foreign shipyard. It seems therefore appropriate to exclude the exports/imports values of ships from the data series on total goods exports and imports and to monitor their developments on a net basis and in a longer time period.

According to seasonally adjusted data on goods imports (SITC section of machinery and transport equipment excluded), expressed in US dollars and at a constant exchange rate, the annual growth in imports stood at 11.5% in 2002. Imports of intermediate goods (except energy) grew at the highest rate in 2002.

Looking at SITC sections and divisions, the growth in total goods imports was largely influenced by boosted imports of road vehicles. Measured at a constant exchange rate, imports of road vehicles grew at a rate of 13% in 2002, which is even higher if the strong impact of the base period is taken into account (stimulated by the ending of tariff privileges, imports of personal vehicles rose extremely in 2001). A more pronounced growth in imports in 2002 was also evident in special purpose machinery (49.3% according to CBS data), electrical machinery, apparatus and equipment (33%) and general purpose machinery (31.7%). The upward trend in imports of machinery and transport equipment (ships and road vehicles excluded) has been steady since the second quarter of 2002, and resulted from advanced restructuring of enterprises and massive public investments in capital infrastructure projects. Measured at a constant exchange rate, seasonally adjusted data on imports of machinery and transport equipment (ships and road vehicles excluded) show that imports grew at a rate of 23.2% in 2002.

Imports of oil and refined petroleum products also grew strongly in 2002, whereas the annual growth of net imports of oil and refined petroleum products surged in the second quarter of 2002. Developments in the Middle East were most likely the reason behind an increase in domestic crude oil reserves in the last quarter of 2002.

Total exports of goods by economic classification of countries show that Croatia's exports into developed countries, expressed as a share in total goods exports, have negligibly fallen.

In 2002, exports to Germany fell the most (USD 78m or 11.3% according to the CBS). This export contraction partly resulted from a substantially low economic growth in Germany in relation to other EU countries in 2002. Regarding developing countries, exports to Bosnia and Herzegovina were especially strong (USD

Figure 1.54

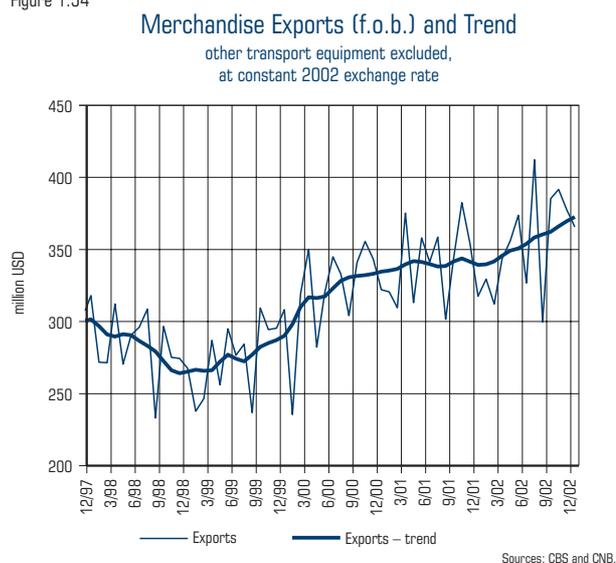


Figure 1.55

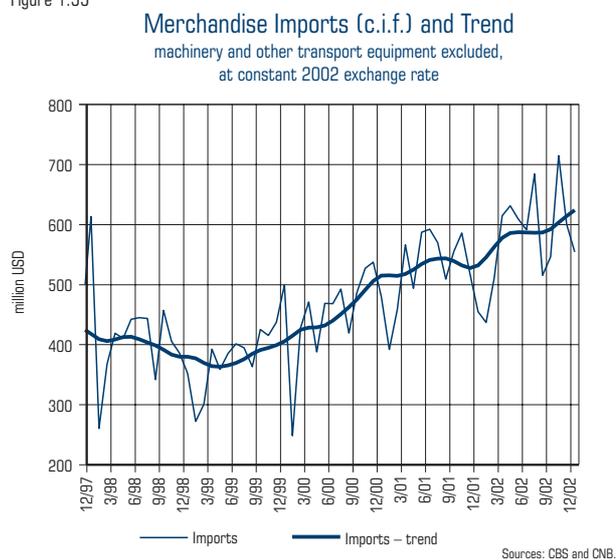


Figure 1.56

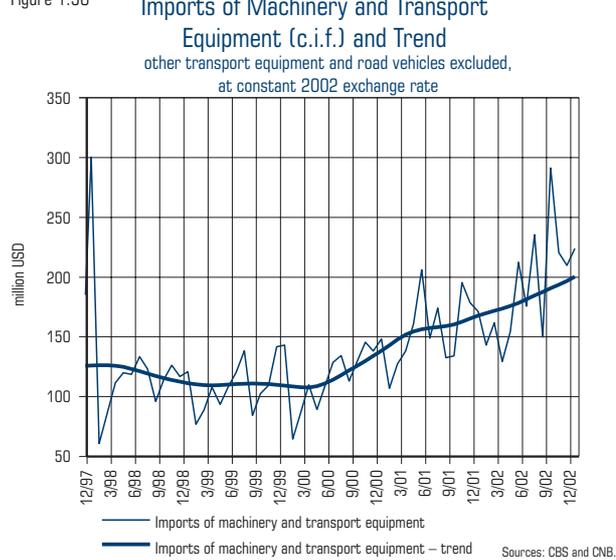


Table 1.6 Imports and Exports by Economic Classification of Countries  
in % and rates of change

Exports	Share in total exports			Rate of change 2002/2001
	2000	2001	2002 <sup>a</sup>	
Total	100.0	100.0	100.0	5.0
Developed countries	60.1	61.7	58.1	-1.2
EU-15	54.5	54.1	52.7	2.2
Austria	6.6	5.7	7.5	36.2
Italy	22.3	23.7	22.7	0.6
Germany	14.3	14.8	12.5	-11.3
EFTA	1.0	1.1	0.8	-23.2
Other developed countries	4.6	6.5	4.6	-25.2
Developing countries	39.9	38.3	41.9	14.9
CEFTA	13.8	12.1	12.4	6.9
Slovenia	10.8	9.1	8.7	0.3
Bosnia and Herzegovina	11.2	12.0	14.4	25.6
Yugoslavia	2.4	3.2	3.5	15.5

Imports	Share in total imports			Rate of change 2002/2001
	2000	2001	2002 <sup>a</sup>	
Total	100.0	100.0	100.0	17.1
Developed countries	64.7	66.0	64.5	14.6
EU-15	55.4	57.1	55.8	14.4
Austria	6.7	6.9	6.6	12.5
Italy	16.6	18.1	17.3	11.6
Germany	16.5	17.3	16.3	10.0
EFTA	2.4	2.1	2.0	8.9
Other developed countries	7.0	6.8	6.8	17.4
Developing countries	35.3	34.0	35.5	22.1
CEFTA	14.8	14.8	16.0	26.7
Slovenia	7.9	7.8	7.7	16.1
Bosnia and Herzegovina	1.0	1.4	1.6	31.2
Yugoslavia	0.4	0.4	0.5	35.3

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

144m or 25.6% in 2002), and were followed by exports to Hungary (USD 26m or 45.5%) and Yugoslavia (USD 23m or 15.5%). According to these movements, Italy remained our main export partner, while Bosnia and Herzegovina superseded Germany, our second most important export partner.

Italy and Germany remained Croatia's biggest import partners in 2002 as well, accounting for a 33.6% in total imports. 2002 also saw an annual increase in goods imports from all EU member countries and all CEFTA countries (Great Britain, Finland and Greece excluded).

## Capital and Financial Account

The balance in the capital and financial account was USD 2.8bn in 2002, or twice above that in 2001. The surplus in the financial and capital account shows that the value of domestic savings has been lower than the value of investment and that Croatia is a net importer, whereas its capital inflows from abroad are used to finance the current account deficit. All components of the financial and capital account registered significant annual changes in 2002.

**Table 1.7 Capital and Financial Account of the Republic of Croatia**  
in million USD and %

	2000	2001	2002 <sup>a</sup>	Rate of Change 2002/2001
B. CAPITAL AND FINANCIAL ACCOUNT	1,339.4	1,316.9	2,841.5	115.8
B1. Capital account	20.9	133.0	24.0	-82.0
B2. Financial account (excl. reserves)	1,900.7	2,497.0	3,384.8	35.6
1. Direct investment	1,084.8	1,406.7	885.9	-37.0
1.1. Abroad	-3.9	-154.6	-94.6	-38.8
1.2. In Croatia	1,088.7	1,561.3	980.5	-37.2
2. Portfolio investment	707.6	600.7	-216.4	
2.1. Assets	-22.7	-129.3	-634.6	390.8
2.2. Liabilities	730.3	730.0	418.3	-42.7
3. Other investment	108.3	489.5	2,715.3	454.7
3.1. Assets	-844.5	395.9	471.1	19.0
3.2. Liabilities	952.8	93.6	2,244.2	2,296.6
B3. Reserve assets (CNB)	-582.1	-1,313.1	-567.3	-56.8
C. NET ERRORS AND OMISSIONS	-880.0	-591.8	-1,294.8	118.8

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

A considerable annual fall in the capital and financial account balance in 2002 was the result of the succession process. As one of the successor states of the former SFRY, Croatia received gold in the value of USD 115m.

Net FDI were USD 886m in 2002, down 37% compared to 2001 when only receipts from the sale of a stake in HT to Deutsche Telecom amounted to EUR 500m. In 2002, the highest share of investment went to financial intermediation, i.e. privatization of Dubrovačka banka, Splitska banka, Riječka banka and Privredna banka Zagreb (63.8%). Expressed in FDI terms (data cover only investments in shares), the second largest were investment in hotels and motels, with restaurant (9.6%) and wholesale (3.5%). With shares accounting for less than 3%, they were followed by FDI in business and management consultancy services, manufacture of pharmaceutical products, collection, purification and distribution of water and other wholesale.

The net effect of portfolio investments was USD -216m in 2002, indicating that the value of transactions in the account which registers assets held by Croatian residents was higher than the value of transactions which relate to obligations of Croatian resi-

Table 1.8 Inward Foreign Direct Investment (in shares) in 2002  
in %

Sector	Share
Other financial intermediation	63.8
Hotels and motels, with restaurant	9.6
Non-specialized wholesale of food, beverages and tobacco	3.5
Business and management consultancy services	2.7
Manufacture of pharmaceutical products	2.4
Collection, purification and distribution of water	2.3
Other wholesale	2.2
Other	13.6
Total	100.0

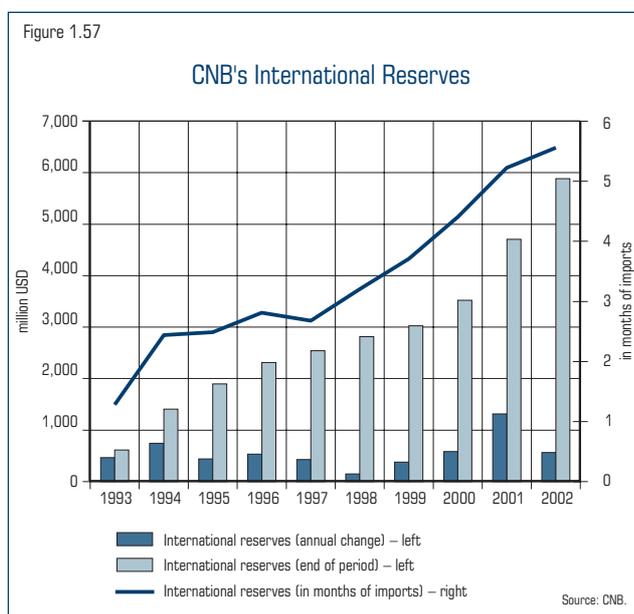
Source: CNB.

dents to non-residents. This was largely the result of the increase in foreign debt securities held by Croatian banks and investment funds (USD 430m net) and the decrease in government liabilities arising from bonds issued abroad (USD 450m net) – eurodollar bonds of USD 300m (placed in 1997) matured in the first quarter of 2002.

In 2002, other investment within the capital and financial account were marked by pronounced annual changes. They grew from USD 490m in 2001 to about USD 2.7bn

in 2002. The annual growth of 454.7% was brought about by the adjustments in banks' portfolios and the increase in obligations arising from net trade and corporate credits whose utilization was stimulated by Croatia's strong economic growth in 2002. Banks' deposits held abroad dropped by USD 1.3bn in the first half of 2002, mostly as a result of the fall in foreign exchange deposits (the post euro effect and the announcement of Riječka banka operating losses). In the third quarter of 2002, banks' deposits held abroad grew at a much slower rate than in the same period last year. However, due to the influence of the euro effect on banks' foreign exchange deposits, movements in deposits in the fourth quarter of 2002 can not be directly compared to those registered in the last quarter of 2001 when foreign exchange deposits grew by USD 1.3bn. In 2002, deposits of foreign legal and natural persons (non-residents) with Croatian banks grew by about USD 1.2bn or USD 0.5bn in the fourth quarter only. Deposits of foreign parent banks with their subsidiaries ac-

counted for the largest share in the said deposits, while increased investment were the result of higher average interest rates on deposits in Croatia than in other EMU countries.



The international reserves of the CNB<sup>11</sup> grew by an additional USD 567m in 2002, standing at USD 5.9bn at year-end, which is sufficient to maintain the reserve cover ratio of imports of goods and services at 6 months. Compared with the most advanced transition countries, this indicator singles out Croatia as the country with extremely high international liquidity.

## External Debt

At end-2002, Croatia's external debt stood at a high USD 15.3bn. Analyzed by the share in total debt, external debt of the government remained the largest (41.6%), and was followed by that of banks (26%) and enterprises (25%), and FDI-based external debt (6.8%).

**Table 1.9 External Debt of the Republic of Croatia by Debtor**  
end of period, in million USD and %

Sector	2000	2001	2002	Structure			Indices		
				2000	2001	2002	2000/1999	2001/2000	2002/2001
1. Monetary sector	158.7	122.1	0.0	1.4	1.1	0.0	80.7	76.9	0.0
2. Government	4,828.4	5,132.6	6,355.9	43.7	45.4	41.6	121.5	106.3	123.8
3. Banks	2,086.5	2,299.4	3,976.6	18.9	20.3	26.0	95.5	110.2	172.9
4. Other sectors (enterprises)	3,354.6	3,127.5	3,909.5	30.3	27.6	25.6	102.5	93.2	125.0
5. Direct investment	626.6	635.0	1,041.8	5.7	5.6	6.8	179.7	101.3	164.1
Total (1+2+3+4+5)	11,054.8	11,316.6	15,283.7	100.0	100.0	100.0	110.8	102.4	135.1

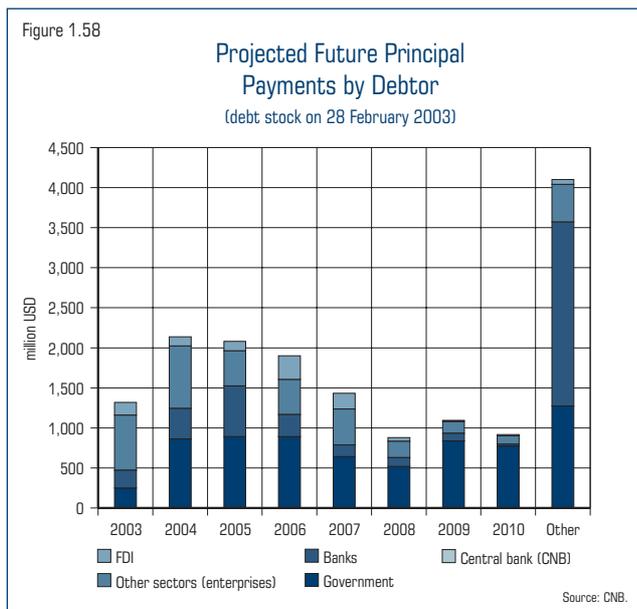
Source: CNB.

External debt grew by USD 4bn or 35.1% at the end of 2002 compared with same period last year. Among debtors, banks made the largest contribution to the increase in total external debt (annual increase of USD 1.7bn or 72.9%) and were followed by the government (increase of USD 1.2bn or 23.8%), enterprises (USD 0.8bn or 25%) and FDI-based external debt (USD 0.4bn or 64.1%). The CNB settled USD 130m of principal payment on the debt to the IMF in 2002 and thus repaid in full its obligations arising from the previous arrangements concluded with this institution.

Principal payments of USD 1.8bn fall due in 2003 (of this amount, USD 466m was already settled on 28 February 2003). Principal payments scheduled for 2003 are lower than in 2002 when a total of USD 2.6bn was settled. However, it should be noted that no obligations arising from the issue of government bonds will have to be settled in 2003. The amount of principal payments to be settled in the next three years is higher than that in 2003, and mostly relates to Euro-DEM bonds, two issues of eurobonds and three issues of Samurai bonds which fall due in 2004-2006 period.

The ratio of total external debt to GDP, which shows to what degree the external debt is the burden for the current economic activity, stood at a high 68.1% of GDP for 2002;

<sup>11</sup> The international reserves of the CNB comprise a range of internationally recognized financial instruments whose main purpose is to eliminate and mitigate, if necessary, the imbalances in external transactions.



an increase of 10.2 percentage points in comparison with that registered at end-2001. As mentioned above, this ratio is a threshold between moderately to highly indebted countries.

Despite a strong growth of public investment in capital infrastructure projects, the share of external debt in the GDP estimate for 2002 grew at a slower pace, from 26.3% at end-2001 to 28.3% at end-2002. However, the potential external debt is substantially larger when augmented by the external debt guaranteed by the central government. Total guarantees issued by the central government amounted to about USD 1.1bn at end-2002, of which USD 0.9bn relates to guarantees extended to the government sector.

## International Liquidity

Aside from the growth in international reserves, the fact that Croatia has no difficulty repaying and refinancing its total external debt is additionally underpinned by Croatia's decision to make no purchases under the new stand-by arrangement and by favorable interest rates on government bonds issued abroad in the first quarter of 2003 (the nominal interest rate on eurobonds issued in 1999-2003 period fell from 7.375 to 4.6%). However, the continued fall in FDI inflows and higher principal payments to fall due in 2004-2006 period call for precaution or it might become difficult to service the external debt in the future.

In the long run, the external debt stabilization and its gradual decrease will to a large extent depend on the success of enterprise restructuring and their potential for competitiveness improvement, the growth of imports and the capability to attract the new greenfield investment. The new CNB decisions aimed at slowing down the credit expansion should be viewed as endeavor to curb, by applying direct measures, further increase in banks' external debt, which grew steeply in 2002 and was chiefly used to finance goods imports. Further decrease in the government deficit in 2003, restrictions and strict criteria for issuing government guarantees should contribute to the stabilization of the government external debt and the potential external public debt. Increased government efforts to limit new borrowings and the issuance of new bonds to domestic capital market should stimulate the external debt stabilization.

## 1.2.8 Government Finance

### Budget Highlights in 2002

According to the Ministry of Finance data, the consolidated general government deficit (“deficit above the line”) on an accrual basis was estimated at HRK 8.3bn, or 4.7% of GDP, in 2002. The CNB data on government finance (“deficit below the line”) show that the general government deficit stood at 4.6% of GDP in 2002. This does not include arrears of 53 units of local government and self-government in the fourth quarter of 2002. A high degree of correspondence between these two deficit measures confirms that the adjustment of the general government budget of some 1.2% of GDP, which was planned for 2003, was achieved during 2002.

Changes in institutional character of the government budget marked 2002. Thus, the government agencies for the construction and maintenance of roads and highways (CR and CH) were excluded from the government budget. These two agencies now have their own tax revenues at disposal, consisting of a part of excises on refined petroleum products. In 2002, they were able to independently borrow in the domestic and foreign markets. In contrast, in addition to the pension fund, which was integrated in the government budget in mid-2001, other extrabudgetary funds were also included in the budget in early 2002. Two new extrabudgetary funds (the Development and Employment Fund and the Regional Development Fund), which were established in 2002, were included in the government budget in early 2003.

Current revenues of the general government budget were boosted by the introduction of new taxes and changes in certain excises in 2002. Introduced were a tax on obligatory vehicle insurance and additional health insurance, while the expected widening of the base for social security contributions was postponed for early 2003. Within the excise structure, excises on alcoholic beverages were cut by 40.0%, while excises on beer were increased. The downward trend in income tax revenues was the consequence of fiscal decentralization and is therefore neutral from the standpoint of the general government budget. The ministries’ own revenues, which were not reported within the Treasury in the previous years, were for the first time integrated in the government budget in 2002.

The structure of consolidated central government expenditures witnesses that government consumption took a turn in 2002. This was evident in a strong capital expenditure growth, and a simultaneous cut in transfers to households, subsidies and the wage bill. In 2002, the Government decided to rehabilitate shipyards by taking over their debts. This did not burden the 2002 budget and the impact of this Government decision will be felt in the forthcoming years.

The total consolidated central government debt including the CBRD reached 41.8% of GDP (HRK 73.8bn) at end-2002. Government guarantees, including guarantees issued in favor of the private and government sectors, totaled HRK 24.0bn, or 13.6% of GDP, at end-December 2002. The total general government debt, including guarantees to the private sector alone, stood at HRK 88.1bn, or 50.0% of GDP, at the end of 2002.

## Budget Outturn

### Deficit of the General Government Budget and of the Consolidated Central Government Budget

According to the MoF (and CNB) data, the 2002 general government deficit on an accrual basis amounted to HRK 8.3bn, or 4.7% of GDP. The general government deficit for 2002, as defined in the Letter of Intent (LOI), was expected to be less favorable, 6.2% of GDP. In line with these projections, a stand-by arrangement with the IMF was signed whereby the Government committed itself to cut the general government deficit to 5.0% of GDP by end-2003. The general government deficit of 4.7% of GDP in 2002 shows that the government deficit adjustment of some HRK 2.0bn or, more precisely, 1.2% of GDP was achieved in 2002 instead of 2003. Within the stated adjustment of HRK 2.0bn, HRK 0.7bn resulted mostly from a net decrease in CH and CR capital expenditures. More precisely, total expenditures of CH were HRK 1.3bn below, while CR expenditures were HRK 0.6bn above those projected in the revised budget for 2002. The deficit of the local government and self-government budget was HRK 0.5bn above that planned in the budget revision, whereas the State Agency for Deposit Insurance and Bank Rehabilitation surpassed the surplus projected in the revised budget by HRK 0.1bn. In addition, the 2002 GDP was some HRK 0.5bn above that projected.

Table 1.10 shows that the estimated total deficit of the consolidated central government budget on an accrual basis was HRK 9.5bn (5.4% of GDP) in 2002. This is an increase of 18.8% in comparison with 2001. The reason behind this increase is primarily the repayment of government arrears in 2001 of HRK 1.5bn, which decreased the defi-

**Table 1.10 Balances of the Consolidated Central Government Budget**  
in million HRK and %

	2001					2002					2002/2001
	Q1	Q2	Q3	Q4	Q1-Q4	Q1	Q2	Q3	Q4	Q1-Q4	Q1-Q4
Revenues and grants	14,409	16,845	16,865	22,727	70,846	14,611	18,059	18,684	19,575	70,929	0.1%
Expenditures and net lending	17,752	17,657	17,797	21,071	74,277	17,225	18,312	18,318	21,083	74,938	0.9%
Deficit on a cash basis	-3,344	-812	-932	1,656	-3,431	-2,614	-253	366	-1,508	-4,009	16.8%
Capital revenues	56	96	210	5,050	5,412	62	765	523	1,192	2,542	-53.0%
Deficit on a cash basis excluding capital revenues	-3,400	-908	-1,142	-3,394	-8,843	-2,676	-1,018	-157	-2,700	-6,551	-25.9%
Net repayment of arrears	457	142	-392	1,263	1,470	285	-525	26	155	-59	-
Deficit on an accrual basis	-2,943	-766	-1,534	-2,131	-7,373	-2,391	-1,543	-131	-2,545	-6,610	-10.4%
Repayments reclassified as subsidies	240	80	225	73	618	32	64	28	51	175	-71.7%
Deficit on an accrual basis as defined in the LOI	-3,183	-846	-1,759	-2,204	-7,992	-2,423	-1,607	-159	-2,596	-6,785	-15.1%
Balance of government agencies CH and CR	0	0	0	0	0	-262	-160	-352	-1,931	-2,705	-
Deficit on an accrual basis as defined in the LOI and adjusted for CH and CR	-3,183	-846	-1,759	-2,204	-7,992	-2,685	-1,767	-511	-4,527	-9,490	18.8%

Source: MoF.

cit on an accrual basis for that year. In other words, government arrears were reduced to some HRK 0.5bn in 2001. As the repayment of government arrears was no longer a priority of fiscal policy, the stated debt remained unchanged over 2002. Government expenditures that are classified within financing although they have a character of subsidies were considerably reduced in 2002 – to some HRK 0.2bn, while they were as high as HRK 0.6bn in 2001. In short, after adjustment for CH and CR operations, the consolidated central government deficit on an accrual basis (as defined in the LOI) was 18.8% higher in 2002 than in 2001. This was the result of a 4.7% increase in the deficit on a cash basis (excluding privatization revenues) and changes in net repayments of arrears and repayments with characteristics of subsidies.

### Consolidated Central Government Revenues

Consolidated central government revenues generated in 2002 were in line with those projected. Revenues from social security contributions and profit tax surpassed those planned, whereas a substantial shortfall was recorded in revenues from excises on tobacco products and revenues of government bodies.

It should be mentioned that revenues from VAT, customs duties and certain excises generated in 2001 and 2002 were revised in the first quarter of 2003. This revision resulted in a major reduction in customs revenues, accompanied by a significant increase in VAT revenues and revenues from excises on imported vehicles. Revisions within the revenue structure may influence revenue projections for 2003. The following text provides a short overview of the generated, revised revenues in 2002 adjusted for CH and CR operations.

The 2002 revenues totaled HRK 71.0bn, which is a nominal increase of HRK 3.0bn (4.2%) in comparison with the previous year. On the one hand, this increase was marked by strong Croatian economic growth in 2002 and a favorable outturn in revenues from social security contributions and, on the other hand, by a shortfall in the ministries' own revenues and revenues from excises on tobacco products.

Revised data for 2002 show that VAT revenues amounted to HRK 26.0bn, or 40.0% of total tax revenues generated in that year. These revenues surpassed the amount projected in the budget revision by as much as 8.1%. Revenues from social security contributions amounted to HRK 22.2bn in 2002, which is an increase of HRK 0.4bn over that in 2001. This, somewhat unexpected, increase resulted from the introduction of additional health insurance and the outflow of funds to the second pillar of pension insurance, which was HRK 0.6bn below that planned in early 2002. Robust economic growth in Croatia over 2001 and 2002 boosted profit tax revenues, as well as imports. Nevertheless, this was not reflected in customs revenues, partly because of persistent cuts in customs tariffs following Croatia's entry into the WTO and the signing of bilateral agreements with other countries. Profit tax revenues grew nominally by HRK 0.7bn (33.8%) in 2002 in comparison with 2001. Income tax revenues were 3.4% lower in real terms in 2002 than in 2001 owing to several factors. First, the year 2002 saw the full-year effect of the public administration wage reform, which started in mid-2001. Second, owing to fiscal decentralization, a part of income tax revenues was reallocated to the local government and self-government, which had a neutral effect at the general government level. Third, income tax revenues were boosted by the nominal increase in

the average gross wage of 5.7% in 2002, as well as a 1.7% rise in the number of persons insured with the CIHI, which was registered in the legal persons and crafts sectors. This does not include farmers whose share in the total number of insured persons is insignificant. In other words, this means that the number of persons paying contributions as well as profit tax, increased, which also indicates a rise in employment over 2002.

The largest shortfall in government budget revenues, in comparison with those planned, was recorded in non-tax revenues, or more precisely, in revenues of government bodies and excise revenues (especially from excises on tobacco products). In 2002, revenues of government bodies for the first time included the ministries' own revenues. These revenues were to be recorded in the Treasury and should have increased this revenue item by HRK 0.1bn in 2002, up to HRK 1.0bn. However, total revenues of government bodies amounted to only HRK 0.5bn in 2002. Government budget revenues from excise duties amounted to HRK 6.7bn in 2002, compared with a total of HRK 7.5bn planned by the Ministry of Finance. The largest shortfall was recorded in revenues from excises on tobacco products, which were HRK 0.5bn less than projected. The reason behind this shortfall is inefficiency of administrative measures aimed at preventing illegal trade in tobacco products, which were introduced in early 2002. The exceptions were revenues from excises on non-alcoholic beverages and luxury goods, which reached the amounts planned. Still, unexpectedly high profit tax revenues and a good outturn in revenues from social security contributions and VAT offset the major shortfall recorded in revenues of government bodies and revenues from excises on tobacco products.

### Consolidated Central Government Expenditures

Consolidated central government expenditures, after adjustment for CH and CR operations, net repayments of arrears and principal payments on the debt of public enterprises that have the characteristics of subsidies, stood at HRK 80.8bn in 2002 and were 3.5% higher in real terms than in 2001.

The major characteristic of developments in expenditure items over 2002 was the turn of government consumption toward capital expenditures. More precisely, as a result of large infrastructural investments, the share of capital expenditures in total expenditures increased substantially, from 5.9% in 2001 to 11.6% in 2002. In contrast, 2002 saw a reduction in transfers to households, subsidies and the wage bill. The downward trend in subsidies accelerated in 2002. After adjustment for principal payments on the debt of public enterprises (that have the characteristics of subsidies), subsidies recorded a nominal decline of 31.8% in 2002 in comparison with the previous year. Subsidies paid from the consolidated central government budget totaled HRK 2.9bn in 2002. Within this amount, HRK 1.4bn was paid through the Development and Employment Fund, of which HRK 1.0bn was paid to non-financial public enterprises. In the second half of 2002, the Government adopted a decision to provide additional subsidies to shipyards by taking over the repayment of their loans. This decision did not influence the 2002 budget.

The share of outlays for interest payments in total expenditures stagnated over 2001 and 2002 at the level of about 4.2%. In 2002, this was mostly the result of a consider-

able depreciation of the US dollar against the kuna, which reduced the kuna value of interest payments in that year. Outlays for interest payments stood at HRK 3.2bn in 2002, which is HRK 0.6bn (15.8%) less than planned.

Transfers of the central government budget cannot be analyzed owing to a new reporting format of the Treasury, which does not present individual transfer items, such as outlays for pensions, child benefits, health insurance, etc. Let us remember that, for example transfers to the child benefit fund were double the planned amount in 2001.

Total CH expenditures were less than projected in the revised budget for 2002 by the amount of HRK 1.3bn, of which almost 70.0% refers to capital expenditure cuts. The outturn of the CR budget shows that its expenditures surpassed those planned in the revised budget by as much as HRK 0.6bn. Almost half of this amount refers to the capital expenditure item, whereas the remaining amount refers to the outlays for goods and services item.

## Financing

The total central government debt and government guarantees issued continued to grow in 2002. Compared with 2001, the total central government debt rose by 0.5 percentage points in 2002, reaching 41.8% of GDP (HRK 73.8bn). This should be primarily attributed to government investments in infrastructural projects (for example, the Zagreb-Split highway). However, despite substantial, mostly external, CH and CR borrowing, it is obvious that the central government net borrowing in the domestic market exceeded that made in foreign markets in 2002. Thus, the rise in the total cumulative debt was more boosted by domestic debt growth than foreign debt growth.

Potential government debt consists of the government debt and guarantees issued. The value of government guarantees grew from 12.2% of GDP in 2001 to 13.6% of GDP in 2002. Government debt is increased only by the amount of guarantees issued in favor of other sectors since the inclusion of guarantees to the government sector debt would result in their double coverage within the debt. For example, the amount of the government debt would be recorded in the received loans item and the same amount (i.e. the amount by which the government guarantees for the received loan) would be recorded in the guarantee item. The total central government debt and guarantees stood at 46.2% of GDP at the end of 2002.

### Domestic Central Government Debt to Banks

The domestic debt of the central government rose by HRK 3.8bn net in 2002, which is a nominal increase of 6.9% compared with the domestic debt increase in 2001 (HRK 3.6bn). In contrast to the previous years when domestic debt grew mostly on account of bond and treasury bill issues, 2002 was marked by a strong increase in bank loans. Thus, the central government net debt based on bank loans rose by HRK 2.5bn in comparison with 2001 when the government repaid HRK 20.8m net of bank loans. Increased borrowing based on loans partly relates to a syndicated loan used by CH.

**Table 1.11 Domestic Debt of Central Government**  
end of period, in million HRK

	Stock			Change	
	Dec. 2001	Sep. 2002	Dec. 2002	Jan. – Dec. 2001	Jan. – Dec. 2002
1. Domestic debt of central government	24,907.3	27,153.2	28,746.7	3,583.2	3,839.4
1.1. Domestic debt of the Republic of Croatia	21,467.9	23,551.9	24,735.0	2,958.2	3,267.1
Treasury bills	4,892.3	5,544.1	5,632.7	2,327.7	740.4
Money market instruments	7.4	0.1	0.1	-6.8	-7.3
Bonds	15,415.8	16,096.8	16,021.7	1,333.3	605.8
Credits from the CNB	-	-	0.5	0.0	-
Credits from DMBs	1,152.4	1,910.8	3,080.0	-696.0	1,927.6
1.2. Domestic debt of central government funds	3,439.4	3,601.3	4,011.8	625.0	572.4
Money market instruments	-	-	-	-	-
Bonds	1,636.1	1,629.8	1,652.2	-50.7	16.0
Credits from DMBs	1,803.3	1,971.6	2,359.6	675.7	556.3

Source: CNB Bulletin, Table I3.

### Central Government External Debt

The external debt of the consolidated central government grew by HRK 2.6bn net in 2002, reaching HRK 45.0bn at end-2002. This is an increase of 6.1% in comparison with the external debt level at end-December 2001. In 2002, USD 0.3bn worth of eu-rodollar bonds bearing a 7% coupon was repaid. This leaves Croatia with the obligation to pay off the remaining ten bond issues by the end of 2012.

### Privatization

Revenues from privatization reached HRK 2.3bn, whereas other capital revenues – revenues from the sale of state- and army-owned flats amounted to HRK 0.2bn in 2002. Privatization revenues amounted to HRK 0.7bn (Dubrovačka banka, Splitska banka

**Table 1.12 External Debt of Central Government**  
end of period, in million HRK

	Stock			Change	
	Dec. 2001	Sep. 2002	Dec. 2002	Jan. – Dec. 2001	Jan. – Dec. 2002
1. External debt of central government	42,413.4	43,833.0	45,019.1	3,486.2	2,605.7
1.1. External debt of the Republic of Croatia	39,656.8	40,843.8	41,260.4	2,811.1	1,603.6
Bonds	30,029.0	30,402.1	30,115.3	4,797.8	86.3
Credits	9,627.8	10,441.8	11,145.1	-1,986.8	1,517.3
1.2. External debt of central government funds	2,756.7	2,989.2	3,758.7	675.2	1,002.0
Bonds	696.6	288.9	1,019.0	310.1	322.4
Credits	2,060.0	2,700.3	2,739.7	365.1	679.7

Source: CNB Bulletin, Table I3.

and Riječka banka) in the first half of 2002. In the second half of the year, privatization revenues from the sale of hotels Croatia Cavtat and Anita Vrsar, the remaining government stake in Privredna banka Zagreb and the payment of the second portion of the receipts from the sale of Riječka banka, following the completion of due diligence in that bank, amounted to HRK 1.6bn.

# 2

## Monetary Policy Instruments

## 2.1 Monetary Policy Instruments

In 2002, the implementation of monetary policy continued in conditions of a structural liquidity surplus. This means that the Croatian National Bank was primarily oriented towards sterilization instruments. The CNB used these instruments to withdraw liquidity surpluses created by foreign exchange interventions, which were aimed at easing appreciation pressures on the kuna. Owing to liquidity problems in Riječka banka, a large-scale use of secondary liquidity sources occurred in March 2002, leading to intense credit activities of the Croatian National Bank.

The key changes in the monetary policy instruments of the CNB in 2002 included the changes in the level of interest rates on CNB bills and auctions of these bills. Thus, the Lombard rate was reduced from 10% to 9.5% in April, whereas the remuneration rate for the kuna component of the reserve requirements was cut from 2% to 1.75%. The frequency of CNB bill auctions was changed in June 2002. Instead of every five weeks, auctions are again held on a weekly basis. Also, the CNB stopped issuing 70- and 105-day CNB bills. In addition, as investors' interest in T-bills with the shortest (42-day) maturity declined, the Ministry of Finance stopped issuing these bills and introduced T-bills maturing in 364 days in September. Thus, the Croatian National Bank and the Ministry of Finance made a first step towards separating a monetary policy instrument, which is concentrated on shorter maturity periods (35 days), from a public debt instrument, which is oriented towards longer maturities. Although it has a certain administrative significance for the Croatian economy, the discount rate of the CNB is not used in central bank monetary operations and is hence adjusted to market developments. This rate was thus cut from 5.9% to 4.5% in October 2002. The last change in monetary policy instruments occurred in November when the method and conditions for obtaining a short-term liquidity loan were changed in order to eliminate deficiencies in its practical use and to adjust it to the current situation in the Croatian banking system.

### 2.1.1 Relations with Commercial Banks

The total amount of funds from the primary issue that was extended to banks reached HRK 3.0bn in 2002, and was 4.4 times below the amount placed in 2001.

#### Lombard Loans

In 2002, banks and savings banks could use Lombard loans in the amount of up to 50% of the nominal value of purchased CNB bills and T-bills of the Ministry of Finance and up to 30% of the nominal value of foreign currency CNB bills, for a maximum of 15 working days in a month. The interest rate charged on this loan was 10% at the beginning of 2002 and was reduced to 9.5% at end-April.

Lombard loans used by banks and savings banks totaled HRK 2.4bn in 2002, which is only 27.2% of the total amount used in 2001. The average monthly amount of Lombard

loans used in 2002 was HRK 254.4m. However, Lombard loans were used for only 23 days in 2002, i.e. their average use was less than 2 days a month (compared with 9 days a month in 2001). A small number of days when Lombard loans were used illustrates a liquidity surplus in the system, owing to which banks did not need to borrow additionally from the central bank. The period when Riječka banka experienced liquidity problems was the only period in 2002 when Lombard loans were intensely used. Excluding the first four months of 2002, Lombard loans were used for only 3 days in 2002.

### Short-Term Liquidity Loans

In contrast to 2001 when banks did not turn to the central bank as the lender of last resort, a short-term liquidity loan was used by Riječka banka in March 2002. The loan was granted on two occasions, 19 and 22 March, in the total amount of HRK 558.0m. It was used at end-March and in early April for a total of 14 days, and the average amount used was HRK 525.9m. The interest rate on the short-term liquidity loan was the interest on Lombard loans plus 0.5 percentage points for a loan utilization period of up to 3 months and 1 percentage point for longer utilization periods.

In November 2002, the CNB adopted a decision that redefined the method and conditions for granting short-term liquidity loans. The changes introduced mostly relate to the redefinition of collateral.

### Repo Auctions

Despite high liquidity, nine repo auctions were held in 2001 at which a total of HRK 4.2bn was placed. By contrast, there were no repo auctions held in 2002, and there were no placements from primary issue on this basis.

### Reserve Requirements

In 2002, the reserve requirement calculation rate was 19% and it was calculated on the base consisting of the kuna and foreign exchange components. 25% of the calculated foreign exchange component was allocated in kuna and added to the calculated kuna reserve requirements. Minimum 40% of the calculated reserve requirements had to be deposited in accounts with the CNB, whereas maximum 60% could be maintained by average daily balances in accounts of liquid claims.

The kuna component of the reserve requirements steadily grew over 2002, primarily owing to the growth in the calculation base, i.e. the growth in kuna and foreign exchange deposits with banks. The kuna component of the base grew from HRK 25.8bn in the December 2001 calculation period to HRK 34.9bn in the November 2002 calculation period, an increase of 35.3%. In the same period, the foreign exchange component of the calculation base rose from HRK 88.6bn to HRK 102.5bn, an increase of 15.7%. Hence, total kuna reserve requirements persistently grew over 2002, from HRK 9.1bn in January to HRK 11.5bn in December, recording an increase of 26.4%. The growth rate of kuna reserve requirements was below that of the kuna base owing to a smaller percentage growth in the foreign exchange base. A portion of the calculated foreign exchange component of the reserve requirements that is allocated in kuna rose by

16.7% from the January 2002 maintenance period to the December 2002 maintenance period, which is in proportion to the growth in the foreign exchange base. Observing the kuna component alone, the ratio between the portion allocated in a special account with the CNB and the portion maintained in settlement accounts remained almost unchanged over 2002. The average percentage of allocation went down from 72.39% in January to 71.25% in December.

The Croatian National Bank paid remuneration on the kuna component of the reserve requirements, which includes funds deposited in special reserve requirement accounts with the CNB and funds in settlement accounts that are deposited for the purpose of maintaining average balances of reserve requirements. The remuneration rate for the kuna component of the reserve requirements was 2% a year until 24 April 2002 when it was cut to 1.75% a year.

### Croatian National Bank Bills in Kuna

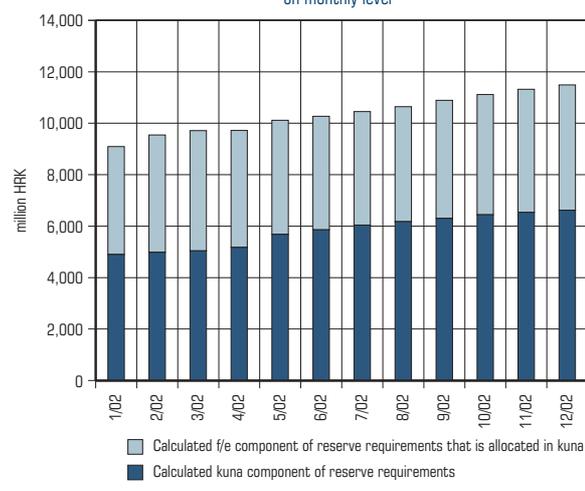
In the first half of 2002, the Croatian National Bank issued CNB bills in kuna maturing in 35, 70 and 105 days, which were sold at regular five-week auctions and at four extraordinary auctions. Starting from 26 June, auctions were held once a week, and only 35-day CNB bills were issued. The stock of purchased kuna CNB bills ranged from HRK 3.3bn to HRK 4.1bn in the first five months of 2002, and was afterward on a steady upward trend, reaching a high of HRK 5.8bn in mid-October. Notwithstanding a slight downward trend that followed, the stock of these bills remained at above HRK 5.0bn by the year-end. The average monthly stock of purchased kuna CNB bills over the observed period was HRK 4.4bn, which is an increase of 51.7% in comparison with that recorded in 2001.

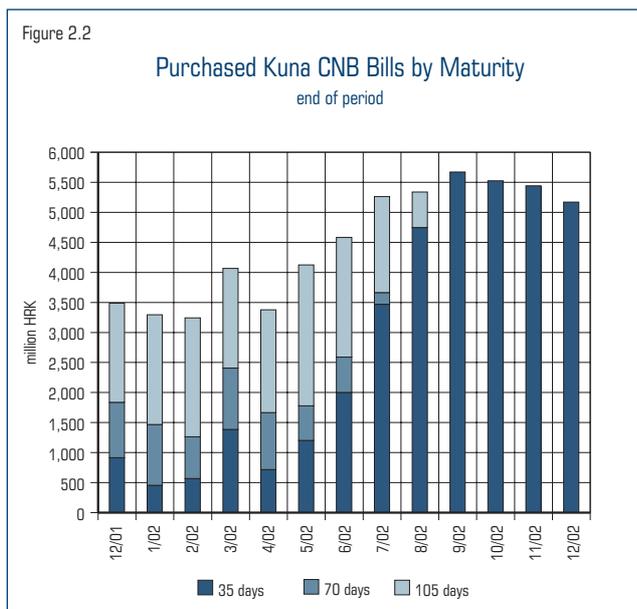
**Table 2.1 Purchased Kuna CNB Bills**  
nominal value, end of period, in million HRK

Year	Month	Maturity			Total
		35 days	70 days	105 days	
2001	December	914.8	920.0	1,651.0	3,485.8
2002	January	454.5	1,011.8	1,827.0	3,293.3
	February	566.0	695.8	1,980.0	3,241.8
	March	1,386.0	1,020.8	1,660.0	4,066.8
	April	718.0	947.0	1,711.0	3,376.0
	May	1,203.0	574.0	2,348.0	4,125.0
	June	2,001.0	590.0	1,991.0	4,582.0
	July	3,467.0	195.0	1,601.0	5,263.0
	August	4,747.5	–	591.0	5,338.5
	September	5,671.0	–	–	5,671.0
	October	5,523.0	–	–	5,523.0
	November	5,441.0	–	–	5,441.0
	December	5,170.0	–	–	5,170.0

Figure 2.1

### Changes and Structure of the Kuna Component of Total Reserve Requirements on monthly level





Interest rates on kuna CNB bills of all maturities followed the downward trends in interest rates in 2002. Thus, interest rates on 35-day bills were reduced from 3.72% in January to 2.00% in September, and remained around this level by end-2002. Interest rates on CNB bills with longer maturities also followed the downward trends until June when the CNB stopped issuing these bills.

### Croatian National Bank Interest Rates and Remuneration

The high liquidity of the system and the interest rates fall on the money market somewhat affected central bank credit and deposit rates. Average interest rates on 35-day kuna CNB bills fell from 3.72% in January to 2.08% in December. In the period between January and June 2002 (after which bills maturing in 70 and

105 days were no longer issued), average interest rates on 70-day CNB bills declined from 4.16% to 2.76%, while those on 105-day CNB bills fell from 4.78% to 3.39%. To alleviate appreciation pressures on the domestic currency, the remuneration rate for the kuna component of the reserve requirements was cut from 2% to 1.75% in April.

Induced by the downward trend in market interest rates, as well as the decline in interest rates on CNB bills and T-bills, the Croatian National Bank lowered its credit rates in 2002. Thus the Lombard rate, which was 10% at the beginning of the year, was cut to 9.5% in April, whereas the discount rate was cut from 5.9% to 4.5% in October. Although it is not used in monetary operations, the discount rate has a certain administrative significance, and it had to be adjusted to the developments in market interest rates.

## 2.2 International Reserves Management in 2002

The total international reserves of the CNB increased by USD 1,181.57m in 2002, growing by 25.1%. They stood at USD 4,704.04m on the last day of 2001, whereas they were USD 5,885.61m on the last day of 2002.

The main factors contributing to the growth in total international reserves in 2002, at the year-end exchange rate, were:

□ on the inflow side:

- 1) purchases of foreign exchange from commercial banks of USD 776m;
- 2) exchange rate gains of USD 545m, arising from the growth in the value of the euro against the US dollar;

Table 2.2 International Reserves<sup>a</sup>  
end of period, in million USD

Year	Month	Total reserves
2001	December	4,704.04
2002	January	4,734.22
	February	4,749.74
	March	4,885.24
	April	5,018.54
	May	5,230.59
	June	5,601.58
	July	5,648.20
	August	5,758.09
	September	5,705.00
	October	5,715.67
	November	5,852.64
	December	5,885.61
Change Dec. 2002 – Dec. 2001		1,181.57

<sup>a</sup> Excluding reserve position in the IMF of USD 0.2m

- 3) net increase in allocated foreign exchange reserve requirements of banks of USD 228m;
- 4) net purchases from the Ministry of Finance of USD 202m; and
- 5) income earned from the actively managed portion of the CNB's portfolio amounting to USD 142m;

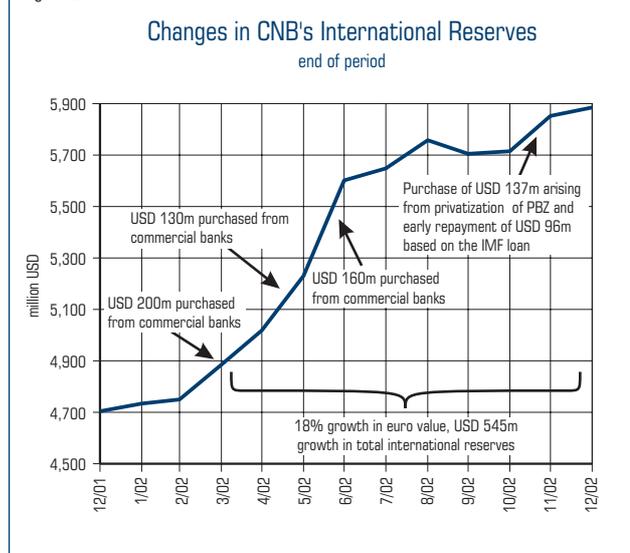
□ on the outflow side:

- 1) sales of USD 230m to commercial banks at regular auctions;
- 2) net outflows based on purchases of foreign currency CNB bills of USD 223m;
- 3) regular and early repayment of principal on IMF loans of USD 132m; and
- 4) sales of foreign exchange to Riječka banka amounting to USD 75m.

The Croatian National Bank intervened in the market by buying from and selling foreign exchange to:

1. domestic banks,
  - a) through regular auctions,
  - b) through an extraordinary sale of foreign exchange to Riječka banka, and
  - c) by a definite repurchase of foreign exchange reserve requirements (from Kaptol banka);
2. Ministry of Finance of the Republic of Croatia; and

Figure 2.3



3. foreign banks in exchange for kuna cash.

Through these transactions, the CNB purchased USD 874.49m and sold USD 270.07m worth of foreign exchange in the reporting period (Table 2.3). Transactions in the foreign exchange markets resulted in an increase of total international reserves of USD 604.43m. With net purchases of foreign exchange, the CNB issued HRK 4,756.67m on the Croatian market.

**Table 2.3 Total CNB Turnover on the Foreign Exchange Market**

<sup>1</sup> January – 31 December 2002, in million, at the exchange rate applicable on the transaction date

	Purchase (1)		Sale (2)		Net	
	USD	HRK	USD	HRK	USD	HRK
Auction	675.69	5,495.21	201.85	-1,658.11	473.84	3,837.10
Ministry of Finance	195.97	1,467.57	3.20	-24.77	192.78	1,442.80
Riječka banka	0.00	0.00	65.02	-546.27	-65.02	-546.27
Definite repurchases based on f/e reserve requirements	0.11	0.82	0.00	0.00	0.11	0.82
Sale of domestic currency cash	2.72	22.23	0.00	-0.01	2.72	22.22
Total	874.49	6,985.83	270.07	-2,229.16	604.43	4,756.67

In managing the international reserves, the Croatian National Bank is guided by the principles of security and liquidity. The managers responsible for CNB portfolio management have strictly defined guidelines (benchmark portfolios) limiting exposure to financial risks in international reserves management. The yields on CNB international reserves investments are in line with the risks assumed.

The Croatian National Bank invests international reserves funds in the following instruments:

- 1) government debt securities with fixed and variable interest rates;
- 2) central bank instruments and instruments of international financial institutions;
- 3) repurchase agreements (repo and reverse repo agreements);
- 4) deposits of commercial banks with a long history of investment grading of at least AA-;
- 5) certificates of deposit; and
- 6) cash in vault.

The investment criteria prescribe the minimum credit rating of AA- for countries in which the international reserves of the CNB are invested. On 31 December 2002, as much as 76.14% of total international reserves was invested in countries with an AAA rating.

Almost 75% of the CNB's international reserves is held in euro, whereas the remaining 25% is held in US dollars. In 2002, the CNB earned a profit of EUR 111.94m by actively managing its portfolio in EUR, whereas it earned a profit of USD 29.38m on its portfolio in USD. Total profit from the investment of net international reserves was USD 142m in 2002.

Table 2.4 Realized Income and Average Yields on CNB's Foreign Exchange Portfolios  
at market value, in million EUR and USD and %

CNB's portfolios	Realized income	Average amount invested	Annual yield rate			
	2002	2002	2002	2001	2000	1999
EUR	111.94	2,954.14	3.79	4.63	4.38	2.81
USD	29.38	1,235.25	2.38	4.72	6.56	5.02

In 2002, the average yield on the CNB portfolio in EUR was 3.79% at the annual level, whereas the average yield on the CNB portfolio in USD was 2.38%. These yields were lower than in the previous periods owing to the global recession and cuts in the ECB and FED interest rates in 2001 and 2002, as well as the short average duration of the CNB portfolios in EUR and USD.

# 3

## Banking System of the Republic of Croatia

## 3.1 Characteristics of the Banking System

Although all 46 licensed banks had a bank operating license, 5 of them are obliged to increase their share capital. Pursuant to the provisions of the new Banking Act, which came into force in mid-2002, banks are required to have HRK 40m of share capital in order to obtain a bank operating license. The transitional and final provisions of the Banking Act stipulate that by end-2006 savings banks have to gradually increase the level of their share capital.

During 2002 (Table 3.1), 7 savings banks entered the system of commercial banks since they increased their share capital to HRK 20m, and thus met the current Banking Act conditions for registering as banks<sup>1</sup>, whereas three banks merged with other banks, and a foreign bank branch ceased to exist<sup>2</sup>. Hence, the number of banks grew from 43 at end-2001 to 46 at end-2002. The number of savings banks and housing savings banks fell from 19 at the end of 2001 to 4 at the end of 2002. This was the result of the transformation of 7 savings banks into banks, initiation of liquidation proceedings in 3 sav-

Table 3.1 Changes in the Number of Banking Institutions

Banks	2000	2001	2002
Number of banks at the beginning of the year	53	43	43
Former savings banks that were granted bank license	–	+1	+7
Banks that merged with other banks	–4	–	–3
Banks undergoing bankruptcy proceedings	–4	–	–
Banks whose license was revoked	–1	–1	–
Banks that failed to comply with the Banking Act	–1	–	–
Foreign bank branch removed from the register	–	–	–1
Number of banks at the end of the year	43	43	46
Savings banks and housing savings banks	2000	2001	2002
Number of savings banks at the beginning of the year	34	26	19
Savings banks transformed into banks	–	–1	–7
Savings banks that merged with other banks/savings banks	–	–2	–4
Savings banks undergoing liquidation	–	–2	–3
Savings banks undergoing bankruptcy proceedings	–1	–	–1
Savings banks whose license was revoked	–7	–2	–
Number of savings banks and housing savings banks at the end of the year	26	19	4

<sup>1</sup> Banka Sonic d.d., Zagreb; Prva obrtnička banka d.d., Zagreb; Banka Kovanica d.d., Varaždin; Banka Brod d.d., Slavonski Brod; Križevačka banka d.d., Križevci; Zagorska banka d.d., Krapina and Splitsko-dalmatinska banka d.d., Split.

<sup>2</sup> Istarska banka d.d., Pula and Sisačka banka d.d., Sisak merged with Dalmatinska banka d.d., Zadar, and are now operating as Nova banka d.d., Zagreb; Prva obrtnička banka d.d., Zagreb merged with Hypobanka d.d., Zagreb, and now operates as Primus banka d.d., Zagreb; Bayerische Hypo- und Vereinsbank AG, Glavna podružnica Zagreb was removed from the register of the commercial court in Zagreb.

ings banks and bankruptcy proceedings in one savings bank, and a merger of 3 savings banks and 1 housing savings bank with other banking institutions.

In the reporting three-year period, the share of banks in majority foreign ownership in total bank assets continually rose, whereas the share of banks in majority domestic ownership declined (Table 3.2). The number of banks in majority private ownership of domestic shareholders rose from 16 to 21 due to the transformation of savings banks into banks, and their share in total assets slightly grew. The number of banks in state ownership and their share in total bank assets declined because Dubrovačka banka d.d., Dubrovnik has become a bank in foreign ownership.

Table 3.2 Ownership Structure of Banks

Ownership structure	Number of banks			Share of assets in total bank assets		
	2000	2001	2002	2000	2001	2002
Banks in total or majority private ownership of domestic shareholders	20	16	21	10.2	5.6	5.8
Banks in total or majority state ownership	3	3	2	5.7	5.0	4.0
Banks in total or majority foreign ownership	20	24	23	84.1	89.3	90.2
Total	43	43	46	100.0	100.0	100.0

Table 3.3 shows the number of banks in peer groups of banks classified by asset size and the share of each group in total assets. The number of banks with assets exceeding HRK 5bn (Group I) increased from 6 to 9 in 2002, whereas their share in total assets grew from 70.7% in 2001 to 79.6% in 2002<sup>3</sup>. The number of banks with assets from HRK 1bn to 5bn (Group II) fell from 14 to 12 in 2002, and the share of this group in total assets fell from 23.1% to 15.2%<sup>4</sup>. Groups III and IV (totaling 25 banks) comprising banks with assets below HRK 1bn and HRK 0.5bn respectively, together accounted for only 5.2% of total bank assets at-end 2002. Group I encompasses banks with very different asset size, with assets of the two largest banks far above that of other Group I banks. By contrast, Group II banks are more homogenous in terms of asset size. Group III consists of similar small banks and Group IV comprises small banks of different size, of which 6 were formerly savings banks.

The banking system consolidation process continued in 2002, and market concentration declined. Three banking groups accounted for 57.9% of total assets at end-2001, whereas 6 banking groups accounted for 79.5% of total assets at the banking system level at end-2002. All these groups are in majority foreign ownership. Competition among banks and banking groups has been rising, as is clearly visible in the continued decline in interest rates.

The events in Riječka banka d.d., Rijeka marked the banking system in 2002. Established losses of Riječka banka, which were generated in 2001 and several previous

<sup>3</sup> This group includes Zagrebačka banka d.d., Zagreb; Privredna banka Zagreb d.d., Zagreb; Raiffeisenbank Austria d.d., Zagreb; Splitska banka d.d., Split; Riječka banka d.d., Rijeka and Hypo Alpe-Adria-Bank d.d., Zagreb. Erste & Steiermaerkische Bank d.d., Zagreb; Hrvatska poštanska banka d.d., Zagreb and Nova banka d.d., Zagreb joined this group in 2002.

<sup>4</sup> Erste & Steiermaerkische Bank d.d., Zagreb; Hrvatska poštanska banka d.d., Zagreb and Istarska banka d.d., Pula, which merged with Dalmatinska banka d.d., Zadar (i.e. Nova banka d.d., Zagreb) joined Group I in 2002, whereas Podravska banka d.d., Koprivnica and Dresdner Bank Croatia d.d., Zagreb joined Group II.

Table 3.3 Number of Banks by Asset Size  
in million HRK and %

Assets		Number of banks			Share of assets in total bank assets		
		2000	2001	2002	2000	2001	2002
Group I	Assets exceeding 5,000	5	6	9	66.3	70.7	79.6
Group II	Assets from 1,000 to 5,000	13	14	12	25.5	23.1	15.2
Group III	Assets from 500 to 1,000	8	7	7	4.6	3.3	2.7
Group IV	Assets below 500	17	16	18	3.6	2.9	2.5
Total		43	43	46	100.0	100.0	100.0

years, are shown in its audited reports for 2001. A detailed account of these events is given in the CNB Annual Report for 2001.

The new Banking Act, which came into force in July 2002, is adjusted to the EU regulations in all essential elements. Pursuant to this act, early 2003 saw the enforcement of prudential decisions that regulate the method of classifying placements and contingent liabilities, the capital adequacy and currency risk management. These decisions were joined by the decisions related to the organization and method of performing bank examination, which stipulate in detail the method of supervising bank operations, consolidated supervision of banking groups and the scope and content of the audit of financial reports. In addition, the decision defining in detail the methods and procedures for protecting the freedom of market competition and the new decision regulating operations of a foreign bank's representative office also came into force. The following decisions are currently being prepared: the decision regulating liquidity management, the decision regulating the application of the Banking Act on banks undergoing liquidation and the one stipulating the conditions for the establishment and operation of foreign bank branches. Due to the complexity of these issues, especially in the part relating to market risk management, the transitional and final provisions of these prudential decisions stipulate that most of their provisions are to be applied as of 1 January 2004. Hence, the effects of the new prudential regulations will not be fully visible until that year.

## 3.2 The Balance Sheet Structure of the Banks

### 3.2.1 Bank Asset Structure

Total bank assets amounted to HRK 174.4bn<sup>5</sup> at end-2002, which is a 17.5% increase over that at the end of 2001 when it stood at HRK 148.4bn (Table 3.4). This increase was mostly the result of the rise in net loans to other clients (non-banking sector), which stood at HRK 90.1bn at end-2002, HRK 25.7bn or 40% over that at end-2001. To finance this increase banks mostly used funds resulting from the deposit growth and loans received. The share of loans to other clients in the structure of bank assets rose from 43.4% at end-2001 to 51.7% at end-2002.

<sup>5</sup> All financial data is based on preliminary unaudited bank reports for 2002.

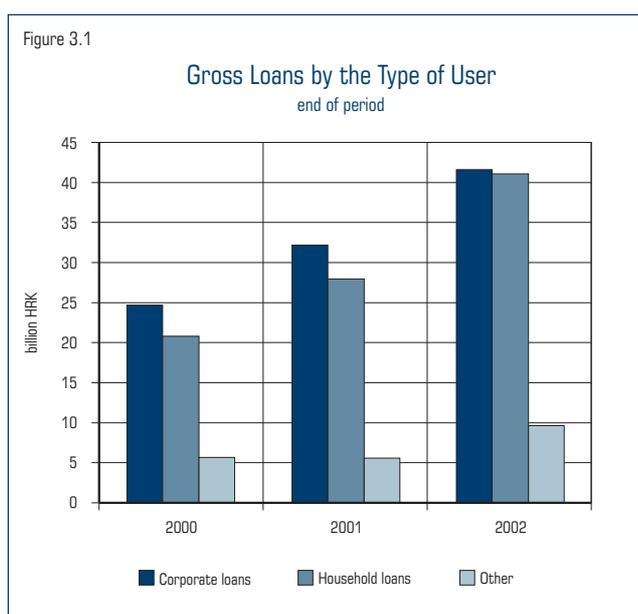
Table 3.4 Structure of Bank Assets  
end of period, in million HRK and %

	2000			2001			2002		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Money assets and deposits with the CNB	11,489.3	10.3	18.0	22,196.3	15.0	93.2	21,388.0	12.3	-3.6
1.1. Money assets	1,506.3	1.3	20.9	7,822.5	5.3	419.3	2,236.9	1.3	-71.4
1.2. Deposits	9,983.1	8.9	17.6	14,373.9	9.7	44.0	19,151.1	11.0	33.2
2. Deposits with banking institutions	17,695.3	15.8	71.6	23,900.1	16.1	35.1	20,152.5	11.6	-15.7
3. MoF treasury bills and CNB bills	6,059.0	5.4	93.0	9,687.2	6.5	59.9	9,746.2	5.6	0.6
4. Trading portfolio of securities	2,462.4	2.2	130.6	4,795.6	3.2	94.8	8,448.6	4.8	76.2
5. Loans to financial institutions	1,085.6	1.0	-12.9	1,479.6	1.0	36.3	2,152.9	1.2	45.5
6. Loans to other clients	50,130.7	44.8	10.4	64,402.5	43.4	28.5	90,177.4	51.7	40.0
7. Investment portfolio of securities	14,167.5	12.7	-8.5	12,741.3	8.6	-10.1	12,656.3	7.3	-0.7
8. Investments in subsidiaries and associates	2,411.0	2.2	36.3	2,199.8	1.5	-8.8	2,424.2	1.4	10.2
9. Foreclosed and repossessed assets	614.5	0.5	37.4	446.8	0.3	-27.3	377.0	0.2	-15.6
10. Tangible assets and software (net of depreciation)	3,252.5	2.9	2.8	3,501.2	2.4	7.6	3,765.4	2.2	7.5
11. Interest, fees and other assets	3,169.2	2.8	25.9	4,273.5	2.9	34.8	4,633.7	2.7	8.4
12. Net of: Specific reserves for unidentified losses	699.4	0.6	-6.0	1,195.7	0.8	71.0	1,517.9	0.9	27.0
Total	111,837.7	100.0	19.6	148,428.3	100.0	32.7	174,404.2	100.0	17.5

Loan growth ranging between 20.0% and 62.0% was recorded in 25 banks. 6 banks, whose share in total bank assets stood at 68.7% at end-2002, accounted for 75.4% of the nominal increase in total loans, whereas 4 leading banks, with a 58.1% share in total bank assets, accounted for 66.5% of the total nominal loan growth. Only three banks recorded a decline in loans.

Figure 3.1, which shows gross loans by the type of user, indicates that the strong credit activity related to households, which started in the previous years, continued into 2002.

Gross household loans amounted to HRK 41.1bn in 2002. By opening new operating units for retail banking, the banks strove to improve their position in the segment of the credit market that is of their increasing interest - the household sector. Large banks led the way, as evident from Figure 3.2, which shows the sectoral structure of loans by 4 peer groups of banks classified by asset size. Household loans predominated in Group I (9 large banks), accounting for 44.7% of total loans granted by this group. 6 banks in this group increased the share of household loans, whereas two of them changed their business strategy and directed most of their operations towards retail banking. Corporate loans predominated in other bank groups, especially Group III, in which they accounted for 58.53% of total loans granted. The influence of this group on the system is negligible. However, owing to the developments in large banks (Group I), the share of household



loans almost reached the share of corporate loans at the banking system level in late 2002. The share of other loans (loans to financial institutions, the public sector, non-profit institutions and non-residents) accounted for 11.3% of total loans granted by Group I banks. One of these banks, which is in majority state ownership, accounted for 45% of total loans granted to the public sector in 2002. The share of other loans in total loans granted by Group II banks stood at 9.4% at-end 2002, whereas these loans were insignificant in Groups III and IV.

Table 3.4 shows that deposits with banking institutions decreased by 15.7% in 2002 compared with end-2001, and their share in assets was 11.6%, or significantly less than at end-2001 (16.1%). This decrease resulted from the reallocation of these funds into loans. Following a record high growth in 2001, induced by the inflow of funds for the purpose of the euro conversion, money assets of banks recorded a strong decline in 2002. In contrast, deposits with the CNB continued on their strong upward trend (they rose by 33.2% compared with 2001, and their share grew from 9.7% to 11.0%). This was triggered by the increase in reserve requirements allocated with the CNB, as well as the rise in balances in the settlement accounts. Investments in Ministry of Finance treasury bills and CNB bills recorded a much slower growth trend than in the previous periods, while the investment portfolio of securities recorded a slight fall, both in nominal terms and in terms of its share in total assets. The trading portfolio of securities rose by 76.2% in 2002, remaining on a relatively fast growing trend. In 2002, the banks mostly traded in bonds issued by the Republic of Croatia, as well as bonds issued by foreign countries and financial institutions.

### 3.2.2 Bank Liability Structure

Deposits predominate in the bank liability structure. At end-2002, they accounted for 71.4% of total liabilities, which is somewhat over that at end-2001 (70.5%) (Table 3.5). This share and its trend were influenced by 9 large banks in Group I whose deposits accounted for 72.3% of total liabilities. The deposits with other bank groups had a somewhat lesser share in total liabilities, as illustrated by Figure 3.3. In 2002, total deposit growth amounted to HRK 19.7bn, while total credit growth was higher, HRK 26.4bn. 90.7% of the total nominal increase in deposits was accounted for by 6 large banks, whose share in total liabilities and total deposits stood at 64.3% and 71% respectively. Owing to the decline in deposits, which grew at end-2001 due to the euro conversion, as well as the drop in deposits with Riječka banka d.d., Rijeka, deposit growth was much more moderate in the first half of 2002 than in the second half of the year. The increase of HRK 15.5bn or 25% was recorded by time deposits, of which those of foreign financial institutions grew the most. They were followed by household time deposits. Giro and current account deposits also recorded a strong growth (HRK 6.7bn or 40.6%), of which giro and current account deposits of other companies grew the most.

Figure 3.2

#### Sectoral Structure of Loans by Peer Groups of Banks end-2002

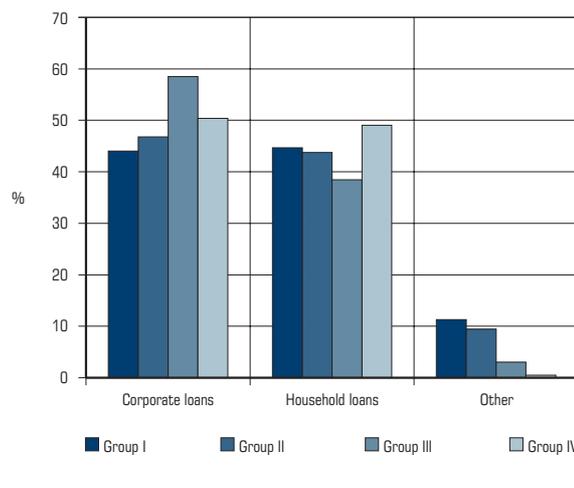


Table 3.5 Structure of Bank Liabilities  
end of period, in million HRK and %

	2000			2001			2002		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Loans from financial institutions	3,510.9	3.1	-33.5	3,629.1	2.4	3.4	4,084.8	2.3	12.6
1.1. Short-term loans	1,130.8	1.0	-45.9	595.7	0.4	-47.3	1,184.4	0.7	98.8
1.2. Long-term loans	2,380.1	2.1	-25.5	3,033.3	2.0	27.4	2,900.4	1.7	-4.4
2. Deposits	72,683.4	65.0	27.5	104,697.2	70.5	44.0	124,475.4	71.4	18.9
2.1. Giro account and current account deposits	12,619.0	11.3	36.9	16,548.6	11.1	31.1	23,272.2	13.3	40.6
2.2. Savings deposits	17,689.3	15.8	29.3	26,373.9	17.8	49.1	23,981.1	13.8	-9.1
2.3. Time deposits	42,375.1	37.9	24.3	61,774.6	41.6	45.8	77,222.0	44.3	25.0
3. Other loans	16,329.0	14.6	8.8	15,947.7	10.7	-2.3	19,492.9	11.2	22.2
3.1. Short-term loans	503.3	0.4	-69.6	594.0	0.4	18.0	4,451.5	2.6	649.4
3.2. Long-term loans	15,825.7	14.2	18.5	15,353.7	10.3	-3.0	15,041.4	8.6	-2.0
4. Debt securities issued	0.0	0.0	-	19.4	0.0	-	24.7	0.0	27.4
4.1. Short-term debt securities issued	0.0	0.0	-	0.0	0.0	-	5.1	0.0	-
4.2. Long-term debt securities issued	0.0	0.0	-	19.4	0.0	-	19.6	0.0	1.0
5. Supplementary capital	520.3	0.5	51.7	2,655.8	1.8	410.4	2,909.9	1.7	9.6
5.1. Subordinated instruments issued	282.9	0.3	168.08	339.4	0.2	20.0	641.3	0.4	89.0
5.2. Hybrid instruments issued	237.4	0.2	0.0	2,316.4	1.6	875.7	2,268.6	1.3	-2.1
6. Interest, fees and other liabilities	5,475.5	4.9	12.9	7,783.0	5.2	42.1	6,642.4	3.8	-14.7
7. Profit/loss for the current year	1,123.2	1.0	140.8	570.0	0.4	-49.3	2,188.6	1.3	284.0
8. Capital	12,195.5	10.9	15.3	13,126.3	8.8	7.6	14,585.6	8.4	11.1
Total	111,837.7	100.0	19.6	148,428.3	100.0	32.7	174,404.2	100.0	17.5

Owing to a steeper growth in deposits of financial institutions and companies, the share of household deposits in total deposits fell from 68.4% to 58.4%. As in the previous years, the majority of deposits were denominated in foreign currency (70.6%).

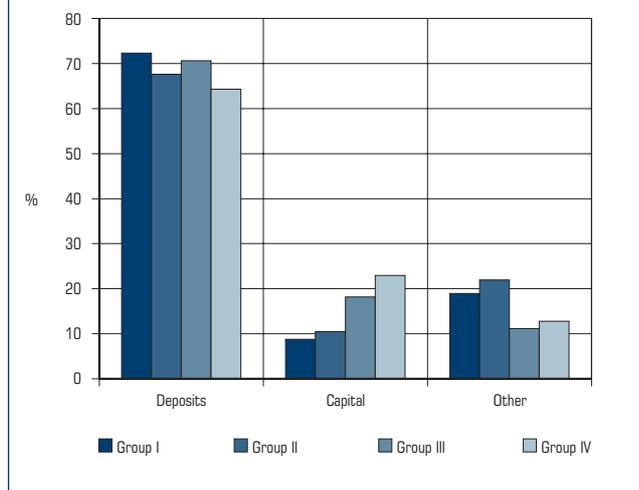
Received loans accounted for the second largest share in the liability structure. In 2002, other loans received rose by 22.2% in nominal terms compared with end-2001, whereas loans from financial institutions grew by 12.6% (Table 3.5). Total received

loans (loans from financial institutions and other loans) in the liability structure rose from 13.1% at end-2001 to 13.5% at end-2002. The largest share in total received loans was accounted for by loans from foreign financial institutions (71.0%), which were followed by CBRD loans (11.5%). 76.1% of total received loans had maturities longer than 1 year.

The liability structure by peer groups of banks (Figure 3.3) shows that 12 banks in Group II used other sources the most (21.9%), followed by Group I banks, which used 18.9% of total other sources. Figure 3.3 also shows that capital (together with profit for the current year) accounted for the smallest share in the liability structure of large banks in Group I (8.7%), while it accounted for as much as 22.9% in Group IV banks. Small banks, which account for a negligible share in the

Figure 3.3

### Liability Structure by Peer Groups of Banks end - 2002



banking market, use more capital to compensate for their poorer access to other sources of funds.

## 3.3 Bank Capital

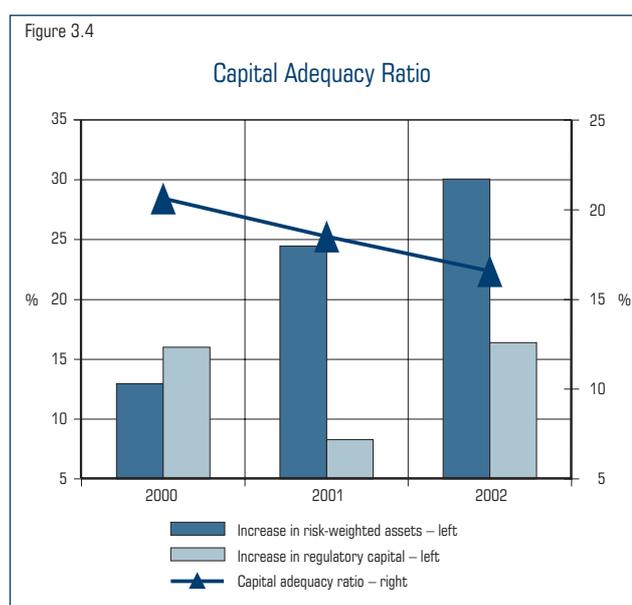
At the end of 2002, bank capital amounted to HRK 14.5bn, an 11.1% rise compared to 2001 (Table 3.6). This was mostly the result of the increase in share capital and retained income. In the observed period, share capital rose by HRK 509.2m or 8.7% in nominal terms. Four, mostly large banks, accounted for 65.2% of the total increase in share capital. The share of this capital in total capital decreased, whereas the share of retained income grew. Compared with 2001, retained income grew by HRK 782.5m, and was as much as 10 times over that at end-2001. Reserves (legal reserves, reserves provided for by the articles of association and other reserves) were on a downward trend, both in nominal terms and in terms of their share in capital. Capital and profit for the current year together rose by 22.5% in 2002.

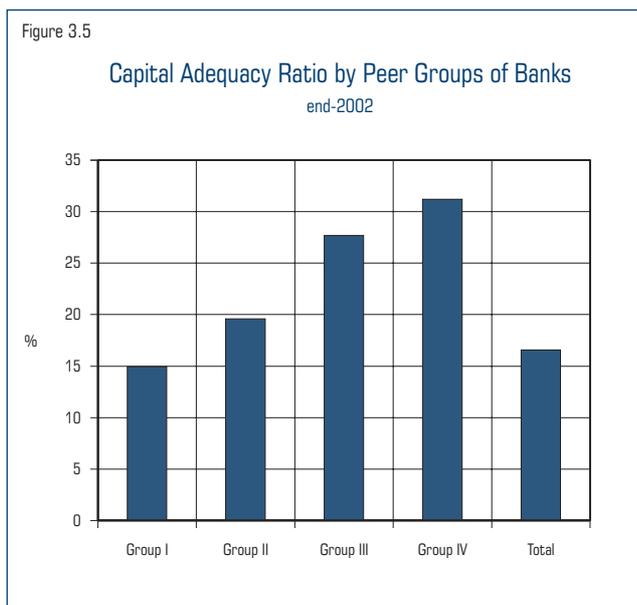
**Table 3.6 Structure of Bank Capital**  
end of period, in million HRK and %

	2000		2001			2002		
	Amount	Share	Amount	Share	Change	Amount	Share	Change
1. Share capital	8,549.9	70.1	8,966.5	68.3	4.9	9,747.3	66.8	8.7
2. Retained income/loss	326.2	2.7	77.8	0.6	-76.2	860.3	5.9	1,006.0
3. Legal reserves	2,098.8	17.2	853.3	6.5	-59.3	582.9	4.0	-31.7
4. Reserves provided for by the articles of association and other capital reserves	1,220.5	10.0	3,228.7	24.6	164.5	3,395.1	23.3	5.2
Total	12,195.5	100.0	13,126.3	100.0	2.8	14,585.6	100.0	11.1

Regulatory capital is a calculation category to measure a bank's ability to cover unexpected losses. At end-2002, the regulatory capital of banks amounted to HRK 16.2bn, which is a 16.4% increase over that at end-2001 when it stood at HRK 13.9bn. Supplementary capital, which is included in regulatory capital, accounted for 18.4% of gross regulatory capital. It grew nominally by 33.3% in 2002 as compared to end-2001, mostly due to the rise in specific reserves for unidentified losses and an upturn in subordinated instruments.

The capital adequacy ratio of banks (regulatory capital to risk-weighted assets ratio) amounted to 16.6% at end-2002, which is less than at end-2001 when it stood at 18.5%. At end-2002, all banks reported capital adequacy above the minimum prescribed ratio of 10%. The downward trend in the capital adequacy ratio, which was recorded over the last





three years, resulted from a faster growth in risk-weighted assets than in risk-weighted capital (Figure 3.4). Large banks in Group I whose capital adequacy ratio stood at 14.9% at end-2002 influenced these developments in capital adequacy, while other bank groups recorded higher capital adequacy ratio (Figure 3.5). The decline capital adequacy to cover credit risk has been observed for some time, which has brought the balance sheet structure of large domestic banks closer to that of Western European banks. As already stated, since smaller banks compensate for their poorer access to other sources of funds by maintaining higher levels of capital, their capital adequacy is far above the minimum prescribed ratio. This was also influenced by the increase in capital of former savings banks to meet the conditions for registering as banks.

## 3.4 Bank Asset Quality

The asset quality assessment is based on International Accounting Standard 39. In the assessment, banks are obliged to adopt and implement their internal placement classification systems, as prescribed by the decisions enacted under the former Banking Act<sup>6</sup>, which were applicable in 2002. The Decision on the Classification of Placements and Contingent Liabilities of Banks, which was adopted pursuant to the new Banking Act, contains similar provisions.

Bank placements (including off-balance sheet items) are first classified into three main categories and then into risk groups, depending on the degree of risk.

The first category encompasses fully recoverable placements, which are assessed with certainty as fully recoverable according to the debtor's financial position and available instruments of collateral (groups A and B). These placements are not subject to value impairment. The second category encompasses partly recoverable placements (groups C and D). These placements involve impairment loss corresponding to the difference between the asset's carrying amount and its recoverable amount, which equals the present value of expected future cash flows arising from these placements. The third category (group E) includes placements whose present value equals zero (irrecoverable placements).

Impairment loss on partly recoverable placements and irrecoverable placements represents bank expenses of the amount by which the asset items are reduced and strongly

<sup>6</sup> The Decision on the Classification of Placements and Risky Off-Balance Sheet Items and Assessment of Bank Exposure, the Decision on the Amount and Method of Forming Specific Reserves to Ensure Against Potential Losses of Banks, and the Decision on the Method of Improving the Compliance of the Croatian National Bank Subordinate Legislation with the International Accounting Standards.

affect bank performance. Although placements graded A and B are not subject to individual impairment, banks are obliged to form reserves for them for unidentified losses. For placements graded A, banks are obliged to form (set aside) reserves in compliance with the Decision on the Amount and the Method of Forming Specific Reserves to Ensure Against the Potential Losses of Banks. For placements classified into group B, banks are obliged to form reserves according to their policy.

At the end of 2002, fully recoverable placements (groups A and B) grew by 22.5% compared to 2001 and accounted for 94.2% of total risk assets (Table 3.7). Partly recoverable placements (groups C and D) and placements whose present value equals zero (group E) accounted for 3.5% and 2.3% respectively of total risk assets. The two latter groups of placements recorded a decrease, both in nominal terms and in terms of their share in total placements. As shown in Table 3.8, total impairment (placements reduced by the amount of established losses arising from partly recoverable and irrecoverable placements together with reserves for unidentified losses) amounted to HRK 9bn at-end 2002, which is somewhat less than at end-2001. The share of total impairment in total placements had a strong downward trend: it was 8.2% in 2000, 6.2% in 2001, and 5% at end-2002 (Table 3.8). This downward trend in total impairment, both in its absolute amount and relative to total placements, resulted from an increase in the share of groups A and B. This is supported by the structure of total impairment: while placement reduction by the amount of established losses arising from partly recoverable and irrecoverable placements has a downward trend, specific reserves for unidentified losses have constantly been growing, both in nominal terms and in terms of their share in total reserves.

**Table 3.7 Classification of Bank Placements by Risk Groups**  
end of period, in million HRK and %

Placements	2000		2001		2002	
	Amount	Share	Amount	Share	Amount	Share
1. Fully recoverable placements	112,198.3	90.5	140,586.6	92.7	172,165.5	94.2
1.1. Group A	108,489.8	87.5	137,195.6	90.5	168,584.7	92.2
1.2. Group B	3,708.5	3.0	3,391.0	2.2	3,580.9	2.0
2. Partly recoverable placements	6,923.1	5.6	6,719.5	4.4	6,386.1	3.5
2.1. Group C	3,090.3	2.5	3,193.3	2.1	3,649.4	2.0
2.2. Group D	3,832.8	3.1	3,526.2	2.3	2,736.7	1.5
3. Irrecoverable placements	4,803.1	3.9	4,287.3	2.8	4,270.0	2.3
3.1. Group E	4,803.1	3.9	4,287.3	2.8	4,270.0	2.3
Total	123,924.5	100.0	151,593.3	100.0	182,821.6	100.0

**Table 3.8 Total Provision to Total Placement Ratio of Banks**  
end of period, in million HRK and %

	2000	2001	2002
1. Total provisions for losses	10,176.6	9,326.7	9,072.8
1.1. Placement value impairment (loss)	9,355.4	7,912.1	7,258.3
1.2. Provisions for unidentified losses	821.2	1,414.6	1,814.5
2. Total placements	123,924.5	151,593.3	182,821.6
3. Relative ratio of total provisions to total placements	8.2	6.2	5.0

Strong growth in household loans continued in 2002. Household debt is still relatively low in the Republic of Croatia according to international measures. Household debt to GDP ratio is around 50% in developed countries, while it was 23.3% in Croatia at the end of 2002. However, the unemployment rate, which has been over 20% in the last 3 years and data on the nominal slowdown in the net wage growth darken the picture of the good financial position of the household sector. Strong credit growth was not accompanied by the rise in the share of bad placements and provisions relative to total placements. Owing to a potential increase in provision expenses, too rapid credit activity may adversely affect bank profitability in the future. Hence, in early 2003, the Croatian National Bank adopted a decision prescribing the obligatory purchase of CNB bills for banks with high credit growth (of over 16% a year). In addition, the new Decision on the Classification of Placements and Contingent Liabilities of Banks prescribes the formation of additional reserves for general bank risks that may arise as a result of a rapid growth in bank balance sheet and off-balance sheet activities and, as a consequence, increased bank exposure to various types of risks. The provisions of this decision will be applied in preparing annual reports for 2003.

### 3.4.1 Prescribed Limitations on Exposure and Extent of Investments

To protect the stability of bank operations, and especially their asset quality, banks have to adhere to various limitations. The purpose of these limitations is to limit the risk to which a bank is exposed in its operation in view of the amount and concentration of granted loans and investments. As the former acts, the new Banking Act prescribes that banks are obliged to observe the limitations on exposure and the extent of investments, and regularly report to the Croatian National Bank on the amount and type of their exposure and the extent of their investments. The following limitations are prescribed:

- ❑ A bank's exposure to a single person may not exceed 25% of its regulatory capital (does not apply to a bank's exposure to the entities which constitute a banking group and are subject to consolidation).
- ❑ A bank's overall exposure to the persons directly or indirectly controlled by the bank or to the persons directly or indirectly controlled by the person controlling the bank may not exceed 20% of its regulatory capital (does not apply to a bank's exposure to the entities which constitute a banking group and are subject to consolidation).
- ❑ A bank's exposure to a single person in a special relationship with a bank may not exceed 10% of its regulatory capital. Persons in a special relationship with a bank are: a) the shareholders of the bank owning 5% or more of voting shares at the general meeting of the bank and their close relatives, b) the members of the bank management and supervisory board, the bank's procurators and their close relatives, c) persons who have concluded work contracts with the bank under special terms, d) legal persons in whose capital the persons referred to above own more than 20% of voting shares, e) legal persons in whose capital the bank owns more than 20% of voting shares or controls these legal persons in a different way.

- ❑ The sum of all large exposures may not exceed 600% of the bank's regulatory capital. Large exposure of a bank is exposure to one person equaling or exceeding 10% of its regulatory capital.
- ❑ Total investments of a bank in land, buildings, equipment and the furnishing of business premises may not exceed 40% of its regulatory capital.
- ❑ Total bank's investments in the capital of non-financial institutions may not exceed 30% of its regulatory capital.
- ❑ A bank's investment in the capital of a single non-financial institution may not exceed 15% of its regulatory capital.

## 3.5 Bank Earnings Quality

In 2002, the banks reported a profit of HRK 2,330.4m. 42 of the 46 banks earned profit amounting to HRK 2,404.6m, whereas 4 banks incurred losses amounting to a total of HRK 74.2m.

Table 3.9 Bank Income Statement  
in million HRK and %

	2000	2001		2002	
	Amount	Amount	Change	Amount	Change
1. Net interest income	4,325.1	4,658.1	7.7	5,288.5	13.5
1.1. Interest income	8,398.0	8,973.6	6.9	9,939.8	10.8
1.2. Interest expenses	4,073.0	4,315.5	6.0	4,651.3	7.8
2. Net non-interest income	1,980.6	1,256.7	-36.6	2,276.1	81.1
2.1. Non-interest income	2,878.8	3,230.8	12.2	4,166.9	29.0
2.2. Non-interest expenses	898.1	1,974.1	119.8	1,890.8	-4.2
3. General administrative expenses and depreciation	3,577.7	3,878.1	8.4	4,536.9	17.0
4. Net operating income before provisions	2,728.0	2,036.7	-25.3	3,027.7	48.7
5. Loan loss provision expenses	1,298.6	807.9	-37.8	438.0	-45.8
6. Pre-tax profit/loss	1,429.4	1,228.8	-14.0	2,589.8	110.8
7. Income tax	123.3	334.6	171.4	259.4	-22.5
8. After-tax profit/loss	1,306.1	894.2	-31.5	2,330.4	160.6

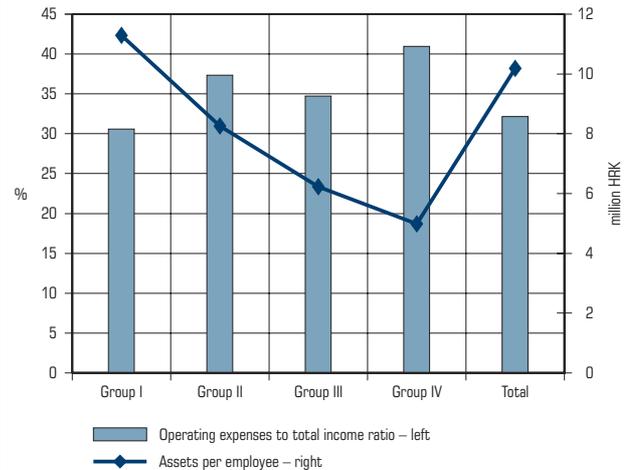
As shown in Table 3.9, net interest income increased by 13.5% as compared to 2001 due to interest income growth larger than interest expenses growth. Net non-interest income rose by a high 81.1% compared to the previous year due to a strong growth in fee income from payment transaction services, whereas non-interest expenses declined by 4.2%. It should be noted that non-interest expenses were extremely high in 2001 due to established losses of Riječka banka d.d., Rijeka, which had been incurred in the previous periods. Hence, non-interest expenses in 2001 are not comparable with that

Figure 3.6

## Return on Average Assets and Return on Average Equity



Figure 3.7

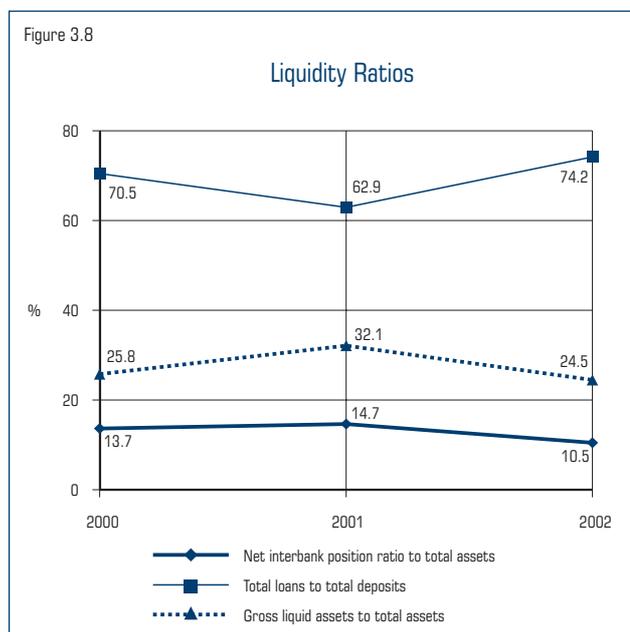
Operating Efficiency in 2002  
by Peer Groups of Banks

of 2002. Net interest income against average interest bearing assets fell from 4.0% in 2001 to 3.6% in 2002 owing to a fast asset growth. Although general administrative expenses and depreciation grew strongly in 2002 (17%) compared to 2001, the described favorable movements in income statement items led to a substantial increase in net operating income before provisions (48.7%).

Loan loss provision expenses declined by 45.8%, which leads to the conclusion that asset quality improved in 2002. Earned profit grew by 160.6% over that in the previous year, which triggered the upward trend in the return on average assets (ROAA) and return on average equity (ROAE) indicators, which both declined in 2001 (Figure 3.6). Large banks in Group I managed their resources better than the banks in other three groups, which had an impact on the efficiency of the entire banking system (Figure 3.7).

## 3.6 Bank Liquidity

Figure 3.8 shows some liquidity ratios trends at the level of all commercial banks. The net interbank position ratio<sup>7</sup> fell from 14.6% in 2001 to 10.5% in 2002. The total loans to total deposits ratio grew considerably (from 62.9% at end-2001 to 74.2% at end-2002), while the gross liquid assets to total assets ratio declined, after growing in 2001. The data on subscriptions for CNB bills show that subscribed kuna and foreign currency CNB bills stood at HRK 5,805.9m and HRK 1,226.9m respectively at the end of 2002, whereas they stood at HRK 6,214.9m and HRK 2,808.4m at the end of 2001. Such developments in liquidity ratios were caused by the described increase in loans, which led to the decline in liquid assets. However, the liquidity of banks remained high, and CNB loans were not utilized by any of the banks at the end of 2002.



## 3.7 Savings Banks and Housing Savings Banks Performance

Savings banks and housing savings banks accounted for only 1.3% of the total assets of the banking sector. At end-2002, there were 3 housing savings banks and 1 savings bank in operation (see Table 3.1). The number of savings banks decreased, which led to a 0.6% decline in total savings banks and housing savings bank assets, despite a 68.3% asset growth of housing savings banks in 2002.

### 3.7.1 The Structure of Savings Banks and Housing Savings Banks Balance Sheet

At the end of 2002, savings banks and housing savings balance sheet reflected the structure of housing savings banks balance sheet, while the share of one savings bank was almost negligible. Table 3.10 shows that securities (Ministry of Finance treasury bills and CNB bills) and the trading portfolio of securities increased in 2002, both in nominal

<sup>7</sup> The difference between assets placed with financial institutions and assets received from financial institutions, relative to total assets.

terms and in terms of their share in total savings bank and housing savings bank assets. Owing to a decline in the number of savings banks, almost all other items recorded a significant decline, both in nominal terms and in terms of their share in the asset structure.

**Table 3.10 Structure of Savings Bank and Housing Savings Bank Assets**  
end of period, in million HRK and %

	2000			2001			2002		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Money assets and deposits with the CNB	91.6	5.8	2.1	156.8	6.6	71.1	27.9	1.2	-82.2
1.1 Money assets	34.5	2.2	42.1	54.7	2.3	58.5	4.7	0.2	-91.4
1.2 Deposits	57.1	3.6	-12.8	102.0	4.3	78.7	23.2	1.0	-77.3
2. Deposits with banking institutions	99.0	6.3	6.3	123.5	5.2	24.8	61.6	2.6	-50.1
3. MoF treasury bills and CNB bills	237.3	15.0	87.7	418.9	17.6	76.5	561.5	23.7	34.0
4. Trading portfolio of securities	144.4	9.2	4,605.6	472.6	19.8	227.4	1,149.6	48.5	143.2
5. Loans to financial institutions	10.8	0.7	-78.7	14.4	0.6	34.4	13.7	0.6	-5.0
6. Loans to other clients	625.7	39.7	-5.5	701.2	29.4	12.1	200.2	8.4	-71.4
7. Investment portfolio of securities	190.9	12.1	488.4	337.0	14.1	76.5	277.8	11.7	-17.6
8. Investments in subsidiaries and associates	1.4	0.1	2.6	1.1	0.0	-18.1	1.2	0.1	5.9
9. Foreclosed and repossessed assets	17.7	1.1	-31.3	16.4	0.7	-7.5	6.0	0.3	-63.1
10. Tangible assets and software (net of depreciation)	57.2	3.6	-14.0	56.2	2.4	-1.6	25.9	1.1	-54.0
11. Interest, fees and other assets	109.6	6.9	-23.1	96.1	4.0	-12.4	48.4	2.0	-49.6
12. Net of: Specific reserves for unidentified losses	7.9	0.5	4.6	9.0	0.4	13.8	2.6	0.1	-70.6
Total	1,577.6	100.0	22.7	2,385.3	100.0	51.2	2,371.2	100.0	-0.6

**Table 3.11 Structure of Savings Bank and Housing Savings Bank Liabilities**  
end of period, in million HRK and %

	2000			2001			2002		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Loans from financial institutions	13.6	0.9	-52.8	3.5	0.1	-74.1	0.0	0.0	-100.0
1.1. Short-term loans	12.4	0.8	-50.1	2.5	0.1	-79.8	0.0	0.0	-100.0
1.2. Long-term loans	1.2	0.1	-69.9	1.0	0.0	-15.9	0.0	0.0	-100.0
2. Deposits	1,197.0	75.9	44.9	1,964.8	82.4	64.1	2,175.3	91.7	10.7
2.1. Giro account and current account deposits	7.0	0.4	5.5	6.7	0.3	-3.5	0.3	0.0	-95.3
2.2. Savings deposits	46.9	3.0	21.4	47.2	2.0	0.7	7.6	0.3	-83.9
2.3. Time deposits	1,143.2	72.5	46.4	1,910.9	80.1	67.2	2,167.4	91.4	13.4
3. Other loans	4.4	0.3	-48.0	2.0	0.1	-54.0	0.0	0.0	-100.0
3.1. Short-term loans	3.8	0.2	-51.2	2.0	0.1	-47.2	0.0	0.0	-100.0
3.2. Long-term loans	0.6	0.0	-5.5	0.0	0.0	-100.0	0.0	0.0	-
4. Debt securities issued	0.0	0.0	-	0.0	0.0	-	0.0	0.0	-
4.1. Short-term debt securities issued	0.0	0.0	-	0.0	0.0	-	0.0	0.0	-
4.2. Long-term debt securities issued	0.0	0.0	-	0.0	0.0	-	0.0	0.0	-
5. Supplementary capital	52.5	3.3	1.1	28.0	1.2	-46.7	0.0	0.0	-99.9
5.1. Subordinated instruments issued	7.9	0.5	-38.4	3.8	0.2	-51.4	0.0	0.0	-100.0
5.2. Hybrid instruments issued	44.7	2.8	14.0	24.2	1.0	-45.9	0.0	0.0	-99.9
6. Interest, fees and other liabilities	64.5	4.1	21.7	85.1	3.6	31.9	45.2	1.9	-46.9
7. Profit/loss for the current year	-66.1	-4.2	59.6	-29.4	-1.2	-55.5	27.3	1.1	-192.6
8. Capital	311.6	19.8	-13.2	331.2	13.9	6.3	123.4	5.2	-62.7
Total	1,577.6	100.0	22.7	2,385.3	100.0	51.2	2,371.2	100.0	-0.6

Deposits were dominant in the liability structure of savings banks and housing savings banks, amounting to HRK 2,175.3m at the end of 2002. Their share in total liabilities had an upward trend (from 82.4% at end-2001 to 92.7% at end-2002) and, despite the decrease in the number of savings banks, they grew by 10.7% in nominal terms thanks to the deposit growth recorded in housing savings banks. The share of all other liability items in total liabilities was negligible.

### 3.7.2 Savings Bank and Housing Savings Bank Capital

Table 3.12 Structure of Savings Bank and Housing Savings Bank Capital  
end of period, in million HRK and %

	2000		2001			2002		
	Amount	Share	Amount	Share	Change	Amount	Share	Change
1. Share capital	339.5	109.0	379.4	114.5	11.7	183.4	148.6	-51.7
2. Retained income/loss	-52.9	-17.0	-64.7	-19.5	22.4	-73.2	-59.3	13.1
3. Legal reserves	4.0	1.3	3.6	1.1	-7.9	0.3	0.3	-90.8
4. Reserves provided for by the articles of association and other capital reserves	21.0	6.7	12.9	3.9	-38.4	12.9	10.4	-0.4
Total	311.6	100.0	331.2	100.0	22.9	123.4	100.0	-62.7

Savings bank and housing savings bank capital declined in 2002 in comparison with 2001, both in nominal terms and in terms of its share in total assets. Still, housing savings bank capital rose by 20.1%. The structure of savings bank and housing savings bank capital is shown in Table 3.12.

At the end of 2002, the regulatory capital of savings banks and housing savings banks amounted to HRK 120.4m, down from HRK 294.8m as at 31 December 2001. The capital adequacy ratio of savings banks and housing savings banks stood at 31.9% at the end of 2002, compared to 37.3% at the end of 2001. High capital adequacy was reported by housing savings banks due to low risk-weighted assets (low credit activity).

### 3.7.3 Asset Quality of Savings Banks and Housing Savings Banks

At the end of 2002, fully recoverable placements (groups A and B) accounted for 98.0% of total risk assets of savings banks and housing savings banks. Partly recoverable placements (groups C and D) accounted for 1.7% of total risk assets, while irrecoverable placements (group E) accounted for 0.3% of total risk assets. Total impairment (placement reduction by the amount of established losses arising from partly recoverable and irrecoverable placements together with reserves for unidentified losses) amounted to

Table 3.13 Classification of Savings Bank and Housing Savings Bank Placements by Risk Groups  
end of period, in million HRK and %

Placements	2000		2001		2002	
	Amount	Share	Amount	Share	Amount	Share
1. Fully recoverable placements	1,239.1	90.5	1,653.8	93.4	1,052.3	98.0
1.1. Group A	1,177.7	86.0	1,582.9	89.4	986.3	91.9
1.2. Group B	61.4	4.5	70.9	4.0	66.0	6.1
2. Partly recoverable placements	86.8	6.3	79.5	4.5	18.1	1.7
2.1. Group C	50.7	3.7	59.8	3.4	14.1	1.3
2.2. Group D	36.1	2.6	19.7	1.1	4.0	0.4
3. Irrecoverable placements	43.8	3.2	36.6	2.1	3.2	0.3
3.1. Group E	43.8	3.2	36.6	2.1	3.2	0.3
Total	1,369.6	100.0	1,770.0	100.0	1,073.6	100.0

Table 3.14 Total Provision to Total Placement Ratio of Savings Banks and Housing Savings Banks  
end of period, in million HRK

	2000	2001	2002
1. Total provisions for losses	94.9	82.5	18.6
1.1. Placement value impairment (loss)	87.2	73.5	16.0
1.2. Provisions for unidentified losses	7.7	9.0	2.6
2. Total placements	1,369.6	1,770.0	1,073.6
3. Relative ratio of total provisions to total placements	6.9	4.7	1.7

HRK 18.6m or 1.7% of total placements at the end of 2002. It had a downward trend in the reporting period, both in nominal terms and in terms of their share in total placements.

### 3.7.4 Savings Bank and Housing Savings Bank Earnings Quality

Table 3.15 Savings Bank and Housing Savings Bank Income Statement  
in million HRK and %

	2000	2001		2002	
	Amount	Amount	Change	Amount	Change
1. Net interest income	76.0	90.9	19.6	44.5	-51.0
1.1. Interest income	193.8	208.6	7.6	114.4	-45.2
1.2. Interest expenses	117.8	117.7	-0.1	69.9	-40.6
2. Net non-interest income	9.9	46.8	373.2	70.3	50.4
2.1. Non-interest income	72.1	101.3	40.5	117.2	15.7
2.2. Non-interest expenses	62.2	54.5	-12.4	46.9	-14.0
3. General administrative expenses and depreciation	131.1	146.2	11.5	80.9	-44.7
4. Net operating income before provisions	-45.3	-8.5	-81.2	34.0	-499.3
5. Loan loss provision expenses	16.2	11.4	-29.6	6.7	-41.1
6. Pre-tax profit/loss	-61.4	-19.9	-67.6	27.3	-237.1
7. Income tax	4.6	3.8	-17.9	0.0	-100.0
8. After-tax profit/loss	-66.0	-23.7	-64.1	27.3	-215.2

In 2002, savings banks and housing savings banks reported a profit of HRK 27.3m. Profit totaling HRK 33.9m was reported by housing savings banks, and the one remaining savings bank reported a loss of HRK 6.6m.

All income statement items (except non-interest income and net non-interest income) declined in nominal terms in 2002 compared with 2001 owing to the decrease in the number of savings banks. The strong growth in net non-interest income of housing savings banks influenced earned profit. Housing savings banks have been operating for only five years and still do not generate high income from interest on loans. Hence, in contrast to banks, their net non-interest income exceeded their net interest income in 2002.

# 4

## Payment Operations

## 4.1 Application of the New National Payment System Act

In 2002, the payment system reform went through its last and most demanding stage - business entities and citizens' transaction accounts held with the FINA were closed and corresponding accounts opened at banks. The implementation of the last stage of the domestic payment system reform was demanding both for payment system agents, the Croatian National Bank and banks, and payment system participants. Participants' accounts with banks were opened based on a new account structure meeting required European standards. The implementation of these activities called for the adjustment of existing primary and subordinate legislation. On 1 November 2002, the FINA was put in charge of managing the Unified Register of Business Entities' Accounts.

The National Payment System Act (official gazette *Narodne novine*, No. 117/2001), enacted in late 2001, defines the basic principles of the payment system. The Act has been applied since 1 April 2002 although participants were able, pursuant to one of its articles, to open accounts with banks as early as of 1 February 2002.

### 4.1.1 Enactment of Subordinate Legislation

Pursuant to the provisions of the National Payment System Act, the CNB regulated the domestic payment system (official gazette *Narodne novine*, No. 14/2002) by amending the following decisions:

- 1) Decision on the Terms and Methods of Opening an Account with a Bank;
- 2) Decision on the Content of the Register of Business Entities' Accounts with a Bank;
- 3) Decision on the Unified Register of Business Entities' Accounts;
- 4) Decision on the Execution of Payment Orders from the Funds in Payers' Accounts Held with Different Banks.

Additionally, the following decisions were enacted:

- 1) Decision on the Bank Account Number;
- 2) Decision on the Structure of an Account with a Bank;
- 3) Decision on Payment Orders;
- 4) Decision on the National Clearing System;
- 5) Decision on the Croatian Large Value Payment System and Settlement in Bank Accounts Held with the Croatian National Bank;
- 6) Decision on the Work Schedule for Settlement/Clearing through the Interbank Payment Systems.

Acting within its authority, the CNB also enacted the Instruction for the Implementation of Article 50, paragraph 1 through 4, of the National Payment System Act (official ga-

zette *Narodne novine*, No. 14/2002), which specifies the dynamics and method of closing all accounts that had been opened at the FINA. In addition, the Decision on Supplying Banks with Cash (official gazette *Narodne novine*, No. 22/2002) introduced changes to cash transactions, providing for the establishment of cash centers used by the CNB to supply banks with cash. Cash centers have been set up at 22 domestic locations in FINA operating units. Their organization is presented in the chapter dealing with currency department operations.

## 4.1.2 Payment System Reform

The payment system reform, implemented in the previous few years, was focused on putting into operation interbank payment systems, aimed at setting conditions for the performance of payment operations across business entities' transaction accounts at banks. In order to enable business entities to open such accounts at banks, while maintaining "financial discipline" provided for by the previous payment system, the CNB established the Unified Register of Business Entities' Accounts (URA). The Register operates as a database for all accounts of business entities' domestic operations; compiled to enable advanced data exchange among banks (via an Internet interface) as well as an insight in and use of these data. The CNB has given access to the URA database to approximately ten Croatian government institutions having public authority. The Register is kept by the FINA, which ensures the availability of data to all domestic payment system participants. The URA also provides the basic infrastructure enabling the freezing of all business entity's accounts in case any unsettled liabilities are recorded by its main account.

According to URA data, there were 249,254 business entities in the Republic of Croatia on 31 December 2002, of which 135,648 (54.4%) went to legal persons, 103,859 (41.7%) to natural persons and 9,747 (3.9%) to freelancers.

Business entities had 287,901 accounts opened with banks in that period; i.e. an average 1.16 accounts per each business entity. Out of 249,254 business entities, 80.9% (201,603) were solvent, whereas 19.12% (47,651) of business entities' accounts with banks were frozen owing to unsettled liabilities.

The part of the payment system reform related to the closing of business entities transaction accounts at the FINA and the opening of corresponding accounts with banks was implemented following a predetermined dynamics through several stages. Bank began to open and manage business entities accounts on 1 February 2002. On that date the CNB started monitoring all data related to business entities "account migration" and subsequently established co-ordination with the Ministry of Finance. About 350,000 business entities and citizens' accounts were closed at the FINA in that period, as well as several evidence accounts, and the said 287,901 accounts opened. The Croatian National Bank took charge of managing and performing payment operations across the accounts of the Republic of Croatia specified by the Minister of Finance.

### 4.1.3 Improvement of Interbank Payment Systems and a Presentation of Payments Executed in 2002

A part of the activities performed in 2002 was focused on the improvement of domestic payment system facilities. The Croatian Large Value Payment System (CLVPS) underwent technological modifications and conditions were set down in anticipation of new projects:

- a new version of the CLVPS program (CAS 2.60) was installed as part of its regular annual upgrade;
- SWIFT Alliance Access-Automated File Transfer (AFT) was purchased and installed – a new option for automatic recording of payment transactions made by SWIFT in CNB customers' accounts. The project is being tested.

Table 4.1 CLVPS – Payments Executed in 2002  
in HRK

Month	CLVPS – total		Average amount per payment transaction
	Transaction amount	Number of transactions	
January	66,996,233,344	11,054	6,060,814
February	63,031,134,644	10,424	6,046,732
March	80,756,363,388	10,818	7,464,999
April	83,656,171,766	8,748	9,562,891
May	77,044,172,367	7,890	9,764,787
June	61,698,668,989	6,984	8,834,288
July	76,003,713,790	8,950	8,492,035
August	78,151,686,836	7,774	10,052,957
September	76,656,536,505	7,678	9,983,920
October	82,873,412,087	8,263	10,029,458
November	72,699,595,266	7,561	9,615,077
December	84,181,653,529	7,659	10,991,207
Total	903,749,342,511	103,803	8,706,389
Average	75,312,445,209	8,650	8,706,389

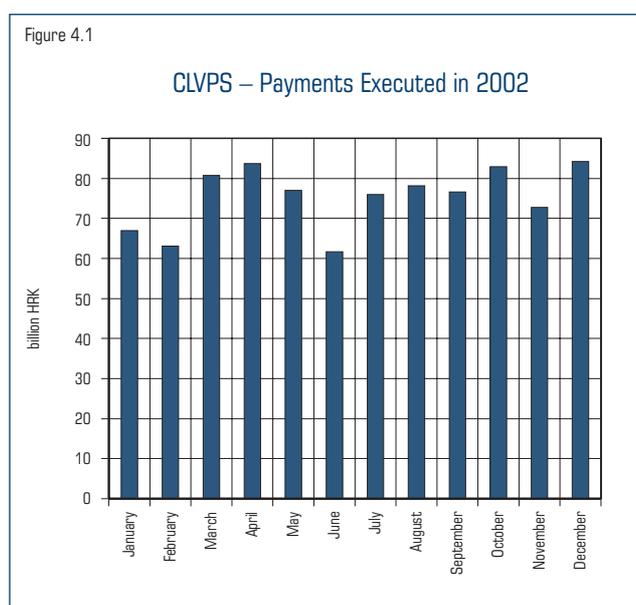
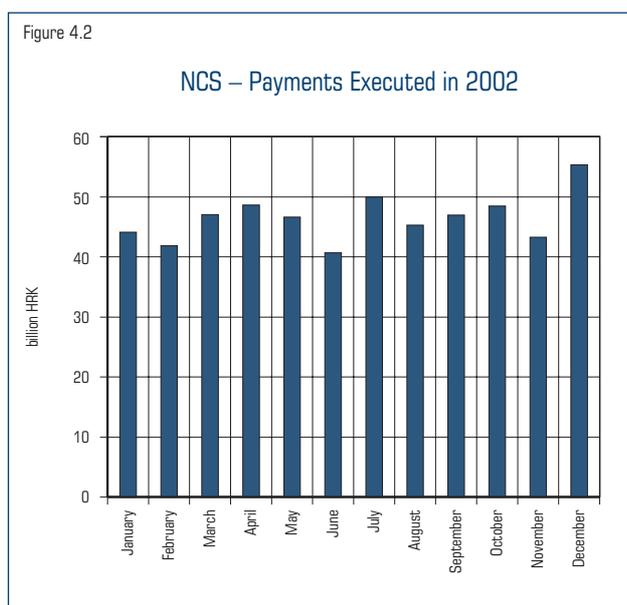


Table 4.2 NCS – Payments Executed in 2002  
in HRK

Month	NCS – total		Average amount per payment transaction
	Transaction amount	Transaction number	
January	44,075,049,315.78	5,702,363	7,729
February	41,815,358,097.94	5,563,289	7,516
March	47,030,972,934.03	6,108,027	7,700
April	48,603,402,680.63	8,954,811	5,428
May	46,620,427,246.54	8,773,821	5,314
June	40,685,140,079.16	8,378,939	4,856
July	49,997,909,953.30	9,917,332	5,041
August	45,230,792,608.54	8,739,996	5,175
September	46,914,921,361.31	8,939,893	5,248
October	48,416,144,158.69	9,444,752	5,126
November	43,299,761,418.96	8,829,168	4,904
December	55,285,969,416.88	9,735,165	5,679
Total	557,975,849,272.00	99,087,556	5,631
Average	46,497,987,439.00	8,257,296	5,631

Figure 4.2



#### 4.1.4 Enactment of Subordinate Legislation and Special Regulations under New Conditions

An analysis of intervals in which the NCS receives transactions within the new payment system showed that they need to be prolonged and the daily work schedule for clearing in the interbank payment system was modified (official gazette *Narodne novine*, No. 50/2002).

The CNB also enacted the Decision on Performing Payment Operations in a Bank Following a Merger or Acquisition of Bank (official gazette *Narodne novine*, No. 75/2002).

This Decision regulates bank mergers or acquisitions in the domestic banking market and prescribes the terms and methods of performing payment transactions in interbank systems.

The Decision on the Terms and Methods of Conducting Payment Operations in Savings and Loan Co-Operatives (official gazette *Narodne novine*, No. 150/2002) introduces participants settling interbank payments through a bank into the payment system. A license granted by the CNB allows a savings and loan co-operative to conduct payment operations on behalf of its members while having the same rights and responsibilities as a bank, with the exception of operations related to clearing in the interbank payment system.

## 4.2 Further Development of the Domestic Payment System

The National Payment System Committee was established on CNB's initiative to fill the need for correlating and co-ordinating factors influencing the development of the domestic payment system. The Committee consists of the representatives of the Ministry of Finance, Croatian National Bank, Croatian Chamber of Commerce and Croatian Banking Association. Its purpose is to address various issues related to the domestic payment system; e.g. making proposals for new payment system services, agreeing on a common approach within the payment system to enable a uniform implementation of legal provisions from various areas, establishing co-operation between legislative authorities, etc.

The structure of citizens' accounts with banks needs to be adjusted by 30 June 2003, following the adjustment of domestic business entities' account structure, which has already been made. The structure of business entities and citizens' accounts has been brought into compliance with the standards prescribed by the European Committee for Banking Standards and international standards, i.e. BBAN - Basic Bank Account Number and IBAN - International Bank Account Number.

In addition, the National Clearing System remains to be institutionalized as an independent business entity pursuant to the provisions of the Financial Agency Act.

Transaction settlement risk, existing before the enactment of the new National Payment System Act, was completely removed from the system by the establishment of the new payment system in 2002. Banks, as the main domestic payment system agents, are now able to manage their own liquidity by managing business entities' accounts and performing transactions across these accounts. Being in charge of payment operations, which are basic banking operations, banks are able to monitor customers operations in their entirety and thus lay the ground for an open bank-customer relationship.

The domestic payment system reform has set preconditions for the further development of a market oriented payment system. The range of services banks offer to their customers has markedly grown (electronic payments, ATMs for business entities, pre-paid cards, debit cards). This especially concerns the increasing share of electronic banking in total domestic payments, both in terms of its value and the number of transactions. The maintenance of business entities' accounts with banks has considerably contributed to the further strengthening of "financial discipline" in the period when a payer's accounts are frozen. In other words, under new legal provisions, not only kuna accounts of an insolvent business entity are frozen but all its foreign exchange accounts as well. In addition, a business entity whose accounts are frozen is not allowed to extend its fixed-term depositing agreement concluded with a bank. Instead, following the expiry of such an agreement, the funds are used for covering unsettled liabilities.

The domestic payment system reform, a very sensitive and demanding project, has been implemented successfully and, most importantly, without interruptions in regular operations. Some difficulties were experienced during the transfer of funds from the accounts with the FINA to newly opened accounts at banks. The CNB reacted promptly and instructed banks how to resolve certain problems. In conclusion, the newly established domestic payment system satisfies European standards and thus fulfils part of the requirements for EU accession.

# 5

## International Relations

## 5.1 Relations between the Republic of Croatia and the International Monetary Fund (IMF)

Within the framework of co-operation with the International Monetary Fund, numerous contacts were made in 2002 with experts of the IMF, both through this institution's representative office and through repeated IMF visits to Croatia.

In addition to the regular annual consultation related to Article IV of the Articles of Agreement of the IMF concluded in August 2002, especially intensive were contacts with the IMF related to preparations for and implementation of financial arrangements.

### 5.1.1 Financial Arrangements

A stand-by arrangement, which the IMF and the Republic of Croatia concluded as "precautionary" in March 2001 and which expired in May 2002, was the first arrangement with the IMF that was completed successfully and within the programmed period. Preparations for another stand-by arrangement began in the second half of 2002. The arrangement was also concluded as "precautionary", i.e. the funds approved are not purchased but may be used if the need arises.

The Executive Board of the IMF approved a 14-month arrangement in the amount of SDR 105.88m on 3 February 2003. For the Republic of Croatia, this arrangement is primarily a precautionary measure and an international confirmation of credibility of its commitment to further fiscal consolidation and structural reforms, especially with regard to public debt stabilization, increased labor market flexibility and further privatization.

To show that the arrangement is concluded as precautionary, and in view of its comfortable international reserves position, favorable balance of payments outlook, and easy access to international capital markets, the Republic of Croatia repurchased the entire amount of IMF credit outstanding at the end of 2002.

### 5.1.2 The IMF – World Bank Constituency Meeting in Zagreb

The Republic of Croatia is a member of the IMF and World Bank Constituency that is headed by the Netherlands. The Constituency, which accounts for 4.85% and 4.48% of total votes in the IMF and World Bank respectively, includes Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Macedonia, Moldova, the Netherlands, Romania and Ukraine.

The Constituency meetings, attended by executive directors of the IMF and World Bank and central bank governors and deputy governors of the member countries, are usually held three times a year: at the Spring and Annual Meetings and once a year in one of the Constituency's member countries. The Republic of Croatia hosted the 2002 meeting of the Dutch Constituency, which was held in Zagreb on 23-24 March and organized by the Croatian National Bank and the Ministry of Finance. The meeting was attended by top officials of central banks and ministries of finance from all 12 countries within the Constituency.

The topics of the meeting were current financial and development policy issues, which concern the Constituency's member countries and are related to their co-operation with the IMF and World Bank. The meeting also provided a good opportunity for bilateral meetings and discussions on co-operation among the member countries, which was used by delegations of many countries.

### 5.1.3 Other Forms of Co-operation with the IMF

- a) In their joint efforts to strengthen the structure of the international financial system, the IMF and the World Bank launched a project in 1999 entitled the Financial Sector Assessment Program (FSAP). The purpose of this program is to assess the financial sectors of member countries, to enable the early detection of weaknesses in their financial systems, to ensure co-ordinated and efficacious dialogue with the national governments and to identify the development and technical needs of member countries. The Republic of Croatia applied to join the project in November 2000 and IMF and World Bank experts visited Croatia twice in 2001. The FSAP mission's final report was released in August 2002. It was published on the web sites of the CNB and IMF, as are all documents concerning the consultation related to Article IV of the Articles of Agreement of the IMF and stand-by arrangements. This is in line with the IMF projects aimed at increasing the transparency of its activities and the activities of its member countries.
- b) During 2002, the Croatian National Bank continued its activities related to furnishing the IMF with statistical data. Under Article VIII, Section 5 of the IMF Articles of Association, each member country is obliged to furnish the IMF with relevant statistical data. Pursuant to the Act on Accepting Membership of the Republic of Croatia in the International Monetary Fund and Other International Financial Organizations on the Basis of Succession and the Decision on the Method of Submitting and Content of Data Furnished to the IMF (official gazette Narodne novine, Nos. 116/1993 and 112/2001), the CNB is authorized to collect and forward to the IMF the statistics on arrangements with the IMF as well as other data relevant for various IMF publications. To improve the process of collecting data required for its publications, the IMF has established a new system for collecting electronic data via a protected IMF web page - - Integrated Correspondence System, ICS. Preparations for the introduction of this system in Croatia ended in autumn 2002, and the system has been operational since then. Co-ordinated by the CNB, other institutions of the Republic of Croatia, charged with compiling statistical data, joined the system.
- c) In 2002, Croatian representatives continued to participate in the work of IMF

management bodies (Constituency, International Monetary and Financial Committee and Board of Governors). In particular, this relates to the participation of CNB representatives in the work of the Spring and Annual Meetings of the IMF Board of Governors held in Washington, where Croatian representatives had a number of meetings with representatives of international financial institutions, commercial banks and investment houses.

## 5.1.4 Financial Transactions

As the fiscal agent of the Republic of Croatia and a depository of the International Monetary Fund, the Croatian National Bank keeps the deposit accounts of the International Monetary Fund and regularly services the obligations based on the arrangements that the Republic of Croatia has concluded with the IMF: the Systemic Transformation Facility, STF (SDR 130.80m, approved in 1994 simultaneously with the stand-by arrangement), the Extended Fund Facility, EFF (SDR 353.16m), and the stand-by arrangement (SDR 200m, approved in 2001). At their meeting held on 11 December 2002, representatives of the Ministry of Finance and the Croatian National Bank reached a Decision on the Early Repayment of Funds under the Financial Arrangements with the IMF. On the basis of this decision, the Croatian National Bank repaid SDR 70,635,001 of outstanding debt to the IMF prior to maturity, of which SDR 49,050,000 refers to the STF arrangement and SDR 21,585,001 refers to the EFF arrangement. During 2002, SDR 2.56m in interest was paid on these arrangements, with an additional SDR 0.08m paid in charges on the stand-by arrangement. As a member of the Special Drawing Rights Department (of the IMF), Croatia has regularly repaid its obligations based on the inherited obligations related to the allocation of special drawing rights. During 2002, SDR 1.00m was paid on this basis.

Since the Republic of Croatia's admission as an IMF member, all its obligations towards the IMF have been regularly fulfilled in accordance with existing legal provisions. Note: The value of special drawing rights (SDRs) is the weighted average of the basket of leading world currencies, which is revised every five years. As of 1 January 2001, the currency basket is composed of the American dollar (45%), the euro (29%), the Japanese yen (15%) and the pound sterling (11%).

Balance at 31 December 2002		
GENERAL RESOURCES ACCOUNT	SDR (million)	% Quota
Quota	365.10	100.00
IMF holdings	364.94	99.96
SDR DEPARTMENT	SDR (million)	% net cum. al.
Net cumulative allocation	44.21	100.00
Holdings of Croatia	1.10	2.50
LIABILITIES PAID IN 2002	SDR (million)	–
Repayment of principal – STF arrangement	70.85	–
Repayment of principal – EFF arrangement	26.38	–
Interest payments on all arrangements	2.56	–
Charges on the stand-by arrangement	0.08	–
SDR Department membership fee	0.01	–
Net cumulative allocation costs	1.00	–

Note: The value of special drawing rights (SDRs) is the weighted average of the basket of leading world currencies, which is revised every five years. As of 1 January 2001, the currency basket is composed of the American dollar (45%), the euro (29%), the Japanese yen (15%) and the pound sterling (11%).

## 5.2 Activities of the CNB concerning the Relations between the Republic of Croatia and International Development Banks – the World Bank Group (IBRD, IFC, IDA, MIGA), European Bank for Reconstruction and Development (EBRD), Inter-American Development Bank (IDB)

- a) The following laws regulate the Republic of Croatia's membership in the World Bank Group, European Bank for Reconstruction and Development and Inter-American Development Bank: the Act on Accepting Membership of the Republic of Croatia in the International Monetary Fund and Other International Financial Organizations on the Basis of Succession (official gazette Narodne novine, No. 89/1992), the Act on Accepting Membership of the Republic of Croatia in the European Bank for Reconstruction and Development (official gazette Narodne novine, No. 25/1993) and the Act on Accepting Membership of the Republic of Croatia in the Inter-American Development Bank (official gazette Narodne novine, No. 94/1993). Under these Acts, the Ministry of Finance of the Republic of Croatia is the competent authority for co-operation with the World Bank Group, the European Bank for Reconstruction and Development and the Inter-American Development Bank, and is authorized to perform all operations and transactions in the name of the Republic of Croatia that are permissible under these institutions' articles of association. The Croatian National Bank is the depository, i.e. it keeps all deposit accounts owned by these international financial or-

### Payments Executed in 2002 on the Basis of Membership of the Republic of Croatia in International Financial Organizations

Name	Amount paid and currency		Balance of promissory notes issued by the Ministry of Finance	
EBRD	EUR	369,000.00	EUR	369,000.00
IDB	a) HRK	1,119,580.83	USD	123,048.00
	b) EUR	205,886.50	EUR	603,600.53
			(Ordinary Capital)	
			(Fund for special operations – FSO Notes)	
IBRD			HRK	80,305,800.73
IDA			HRK	437,666.65
MIGA			USD	202,334.00

ganizations, in the name and on behalf of these financial institutions, and performs financial transactions with these organizations as the payment agent of the state – the Republic of Croatia. During 2002, the Croatian National Bank regularly executed payments for shares for which the Republic of Croatia assumed obligation according to the repayment plan accepted by each international financial organization.

- b) The use and repayment of the funds pursuant to the Agreement signed on 4 June 1997 between the Republic of Croatia (Ministry of Finance) and the International Bank for Reconstruction and Development on the Enterprise and Financial Sector Adjustment Loan (EFSAL) of DEM 160m (official gazette Narodne novine, No. 17/1997, "International Agreements") have been made through a special account at the Croatian National Bank. The repayment term of this loan, which was used in entirety, is 10 years and the last principal payment comes due in June 2012.
- c) An Agreement between the Republic of Croatia (Ministry of Finance) and the International Bank for Reconstruction and Development on the Structural Adjustment Loan (SAL) (official gazette Narodne novine, No. 2, 6 February 2002, "International Agreements") was signed on 5 December 2001. Under the Agreement, the International Bank for Reconstruction and Development approved a USD 202m loan to the Republic of Croatia to support the implementation of economic reforms in Croatia. The repayment term of the loan is 10 years, and the use - withdrawal of funds - is executed through a special account at the CNB. The first tranche of USD 102m was withdrawn on 13 February 2002.
- d) At the Croatian government's request, the World Bank has initiated the preparation of a document entitled "EU/Country Economic Memorandum" (EU/CEM) whose purpose is to make an economic analysis of the possibility of Croatia joining the European Union. To gather the material needed, World Bank experts met with domestic experts from several ministries, government and other institutions. CNB experts participated in preparing the chapter on the financial sector.

## 5.3 Relations between the Croatian National Bank and the Bank for International Settlements (BIS)

The Annual Report of the BIS and the decision on the distribution of dividends amounting to CHF 380 per share were adopted at the regular Annual General Meeting of the BIS held on 8 July 2002.

In addition to the Annual General Meeting, there were regular meetings of central bank governors from the BIS member countries, where a number of topical issues in the area of international banking and finance were discussed. The Governor and other members of the CNB management participated in these meetings.

The Croatian National Bank participated in the activities of the BIS aimed at co-ordinating technical assistance provided by the G-10 central banks to the central banks in Central and Eastern Europe. Several bilateral contacts were made, and various forms of technical assistance were agreed on in principle.

Furthermore, CNB representatives participated in the work of regional groups of the Basle Committee on Banking Supervision and the Committee on Payment and Settlement Systems. The Croatian National Bank took part in the exchange of information among central banks of the BIS member countries via the electronic information network.

A separate and important form of co-operation between the CNB and BIS has been established in the area of international reserves management.

## 5.4 Co-operation between the Croatian National Bank and Other International Institutions

During 2002, the Croatian National Bank co-operated with other international financial institutions as well. For instance, representatives of the Institute for International Finance (IFF) and the Japan Center for International Finance (JCIF) visited Croatia in June and October 2002 respectively.

The aim of these visits was to acquire information on Croatia's economic and political situation and to prepare the corresponding reports. These visits and reports are important for Croatia because of the high reputation these institutions and their reports have among the leading world and Japanese banks and funds.

## 5.5 Activities of the CNB concerning Relations between the Republic of Croatia and the European Union

The Stabilisation and Association Agreement between the Republic of Croatia and the European Union was initialed in Brussels on 14 May 2001. It was signed in Luxembourg on 29 October 2001, and ratified by the Croatian Parliament and European Parliament on 5 December and 12 December 2001 respectively. Its ratification by the EU member countries is currently underway.

Under the Agreement, one of the main tasks of Croatia is to approximate its legislation to the EU regulations. Even before the Agreement was signed, the CNB strove to incor-

porate relevant EU regulations concerning its field of competence and always requested the opinion of the European Commission experts when preparing draft legislation. Such an opinion was also requested at the beginning of 2001 when the new Croatian National Bank Act was enacted, and the same practice was followed with regard to the new Banking Act. Provisions of a new foreign exchange law, which is currently being prepared, also incorporate relevant EU guidelines, of which the most important are those related to the capital account liberalization.

Within its field of competence and in line with the policy of the Republic of Croatia, the Croatian National Bank maintained in 2002 contacts with representatives of the European Central Bank, which is the head institution of the European System of Central Banks. To expedite its progress toward EU membership and participate in the next wave of EU enlargement, the Republic of Croatia submitted its application for EU membership on 21 February 2003.

## 5.6 International Payment Operations

International payment operations continued its dynamic growth in 2002. Orders for payments abroad and receivables from abroad were executed daily, both for the purposes of the CNB and the Ministry of Finance. On behalf of the Ministry of Finance, the CNB also executed all payments based on membership of the Republic of Croatia in international financial organizations (IMF, IBRD, IFC, IDA, MIGA, EBRD and IDB), as well as payments based on loans these institutions granted to the Republic of Croatia, for which the CNB acts as the fiscal agent (EFSAL, SAL). The inflows of the Croatian National Bank from abroad resulted mostly from the sale of coins and commemorative coin editions.

International payment operations also include a continuous monitoring of domestic and international standards related to banking (ISO, SWIFT, ICC, etc.).

## 5.7 Correspondent Relations with Foreign Banks and Other Financial Institutions

The Croatian National Bank monitors economic and political developments in certain countries and regions of special interest for both for the Croatian National Bank itself and for the Croatian banking system and the economy as a whole.

In 2002, special attention was paid to the candidate countries for EU membership in the first round and to their banking systems.

During 2002, over 60 meetings were held with representatives of foreign banks (central and commercial), investment funds, credit rating agencies, and other institutions, including domestic commercial banks and embassies of the most significant partner countries of the Republic of Croatia.

Especially important was a September 2002 top level meeting with representatives of Bank Indonesia from Jakarta, where a Memorandum of Understanding Regarding Co-operation and Exchange of Information between Bank Indonesia and Croatian National Bank was signed. The Memorandum provides for the exchange of information on macroeconomic developments, monetary policy, the banking sector and relevant legal regulations. Viewed in a broader context, it promotes successful development of economic and financial relations between Indonesia and Croatia.

## 5.8 Credit and Financial Relations and Succession Issues

CNB experts co-operate with authorized bodies of the Croatian government in resolving various issues related to the succession to financial assets and liabilities of the states of the former SFRY.

During 2002, CNB employees were engaged in preparing information material for members of the Joint Committee on the Distribution of the Financial Assets and Liabilities referred to in Annex C to the Agreement on Succession Issues. They also participated in the work of the Task Force for clearing of the former SFRY's successor states, which has continuously worked on reconciling the balances in the clearing accounts of the former NBY with the former Soviet Union.

# 6

## Currency Department Operations

During 2002, the Croatian National Bank, through the regular operations of its Currency Department, received printed cash from the manufacturer, supplied cash to cash centers, withdrew and processed banknotes, destroyed worn out banknotes, issued commemorative coins and provided expert evaluation of suspicious kuna banknotes.

Additional activities were related to regulating cash transactions within the payment system reform.

## 6.1 New Regulations on Cash Transactions

Under the conditions laid down by the National Payment System Act (official gazette *Narodne novine*, No. 117/2001) the CNB supplies cash to banks which in turn supply cash to their clients.

In this regard, the following regulations were enacted and applied as of 1 April 2002:

- ❑ Decision on Supplying Banks with Cash (official gazette *Narodne novine*, No. 22/2002);
- ❑ Decision on Handling Kuna and Lipa Banknotes and Coins Unfit for Circulation (official gazette *Narodne novine*, No. 22/2002).

Banks allocate funds to their cash accounts at the CNB through the CLVPS and withdraw cash from cash centers set up as part of FINA operating units.

In line with the prescribed procedure, Hrvatska poštanska banka (Croatian Postal Bank) assumes responsibility for maintaining Croatian Post cash reserves, from which cash is supplied to Croatian post offices.

Also in accordance with the Decision on Supplying Banks with Cash, the CNB began to set up a new cash flow system in the Republic of Croatia in 2002, which is to provide for the supply of cash through cash centers functioning as specialized institutions for depositing, issuing and processing large amounts of cash. For this reason, the CNB concluded a contract with the FINA in 2002, entrusting it with performing cash center transactions on behalf and for the account of the CNB. This contract obligates the FINA to establish cash centers in keeping with the Instruction for the Establishment and Operation of Cash Centers issued by the CNB, which sets organizational, safety, technological and personnel standards for cash center establishment and operation.

To adjust to the new system and fulfill the contract concluded with the FINA, cash owned by the CNB was withdrawn from FINA operating units in January 2003 and allocated to 22 cash centers (FINA subsidiaries) to be supplied to banks.

Over the next few years, the CNB will establish five to seven centers, located to satisfy regional needs and cash transaction requirements. The project will involve banks and firms specialized in cash handling and transport, as they will presumably take an interest in establishing cash centers and designing a range of services and products to fit the needs of all cash transaction participants. The final aim is to directly involve banks in managing cash centers under an appropriate ownership model.

The Decision on Handling Kuna and Lipa Banknotes and Coins Unfit for Circulation regulates the replacement of worn out, torn or damaged banknotes and damaged coins, the handling of counterfeit or suspicious banknotes and coins, as well as the reproduction of banknotes under the conditions prescribed by the Decision on Supplying Banks with Cash.

### 6.1.1 Receiving Cash from the Manufacturer

As envisaged by the 2002 Plan for the Printing of Banknotes and Minting of Coins, banknote printing was put out to an international tender and the printing of 50, 100 and 200 kuna banknotes, i.e. 71.83m units valued at HRK 7.78bn, was agreed with the best bidder, *Oesterreichische Banknoten und Sicherheitsdruck GmbH*, a Vienna printing company. Banknotes were received from June to September 2002 and put into circulation in the same period. Their basic design equals that of the 1993 issue, with an improved paper base and print and security features, while the issue date is 7 March 2002.

In 2002, 51.2m coins, valued at HRK 0.044bn, were minted by the Croatian Monetary Institute and put into circulation.

### 6.1.2 Supply with Cash

In 2002, banks cash requirements were completely settled and 43.9m banknotes (worth HRK 4.6bn) and 56.2m coins (worth HRK 0.019bn) issued from CNB vaults to cash centers. The value of issued banknotes increased by 63% compared with 2001, mostly due to changes in the supply process, requiring banks to maintain larger cash reserves for their customers. Coins issued to cash centers in 2002 were the same in number as in the previous year. However, their value was 74% lower than in 2001, due to HRK 62.7m of 5 kuna coins, accounting for 71% of total coins, issued as a replacement for the 5 kuna banknote in 2001.

### 6.1.3 Cash outside CNB and FINA Vaults

On 31 December 2002, there were 84.7m banknotes, valued at HRK 9.247bn, outside CNB and cash center vaults.

Compared with late 2001, the quantity of banknotes outside the vaults rose by 13.1%, while the total value of banknotes outside the vaults rose by 14.2%.

On 31 December 2002, there were 836m coins outside the vaults, worth HRK 0.434bn.

In comparison with late 2001, the quantity of coins outside the vaults increased by 12.2% and their value increased by 14.8%.

In 2002, the amount of kuna and lipa banknotes and coins was an average 19 banknotes and 196 coins per citizen.

## 6.2 Withdrawing and Processing Worn Out Banknotes

The CNB withdrew 33.6m banknotes from cash centers over 2002, valued at HRK 3.4bn. The banknote sorting system processed 33.1m banknotes, of which 90.3%, that is 29.9m units valued at HRK 1.7bn, were immediately destroyed as they failed to meet the quality standards set for banknotes in circulation.

According to the latest data, the renewal index was 36 (destroyed banknotes/circulation x 100).

## 6.3 Issuing Commemorative Coins

In 2002, the CNB issued the following commemorative coin and numismatic sets:

- ❑ 200,000 sets of 25 kuna commemorative coins entitled “10<sup>th</sup> Anniversary of the International Recognition of the Republic of Croatia 15 January 1992-15 January 2002”;
- ❑ 1,000 numismatic sets of kuna and lipa circulation coins, with “2002” marking the year of issue.

## 6.4 Expert Evaluation of Banknotes

In 2002, the expert evaluation of banknotes identified 1,414 counterfeit banknotes valued at HRK 214,940.00. Compared with 2001, the number of identified counterfeits rose by 29%, while the total value of counterfeit banknotes rose by 72%. The largest number of counterfeits, 567 or 40% of the total, went to 50 kuna banknotes. As shown by these indicators, 17 counterfeits were discovered per 1m banknotes in circulation in 2002. An analysis of received counterfeits showed that they were mostly produced by means of computers and printed on color printers, with the exception of 100 kuna banknotes, which were produced by means of printing technology.



Financial  
Statements of the  
Croatian National  
Bank

## General Information

The Croatian National Bank is the central bank of the Republic of Croatia. It is fully owned by the Republic of Croatia, which guarantees its obligations.

The Croatian National Bank enjoys operational autonomy and independence; it is responsible to the Croatian Parliament, and represented by the Governor of the Croatian National Bank.

The primary objective of the Croatian National Bank is to achieve and maintain price stability, support the economic policy of the Republic of Croatia, and thereby act in accordance with the principles of the open market economy and free competition.

The tasks that the Croatian National Bank performs within the framework of the Constitution and law are:

- establishing and implementing the monetary and foreign exchange policies;
- holding and managing the international reserves of the Republic of Croatia;
- issuing banknotes and coins;
- issuing and revoking licenses for banks and bank supervision;
- maintaining the accounts of banks, executing payment transactions across these accounts, granting loans to banks and receiving deposits from banks;
- regulating, improving and supervising the payment system;
- opening and maintaining the accounts of the Republic of Croatia;
- performing other operations on behalf of the Republic of Croatia, as provided by law;
- enacting subordinate legislation on operations within its fields of competence; and
- performing other operations, as provided by law.

In accordance with the provision referred to in Article 56 of the Croatian National Bank Act, the Croatian National Bank prepares financial statements for each financial year in accordance with the accounting regulations and International Accounting Standards (that have been incorporated into International Financial Reporting Standards). Hence, the financial statements of the Croatian National Bank for 2002 are the following:

- income statement,
- balance sheet,
- statement of changes in equity,
- cash flow statement,
- notes to the financial statements and a summary of significant accounting policies.

These statements show the balance and sources of funds, the difference between income and expenditures, changes in equity and the structure of cash inflows and outflows.



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### Report of the auditors

#### to the Governor and Council of the Croatian National Bank, Zagreb

We have audited the accompanying balance sheet of the Croatian National Bank, Zagreb ("the Bank") as of 31 December 2002 and the related statements of income, changes in owner's equity and cash flows for the year then ended. These financial statements set out on pages 5 to 36 are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing as promulgated by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. This report, including the opinion, has been prepared for and only for the Governor and Council of the Croatian National Bank and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our consent in writing.

In our opinion, the financial statements present fairly in all material respects the financial position of the Bank as of 31 December 2002, and of the result of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP  
 London, 5 May 2003

PricewaterhouseCoopers d.o.o.  
 Zagreb, 5 May 2003

# Income Statement of the Croatian National Bank

Income Statement of the Croatian National Bank  
for the year ended 31 December 2002, in thousand HRK

	Note	2002	2001
Interest and similar income	3	1,279,297	1,543,058
Interest expense and similar charges	4	(588,426)	(796,441)
<b>Net interest income</b>		<b>690,871</b>	<b>746,617</b>
Fee and commission income		3,192	2,721
Fee and commission expense		(2,971)	(2,586)
<b>Net fee and commission income</b>		<b>221</b>	<b>135</b>
Dividend income		4,330	3,951
Net trading income	5	44,774	(55,191)
Net foreign exchange losses	6	(1,240,948)	(261,309)
Other income	7	7,843	33,654
<b>Operating (expenditure)/ income</b>		<b>(492,909)</b>	<b>467,857</b>
Operating expenses	8	(215,660)	(194,867)
Decrease in provisions	10	111,299	59,540
<b>Operating (deficit)/ surplus</b>		<b>(597,270)</b>	<b>332,530</b>
Adjustment arising on adoption of IAS 39 to comply with the Croatian National Bank Act		–	88,678
Adjustment of surplus/(deficit) to comply with the Croatian National Bank Act		–	(286)
Transfer from revaluation reserves		–	5,958
Transfer to general reserves		–	(85,376)
Operating surplus appropriated for transfer to the Budget of the Republic of Croatia		–	(341,504)
Operating deficit covered from general reserves		597,270	–
<b>Operating surplus retained /(operating deficit uncovered)</b>		<b>0</b>	<b>0</b>

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

# Balance Sheet of the Croatian National Bank

Balance Sheet of the Croatian National Bank  
as at 31 December 2002, in thousand HRK

Item	Note	2002	2001
<b>Assets</b>			
Cash and current accounts with other banks	11	7,729	6,081
Due from other banks	12	28,142,782	25,522,157
Trading securities	13	13,850,038	12,829,300
Loans	14	34,667	34,687
Placements with the International Monetary Fund	15	3,562,714	4,733,142
Equity investments	16	27,830	31,178
Accrued interest and other assets	17	114,429	94,531
Tangible and intangible assets	18	385,973	350,701
<b>Total assets</b>		<b>46,126,162</b>	<b>43,601,777</b>
<b>Liabilities</b>			
Banknotes and coins in circulation		10,895,792	9,046,164
Croatian National Bank bills	19	6,392,307	6,377,295
Due to banks and other financial institutions	20	19,395,535	15,240,344
Due to the State and State institutions	21	599,308	1,854,768
Due to the International Monetary Fund	22	3,545,340	4,849,148
Accrued interest and other liabilities	23	51,204	422,319
<b>Total liabilities</b>		<b>40,879,486</b>	<b>37,790,038</b>
<b>Capital</b>			
Capital	24	2,500,000	2,500,000
Reserves	24	2,746,676	3,311,739
<b>Total equity</b>		<b>5,246,676</b>	<b>5,811,739</b>
<b>Total equity and liabilities</b>		<b>46,126,162</b>	<b>43,601,777</b>

The financial statements set out on pages 129 to 157 were approved on 5 May 2003 by:

Director of Accounting Department:  
Ivan Branimir Jurković



Governor:  
Dr. Željko Rohatinski



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

# Statement of Changes in Equity of the Croatian National Bank

Statement of Changes in Equity of the Croatian National Bank  
for the year ended 31 December 2002, in thousand HRK

	Capital	General reserves	Statutory reserves	Revaluation reserves	Foreign exchange gains (losses)	Operating surplus (deficit)	Total equity
Balance at 1 January 2001	–	1,525	156,317	238,525	4,255,478	88,678	4,740,523
Transfer to capital	2,500,000	(1,525)	(156,317)	–	(2,342,158)	–	–
Transfer to general reserves	–	1,913,320	–	–	(1,913,320)	–	–
Increase in general reserves due to succession	–	1,080,189	–	–	–	–	1,080,189
Operating surplus available for appropriation	–	–	–	–	–	332,531	332,531
Surplus transfer	–	81	–	206	–	(287)	–
Depreciation transfer	–	–	–	(5,958)	–	5,958	–
Transfer to general reserves	–	85,376	–	–	–	(85,376)	–
Transfer to the State budget	–	–	–	–	–	(341,504)	(341,504)
Balance at 31 December 2001	2,500,000	3,078,966	–	232,773	–	–	5,811,739
Operating deficit	–	–	–	–	–	(597,270)	(597,270)
Coverage of deficit from general reserves	–	(597,270)	–	–	–	597,270	–
Real estate revaluation	–	–	–	32,207	–	–	32,207
Transfer to general reserves	–	5,121	–	(5,121)	–	–	–
Balance at 31 December 2002	2,500,000	2,486,817	–	259,859	–	–	5,246,676

Revaluation reserves were decreased by depreciation charges for the revalued tangible fixed assets (buildings), amounting to HRK 4,915 thousand, and by the effect of gold revaluation in 2001, amounting to HRK 206 thousand, which were transferred to general reserves.

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

# Cash Flow Statement

Cash Flow Statement  
for the year ended 31 December 2002, in thousand HRK

	Note	2002	2001
<b>Cash flows from operating activities</b>			
Interest received		1,279,826	1,431,132
Interest paid		(602,629)	(789,731)
Commissions received		3,161	2,466
Commissions paid		(2,053)	(3,392)
Dividends received		4,330	3,950
Other income received		5,232	27,881
Expenses paid		(170,227)	(195,835)
		517,640	476,471
<b>(Increase)/ decrease in operating assets/liabilities</b>			
Increase in deposits with other banks		(2,661,598)	(4,803,800)
Decrease in loans		92,618	373,759
Increase in trading securities		(964,876)	(6,410,655)
Net increase/(decrease) in other assets/liabilities		(377,223)	643,940
Decrease in due to the IMF		(1,010,512)	(256,520)
Increase in currency in circulation		1,849,627	1,877,169
Increase in due to banks and other financial institutions		4,167,249	4,306,808
(Decrease)/ increase in due to the State		(931,068)	655,077
<b>Net cash from operating activities</b>		<b>681,857</b>	<b>(3,137,751)</b>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment		(46,284)	(21,590)
Proceeds from sales of gold		–	1,011,189
Acquisitions of equity investments		–	1,035
<b>Net cash from investing activities</b>		<b>(46,284)</b>	<b>990,634</b>
<b>Cash flows from financing activities</b>			
Net issue of CNB bills		87,433	2,044,517
Paid to the Republic of Croatia		(341,504)	(233,226)
<b>Net cash from financing activities</b>		<b>(254,071)</b>	<b>1,811,291</b>
<b>Exchange rate effect</b>		<b>(1,266,495)</b>	<b>32,557</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(884,993)</b>	<b>(303,269)</b>
Cash and cash equivalents at the beginning of the year	26	908,468	1,211,737
Cash and cash equivalents at the end of the year	26	23,475	908,468

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

# Notes

## Note 1 – Accounting Standards and Conventions

These financial statements are prepared under the historical cost convention as modified for revaluation of certain assets and liabilities to fair value in accordance with International Financial Reporting Standards.

The amounts in the financial statements are denominated in Croatian kuna (HRK).

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

## Note 2 – Summary of Significant Accounting Policies

### (2.1) Interest income and expense

Interest income and expense are recognized in the income statement for interest bearing instruments on an accrual basis using the effective yield method on the actual purchase price. Interest income includes coupons earned on fixed income trading securities and accrued discount and premium on CNB bills and other discounted instruments.

When loans become doubtful at collection, they are written down to their recoverable amounts and interest income is thereafter recognized based on the rate that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Accrued interest on foreign currency receivables and liabilities is translated on a daily basis to Croatian kuna at the midpoint exchange rate of the Croatian National Bank and included in interest income or interest expense.

### (2.2) Fee and commission income

Fee and commission income arises on financial services provided by the Bank and is recognized when the corresponding service is provided.

### (2.3) Net trading income

Net trading income includes gains and losses arising from disposals and changes in the fair value of financial assets and liabilities held for trading.

## (2.4) Foreign currencies

Foreign exchange gains (losses) arising from changes in exchange rates are recorded in the income statement as unrealized gains or losses.

Foreign exchange gains (losses) arising from trading in foreign currencies are included in realized income or expenditure.

Income and expenditure denominated in foreign currencies are translated to Croatian kuna at the midpoint exchange rate of the Croatian National bank ruling at the transaction date.

Assets and liabilities denominated in foreign currencies are translated on a daily basis to Croatian kuna at the midpoint exchange rate of the CNB ruling at the last day of the accounting period except for Special Drawing Rights (SDR), which are translated to Croatian kuna at the exchange rate provided by the International Monetary Fund.

The exchange rates of major foreign currencies at 31 December 2002 were:

USD 1 = HRK 7.146 (2001: HRK 8.356)

EUR 1 = HRK 7.442 (2001: HRK 7.370)

XDR 1 = HRK 9.715 (2001: HRK 10.492).

## (2.5) Financial instruments

### 2.5.1 Classification

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

- a) *Financial assets held for trading*  
This category comprises marketable securities in which the Croatian National Bank invests international reserve funds it manages on behalf of the Republic of Croatia, for the purpose of short-term profit taking.
- b) *Loans and receivables originated by the Croatian National Bank*  
This category comprises loans created by the Croatian National Bank providing money to banks and savings banks other than those created with the intention of short-term profit taking.
- c) *Available-for-sale financial assets*  
This category comprises the Croatian National Bank's investments in equity securities.

### 2.5.2 Recognition

The Croatian National Bank recognizes financial assets on settlement date. Any gains and losses arising from changes in fair value of the assets are recognized from that date.

### 2.5.3 Measurement

Financial instruments are measured initially at cost, including transaction costs.

- Subsequent to initial recognition, trading securities are measured at fair value, which corresponds to the quoted market price in an active financial market. Instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost, including transaction costs, less impairment losses.
- All non-trading financial liabilities, and originated loans and receivables which are held to maturity are measured at amortized cost less impairment losses. Amortized cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

### 2.5.4 Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

### 2.5.5 Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of trading instruments are recognized in the income statement.

## (2.6) Repurchase and reverse repurchase agreements

The Bank enters into a securities purchase/sale agreement by contracting to resell/repurchase the same instrument on a specific future date at a fixed price. Securities purchased under reverse repurchase agreements are not recognized in the balance sheet. Outflows arising from these agreements are recognized as due from banks or other financial institutions. It is also recorded that purchased receivables are collateralized by appropriate securities pledged under the repurchase agreement. Securities sold under repurchase agreements are still recognized in the balance sheet and reported in accordance with the accounting policy for such financial assets. Inflows from sales of securities are recognized as due to banks or other financial institutions. The difference between sale and repurchase price is treated as interest income or expense and accrued over the life of the agreement.

### (2.7) Equity investments

Equity instruments whose fair value cannot be reliably measured because they are not used in financial transactions in active securities markets are measured at cost. Dividend income is recognized in the year when it is earned.

### (2.8) Derivative financial instruments

Derivative financial instruments, including foreign exchange contracts and other derivatives (if any), which are initially recognized in the balance sheet at cost, are subsequently measured at fair value.

### (2.9) Provisions for impairment

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

### (2.10) Gold and other precious metals

Gold and other precious metals are held at the market value. Gains and losses arising from a change in the fair value are recognized in the income statement.

### (2.11) Tangible and intangible fixed assets

Tangible and intangible fixed assets are stated in the balance sheet at cost or revalued amount less accumulated depreciation. Depreciation is provided on the straight line basis at prescribed rates designed to write off the cost or valuation of assets over their estimated useful lives.

The following annual rates are used, in %:

	2002	2001
Buildings	2.50	3.03
Furniture	20.0	10.0
Computers	25.0	20.0
Software	25.0	20.0
Motor vehicles	25.0	25.0
Equipment and other assets	5.0 to 25.0	10.0 to 20.0
Banknotes and coins	50.0 and 20.0	50.0 and 20.0

Effects of changes in the depreciation rates are stated in Note 8.

Land is not depreciated. Assets in the course of construction are not depreciated until they are brought into use.

Maintenance and repairs are charged to the income statement when incurred and improvements are capitalized.

Land and buildings are revalued when their fair value materially differs from the book amount. The fair value of land and buildings equals their market value, which is based on the appraisal of qualified valuers.

#### (2.12) Balances with the International Monetary Fund (IMF)

Balances with the International Monetary Fund are denominated in Special Drawing Rights and any unrealized exchange gains or losses are accounted for in accordance with Note 2.4.

#### (2.13) Banknotes and coins in circulation

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

#### (2.14) Croatian National Bank bills

Croatian National Bank bills include kuna CNB bills and CNB bills denominated in EUR and USD and are recognized at amortized cost.

#### (2.15) Taxation

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

#### (2.16) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise balances of cash, and current accounts with foreign banks and the International Monetary Fund.

By means of the direct method, the cash flow statement provides data on cash inflows and outflows in the reporting period, classified into operating, investing and financing activities.

#### (2.17) Appropriations

In accordance with Article 53 of the Croatian National Bank Act, the surplus of income over expenditures is transferred to general reserves, in the amount determined by the Council of the Croatian National Bank. This amount should neither exceed 20% of the surplus of income over expenditures nor fall below net profit from value adjustment of balance sheet items to changes in the exchange rate and market prices. The remaining surplus of income over expenditures, after the transfer to general reserves, is extraordinary revenue to the State budget.

The Croatian National Bank covers any shortfall between income and expenditures from general reserves. Should these reserves prove insufficient, the shortfall is covered from the State budget.

### (2.18) Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

## Note 3 – Interest and Similar Income

in thousand HRK

Item	2002	2001
Deposits	777,122	912,035
Trading securities	468,827	566,049
International Monetary Fund	16,890	46,689
Loans to banks	9,098	15,885
Other interest income	7,360	2,400
Total	1,279,297	1,543,058

### *Interest income from foreign currency denominated financial assets*

Realized interest income on deposits, reverse repurchase agreements and bonds was lower than in 2001 owing to a decrease in the FED and ECB interest rates. The benchmark FED rate on overnight loans fell from 1.75% to 1.25%, whereas the ECB rate on two-week loans fell from 3.25% to 2.75%.

### *Interest income from kuna denominated financial assets*

In 2002, in the conditions of surplus liquidity in the banking system and the decline in interest rates, interest income recorded a decline. Realized interest income was mostly the result of unplanned interventions aimed at solving liquidity problems of Riječka banka, which included early redemption of CNB bills and Ministry of Finance treasury bills held by Riječka banka.

The largest share in interest income on loans refers to interest on liquidity loans, amounting to HRK 10,849 thousand, whereas HRK 662 thousand refers to interest on Lombard loans. The interest rate on Lombard loans was lowered at end-April 2002 from 10% to 9.5%. All loans granted in 2002 were repaid in full.

Within other interest income, the most significant is that arising from early redemption of CNB bills held by Riječka banka, amounting to HRK 2,800 thousand.

The purchase of Ministry of Finance treasury bills held by Riječka banka, amounting nominally to HRK 494,000 thousand, resulted in an income of HRK 1,498 thousand, which is the second significant item within other interest income.

## Note 4 – Interest Expense and Similar Charges

in thousand HRK

Item	2002	2001
Kuna reserve requirements	185,206	167,055
Foreign currency reserve requirements	167,052	249,885
Kuna CNB bills	130,990	201,646
Foreign currency CNB bills	51,773	92,781
International Monetary Fund arrangements	24,926	67,668
Repurchase arrangements	25,929	17,406
Other interest expense	2,550	–
<b>Total</b>	<b>588,426</b>	<b>796,441</b>

### *Interest expense for foreign currency denominated financial liabilities*

The decline in interest expense for issued foreign currency CNB bills was the result of the net reduction in subscriptions for these bills in 2002. Reduced expenses for interest paid on foreign currency reserve requirements was the result of the fall in the money market interest rates. Interest on IMF arrangements also recorded a downturn, primarily because the basis for calculating interest was changed upon the principal payments on the Extended Fund Facility (EFF) and Systemic Transformation Facility (STF) arrangements. Expenses for unused funds under the stand-by arrangement (approved in March 2001) stood at HRK 878 thousand in 2002.

### *Interest expense for kuna financial liabilities*

Despite a 30.2% increase in kuna reserve requirements in 2002, interest expense for remuneration paid on kuna reserve requirements was 10.9% higher in 2002 than in 2001. This was the result of the April cut in the remuneration rate from 2.00% to 1.75%.

Although subscriptions for CNB bills grew in 2002, expenses arising from CNB bills (discount) fell by 35% in comparison with 2001. This was the result of the reduced interest rates and shortened maturity of CNB bills. For example, the interest rate on 35-day CNB bills fell from 3.72% in January to 2.00% in September, and remained at this level until the year-end.

Other interest expense refer to the expense arising from the sale of Ministry of Finance treasury bills purchased from Riječka banka before maturity, amounting to HRK 1,294 thousand (the income on the purchase of these bills from Riječka banka was HRK 1,498 thousand, which resulted in the net income of HRK 204 thousand).

Interest expense paid on deposits of the State amounted to HRK 1,256 thousand.

## Note 5 – Net Trading Income

in thousand HRK

Item	2002	2001
Gains on sale and changes in fair value of trading securities	219,681	19,133
Gains arising from value adjustment of gold and precious metals to changes in market prices	20	–
Losses on sale and changes in fair value of trading securities	(174,541)	(74,324)
Losses arising from value adjustment of gold and precious metals to changes in market prices	(386)	–
<b>Total</b>	<b>44,774</b>	<b>(55,191)</b>

The positive result of net trading in securities in 2002 was the consequence of the increase in prices of bonds, which was induced by the decline in interest rates in global financial markets.

## Note 6 – Net Foreign Exchange Losses

Considerable cross-currency changes that marked the developments in global foreign exchange markets over 2002 had a strong impact on the Croatian National Bank's operating result. International reserves account for over 99% of the CNB's total assets.

Reserves in US dollars accounted for 28.42% of total international reserves of the Croatian National Bank as at 31 December 2002. As the exchange rate of the US dollar against the kuna fell by about 15% during 2002, the CNB incurred an unrealized foreign exchange loss, which is recorded as expenditure in accordance with the Croatian National Bank Act and IAS 21. This resulted in an unrealized operating deficit recorded in the income statement.

The currency structure of international reserves of the Croatian National Bank is adjusted to the currency structure of the external debt of the Republic of Croatia for the year ahead, and to the currency structure of imports of goods and services in the previous year. This currency structure safeguards the external obligations of the Republic of Croatia against cross-currency changes, i.e. preserves the purchasing power of the reserves. However, this also results in substantial fluctuations in the income statement (kuna). In the income statement, the component of currency risk is more important than interest rate risk.

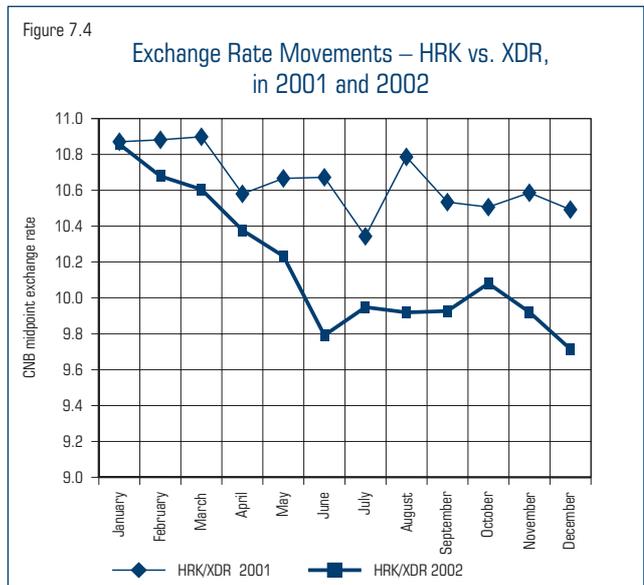
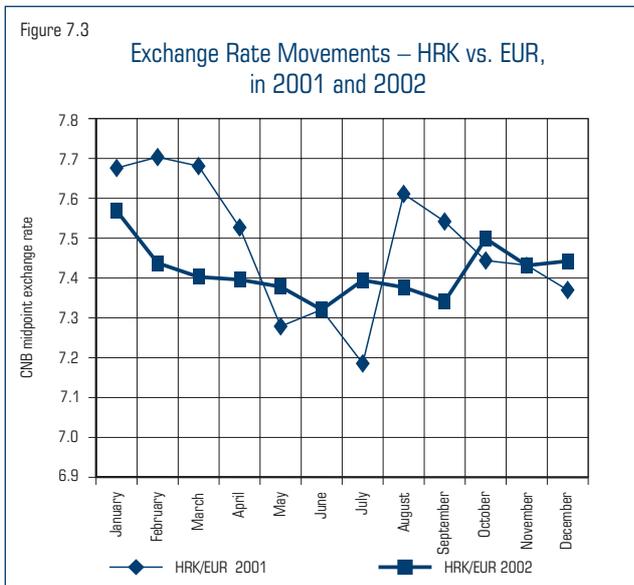
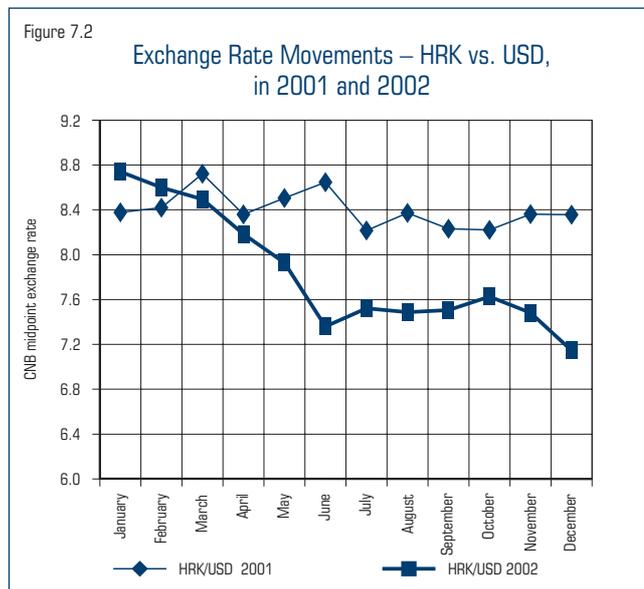
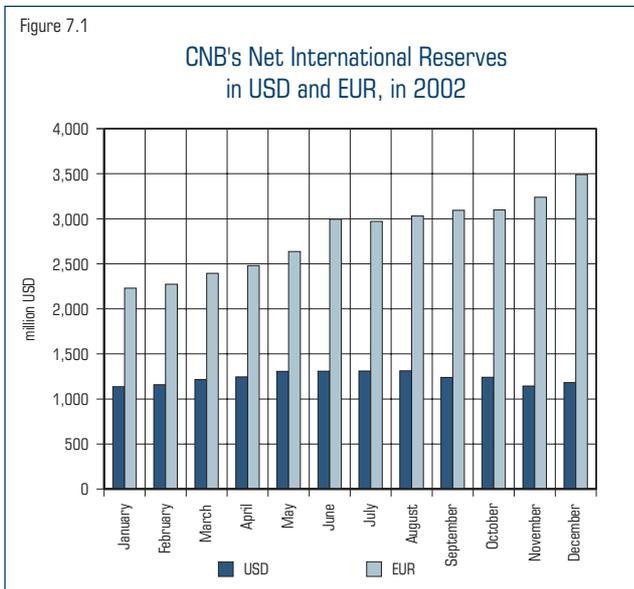
One should also bear in mind that in international reserves management safety and liquidity of invested funds always take precedence over speculative investments aimed at earning higher yields.

The overall net foreign exchange loss arising from changes in exchange rates stood at HRK 1,240,948 thousand in 2002.

Net reserves in USD and EUR (reported in USD) in 2002 are shown in Figure 7.1.

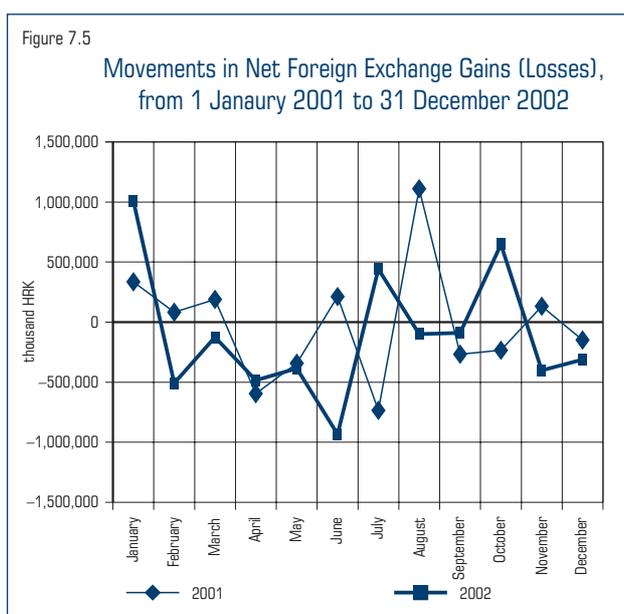
Figures 7.2, 7.3 and 7.4 show movements in the exchange rate of major currencies in the currency structure (USD, EUR and XDR) against HRK in 2001 and 2002. They clearly show a significant growth in the value of the kuna against these three currencies, which was especially pronounced in 2002.

The table and Figure 7.5 show that in 2001 and 2002, net foreign exchange losses were registered almost throughout 2002, except in July and October, which saw a slight increase in net foreign exchange gains. As a result, a loss was registered in the income statement for 2002. The main reason behind this loss was the substantial fall in the value of the US dollar against the kuna during 2002.



Net foreign exchange gains (losses) in 2001 and 2002  
in thousand HRK

2002		2001	
Month	Net foreign exchange gains (losses)	Month	Net foreign exchange gains (losses)
January	1,009,743	January	335,294
February	(508,623)	February	82,910
March	(126,096)	March	189,106
April	(485,395)	April	(596,254)
May	(385,473)	May	(342,727)
June	(932,071)	June	211,545
July	441,531	July	(733,773)
August	(99,002)	August	1,110,980
September	(89,643)	September	(267,704)
October	647,241	October	(233,098)
November	(401,967)	November	132,404
December	(311,193)	December	(149,992)
Total	(1,240,948)	Total	(261,309)



Movements in net gains (losses) arising from value adjustment of balance sheet items to changes in the exchange rate in the past five years:

in thousand HRK

Year	Gains	Losses
1998	497,826	—
1999	1,278,344	—
2000	288,416	—
2001	—	261,309
2002	—	1,240,948

## Note 7 – Other Income

in thousand HRK

Item	2002	2001
Gain on sales of gold	–	18,835
Other income	6,857	13,532
Gain on sales of numismatics	986	1,287
Total	7,843	33,654

In addition to the gain on sale of silver and gold coins (numismatics of the Croatian National Bank), other income from foreign exchange operations, amounting to HRK 1,826 thousand, accounted for the largest share in other income.

## Note 8 – Operating Expenses

in thousand HRK

Item	2002	2001
Staff costs (Note 9)	120,624	117,391
Materials, services and administrative expenses	51,943	48,523
Depreciation	43,093	28,953
Total	215,660	194,867

The largest item within expenses for materials, services and administrative expenses were repairs and maintenance, amounting to HRK 9,112 thousand. This mostly comprised expenses for software maintenance (HRK 3,032 thousand), expenses for regular and investment maintenance of premises (HRK 2,892 thousand), and expenses for plant and other equipment maintenance (HRK 1,414 thousand), whereas a minor portion were expenses for maintenance of vehicles and other fixed assets.

The second largest item within expenses for materials, services and administrative expenses were services provided by outside sources, amounting to HRK 8,901 thousand. This mostly comprised security services (HRK 3,866 thousand), followed by expenses for staff insurance (HRK 1,228 thousand), expenses for utility services (HRK 1,667 thousand) and energy products (HRK 1,068 thousand). The remaining amount refers to rental expenses, expenses for services provided by the student employment agency, advertising expenses and expenses for security services in cash transport.

Other administrative expenses amounted to HRK 6,942 thousand. Expenses for professional services, amounting to HRK 7,926 thousand, refer mostly to expenses for Reuters and Bloomberg information services.

Telecommunication expenses, amounting to HRK 3,189 thousand, accounted for a major share in the remaining amount of expenses for materials, services and administrative expenses.

On 1 January 2002, the Bank changed the depreciation rates (Note 2.11). If the same rates had been applied in 2001, depreciation expense for 2001 would have been HRK 4,933 thousand higher.

## Note 9 – Staff Costs

in thousand HRK

Item	2002	2001
Salaries	51,125	50,700
Contributions from and on salaries	31,371	30,556
Taxes and local taxes	15,801	15,458
Other staff costs	22,327	20,677
<b>Total</b>	<b>120,624</b>	<b>117,391</b>

The average number of employees during the year was 581 (2001: 582).

Staff costs stood at HRK 120,624 thousand in 2002. This included gross salaries, gross compensations and contributions on salaries. Salaries were paid in accordance with the Statute of the Croatian National Bank and the Rulebook on Salaries and other Employee Income in the Croatian National Bank. The Rulebook provides for the level of salaries and adjustments in salaries to be determined by the Council of the Croatian National Bank.

## Note 10 – Decrease in Provisions

in thousand HRK

Item	2002	2001
<b>Loans</b>		
New impairment provision made	–	4,057
Amounts collected	(92,603)	(64,392)
<b>Accrued interest</b>		
New impairment provision made	17	1,019
Amounts collected	(18,723)	(2,461)
<b>Total loans and interest</b>	<b>(111,309)</b>	<b>(61,777)</b>
<b>Provisions for risks and charges</b>		
New provisions made	680	2,237
Provisions released	(670)	–
<b>Total</b>	<b>(111,299)</b>	<b>(59,540)</b>

The 2002 income from doubtful loans collected from the banks and savings banks in bankruptcy, amounting to HRK 111,326 thousand, refers to collected principal and interest payments on loans, and penalties for unmaintained and unallocated kuna and foreign currency reserve requirements.

## Note 11 – Cash and Current Accounts with Other Banks

in thousand HRK

Item	2002	2001
Cash on hand	5,692	4,812
Current accounts with foreign banks	2,037	1,269
<b>Total</b>	<b>7,729</b>	<b>6,081</b>

## Note 12 – Due from Other Banks

in thousand HRK

Item	2002	2001
Foreign central banks	628,111	1,407,993
Foreign commercial banks	27,497,538	24,097,590
Domestic commercial banks	17,133	16,574
<b>Total</b>	<b>28,142,782</b>	<b>25,522,157</b>

Time deposits with correspondent foreign central and commercial banks account for the major share in investments of total international reserves of the Republic of Croatia that are managed by the Croatian National Bank.

## Note 13 – Trading Securities

in thousand HRK

Item	2002	2001
Bonds denominated in EUR	7,890,787	7,540,669
Bonds denominated in USD	4,396,141	4,437,945
Certificates of Deposit	1,563,110	850,686
<b>Total</b>	<b>13,850,038</b>	<b>12,829,300</b>

The bond portfolio mainly comprises government bonds of the Federal Republic of Germany, the United States of America, France, the United Kingdom, the Netherlands, Austria, Denmark and Belgium. The remaining bonds are issued by reputable European financial and government institutions, the World Bank and the International Bank for Reconstruction and Development (IBRD). In accordance with the CNB Rulebook on Risk Management, the average maturity of bonds and receivables from other banks should not be longer than five months for placements denominated in EUR, and four months for placements denominated in USD (temporarily allowed departures range from -2 to + 1 month). The longest maturity of an individual bond may not exceed three years.

## Note 14 – Loans

a) type of loan

in thousand HRK

Item	2002	2001
Loans to domestic banks		
– Intervention	75,194	111,714
– Liquidity	34,500	34,500
– Loans for overcoming liquidity problems	–	82,083
Other loans	844	864
<b>Gross loans and advances</b>	<b>110,538</b>	<b>229,161</b>
Less provision for impairment of loans	(75,871)	(194,474)
<b>Total</b>	<b>34,667</b>	<b>34,687</b>

## b) movements in allowances for impairment of loans

Item	2002	2001
Balance at 1 January	194,474	254,809
New impairment allowances made	–	4,056
Amounts collected	(92,603)	(64,391)
Write-offs	(26,000)	–
Balance at 31 December	75,871	194,474

There was less use of secondary liquidity sources due to the higher liquidity that characterized the banking system in 2002.

In contrast to 2001, when nine repo auctions were held, no repo auction was held in 2002.

Only Riječka banka used short-term liquidity loans on two separate occasions. These loans were utilized at end-March and in early April, for a period of 14 days.

The short-term liquidity loan was HRK 34,500 thousand as at 31 December 2002 and related to the loan granted to Cibale banka.

As at 31 December 2002, the aggregate amount of loans in arrears against which provisions were made was HRK 75,871 thousand (2001: HRK 194,474 thousand).

## Note 15 – Placements with the International Monetary Fund

in thousand HRK

Item	2002	2001
Membership quota	3,546,968	3,830,755
Special Drawing Rights and deposits	15,746	902,387
Total	3,562,714	4,733,142

Placements with the IMF include the membership quota of the Republic of Croatia with the IMF and Special Drawing Rights, which relate to the amounts with the IMF and are available for day-to-day operations of the Bank. The IMF pays an interest rate on SDR funds at an approximate rate of 1.98% per annum (2001: 2.2%).

## Note 16 – Equity Investments

in thousand HRK

Item	2002	2001
Membership in other international institutions	19,776	23,124
Domestic enterprises	8,054	8,054
Total	27,830	31,178

The membership in other international institutions relates to the shares of the Bank for International Settlements, Basle, and the shares of SWIFT (Society for Worldwide Interbank Financial Telecommunication). The change of HRK 3,348 thousand in the amount of investments is the result of changes in exchange rates. There were no purchases and sales of investments during the year.

The Bank is the co-founder of the Croatian Monetary Institute (CMI) (a contract of 26 April 1993) and holds 42.6% of its equity. The Bank's stake in the CMI is recorded at cost, which amounts to HRK 8,054 thousand, as the fair value of the investment cannot be reliably measured.

The Bank does not have sufficient influence over the investee to constitute "significant influence" as defined by IAS 28 - Accounting for Investments in Associates.

## Note 17 – Accrued Interest and Other Assets

in thousand HRK

Item	2002	2001
Accrued interest	108,522	151,506
Numismatics	11,854	12,275
Gold and other precious metals	1,579	1,476
Other assets	21,173	4,555
Total	143,128	169,812
Less provisions for impairment	(28,699)	(75,281)
Total	114,429	94,531

Item	2002	2001
Movements in provisions		
Balance at 1 January	75,281	76,735
New provisions made	17	1,015
Amounts collected	(18,723)	(2,469)
Write-offs	(27,876)	–
Balance at 31 December	28,699	75,281

The most important item in accrued interest, amounting to HRK 108,522 thousand, was interest on foreign exchange deposits with non-resident correspondent banks, amounting to HRK 57,569 thousand.

The most important item in total interest receivables in kuna, totaling HRK 48,815 thousand, was interest on the liquidity loan (Cibala banka), amounting to HRK 20,116 thousand. Interest receivables of HRK 28,699 thousand relate to interest on intervention loans and penalties for unmaintained and unallocated kuna and foreign currency reserve requirements. In 2002, interest of HRK 18,723 thousand was collected from banks and savings banks in bankruptcy.

## Note 18 – Tangible and Intangible Assets

in thousand HRK

	Land and buildings	Computers	Furniture and equipment	Motor vehicles	Other assets	Banknotes and coins	Investment in the course of construction	Software and licenses	Total
<b>Balance at 31 December 2001</b>									
Cost or revaluation	268,449	34,919	23,718	6,195	2,523	69,934	13,971	2,998	422,706
Accumulated depreciation	(12,117)	(19,442)	(16,342)	(5,806)	–	(17,005)	–	(1,294)	(72,005)
<b>Net book amount</b>	<b>256,332</b>	<b>15,477</b>	<b>7,376</b>	<b>389</b>	<b>2,523</b>	<b>52,929</b>	<b>13,971</b>	<b>1,704</b>	<b>350,701</b>
<b>Year ended 31 December 2002</b>									
Opening net book amount	256,332	15,477	7,376	389	2,523	52,929	13,971	1,704	350,701
Additions	–	–	–	–	–	37,580	8,650	–	46,230
Assets brought into use	134	752	891	563	195	7,204	(10,882)	1,143	–
Revaluation	32,207	–	–	–	–	–	–	–	32,207
Net write-offs	–	(10)	(49)	–	–	–	–	(13)	(72)
Depreciation charge	(5,663)	(8,019)	(3,424)	(217)	–	(25,025)	–	(745)	(43,093)
<b>Closing net book amount</b>	<b>283,010</b>	<b>8,200</b>	<b>4,794</b>	<b>735</b>	<b>2,718</b>	<b>72,688</b>	<b>11,739</b>	<b>2,089</b>	<b>385,973</b>
<b>Balance at 31 December 2002</b>									
Cost or revaluation	301,087	34,945	24,175	6,485	2,718	114,718	11,739	3,946	499,813
Accumulated depreciation	(18,077)	(26,745)	(19,381)	(5,750)	–	(42,030)	–	(1,857)	(113,840)
<b>Net book amount</b>	<b>283,010</b>	<b>8,200</b>	<b>4,794</b>	<b>735</b>	<b>2,718</b>	<b>72,688</b>	<b>11,739</b>	<b>2,089</b>	<b>385,973</b>

The tangible and intangible assets of the Bank were HRK 385,973 thousand as at 31 December 2002, an increase of 9.13% in comparison with 2001. Land and buildings was the most important item, accounting for 73.32% of these assets in 2002.

As at 31 December 2002, the Bank revalued land and buildings in Jurišićeva 17 to HRK 32,207 thousand based on the appraisal of qualified independent valuers.

The tangible fixed assets of the Bank are neither subject to a mortgage nor to a fiduciary relationship.

## Note 19 – Croatian National Bank Bills

in thousand HRK

Item	2002	2001
Foreign currency CNB bills	1,226,289	2,913,400
Kuna CNB bills	5,166,018	3,463,895
<b>Total</b>	<b>6,392,307</b>	<b>6,377,295</b>

Foreign currency CNB bills are denominated in EUR and USD and have a maturity of up to 364 days.

In the first half of 2002, kuna CNB bills maturing in 35, 70 and 105 days were issued at regular auctions held by the Croatian National Bank every five weeks. There were also four extraordinary auctions held in the same period.

From 26 June 2002 onwards, auctions are held once a week and CNB bills mature in 35 days. The average stock of kuna CNB bills subscribed was HRK 4,400,000 thousand in 2002.

## Note 20 – Due to Banks and Other Financial Institutions

in thousand HRK

Item	2002	2001
Kuna reserve requirements	8,187,046	6,289,511
Foreign currency reserve requirements	7,033,545	5,696,518
Other deposits of domestic banks	3,981,249	2,654,302
Foreign banks and other financial institutions	172,654	566,016
Court-mandated deposits	21,041	33,997
<b>Total</b>	<b>19,395,535</b>	<b>15,240,344</b>

Allocated reserve requirements of banks are accounted for as the Bank's liabilities to commercial banks. Foreign currency reserve requirements are denominated in EUR and USD. Deposits received on the basis of repurchase agreements accounted for HRK 160,069 thousand of liabilities to foreign banks.

Allocated kuna reserve requirements of banks rose in 2002 on account of an increase in kuna deposits with commercial banks. Kuna reserve requirements, allocated into the account with the Bank, rose by 30.2% in comparison with 2001.

## Note 21 – Due to the State and State Institutions

in thousand HRK

Item	2002	2001
Due to the State and State institutions	599,308	1,854,768
<b>Total</b>	<b>599,308</b>	<b>1,854,768</b>

The deposits of the Republic of Croatia are recorded as a liability in the Bank's balance sheet, in the total amount of HRK 599,308 thousand. The deposit accounts of the Republic of Croatia held with the Bank relate to the account of the State budget of the Republic of Croatia, accounts of joint revenues, special purpose accounts that form a part of the State budget and court-mandated deposits.

Since October 2002, the Bank has paid interest on deposits of the Republic of Croatia. The interest rate is determined in accordance with market conditions, and depends on the movements in interest rates that banks in the Republic of Croatia pay on kuna deposits in giro accounts of companies, which is in compliance with Article 32 of the Croatian National Bank Act.

## Note 22 – Due to the International Monetary Fund

in thousand HRK

Item	2002	2001
Bills of exchange denominated in HRK	3,536,451	3,819,392
Bills of exchange denominated in SDR	–	1,020,157
IMF's accounts	8,889	9,599
<b>Total</b>	<b>3,545,340</b>	<b>4,849,148</b>

The bills of exchange in HRK are related to the membership of the Republic of Croatia in the International Monetary Fund. The bills of exchange in SDR are issued as security for repayment of approved and drawn financial arrangements from the IMF. In December 2002, the total principal on Extended Fund Facility and Systemic Transformation Facility arrangements was paid prior to maturity.

## Note 23 – Accrued Interest and Other Liabilities

in thousand HRK

Item	2002	2001
Accrued interest	27,610	25,485
Due to employees	4,690	4,627
Tax and contributions	4,159	4,268
Net operating surplus transferred to the State budget	–	341,504
Due to the Ministry of Finance	7,395	7,581
Amounts due to suppliers	3,415	2,901
Other liabilities	3,935	3,090
<b>Amounts on clearing accounts:</b>		
Liabilities clearing accounts with the FINA	20,156,435	19,136,414
Banknotes and coins issued through the FINA	(9,086,206)	(8,092,692)
Assets with the FINA	(11,070,229)	(11,010,859)
<b>Total</b>	<b>51,204</b>	<b>422,319</b>

Out of total interest payables, HRK 15,581 thousand relates to remuneration on allocated kuna reserve requirements, which was calculated in December 2002 and was due in January 2003.

Provisions for potential losses on litigation outstanding against the Bank, totaling HRK 2,247 thousand, are reported within other liabilities (2001: HRK 2,237 thousand).

## Note 24 – Capital and Reserves

The Croatian National Bank Act determined the Bank's capital to be HRK 2,500,000 thousand. The Bank's capital is held by the Republic of Croatia. The capital is non-transferable and cannot be encumbered by any guarantees.

The HRK 32,207 thousand increase in the Bank's reserves resulted from the increase in revaluation reserves based on the revaluation of tangible fixed assets. The HRK 597,270 thousand decrease in the Bank's reserves was the result of the coverage of the shortfall between income and expenditures of the Bank in 2002.

Before coverage for losses, general reserves were HRK 3,084,088 thousand. After being debited for the loss of HRK 597,270 thousand, general reserves amounted to HRK 2,486,817 thousand as at 31 December 2002.

## Note 25 – Contingencies and Commitments and Treasury Inventory System

*Legal claims:* As at 31 December 2002, there was litigation outstanding against the Bank. In the opinion of the Bank's management and internal legal advisors, there is a possibility that the Bank will lose certain cases, and consequently provisions for potential losses on such cases have been made by the Bank as at 31 December 2002, amounting to HRK 2,247 thousand (2001: HRK 2,237 thousand).

*Capital commitments:* As at 31 December 2002, the Bank had no capital commitments (2001: nil).

*Credit related commitments:* As at 31 December 2002, the Bank had no credit related commitments (2001: nil).

*Treasury inventory system:* As at the balance sheet date, the Bank had the following balances in the Treasury inventory system:

in thousand HRK

Item	2002	2001
Non-issued banknotes and coins	87,061,744	81,097,607
Stamp duty and bills of exchange	149,158	154,898
Total	87,210,902	81,252,505

## Note 26 – Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances:

in thousand HRK

Item	2002	2001
Cash on hand	5,692	4,812
Current accounts with foreign banks	2,037	1,269
Special Drawing Rights and deposits with the IMF	15,746	902,387
Total	23,475	908,468

## Note 27 – Appropriations

In accordance with Article 53 of the Croatian National Bank Act, the surplus of income over expenditures is transferred to general reserves, in the amount determined by the Council of the Croatian National Bank. This amount should neither exceed 20% of the surplus of income over expenditures nor fall below net profit from value adjustment of balance sheet items to changes in the exchange rate and market prices. The remaining surplus of income over expenditures, after the transfer to general reserves, is extraordinary revenue to the State budget.

The Croatian National Bank covers any shortfall between income and expenditures from general reserves. Should these reserves prove insufficient, the shortfall is covered from the State budget.

in thousand HRK

Item	2002	2001
Surplus of income over expenditures	–	426,880
Shortfall between income and expenditures	(597,270)	–
Transfer of surplus to general reserves	–	(85,376)
Coverage of shortfall from general reserves	597,270	–
Transfer of surplus to the State budget	–	(341,504)

## Note 28 – Related Party Transactions

Under International Accounting Standards, entities under majority state control are not required to disclose their related party transactions. As related party transactions are based on the state control of the Bank and entities under majority state control, these financial statements do not include information on transactions between the Bank and such entities.

## Note 29 – Risk Management Disclosure

The Bank maintains active trading positions in money market and capital market instruments that are appropriate for central banks. Investments are exclusively made in fixed income instruments, while investments in equity securities and derivative financial instruments are not allowed. The Bank pays special attention to the monitoring of credit, foreign exchange and interest rate risk, as well as other types of risks. The Bank's investment gain corresponds to assumed risks and reflects its basic investment principles – safety and liquidity.

## Note 30 – Credit Risk

The Bank is subject to credit risk that may arise as a result of counterparties' default on their obligations to the Bank. The risk that counterparties might default on their obligations is monitored on an ongoing basis.

The Croatian National Bank has three levels of protection against credit risk:

- 1) it only deals with counterparties of the highest credit standing. Its assessment of counterparties' creditworthiness is closely based on ratings of internationally recognized rating agencies;
- 2) deals with an individual counterparty or country are subject to limits, which diversifies credit risk;
- 3) a large portion of deals is subject to collateral, which means that the Bank's placements with an individual financial institution are backed by government bonds whose value equals or exceeds the market value of its placements.

Geographical concentration of assets and liabilities:

in thousand HRK

Balance at 31 December 2002	Total assets	Total liabilities
Croatia	526,460	37,158,260
OECD countries	39,651,362	160,481
USA	5,948,330	3,560,745
Other countries	10	–
<b>Total</b>	<b>46,126,162</b>	<b>40,879,486</b>

in thousand HRK

Balance at 31 December 2001	Total assets	Total liabilities
Croatia	445,457	32,368,505
OECD countries	35,811,997	554,866
USA	7,344,323	4,866,667
<b>Total</b>	<b>43,601,777</b>	<b>37,790,038</b>

## Note 31 – Foreign Exchange Risk

The majority of the Bank's assets is held in foreign currencies (international reserves), while its liabilities are predominantly held in kuna. As a result, the Bank's exposure to foreign exchange risk is large. At end-2002, the US dollar accounted for 25% and the euro accounted for 75% of the Bank's net international reserves. Due to substantial exchange rate fluctuations, primarily of the US dollar against the kuna, the Bank has been recording large realized and unrealized gains (losses) on its currency positions for a number of years. Gains (losses) arising from currency positions are recognized in the income statement.

## The Bank had the following significant currency positions:

in thousand HRK

	EUR	USD	XDR	Other foreign currencies	HRK	Total
<b>Balance at 31 December 2002</b>						
<b>Assets</b>						
Cash and current accounts with other banks	4,066	3,075	–	561	27	7,729
Deposits with other banks	20,619,018	7,506,630	–	–	17,134	28,142,782
Trading securities	9,453,897	4,396,141	–	–	–	13,850,038
Loans	–	–	–	–	34,667	34,667
Placements with the IMF	–	–	3,562,714	–	–	3,562,714
Equity investments	6	19,770	–	–	8,054	27,830
Accrued interest and other assets	49,466	8,103	1,695	–	55,165	114,429
Tangible and intangible assets	–	–	–	–	385,973	385,973
<b>Total assets</b>	<b>30,126,453</b>	<b>11,933,719</b>	<b>3,564,409</b>	<b>561</b>	<b>501,020</b>	<b>46,126,162</b>
<b>Liabilities</b>						
Banknotes and coins in circulation	–	–	–	–	10,895,792	10,895,792
CNB bills	1,008,615	217,674	–	–	5,166,018	6,392,307
Due to banks and other financial institutions	3,963,608	3,240,090	–	–	12,191,837	19,395,535
Due to the State and State institutions	–	–	–	–	599,308	599,308
Due to the IMF	–	–	3,545,340	–	–	3,545,340
Accrued interest and other liabilities	6,501	2,449	–	223	42,031	51,204
<b>Total liabilities</b>	<b>4,978,724</b>	<b>3,460,213</b>	<b>3,545,340</b>	<b>223</b>	<b>28,894,986</b>	<b>40,879,486</b>
<b>Net balance sheet position</b>	<b>25,147,729</b>	<b>8,473,506</b>	<b>19,069</b>	<b>338</b>	<b>(28,393,966)</b>	<b>5,246,676</b>
<b>Balance at 31 December 2001</b>						
Total assets	25,605,761	12,834,891	4,736,597	336	424,192	43,601,777
Total liabilities	6,155,482	3,028,577	4,854,462	48	23,751,469	37,790,038
<b>Net balance sheet positions</b>	<b>19,450,279</b>	<b>9,806,314</b>	<b>(117,865)</b>	<b>288</b>	<b>(23,327,277)</b>	<b>5,811,739</b>

## Note 32 – Interest Rate Risk

The Bank has an exposure to market interest rates on its financial position and cash flow. Interest margin may increase as a result of such changes but they may also reduce. As a result of the application of clearly set guidelines, the Bank's exposure to interest rate risk is low and in compliance with its basic principle of international reserves investment - safety and liquidity.

in thousand HRK

	Up to 1 month	1 – 3 months	3 months – 1 year	1 – 5 years	Non-interest bearing	Total
<b>Balance at 31 December 2002</b>						
<b>Assets</b>						
Cash and current accounts with other banks	–	–	–	–	7,729	7,729
Deposits with other banks	22,340,033	5,774,268	11,348	–	17,133	28,142,782
Trading securities	13,850,038	–	–	–	–	13,850,038
Loans	34,667	–	–	–	–	34,667
Placements with the IMF	10,702	–	–	–	3,552,012	3,562,714
Equity investments	–	–	–	–	27,830	27,830
Accrued interest and other assets	–	–	–	–	114,429	114,429
Tangible and intangible assets	–	–	–	–	385,973	385,973
<b>Total assets</b>	<b>36,235,440</b>	<b>5,774,268</b>	<b>11,348</b>	<b>–</b>	<b>4,105,106</b>	<b>46,126,162</b>
<b>Liabilities</b>						
Banknotes and coins in circulation	–	–	–	–	10,895,792	10,895,792
CNB bills	6,183,798	196,522	11,987	–	–	6,392,307
Due to banks and other financial institutions	15,380,660	–	–	–	4,014,875	19,395,535
Due to the State and State institutions	147,444	–	–	–	451,864	599,308
Due to the IMF	–	–	–	–	3,545,340	3,545,340
Accrued interest and other liabilities	–	–	–	–	51,204	51,204
<b>Total liabilities</b>	<b>21,711,902</b>	<b>196,522</b>	<b>11,987</b>	<b>–</b>	<b>18,959,075</b>	<b>40,879,486</b>
<b>Net balance sheet position</b>	<b>14,523,538</b>	<b>5,577,746</b>	<b>(639)</b>	<b>–</b>	<b>(14,853,969)</b>	<b>5,246,676</b>
<b>Balance at 31 December 2001</b>						
<b>Total assets</b>	<b>33,238,943</b>	<b>6,033,004</b>	<b>–</b>	<b>89</b>	<b>4,329,741</b>	<b>43,601,777</b>
<b>Total liabilities</b>	<b>15,916,195</b>	<b>2,384,109</b>	<b>1,636,968</b>	<b>–</b>	<b>17,852,766</b>	<b>37,790,038</b>
<b>Net balance sheet position</b>	<b>17,322,748</b>	<b>3,648,895</b>	<b>(1,636,968)</b>	<b>89</b>	<b>(13,523,025)</b>	<b>5,811,739</b>

The targeted average duration of the Bank's portfolios of the international reserves is shorter than 1 year.

The table below summarizes the average interest rate by major currencies for monetary financial instruments:

in %

Balance at 31 December 2002	EUR	USD	XDR	HRK
<b>Assets</b>				
Current accounts with other banks	2.25	1.09	–	–
Special Drawing Rights	–	–	1.98	–
Deposits with other banks	3.32	1.76	–	–
Trading securities	2.69	1.34	–	–
Loans	–	–	–	9.5
<b>Liabilities</b>				
CNB bills	3.21	1.71	–	2.05
Due to domestic banks	3.23	1.66	–	1.75
Due to the IMF	–	–	2.62	–
Due to foreign banks	3.11	1.57	–	–

in %

Balance at 31 December 2001	EUR	USD	XDR	HRK
<b>Assets</b>				
Current accounts with other banks	2.25	1.58	–	–
Special Drawing Rights	–	–	2.23	–
Deposits with other banks	3.43	1.84	–	–
Trading securities	3.46	2.41	–	–
Loans	–	–	–	10.0
<b>Liabilities</b>				
CNB bills	2.84	2.84	–	4.10
Due to banks	4.75	1.82	–	2.00
Due to the IMF	–	–	2.75	–

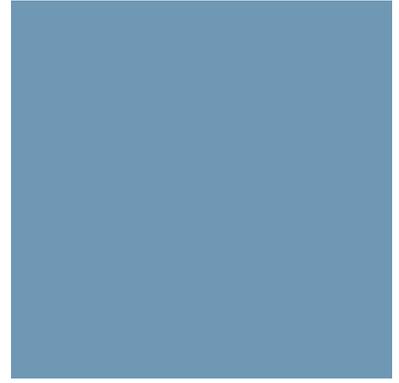
## Note 33 – Liquidity Risk

Liquidity risk arises in the general funding of the Bank's activities and its management of positions. It includes both the risk of being unable to fund the assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame. The Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

The following table provides an analysis of the financial assets and liabilities of the Bank into relevant maturity groupings based on the remaining period to repayment.

in thousand HRK

	Up to 1 month	1 – 3 months	3 months – 1 year	1 – 5 years	Over 5 years	Total
<b>Balance at 31 December 2002</b>						
<b>Assets</b>						
Cash and current accounts with other banks	7,729	–	–	–	–	7,729
Deposits with other banks	22,340,032	5,774,268	11,348	–	17,134	28,142,782
Trading securities	13,850,038	–	–	–	–	13,850,038
Loans	34,504	–	–	–	163	34,667
Placements with the IMF	10,702	–	–	–	3,552,012	3,562,714
Equity investments	–	–	–	–	27,830	27,830
Accrued interest and other assets	65,284	14,258	281	–	34,606	114,429
Tangible and intangible assets	–	–	–	–	385,973	385,973
<b>Total assets</b>	<b>36,308,289</b>	<b>5,788,526</b>	<b>11,629</b>	<b>–</b>	<b>4,017,718</b>	<b>46,126,162</b>
<b>Liabilities</b>						
Banknotes and coins in circulation	–	–	–	–	10,895,792	10,895,792
CNB bills	6,183,798	196,522	11,987	–	–	6,392,307
Due to banks and other financial institutions	19,382,950	–	–	–	12,585	19,395,535
Due to the State and State institutions	599,308	–	–	–	–	599,308
Due to the IMF	–	–	–	–	3,545,340	3,545,340
Accrued interest and other liabilities	48,383	2,821	–	–	–	51,204
<b>Total liabilities</b>	<b>26,214,439</b>	<b>199,343</b>	<b>11,987</b>	<b>–</b>	<b>14,453,717</b>	<b>40,879,486</b>
<b>Net liquidity gap</b>	<b>10,093,850</b>	<b>5,589,183</b>	<b>(358)</b>	<b>–</b>	<b>(10,435,999)</b>	<b>5,246,676</b>
<b>Balance at 31 December 2001</b>						
Total assets	33,317,712	6,047,383	3	89	4,236,590	43,601,777
Total liabilities	19,868,807	2,409,272	1,890,857	715,940	12,905,162	37,790,038
<b>Net liquidity gap</b>	<b>13,448,905</b>	<b>3,638,111</b>	<b>(1,890,854)</b>	<b>(715,851)</b>	<b>(8,668,572)</b>	<b>5,811,739</b>



# Management and Internal Organization of the Croatian National Bank

# Management of the Croatian National Bank

## MEMBERS OF THE COUNCIL OF THE CROATIAN NATIONAL BANK

Chairman of the Council

**Željko Rohatinski**

**Mate Babić**

**Alen Belullo**

**Božidar Jelčić**

**Branimir Lokin**

**Čedo Maletić**

**Relja Martić**

**Adolf Matejka**

**Damir Novotny**

**Silvije Orsag**

**Tomislav Presečan**

**Sandra Švaljek**

**Boris Vujčić**

**Branko Vukmir**

## MANAGEMENT OF THE CROATIAN NATIONAL BANK

**Željko Rohatinski**, Governor

**Boris Vujčić**, Deputy Governor

**Čedo Maletić**, Vicegovernor

**Relja Martić**, Vicegovernor

**Adolf Matejka**, Vicegovernor

**Tomislav Presečan**, Vicegovernor

## EXECUTIVE DIRECTORS

Research and Statistics Area – **Ljubinko Jankov**

Central Banking Operations Area – **Irena Kovačec**

International Affairs and External Relations Area – **Jadranka Granić**

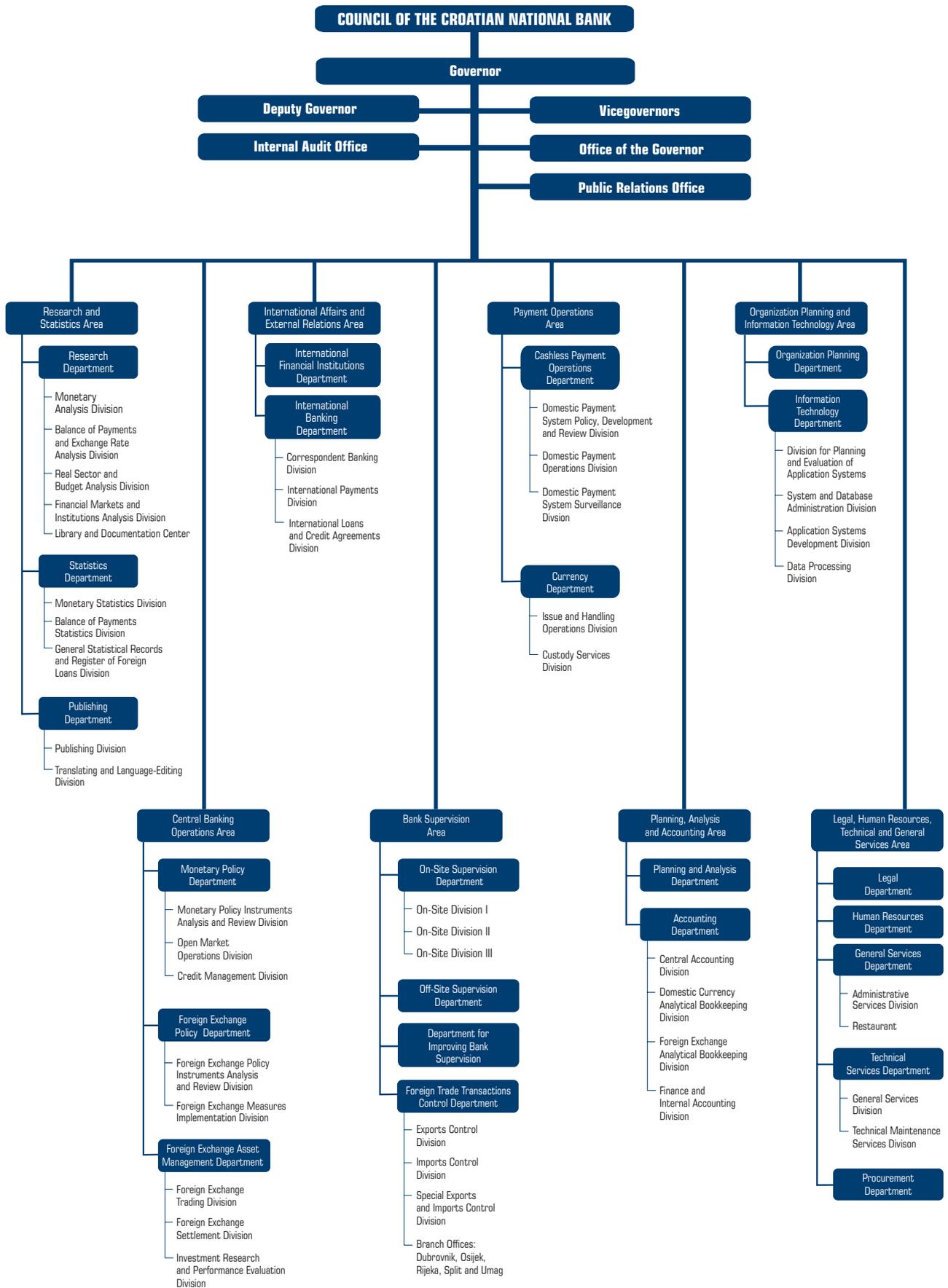
Bank Supervision Area – **Marija Mijatović-Jakšić**

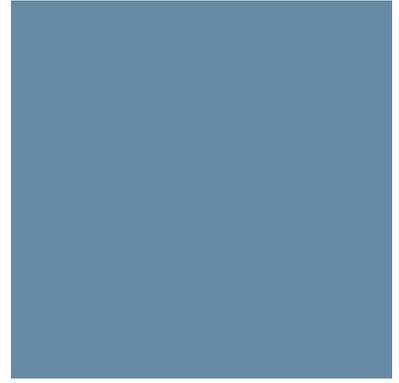
Planning, Analysis and Accounting Area – (vacant)

Payment Operations Area – **Neven Barbaroša**

Organization Planning and Information Technology Area – **Petar Ćurković**

Legal, Human Resources, Technical and General Services Area – (vacant)





# List of Banking Institutions

31 December 2002

## LICENSED BANKS

### **BANKA BROD d.d.<sup>1</sup>**

I. pl. Zajca 21  
**35 000 Slavonski Brod**

Phone: + 385 35/ 445-711, 445-766  
 Fax: + 385 35/ 445-755

### **BANKA KOVANICA d.d.<sup>1</sup>**

P. Preradovića 29  
**42 000 Varaždin**

Phone: + 385 42/212-729  
 Fax: + 385 42/212-148

### **BANKA SONIC d.d.<sup>1</sup>**

Savska 131  
**10 000 Zagreb**

Phone: + 385 1/6345-666  
 Fax: + 385 1/6190-615  
 SWIFT: SONI HR22

### **BRODSKO-POSAVSKA BANKA d.d.**

Trg pobjede 29  
**35000 Slavonski Brod**

Phone: + 385 35/445-800  
 Fax: + 385 35/445-900  
 SWIFT: BROD HR 22

### **CASSA DI RISPARMIO DI TRIESTE – BANCA d.d.**

Smičiklasova 23  
**10000 Zagreb**

Phone: + 385 1/4614-346  
 Fax: + 385 1/4614-347  
 SWIFT: TSBZ HR 22

### **CENTAR BANKA d.d.**

Jurišićeva 3  
**10000 Zagreb**

Phone: + 385 1 /4803-444  
 Fax: + 385 1/4803-441  
 Tlx: 21707  
 SWIFT: CBZG HR 2X

### **CONVEST BANKA d.d.**

Gajeva 33  
**10000 Zagreb**

Phone: + 385 1/4922-333  
 Fax: + 385 1/4819-153  
 SWIFT: CNVT HR 22

### **CREDO BANKA d.d.**

Zrinsko-Frankopanska 58  
**21000 Split**

Phone: + 385 21/380-655  
 Fax: + 385 21/380-682  
 SWIFT: CDBS HR 22

### **CROATIA BANKA d.d.**

Kvaternikov trg 9  
**10000 Zagreb**

Phone: + 385 1/2391-111  
 Fax: + 385 1/2391-470  
 SWIFT: CROA HR 2X

### **DRESDNER BANK CROATIA d.d.**

Gajeva 1  
**10000 Zagreb**

Phone: + 385 1/4866-777  
 Fax: + 385 1/4866-779  
 Tlx: 22230 dres hr  
 SWIFT: DRES HR 2X

**DUBROVAČKA BANKA d.d.**

Put Republike 9  
20000 Dubrovnik

Phone: + 385 20/356-333  
Fax: + 385 20/356-778  
Tlx: 27540 hrvdubank  
27592 hrvdubank  
SWIFT: DUBA HR 2X

**ERSTE & STEIERMÄRKISCHE BANK d.d.**

Varšavska 3-5  
10000 Zagreb

Phone: + 385 1/4561-999  
Fax: + 385 1/4561-900  
SWIFT: ESBC HR 22

**GOSPODARSKO KREDITNA BANKA d.d.**

Draškovićeva 58  
10000 Zagreb

Phone: + 385 1/4802-666  
Fax: + 385 1/4802-571  
Tlx: 22404 ccb zg hr  
SWIFT: CCBZ HR 2X

**HRVATSKA POŠTANSKA BANKA d.d.**

Jurišićeva 4  
10000 Zagreb

Phone: + 385 1/4804-513  
Fax: + 385 1/4810-791  
SWIFT: HPBZ HR 2X

**HVB BANK CROATIA d.d.**

Jurišićeva 2  
10000 Zagreb

Phone: + 385 1/4800-777  
Fax: + 385 1/4800-899  
SWIFT: BACX HR 22

**HYPO ALPE-ADRIA-BANK d.d.**

Koturaška 47  
10000 Zagreb

Phone: + 385 1/6103-666  
Fax: + 385 1/6103-555  
SWIFT: KLHB HR 22

**IMEX BANKA d.d.**

Tolstojeva 6  
21000 Split

Phone: + 385 21/348-455  
Fax: + 385 21/348-453  
Tlx: 26191  
SWIFT: IMXX HR 22

**ISTARSKA KREDITNA BANKA UMAG d.d.**

Ernesta Miloša 1  
52470 Umag

Phone: + 385 52/702-300  
Fax: + 385 52/702-388  
Tlx: 24745 ikb rh  
SWIFT: ISKB HR 2X

**JADRANSKA BANKA d.d.**

Ante Starčevića 4  
22000 Šibenik

Phone: + 385 22/242-242  
Fax: + 385 22/335-881  
Tlx: 27246 jb šbk  
SWIFT: JADR HR 2X

**KARLOVAČKA BANKA d.d.**

I.G. Kovačića 1  
47000 Karlovac

Phone: + 385 47/614-200  
Fax: + 385 47/614-206  
Tlx: 23742 kbk rh  
SWIFT: KALC HR 2X

**KREDITNA ZAGREB d.d.**

Ul. grada Vukovara 74  
10000 Zagreb

Phone: + 385 1/6167-300  
Fax: + 385 1/6116-466  
Tlx: 21197 krez zg rh  
SWIFT: KREZ HR 2X

**KRIŽEVAČKA BANKA d.d.<sup>1</sup>**

Preradovićevea 14  
**48260 Križevci**

Phone: +385 48/681-018  
 Fax: +385 48/711-938

**KVARNER BANKA d.d.**

Jadranski trg 4/1  
**51000 Rijeka**

Phone: + 385 51/353-555  
 Fax: + 385 51/353-566  
 Tlx: 24564 kbri hr  
 SWIFT: KVRB HR 22

**MEĐIMURSKA BANKA d.d.**

Valenta Morandinija 37  
**40000 Čakovec**

Phone: + 385 40/370-500  
 Fax: + 385 40/370-623  
 Tlx: 23251 banka rh  
 SWIFT: MBCK HR 2X

**NAVA BANKA d.d.**

Tratinska 27  
**10000 Zagreb**

Phone: + 385 1/3656-777  
 Fax: + 385 1/3656-700  
 SWIFT: NAVB HR 22

**NOVA BANKA d.d.**

Divka Budaka 1d  
**10000 Zagreb**

Phone: +385 1/2352-810  
 Fax: +385 1/2352-805

**PARTNER BANKA d.d.**

Vončinina 2  
**10000 Zagreb**

Phone: + 385 1/4602-222  
 Fax: + 385 1/4602-200  
 Tlx: 21212 parbaz rh  
 SWIFT: PAZG HR 2X  
 Reuters: PAHZ

**PODRAVSKA BANKA d.d.**

Opatička 1a  
**48300 Koprivnica**

Phone: + 385 48/65-50  
 Fax: + 385 48/655-174  
 Tlx: 23368 pod kc rh  
 SWIFT: PDKC HR 2X

**POŽEŠKA BANKA d.d.**

Republike Hrvatske 1b  
**34000 Požega**

Phone: + 385 34/254-200  
 Fax: + 385 34/254-258  
 Tlx: 28550 pb pzg rh  
 SWIFT: POBK HR 2X

**PRIMORSKA BANKA d.d.**

Scarpina 7  
**51000 Rijeka**

Phone: + 385 51/355-704  
 Fax: +385 51/332-762  
 SWIFT: SPRM HR 22

**PRIMUS BANKA d.d**

Tkalčićeva 11  
**10 000 Zagreb**

Phone: + 385 1/4800-111, 4800-207  
 Fax: + 385 1/4800-144  
 SWIFT: HYZG HR 22 BIC

**PRIVREDNA BANKA – LAGUNA BANKA d.d.**

Prvomajska 4a  
**52440 Poreč**

Phone: + 385 52/ 416-711  
 Fax: +385 52/ 416-770  
 SWIFT: LBPO HR 22

**PRIVREDNA BANKA ZAGREB d.d.**

Račkoga 6/p.p. 1032  
**10000 Zagreb**

Phone: + 385 1 /4723-344  
 Fax: + 385 1/4723-131  
 Tlx: 21120 pbz rh  
 SWIFT: PBZG HR 2X  
 Reuters: PBZH

**RAIFFEISENBANK AUSTRIA d.d.**

Petrinjska 59  
**10000 Zagreb**

Phone: + 385 1/4566-466  
 Fax: + 385 1/4811-624  
 Tlx: 21137 rba zg rh  
 SWIFT: RZBH HR 2X

**RIADRIA BANKA d.d.**

Đure Šporera 3  
**51000 Rijeka**

Phone: + 385 51/356-700  
 Fax: + 385 51/211-013  
 Tlx: 24 161  
 SWIFT: ADRI HR 2X

**RIJEČKA BANKA d.d.**

Jadranski trg 3a  
**51000 Rijeka**

Phone: + 385 51/208-211  
 Fax: + 385 51/330-525  
 Tlx: 24 143 bankom rh  
 SWIFT: RBRI HR 2X  
 Reuters: RBRH

**SAMOBORSKA BANKA d.d.**

Trg kralja Tomislava 8  
**10430 Samobor**

Phone: + 385 1/3362-530  
 Fax: + 385 1/3361-523  
 Tlx: 21811 samba rh  
 SWIFT: SMBR HR 22

**SLATINSKA BANKA d.d.**

Vladimira Nazora 2  
**33520 Slatina**

Phone: + 385 33/551-526  
 Fax: + 358 33/551-138  
 Tlx: 28277 slatb rh  
 SWIFT: SBSL HR 2X

**SLAVONSKA BANKA d.d.**

Kapucinska 29  
**31000 OSIJEK**

Phone: + 385 31/231-100  
 Fax: + 385 31/201-039  
 Tlx: 28235, 28090 hr banka  
 SWIFT: SLBO HR 2X

**SPLITSKA BANKA d.d.**

Ruđera Boškovića 16  
**21000 Split**

Phone: + 385 21/304-304  
 Fax: + 385 21/304-034  
 Tlx: 26252 st bank rh  
 SWIFT: SPLI HR 2X  
 Reuters: SBSH

**SPLITSKO-DALMATINSKA BANKA d.d.<sup>1</sup>**

Boktuljin put bb  
**21000 Split**

Phone: + 385 21/540-280  
 Fax: + 385 21/540-290

**ŠTEDBANKA d.d.**

Slavonska avenija 3  
**10000 Zagreb**

Phone: 385 1/6306-666  
 Fax: 385 1/6187-015  
 SWIFT: STED HR 22

**VARAŽDINSKA BANKA d.d.**

Kapucinski trg 5  
**42000 Varaždin**

Phone: + 385 42/400-000  
 Fax: + 385 42/400-742  
 Tlx: 23224 banka rh  
 SWIFT: VBDD HR 2X  
 Reuters: VBVH

**VOLKSBANK d.d.**

Varšavska 9  
**10000 Zagreb**

Phone: + 385 1/4801-300  
 Fax: + 385 1/4801-365  
 SWIFT: VBCR HR 22

**ZAGREBAČKA BANKA d.d.**

Paromlinska 2  
**10000 Zagreb**

Phone: + 385 1/6104-000  
 Fax: + 385 1/6110-555  
 Tlx: 21462 zaba rh  
 SWIFT: ZABA HR 2X  
 Reuters: ZBZH

**ZAGORSKA BANKA d.d.<sup>1</sup>**

Trg Lj. Gaja 6-7  
**49000 Krapina**

Phone: + 385 49/370-627  
 Fax: + 385 49/370-545  
 SWIFT: ZAGK HR 22

## REPRESENTATIVE OFFICES OF FOREIGN BANKS

1. **BANK FÜR KÄRNTEN UND STEIERMARK AG**,  
Zagreb
2. **COMMERZBANK AKTIENGESELLSCHAFT**, Zagreb
3. **DEUTSCHE BANK AG**, Zagreb
4. **LHB INTERNATIONALE HANDELSBANK AG**,  
Zagreb
5. **San Paolo IMI S.p.A**, Zagreb

<sup>1</sup> In accordance with Article 190 of the Banking Act and the pace prescribed therein, the bank is required to adjust its share capital to the provisions of this Act by 31 December 2006.

## LICENSED SAVINGS BANKS

### **MEĐIMURSKA ŠTEDIONICA d.d.**

Kralja Tomislava 31  
**40300 Čakovec**

Phone: + 385 40/384-377  
Fax: + 385 40/315-151

## LICENSED HOUSING SAVINGS BANKS

### **PRVA STAMBENA ŠTEDIONICA d.d.**

Jurišićeva 22  
**10000 Zagreb**

Phone: + 385 1/4801-514  
Fax: + 385 1/4801-571

### **RAIFFEISEN STAMBENA ŠTEDIONICA d.d.**

Radnička cesta 43  
**10000 Zagreb**

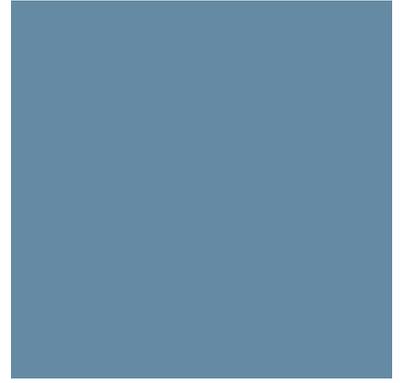
Phone: + 385 1/6006-100  
Fax: +385 1/6006-199

### **WÜSTENROT STAMBENA ŠTEDIONICA d.d.**

Ilica 14

**10000 Zagreb**

Phone: + 385 1/4803-788  
Fax: + 385 1/4803-798



# Statistical Appendix

## Classification and Presentation of Data on Claims and Liabilities

Data on financial institutions' claims and liabilities are classified according to institutional sectors and financial instruments. Institutional sectors are: financial institutions, central government and funds, other domestic sectors and foreign sector.

The financial institutions sector includes the following sub-sectors: monetary authorities (the central bank), deposit money banks (DMBs), other banking institutions and other financial institutions. The central bank is the Croatian National Bank (CNB). Deposit money banks are institutions to which the Croatian National Bank has issued a license to perform banking business services in accordance with the Banking Law, including savings banks during a transition period. Data on DMBs do not include claims and liabilities of banks undergoing bankruptcy proceedings, nor former branches of banks with their headquarters in the former Yugoslavia. Other banking institutions comprise housing savings banks, savings and loan cooperatives and investment funds. Other financial institutions are financial institutions not classified as banks or other banking institutions (for example insurance companies).

The central government and funds comprise government authorities including the Croatian Roads Administration, State Agency for Deposit Insurance and Bank Rehabilitation and Croatian Guarantee Agency, and the following central government funds: Croatian Institute for Health Insurance, Croatian Pension Insurance Institute, Croatian Employment Institute, Croatian Privatization Fund, Croatian Waters and Croatian Bank for Reconstruction and Development. Other domestic sectors are local government authorities and local funds, public and private enterprises and households, including craftsmen and non-profit institutions providing services to households. In some tables other domestic sectors are divided into the following sub-sectors: local government (which comprises local government authorities and local funds), public and private enterprises, and households (including craftsmen and non-profit institutions).

Foreign sector includes foreign legal and natural persons.

All data on claims and liabilities refer to balances at the end of the reporting period. Foreign exchange items are reported in their kuna equivalent at the midpoint CNB exchange rate at the end of the reporting period.

Table A1: Monetary and Credit Aggregates

End of period, million kuna and %

Year	Month	Reserve money	Money M1	Money M1a	Broadest money M4	Net domestic assets	Domestic credit	Monthly rates of growth					
								Reserve money	Money M1	Money M1a	Broadest money M4	Net domestic assets	Domestic credit
1994	December	4,714.2	6,642.6	6,996.7	17,679.9	16,540.1	27,661.5	11.73	2.20	3.83	2.26	11.84	3.45
1995	December	6,744.1	8,234.9	8,503.2	24,623.0	21,576.3	32,819.5	2.97	0.89	1.54	3.41	1.00	1.88
1996	December	8,770.4	11,368.9	11,494.9	36,701.1	24,960.4	33,831.2	11.35	7.83	7.67	4.88	-5.41	-11.61
1997	December	10,346.1	13,731.4	13,848.8	50,742.0	33,829.0	48,863.4	7.86	3.93	3.85	2.16	4.98	4.96
1998	December	9,954.2	13,531.4	13,615.2	57,340.3	44,626.8	59,792.0	7.24	6.92	6.59	2.51	3.73	0.25
1999	December <sup>a</sup>	10,310.0	13,858.9	13,965.7	56,659.3	40,003.8	55,875.8	4.53	5.46	5.48	2.28	0.35	-4.58
2000	December	11,717.3	18,030.3	18,256.4	73,061.1	44,043.9	60,883.8	7.32	10.04	9.89	3.66	10.46	2.66
2001	December	17,803.2	23,703.5	23,936.5	106,071.4	57,410.0	74,964.5	8.01	13.00	11.96	11.65	3.40	1.16
2002	January	17,631.9	22,398.4	22,596.0	108,647.4	61,267.9	77,306.8	-0.96	-5.51	-5.60	2.43	6.72	3.12
	February	18,954.0	22,164.9	22,511.3	107,183.8	59,950.6	77,343.1	7.50	-1.04	-0.38	-1.35	-2.15	0.05
	March	19,747.8	24,375.1	24,776.6	106,245.0	63,530.6	79,862.5	4.19	9.97	10.06	-0.88	5.97	3.26
	April	20,757.4	26,418.4	27,012.0	106,333.0	66,599.9	82,131.3	5.11	8.38	9.02	0.08	4.83	2.84
	May	20,991.0	26,715.5	27,255.7	106,444.8	68,443.7	83,986.9	1.13	1.12	0.90	0.11	2.77	2.26
	June	22,036.3	28,254.4	28,792.8	106,593.3	69,213.8	85,013.2	4.98	5.76	5.64	0.14	1.13	1.22
	July	21,309.5	28,947.0	29,480.3	109,733.8	71,437.7	87,472.7	-3.30	2.45	2.39	2.95	3.21	2.89
	August	21,706.3	29,502.1	30,155.7	113,036.5	72,714.9	89,091.9	1.86	1.92	2.29	3.01	1.79	1.85
	September	20,871.2	28,913.6	30,043.0	113,275.2	73,340.9	91,165.6	-3.85	-1.99	-0.37	0.21	0.86	2.33
	October	20,319.8	29,090.4	29,899.1	114,826.3	76,709.3	94,581.1	-2.64	0.61	-0.48	1.37	4.59	3.75
	November	20,798.0	29,092.3	29,850.9	114,260.6	77,210.7	95,408.8	2.35	0.01	-0.16	-0.49	0.65	0.88
	December	23,027.9	30,869.8	31,876.7	116,141.8	83,324.4	97,463.7	10.72	6.11	6.79	1.65	7.92	2.15

<sup>a</sup> Domestic credit decreased by a one-off HRK 2,759.4m.

Table A1: Monetary and Credit Aggregates

The table shows data on some basic monetary and credit aggregates, including their monthly growth rates. In September 1999, all the monetary aggregates were revised. In previous publications of the CNB, data on claims and obligations of savings banks were not included in the compilation of the monetary aggregates.

Reserve money is taken over in its entirety from the Monetary Authorities Accounts (Table C1).

Money (M1) is defined in the same way as the corresponding item in the Monetary Survey (Table B1). It comprises currency outside banks, deposits with the CNB by other banking institutions and other domestic sectors as well as DMBs' demand deposits. Money (M1a) comprises currency outside banks and DMBs' demand deposits, increased by the demand deposits of the central government and funds with DMBs.

Broadest money (M4) comprises Money (M1), savings and time deposits, foreign currency deposits as well as bonds and money market instruments (all components are taken over from the Monetary Survey, Table B1).

Net domestic assets are defined as a difference between total liquid assets and foreign assets (net).

Domestic credit comprises DMBs' claims on other domestic sectors, other banking institutions and other financial institutions.

In May 1999, bankruptcy proceedings have been initiated against several banks so their assets and liabilities are excluded from monetary statistics. In April 1999, those banks' share in monetary aggregate M1 amounted to 259.3 million kuna and in monetary aggregate M4 amounted to 4,035.8 million kuna. Data for June 1999 are comparable with data for July 1999 if Domestic credit is increased by 3,513.5 million kuna.

Table B1: Monetary Survey

End of period, million kuna

	2001	2002											
	Dec. <sup>a</sup>	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
<b>ASSETS</b>													
1. Foreign assets (net)	48,661.3	47,379.5	47,233.2	42,714.4	39,733.1	38,001.0	37,379.6	38,296.1	40,321.6	39,934.3	38,117.0	37,049.9	32,817.4
2. Domestic credit	87,637.6	92,540.8	90,387.3	94,540.0	96,326.6	97,307.9	97,400.5	99,923.4	101,478.2	102,915.8	107,136.0	107,806.0	112,518.9
2.1. Claims on central government and funds (net)	12,673.1	15,234.0	13,044.2	14,677.5	14,195.3	13,320.9	12,387.3	12,450.7	12,386.2	11,750.2	12,554.9	12,397.2	15,055.2
2.2. Claims on other domestic sectors	74,513.0	76,794.5	76,847.1	79,231.4	81,567.9	83,365.2	84,245.7	86,704.7	88,365.5	90,078.4	93,472.7	94,453.3	96,329.0
2.3. Claims on other banking institutions	170.2	177.1	170.2	168.6	165.4	196.9	184.7	178.8	215.6	215.0	209.3	218.1	219.5
2.4. Claims on other financial institutions	281.4	335.2	325.7	462.5	398.0	424.8	582.8	589.1	510.8	872.2	899.0	737.4	915.3
Total (1+2)	136,298.9	139,920.3	137,620.5	137,254.3	136,059.7	135,308.9	134,780.1	138,219.4	141,799.8	142,850.1	145,253.0	144,855.9	145,336.3
<b>LIABILITIES</b>													
1. Money	23,703.5	22,398.4	22,164.9	24,375.1	26,418.4	26,715.5	28,254.4	28,947.0	29,502.1	28,913.6	29,090.4	29,092.3	30,869.8
2. Savings and time deposits	10,213.1	10,922.3	10,784.6	10,626.7	10,700.5	10,850.5	10,945.0	11,403.8	11,680.1	11,831.6	12,320.1	12,673.8	13,001.1
3. Foreign currency deposits	71,836.9	74,897.7	73,618.2	70,938.8	68,872.0	68,697.1	67,159.9	69,213.2	71,574.3	72,254.2	73,165.4	72,290.8	72,054.6
4. Bonds and money market instruments	317.8	429.1	616.2	304.4	342.1	181.6	234.1	169.8	280.0	275.8	250.4	203.7	216.3
5. Restricted and blocked deposits	1,926.2	1,659.1	1,550.8	1,861.3	1,908.8	1,833.3	1,993.8	1,754.3	1,731.5	1,896.8	1,794.5	1,841.2	1,729.5
o/w: Households' blocked f/c deposits	770.2	610.4	564.9	538.6	513.2	496.4	474.0	388.5	372.1	363.3	335.0	327.0	319.3
6. Other items (net)	28,301.4	29,613.9	28,885.8	29,148.1	27,817.9	27,030.9	26,192.9	26,731.3	27,031.8	27,678.2	28,632.2	28,754.1	27,465.1
Total (1+2+3+4+5+6)	136,298.9	139,920.3	137,620.5	137,254.3	136,059.7	135,308.9	134,780.1	138,219.4	141,799.8	142,850.1	145,253.0	144,855.9	145,336.3

<sup>a</sup> The first revaluation of securities with the effect of HRK 165.5m was conducted within the CNB's international reserves as at 31 December 2001. Accrued interest on deposits, with the effect of HRK 63.8m, was included in the international reserves as at 31 December 2001 as well. The CNB's foreign liabilities increased by HRK 6.4m on the basis of accrued interest, while liabilities on the basis of required foreign exchange reserves increased by HRK 8.6m.

Table B1: Monetary Survey

The monetary survey shows consolidated data from the Monetary Authorities Accounts (Table C1) and DMBs' Accounts (Table D1).

Foreign assets (net) are the difference between total foreign assets and total foreign liabilities of the CNB and DMBs.

Domestic credit is the sum of corresponding items from Monetary Authorities Accounts and DMBs' Accounts. Claims on central government and funds are reported on a net basis, i.e. decreased by central government and funds' deposits with the CNB and DMBs.

Money is the sum of currency outside banks, deposits by other banking institutions with the CNB, deposits by other domestic sectors with the CNB and DMBs' demand deposits (item Demand deposits in DMBs' Accounts, Table D1).

Items Savings and time deposits, Foreign currency deposits as well as Bonds and money market instruments are entirely taken over from the DMBs' Accounts, while item Restricted and blocked deposits represents the sum of corresponding items from the Monetary Authorities Accounts (excluding DMBs' blocked deposits with the CNB) and DMBs' Accounts. Other items (net) are unclassified liabilities decreased by unclassified assets.

In May 1999, bankruptcy proceedings have been initiated against several banks so their assets and liabilities are excluded from monetary statistics. In April 1999, those banks' share in DMBs' balance sheet total amounted to 4,296.3 million kuna. Data for June 1999 are comparable with data for July 1999 if Claims on other domestic sectors and Other items (net) are increased by 3,513.5 million kuna.

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

Year	Month	Total number of reporting DMBs	Reporting DMBs classified according to their total assets						Total number of reporting savings banks	Savings banks classified according to their total assets		
			Less than 100 million kuna	100 million kuna to less than 500 million kuna	500 million kuna to less than 1 billion kuna	1 billion kuna to less than 2 billion kuna	2 billion kuna to less than 10 billion kuna	10 billion kuna and over		Less than 10 million kuna	10 million kuna to less than 100 million kuna	100 million kuna and over
1	2	3	4	5	6	7	8	9	10	11	12	13
1994	December	50	13	21	6	6	2	2	33	22	9	2
1995	December	53	15	20	7	7	2	2	21	7	13	1
1996	December	57	10	26	6	9	4	2	22	10	11	1
1997	December	60	4	28	9	8	9	2	33	12	18	3
1998	December	60	3	26	8	11	10	2	33	4	25	4
1999	December	53	4	23	7	7	10	2	30	5	21	4
2000	December	45	3	15	9	6	10	2	29	5	19	5
2001	December	44	3	13	7	7	10	4	21	4	12	5
2002	January	45	3	14	7	7	9	5	19	3	12	4
	February	45	4	13	7	7	9	5	18	2	12	4
	March	46	5	12	8	7	11	3	17	2	11	4
	April	48	5	14	8	7	11	3	15	2	11	2
	May	50	8	14	7	7	11	3	12	2	8	2
	June	49	7	14	8	6	11	3	12	2	8	2
	July	47	7	13	8	6	10	3	11	3	6	2
	August	47	7	13	7	7	10	3	11	3	6	2
	September	47	7	12	6	9	10	3	11	3	6	2
	October	47	7	12	6	9	10	3	11	3	6	2
	November	46	6	12	6	9	8	5	11	3	6	2
	December	46	4	13	7	9	8	5	10	3	5	2

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

The table shows the total number of DMBs and savings banks which report monthly to the CNB. Their operations are shown in the DMBs' Accounts.

Special reporting requirements applied to savings banks until June 1995. Savings banks were not legally obliged to report on their operations, so that data up to June 1995 relate only to those savings

banks that reported voluntarily to the CNB. From July 1995 on, the data cover all registered savings banks. In accordance with the Banking Law, savings banks must meet the conditions set out in the Law by December 31, 2001, or they will be liquidated.

The table also shows the classification of reporting DMBs and savings banks according to their total assets.

In May 1999, bankruptcy proceedings have been initiated against several banks so their assets and liabilities are excluded from monetary statistics.

Table C1: Monetary Authorities Accounts

End of period, million kuna

	2001	2002											
	Dec. <sup>b</sup>	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
<b>ASSETS</b>													
1. Foreign assets	39,245.1	39,308.9	41,386.5	40,852.8	41,501.9	41,082.3	41,470.1	41,227.8	42,491.6	43,123.5	42,817.5	43,597.0	43,795.9
1.1. Gold	–	–	–	–	–	–	–	–	–	–	–	–	–
1.2. Holdings of SDRs	902.4	905.8	939.1	915.3	884.4	753.8	735.5	705.5	718.2	713.5	687.4	589.3	572.6
1.3. Reserve position in the IMF	1.8	1.8	1.8	1.8	1.8	1.8	1.7	1.7	1.7	1.7	1.7	1.7	1.7
1.4. Currency and demand deposits with foreign banks	6.1	6.1	270.2	7.1	229.0	10.5	244.9	6.9	6.0	6.2	6.4	6.4	11.8
1.5. Time deposits with foreign banks	25,505.6	25,565.9	28,747.6	28,144.2	27,595.0	26,936.8	26,437.9	26,692.4	27,367.3	28,295.0	26,812.4	27,670.7	29,277.4
1.6. Securities in f/c	12,829.3	12,829.3	11,427.8	11,784.3	12,791.7	13,379.4	14,050.0	13,821.3	14,398.4	14,107.0	15,309.6	15,328.8	13,932.4
1.7. Nonconvertible foreign exchange	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Claims on central government and funds	–	–	–	–	–	2.5	2.4	–	–	–	–	2.0	2.3
2.1. Claims in kuna	–	–	–	–	–	2.5	2.4	–	–	–	–	2.0	2.3
2.2. Claims in f/c	–	–	–	–	–	–	–	–	–	–	–	–	–
3. Claims on other domestic sectors	229.2	192.3	128.1	128.2	122.6	122.6	122.6	110.5	110.5	110.5	110.8	110.8	110.6
4. Claims on DMBs	18.5	16.6	1,046.7	578.7	16.9	17.1	17.0	17.3	17.5	17.3	17.7	17.7	17.9
4.1. Credits to DMBs	–	–	1,030.0	562.0	–	–	–	–	–	–	–	–	–
Lombard credits	–	–	1,030.0	4.0	–	–	–	–	–	–	–	–	–
Short-term liquidity credits	–	–	–	558.0	–	–	–	–	–	–	–	–	–
Other credits	–	–	–	–	–	–	–	–	–	–	–	–	–
CNB bills under repurchase agreement	–	–	–	–	–	–	–	–	–	–	–	–	–
4.2. CNB deposits with DMBs	16.6	16.6	16.7	16.7	16.9	17.1	17.0	17.1	17.2	17.0	17.4	17.4	17.6
4.3. Overdue claims	1.9	–	–	–	–	–	–	0.3	0.3	0.3	0.3	0.3	0.3
5. Claims on other banking institutions	–	–	–	–	–	–	–	–	–	–	–	–	–
Total (1+2+3+4+5)	39,556.6	41,595.5	42,027.6	42,208.8	41,221.8	41,612.3	41,369.8	42,619.5	43,251.5	42,945.3	43,727.5	43,926.8	42,187.7
<b>LIABILITIES</b>													
1. Reserve money	17,803.2	17,631.9	18,954.0	19,747.8	20,757.4	20,991.0	22,036.3	21,309.5	21,706.3	20,871.2	20,319.8	20,798.0	23,027.9
1.1. Currency outside banks	8,507.4	8,254.7	8,345.4	9,145.9	9,112.4	9,276.9	9,904.2	10,288.2	10,295.5	9,679.8	9,506.8	9,348.2	9,680.9
1.2. DMBs' cash in vaults	538.8	471.6	471.1	891.3	831.6	980.2	972.4	909.9	1,084.8	895.9	1,001.9	954.3	1,214.8
1.3. DMBs' deposits	8,741.5	8,891.6	10,114.1	9,706.6	10,808.7	10,725.6	11,156.1	10,103.0	10,315.1	10,277.2	9,804.2	10,479.5	12,109.4
Settlement accounts	2,450.1	2,306.6	3,227.9	2,635.8	3,699.8	3,368.5	3,747.3	2,610.1	2,711.6	2,483.3	1,855.4	2,407.1	3,923.4
Statutory reserves	6,291.4	6,584.9	6,886.2	7,070.7	7,109.0	7,357.1	7,408.8	7,492.9	7,603.5	7,793.9	7,948.8	8,072.4	8,186.0
CNB bills on obligatory basis	–	–	–	–	–	–	–	–	–	–	–	–	–
1.4. Deposits of other banking institutions	15.5	5.1	10.8	4.0	4.7	8.3	3.6	8.4	10.9	18.3	7.0	15.9	19.1
1.5. Deposits of other domestic sectors	0.1	8.9	12.6	–	–	–	–	–	–	–	–	–	3.5
2. Restricted and blocked deposits	6,030.5	6,618.1	6,816.5	6,951.0	6,708.0	6,578.5	6,468.8	6,673.5	6,590.0	6,848.7	7,072.7	7,154.9	7,091.2
2.1. Statutory reserve in f/c	5,705.1	6,259.6	6,462.5	6,840.9	6,660.1	6,534.0	6,428.2	6,633.3	6,546.7	6,825.4	7,050.4	7,107.4	7,042.3
2.2. Restricted deposits	325.4	358.5	354.1	110.1	47.9	44.5	40.7	40.3	43.3	23.3	22.2	47.5	49.0
2.3. Escrow deposits	–	–	–	–	–	–	–	–	–	–	–	–	–
3. Foreign liabilities	1,597.5	2,513.1	2,137.6	1,995.7	2,033.0	1,856.5	1,317.0	1,811.9	2,310.4	1,711.9	1,863.5	2,619.7	195.7
3.1. Use of IMF credit	1,025.5	1,061.2	1,040.5	1,010.3	877.6	861.1	826.1	841.5	834.6	813.5	718.1	702.3	2.8
3.2. Liabilities to international organizations	12.2	13.8	13.6	13.5	13.1	13.2	12.4	12.6	12.6	12.6	12.8	12.6	12.6
3.3. Liabilities to foreign banks <sup>a</sup>	559.8	1,438.1	1,083.4	971.9	1,142.3	982.2	478.6	957.8	1,463.2	885.9	1,132.7	1,904.8	180.2
4. Central government and funds deposits	1,752.1	1,395.9	1,565.4	1,086.0	851.3	976.6	778.5	895.6	850.4	1,412.6	1,917.0	1,553.3	768.1
4.1. Demand deposits	1,752.1	1,395.9	1,565.4	1,086.0	851.3	976.6	778.5	845.7	750.6	1,312.8	1,897.0	1,513.4	608.3
Central government demand deposits	1,564.8	1,340.2	1,559.4	1,033.7	822.8	930.6	698.5	755.0	747.9	1,290.8	1,888.8	1,498.9	569.5
Central government funds demand deposits	187.3	55.7	6.0	52.3	28.5	45.9	80.0	90.6	2.7	22.0	8.3	14.5	38.7
4.2. Central government f/c deposits	–	–	–	–	–	–	–	–	–	–	–	–	–
4.3. CNB bills	–	–	–	–	–	–	–	49.9	99.8	99.8	20.0	39.9	159.9
5. CNB bills	6,372.3	6,421.3	5,933.8	6,052.0	5,248.2	5,940.0	6,342.4	6,989.6	6,898.8	7,236.1	6,999.0	6,625.0	6,211.6
5.1. CNB bills in kuna	3,458.9	3,260.3	3,199.8	4,026.3	3,327.2	4,070.2	4,531.8	5,168.5	5,204.1	5,540.4	5,472.3	5,370.4	4,986.2
5.2. CNB bills in f/c	2,913.4	3,161.1	2,734.0	2,025.7	1,921.0	1,869.8	1,810.5	1,821.1	1,694.7	1,695.7	1,526.7	1,254.6	1,225.5
6. Capital accounts	6,425.2	7,443.4	6,918.9	6,802.4	6,050.4	5,693.6	4,852.2	5,367.5	5,322.7	5,298.6	5,988.5	5,616.5	5,327.1
7. Other items (net)	–424.2	–428.3	–298.6	–426.1	–426.5	–423.9	–425.3	–428.1	–427.1	–433.8	–433.1	–440.6	–433.7
Total (1+2+3+4+5+6+7)	39,556.6	41,595.5	42,027.6	42,208.8	41,221.8	41,612.3	41,369.8	42,619.5	43,251.5	42,945.3	43,727.5	43,926.8	42,187.7

<sup>a</sup> Liabilities to foreign banks include also liabilities based on CNB bills subscribed by nonresidents.<sup>b</sup> The first revaluation of securities with the effect of HRK 165.5m was conducted within the CNB's international reserves as at 31 December 2001. Accrued interest on deposits, with the effect of HRK 63.8m, was included in the international reserves as at 31 December 2001 as well. The CNB's foreign liabilities increased by HRK 6.4m on the basis of accrued interest, while liabilities on the basis of required foreign exchange reserves increased by HRK 8.6m.

## Table C1: Monetary Authorities Accounts

The table reports data on claims and liabilities by monetary authorities. In September 1999, the data were revised, with savings banks being transferred for the sub-sector other banking institutions to the sub-sector banks. The whole data series has been revised accordingly.

Foreign assets include the following forms of foreign currency and kuna claims on foreign legal and natural persons: monetary gold, holdings of special drawing rights, foreign cash in vault, reserve position in the International Monetary Fund, current account balances with foreign banks, time deposits with foreign banks and accrued interest, foreign currency security investments and other claims.

Claims on central government and funds are loans and overdue claims on the budget of the Republic of Croatia. Claims in kuna were short-term loans granted for the purpose of overcoming timing differences between incoming revenues and execution of budgetary expenditures, long-term loans granted by special decrees by the government of the Republic of Croatia, and overdue claims on the budgetary central government based on the liabilities to the IMF and foreign banks. Item Claims in foreign currency was a counter-entry to the liability to the IMF based on the succession of membership in that institution. In accordance with the new Law on the Croatian National Bank that entered into force in April 2001, the Croatian National Bank may not extend credit to the Republic of Croatia.

Claims on other domestic sectors are loans and overdue claims on other domestic sectors, including banks in bankruptcy proceedings.

Claims on DMBs are credits to DMBs, deposits by the CNB with DMBs and overdue claims on DMBs. Credits to DMBs are split according to the type of financial instruments. Item Lombard credits comprises credits to DMBs for regular maintaining of the day-to-day liquidity, which were replaced by lombard credits in December 1994. Short-term liquidity credits, which have been granted since the beginning of 1999, also serve to bridge liquidity problems. Other credits include intervention credits, special credits for bridging liquidity problems granted in the past (initial credits, prerehabilitation credits) and due but unpaid credits. Overdue claims on DMBs comprise settlement account overdrafts (until mid-1994) and banks' failure to correctly and promptly allocate and maintain statutory reserve requirements.

Since May 1999, Claims on other domestic sectors include overdue claims on banks against which bankruptcy proceedings have been initiated. Due to the reclassification of savings banks from the

sub-sector other banking institutions to the sub-sector banks, data for Claims on DMBs and Claims on other banking institutions have been revised.

Reserve money consists of currency outside banks, cash in DMBs' vaults, DMBs' deposits with the CNB, other banking institutions' deposits and other domestic sectors' deposits with the CNB. DMBs' deposits are: settlement account balances, statutory reserves deposited on a special account with the CNB as well as CNB bills on an obligatory basis. Deposits by other banking institutions are settlement account balances of housing savings banks. Deposits by other domestic sectors are other domestic sectors' giro account balances which, on the basis of legal acts are deposited with the Croatian National Bank.

Restricted and blocked deposits include required foreign exchange reserves and accrued interest, restricted deposits and blocked foreign exchange deposits. Banks and savings banks are required to place foreign exchange reserve deposits in accounts at the Croatian National Bank on the basis of certain foreign exchange deposits they hold. Restricted deposits are kuna funds set aside on the basis of a court order or legal regulation and deposits of banks against which bankruptcy proceedings have been initiated. Blocked foreign exchange deposits are funds that were set aside in special accounts at the Croatian National Bank for repaying unpaid amounts due to foreign creditors.

Foreign liabilities include use of IMF credits, liabilities to international financial institutions and foreign banks and accrued interest.

Central government and funds deposits are demand deposits and foreign currency deposits of the Republic of Croatia and central government funds with the CNB, and CNB bills purchased by central government institutions.

CNB bills are kuna and f/c CNB bills on a voluntary basis, excluding CNB bills voluntarily purchased by central government institutions.

Capital accounts include reserves, provisions and the income and cost accounts.

Other items (net) are unclassified liabilities decreased by unclassified assets of the Monetary Authorities Accounts.

Due to the reclassification of savings banks from the sub-sector other banking institutions to the sub-sector banks, data for Currency outside banks, DMBs' cash in vaults, DMBs' deposits and Deposits of other banking institutions were revised.

Table D1: Deposit Money Banks' Accounts

End of period, million kuna

	2001	2002											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
<b>ASSETS</b>													
1. Reserves with the CNB	15,002.7	15,651.0	17,087.5	17,532.5	18,502.5	18,286.6	18,618.3	17,712.5	18,010.7	17,989.1	17,886.6	18,569.1	20,373.5
1.1. In kuna	9,306.2	9,401.5	10,633.2	10,701.6	11,852.7	11,763.9	12,199.1	11,088.8	11,472.9	11,173.2	10,846.4	11,471.1	13,340.0
1.2. In f/c	5,696.5	6,249.5	6,454.3	6,830.8	6,649.8	6,522.7	6,419.2	6,623.7	6,537.9	6,815.9	7,040.2	7,098.0	7,033.5
2. Foreign assets	32,807.6	30,792.8	30,818.3	26,352.3	23,221.9	23,276.4	22,324.4	23,421.2	23,899.8	24,741.0	24,999.5	26,532.4	25,977.8
3. Claims on central government and funds	20,059.9	22,245.3	21,139.6	21,654.3	21,250.5	20,502.7	20,270.8	19,796.0	19,758.0	20,451.1	21,284.9	21,487.8	21,917.7
3.1. Bonds arising from blocked f/c deposits	3,420.1	3,513.5	2,962.8	2,948.8	2,953.0	2,949.2	2,920.3	2,454.4	2,444.6	2,442.9	2,493.5	2,472.7	2,473.5
3.2. Big bonds	1,659.4	1,659.3	1,660.1	1,650.9	1,663.8	1,667.3	1,672.3	1,680.7	1,680.1	1,699.7	1,702.6	1,699.4	1,699.1
3.3. Other claims	14,980.4	17,072.6	16,516.6	17,054.7	16,633.7	15,886.2	15,678.1	15,660.9	15,633.3	16,308.6	17,088.8	17,315.7	17,745.2
4. Claims on other domestic sectors	74,283.8	76,602.1	76,719.0	79,103.2	81,445.2	83,242.6	84,123.1	86,594.2	88,254.9	89,967.9	93,361.9	94,342.5	96,218.4
4.1. Claims on local government and funds	1,280.0	1,239.5	1,214.3	1,194.2	1,178.6	1,175.0	1,200.8	1,201.9	1,174.1	1,167.4	1,167.9	1,277.1	1,422.4
4.2. Claims on enterprises	42,882.0	44,147.6	44,170.9	45,346.0	46,466.6	46,887.4	46,936.3	47,557.8	48,458.0	49,435.7	50,894.6	51,042.1	51,723.4
4.3. Claims on households	30,121.9	31,215.1	31,333.8	32,563.0	33,800.0	35,180.2	35,986.0	37,834.5	38,622.8	39,364.8	41,299.4	42,023.2	43,072.6
5. Claims on other banking institutions	170.2	177.1	170.2	168.6	165.4	196.9	184.7	178.8	215.6	215.0	209.3	218.1	219.5
6. Claims on other financial institutions	281.4	335.2	325.7	462.5	398.0	424.8	582.8	589.1	510.8	872.2	899.0	737.4	915.3
Total (1+2+3+4+5+6)	142,605.6	145,803.7	146,260.4	145,273.4	144,983.6	145,930.0	146,104.2	148,291.8	150,650.0	154,236.3	158,641.3	161,887.2	165,622.2
<b>LIABILITIES</b>													
1. Demand deposits	15,180.6	14,129.6	13,796.1	15,225.2	17,301.4	17,430.2	18,346.6	18,650.4	19,195.7	19,215.4	19,576.7	19,728.1	21,166.2
2. Savings and time deposits	10,213.1	10,922.3	10,784.6	10,626.7	10,700.5	10,850.5	10,945.0	11,403.8	11,680.1	11,831.6	12,320.1	12,673.8	13,001.1
3. Foreign currency deposits	71,836.9	74,897.7	73,618.2	70,938.8	68,872.0	68,697.1	67,159.9	69,213.2	71,574.3	72,254.2	73,165.4	72,290.8	72,054.6
4. Bonds and money market instruments	317.8	429.1	616.2	304.4	342.1	181.6	234.1	169.8	280.0	275.8	250.4	203.7	216.3
5. Foreign liabilities	21,857.8	22,286.8	22,300.4	23,144.1	22,538.1	24,889.0	24,855.7	25,804.9	24,391.3	25,912.2	28,616.0	30,658.7	35,023.5
6. Central government and funds' deposits	5,634.7	5,615.4	6,530.0	5,890.8	6,203.9	6,207.7	7,107.5	6,449.7	6,521.3	7,288.4	6,815.0	7,539.5	6,094.9
7. Credit from central bank	16.6	16.6	1,046.7	578.7	16.9	17.1	17.0	17.1	17.2	17.0	17.4	17.4	17.6
8. Restricted and blocked deposits	1,600.8	1,300.6	1,196.8	1,751.3	1,861.0	1,788.8	1,953.1	1,714.0	1,688.2	1,873.5	1,772.3	1,793.7	1,680.5
o/w: Households' blocked f/c deposits	770.2	610.4	564.9	538.6	513.2	496.4	474.0	388.5	372.1	363.3	335.0	327.0	319.3
9. Capital accounts	25,455.1	25,778.4	25,671.8	25,694.4	25,093.9	24,867.8	25,005.9	25,047.1	25,231.7	25,967.0	26,369.9	26,469.8	26,323.2
10. Other items (net)	-9,507.8	-9,572.7	-9,300.3	-8,880.9	-7,946.1	-8,999.9	-9,520.5	-10,178.1	-9,929.9	-10,398.9	-10,261.8	-9,488.4	-9,955.6
Total (1+2+3+4+5+6+7+8+9+10)	142,605.6	145,803.7	146,260.4	145,273.4	144,983.6	145,930.0	146,104.2	148,291.8	150,650.0	154,236.3	158,641.3	161,887.2	165,622.2

Table D1: Deposit Money Banks' Accounts

DMBs' Accounts include data on DMBs' claims and liabilities. DMBs' mutual claims and liabilities are consolidated. In September 1999, the data was revised to include savings banks. The whole data series was revised accordingly.

Required reserves held at the central bank include kuna and foreign exchange reserves. Kuna reserves include vault cash and kuna funds held in accounts at the central bank. Foreign exchange reserves include foreign exchange held in accounts at the central bank.

Foreign assets are the following forms of kuna and foreign currency claims on foreign legal and natural persons: foreign cash in vaults, deposits with foreign banks (including loro letters of credit and other collateral), securities, loans, and equities.

Claims on central government and funds are the following forms of claims in kuna and foreign currency: securities and loans. The main

forms of claims on the central government are shown separately: bonds issued in accordance with the Law on Converting Households' Foreign Exchange Deposits into the Public Debt of the Republic of Croatia, and bonds issued in accordance with the Law on the Issue of Bonds for the Restructuring of the Economy of the Republic of Croatia.

Claims on other domestic sectors include the following claims in kuna and foreign currency: money market instruments, bonds, loans (including acceptances), and equities.

The same forms of kuna and foreign currency claims are included in claims on other banking institutions and other financial institutions, with one difference: Claims on other banking institutions also include deposits with those institutions.

Items Demand deposits, Savings and time deposits, Foreign currency deposits as well as Bonds and money market instruments comprise banks' liabilities to other domestic sectors, other banking institutions and other financial institutions.

Demand deposits include giro and current accounts balances and banks' obligations arising from kuna payment instruments issued, minus currency in the payment system, i.e. checks in banks' vaults and checks in collection.

Savings and time deposits are kuna sight deposits as well as kuna time and notice deposits.

Foreign currency deposits are foreign currency sight deposits as well as foreign currency time and notice deposits.

Bonds and money market instruments are banks' liabilities for securities issued (net) and loans obtained. Issued subordinated and hybrid instruments, purchased by foreign investors, are excluded from this item.

Foreign liabilities comprise the following forms of kuna and foreign currency liabilities to foreign legal and natural persons: giro and current accounts, savings deposits (including loro letters of credit and other forms of collateral), time deposits, loans received and liabilities due. Issued debt and hybrid instruments, purchased by foreign investors, are also included in loans received. Central government and funds' deposits are all forms of DMBs' kuna and foreign currency liabilities (except restricted and blocked deposits) to the central government and funds.

Credit from central bank comprises loans obtained from the CNB and deposits by the CNB with DMBs. Repurchase of securities is also considered and treated as a loan.

Restricted and blocked deposits comprise the following DMBs' liabilities: kuna and foreign currency restricted deposits by other domestic sectors, other banking institutions, other financial institutions, central government and funds as well as foreign legal and natural persons; and households' blocked foreign currency deposits, regulated by the Law on Converting Households' Foreign Exchange

Deposits into the Public Debt of the Republic of Croatia.

Capital accounts are share capital, profit or loss for the current year, retained profit (loss), required reserves, reserves provided for by the articles of association, other capital reserves and provisions for identified and unidentified losses.

Other items (net) are unclassified liabilities decreased by unclassified assets.

In May 1999, bankruptcy proceedings have been initiated against several few banks so their assets and liabilities are excluded from monetary statistics. In April 1999, those banks' share in the DMBs' balance sheet total amounted to 5,701.4 million kuna. On the assets side, most significant were: Claims on enterprises (4,378.7 million kuna) and Claims on households (701.4 million kuna). On the liabilities side, most significant were: Foreign currency deposits (3,443.7 million kuna), Foreign liabilities (1,024.6 million kuna) and Capital accounts (854.6 million kuna). Beginning in July 1999, the total amount of provisions for identified losses is shown within the Capital accounts item. Data for June 1999 are comparable to data for July 1999 if Claims on other domestic sectors and Capital accounts are increased by 3,513.5 million kuna. Other items have been corrected by small amounts.

## Tables: D2-D12

This group of tables (with the exception of Table D5) represents an elaborate presentation of appropriate items of claims and liabilities of DMBs' Accounts (Table D1).

Table D2: Deposit Money Banks' Foreign Assets

End of period, million kuna

	2001	2002											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Foreign assets in f/c	32,763.6	30,757.6	30,781.1	26,321.8	23,166.3	23,220.4	22,264.8	23,357.7	23,766.9	24,604.1	24,913.0	26,459.3	25,924.4
1.1. Claims on foreign banks	31,660.3	29,603.4	29,466.8	25,055.2	21,979.0	22,101.1	21,156.0	22,172.4	22,592.0	23,200.8	23,523.4	22,760.7	21,333.5
Foreign currencies	7,324.7	1,870.2	1,655.8	1,760.3	1,079.0	941.9	1,085.0	1,351.3	1,082.6	825.5	822.5	795.9	1,019.8
Demand deposits	1,231.9	1,046.8	1,129.2	1,080.2	832.4	929.5	1,091.8	928.0	891.7	713.0	735.8	865.9	757.7
Time and notice deposits	21,765.2	25,088.2	24,741.1	20,236.6	18,058.2	18,036.2	16,745.1	17,532.8	18,151.2	18,850.2	18,854.8	18,701.3	17,569.8
Securities	1,008.5	1,262.3	1,611.1	1,646.0	1,680.7	1,848.7	1,899.3	1,972.0	2,076.0	2,443.8	2,776.2	2,083.2	1,690.2
Loans and advances	290.3	295.2	289.6	292.3	288.9	305.0	295.4	348.5	350.7	351.3	316.7	297.2	278.7
Shares and participations	39.7	40.7	40.0	39.8	39.8	39.7	39.4	39.8	39.7	17.0	17.4	17.2	17.2
1.2. Claims on foreign nonbanks	1,103.3	1,154.3	1,314.3	1,266.6	1,187.4	1,119.2	1,108.8	1,185.3	1,174.9	1,403.3	1,389.6	3,698.6	4,590.8
Claims on foreign governments	596.2	611.4	713.6	683.5	683.1	602.8	641.5	716.8	691.0	719.4	618.6	2,859.2	3,855.5
Claims on other nonresidents	505.5	541.3	599.1	581.5	502.7	514.9	465.7	466.9	482.4	682.3	769.4	837.8	733.7
Securities	72.1	75.1	110.2	109.0	57.4	48.8	11.1	11.3	0.0	41.5	117.5	190.9	191.3
Loans and advances	433.4	466.1	488.9	472.5	445.3	466.1	454.6	455.6	482.4	640.8	652.0	646.9	542.4
Shares and participations	1.6	1.6	1.6	1.6	1.6	1.5	1.5	1.6	1.5	1.5	1.6	1.6	1.6
2. Foreign assets in kuna	44.1	35.2	37.2	30.5	55.5	56.1	59.7	63.5	132.9	136.9	86.5	73.1	53.4
2.1. Claims on foreign banks	29.2	22.7	24.8	19.9	19.9	20.6	25.0	25.0	94.5	102.6	48.6	35.5	19.6
2.2. Claims on foreign nonbanks	14.8	12.5	12.4	10.6	35.6	35.5	34.6	38.5	38.4	34.2	38.0	37.6	33.8
o/w: Loans and advances	13.9	11.6	11.6	9.8	34.8	34.6	33.8	37.7	37.6	33.4	37.1	36.7	33.0
Total (1+2)	32,807.6	30,792.8	30,818.3	26,352.3	23,221.9	23,276.4	22,324.4	23,421.2	23,899.8	24,741.0	24,999.5	26,532.4	25,977.8

Table D2: Deposit Money Banks' Foreign Assets

This table shows DMBs' claims on foreign legal and natural persons.

Foreign assets of DMBs' comprise foreign assets in kuna and foreign currency.

Claims on foreign banks and Claims on foreign nonbanks (total and

by financial instruments) are shown separately within both foreign assets in kuna and in foreign currency.

In May 1999, bankruptcy proceedings have been initiated against several banks so their assets and liabilities are excluded from monetary statistics. In April 1999, those banks' Foreign assets amounted to 402.3 million kuna. Through June 1999, some households' f/c savings deposits were included in Demand deposits and f/c savings deposits.

Table D3: Deposit Money Banks' Claims on the Central Government and Funds

End of period, million kuna

	2001	2002											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Bonds (c'part to blocked f/c savings deposits)	3,420.1	3,513.5	2,962.8	2,948.8	2,953.0	2,949.2	2,920.3	2,454.4	2,444.6	2,442.9	2,493.5	2,472.7	2,473.5
2. Big bonds	1,659.4	1,659.3	1,660.1	1,650.9	1,663.8	1,667.3	1,672.3	1,680.7	1,680.1	1,699.7	1,702.6	1,699.4	1,699.1
3. Other claims	14,980.4	17,072.6	16,516.6	17,054.7	16,633.7	15,886.2	15,678.1	15,660.9	15,633.3	16,308.6	17,088.8	17,315.7	17,745.2
3.1. In kuna	12,699.2	13,615.4	13,869.2	14,209.0	13,914.3	13,184.0	12,722.7	12,617.7	12,626.8	13,171.4	13,731.8	13,858.0	14,271.8
3.1.1. Claims on central government	11,150.7	12,014.3	12,309.0	12,664.4	12,617.6	11,942.0	11,512.9	11,447.3	11,449.8	11,556.8	11,767.1	11,854.1	12,270.8
Securities	10,323.7	11,103.4	10,905.2	10,674.4	10,292.1	10,333.8	9,915.1	9,836.5	9,896.5	10,136.8	10,317.7	10,133.3	9,816.5
Loans and advances	826.9	910.8	1,403.8	1,990.0	2,325.4	1,608.2	1,597.8	1,610.8	1,553.3	1,420.1	1,449.4	1,720.8	2,454.3
3.1.2. Claims on central government funds	1,548.5	1,601.2	1,560.2	1,544.6	1,296.7	1,242.0	1,209.8	1,170.4	1,176.9	1,614.6	1,964.7	2,003.9	2,001.0
Securities	560.1	599.5	583.2	583.5	548.0	592.5	560.0	522.9	529.8	546.8	547.2	567.7	560.7
Loans and advances	988.4	1,001.7	977.0	961.0	748.7	649.5	649.8	647.5	647.1	1,067.8	1,417.4	1,436.2	1,440.3
3.2. In f/c	2,281.2	3,457.1	2,647.5	2,845.7	2,719.4	2,702.2	2,955.5	3,043.2	3,006.6	3,137.1	3,357.1	3,457.7	3,473.3
3.2.1. Claims on central government	1,390.9	2,525.5	1,761.2	1,935.7	1,833.5	1,825.6	2,047.7	2,153.0	2,122.3	2,258.2	2,466.2	2,498.5	2,359.1
Bonds	1,065.5	1,534.3	1,377.3	1,555.2	1,459.2	1,441.4	1,445.2	1,580.3	1,551.7	1,688.8	1,819.1	1,935.1	1,733.4
Loans and advances	325.5	991.1	383.9	380.5	374.2	384.3	602.4	572.7	570.6	569.3	647.1	563.3	625.7
3.2.2. Claims on central government funds	890.3	931.6	886.2	910.0	885.9	876.5	907.8	890.2	884.3	878.9	890.9	959.2	1,114.2
Securities	75.4	78.3	68.5	69.6	68.7	40.7	38.3	39.6	39.4	31.6	32.2	36.3	195.0
Loans and advances	814.8	853.3	817.8	840.4	817.3	835.8	869.5	850.6	844.8	847.3	858.7	923.0	919.2
Total (1+2+3)	20,059.9	22,245.3	21,139.6	21,654.3	21,250.5	20,502.7	20,270.8	19,796.0	19,758.0	20,451.1	21,284.9	21,487.8	21,917.7

### Table D3: Deposit Money Banks' Claims on the Central Government and Funds

The table shows kuna and foreign currency DMBs' claims on the central government and funds.

Bonds arising from blocked foreign currency savings deposits are issued in accordance with the Law on Converting Households' Foreign Exchange Deposits into the Public Debt of the Republic of Croatia.

Big bonds are those issued in accordance with the Law on the Issue of Bonds for the Restructuring of the Economy of the Republic of Croatia.

Other claims are all other DMBs' kuna and foreign currency claims on central government and funds: securities, loans and equities.

In May 1999, bankruptcy proceedings have been initiated against several banks so their assets and liabilities are excluded from monetary statistics. In April 1999, those banks' Claims on central government and funds amounted to 17.8 million kuna.

### Table D4: Deposit Money Banks' Claims on Other Domestic Sectors

End of period, million kuna

	2001	2002											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Claims in kuna	66,626.8	68,814.9	68,740.8	70,267.6	72,327.9	74,192.6	75,541.2	78,058.2	79,499.3	80,640.3	83,446.5	84,263.0	85,418.7
1.1. Money market instruments	544.7	569.4	588.8	619.7	645.5	726.2	778.8	878.1	926.7	1,190.8	1,293.2	1,350.7	1,394.7
1.2. Bonds	7.7	70.6	126.5	124.5	168.1	167.1	163.1	161.6	119.6	118.6	111.6	72.3	72.4
1.3. Loans and advances	62,180.6	64,558.0	64,389.1	65,820.6	67,653.7	69,516.3	70,852.8	73,500.9	74,919.4	75,767.3	78,840.0	79,580.6	80,887.6
1.4. Shares and participations	3,893.8	3,616.9	3,636.4	3,702.8	3,860.7	3,783.0	3,746.5	3,517.6	3,533.5	3,563.6	3,201.8	3,259.3	3,064.0
2. Claims in f/c	7,657.0	7,787.2	7,978.2	8,835.5	9,117.3	9,050.0	8,581.9	8,536.0	8,755.7	9,327.6	9,915.4	10,079.5	10,799.8
2.1. Securities	126.6	131.2	129.1	201.6	396.8	392.8	380.4	310.2	334.6	276.1	242.9	240.2	243.2
2.2. Loans and advances	7,530.5	7,656.1	7,849.1	8,633.9	8,720.5	8,657.2	8,201.5	8,225.8	8,421.1	9,051.5	9,672.5	9,839.3	10,556.6
Total (1+2)	74,283.8	76,602.1	76,719.0	79,103.2	81,445.2	83,242.6	84,123.1	86,594.2	88,254.9	89,967.9	93,361.9	94,342.5	96,218.4

### Table D4: Deposit Money Banks' Claims on Other Domestic Sectors

The table shows DMBs' kuna and foreign currency claims on other domestic sectors, classified according to financial instruments: money market instruments, bonds, loans and advances (including acceptances and purchased claims), and equities and arrears.

Until October 1994, foreign currency loans could be granted only when a DMB simultaneously borrowed abroad in their own name

and for the account of the end-user.

In May 1999, bankruptcy proceedings have been initiated against several banks so their assets and liabilities are excluded from monetary statistics. In April 1999, those banks' Claims on other domestic sector amounted to 5,088.0 million kuna. Data for June 1999 are comparable with data for July 1999 if item Loans and advances under Claims in kuna is increased by 2,904.3 million kuna, item Shares and participations is decreased by 520.3 million kuna, and if item Loans and advances under Claims in f/c is increased by 1,129.4 million kuna.

Table D5: Distribution of Deposit Money Banks' Loans by Domestic Institutional Sectors

End of period, million kuna

	2001	2002											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
<b>LOANS IN KUNA</b>													
1. Loans to central government and funds	1,815.4	1,912.5	2,380.8	2,951.0	3,074.2	2,257.7	2,247.6	2,258.3	2,200.4	2,487.8	2,866.8	3,157.0	3,894.6
1.1. Loans to central government	826.9	910.8	1,403.8	1,990.0	2,325.4	1,608.2	1,597.8	1,610.8	1,553.3	1,420.1	1,449.4	1,720.8	2,454.3
1.2. Loans to central government funds	988.4	1,001.7	977.0	961.0	748.7	649.5	649.8	647.5	647.1	1,067.8	1,417.4	1,436.2	1,440.3
2. Loans to local governments and funds	1,069.1	1,025.5	994.3	965.3	945.7	941.6	969.5	970.7	943.1	935.0	932.7	1,039.8	1,202.9
3. Loans to enterprises	31,049.4	32,381.7	32,123.5	32,361.7	32,978.9	33,469.3	33,973.5	34,775.7	35,434.5	35,549.7	36,697.6	36,606.6	36,708.1
4. Loans to households	30,062.1	31,150.9	31,271.3	32,493.6	33,729.1	35,105.4	35,909.8	37,754.5	38,541.8	39,282.6	41,209.7	41,934.3	42,976.6
o/w: Housing loans	9,450.0	9,762.8	9,696.3	9,793.8	9,948.7	10,134.4	10,245.9	10,631.6	10,844.4	11,321.0	11,892.9	12,095.0	12,363.4
5. Loans to other banking institutions	34.7	40.4	43.2	34.6	22.4	21.9	19.3	19.4	19.3	18.6	18.7	18.4	17.6
6. Loans to other financial institutions	240.9	294.7	264.3	320.5	319.3	321.0	472.5	410.6	418.1	802.3	532.5	347.9	521.3
A. Total (1+2+3+4+5+6)	64,271.6	66,805.7	67,077.4	69,126.8	71,069.5	72,116.9	73,592.3	76,189.2	77,557.2	79,076.1	82,258.0	83,104.0	85,321.1
<b>LOANS IN F/C</b>													
1. Loans to central government and funds	1,140.3	1,844.5	1,201.7	1,221.0	1,191.5	1,220.1	1,471.9	1,423.3	1,415.5	1,416.6	1,505.8	1,486.3	1,544.9
1.1. Loans to central government	325.5	991.1	383.9	380.5	374.2	384.3	602.4	572.7	570.6	569.3	647.1	563.3	625.7
1.2. Loans to central government funds	814.8	853.3	817.8	840.4	817.3	835.8	869.5	850.6	844.8	847.3	858.7	923.0	919.2
2. Loans to local governments and funds	179.1	182.5	179.2	179.1	177.2	176.8	165.5	165.3	164.6	163.9	166.2	163.9	152.3
3. Loans to enterprises	7,291.7	7,409.3	7,607.4	8,385.4	8,472.4	8,405.6	7,959.7	7,980.5	8,175.4	8,805.4	9,416.5	9,586.4	10,308.3
4. Loans to households	59.7	64.2	62.5	69.4	70.9	74.8	76.2	80.1	81.1	82.2	89.7	89.0	96.0
5. Loans to other banking institutions	-	-	-	-	-	-	-	-	-	-	-	-	1.2
6. Loans to other financial institutions	-	-	-	-	-	29.5	43.9	118.3	33.2	11.0	2.0	8.7	28.3
B. Total (1+2+3+4+5+6)	8,670.7	9,500.6	9,050.8	9,854.9	9,912.0	9,906.8	9,717.4	9,767.5	9,869.7	10,479.1	11,180.3	11,334.3	12,131.0
TOTAL (A+B)	72,942.3	76,306.3	76,128.1	78,981.7	80,981.5	82,023.6	83,309.6	85,956.7	87,426.9	89,555.2	93,438.3	94,438.3	97,452.1

Table D5: Distribution of Deposit Money Banks' Loans by Domestic Institutional Sectors

The table shows data on kuna and foreign currency loans granted by DMBs to domestic sectors, including acceptances, financial leases, payments made on the basis of guarantees and similar instruments and purchased claims.

In May 1999, bankruptcy proceedings have been initiated against several banks so their assets and liabilities are excluded from monetary statistics. In April 1999, those banks' loans amounted to 4,463.3 million kuna. Data for June 1999 are comparable with data for July 1999 if total loans in kuna are increased by 2,972.6 million kuna, and total loans in f/c are increased by 840.9 million kuna.

Table D6: Demand Deposits with Deposit Money Banks

End of period, million kuna

	2001	2002											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Local governments and funds	907.0	811.3	918.0	1,014.8	1,396.3	1,520.6	1,515.2	1,562.0	1,653.4	1,754.3	1,751.3	1,852.8	1,910.4
2. Enterprises	8,981.6	8,037.9	7,506.2	8,587.7	9,729.5	9,901.3	10,421.0	10,426.3	10,658.2	10,783.6	11,322.6	11,363.1	12,344.5
3. Households	4,872.0	4,803.0	4,970.9	4,979.6	5,317.3	5,504.4	5,828.0	5,909.5	6,072.2	6,024.5	5,841.1	5,916.7	6,307.4
4. Other banking institutions	17.0	20.0	28.4	25.7	37.1	22.5	22.8	20.0	16.3	16.7	17.3	18.9	42.1
5. Other financial institutions	407.1	461.3	376.7	622.0	826.6	487.9	567.5	739.7	802.1	642.7	650.8	581.8	568.1
6. Less: Checks of other banks and checks in collection	-4.2	-3.9	-4.1	-4.7	-5.3	-6.3	-8.0	-7.1	-6.4	-6.3	-6.4	-5.1	-6.4
Total (1+2+3+4+5+6)	15,180.6	14,129.6	13,796.1	15,225.2	17,301.4	17,430.2	18,346.6	18,650.4	19,195.7	19,215.4	19,576.7	19,728.1	21,166.2

Table D6: Demand Deposits with Deposit Money Banks

The table shows demand deposits with DMBs, classified by domestic institutional sectors.

Demand deposits are the sum of other domestic sectors', other banking institutions' and other financial institutions' giro and cur-

rent accounts balances, minus currency in the payment system (i.e. amount of checks in banks' vaults and checks in collection). Banks' obligations arising from kuna payment instruments issued are included in the household sector.

In May 1999, bankruptcy proceedings have been initiated against several banks so their assets and liabilities are excluded from monetary statistics. In April 1999, Demand deposits with those banks amounted to 259.3 million kuna.

Table D7: Time and Savings Deposits with Deposit Money Banks

End of period, million kuna

	2001	2002											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Savings deposits	2,006.8	2,053.7	2,041.9	1,916.8	1,980.5	1,986.0	2,064.9	2,081.1	2,088.4	2,164.1	2,098.5	2,133.5	2,236.2
1.1. Local governments and funds	118.3	127.7	132.4	13.3	9.6	8.6	10.8	12.8	14.9	15.5	16.6	14.9	14.8
1.2. Enterprises	88.0	104.2	87.2	105.2	93.5	65.8	71.4	124.0	136.8	192.6	156.8	182.5	213.3
1.3. Households	1,712.2	1,728.4	1,779.4	1,780.9	1,797.5	1,831.0	1,908.9	1,898.8	1,910.8	1,948.3	1,912.6	1,927.3	1,996.3
1.4. Other banking institutions	20.8	68.2	0.0	0.0	66.1	72.9	66.4	0.2	0.1	0.0	0.0	0.0	0.0
1.5. Other financial institutions	67.5	25.2	42.9	17.3	14.0	7.7	7.4	45.3	25.8	7.7	12.5	8.8	11.8
2. Time and notice deposits	8,206.3	8,868.5	8,742.7	8,709.9	8,720.0	8,864.5	8,880.0	9,322.7	9,591.8	9,667.5	10,221.6	10,540.3	10,764.9
2.1. Local governments and funds	340.7	374.5	382.2	409.9	402.3	497.9	462.2	474.6	494.6	575.1	595.1	589.8	482.8
2.2. Enterprises	3,618.3	4,088.1	3,858.7	3,853.4	3,817.4	3,796.6	3,616.3	3,794.4	4,014.1	4,037.2	4,362.7	4,539.9	4,633.6
2.3. Households	2,554.1	2,697.8	2,767.2	2,803.2	2,886.0	3,036.1	3,221.7	3,385.0	3,423.1	3,488.2	3,580.1	3,684.8	3,793.8
2.4. Other banking institutions	24.7	24.5	18.5	14.5	7.1	22.8	27.0	30.3	44.9	35.3	37.1	37.0	58.4
2.5. Other financial institutions	1,668.5	1,683.7	1,716.1	1,628.9	1,607.3	1,511.1	1,552.9	1,638.4	1,615.0	1,531.7	1,646.7	1,688.8	1,796.3
Total (1+2)	10,213.1	10,922.3	10,784.6	10,626.7	10,700.5	10,850.5	10,945.0	11,403.8	11,680.1	11,831.6	12,320.1	12,673.8	13,001.1

Table D7: Time and Savings Deposits with Deposit Money Banks

The table shows Kuna savings and time deposits by other domestic sectors, other banking institutions and other financial institutions with DMBs.

In May 1999, bankruptcy proceedings have been initiated against several banks so their assets and liabilities are excluded from monetary statistics. In April 1999, Time and savings deposits with those banks amounted to 323.7 million kuna. In July 1999, certain deposits of local government, enterprises, other banking institutions and other financial institutions were reclassified from savings to time deposits.

Table D8: Foreign Currency Deposits with Deposit Money Banks

End of period, million kuna

	2001	2002											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Savings deposits	23,748.8	24,212.3	23,200.6	21,658.3	20,767.1	21,026.8	20,419.4	21,369.8	21,857.4	21,947.7	21,828.5	21,271.9	21,074.4
1.1. Local governments and funds	13.2	18.8	13.0	16.2	16.2	16.5	17.0	13.6	13.8	13.5	13.2	13.2	12.2
1.2. Enterprises	2,884.2	3,249.3	2,971.2	2,819.3	2,838.8	3,341.2	3,042.6	3,631.9	3,751.3	3,989.6	3,648.7	3,346.7	3,346.7
1.3. Households	20,688.3	20,736.5	20,079.5	18,721.1	17,797.9	17,503.7	17,204.4	17,551.6	17,900.8	17,823.5	17,954.9	17,605.3	17,537.3
1.4. Other banking institutions	23.9	21.9	25.0	18.3	17.2	16.7	17.4	18.5	19.0	20.1	17.5	16.3	34.7
1.5. Other financial institutions	139.2	185.8	111.9	83.4	97.0	148.7	138.0	154.2	172.4	100.8	194.2	290.5	143.5
2. Time deposits	48,088.1	50,685.4	50,417.6	49,280.6	48,104.9	47,670.3	46,740.4	47,843.4	49,716.9	50,306.6	51,336.9	51,018.9	50,980.3
2.1. Local governments and funds	1.7	1.8	5.7	9.7	9.7	9.3	9.5	11.1	10.8	12.5	13.0	12.5	9.5
2.2. Enterprises	4,619.1	4,814.3	4,959.6	5,040.9	4,868.2	4,896.5	4,723.1	4,815.3	5,908.5	6,302.3	6,207.2	6,144.8	6,009.6
2.3. Households	42,705.4	44,936.5	44,646.2	43,324.6	42,454.2	41,984.4	41,232.1	42,229.7	42,887.8	43,109.5	44,225.8	43,979.3	44,159.2
2.4. Other banking institutions	11.5	11.7	5.9	9.4	12.5	20.4	22.4	22.0	21.9	21.7	22.2	22.0	41.5
2.5. Other financial institutions	750.3	921.1	800.3	896.0	760.2	759.7	753.3	765.3	887.9	860.6	868.7	860.3	760.5
Total (1+2)	71,836.9	74,897.7	73,618.2	70,938.8	68,872.0	68,697.1	67,159.9	69,213.2	71,574.3	72,254.2	73,165.4	72,290.8	72,054.6

Table D8: Foreign Currency Deposits with Deposit Money Banks

The table shows foreign currency savings and time deposits by other domestic sectors, other banking institutions and other financial institutions with DMBs. Foreign currency savings deposits are all foreign currency sight deposits and foreign currency payment instruments

issued while foreign currency time deposits also include foreign currency notice deposits.

In May 1999, bankruptcy proceedings have been initiated against several banks so their assets and liabilities are excluded from monetary statistics. In April 1999, Foreign currency deposits with those banks amounted to 3,443.7 million kuna.

Table D9: Bonds and Money Market Instruments

End of period, million kuna

	2001	2002											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Money market instruments (net)	–	–	–	–	–	–	–	–	4.9	4.9	4.9	4.9	5.1
2. Bonds (net)	104.4	107.8	105.5	103.4	105.1	100.9	96.2	97.1	96.9	96.3	97.7	95.2	92.8
3. Other domestic borrowing	213.4	321.3	510.7	201.0	237.1	80.8	137.9	72.7	178.2	174.6	147.7	103.6	118.4
3.1. Local governments and funds	–	–	–	–	–	–	–	–	–	–	–	–	–
3.2. Enterprises	158.1	196.3	204.0	45.8	45.2	44.3	44.0	43.5	44.6	44.4	45.5	46.0	46.3
3.3. Other banking institutions	4.6	4.8	5.1	4.8	3.6	1.6	2.5	–	–	1.2	1.0	4.0	10.0
3.4. Other financial institutions	50.7	120.2	301.6	150.4	188.3	34.8	91.4	29.2	133.6	129.0	101.2	53.6	62.0
Total (1+2+3)	317.8	429.1	616.2	304.4	342.1	181.6	234.1	169.8	280.0	275.8	250.4	203.7	216.3

Table D9: Bonds and Money Market Instruments

The table shows DMBs' liabilities for securities issued (net) and loans received from other domestic sectors, other banking institutions and other financial institutions.

Money market instruments (net) comprise DMBs' net liabilities for CNB bills, bills of exchange (issued and accepted) and other securities issued.

Bonds (net) comprise DMBs' net liabilities for kuna and foreign cur-

rency bonds issued, as well as issued subordinated and hybrid instruments, excluding those purchased by foreign investors.

Other domestic borrowing comprises loans received, reported total and classified by institutional sectors.

In May 1999, bankruptcy proceedings have been initiated against several banks so their assets and liabilities are excluded from monetary statistics. In April 1999, those banks' Bonds and Money market instruments amounted to 9 million kuna. In July 1999, certain debt and hybrid instruments were reclassified from Time and notice deposits to Bonds (net). The amount reclassified was 3,513.5 million kuna.

Table D10: Deposit Money Banks' Foreign Liabilities

End of period, million kuna

	2001	2002											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Foreign liabilities in f/c	21,692.7	22,129.4	22,156.2	22,109.0	22,320.2	24,044.4	24,091.5	24,801.7	24,130.2	25,709.5	28,209.1	30,259.3	34,198.5
1.1. Liabilities to foreign banks	16,407.4	16,617.9	16,678.8	16,644.2	16,904.0	18,622.8	18,794.9	19,428.7	18,710.0	20,302.3	22,612.1	24,703.4	28,662.3
Demand deposits	147.1	121.0	95.5	113.2	95.8	284.8	314.3	107.1	93.8	93.7	110.1	110.4	130.9
Time and notice deposits	1,208.3	1,295.5	1,470.2	1,677.4	2,543.2	4,006.8	4,118.7	4,977.8	4,534.3	5,948.2	6,369.9	7,786.2	9,002.9
Loans and advances	15,052.1	15,201.4	15,113.2	14,853.6	14,265.1	14,331.1	14,361.8	14,343.8	14,081.9	14,260.4	16,132.1	16,806.8	19,528.5
1.2. Liabilities to foreign nonbanks	5,285.2	5,511.5	5,477.4	5,464.8	5,416.1	5,421.6	5,296.6	5,373.0	5,420.2	5,407.2	5,597.0	5,556.0	5,536.2
Savings and time deposits	3,777.8	3,990.1	3,981.2	3,977.1	3,941.3	3,975.3	3,887.9	3,975.3	4,028.1	4,018.0	4,180.3	4,160.5	4,160.2
Sight deposits	873.7	911.9	902.2	925.9	901.4	938.4	883.8	901.4	898.5	890.5	903.6	877.4	875.6
Time and notice deposits	2,904.1	3,078.2	3,079.0	3,051.2	3,039.8	3,036.9	3,004.2	3,073.9	3,129.7	3,127.5	3,276.7	3,283.1	3,284.6
Loans and advances	1,507.4	1,521.4	1,496.3	1,487.7	1,474.9	1,446.3	1,408.6	1,397.7	1,392.1	1,389.2	1,416.7	1,395.4	1,376.0
2. Foreign liabilities in kuna	165.1	157.4	144.1	1,035.1	217.9	844.6	764.2	1,003.2	261.1	202.7	406.9	399.4	825.0
2.1. Liabilities to foreign banks	46.9	59.4	46.4	949.4	126.6	756.3	675.5	912.1	178.7	134.3	280.8	265.3	690.9
Demand deposits	38.2	39.6	39.9	50.7	112.5	394.1	316.7	306.6	93.2	40.5	192.8	77.6	53.6
Time and notice deposits	4.2	14.5	4.6	880.4	12.7	10.7	7.4	83.7	76.3	83.3	83.3	74.8	635.8
Loans and advances	4.5	5.4	2.0	18.3	1.5	351.4	351.4	521.9	9.2	10.5	4.8	112.9	1.5
2.2. Liabilities to foreign nonbanks	118.2	98.0	97.7	85.7	91.3	88.3	88.6	91.1	82.4	68.4	126.1	134.1	134.1
Demand deposits	60.1	57.7	57.9	53.2	58.9	55.6	55.6	56.6	51.7	62.0	49.6	53.9	56.2
Time and notice deposits	58.1	40.2	39.8	32.5	32.4	32.8	33.1	34.4	30.7	6.4	76.5	80.2	77.9
Loans and advances	–	–	–	–	–	–	–	–	–	–	–	–	–
Total (1+2)	21,857.8	22,286.8	22,300.4	23,144.1	22,538.1	24,889.0	24,855.7	25,804.9	24,391.3	25,912.2	28,616.0	30,658.7	35,023.5

Table D10: Deposit Money Banks' Foreign Liabilities

The table shows DMBs' total foreign currency and kuna liabilities to foreign legal and natural persons, with the exception of restricted kuna and foreign currency deposits by foreign legal and natural persons.

DMBs' foreign liabilities comprise foreign currency liabilities and foreign kuna liabilities.

Within foreign kuna and foreign currency liabilities, liabilities to foreign banks are reported separately from liabilities to foreign nonbanks (total and by financial instruments). Within foreign liabilities in f/c, loans and advances also include issued subordinated and hybrid instruments purchased by foreign investors.

In May 1999, bankruptcy proceedings have been initiated against several banks so their assets and liabilities are excluded from monetary statistics. In April 1999, those banks' Foreign liabilities amounted to 1,024.6 million kuna.

Table D11: Central Government and Funds' Deposits with Deposit Money Banks

End of period, million kuna

	2001	2002											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. In kuna	3,335.1	3,386.3	3,651.9	3,685.8	3,759.2	3,658.7	3,628.0	3,720.6	3,812.3	4,213.3	3,992.1	3,840.3	4,036.8
1.1. Central government deposits	295.9	272.4	443.7	583.0	711.1	647.0	540.3	528.3	554.1	527.3	631.7	576.4	634.3
Demand deposits	33.9	23.0	106.8	249.3	397.2	327.6	240.3	222.4	263.1	263.7	399.0	352.3	476.4
Savings deposits	41.6	34.1	38.1	33.3	17.3	9.1	0.4	0.3	0.3	3.3	3.3	3.3	3.3
Time and notice deposits	217.6	212.1	295.9	297.6	293.7	307.4	296.8	302.7	287.9	259.3	228.4	219.8	153.6
Loans and advances	2.8	3.2	2.9	2.9	2.9	2.9	2.8	2.9	2.8	1.0	1.1	1.1	1.1
1.2. Central government funds' deposits	3,039.2	3,113.9	3,208.2	3,102.8	3,048.1	3,011.7	3,087.7	3,192.3	3,258.2	3,686.1	3,360.4	3,263.9	3,402.5
Demand deposits	214.6	188.7	263.0	156.2	201.1	221.0	301.8	319.2	401.4	884.1	416.6	422.3	553.2
Savings deposits	10.8	7.1	7.7	7.6	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.1	0.0
Time and notice deposits	195.2	233.0	250.0	232.2	240.0	222.0	204.1	189.0	154.8	169.7	195.0	168.1	144.3
Loans and advances	2,618.6	2,685.1	2,687.5	2,706.7	2,607.0	2,568.7	2,581.8	2,684.0	2,702.0	2,632.2	2,748.7	2,673.4	2,705.0
2. In f/c	2,299.6	2,229.1	2,878.1	2,205.0	2,444.7	2,549.0	3,479.5	2,729.1	2,709.0	3,075.1	2,822.9	3,699.2	2,058.1
2.1. Central government deposits	2,275.0	2,187.9	2,835.9	2,146.8	2,383.9	2,487.5	3,406.8	2,635.6	2,602.6	2,967.3	2,715.2	3,580.8	1,938.9
Savings deposits	329.8	296.5	433.9	311.8	613.9	771.4	1,811.7	1,128.3	1,065.1	881.2	629.4	1,528.4	263.0
Time and notice deposits	55.8	57.3	597.4	52.6	52.6	52.6	50.9	51.6	88.3	633.8	609.9	604.4	293.1
Refinanced loans and advances	1,889.5	1,834.1	1,804.6	1,782.4	1,717.5	1,663.4	1,544.2	1,455.7	1,449.2	1,452.3	1,476.0	1,448.0	1,382.8
2.2. Central government funds' deposits	24.5	41.2	42.3	58.2	60.8	61.6	72.7	93.5	106.3	107.8	107.7	118.4	119.2
Savings deposits	22.9	41.2	42.3	56.9	60.8	61.6	71.3	93.5	92.6	104.3	104.1	100.4	114.1
Time and notice deposits	1.6	0.0	-	1.4	-	-	1.5	-	13.7	3.5	3.6	18.0	5.0
Total (1+2)	5,634.7	5,615.4	6,530.0	5,890.8	6,203.9	6,207.7	7,107.5	6,449.7	6,521.3	7,288.4	6,815.0	7,539.5	6,094.9

Table D11: Central Government and Funds' Deposits with Deposit Money Banks

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

Kuna and foreign currency deposits by the Republic of Croatia and central government funds are shown separately. Kuna deposits

comprise demand deposits, savings deposits, kuna time and notice deposits, and kuna loans obtained from the central government and funds. Foreign currency deposits comprise foreign currency sight deposits, as well as savings deposits, foreign currency time and notice deposits.

In May 1999, bankruptcy proceedings have been initiated against several banks so their assets and liabilities are excluded from monetary statistics. In April 1999, Central government and funds deposits with those banks amounted to 193.5 million kuna.

Table D12: Restricted and Blocked Deposits with Deposit Money Banks

End of period, million kuna

	2001	2002											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Restricted deposits	830.6	690.2	631.9	1,212.7	1,347.7	1,292.4	1,479.1	1,325.5	1,316.1	1,510.2	1,437.2	1,466.7	1,361.2
1.1. In kuna	100.3	101.2	116.9	393.7	755.6	791.5	791.5	701.6	706.5	772.0	738.2	796.6	789.6
1.2. In f/c	730.3	589.0	515.0	819.0	592.2	501.0	687.6	623.9	609.6	738.2	699.0	670.1	571.6
2. Blocked f/c deposits	770.2	610.4	564.9	538.6	513.2	496.4	474.0	388.5	372.1	363.3	335.0	327.0	319.3
2.1. Central government	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Enterprises	-	-	-	-	-	-	-	-	-	-	-	-	-
2.3. Households	770.2	610.4	564.9	538.6	513.2	496.4	474.0	388.5	372.1	363.3	335.0	327.0	319.3
Total (1+2)	1,600.8	1,300.6	1,196.8	1,751.3	1,861.0	1,788.8	1,953.1	1,714.0	1,688.2	1,873.5	1,772.3	1,793.7	1,680.5

Table D12: Restricted and Blocked Deposits with Deposit Money Banks

The table shows restricted and blocked deposits by the central government and funds, other domestic sectors, other banking institutions, other financial institutions and foreign legal and natural persons with DMBs.

Restricted and blocked deposits include two categories of deposits: restricted (kuna and foreign currency) deposits and blocked foreign currency deposits.

Blocked foreign currency deposits include households' foreign currency deposits regulated by the Law on Converting Households' Foreign Exchange Deposits into the Public Debt of the Republic of Croatia.

In May 1999, bankruptcy proceedings have been initiated against several banks so their assets and liabilities are excluded from monetary statistics. In April 1999, Restricted and blocked deposits with those banks amounted to 39.9 million kuna. In July 1999, data on blocked deposits of the central government and of enterprises were revised.

Table E1: Housing Savings Banks' Accounts

End of period, million kuna

	2001	2002											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
<b>ASSETS</b>													
1. Reserves with the CNB	15.5	5.2	10.8	4.0	4.7	8.3	3.6	8.5	10.9	18.3	7.0	15.9	19.1
2. Claims on central government and funds	1,208.8	1,266.1	1,270.0	1,310.3	1,333.4	1,322.1	1,359.4	1,405.4	1,507.8	1,569.3	1,656.5	1,683.3	1,983.9
3. Claims on other domestic sectors	11.6	14.8	19.7	25.0	32.1	63.6	46.7	58.6	66.3	72.3	80.6	86.6	93.3
o/w: Claims on households	11.6	14.8	19.7	25.0	32.1	39.3	46.7	58.6	66.3	72.3	80.6	86.6	91.3
4. Claims on banks	18.1	19.6	15.9	15.1	8.9	7.6	13.3	11.1	37.1	7.3	16.1	20.1	37.2
5. Claims on other banking institutions	–	–	–	–	–	–	–	–	–	–	–	–	–
Total (1+2+3+4+5)	1,254.0	1,305.6	1,316.3	1,354.5	1,379.1	1,401.7	1,423.1	1,483.6	1,622.1	1,667.3	1,760.2	1,805.9	2,133.6
<b>LIABILITIES</b>													
1. Time deposits	1,137.5	1,204.1	1,216.5	1,253.8	1,287.6	1,321.9	1,350.7	1,406.6	1,531.0	1,573.6	1,665.8	1,707.6	2,012.9
2. Bonds and money market instruments	10.0	10.0	10.0	10.0	11.2	11.2	10.0	–	–	–	–	–	–
3. Capital accounts	124.0	122.1	119.9	120.3	117.4	113.7	91.5	110.1	113.1	117.1	120.2	124.3	141.1
4. Other items (net)	–17.5	–30.6	–30.1	–29.7	–37.1	–45.1	–29.1	–33.1	–22.0	–23.4	–25.8	–25.9	–20.4
Total (1+2+3+4)	1,254.0	1,305.6	1,316.3	1,354.5	1,379.1	1,401.7	1,423.1	1,483.6	1,622.1	1,667.3	1,760.2	1,805.9	2,133.6

Table E1: Housing Savings Banks' Accounts

Housing savings banks' accounts include data on claims and liabilities of the Croatian housing savings banks. All housing savings banks' claims and liabilities refer exclusively to domestic sectors.

Housing savings banks' required reserves held at the central bank include kuna vault cash and kuna funds held in accounts at the central bank.

Claims on central government and funds are claims in kuna on the Republic of Croatia and central government funds.

Claims on other domestic sectors include kuna loans to local government and households.

Claims on banks include loans extended to banks, as well as deposits with banks.

Claims on other banking institutions include investments in investment funds.

Item Time deposits includes local government and households' time deposits.

Bonds and money market instruments are housing savings banks' liabilities for securities issued (net) and loans obtained.

Capital accounts include share capital, profit or loss for the current year, retained profit (loss), required reserves, reserves provided for by the articles of association, other capital reserves and provisions for identified and unidentified losses.

Other items (net) are unclassified liabilities decreased by unclassified assets.

Table F1: Credit Rates of the Croatian National Bank

In percentage, on annual basis

Year	Month	CNB discount rate	Credit rates						
			On lombard credits	On intervention credits	On intra-day refinance facility	On short-term liquidity credits	On advances on the account of statutory reserves	On inaccurately calculated statutory reserves	On arrears
1	2	3	4	5	6	7	8	9	10
1994	December	8.50	18.00	19.00	17.00	14.00	–	19.00	22.00
1995	December	8.50	25.49	19.00	17.00	–	–	19.00	22.00
1996	December	6.50	11.00	19.00	17.00	–	–	19.00	18.00
1997	December	5.90	9.50	19.00	17.00	–	–	19.00	18.00
1998	December	5.90	12.00	19.00	7.00	14.00	–	19.00	18.00
1999	December	7.90	13.00	19.00	–	14.00	–	19.00	18.00
2000	December	5.90	12.00	18.00	–	13.00	–	18.00	18.00
2001	December	5.90	10.00	–	–	11.00	–	15.00	18.00
2002	January	5.90	10.00	–	–	11.00	–	15.00	18.00
	February	5.90	10.00	–	–	11.00	–	15.00	18.00
	March	5.90	10.00	–	–	11.00	–	15.00	18.00
	April	5.90	9.50 <sup>a</sup>	–	–	10.50	–	15.00	18.00
	May	5.90	9.50	–	–	10.50	–	15.00	18.00
	June	5.90	9.50	–	–	10.50	–	15.00	18.00
	July	5.90	9.50	–	–	10.50	–	15.00	15.00
	August	5.90	9.50	–	–	10.50	–	15.00	15.00
	September	5.90	9.50	–	–	10.50	–	15.00	15.00
	October	4.50 <sup>b</sup>	9.50	–	–	10.50	–	15.00	15.00
	November	4.50	9.50	–	–	10.50	–	15.00	15.00
	December	4.50	9.50	–	–	10.50	–	15.00	15.00

<sup>a</sup> Since 24 April 2002. <sup>b</sup> Since 23 October 2002.

Table F1: Credit Rates of the Croatian National Bank

The table shows interest rates used by the CNB to calculate and charge interest on loans and on all other claims.

Credit rates of the CNB are being set by special decisions of the Council of the Croatian National Bank, on annual basis. Exceptionally, from June 1995 to September 11, 1996 interest rate charged by the CNB on lombard credits was 1.5 percentage point higher than the weighted average interest rate on CNB bills on a voluntary basis (which serve as collateral for lombard credits) in cases when the weighted average interest rate was higher than 16.5%. Congruently, from June 1995 to August 1996 the table reports weighted average interest rate on lombard credits. Interest rate in September 1996 is calculated as the weighted average of interest rate applied in the first 10 days of September 1996 (according to the regime mentioned above) and fixed interest rate applied since September 11, 1996.

Time series presented in the table contain certain breaks, due to changes in CNB's monetary policy instruments. Consequently, until November 1994, column 4 shows interest rates on regular credits for maintenance of day-to-day liquidity, which were granted based on securities portfolio, and from December 1994 onwards, interest rates on lombard credits.

Furthermore, data shown in column 6 refer, until September 1994, to interest rates on special credits for savings deposits' payments and for payments from households' current accounts, and from October 1994 until September 1997 to interest rates on daily credits for savings deposits and households' current accounts in kuna. Daily credits, as opposed to special credits, are paid back on the same day. In October 1997, this instrument was replaced by daily credits for overcoming

short-term liquidity problems that are collateralized by CNB bills. Since December 1998 until April 1999, this credit is incorporated in lombard credit, applying different interest rate for its usage within one day.

Data shown in column 7 refer, until December 1994, to interest rate on initial credits, and since March 18, 1998, to credits for overcoming liquidity problems of banks under evaluation for entry into rehabilitation and restructuring procedures and since February 1999, to interest rates on short-term liquidity credits. Since December 1999, data show interest rates on short-term liquidity credit with a maturity over 3 months which is 1 percentage point higher than interest rate on lombard credits. Interest rate on short-term liquidity credit up to 3 months is 0.5 percentage point higher than interest rate on lombard credits.

Interest rates reported in column 8 refer to the use of statutory reserves, which was being used by banks (in prescribed percentage) to maintain day-to-day liquidity until September 1994. Interest rates paid until September 1994 on the use of statutory reserve funds in amount above prescribed and/or for longer period than allowed are shown in column 9. Since October 1994, interest rates paid on the use of statutory reserve funds are the same as those used for any other failure to fulfill financial obligations, in accordance with the late interest regulations (shown in column 10).

Until June 1994, the same interest rate was applied to funds used above amounts available on giro accounts and to inaccurately calculated or under-appropriated statutory reserves (reported in column 9). From July to September 1994, interest rate applied to the use of those funds from the primary issue was 21%, and since October 1994, the same interest rates have been applied as for other failures to fulfill financial obligations, shown in column 10.

Table F2: Deposit Rates of the Croatian National Bank

In percentage, on annual basis

Year	Month	Interest rates on statutory reserves dep. with the CNB	Interest rates on CNB bills on an obligatory basis	Interest rates on CNB bills on a voluntary basis				Interest rates on f/c CNB bills on a voluntary basis				
				Due in 7 days	Due in 35 days	Due in 70 days	Due in 105 days	Due in 35 days	Due in 63 days	Due in 91 days	Due in 182 days	Due in 364 days
1	2	3	4	5	6	7	8	9	10	11	12	13
1994	December	5.15	–	9.00	12.00	14.00	–	–	–	–	–	–
1995	December	5.50	16.50	12.00	25.54	27.00	–	–	–	–	–	–
1996	December	5.50	–	–	8.00	9.50	–	–	–	–	–	–
1997	December	4.50	–	–	8.00	9.00	10.00	–	–	–	–	–
1998	December	5.90	–	–	9.50	10.50	11.00	–	4.60	3.12	3.08	–
1999	December	5.90	–	–	10.50	11.55	12.50	–	4.83	3.56	–	–
2000	December	4.50	–	–	6.65	7.00	7.70	–	5.51	4.83	–	–
2001	December	2.00	–	–	3.36	4.26	4.85	–	2.62	3.06	–	–
2002	January	2.00	–	–	3.72	4.16	4.78	–	2.86	3.04	–	–
	February	2.00	–	–	3.41	4.05	4.37	–	2.53	3.10	–	–
	March	2.00	–	–	–	–	–	–	2.78	3.18	2.15	2.82
	April	1.75 <sup>a</sup>	–	–	3.03	3.79	4.35	–	2.50	3.09	–	3.29
	May	1.75	–	–	2.71	3.42	4.05	–	2.80	3.26	3.33	3.82
	June	1.75	–	–	2.24	2.76	3.39	1.92	2.67	3.06	3.41	–
	July	1.75	–	–	1.90	–	–	2.29	2.97	–	–	–
	August	1.75	–	–	1.97	–	–	2.36	3.05	–	–	–
	September	1.75	–	–	2.00	–	–	2.50	3.01	–	–	–
	October	1.75	–	–	2.03	–	–	2.52	2.85	–	–	–
	November	1.75	–	–	2.08	–	–	2.70	2.85	–	–	–
	December	1.75	–	–	2.08	–	–	2.30	2.68	–	–	–

<sup>a</sup> Since 24 April 2002.

Table F2: Deposit Rates of the Croatian National Bank

The table shows interest rates paid by the CNB on funds deposited with the CNB as well as on securities issued.

Interest rates paid by the CNB for appropriated statutory reserve funds are being set by the Council of the CNB. Until 7 October 1993, the CNB was setting different exchange rates for statutory reserve funds based on savings and time deposits. Therefore, for that period the table reports the weighted average interest rate on appropriated statutory reserve funds (column 3). From October 8, 1993 until the end of February 1994, the CNB paid no interest on appropriated statutory reserve funds, and since March 1994, uniform rate has been applied to these funds.

Interest rates on CNB bills on an obligatory basis are set by a decision of the Council of the CNB.

Until October 1993, interest rates on CNB bills on a voluntary basis were also set by the Council of the CNB, while since November 1993, they have been set at CNB bills' auction sales. Congruently, since November 1993, columns 5, 6 and 7 report weighted average interest rates attained at auctions of CNB bills.

Until October 1994, interest rates on CNB bills on a voluntary basis due in 30 and 90 days are reported in columns 6 and 7, respectively. From November 1994 through January 2001, columns 7 and 9 report interest rates on CNB bills on a voluntary basis due in 91 and 182 days, respectively.

Since April 1998 columns 9, 10, 11 report weighted average interest rates of CNB bills on a voluntary basis in EUR and USD (until December 1998 in DEM and USD), due in 63, 91, 182 and 365 days attained at CNB bills' auctions as a weighted average of subscribed amounts in those two currencies.

Table F3: Deposit Money Banks' Reserve Requirements

Daily averages and percentages, million kuna and %

Year	Month	Reserve requirement (RR)	Weighted average RR in % of res. base	Statutory reserves deposited with the CNB	Statutory reserves deposited with the CNB in % of RR	Other deposits with the CNB on obligatory basis	Total reserve requirement	Total reserve requirement in % of res. base	Weighted avg. remuneration in % of total RR	Use of reserve requirements
1	2	3	4	5	6=[5/3]*100	7	8=3+7	9	10	11
1994	December	1,826.0	26.20	1,779.2	97.44	188.3	2,014.3	28.90	5.63	3.5
1995	December	2,431.8	30.90	2,215.9	91.12	826.5	3,258.4	41.40	7.93	45.9
1996	December	3,652.9	35.91	3,312.0	90.67	–	3,652.9	35.91	4.99	0.1
1997	December	4,348.8	32.02	3,914.2	90.01	–	4,348.8	32.02	4.05	0.5
1998	December	3,967.2	29.57	3,469.8	87.46	57.4	4,024.7	30.00	5.28	9.6
1999	December	4,210.1	30.50	3,695.1	87.77	37.3	4,247.4	30.77	5.62	0.9
2000	December	4,646.8	24.17	4,191.6	90.21	5.0	4,651.8	24.20	4.05	1.1
2001	December	8,691.5	35.37	6,287.8	72.34	–	8,691.5	35.37	1.97	2.3
2002	January	9,003.6	35.18	6,518.2	72.40	–	9,003.6	35.18	1.96	0.3
	February	9,431.5	36.09	6,810.9	72.21	–	9,431.5	36.09	1.93	–
	March	9,676.3	36.57	7,029.1	72.64	–	9,676.3	36.57	1.94	–
	April	9,720.5	35.90	7,113.7	73.18	–	9,720.5	35.90	1.91	–
	May	10,024.5	34.20	7,304.8	72.87	–	10,024.5	34.20	1.71	–
	June	10,225.7	33.46	7,393.2	72.30	–	10,225.7	33.46	1.73	–
	July	10,415.5	32.98	7,473.7	71.76	–	10,415.5	32.98	1.70	4.1
	August	10,599.9	32.78	7,578.3	71.49	–	10,599.9	32.78	1.71	1.4
	September	10,822.7	32.80	7,742.9	71.54	–	10,822.7	32.80	1.69	0.3
	October	11,056.5	32.78	7,908.7	71.53	–	11,056.5	32.78	1.68	0.3
	November	11,274.2	32.87	8,043.6	71.34	–	11,274.2	32.87	1.70	0.3
	December	11,447.1	32.95	8,156.7	71.26	–	11,447.1	32.95	1.72	0.3

Table F3: Deposit Money Banks' Reserve Requirements

This table shows data on monthly averages of day-to-day balances of DMBs' required reserves with the CNB. Savings banks are included beginning in July 1999, and the earlier data series has not been revised.

Reserve requirement (column 3) represents the prescribed amount of funds banks are required to deposit on a special statutory reserve account with the CNB, or to maintain (in average) on their settlement accounts or in vaults. This amount corresponds with the statutory reserve instrument of January 1995, while until December 1994 it comprised two instruments: statutory reserves and liquid assets requirement – LAR (except for the part in which banks were conforming to this requirement by registering CNB bills on a voluntary basis).

Column 4 shows the weighted average reserve requirement ratio as a percentage of the reserve requirement (column 3) in the reserve base. Starting from September 2001, column 3 includes also the f/c component of reserve requirements that is set aside/maintained in kuna.

Column 5 shows the portion of the reserve requirement banks are required to deposit on a special statutory reserves account with the CNB (until December 1994 this amount corresponded with the statutory reserves instrument, while since January 1995 a minimum percentage of the total reserve requirement banks are required to deposit on a special statutory reserves account with the CNB has been prescribed). This percentage currently stands at 40%.

Column 6 shows the percentage of the statutory reserves deposited with the CNB in the total reserve requirement.

Column 7 shows the total amount of other obligatory deposits with the CNB, including CNB bills on an obligatory basis, those CNB bills on a voluntary basis used by banks to maintain the prescribed minimal liquidity (LAR), special statutory reserves (until July 1995) and statutory reserves on f/c deposits, f/c credits from foreign banks and guarantees and f/c credits from foreign banks.

Column 8 shows the total reserve requirement as a sum of reserve requirement and other deposits with the CNB on an obligatory basis. Column 9 shows the percentage of total reserve requirement in the reserve base.

Column 10 shows the weighted average remuneration rate for all forms of immobilized funds (i.e. for all components of total reserve requirement).

Column 11 shows the use of required reserves, which includes use of appropriated statutory reserve funds (authorized and unauthorized), inaccurately calculated statutory reserves, non-maintenance of the prescribed minimal liquidity, i.e. (since January 1995) non-maintenance of the minimal average settlement account and vault balance (determined in accordance with the calculation of statutory reserves), unregistered amount of the CNB bills on an obligatory basis and inaccurately calculated special statutory reserves (until July 1995) and inaccurately calculated statutory reserves on f/c deposits, f/c credits from foreign banks and guarantees and f/c credits from foreign banks.

Table F4: Deposit Money Banks' Liquidity Indicators

Daily averages and percentages, million kuna and %

Year	Month	Free reserves	Primary liquidity ratio (in %)	Secondary liquidity sources	Kuna CNB bills	F/c CNB bills
1	2	3	4	5	6	7
1994	December	119.5	1.72	393.7	210.2	–
1995	December	49.4	0.63	199.4	218.7	–
1996	December	267.9	2.63	98.5	780.9	–
1997	December	396.3	2.92	32.7	728.9	–
1998	December	221.9	1.65	445.5	850.4	1,377.4
1999	December	179.6	1.30	1,183.6	1,348.7	1,507.6
2000	December	638.8	3.32	80.1	2,496.0	1,692.7
2001	December	794.4	3.23	2.6	2,656.2	2,630.8
2002	January	586.2	2.29	1.0	3,252.8	3,084.0
	February	272.0	1.04	51.9	3,087.7	3,025.9
	March	910.1	3.44	241.8	3,275.8	2,296.0
	April	2,120.0	7.83	134.0	2,816.8	1,982.9
	May	2,146.2	7.32	0.4	3,179.1	1,878.6
	June	2,010.0	6.58	0.4	3,910.6	1,846.1
	July	1,106.9	3.50	8.4	4,726.2	1,757.5
	August	916.2	2.83	0.6	4,766.4	1,704.2
	September	611.1	1.85	0.6	5,509.6	1,722.7
	October	558.4	1.66	0.6	5,417.9	1,596.0
	November	732.7	2.14	19.4	5,221.3	1,257.8
	December	1,225.0	3.53	0.6	4,966.0	1,273.9

Table F4: Deposit Money Banks' Liquidity Indicators

The table reports monthly averages of day-to-day balances of some indicators of DMBs' liquidity. Savings banks are included beginning in July 1999. The earlier data series has not been revised.

Column 3 shows free reserves, defined as bank's total reserves (on settlement accounts and in vaults) decreased by the minimal average settlement account and vault balance, as prescribed by instruments of the CNB (until December 1994 by the requirement for banks' minimal liquidity, and since January 1995 by statutory reserve requirement).

Column 4 shows the primary liquidity ratio as a percentage of monthly day-to-day free reserves averages in monthly day-to-day averages of deposits which constitute the reserve base.

Column 5 shows the monthly average of day-to-day balances of secondary liquidity sources used. Secondary liquidity sources com-

prise: use of statutory reserves (until October 1994), regular loans for maintenance of day-to-day liquidity (until November 1994), use of funds exceeding those available on the bank's giro account (until October 1994), special credits for overcoming liquidity problems (initial credits, credits for overcoming liquidity problems of banks under evaluation for entry into rehabilitation and restructuring procedures), lombard credits (since December 1994), intervention credits for overcoming liquidity problems (since October 1994), short-term liquidity credits (since February 1999) as well as overdue liabilities to the CNB.

Column 6 reports the monthly average of day-to-day balances of CNB bills on a voluntary basis in kuna (until December 1994, this amount is decreased by the portion of voluntarily registered CNB bills used by banks to maintain the prescribed minimal liquidity).

Column 7 reports the monthly average of day-to-day balances on CNB bills on a voluntary basis in foreign currency (EUR and USD).

## Table G1: Deposit Money Banks' Interest Rates on Kuna Credits Not Indexed to Foreign Currency

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

Year	Month	Money market interest rates			Interest rates on kuna credits not indexed to foreign currency								
		On overnight credits	On other credits	Total average	On short-term credits						On long-term credits		
					Total average	Enterprises	Households			Total average	Enterprises	Households	
							Total average	Credit lines	Other				
1	2	3	4	5	6	7	8	9	10	11	12	13	
1994	December	8.50	17.76	15.39	15.43	.....	.....	.....	.....	13.82	.....	.....	
1995	December	27.26	27.15	22.32	22.56	22.23	23.81	23.75	25.58	13.48	13.39	14.38	
1996	December	9.66	10.72	18.46	19.35	19.18	20.18	19.90	23.12	11.51	11.29	14.28	
1997	December	8.46	9.49	14.06	14.12	13.17	19.26	19.34	18.11	13.24	12.98	13.75	
1998	December	10.00	15.91	16.06	16.22	14.89	20.77	20.80	19.92	11.73	11.48	13.16	
1999	December	9.92	12.78	13.54	13.52	10.55	20.83	20.84	20.39	15.14	15.31	14.16	
2000	December	2.39	4.45	10.45	10.45	6.81	20.30	20.33	19.05	9.90	9.64	12.97	
2000	December	2.49	2.18	9.51	9.49	5.43	18.81	18.85	14.88	11.42	10.06	13.14	
2001	January	1.62	1.79	15.28	15.30	9.69	18.98	19.04	10.97	13.69	10.57	14.41	
	February	2.08	2.16	14.28	14.37	9.36	17.68	17.74	11.33	11.20	8.69	12.70	
	March	2.86	2.41	13.47	13.56	8.86	16.86	17.00	11.08	11.89	7.24	12.38	
	April	2.84	2.46	13.42	13.64	8.78	16.72	16.83	11.68	10.68	7.08	12.39	
	May	2.91	1.51	13.44	13.54	8.82	16.63	16.73	10.67	10.85	6.60	12.43	
	June	1.35	0.87	12.78	12.94	8.42	16.55	16.66	11.16	9.23	6.35	12.15	
	July	1.07	0.90	11.89	12.02	8.16	15.00	16.54	5.58	9.55	6.84	11.20	
	August	0.99	0.95	12.35	12.55	7.85	16.45	16.58	9.34	8.12	7.34	11.02	
	September	1.15	1.55	11.81	12.18	7.69	16.27	16.34	10.61	6.99	6.21	11.29	
	October	1.29	1.58	12.54	12.71	8.02	16.30	16.38	10.76	8.36	6.75	11.37	
	November	2.10	2.39	11.91	12.02	7.97	14.91	15.38	5.98	9.19	7.56	11.07	
	December	1.58	1.89	11.16	11.51	7.44	15.72	15.85	9.84	7.32	6.48	7.88	
	Relative significance <sup>a</sup>	-	-	44.15	40.39	20.53	19.86	19.43	0.43	3.76	1.50	2.26	

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

Note: A break in the time series occurred due to changes in the methodology used in interest rate statistics as of January 1, 2001. This especially refers to interest rates shown in columns 5, 6 and 7. Interbank credits, which bear relatively low interest rates, were, among others, excluded from short-term credits to enterprises. The increase in interest rates was also caused by the weighting method: all categories are weighted by the amounts of newly-granted credits, except credit lines whose relative share grew in the new coverage, which are weighted by book balances. except credit lines whose relative share grew in the new coverage, which are weighted by book balances.

## Table G1: Deposit Money Banks' Credit Rates

The table contains weighted averages of DMBs' monthly interest rates on credits in kuna and credits in foreign currency, reported on a yearly basis. Savings banks are not covered.

Columns 3 and 4 show interest rates on the interbank, daily and overnight money markets, according to information received from the Zagreb Money Market. Data on DMBs' interest rates on credits in kuna and credits in foreign currency are based on DMBs' periodic reports. Basis for calculation of weighted averages are amounts of credits bearing corresponding interest rates, which were disbursed during the reported month, with the exception of interest rates on giro and current accounts credit lines, for which weighted averages were calculated based on the balance of these loans at the end of the reported month.

Column 5 shows interest rates on total (short-term and long-term) kuna credits not indexed to foreign currency. Interest rates on

short-term kuna credits (shown in column 6) also include interest rates on discounted short-term securities (not indexed to foreign currency), weighted based on their face value.

Columns 8, 9, 10 show interest rates on total (short-term and long-term) kuna credits indexed to foreign currency, including interest rates on discounted short-term securities indexed to foreign currency.

Interest rates on foreign currency credits (columns 11, 12 and 13) refer to credits released in Deutsche Mark or US dollars in a reported month, while weighted averages are calculated based on their kuna equivalent using current exchange rate. Credits released in other currencies are not included in this table.

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

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

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

Year	Month	Interest rates on kuna credits indexed to foreign currency									Interest rates on credits in euros		
		Total average	On short-term credits			On long-term credits			Total average	On short-term credits	On long-term credits		
			Total average	Enterprises	Households	Total average	Enterprises	Households					
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1994	December	11.99	12.38	....	....	11.65	....	....	....	....	....	....	....
1995	December	19.56	21.62	21.09	18.10	14.33	15.79	10.48	....	....	17.18	19.06	12.27
1996	December	18.97	22.56	22.40	27.00	12.12	13.15	11.30	....	....	19.50	21.46	10.77
1997	December	14.40	16.92	17.00	14.02	12.25	13.00	11.02	....	....	13.61	14.95	9.71
1998	December	13.04	14.28	14.25	13.64	11.15	10.55	12.12	....	....	6.95	8.37	5.71
1999	December	12.53	13.66	13.54	17.21	10.81	10.46	11.65	....	....	6.75	7.43	6.07
2000	December	10.74	11.17	11.10	13.59	10.52	9.41	11.64	....	....	7.70	7.49	8.05
2001	December	9.29	9.45	9.45	11.30	9.20	7.52	10.79	....	....	5.94	5.70	7.27
2002	January	9.55	9.79	9.36	12.22	9.44	7.54	10.95	8.80	11.57	8.26	8.53	7.61
	February	9.28	9.76	9.37	11.21	9.12	7.29	10.21	8.54	10.61	7.76	7.58	8.36
	March	9.21	9.08	8.57	11.32	9.24	7.03	10.10	8.22	10.36	6.20	6.44	5.86
	April	8.19	9.08	8.42	11.69	8.01	6.56	9.81	7.95	10.16	6.38	6.62	6.05
	May	8.63	8.75	8.04	11.57	8.60	7.01	9.67	7.73	10.13	7.48	7.74	6.41
	June	8.21	8.25	7.57	11.66	8.20	7.14	8.83	7.55	9.06	6.71	6.65	6.89
	July	8.12	8.70	7.98	11.44	7.99	6.57	9.48	7.35	10.16	6.48	6.69	6.24
	August	7.99	8.70	7.95	11.52	7.83	6.61	9.40	7.37	10.14	6.55	6.48	6.61
	September	8.54	9.16	8.41	10.97	8.39	6.57	9.59	7.40	10.35	5.79	7.02	5.19
	October	8.04	8.67	7.89	11.39	7.91	6.42	9.51	7.38	10.27	6.18	7.00	5.51
	November	8.29	8.57	7.94	11.30	8.22	6.52	9.36	7.37	10.10	6.46	6.60	6.28
	December	8.25	9.34	8.72	11.37	7.98	6.37	9.50	7.42	10.11	5.91	6.66	5.44
Relative significance <sup>a</sup>		44.43	14.94	5.43	9.51	29.49	14.31	15.18	3.47	11.71	11.41	4.44	6.97

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

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

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

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

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

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

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

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

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

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

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

Year	Month	Interest rates on kuna deposits not indexed to foreign currency									
		Total average	In giro and current accounts	On time deposits							
				Total average	On short-term deposits			On long-term deposits			
					Total average	Households	Enterprises	Total average	Households	Enterprises	
1	2	3	4	5	6	7	8	9	10	11	
1994	December	5.03	3.55	9.65	....	....	....	....	....	....	....
1995	December	6.10	3.88	13.65	13.80	10.56	14.28	9.88	10.67	9.62	
1996	December	4.15	2.19	10.19	10.11	9.84	10.26	12.36	15.49	9.88	
1997	December	4.35	2.19	9.10	9.08	9.30	8.96	9.48	11.24	8.06	
1998	December	4.11	2.31	7.73	7.63	9.47	7.15	10.19	10.72	9.56	
1999	December	4.27	2.24	8.87	8.79	9.62	8.38	10.96	11.56	10.18	
2000	December	3.40	1.64	7.20	7.13	7.44	7.03	8.89	9.19	8.63	
2001	December	2.76	1.40	5.68	5.60	6.35	5.38	7.35	7.93	6.70	
2002	January	2.48	1.34	5.79	5.74	6.31	5.45	7.53	7.74	6.85	
	February	2.32	1.25	5.47	5.41	5.93	5.01	7.20	7.59	5.73	
	March	2.02	1.16	5.06	5.00	5.55	4.59	7.24	7.47	5.70	
	April	1.94	1.18	4.58	4.56	5.62	3.80	5.15	7.12	3.06	
	May	1.97	1.16	4.60	4.52	5.54	3.85	7.23	7.45	3.39	
	June	1.91	1.16	4.51	4.45	5.48	3.36	6.51	7.37	2.66	
	July	1.75	1.01	4.25	4.23	5.45	2.96	4.54	7.57	1.97	
	August	1.77	1.00	4.04	3.97	5.45	3.07	6.20	7.57	3.72	
	September	1.71	0.98	4.18	4.10	5.24	3.17	6.46	7.33	1.82	
	October	1.67	0.95	3.75	3.68	5.22	2.61	6.09	7.21	2.26	
	November	1.58	0.94	3.52	3.44	4.36	2.80	5.56	7.11	2.37	
	December	1.55	0.94	3.64	3.53	4.39	2.86	6.05	7.24	3.23	
Relative significance <sup>a</sup>		42.66	35.40	3.99	3.81	1.66	2.15	0.18	0.13	0.05	

<sup>a</sup> Relative significance is calculated as a percentage of corresponding deposit category in total deposits received in the reporting month (according to data for the last period included in the table).

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

The table contains weighted averages of DMBs' and savings banks' monthly interest rates on kuna deposits not indexed to f/c, reported on a yearly basis.

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

Starting from January 2002, data refer to weighted averages of DMBs' and savings banks' monthly interest rates on kuna deposits not indexed to f/c received from enterprises (public and other) and households, reported on a yearly basis.

Data on DMBs' and savings banks' interest rates on kuna deposits not indexed to f/c are based on DMBs' and savings banks' periodic reports.

Column 3 reports weighted averages of monthly interest rates on total kuna deposits (giro and current accounts, household savings de-

posits and time deposits) not indexed to f/c. Column 4 shows weighted averages of monthly interest rates on deposits in giro and current accounts not indexed to f/c received from enterprises (until December 2001, all legal persons) and households, and column 5 shows weighted averages of monthly interest rates on total time deposits not indexed to f/c.

The basis for calculation of weighted averages for kuna time deposits not indexed to f/c are the amounts of those deposits received during the reporting month. The basis for calculation of weighted averages for deposits in giro and current accounts are the end-of-month book balances of those deposits. Weighted averages of interest rates on total kuna deposits not indexed to f/c (column 3) are weighted by the end-of-month balances of all categories included in the calculation.

Kuna and foreign currency deposits used as collateral for credit are included, while restricted deposits (deposits used for payment of imports and other restricted deposits) are not included into the calculation of weighted averages.

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

**Table G4a: Deposit Money Banks' Interest Rates on Kuna Deposits Indexed to Foreign Currency and on Foreign Currency Deposits**

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

Year	Month	Interest rates on savings and time deposits indexed to f/c			Interest rates on foreign currency deposits						
		Total average	On short-term deposits	On long-term deposits	Total average	Savings deposits					
						Total average	Households		Enterprises		
							EUR	USD	EUR	USD	
1	2	3	4	5	6	7	8	9	10	11	
1994	December	6.95	....	....	....	....	....	....	....	....	....
1995	December	12.69	11.46	19.36	4.57	2.82	3.53	4.20	1.10	1.53	
1996	December	9.46	9.56	8.80	5.09	1.44	1.32	1.95	1.47	1.39	
1997	December	7.63	7.24	11.77	4.77	1.75	1.89	2.43	0.83	1.40	
1998	December	7.47	7.67	5.58	3.98	2.09	2.38	2.40	0.72	0.74	
1999	December	6.62	6.91	1.10	4.23	1.80	1.95	2.04	0.78	1.30	
2000	December	5.54	5.94	2.16	3.47	1.03	0.99	1.23	0.65	1.29	
2001	December	4.58	4.92	2.56	2.60	0.71	0.71	0.81	0.82	0.40	
2002	January	2.99	3.77	1.58	2.72	0.67	0.67	0.70	0.74	0.38	
	February	3.32	4.22	3.80	2.62	0.67	0.67	0.70	0.65	0.63	
	March	2.89	4.58	6.04	2.62	0.60	0.60	0.64	0.61	0.40	
	April	3.76	3.87	5.22	2.60	0.59	0.61	0.61	0.56	0.38	
	May	2.78	4.15	3.58	2.57	0.61	0.60	0.58	0.83	0.49	
	June	3.39	4.54	3.20	2.58	0.59	0.58	0.56	0.77	0.43	
	July	3.59	4.11	3.66	2.59	0.58	0.57	0.52	0.79	0.38	
	August	3.44	3.66	4.90	2.59	0.57	0.56	0.48	0.60	0.87	
	September	3.39	4.03	3.53	2.56	0.53	0.54	0.43	0.69	0.41	
	October	3.62	3.57	4.54	2.54	0.53	0.53	0.42	0.65	0.44	
	November	3.58	3.97	4.87	2.54	0.51	0.52	0.42	0.56	0.42	
	December	2.92	3.45	1.48	2.55	0.50	0.52	0.41	0.52	0.38	
Relative significance <sup>a</sup>		1.33	0.73	0.19	56.01	34.66	24.97	4.59	3.89	1.20	

<sup>a</sup> Relative significance is calculated as a percentage of corresponding deposit category in total deposits received in the reporting month (according to data for the last period included in the table).

**Table G4a and b: Deposit Money Banks' Interest Rates on Kuna Deposits Indexed to Foreign Currency and on Foreign Currency Deposits**

The table contains weighted averages of DMBs' and savings banks' monthly interest rates on kuna deposits indexed to f/c and on foreign currency deposits, reported on a yearly basis.

Up to December 2001, data refer to weighted averages of DMBs' monthly interest rates on kuna deposits indexed to f/c and on foreign currency deposits received from legal persons (which included enterprises, the public sector, financial institutions, non-profit institutions and non-residents) and households, reported on a yearly basis. Savings banks are not covered.

Starting from January 2002, data refer to weighted averages of DMBs' and savings banks' monthly interest rates on kuna deposits indexed to f/c and on foreign currency deposits received from enterprises (public and other) and households, reported on a yearly basis.

Data on DMBs' and savings banks' interest rates on kuna deposits indexed to f/c and on foreign currency deposits are based on DMBs' and savings banks' periodic reports.

Column 3 reports weighted averages of monthly interest rates on total kuna savings and time deposits indexed to f/c received from enterprises (until December 2001, all legal persons) and households, whereas weighted averages of monthly interest rates on time deposits are shown in columns 4 (short-term deposits) and 5 (long-term deposits) respectively.

Up to December 2001, interest rates on foreign currency deposits refer to deposits received in German marks or US dollars, and starting from January 2002, they refer to deposits received in euros and US dollars, while weighted averages are calculated based on their kuna equivalent using current exchange rate. Deposits received in other currencies are not included in this table.

The basis for calculation of weighted averages for kuna time deposits indexed to f/c and foreign currency time deposits are the amounts of those deposits received during the reporting month.

### Table G4b: Deposit Money Banks' Interest Rates on Kuna Deposits Indexed to Foreign Currency and on Foreign Currency Deposits

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

Year	Month	Interest rates on foreign currency deposits										
		On time deposits										
		Total average	On short-term deposits				On long-term deposits					
			Total average	Households		Enterprises		Total average	Households		Enterprises	
EUR	USD	EUR		USD	EUR	USD	EUR		USD			
1	2	12	13	14	15	16	17	18	19	20	21	22
1994	December	....	....	....	....	....	....	....	....	....	....	....
1995	December	6.83	6.66	7.10	6.97	5.86	6.68	8.73	8.78	8.81	3.27	4.50
1996	December	7.77	6.95	5.65	6.21	9.86	5.47	12.24	7.71	7.97	19.92	1.50
1997	December	6.36	6.07	6.03	6.42	5.09	7.10	7.32	7.87	8.71	5.09	6.76
1998	December	4.89	4.49	5.42	6.16	2.84	5.37	7.29	7.68	8.59	4.93	6.92
1999	December	5.43	5.17	4.93	6.39	3.97	6.00	6.59	6.64	8.09	3.66	6.77
2000	December	4.57	4.36	3.65	5.15	4.59	6.62	5.56	5.17	6.61	5.97	8.53
2001	December	3.54	3.35	3.42	3.23	3.60	2.44	4.59	4.72	4.42	4.58	0.23
2002	January	3.75	3.41	3.63	3.18	3.35	1.24	4.82	5.08	4.52	3.73	0.32
	February	3.39	3.22	3.35	2.88	3.33	1.92	4.73	4.95	4.38	3.51	2.75
	March	3.31	3.17	3.42	2.82	3.27	1.98	4.57	4.75	4.17	3.65	–
	April	3.31	3.17	3.33	2.76	3.36	1.91	4.51	4.72	4.20	3.50	6.46
	May	3.24	3.13	3.31	2.77	3.31	1.94	4.36	4.66	4.17	2.54	–
	June	3.17	3.07	3.34	2.74	3.24	1.75	4.56	4.73	4.21	3.51	0.76
	July	3.28	3.14	3.36	2.69	3.41	1.89	4.52	4.68	4.25	3.69	2.90
	August	3.33	3.14	3.40	2.63	3.27	1.84	4.66	4.84	4.03	3.62	0.00
	September	3.28	3.16	3.35	2.59	3.29	1.89	4.47	4.64	3.87	4.18	–
	October	3.19	3.07	3.30	2.29	3.21	1.84	4.34	4.57	3.86	3.50	3.68
	November	3.12	3.00	3.25	2.19	3.20	1.49	4.46	4.61	3.80	3.53	–
	December	3.13	2.96	3.27	2.21	2.89	1.43	4.59	4.69	3.84	3.46	2.30
	Relative significance <sup>a</sup>	21.35	19.21	11.89	1.63	4.33	1.36	2.14	1.91	0.16	0.06	0.00

<sup>a</sup> Relative significance is calculated as a percentage of corresponding deposit category in total deposits received in the reporting month (according to data for the last period included in the table).

The basis for calculation of weighted averages for savings deposits indexed to f/c are the end-of-month book balances of those deposits. Starting from January 2002, weighted averages of interest rates on total kuna deposits indexed to f/c (column 3) are weighted by the end-of-month balances of all categories included in the calculation.

The average interest rate on total foreign currency deposits (column 6) refers to the weighted average of monthly interest rates on savings and time deposits, which are weighted by the end-of-month balances of all categories included in the calculation.

The basis for calculation of weighted averages of monthly interest rates on total foreign currency savings deposits (column 7) are the end-of-month balances of those deposits.

The basis for calculation of weighted averages of monthly interest rates on total foreign currency time deposits (column 12) are the amounts of those deposits received during the reporting month. The same basis is applied in calculating weighted averages of monthly interest rates on total short-term foreign currency deposits (column 13) and on total long-term foreign currency deposits (column 18).

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

Table G5: Deposit Money Banks' Trade with Foreign Exchange

Million EUR, current exchange rate

	2001	2002											
		Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
<b>A. Purchase of foreign exchange</b>													
1. Legal persons	5,012.4	447.6	507.1	706.0	625.8	451.6	573.9	653.7	495.9	551.2	733.1	591.6	774.6
2. Natural persons	3,339.9	252.1	230.8	241.0	262.4	274.6	275.5	424.5	361.2	251.3	286.0	231.1	252.1
2.1. Residents	2,684.5	236.3	217.0	226.6	239.3	237.1	223.2	305.0	232.9	204.2	263.6	218.1	238.7
2.2. Non-residents	655.4	15.8	13.7	14.4	23.1	37.5	52.4	119.5	128.4	47.2	22.4	12.9	13.5
3. Commercial banks	3,985.8	318.5	349.2	471.7	401.4	507.2	405.8	682.2	500.6	446.7	652.5	707.5	552.7
4. Croatian National Bank	481.7	140.7	–	73.9	–	–	–	–	–	–	79.8	–	–
Total (1+2+3+4)	12,820.1	1,158.8	1,087.1	1,492.7	1,289.6	1,233.4	1,255.2	1,760.4	1,357.7	1,249.3	1,751.4	1,530.2	1,579.4
<b>B. Sale of foreign exchange</b>													
1. Legal persons	8,534.2	828.7	707.6	785.6	917.8	847.9	860.3	1,150.8	1,021.3	1,044.2	1,014.5	906.9	1,141.8
2. Natural persons	1,253.5	167.1	99.7	93.3	93.2	83.0	78.0	134.2	140.2	107.1	104.7	111.7	121.5
2.1. Residents	1,252.3	166.9	99.7	93.2	93.1	82.8	77.7	133.5	139.3	106.5	104.4	111.4	121.3
2.2. Non-residents	1.2	–	0.1	0.1	0.1	0.2	0.3	0.7	0.9	0.6	0.2	0.2	0.2
3. Commercial banks	3,985.8	318.5	349.2	471.7	401.4	507.2	405.8	682.2	500.6	446.7	652.5	707.5	552.7
4. Croatian National Bank	915.7	50.8	67.1	237.9	27.8	141.3	173.1	–	47.2	–	–	–	0.1
Total (1+2+3+4)	14,689.5	1,365.2	1,223.7	1,588.5	1,440.2	1,579.3	1,517.2	1,967.2	1,709.2	1,598.0	1,771.6	1,726.1	1,816.1
<b>C. Net purchase (A-B)</b>													
1. Legal persons	-3,521.9	-381.1	-200.5	-79.5	-292.0	-396.2	-286.4	-497.1	-525.4	-493.0	-281.4	-315.3	-367.2
2. Natural persons	2,086.3	84.9	131.0	147.8	169.2	191.6	197.5	290.3	221.1	144.2	181.4	119.4	130.7
2.1. Residents	1,432.2	69.4	117.3	133.5	146.3	154.3	145.5	171.5	93.6	97.7	159.2	106.7	117.4
2.2. Non-residents	654.2	15.8	13.6	14.3	23.0	37.3	52.0	118.8	127.5	46.6	22.2	12.7	13.3
3. Croatian National Bank	-434.0	89.9	-67.1	-164.0	-27.8	-141.3	-173.1	–	-47.2	–	79.8	–	-0.1
Total (1+2+3)	-1,869.6	-206.3	-136.6	-95.7	-150.6	-345.9	-262.0	-206.8	-304.3	-348.7	-20.2	-195.9	-236.7
Memo items: Other Croatian National Bank transactions													
Purchase of foreign exchange	536.8	–	–	–	–	–	–	–	–	–	60.0	–	137.5
Sale of foreign exchange	2.6	–	–	–	0.6	–	1.3	–	–	–	1.4	–	–

Table G5: Deposit Money Banks' Trade with Foreign Exchange

Data on trade with foreign exchange between DMBs comprise transactions of purchase and sale of foreign exchange on domestic foreign currency market. The transactions are classified by categories of participants (legal and natural persons, banks, CNB). Source

of data are DMBs' periodic reports on trading with foreign exchange, sent to the CNB on a regular basis. The amounts are stated in the euro (EUR), converted from other foreign currencies using the CNB's midpoint exchange rate (reporting period average). Other Croatian National Bank transactions include foreign exchange sales and purchases on behalf of the Ministry of Finance.

Table H1: Balance of Payments – Summary

Million US dollars

	1998	1999	2000	2001	2002 <sup>a</sup>	2002			
						Q1	Q2	Q3	Q4
A. CURRENT ACCOUNT (1+6)	-1,452.8	-1,397.2	-459.4	-725.1	-1,546.7	-866.7	-756.5	1,012.6	-936.1
1. Goods, services, and income (2+5)	-2,158.8	-2,029.7	-1,342.6	-1,690.8	-2,639.7	-1,107.5	-1,027.1	713.0	-1,218.1
1.1. Credit	8,939.6	8,372.6	9,008.9	10,053.1	11,006.0	1,769.3	2,535.0	4,298.2	2,403.4
1.2. Debit	-11,098.4	-10,402.2	-10,351.4	-11,743.8	-13,645.7	-2,876.9	-3,562.1	-3,585.2	-3,621.5
2. Goods and services (3+4)	-1,994.8	-1,673.4	-935.9	-1,174.3	-2,161.2	-898.1	-820.4	767.1	-1,209.8
2.1. Credit	8,544.7	8,117.8	8,663.1	9,634.2	10,544.9	1,664.1	2,420.6	4,182.3	2,277.9
2.2. Debit	-10,539.5	-9,791.1	-9,598.9	-10,808.5	-12,706.0	-2,562.2	-3,241.0	-3,415.2	-3,487.7
3. Goods	-4,071.5	-3,298.6	-3,203.8	-4,101.3	-5,279.3	-1,011.6	-1,381.4	-1,410.9	-1,475.4
3.1. Credit	4,580.6	4,394.7	4,567.2	4,758.7	4,994.6	1,051.2	1,250.2	1,319.4	1,373.8
3.2. Debit	-8,652.0	-7,693.3	-7,770.9	-8,860.0	-10,273.9	-2,062.8	-2,631.6	-2,730.4	-2,849.1
4. Services	2,076.7	1,625.2	2,267.9	2,927.0	3,118.1	113.5	561.0	2,178.0	265.6
4.1. Credit	3,964.1	3,723.0	4,095.9	4,875.5	5,550.3	612.9	1,170.4	2,862.8	904.1
4.2. Debit	-1,887.4	-2,097.8	-1,828.0	-1,948.5	-2,432.1	-499.4	-609.3	-684.8	-638.5
5. Income	-164.0	-356.3	-406.7	-516.5	-478.5	-209.4	-206.7	-54.1	-8.3
5.1. Credit	394.9	254.8	345.8	418.9	461.1	105.2	114.4	116.0	125.5
5.2. Debit	-558.9	-611.1	-752.5	-935.3	-939.7	-314.7	-321.2	-170.0	-133.8
6. Current transfers	706.0	632.5	883.2	965.7	1,093.0	240.8	270.6	299.6	282.0
6.1. Credit	919.1	967.4	1,101.0	1,174.5	1,357.4	302.3	334.9	354.8	365.3
6.2. Debit	-213.1	-335.0	-217.8	-208.8	-264.3	-61.5	-64.3	-55.3	-83.3
B. CAPITAL AND FINANCIAL ACCOUNT	1,469.0	1,946.1	1,339.4	1,316.9	2,841.5	699.7	883.9	190.0	1,067.9
B1. Capital account	19.1	24.9	20.9	133.0	24.0	5.6	7.8	7.5	3.1
B2. Financial account, excl. reserves	1,601.5	2,299.7	1,900.7	2,497.0	3,384.8	923.7	1,132.9	341.8	986.4
1. Direct investment	834.9	1,420.0	1,084.8	1,406.7	885.9	223.7	361.7	20.2	280.3
1.1. Abroad	-97.5	-47.2	-3.9	-154.6	-94.6	-8.4	-31.0	-36.3	-19.0
1.2. In Croatia	932.4	1,467.2	1,088.7	1,561.3	980.5	232.1	392.7	56.5	299.2
2. Portfolio investment	14.9	532.4	707.6	600.7	-216.4	-83.9	224.0	-111.9	-244.6
2.1. Assets	-0.1	-38.3	-22.7	-129.3	-634.6	-191.9	-24.9	-78.7	-339.2
2.2. Liabilities	15.1	570.8	730.3	730.0	418.3	108.0	248.9	-33.3	94.7
3. Other investment	751.7	347.2	108.3	489.5	2,715.3	783.9	547.2	433.6	950.7
3.1. Assets	348.8	-575.7	-844.5	395.9	471.1	594.8	-4.1	-189.7	70.0
3.2. Liabilities	402.9	922.9	952.8	93.6	2,244.2	189.1	551.2	623.2	880.7
B3. Reserve assets (CNB)	-151.5	-378.5	-582.1	-1,313.1	-567.3	-229.5	-256.9	-159.2	78.4
C. NET ERRORS AND OMISSIONS	-16.2	-548.8	-880.0	-591.8	-1,294.8	167.0	-127.4	-1,202.6	-131.8

<sup>a</sup> Preliminary data.

Table: H1-H5: Balance of Payments

The balance of payments is compiled in accordance with the recommendations of the International Monetary Fund (Balance of Payments Manual, Fifth Edition, 1993). Data sources include: reports of the Central Bureau of Statistics, the Croatian Institute for Health Insurance, the Institute for Payment Transactions, banks, enterprises and the Croatian National Bank, as well as research by the Institute for Tourism and the Croatian National Bank.

Balance of payments of the Republic of Croatia data are recorded in US dollars (USD) and domestic currency (HRK). The balance of payments in both reporting currencies is compiled using the same sources of information and the same principles regarding the scope of transactions covered and the procedures for composing particular positions. Depending on the sources of data available, conversion of transaction values from the original currencies into reporting currencies is performed:

by applying the midpoint exchange rate of the Croatian National Bank on the date of the transaction;

by applying monthly and quarterly average midpoint exchange rates of the Croatian National Bank;

by applying the average monthly exchange rate versus the US dollar when assessing transactions representing the difference between balances evaluated according to the exchange rate applicable at the end of the period.

Exports and Imports are shown on an f.o.b. basis. The basic data source for these items is the Report of the Central Bureau of Statistics on merchandise foreign trade of the Republic of Croatia. The data of the Central Bureau of Statistics are modified in accordance with the compilation method of the IMF: merchandise imports, which are shown in the Central Bureau of Statistics' report in c.i.f. terms, are corrected to f.o.b. (corrected for classification) and both imports and exports are corrected so that the coverage includes goods defined as such in the balance of payments methodology but not included in the statistics on merchandise trade.

Regarding exports, beginning with the first quarter of 1999, coverage has been increased via estimates on purchases by individ-

Table H2: Balance of Payments – Goods and Services

Million US dollars

	1998	1999	2000	2001	2002 <sup>a</sup>	2002			
						Q1	Q2	Q3	Q4 <sup>a</sup>
1. Goods	-4,071.5	-3,298.6	-3,203.8	-4,101.3	-5,279.3	-1,011.6	-1,381.4	-1,410.9	-1,475.4
1.1. Credit	4,580.6	4,394.7	4,567.2	4,758.7	4,994.6	1,051.2	1,250.2	1,319.4	1,373.8
1.1.1. Exports f.o.b. in trade statistics	4,517.2	4,302.5	4,431.6	4,665.9	4,894.6	1,033.9	1,228.7	1,291.3	1,340.7
1.1.2. Adjustments for coverage	63.4	92.2	135.6	92.8	100.0	17.2	21.5	28.1	33.1
1.2. Debit	-8,652.0	-7,693.3	-7,770.9	-8,860.0	-10,273.9	-2,062.8	-2,631.6	-2,730.4	-2,849.1
1.2.1. Imports c.i.f. in trade statistics	-8,275.6	-7,798.6	-7,886.5	-9,147.1	-10,703.8	-2,142.5	-2,748.6	-2,829.2	-2,983.5
1.2.2. Adjustments for coverage	-964.0	-448.4	-444.4	-362.3	-330.1	-72.4	-78.1	-102.1	-77.5
1.2.3. Adjustments for classification	587.6	553.7	559.9	649.4	760.0	152.1	195.2	200.9	211.8
2. Services	2,076.7	1,625.2	2,267.9	2,927.0	3,118.1	113.5	561.0	2,178.0	265.6
2.1. Transportation	229.5	83.8	178.6	166.8	141.2	30.4	23.0	49.2	38.6
2.1.1. Credit	565.7	484.0	557.3	588.6	590.2	118.1	141.3	177.3	153.5
2.1.2. Debit	-336.2	-400.1	-378.7	-421.8	-448.9	-87.6	-118.3	-128.1	-114.9
2.2. Travel	2,133.2	1,742.0	2,189.9	2,728.6	3,030.2	95.0	551.7	2,096.0	287.4
2.2.1. Credit	2,733.4	2,493.4	2,758.0	3,335.0	3,811.4	236.7	756.9	2,350.0	467.9
2.2.2. Debit	-600.3	-751.4	-568.1	-606.4	-781.3	-141.7	-205.2	-254.0	-180.4
2.3. Other services	-286.0	-200.6	-100.6	31.6	-53.3	-12.0	-13.6	32.8	-60.5
2.3.1. Credit	665.0	745.7	780.6	951.9	1,148.7	258.1	272.2	335.6	282.7
2.3.2. Debit	-951.0	-946.3	-881.2	-920.3	-1,201.9	-270.1	-285.9	-302.8	-343.2
Total (1+2)	-1,994.8	-1,673.4	-935.9	-1,174.3	-2,161.2	-898.1	-820.4	767.1	-1,209.8

<sup>a</sup> Preliminary data.

ual foreign travelers in the Republic of Croatia. These estimates are based on the Survey on Consumption of Foreign Travelers in Croatia, carried out jointly by the Croatian National Bank and the Institute for Tourism. Regarding imports, the difference between c.i.f. and f.o.b. is estimated on the basis of research studies of the CNB on samples of the largest and large importers, and the resulting value of f.o.b. imports is adjusted on the basis of foreign payments for repairs of ships and supply purchases in foreign ports, as well as estimates on purchases by individual Croatian citizens abroad, obtained via a research study of the CNB. From the first quarter of 1999 on, estimates are based on the Survey on Consumption of Domestic Travelers Abroad, carried out jointly by the Croatian National Bank and the Institute for Tourism. For the 1993 to 1996 period, merchandise imports from the merchandise trade statistics are modified by estimates on imports in duty-free zones (prepared by the CNB), while from 1997 on, data on these imports are included in the merchandise trade statistics.

Beginning with the first quarter of 1999, income and expenditures from transport services are compiled on the basis of data from a new CNB research project on international transport services, with two exceptions: first, income and expenditures from road transport are compiled via data on realized foreign payments, and second, a portion of expenditures on transport services for transport of goods imported to the Republic of Croatia are based on a survey of the largest and large Croatia importers. This survey is carried out in the context of the reformulation of data on imports from a c.i.f. to an f.o.b. basis.

Income from travel-tourism is calculated on the basis of the Survey on Consumption of Foreign Travelers in Croatia starting in the first quarter of 1999. This survey is carried out jointly by the Croatian National Bank and the Institute for Tourism. Additional data from the Croatian Institute for Health Insurance on health services provided to nonresidents is also used.

Expenditures from travel-tourism are, starting in the first quarter of 1999, based on the results of the Survey on Consumption of Domestic Travelers Abroad, and supplemented by data on foreign exchange expenditures of the Croatian Institute for Health Insurance.

Item Other services includes data from the foreign payments statistics which relate to investment projects abroad, representation fees, insurance services, delivery services, postal services and the costs of Croatian representative offices overseas. To this category is added a part of unclassified services which can be explained as a linear trend, as well as estimates on expenditures of international peacekeeping and humanitarian missions for goods and services in the Republic of Croatia, based on a research by the Croatian National Bank.

The income account includes data from the foreign payments statistics on compensation of employees, payments on the basis of interest, data from the CNB's research on income paid from foreign direct and portfolio investment of the private sector, Croatian National Bank data and Institute for Payment Transactions data on income paid from foreign portfolio investment in the official sector and estimates on residents' income from factor services to peacekeeping and humanitarian missions in the Republic of Croatia, based on the research of the Croatian National Bank for the period 1993 to 1996, data on foreign direct investment do not include data on retained profit.

Current transfers to the government include data from the foreign payments statistics on the payment of pensions and other social transfers, monetary support and gifts, as well as data from the merchandise trade statistics of the Republic of Croatia on imports and exports of goods without payment obligation.

Income from transfers to other sectors includes data from the

Table H3: Balance of Payments – Income and Current Transfers

Million US dollars

	1998	1999	2000	2001	2002 <sup>a</sup>	2002			
						Q1	Q2	Q3	Q4 <sup>a</sup>
1. Income	-164.0	-356.3	-406.7	-516.5	-478.5	-209.4	-206.7	-54.1	-8.3
1.1. Compensation of employees	69.7	60.3	69.6	124.5	154.8	34.6	36.5	39.8	43.9
1.1.1. Credit	81.0	75.2	82.7	137.3	173.2	38.3	40.3	44.7	49.8
1.1.2. Debit	-11.4	-14.9	-13.1	-12.8	-18.4	-3.8	-3.9	-4.9	-5.9
1.2. Direct investment income	-100.6	-65.5	-152.9	-290.5	-339.3	-74.1	-201.7	-40.2	-23.3
1.2.1. Credit	5.3	4.6	9.3	20.2	20.0	0.6	3.4	6.5	9.4
1.2.2. Debit	-105.9	-70.1	-162.2	-310.7	-359.2	-74.7	-205.2	-46.7	-32.7
1.3. Portfolio investment income	-102.6	-129.4	-178.8	-218.1	-193.5	-142.4	-8.9	-35.1	-7.1
1.3.1. Credit	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.3.2. Debit	-102.8	-129.5	-178.8	-218.1	-193.6	-142.4	-9.0	-35.1	-7.1
1.4. Other investment income	-30.5	-221.6	-144.5	-132.4	-100.5	-27.5	-32.5	-18.6	-21.8
1.4.1. Credit	308.3	174.9	253.8	261.4	267.9	66.3	70.6	64.7	66.3
1.4.2. Debit	-338.8	-396.6	-398.3	-393.7	-368.5	-93.8	-103.2	-83.3	-88.2
2. Current transfers	706.0	632.5	883.2	965.7	1,093.0	240.8	270.6	299.6	282.0
2.1. General government	-9.2	-130.3	21.7	56.7	28.6	4.0	6.8	17.4	0.4
2.1.1. Credit	77.6	76.2	118.0	125.5	132.2	27.6	30.4	36.5	37.7
2.1.2. Debit	-86.8	-206.5	-96.3	-68.9	-103.6	-23.6	-23.5	-19.1	-37.3
2.2. Other sectors	715.2	762.7	861.5	909.0	1,064.4	236.8	263.8	282.2	281.6
2.2.1. Credit	841.5	891.2	983.0	1,049.0	1,225.2	274.6	304.6	318.3	327.6
2.2.2. Debit	-126.3	-128.5	-121.5	-139.9	-160.7	-37.8	-40.7	-36.2	-46.0
Total (1+2)	542.0	276.2	476.5	449.2	614.5	31.4	63.9	245.5	273.7

<sup>a</sup> Preliminary data.

foreign payments statistics on the total value of foreign exchange transfers received from abroad. To this is added an estimate on un-registered transfers. For the 1993 to 1998 period, this estimate is seen as 15% of the difference between the unexplained foreign exchange inflows and outflows of the household sector. Beginning with the first quarter of 1999, data on buy-out of foreign exchange cheques from domestic natural persons are also included.

The foreign exchange receipts of the household sector include the purchase of foreign cash at exchange offices from residents and deposits of foreign cash in foreign exchange accounts of residents at domestic banks. Payments made abroad and income earned through business trips, education and training, tourist receipts and other tourist income are added to this. The total inflow is decreased by: estimated tourist income and estimates on purchases by individual foreign tourists in the Republic of Croatia (Survey on Consumption of Foreign Tourists in Croatia, carried out jointly by the Croatian National Bank and the Institute for Tourism) plus estimated consumption of goods and services by members of peacekeeping and humanitarian missions in the Republic of Croatia.

The foreign exchange expenditures of the household sector include purchases of foreign cash from exchange offices and withdrawals of foreign cash from households' foreign exchange accounts at domestic banks. Realized foreign payments and expenditures from business trips, education and training, tourist payments and other tourist expenditures are added to this. The total outflow is decreased by: individuals' expenditures for goods abroad and expenditures for foreign tourism by residents (Survey on Consumption of Domestic Travelers Abroad, which is carried out jointly by the Croatian National Bank and the Institute for Tourism). Expenditures on transfers of other sectors are based on foreign payments statistics data on the total value of foreign exchange transfers abroad.

Capital accounts are compiled from data on realized foreign payments by migrants (income and expenditures).

Foreign direct and portfolio investment includes data on those investments from the research of the CNB and data from the securities register of the official sector (central bank and central government) at the Croatian National Bank and the Institute for Payment Transactions. In the 1993 to 1996 period, data on foreign direct investment of the private sector (banks and other sectors) did not include direct foreign debt investment, nor retained profit of the investor.

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

Item Assets – Trade credits has been compiled since the first quarter of 1996. It includes advances paid for goods imports by Croatian importers. Starting in the first quarter of 1999, it includes loans with a maturity below 90 days given by Croatian exporters to foreign buyers as well as long-term and short-term (from 91 days to 1 year) trade credits granted to the government and other sectors.

Item Assets – Loans includes data on loans granted abroad, classified according to institutional sectors. The data are obtained from statistics on foreign credit relations of the Croatian National Bank, which are based on concluded credit agreements registered with the Croatian National Bank.

Item Assets – Currency and deposits – Banks in the 1993 to 1998 period shows the change in the total liquid foreign exchange of

Table H4: Balance of Payments – Other Investments

Million US dollars

	1998	1999	2000	2001	2002 <sup>a</sup>	2002			
						Q1	Q2	Q3	Q4 <sup>b</sup>
<b>ASSETS</b>	348.8	-575.7	-844.5	396.6	471.0	594.8	-4.1	-189.7	70.0
1. Trade credits	-19.5	-292.1	97.8	56.7	-87.0	45.0	-20.5	-47.7	-63.7
1.1. General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.1.1. Long-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.1.2. Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.2. Other sectors	-19.5	-292.1	97.8	56.7	-87.0	45.0	-20.5	-47.7	-63.7
1.2.1. Long-term	0.0	-20.7	2.4	8.3	-10.3	-8.7	1.9	-6.1	2.5
1.2.2. Short-term	-19.5	-271.4	95.4	48.4	-76.7	53.7	-22.4	-41.7	-66.3
2. Loans	0.0	-97.5	-93.2	34.7	17.0	-3.7	34.9	-28.1	13.9
2.1. General government	0.0	1.1	0.0	-3.2	0.6	0.0	0.0	-0.3	0.9
2.1.1. Long-term	0.0	1.1	0.0	-3.2	0.6	0.0	0.0	-0.3	0.9
2.1.2. Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2. Banks	0.0	-24.6	2.7	-9.2	-7.0	-4.3	-13.6	-2.0	12.9
2.2.1. Long-term	0.0	-14.8	2.3	-3.0	-11.2	-0.7	-4.8	-3.0	-2.6
2.2.2. Short-term	0.0	-9.8	0.4	-6.3	4.2	-3.5	-8.8	1.1	15.5
2.3. Other sectors	0.0	-74.0	-96.0	47.1	23.4	0.6	48.5	-25.8	0.1
2.3.1. Long-term	0.0	-74.0	-96.0	47.1	23.5	0.6	48.5	-25.7	0.1
2.3.2. Short-term	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	-0.1	0.0
3. Currency and deposits	368.3	-186.1	-849.1	305.1	541.0	553.5	-18.5	-113.8	119.9
3.1. General government	-22.3	12.3	-26.7	-15.2	-28.4	3.4	75.1	-44.1	-62.8
3.2. Banks	406.1	185.6	-921.4	-1,613.7	1,366.8	972.4	332.5	-120.7	182.7
3.3. Other sectors	-15.5	-384.0	99.0	1,934.0	-797.4	-422.3	-426.1	51.0	0.0
<b>LIABILITIES</b>	402.9	922.9	952.8	93.6	2,245.0	189.1	551.5	623.4	881.0
1. Trade credits	-466.9	310.6	276.9	72.7	474.0	-106.7	400.9	79.8	100.0
1.1. General government	0.0	0.9	-3.2	1.1	0.1	0.4	0.0	-0.2	-0.1
1.1.1. Long-term	0.0	-1.0	-0.5	1.1	0.1	0.4	0.0	-0.2	-0.1
1.1.2. Short-term	0.0	1.9	-2.7	0.0	0.0	0.0	0.0	0.0	0.0
1.2. Other sectors	-466.9	309.7	280.1	71.6	474.0	-107.1	401.0	80.1	100.0
1.2.1. Long-term	0.0	-9.3	-12.7	-14.9	-8.4	1.5	5.5	-3.6	-11.7
1.2.2. Short-term	-466.9	319.0	292.8	86.5	482.3	-108.6	395.5	83.7	111.8
2. Loans	1,045.7	576.7	780.8	-179.8	599.8	124.0	-135.4	345.4	265.7
2.1. Monetary authorities	-8.9	-31.4	-28.7	-30.8	-129.6	-3.0	-13.7	-3.1	-109.8
2.1.1. Use of Fund credit and loans	-8.9	-31.4	-28.7	-30.8	-129.6	-3.0	-13.7	-3.1	-109.8
2.1.1.1. Drawings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.1.1.2. Repayments	-8.9	-31.4	-28.7	-30.8	-129.6	-3.0	-13.7	-3.1	-109.8
2.2. General government	-61.4	186.1	300.8	-189.8	390.1	108.0	23.1	140.1	119.0
2.2.1. Long-term	-12.2	170.6	13.9	170.2	390.1	108.0	23.1	140.1	119.0
2.2.1.1. Drawings	248.0	236.1	264.6	325.3	547.3	138.5	59.6	183.5	165.7
2.2.1.2. Repayments	-260.2	-65.5	-250.6	-155.1	-157.2	-30.6	-36.5	-43.3	-46.7
2.2.2. Short-term (net)	-49.2	15.5	286.9	-360.0	0.0	0.0	0.0	0.0	0.0
2.3. Banks	311.6	-5.7	101.5	127.6	65.6	-10.8	-22.8	-84.6	183.9
2.3.1. Long-term	362.3	-7.2	107.9	133.1	65.4	-10.5	-23.2	-84.3	183.3
2.3.1.1. Drawings	517.0	494.6	652.6	750.0	610.6	71.3	57.1	238.9	243.4
2.3.1.2. Repayments	-154.7	-501.8	-544.7	-616.9	-545.2	-81.7	-80.3	-323.2	-60.0
2.3.2. Short-term (net)	-50.7	1.5	-6.4	-5.5	0.2	-0.3	0.4	-0.4	0.5
2.4. Other sectors	804.3	427.7	407.2	-86.8	273.6	29.8	-122.0	293.1	72.6
2.4.1. Long-term	668.0	439.3	466.5	-38.7	193.7	9.8	-132.7	233.2	83.4
2.4.1.1. Drawings	969.7	979.8	971.1	690.1	1,038.2	161.6	167.1	350.2	359.3
2.4.1.2. Repayments	-301.8	-540.5	-504.6	-728.8	-844.5	-151.9	-299.8	-117.0	-275.8
2.4.2. Short-term (net)	136.4	-11.6	-59.3	-48.1	79.9	20.1	10.8	59.9	-10.8
3. Currency and deposits	-175.9	35.6	-104.9	200.7	1,171.3	171.9	285.9	198.1	515.3
3.1. Monetary authorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.2. Banks	-175.9	35.6	-104.9	200.7	1,171.3	171.9	285.9	198.1	515.3
4. Other liabilities (short-term)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4.1. General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4.2. Banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4.3. Other sectors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

<sup>a</sup> Preliminary data.

Table H5: Balance of Payments – Summary

Million kuna

	1998	1999	2000	2001	2002 <sup>a</sup>	2002			
						Q1	Q2	Q3	Q4 <sup>a</sup>
A. CURRENT ACCOUNT (1+6)	-9,239.2	-9,953.0	-3,894.0	-6,052.7	-12,839.7	-7,369.4	-6,090.4	7,595.7	-6,975.6
1. Goods, services, and income (2+5)	-13,736.0	-14,456.2	-11,217.5	-14,108.1	-21,411.3	-9,436.5	-8,258.2	5,356.2	-9,072.8
1.1. Credit	56,904.8	59,736.5	74,694.1	83,975.4	85,501.1	15,062.6	20,360.7	32,164.0	17,913.7
1.2. Debit	-70,640.8	-74,192.7	-85,911.5	-98,083.6	-106,912.4	-24,499.1	-28,618.9	-26,807.8	-26,986.6
2. Goods and services (3+4)	-12,665.6	-11,928.5	-7,894.9	-10,019.2	-17,513.9	-7,656.7	-6,606.9	5,761.0	-9,011.2
2.1. Credit	54,398.7	57,919.7	71,797.8	80,246.0	81,884.5	14,166.7	19,441.5	31,296.4	16,980.0
2.2. Debit	-67,064.3	-69,848.2	-79,692.7	-90,265.2	-99,398.4	-21,823.4	-26,048.4	-25,535.4	-25,991.2
3. Goods	-25,946.4	-23,586.6	-26,686.7	-34,327.9	-41,252.7	-8,626.5	-11,065.4	-10,551.5	-11,009.3
3.1. Credit	29,130.4	31,369.6	37,910.1	39,690.9	39,129.0	8,951.5	10,088.0	9,861.3	10,228.2
3.2. Debit	-55,076.9	-54,956.2	-64,596.7	-74,018.8	-80,381.7	-17,578.0	-21,153.4	-20,412.7	-21,237.6
4. Services	13,280.8	11,658.1	18,791.7	24,308.7	23,738.8	969.8	4,458.5	16,312.4	1,998.1
4.1. Credit	25,268.3	26,550.1	33,887.7	40,555.2	42,755.5	5,215.2	9,353.5	21,435.1	6,751.7
4.2. Debit	-11,987.5	-14,892.0	-15,096.0	-16,246.4	-19,016.8	-4,245.5	-4,895.0	-5,122.7	-4,753.6
5. Income	-1,070.4	-2,527.7	-3,322.5	-4,089.0	-3,897.4	-1,779.8	-1,651.3	-404.7	-61.6
5.1. Credit	2,506.0	1,816.8	2,896.3	3,729.4	3,616.5	895.9	919.2	867.6	933.8
5.2. Debit	-3,576.5	-4,344.5	-6,218.8	-7,818.4	-7,514.0	-2,675.7	-2,570.5	-1,272.4	-995.4
6. Current transfers	4,496.8	4,503.2	7,323.5	8,055.5	8,571.7	2,067.1	2,167.8	2,239.5	2,097.3
6.1. Credit	5,846.2	6,898.2	9,131.4	9,795.4	10,648.4	2,583.3	2,687.2	2,655.1	2,722.9
6.2. Debit	-1,349.4	-2,394.9	-1,807.9	-1,740.0	-2,076.7	-516.2	-519.4	-415.6	-625.6
B. CAPITAL AND FINANCIAL ACCOUNT	9,123.9	13,217.7	10,832.0	9,347.7	21,311.5	5,802.9	6,384.0	1,269.1	7,855.6
B1. Capital account	121.9	178.0	172.1	1,140.1	189.7	47.9	63.1	55.8	22.9
B2. Financial account, excl. reserves	10,056.6	16,031.7	15,469.6	19,242.6	25,731.9	7,699.2	8,352.9	2,403.2	7,276.7
1. Direct investment	5,349.3	10,131.7	8,539.9	9,356.5	6,810.4	1,965.7	2,826.5	0.4	2,017.8
1.1. Abroad	-619.7	-347.2	-32.9	-1,279.6	-728.8	-72.4	-247.2	-269.1	-140.1
1.2. In Croatia	5,969.1	10,478.9	8,572.8	10,636.1	7,539.2	2,038.1	3,073.7	269.6	2,157.8
2. Portfolio investment	107.9	3,697.3	5,658.5	4,975.0	-1,566.0	-716.5	1,807.3	-838.8	-1,818.0
2.1. Assets	-0.9	-277.4	-189.8	-1,081.7	-4,940.2	-1,635.3	-194.1	-587.8	-2,523.0
2.2. Liabilities	108.8	3,974.8	5,848.2	6,056.7	3,374.2	918.9	2,001.4	-251.1	705.0
3. Other investment	4,599.3	2,202.6	1,271.3	4,911.1	20,487.4	6,449.9	3,719.0	3,241.5	7,076.9
3.1. Assets	2,139.9	-4,476.5	-7,042.5	4,031.7	3,324.8	4,840.5	-619.0	-1,418.2	521.4
3.2. Liabilities	2,459.4	6,679.1	8,313.8	879.4	17,162.6	1,609.4	4,338.0	4,659.7	6,555.6
B3. Reserve assets (CNB)	-1,054.5	-2,992.0	-4,809.8	-11,035.1	-4,610.1	-1,944.2	-2,032.0	-1,189.9	556.0
C. NET ERRORS AND OMISSIONS	115.3	-3,264.8	-6,938.0	-3,295.0	-8,471.8	1,566.6	-293.5	-8,864.8	-880.0

<sup>a</sup> Preliminary data.

banks authorized to do business abroad reduced by the amount of foreign exchange deposited by DMBs with the CNB in fulfillment of a part of their reserve requirements. Beginning with the first quarter of 1999, transaction-based changes are estimated by converting changes in the original currencies into US dollar changes using the average monthly exchange rate of currencies held in the banks' assets against the US dollar. Item Assets – Currency and deposits – Other sectors, in the 1993 to 1998 period includes a part of the net foreign exchange inflows of the household sector which is not classified on the current account, and which amounts to 85% of the unexplained foreign exchange inflows to the household sector. Beginning with the first quarter of 1999, this item is no longer estimated.

Item Liabilities – Trade credits has been compiled since the first quarter of 1996, and includes data on loans with a maturity below 90 days granted by foreign suppliers to Croatian importers. From the first quarter of 1999 on, this item includes data on advances granted by foreign purchasers to Croatian exporters for exports of goods, as well as data on long-term and short-term (from 91 days to 1 year) trade credits received by the government and other sectors.

Data on credits received from abroad and corresponding arrears are

shown by institutional sectors. They are obtained from statistics on foreign credit relations of the Croatian National Bank, which are based on concluded credit agreements registered with the Croatian National Bank.

Item Liabilities – Currency and deposits includes changes in those foreign exchange and kuna foreign liabilities of the monetary authorities (CNB) and banks based on current accounts, time and notice deposits, sight deposits and demand deposits.

Changes in the international reserves of the Croatian National Bank on a transactions basis are estimated using accounting data on the stock of foreign exchange reserves in particular currencies at the end of the month. In the estimate on transactions in the period from 1993 to the fourth quarter of 1998, changes in the original currencies were transformed into dollar changes using the average monthly exchange rate of the currency in question against the US dollar. Starting from the first quarter of 1999, the source of data on changes in international reserves has been a Report on International Reserves Transactions compiled by the CNB Accounting Department.

Table H6: International Reserves and Banks' Foreign Exchange Reserves

End of period, million US dollars

		International reserves of the Croatian National Bank							Banks' foreign exchange reserves
		Total	Special drawing rights	Reserve position in the Fund	Gold	Foreign exchange			
						Total	Currency and deposits	Bonds and notes	
1994	December	1,405.0	4.5	–	–	1,400.5	1,400.5	–	878.7
1995	December	1,895.2	139.8	–	–	1,755.4	1,651.0	104.3	1,330.3
1996	December	2,314.0	125.6	–	–	2,188.4	2,016.6	171.8	1,919.5
1997	December	2,539.1	147.1	0.1	–	2,391.9	2,011.7	380.2	2,291.3
1998	December	2,815.7	231.2	0.2	–	2,584.4	1,927.0	657.4	1,885.2
1999	December	3,025.0	189.5	0.2	–	2,835.3	2,459.8	375.5	1,350.2
2000	December	3,524.8	147.7	0.2	–	3,376.9	2,574.3	802.6	2,152.9
2001	December	4,704.2	108.4	0.2	–	4,595.6	3,060.3	1,535.3	3,577.4
2002	January	4,734.4	107.4	0.2	–	4,626.8	3,319.5	1,307.3	3,179.3
	February	4,750.0	106.4	0.2	–	4,643.3	3,273.2	1,370.2	3,138.5
	March	4,885.5	104.1	0.2	–	4,781.1	3,275.3	1,505.8	2,667.6
	April	5,018.8	92.1	0.2	–	4,926.5	3,292.0	1,634.5	2,423.1
	May	5,230.8	92.8	0.2	–	5,137.8	3,365.6	1,772.2	2,509.7
	June	5,601.8	95.9	0.2	–	5,505.7	3,627.8	1,878.0	2,573.3
	July	5,648.4	95.5	0.2	–	5,552.7	3,638.7	1,914.0	2,618.3
	August	5,758.3	95.3	0.2	–	5,662.8	3,779.1	1,883.7	2,674.6
	September	5,705.2	91.6	0.2	–	5,613.4	3,573.5	2,039.9	2,705.4
	October	5,715.9	77.3	0.2	–	5,638.4	3,628.7	2,009.7	2,677.9
	November	5,852.9	76.5	0.2	–	5,776.1	3,914.2	1,861.9	2,665.3
	December	5,885.8	2.4	0.2	–	5,883.2	3,945.0	1,938.2	2,688.7

Table H6: International Reserves and Banks' Foreign Exchange Reserves

The international reserves of the Croatian National Bank are shown according to the methodology contained in the Balance of Payments Manual (International Monetary Fund, 1993), and include those foreign claims of the Croatian National Bank that can be used to bridge imbalances in international payments. International re-

erves include special drawing rights, reserve position in the International Monetary Fund, gold, foreign currency and deposits with foreign banks, as well as bonds and debt instruments.

The foreign exchange reserves of commercial banks include foreign currency and domestic commercial banks' deposits with foreign banks. These foreign exchange reserves represent an additional source of liquidity for bridging imbalances in international payments.

Table H7: International Reserves and Foreign Currency Liquidity

Million US dollars

	2001	2002											
	Dec. <sup>b</sup>	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
I. Official reserve assets and other f/c assets (approximate market value)													
A. Official reserve assets	4,704.2	4,734.4	4,750.0	4,885.5	5,018.8	5,230.8	5,601.8	5,648.4	5,758.3	5,705.2	5,715.9	5,852.9	5,885.8
(1) Foreign currency reserves (in convertible f/c)	3,420.3	3,217.1	3,429.9	3,661.5	3,744.9	4,036.5	4,284.3	4,302.7	4,358.1	4,326.3	4,285.5	4,322.0	4,423.1
(a) Securities	1,535.3	1,307.3	1,370.2	1,505.8	1,634.5	1,772.2	1,878.0	1,914.0	1,883.7	2,039.9	2,009.7	1,861.9	1,938.2
o/w: issuer headquartered in reporting country but located abroad													
(b) Total currency and deposits with:	1,885.0	1,909.9	2,059.8	2,155.7	2,110.5	2,264.3	2,406.3	2,388.7	2,474.4	2,286.3	2,275.8	2,460.0	2,484.9
(i) other national central banks, BIS and IMF	406.9	349.9	325.4	382.6	352.2	364.6	361.2	338.4	337.9	321.3	322.3	323.4	338.6
(ii) banks headquartered in the reporting country													
o/w: located abroad													
(iii) banks headquartered outside the reporting country	1,478.1	1,560.0	1,734.3	1,773.0	1,758.2	1,899.7	2,045.1	2,050.3	2,136.5	1,965.0	1,953.4	2,136.7	2,146.3
o/w: located in the reporting country													
(2) IMF reserve position	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
(3) SDRs	108.4	107.4	106.4	104.1	92.1	92.8	95.9	95.5	95.3	91.6	77.3	76.5	2.4
(4) gold													
(5) other reserve assets	1,175.3	1,409.6	1,213.4	1,119.7	1,181.5	1,101.3	1,221.4	1,250.1	1,304.7	1,287.2	1,352.9	1,454.2	1,460.1
– reverse repo	1,175.3	1,409.6	1,213.4	1,119.7	1,181.5	1,101.3	1,221.4	1,250.1	1,304.7	1,287.2	1,352.9	1,454.2	1,460.1
B. Other foreign currency assets (specify)													
– time deposits													
C. Total (A+B)	4,704.2	4,734.4	4,750.0	4,885.5	5,018.8	5,230.8	5,601.8	5,648.4	5,758.3	5,705.2	5,715.9	5,852.9	5,885.8
II. Predetermined short-term net drains on f/c assets (nominal value)													
1. Foreign currency loans, securities, and deposits (total net drains up to one year)	-1,191.4	-1,209.7	-881.6	-802.9	-809.0	-818.2	-876.3	-869.8	-854.7	-854.0	-833.5	-802.1	-771.6
(a) Croatian National Bank	-391.1	-404.2	-359.4	-280.1	-276.6	-278.2	-292.4	-287.3	-270.7	-270.9	-245.0	-212.0	-174.4
Up to 1 month	Principal	-172.9	-156.2	-193.2	-141.5	-105.0	-81.2	-147.6	-122.4	-148.6	-149.1	-162.1	-68.3
	Interest	-2.8	-2.5	-2.7	-2.3	-2.5	-2.4	-2.8	-2.5	-2.4	-2.3	-3.0	-2.7
More than 1 and up to 3 months	Principal	-179.6	-223.5	-142.7	-106.7	-122.4	-146.3	-95.2	-132.7	-91.8	-90.6	-37.4	-98.5
	Interest	-1.9	-2.3	-0.9	-1.7	-1.2	-1.1	-1.7	-1.2	-0.7	-1.6	-0.9	-0.8
More than 3 months and up to 1 year	Principal	-30.4	-16.6	-16.6	-24.6	-42.3	-43.9	-42.0	-25.3	-24.2	-24.4	-38.8	-38.9
	Interest	-3.4	-3.0	-3.3	-3.2	-3.3	-3.3	-3.2	-3.2	-3.1	-2.8	-2.8	-0.1
(b) Central government (excluding extrabudgetary funds)a	-800.3	-805.5	-522.2	-522.9	-532.4	-539.9	-583.9	-582.5	-584.0	-583.1	-588.4	-590.2	-597.3
Up to 1 month	Principal	-89.7	-302.1	-8.2	-3.1	-2.4	-17.3	-95.6	0.0	-8.7	-3.6	-2.9	-23.7
	Interest	-49.0	-13.3	-96.0	-1.3	-1.0	-13.5	-57.7	-3.1	-3.1	-3.0	-1.9	-17.0
More than 1 and up to 3 months	Principal	-310.1	-11.1	-5.3	-19.4	-111.6	-94.8	-8.6	-12.2	-6.4	-25.4	-125.6	-104.5
	Interest	-110.9	-96.9	-2.0	-14.0	-69.3	-59.5	-6.0	-6.0	-4.1	-18.6	-62.5	-81.0
More than 3 months and up to 1 year	Principal	-150.6	-248.7	-248.6	-237.6	-147.5	-151.4	-187.3	-285.7	-283.0	-267.2	-169.0	-169.8
	Interest	-90.0	-133.4	-162.2	-247.5	-200.5	-203.4	-228.6	-275.5	-278.7	-265.3	-226.6	-194.2
2. Aggregate short and long positions in forwards and futures in f/c vis-a-vis the domestic currency (including the forward leg of currency swaps)													
(a) Short positions (-)													
Up to 1 month													
More than 1 and up to 3 months													
More than 3 months and up to 1 year													
(b) Long positions (+)													
Up to 1 month													
More than 1 and up to 3 months													
More than 3 months and up to 1 year													
3. Other	-66.3	-164.1	-124.9	-113.2	-137.1	-121.5	-60.4	-122.7	-190.9	-113.4	-143.9	-250.0	-22.4
– outflows related to repos (-)	-66.3	-164.1	-124.9	-113.2	-137.1	-121.5	-60.4	-122.7	-190.9	-113.4	-143.9	-250.0	-22.4
Up to 1 month	Principal	-66.3	-163.8	-124.8	-113.2	-137.1	-121.4	-60.3	-122.6	-190.7	-113.3	-143.8	-249.8
	Interest	-0.1	-0.2	-0.1	0.0	-0.1	-0.1	0.0	-0.1	-0.2	-0.1	-0.2	0.0
More than 1 and up to 3 months	Principal												
	Interest												
More than 3 months and up to 1 year	Principal												
	Interest												
4. Total predetermined short-term net drains on f/c assets (1+2+3)	-1,257.7	-1,373.7	-1,006.5	-916.1	-946.2	-939.6	-936.6	-992.5	-1,045.6	-967.4	-977.4	-1,052.1	-794.1
III. Contingent short-term net drains on f/c assets (nominal value)													
1. Contingent liabilities in foreign currency	-960.3	-1,011.4	-1,019.9	-1,059.2	-1,094.1	-1,059.0	-1,110.9	-1,135.0	-1,146.2	-1,174.0	-1,188.4	-1,216.9	-1,698.7
(a) Collateral guarantees on debt falling due within 1 year	-278.6	-296.5	-269.4	-255.1	-281.7	-236.2	-238.7	-254.5	-273.2	-265.8	-265.3	-268.2	-714.4
– Croatian National Bank													
– Central government (excluding extrabudgetary funds)a	-278.6	-296.5	-269.4	-255.1	-281.7	-236.2	-238.7	-254.5	-273.2	-265.8	-265.3	-268.2	-714.4
Up to 1 month													
	-43.6	-4.8	-16.6	-10.8	-52.3	-38.2	-40.7	-3.4	-32.9	-9.7	-2.6	-32.7	-54.5
More than 1 and up to 3 months													
	-21.8	-28.3	-61.2	-86.6	-76.8	-42.6	-37.5	-37.5	-15.2	-45.3	-86.0	-59.1	-36.7
More than 3 months and up to 1 year													
	-213.2	-263.4	-191.6	-157.8	-152.5	-155.4	-168.7	-213.6	-225.1	-210.9	-176.8	-176.3	-623.2
(b) Other contingent liabilities	-681.7	-714.9	-750.4	-804.1	-812.4	-822.8	-872.2	-880.4	-873.0	-908.2	-923.0	-948.7	-984.3
– Croatian National Bank	-681.7	-714.9	-750.4	-804.1	-812.4	-822.8	-872.2	-880.4	-873.0	-908.2	-923.0	-948.7	-984.3

Up to 1 month														
More than 1 and up to 3 months	-681.7	-714.9	-750.4	-804.1	-812.4	-822.8	-872.2	-880.4	-873.0	-908.2	-923.0	-948.7	-984.3	
More than 3 months and up to 1 year														
– Central government (excluding extrabudgetary funds)														
2. Foreign currency securities issued with embedded options (puttable bonds)														
3. Undrawn, unconditional credit lines provided by:	150.7	149.0	149.0	150.2	211.1									
– BIS (+)														
– IMF (+)	150.7	149.0	149.0	150.2	211.1									
4. Aggregate short and long positions of options in f/c vis-à-vis the domestic currency														
5. Total contingent short-term net drains on f/c assets (1+2+3+4)	-809.7	-862.4	-870.9	-909.0	-883.0	-1,059.0	-1,110.9	-1,135.0	-1,146.2	-1,174.0	-1,188.4	-1,216.9	-1,698.7	
IV. Memo items														
(a) short-term domestic currency debt indexed to the exchange rate														
o/w: central government (excluding extrabudgetary funds)														
(b) financial instruments denominated in foreign currency and settled by other means (e.g., in domestic currency)														
(c) pledged assets														
(d) securities lent and on repo														
– lent or repoed and included in Section I	-61.7	-157.9	-121.9	-78.7	-100.0	-83.3	-20.0	-79.0	-143.7	-68.9	-99.2	-199.2	-20.8	
– lent or repoed but not included in Section I														
– borrowed or acquired and included in Section I														
– borrowed or acquired but not included in Section I	1,089.3	1,351.8	1,142.7	1,060.7	1,141.3	1,052.0	1,201.9	1,187.3	1,224.3	1,207.4	1,275.5	1,378.0	1,385.5	
(e) financial derivative assets (net, marked to market)														
(f) currency composition of official reserves assets <sup>a</sup>														
– currencies in SDR basket	4,704.2	4,734.4	4,749.9	4,885.4	5,018.7	5,230.8	5,601.8	5,648.4	5,758.3	5,705.2	5,715.9	5,852.9	5,885.8	
– currencies not in SDR basket	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
– by individual currencies														
USD	1,533.2	1,588.2	1,609.0	1,702.5	1,756.6	1,782.9	1,779.8	1,878.3	1,911.6	1,760.0	1,778.9	1,710.2	1,667.2	
EUR	3,062.0	3,038.6	3,034.2	3,078.6	3,169.8	3,354.9	3,725.8	3,674.4	3,751.2	3,853.3	3,859.5	4,065.9	4,215.9	
Other	109.0	107.7	106.7	104.4	92.3	93.0	96.1	95.7	95.5	91.8	77.5	76.8	2.7	

<sup>a</sup> Until January 2001: Currency structure of official reserve assets and other foreign currency assets. <sup>b</sup> 31 December 2001 as well. In accordance with the recommendation made by the IMF, time deposits with a maturity over 3 months were also included in Official reserve assets (I.A.). These deposits were previously included in Other foreign currency assets (I.B.).

## Table H7: International Reserves and Foreign Currency Liquidity

International reserves and foreign currency liquidity are shown in accordance with a Template on International Reserves and Foreign Currency Liquidity, drawn up by the IMF. A detailed explanation of the Template is given in "Data Template on International Reserves and Foreign Currency Liquidity – Operational Guidelines, October 1999" issued by the IMF.

The first part of the Template shows total assets of the Croatian National Bank in convertible foreign currency. Official reserve assets (I.A.) show those types of assets that are readily available to the CNB at any moment for bridging imbalances in international payments. Official international reserves include: short-term foreign negotiable debt securities, foreign cash, foreign currency sight deposits, foreign currency time deposits which can be withdrawn before maturity, foreign currency time deposits with a remaining maturity of up to 1 year, reserve position with the IMF, special drawing rights, gold, and reverse repos with foreign negotiable debt securities.

The second part of the Template shows fixed predetermined foreign currency net liabilities of the Croatian National Bank and the central government (excluding extrabudgetary funds) that fall due in the next 12 months. Foreign currency loans, securities and deposits (II.1.) include future interest payments on banks' foreign currency reserve requirements with the CNB (only interest payments for the next month are included), payments of future maturities of foreign currency CNB bills, future principal and interest payments on loans from the IMF, and future principal and interest payments on the central government's foreign currency debts (excluding extrabudgetary funds). Aggregate short and long positions in forwards and futures in foreign currencies (II.2.) include future collections (+) or payments (-) arising from currency swaps between the CNB and domestic DMBs (tempo-

rary sale or purchase of foreign currency). Item Other (II.3.) includes future payments arising from repo agreements with foreign negotiable debt securities.

The third part of the Template shows predetermined contingent foreign currency net liabilities of the Croatian National Bank and the central government (excluding extrabudgetary funds), which fall due in the next 12 months. Contingent liabilities in foreign currency (III.1.) include future principal and interest payments on foreign loans guaranteed by the central government, and banks' foreign currency reserve requirements. (The inclusion of reserve requirements in foreign currency is based on the assumption that there will be no changes in ratios or in the base of foreign currency reserve requirements, which comprises households' deposits in foreign currency with remaining maturity of up to 3 months). Undrawn credit lines show potential inflows (+) or outflows (-) which would arise from drawdowns under these credits.

The fourth part of the Template lists memo items. Short-term, domestic currency debt indexed to foreign currency (IV.a) shows obligations arising from the Law on Converting Households' Foreign Exchange Deposits into the Public Debt of the Republic of Croatia, which fall due in the next 12 months. Pledged assets (IV.c) show time deposits in foreign currency with a maturity over 3 months listed in item I.B. which are also a pledge. Repo transactions with securities show the value of collateral that is the subject of repo agreements and reverse repo transactions with securities as well as how these transactions are registered in the Template. Until December 2000, the currency structure of international and other foreign currency reserves showed the currency structure of the total foreign currency assets of the CNB (section I.). From January 2001, the currency structure refers to official reserve assets (section I.).

Table H8: Midpoint Exchange Rates of the Croatian National Bank (period average)

Year	Month	HRK/EUR	HRK/ATS	HRK/FRF	HRK/100 ITL	HRK/CHF	HRK/GBP	HRK/USD	HRK/DEM
1994		7.087400	0.524804	1.079560	0.371475	4.381763	9.166192	5.995300	3.692018
1995		6.757758	0.518734	1.047969	0.321342	4.425311	8.252950	5.229967	3.649342
1996		6.804708	0.513722	1.062735	0.352150	4.404976	8.479850	5.433800	3.614536
1997		6.959708	0.505322	1.056355	0.361942	4.246962	10.081567	6.157050	3.555932
1998		7.136608	0.514421	1.079581	0.366683	4.395149	10.539883	6.362292	3.619321
1999		7.579622	0.550834	1.155501	0.391455	4.738375	11.504100	7.112441	3.875409
2000		7.634973	0.554855	1.163944	0.394313	4.901679	12.529639	8.276819	3.903700
2001		7.468966	0.542791	1.138637	0.385740	4.946376	12.010492	8.339074	3.818822
2002		7.406773				5.050089	11.788895	7.863712	
2002	January	7.477062				5.071054	12.130633	8.451613	
	February	7.500267				5.077714	12.263697	8.626259	
	March	7.403144				5.043763	12.027717	8.454575	
	April	7.392964				5.043037	12.043841	8.358554	
	May	7.378303				5.065595	11.779217	8.071944	
	June	7.344009				4.993381	11.405167	7.697451	
	July	7.350401				5.026632	11.500657	7.405215	
	August	7.377005				5.045000	11.605190	7.541780	
	September	7.346884				5.014697	11.644205	7.483577	
	October	7.426918				5.070771	11.795687	7.570804	
	November	7.467559				5.090816	11.740230	7.464486	
	December	7.423370				5.059394	11.566062	7.297541	

Table H9: Midpoint Exchange Rates of the Croatian National Bank (end of period)

Year	Month	HRK/EUR	HRK/ATS	HRK/FRF	HRK/100 ITL	HRK/CHF	HRK/GBP	HRK/USD	HRK/DEM
1994		6.902400	0.516285	1.052510	0.346500	4.288893	8.784200	5.628700	3.632100
1995		6.812200	0.526742	1.085365	0.335800	4.618693	8.234500	5.316100	3.705900
1996		6.863600	0.506253	1.055662	0.362600	4.098835	9.359000	5.539600	3.562200
1997		6.947200	0.499445	1.050510	0.357700	4.332003	10.475600	6.303100	3.511000
1998		7.329100	0.531546	1.114954	0.377700	4.567584	10.451000	6.247500	3.739700
1999		7.679009	0.558055	1.170657	0.396588	4.784268	12.340257	7.647654	3.926215
2000		7.598334	0.552192	1.158359	0.392421	4.989712	12.176817	8.155344	3.884966
2001		7.370030	0.535601	1.123554	0.380630	4.977396	12.101856	8.356043	3.768237
2002		7.442292				5.120256	11.451442	7.145744	
2002	January	7.568480				5.146875	12.391094	8.741603	
	February	7.437848				5.037827	12.179217	8.600657	
	March	7.402535				5.052580	12.107516	8.494991	
	April	7.395818				5.054205	11.969280	8.185742	
	May	7.377827				5.039844	11.587603	7.928032	
	June	7.320722				4.972641	11.273055	7.359729	
	July	7.394853				5.071916	11.762133	7.522740	
	August	7.376568				5.022857	11.620302	7.488902	
	September	7.341343				5.003642	11.677021	7.504951	
	October	7.498423				5.126075	11.872107	7.627325	
	November	7.431178				5.035697	11.613030	7.482809	
	December	7.442292				5.120256	11.451442	7.145744	

Table H10: Indices of the Effective Exchange Rate of the Kuna

Indices 1995 = 100

Year	Month	Nominal effective exchange rate of the kuna	Real effective exchange rate of the kuna: deflator	
			Indices of producers' prices	Retail price index
1997	December	107.96	104.89	103.27
1998	December	111.87	108.03	102.41
1999	December	122.56	116.27	109.49
2000	December	125.97	113.53	107.66
2001	December	122.99	111.96	104.32
2002	January	124.74	113.95	105.45
	February	125.80	114.35	106.57
	March	123.91	114.53	105.08
	April	123.36	113.38	104.60
	May	121.86	111.78	103.25
	June	119.64	109.37	101.24
	July	118.32	107.66	100.56
	August	119.29	108.79	101.71
	September	118.68	108.15	100.95
	October	120.00	108.69	101.71
	November	119.93	109.08	101.89
	December	118.58	108.13	100.64

Note: From 1 January 2001, the euro-zone related price series includes Greece as well.

Table H10: Indices of the Effective Exchange Rate of the Kuna

The index of the nominal effective exchange rate of the kuna is a weighted geometric average of the index of bilateral exchange rates of the kuna against the euro, US dollar, Swiss franc, British pound and Slovenian tolar. The weights are determined based on the average share of a particular foreign currency in the structure of the current account of the balance of foreign currency transactions between July 1996 and January 2000. The year 1995 is a base period for calculating the index. The index of the nominal effective exchange rate is an aggregate indicator of the average value of the domestic currency against a basket of currencies. An increase in the in-

dex of the nominal effective exchange rate of the kuna in a certain period indicates that the kuna has depreciated against the basket of currencies. The index of the real effective exchange rate is a weighted geometric average of the index of bilateral exchange rates of the kuna corrected for the relevant relative price indices (the ratio of price indices in partner countries and domestic prices). Producer price and retail price indices are used, in particular the total harmonized retail price index for the Economic and Monetary Union member countries. Data for the last two months are preliminary. The historical data may be corrected for the subsequent changes in the data published by the statistical offices of the countries whose prices are included in the calculation of the index of the real effective exchange rate of the kuna.

Table H11: External Debt by Domestic Sectors

Million US dollars

	2002												
	2001	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.
1. Direct investment	635.0	649.8	677.0	702.8	735.2	768.5	858.1	855.8	880.7	891.0	910.2	960.2	1,046.5
2. Government	5,132.6	5,003.3	5,231.0	5,267.4	5,403.3	5,491.5	5,912.1	5,864.1	5,923.2	5,896.2	5,971.4	6,027.0	6,355.8
2.1. Portfolio investment	3,677.1	3,568.4	3,687.5	3,712.1	3,810.8	3,844.1	4,230.0	4,124.3	4,140.0	4,089.4	4,097.7	4,122.5	4,357.1
Bonds	3,677.1	3,568.4	3,687.5	3,712.1	3,810.8	3,844.1	4,230.0	4,124.3	4,140.0	4,089.4	4,097.7	4,122.5	4,357.1
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2. Other investment	1,455.5	1,434.9	1,543.6	1,555.3	1,592.5	1,647.5	1,682.1	1,739.8	1,783.2	1,806.8	1,873.7	1,904.5	1,998.8
2.2.1. Trade credits	1.1	1.1	1.6	1.5	1.6	1.6	1.5	1.4	1.4	1.3	1.3	1.3	1.3
Long-term	1.1	1.1	1.6	1.5	1.6	1.6	1.5	1.4	1.4	1.3	1.3	1.3	1.3
Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.2. Credits	1,454.4	1,433.7	1,542.0	1,553.8	1,590.9	1,645.9	1,680.6	1,738.5	1,781.9	1,805.5	1,872.4	1,903.2	1,997.5
Long-term	1,454.4	1,433.7	1,542.0	1,553.8	1,590.9	1,645.9	1,680.6	1,738.5	1,781.9	1,805.5	1,872.4	1,903.2	1,997.5
Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. Croatian National Bank	122.1	120.8	120.7	118.4	106.4	108.3	111.7	111.0	111.2	107.8	93.4	93.7	0.0
o/w: IMF	122.1	120.8	120.7	118.4	106.4	108.3	111.7	111.0	111.2	107.8	93.4	93.7	0.0
4. Banks	2,299.4	2,266.9	2,300.5	2,435.5	2,483.0	2,818.5	3,013.9	3,044.1	2,939.3	3,079.4	3,177.4	3,394.3	4,011.1
4.1. Portfolio investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4.2. Other investment	2,299.4	2,266.9	2,300.5	2,435.5	2,483.0	2,818.5	3,013.9	3,044.1	2,939.3	3,079.4	3,177.4	3,394.3	4,011.1
4.2.1. Currency and deposits	633.5	646.5	661.5	798.6	830.3	1,104.9	1,186.7	1,268.3	1,189.5	1,366.0	1,450.3	1,649.6	1,975.7
4.2.2. Credits	1,665.9	1,620.4	1,639.0	1,636.9	1,652.7	1,713.6	1,827.2	1,775.8	1,749.8	1,713.4	1,727.1	1,744.7	2,035.5
Long-term	1,657.7	1,612.3	1,631.2	1,629.0	1,644.3	1,705.1	1,818.3	1,767.2	1,741.2	1,705.0	1,718.7	1,736.4	2,026.2
Short-term	8.2	8.1	7.8	7.9	8.4	8.6	8.9	8.6	8.6	8.5	8.4	8.3	9.3
5. Other sectors	3,127.5	3,101.9	3,113.8	3,103.6	3,261.3	3,360.4	3,505.5	3,635.6	3,700.9	3,680.5	3,694.3	3,784.5	3,890.9
5.1. Portfolio investment	54.8	45.8	45.7	31.9	150.4	154.7	165.1	163.2	163.5	162.4	158.3	159.9	167.7
Bonds	27.3	26.8	26.8	27.0	145.5	149.8	160.1	158.3	158.6	157.5	158.3	159.9	167.7
Money market instruments	27.4	18.9	18.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	0.0	0.0	0.0
5.2. Other investment	3,072.8	3,056.2	3,068.0	3,071.7	3,110.9	3,205.6	3,340.4	3,472.4	3,537.4	3,518.1	3,536.0	3,624.6	3,723.3
5.2.1. Trade credits	293.7	282.8	283.4	287.3	296.7	306.0	330.6	323.6	321.5	318.2	313.6	311.9	323.4
Long-term	239.9	236.5	236.2	237.9	241.2	246.0	269.9	263.9	265.4	262.2	257.3	258.0	272.2
Short-term	53.8	46.3	47.2	49.4	55.5	60.0	60.7	59.7	56.1	56.0	56.2	53.9	51.2
5.2.2. Credits	2,779.1	2,773.4	2,784.6	2,784.4	2,814.2	2,899.7	3,009.9	3,148.8	3,216.0	3,199.9	3,222.4	3,312.7	3,399.9
Long-term	2,691.6	2,674.2	2,680.0	2,677.8	2,693.3	2,770.4	2,880.7	2,998.1	3,065.4	3,024.2	3,081.5	3,162.7	3,254.1
Short-term	87.5	99.2	104.6	106.6	120.9	129.3	129.1	150.7	150.6	175.7	140.9	150.1	145.8
Total (1+2+3+4+5)	11,316.6	11,142.7	11,443.1	11,627.7	11,989.2	12,547.3	13,401.3	13,510.6	13,555.3	13,655.1	13,846.6	14,259.7	15,304.4

Table H11: External Debt by Domestic Sectors

According to a new methodology in force starting in March 2000, external debt is defined as the total of liabilities of residents, including: deposits of foreign legal and natural persons (these deposits were not included under the old methodology), loans granted by foreigners with an original maturity longer than 150 days (up to July 11, 2001, this maturity was 90 days), loans for financial purposes, counted exceptionally regardless of their maturity, and bonds and money market instruments issued on foreign markets (at face value).

External debt by domestic sectors is shown in the same manner as in the Capital and Financial Account of the BOP: Direct investment includes borrower – lender transactions of other sectors that are interrelated by ownership (borrower or lender owns more than 10 percent of the other). Item Government shows external debt of the broadly defined government sector, which includes the central government, government funds (including the Croatian Bank for Reconstruction

and Development), as well as local government authorities and funds. Item Croatian National Bank shows the central bank debts. Item Banks shows debts of banks and saving banks. Item Other sectors consists of other financial institutions (other than banks and savings banks), enterprises and households.

Each sector is further divided into Portfolio and other investment. Portfolio investment includes bonds and money market instruments. Other investment includes Currency and deposits (foreign deposits) and Credits. Credits are divided into Trade credits (sale of goods for delayed payment) and Credits (all other credit obligations).

Outstanding external debt is expressed in millions of US dollars according to the CNB's midpoint exchange rate at the end of the period.

The debt balance includes so-called non-reported principal payments (they should have been paid but are not statistically reported as paid) and future principal payments.

Table H12: External Debt by Creditors

Million US dollars

	2001	2002											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Portfolio investment	3,731.8	3,614.2	3,733.2	3,744.0	3,961.2	3,998.8	4,395.1	4,287.5	4,303.5	4,251.8	4,256.0	4,282.4	4,524.8
Bonds	3,704.4	3,595.3	3,714.3	3,739.1	3,956.3	3,993.9	4,390.2	4,282.6	4,298.6	4,246.9	4,256.0	4,282.4	4,524.8
o/w: London Club	1,106.0	1,031.4	1,031.4	1,031.4	1,031.4	1,031.4	1,031.4	956.7	956.7	956.7	956.7	956.7	956.7
Money market instruments	27.4	18.9	18.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	0.0	0.0	0.0
2. Other investment	7,584.8	7,528.5	7,709.9	7,883.7	8,028.0	8,548.5	9,006.2	9,223.1	9,251.8	9,403.2	9,590.6	9,977.3	10,779.7
2.1. Currency and deposits	633.5	646.5	661.5	798.6	830.3	1,104.9	1,186.7	1,268.3	1,189.5	1,366.0	1,450.3	1,649.6	1,975.7
2.2. Long-term	6,769.0	6,694.7	6,852.2	6,880.9	6,970.5	7,200.5	7,567.6	7,677.0	7,788.1	7,736.4	7,873.3	8,051.6	8,523.4
2.2.1. Public creditors	2,230.4	2,194.2	2,323.7	2,328.5	2,302.9	2,362.6	2,454.2	2,436.6	2,469.3	2,435.7	2,445.8	2,504.9	2,569.8
a) International financial organizations	1,166.1	1,170.2	1,296.2	1,301.4	1,252.3	1,281.3	1,328.3	1,335.4	1,345.9	1,326.5	1,343.8	1,386.7	1,375.6
– IMF	122.1	120.8	120.7	118.4	106.4	108.3	111.7	111.0	111.2	107.8	93.4	93.7	0.0
– IBRD	468.8	467.3	570.3	571.8	578.8	585.9	596.8	590.6	595.4	595.7	596.3	600.0	610.3
– IFC	85.6	92.6	92.5	90.0	91.0	91.8	90.5	93.1	93.2	89.0	89.1	112.2	132.3
– EBRD	318.7	322.4	345.9	346.8	283.6	295.3	316.6	332.1	337.1	329.3	328.0	342.1	374.3
– EUROFIMA	82.7	81.6	81.3	91.1	94.5	97.3	103.6	103.1	102.8	102.1	102.8	103.3	109.4
– EIB	52.2	49.3	49.2	46.9	48.7	50.1	53.6	50.6	50.7	47.2	72.9	73.7	84.8
– CEB	36.0	36.3	36.3	36.5	49.3	52.4	55.5	55.0	55.7	55.3	61.3	61.8	64.5
b) Governments and government agencies	1,064.3	1,024.0	1,027.4	1,027.0	1,050.5	1,081.3	1,125.9	1,101.2	1,123.3	1,109.2	1,102.0	1,118.3	1,194.2
– Paris Club	622.4	596.2	595.7	598.5	610.8	620.5	640.5	615.0	615.7	613.1	614.5	617.8	631.2
– Other	441.9	427.8	431.7	428.6	439.8	460.8	485.5	486.3	507.6	496.1	487.5	500.5	563.0
2.2.2. Private creditors	4,538.6	4,500.5	4,528.5	4,552.4	4,667.6	4,837.9	5,113.4	5,240.4	5,318.8	5,300.8	5,427.6	5,546.6	5,953.7
a) Banks	3,477.9	3,431.7	3,442.9	3,443.1	3,562.3	3,710.3	3,897.4	4,035.5	4,086.9	4,067.9	4,183.7	4,284.2	4,610.1
o/w: guaranteed by government agencies	733.9	725.2	725.7	746.0	762.3	784.5	796.0	780.9	785.3	779.2	784.2	794.2	681.7
b) Other sectors	1,060.6	1,068.8	1,085.6	1,109.3	1,105.4	1,127.7	1,216.0	1,204.9	1,231.9	1,232.8	1,243.9	1,262.4	1,343.5
o/w: guaranteed by government agencies	9.8	9.3	9.2	8.4	8.7	8.6	9.0	8.8	8.8	8.1	7.8	7.9	6.0
2.3. Short-term	182.3	187.4	196.2	204.2	227.2	243.1	251.9	277.8	274.2	300.8	266.9	276.2	280.6
2.3.1. Public creditors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.3.2. Private creditors	182.3	187.4	196.2	204.2	227.2	243.1	251.9	277.8	274.2	300.8	266.9	276.2	280.6
a) Banks	62.5	71.7	74.3	74.6	86.1	87.5	82.7	101.9	101.1	123.6	104.3	107.0	100.7
o/w: guaranteed by government agencies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
b) Other sectors	119.9	115.7	121.9	129.6	141.1	155.5	169.3	176.0	173.1	177.2	162.6	169.2	179.9
o/w: guaranteed by government agencies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total (1+2)	11,316.6	11,142.7	11,443.1	11,627.7	11,989.2	12,547.3	13,401.3	13,510.6	13,555.3	13,655.1	13,846.6	14,259.7	15,304.4

Table H12: External Debt by Creditors

The Table shows outstanding external debt by foreign creditors valued in the same way as in Table H11.

Table H13: External Debt by Domestic Sectors and Projected Future Payments

Million US dollars

	Outstanding debt 31/12/2002.	Nonreported principal payments	Projected future principal payments												
			Q1/2003	Q2/2003	Q3/2003	Q4/2003	2003	2004	2005	2006	2007	2008	2009	2010	Other
1. Direct investment	1,008.7	118.4	24.7	38.8	18.8	54.5	136.9	103.9	107.3	267.8	174.1	36.8	11.5	14.1	38.0
2. Government	6,346.3	3.3	130.8	63.7	131.3	39.8	365.5	843.8	863.6	867.5	624.8	506.4	811.4	229.0	1,231.1
2.1. Portfolio investment	4,357.1	0.0	80.6	0.0	80.6	0.0	161.2	568.8	682.0	683.0	412.9	308.1	619.6	98.8	822.8
Bonds	4,357.1	0.0	80.6	0.0	80.6	0.0	161.2	568.8	682.0	683.0	412.9	308.1	619.6	98.8	822.8
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2. Other investment	1,989.2	3.3	50.2	63.7	50.7	39.8	204.3	275.0	181.6	184.5	212.0	198.3	191.9	130.2	408.3
2.2.1. Trade credits	1.3	0.0	0.2	0.1	0.2	0.1	0.6	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	1.3	0.0	0.2	0.1	0.2	0.1	0.6	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.2. Credits	1,988.0	3.3	49.9	63.7	50.4	39.7	203.7	274.4	181.6	184.5	212.0	198.3	191.9	130.2	408.3
Long-term	1,988.0	3.3	49.9	63.7	50.4	39.7	203.7	274.4	181.6	184.5	212.0	198.3	191.9	130.2	408.3
Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. Croatian National Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w: IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. Banks	3,980.0	68.6	120.8	39.7	132.8	25.3	318.6	377.0	520.4	228.1	103.9	105.0	90.6	20.0	2,147.4
4.1 Portfolio investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4.2. Other investment	3,980.0	68.6	120.8	39.7	132.8	25.3	318.6	377.0	520.4	228.1	103.9	105.0	90.6	20.0	2,147.4
4.2.1. Currency and deposits	1,975.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,975.7
4.2.2. Credits	2,004.3	68.6	120.8	39.7	132.8	25.3	318.6	377.0	520.4	228.1	103.9	105.0	90.6	20.0	171.7
Long-term	1,995.0	60.1	120.7	39.0	132.8	25.3	317.8	377.0	520.4	228.1	103.9	105.0	90.6	20.0	171.7
Short-term	9.3	8.4	0.2	0.7	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5. Other sectors	3,906.7	455.1	174.1	220.0	150.8	203.1	747.9	740.5	411.8	430.9	434.6	194.7	145.5	88.8	257.2
5.1. Portfolio investment	167.7	0.0	0.0	0.0	0.0	0.0	0.0	32.3	0.0	0.0	135.4	0.0	0.0	0.0	0.0
Bonds	167.7	0.0	0.0	0.0	0.0	0.0	0.0	32.3	0.0	0.0	135.4	0.0	0.0	0.0	0.0
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5.2. Other investment	3,739.0	455.1	174.1	220.0	150.8	203.1	747.9	708.2	411.8	430.9	299.2	194.7	145.5	88.8	257.2
5.2.1. Trade credits	311.6	99.9	37.0	36.7	24.7	30.9	129.2	45.5	22.0	9.1	3.1	1.2	0.8	0.4	0.3
Long-term	262.1	74.3	22.1	30.3	22.2	30.6	105.2	45.5	22.0	9.1	3.1	1.2	0.8	0.4	0.3
Short-term	49.6	25.6	14.9	6.4	2.4	0.2	23.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5.2.2. Credits	3,427.4	355.2	137.1	183.3	126.1	172.2	618.8	662.7	389.8	421.8	296.1	193.4	144.7	88.4	256.9
Long-term	3,258.3	281.3	98.1	148.1	121.2	156.0	523.5	662.7	389.8	421.8	296.1	193.4	144.7	88.4	256.9
Short-term	169.1	73.8	39.0	35.2	4.9	16.2	95.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total (1+2+3+4+5)	15,241.7	645.3	450.4	362.2	433.7	322.6	1,568.9	2,065.2	1,903.1	1,794.2	1,337.5	842.9	1,059.0	351.9	3,673.7
Supplement: Projected interest payments		65.5	255.5	113.0	134.8	110.4	613.8	582.5	475.2	362.6	274.3	202.3	168.3	114.5	160.7
Note:															
Publicly guaranteed debt	1,997.3														
o/w: Banks and other sectors	1,069.2														

Table H13: External Debt by Domestic Sectors and Projected Future Payments

The Table shows outstanding external debt at the end of the period and the principal and interest payment projection. All data are shown at the midpoint exchange rate of the CNB at the end of period.

Projected interest payments do not include interest on deposits from nonresidents and late interest. Payments are projected at the

interest rates at the contracting time and do not reflect changes of variable interest rates.

The note points out the outstanding publicly guaranteed debt – total and the outstanding debt of the banking sector and other sectors covered by government guarantees. The difference is the amount of the government guarantees issued to the government sector (for example the Croatian Bank for Reconstruction and Development, Croatian Roads Administration, etc. included in a broad definition of the government sector).

Table H14: International Investment Position – Summary

Million US dollars

	1998	1999	2000	2001	2002 <sup>a</sup>	2002			
						Q1	Q2	Q3	Q4 <sup>a</sup>
1. International investment position (net)	-5,169.8	-6,438.3	-6,886.5	-5,554.8	-10,368.4	-7,417.6	-8,052.8	-8,513.5	-10,368.4
2. Assets	6,162.8	5,900.9	7,210.9	9,981.4	10,504.1	9,149.8	9,845.4	9,910.4	10,504.1
2.1. Direct investment abroad	1,002.4	881.7	875.1	967.1	1,262.0	922.1	1,026.6	865.5	1,262.0
2.2. Portfolio investment	29.7	26.0	14.3	22.5	44.6	61.6	58.1	30.7	44.6
2.2.1. Equity securities	29.7	26.0	14.3	22.5	44.6	61.6	58.1	30.7	44.6
2.2.2. Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.3. Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.4. Other investment	2,314.9	1,968.2	2,799.3	4,287.6	3,311.7	3,280.7	3,158.9	3,309.0	3,311.7
2.4.1. Trade credits	200.1	194.4	186.3	181.8	188.6	183.5	179.3	188.6	188.6
2.4.2. Loans	165.3	164.9	154.7	107.3	134.1	111.6	130.6	134.1	134.1
2.4.3. Currency and deposits	1,949.4	1,608.9	2,458.2	3,998.5	2,989.1	2,985.6	2,849.0	2,986.4	2,989.1
2.4.4. Other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.5. Reserve assets (CNB)	2,815.8	3,025.0	3,522.2	4,704.2	5,885.8	4,885.4	5,601.7	5,705.2	5,885.8
3. Liabilities	11,332.6	12,339.2	14,097.4	15,536.3	20,872.5	16,567.4	17,898.2	18,423.9	20,872.5
3.1. Direct investment in Croatia	1,902.6	2,578.1	3,560.3	4,706.4	6,398.6	5,469.9	5,203.0	5,450.0	6,398.6
3.2. Portfolio investment	2,145.3	2,700.0	3,288.4	3,880.0	4,765.7	3,916.6	4,547.0	4,461.6	4,765.7
3.2.1. Equity securities	87.3	128.3	108.8	148.2	241.0	172.6	151.9	209.8	241.0
3.2.2. Debt securities	2,058.0	2,571.8	3,179.6	3,731.8	4,524.8	3,744.0	4,395.1	4,251.8	4,524.8
Bonds	2,049.3	2,554.4	3,170.1	3,704.4	4,524.8	3,739.1	4,390.2	4,246.9	4,524.8
Money market instruments	8.7	17.4	9.5	27.4	0.0	4.9	4.9	4.9	0.0
3.3. Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.4. Other investment	7,284.7	7,061.0	7,248.6	6,949.8	9,708.2	7,180.9	8,148.1	8,512.2	9,708.2
3.4.1. Trade credits	443.8	390.9	334.0	294.8	312.9	288.8	332.1	319.5	312.9
3.4.2. Loans	6,226.3	6,132.4	6,481.8	6,021.5	7,419.6	6,093.5	6,629.3	6,826.7	7,419.6
3.4.3. Currency and deposits	614.6	537.7	432.8	633.5	1,975.7	798.6	1,186.7	1,366.0	1,975.7
3.4.4. Other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

<sup>a</sup> Preliminary data.

Table H14: International Investment Position

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

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

by applying the current rate of exchange or the average monthly mid-point exchange rate of the Croatian National Bank to transactions;

by applying the midpoint exchange rate of the Croatian National Bank on the reporting date to balances.

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

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

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

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

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

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

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

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

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

Table H15: International Investment Position – Direct Investment

Million US dollars

	1998	1999	2000	2001	2002 <sup>a</sup>	2002			
						Q1	Q2	Q3	Q4 <sup>a</sup>
Direct investment (net)	-900.2	-1,696.4	-2,685.2	-3,739.3	-5,136.6	-4,547.8	-4,176.4	-4,584.6	-5,136.6
1. Abroad	1,002.4	881.7	875.1	967.1	1,262.0	922.1	1,026.6	865.5	1,262.0
1.1. Equity capital and reinvested earnings	960.2	839.7	824.1	926.8	1,219.9	881.1	984.8	823.4	1,219.9
1.1.1. Claims	960.2	839.7	824.1	926.8	1,219.9	881.1	984.8	823.4	1,219.9
1.1.2. Liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.2. Other capital	42.2	42.0	51.0	40.3	42.1	41.0	41.8	42.1	42.1
1.1.1. Claims	....	....	....	....	....	....	....	....	....
1.2.2. Liabilities	....	....	....	....	....	....	....	....	....
1.3 Financial derivatives (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. In Croatia	1,902.6	2,578.1	3,560.3	4,706.4	6,398.6	5,469.9	5,203.0	5,450.0	6,398.6
2.1. Equity capital and reinvested earnings	1,659.1	2,205.5	2,904.1	3,760.6	4,992.3	4,469.4	3,985.2	4,185.7	4,992.3
2.1.1. Claims	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.1.2. Liabilities	1,659.1	2,205.5	2,904.1	3,760.6	4,992.3	4,469.4	3,985.2	4,185.7	4,992.3
2.2. Other capital	243.5	372.6	656.2	945.9	1,406.3	1,000.5	1,217.8	1,264.3	1,406.3
2.2.1. Claims	....	....	....	....	....	....	....	....	....
2.2.2. Liabilities	....	....	....	....	....	....	....	....	....
2.3. Financial derivatives (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

<sup>a</sup> Preliminary data.

Table H16: International Investment Position – Portfolio Investment

Million US dollars

	1998	1999	2000	2001	2002 <sup>a</sup>	2002			
						Q1	Q2	Q3	Q4 <sup>a</sup>
Portfolio investment (net)	-2,115.6	-2,674.0	-3,274.1	-3,857.5	-4,721.2	-3,855.0	-4,488.9	-4,430.9	-4,721.2
1. Assets	29.7	26.0	14.3	22.5	44.6	61.6	58.1	30.7	44.6
1.1. Equity capital and reinvested earnings	29.7	26.0	14.3	22.5	44.6	61.6	58.1	30.7	44.6
1.1.1. Banks	2.3	0.7	7.2	7.1	9.7	6.5	8.1	6.5	9.7
1.1.2. Other sectors	27.4	25.3	7.1	15.4	32.8	52.5	47.4	22.2	32.8
1.2. Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Liabilities	2,145.3	2,700.0	3,288.4	3,880.0	4,765.7	3,916.6	4,547.0	4,461.6	4,765.7
2.1. Equity capital and reinvested earnings	87.3	128.3	108.8	148.2	241.0	172.6	151.9	209.8	241.0
2.1.1. Banks	36.5	61.5	36.5	36.5	111.0	42.5	36.8	96.9	111.0
2.1.2. Other sectors	50.8	66.8	72.3	111.7	130.0	130.1	115.2	112.9	130.0
2.2. Debt securities	2,058.0	2,571.8	3,179.6	3,731.8	4,524.8	3,744.0	4,395.1	4,251.8	4,524.8
2.2.1. Bonds	2,049.3	2,554.4	3,170.1	3,704.4	4,524.8	3,739.1	4,390.2	4,246.9	4,524.8
General government	2,049.3	2,523.2	3,141.2	3,677.1	4,357.1	3,712.1	4,230.0	4,089.4	4,357.1
Other sectors	0.0	31.2	28.9	27.3	167.7	27.0	160.1	157.5	167.7
2.2.2. Money market instruments	8.7	17.4	9.5	27.4	0.0	4.9	4.9	4.9	0.0
Other sectors	8.7	17.4	9.5	27.4	0.0	4.9	4.9	4.9	0.0

<sup>a</sup> Preliminary data.

Table H17: International Investment Position – Other Investment

Million US dollars

	1998	1999	2000	2001	2002 <sup>a</sup>	2002			
						Q1	Q2	Q3	Q4 <sup>a</sup>
Other investment (net)	-4,969.8	-5,092.8	-4,449.3	-2,662.2	-6,396.5	-3,900.3	-4,989.2	-5,203.2	-6,396.5
1. Assets	2,314.9	1,968.2	2,799.3	4,287.6	3,311.7	3,280.7	3,158.9	3,309.0	3,311.7
1.1. Trade credits	200.1	194.4	186.3	181.8	188.6	183.5	179.3	188.6	188.6
1.1.1. General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.1.2. Other sectors	200.1	194.4	186.3	181.8	188.6	183.5	179.2	188.5	188.6
Long-term	181.3	182.4	154.4	158.9	176.6	165.5	166.6	176.6	176.6
Short-term	18.9	12.0	31.9	22.9	11.9	18.0	12.7	11.9	11.9
1.2. Loans	165.3	164.9	154.7	107.3	134.1	111.6	130.6	134.1	134.1
1.2.1. General government	5.8	3.7	3.5	5.4	5.8	5.3	5.6	5.8	5.8
Long-term	5.8	3.7	3.5	5.4	5.8	5.3	5.6	5.8	5.8
1.2.2. Banks	93.4	94.8	121.7	73.0	97.5	76.7	95.2	97.5	97.5
Long-term	55.0	60.0	83.6	41.4	62.7	42.5	60.2	62.7	62.7
Short-term	38.4	34.8	38.1	31.6	34.8	34.2	35.1	34.8	34.8
1.2.3. Other sectors	66.1	66.4	29.6	28.9	30.7	29.5	29.8	30.7	30.7
Long-term	66.1	66.4	29.6	28.9	30.6	29.5	29.8	30.6	30.6
Short-term	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.1	0.1
1.3. Currency and deposits	1,949.4	1,608.9	2,458.2	3,998.5	2,989.1	2,985.6	2,849.0	2,986.4	2,989.1
1.3.2. General government	64.2	46.0	69.0	83.5	120.5	79.3	11.4	55.4	120.5
1.3.3. Banks	1,885.2	1,562.9	2,389.2	3,915.0	2,868.6	2,906.3	2,837.6	2,931.0	2,868.6
1.3.4. Other sectors	....	....	....	....	....	....	....	....	....
1.4. Other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Liabilities	7,284.7	7,061.0	7,248.6	6,949.8	9,708.2	7,180.9	8,148.1	8,512.2	9,708.2
2.1. Trade credits	443.8	390.9	334.0	294.8	312.9	288.8	332.1	319.5	312.9
2.1.1. General government	2.7	3.3	0.1	1.1	1.3	1.5	1.5	1.3	1.3
Long-term	1.8	0.6	0.1	1.1	1.3	1.5	1.5	1.3	1.3
Short-term	0.8	2.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.1.2. Other sectors	441.1	387.6	334.0	293.7	311.6	287.3	330.6	318.2	311.6
Long-term	323.4	302.1	269.5	239.9	262.1	237.9	269.9	262.2	262.1
Short-term	117.7	85.4	64.4	53.8	49.6	49.4	60.7	56.0	49.6
2.2. Loans	6,226.3	6,132.4	6,481.8	6,021.5	7,419.6	6,093.5	6,629.3	6,826.7	7,419.6
2.2.1. Croatian National Bank o/w: IMF	233.9	196.7	158.7	122.1	0.0	118.4	111.7	107.8	0.0
2.2.2. General government	1,343.3	1,450.8	1,687.1	1,454.4	1,988.0	1,553.8	1,680.6	1,805.5	1,988.0
Long-term	1,293.3	1,375.4	1,327.1	1,454.4	1,988.0	1,553.8	1,680.6	1,805.5	1,988.0
Short-term	50.0	75.5	360.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.3. Banks	1,884.0	1,650.2	1,653.7	1,665.9	2,004.3	1,636.9	1,827.2	1,713.4	2,004.3
Long-term	1,835.7	1,630.1	1,640.0	1,657.7	1,995.0	1,629.0	1,818.3	1,705.0	1,995.0
Short-term	48.3	20.1	13.7	8.2	9.3	7.9	8.9	8.5	9.3
2.2.4. Other sectors	2,765.1	2,834.7	2,982.3	2,779.1	3,427.4	2,784.4	3,009.9	3,199.9	3,427.4
Long-term	2,373.1	2,606.5	2,838.0	2,691.6	3,258.3	2,677.8	2,880.7	3,024.2	3,258.3
Short-term	392.0	228.2	144.3	87.5	169.1	106.6	129.1	175.7	169.1
2.3. Currency and deposits	614.6	537.7	432.8	633.5	1,975.7	798.6	1,186.7	1,366.0	1,975.7
2.3.1. Banks	614.6	537.7	432.8	633.5	1,975.7	798.6	1,186.7	1,366.0	1,975.7
2.4. Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

<sup>a</sup> Preliminary data.

Table I1: Consolidated Central Government

Million kuna

	2001	2002											
		Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec. b
<b>TOTAL REVENUE AND GRANTS</b>													
1. Budgetary central government	52,747.4	4,758.3	4,676.7	4,908.2	6,233.0	5,902.7	4,892.6	6,365.1	5,489.2	5,842.4	6,200.9	5,418.4	6,243.1
2. Extrabudgetary funds	18,098.2	121.2	71.5	75.3	429.4	317.5	283.6	419.9	371.8	196.2	529.6	153.5	1,028.9
2.1. Pension Fund	5,806.8	31.4	7.4	3.1	6.7	3.4	7.9	10.2	2.6	9.4	13.5	6.3	27.0
2.2. Health Insurance Fund	10,314.5	9.6	1.0	18.6	9.9	6.1	39.2	79.0	45.4	48.8	57.6	57.5	78.9
2.3. Employment Fund	910.9	1.5	2.3	2.3	1.9	1.3	3.7	1.6	1.4	3.0	1.4	1.7	3.2
2.4. Child Benefit Fund	5.1	–	–	–	–	–	–	–	–	–	–	–	–
2.5. Croatian Waters	1,060.9	78.7	60.8	51.4	81.0	97.1	60.7	112.2	105.6	102.5	117.8	88.0	138.3
2.6. Development and Employment Fund	–	–	–	–	330.0	209.5	99.3	144.5	216.7	32.5	301.9	–	463.2
2.7. Regional Development Fund	–	–	–	–	–	–	72.9	72.3	0.0	–	37.3	–	318.3
2.8. Croatian Highways	–	–	–	–	–	–	–	–	–	–	–	–	–
2.9. Croatian Roads	–	–	–	–	–	–	–	–	–	–	–	–	–
2.10. State Agency for Deposit Insurance and Bank Rehabilitation	–	–	–	–	–	–	–	–	–	–	–	–	–
2.11. Croatian Privatization Fund	–	–	–	–	–	–	–	–	–	–	–	–	–
A. Total (1+2)	70,845.6	4,879.5	4,748.2	4,983.5	6,662.4	6,220.1	5,176.2	6,785.0	5,861.0	6,038.6	6,730.5	5,571.9	7,272.0
<b>TOTAL EXPENDITURE AND NET LENDING (minus repayments)</b>													
3. Budgetary central government	44,844.5	5,118.6	4,849.7	6,526.1	5,581.1	5,876.0	5,145.3	5,497.4	5,458.0	6,012.5	5,492.9	5,583.8	6,740.7
4. Extrabudgetary funds	30,044.6	259.1	242.7	229.0	756.9	499.7	453.4	485.0	514.2	339.8	1,550.7	441.1	1,285.8
4.1. Pension Fund	12,125.3	125.6	117.5	121.7	124.5	117.3	136.6	124.8	125.5	130.1	132.7	139.7	161.8
4.2. Health Insurance Fund	13,192.7	–39.7	75.5	19.6	21.1	39.8	13.3	21.1	29.2	31.9	924.6	34.4	110.8
4.3. Employment Fund	983.4	13.9	20.0	24.2	32.1	26.7	24.2	15.9	20.6	18.0	15.5	9.5	16.0
4.4. Child Benefit Fund	2,467.0	–	–	–	–	–	–	–	–	–	–	–	–
4.5. Croatian Waters	1,276.1	159.3	29.7	63.5	65.1	64.9	99.5	126.9	113.9	103.5	140.6	148.8	300.9
4.6. Development and Employment Fund	–	–	–	–	514.0	250.9	149.7	168.8	225.0	56.1	297.3	108.1	518.0
4.7. Regional Development Fund	–	–	–	–	–	–	30.1	27.5	0.1	0.1	40.0	0.6	178.3
4.8. Croatian Highways	–	–	–	–	–	–	–	–	–	–	–	–	–
4.9. Croatian Roads	–	–	–	–	–	–	–	–	–	–	–	–	–
4.10. State Agency for Deposit Insurance and Bank Rehabilitation	–	–	–	–	–	–	–	–	–	–	–	–	–
4.11. Croatian Privatization Fund	–	–	–	–	–	–	–	–	–	–	–	–	–
B. Total (3+4)	74,889.1	5,377.7	5,092.4	6,755.2	6,338.0	6,375.7	5,598.7	5,982.4	5,972.2	6,352.3	7,043.6	6,024.9	8,026.5
C. Overall surplus/deficit (A–B)	–4,043.5	–498.2	–344.2	–1,771.6	324.4	–155.5	–422.5	802.5	–111.2	–313.7	–313.1	–453.0	–754.5
5. Budgetary central government (1–3)	7,902.9	–360.3	–173.0	–1,617.9	651.9	26.7	–252.7	867.7	31.2	–170.1	708.0	–165.4	–497.6
6. Extrabudgetary funds (2–4)	–11,946.4	–137.9	–171.2	–153.7	–327.5	–182.2	–169.7	–65.1	–142.4	–143.6	–1,021.1	–287.6	–256.9

Source: Ministry of Finance.

Table I2: Budgetary Central Government Operations

Million kuna

	2001	2002											
		Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Total revenue	53,503.6	5,007.4	4,966.0	5,163.1	6,484.2	6,140.1	5,136.2	6,618.3	5,744.1	6,097.9	6,456.6	5,633.7	6,422.7
1.1. Current revenue	48,906.3	4,994.3	4,953.8	5,145.1	6,466.2	6,123.3	5,121.5	6,601.8	5,726.8	6,079.7	6,430.1	5,610.8	6,397.7
1.1.1. Tax revenue	47,274.0	4,847.1	4,870.3	5,063.5	6,025.9	5,964.1	5,015.2	6,494.5	5,640.9	5,982.9	6,283.9	5,530.7	6,246.5
1.1.2. Nontax revenue	1,632.3	147.1	83.5	81.6	440.3	159.2	106.3	107.3	85.9	96.9	146.2	80.0	151.2
1.2. Capital revenue	4,597.3	13.2	12.2	17.9	18.1	16.7	14.7	16.5	17.3	18.2	26.5	22.9	25.0
2. Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.1. Current	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2. Capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
A. Total revenue and grants (1+2)	53,503.6	5,007.4	4,966.0	5,163.1	6,484.2	6,140.1	5,136.2	6,618.3	5,744.1	6,097.9	6,456.6	5,633.7	6,422.7
3. Total expenditure	56,723.3	5,332.0	5,314.5	6,907.0	5,920.0	5,973.1	5,495.7	5,915.5	5,871.3	6,223.7	6,187.4	5,725.0	7,321.0
3.1. Current expenditure	52,819.2	5,221.3	5,188.0	6,654.5	5,740.5	5,743.8	5,333.3	5,779.1	5,387.2	5,991.5	5,869.5	5,520.4	6,376.5
3.2. Capital expenditure	3,904.1	110.7	126.5	252.5	179.5	229.4	162.4	136.4	484.1	232.2	317.9	204.6	944.5
4. Lending minus repayments	1,089.5	112.8	20.0	31.4	418.7	571.7	-264.9	24.5	54.0	252.8	-173.0	257.8	250.1
B. Total expenditure and net lending (3+4)	57,812.8	5,444.7	5,334.5	6,938.4	6,338.7	6,544.8	5,230.8	5,940.0	5,925.4	6,476.5	6,014.4	5,982.8	7,571.1
5. Current account surplus without grants (1.1.-3.1.)	-3,912.9	-227.0	-234.2	-1,509.4	725.7	379.6	-211.8	822.7	339.6	88.3	560.6	90.4	21.2
6. Current account surplus with current grants (5+2.1.)	-3,912.9	-227.0	-234.2	-1,509.4	725.7	379.6	-211.8	822.7	339.6	88.3	560.6	90.4	21.2
7. Gross fixed capital formation <sup>a</sup>	-3,101.4	52.4	32.6	80.2	97.7	60.1	51.5	59.2	74.0	60.3	164.0	78.9	355.9
8. Gross capital formation <sup>b</sup>	-3,101.4	52.4	32.6	80.2	97.7	60.1	51.5	59.2	74.0	60.3	164.0	78.9	355.9
C. Overall surplus/deficit (A-B)	-4,309.1	-437.3	-368.3	-1,775.6	145.6	-404.7	-94.6	678.3	-181.2	-378.6	442.2	-349.1	-1,148.5
9. Foreign financing	2,299.6	-36.9	707.1	981.8	14.4	693.9	1,419.4	-440.0	-8.7	-698.5	-8.3	-87.4	-262.5
10. Domestic financing	2,009.6	474.3	-338.5	793.5	-160.0	-289.2	-1,324.8	-238.3	189.9	1,077.1	-433.9	436.5	1,411.0
10.1. From other government	-11.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
10.2. From monetary authorities	-389.1	8.6	-16.7	62.5	44.2	-284.6	257.4	-117.5	2.7	-553.6	-512.6	428.6	922.5
10.3. From deposit money banks	2,559.1	459.6	-454.7	596.8	-36.4	38.6	-1,584.2	-127.7	130.0	1,678.5	89.6	20.7	554.3
10.4. Other domestic financing	-149.4	6.0	132.8	134.2	-167.8	-43.1	2.0	6.9	57.1	-47.9	-11.0	-12.9	-65.8
D. Total financing (9+10)	4,309.1	437.3	368.6	1,775.3	-145.6	404.7	94.6	-678.3	181.2	378.6	-442.2	349.1	1,148.5

<sup>a</sup> Net purchase of fixed capital formation. <sup>b</sup> Net purchase of fixed capital formation and net purchase of shares. Source: Ministry of Finance.

Table I3: Central Government Debt

End of period, million kuna

	2001	2002											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Domestic debt of central government	24,907.3	26,405.6	25,449.9	26,265.1	26,245.6	26,406.8	26,759.2	26,295.3	26,053.2	27,153.2	28,197.3	28,139.2	28,746.7
1.1. Domestic debt of the Republic of Croatia	21,467.9	22,870.4	22,003.9	22,820.2	23,037.7	23,283.9	23,614.7	23,155.6	22,923.7	23,551.9	24,256.5	24,130.3	24,735.0
Treasury bills	4,892.3	5,183.2	5,376.7	5,672.2	5,572.3	5,551.0	5,778.8	5,804.3	5,741.2	5,544.1	5,778.2	5,724.8	5,632.7
Money market instruments	7.4	0.1	0.7	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Bonds	15,415.8	15,785.1	14,838.8	14,777.4	14,765.7	15,737.9	15,633.1	15,167.6	15,058.4	16,096.8	16,379.7	16,118.9	16,021.7
Credits from the CNB	–	–	–	–	–	2.5	2.4	–	–	–	2.0	2.3	0.5
Credits from DMBs	1,152.4	1,902.0	1,787.7	2,370.5	2,699.7	1,992.4	2,200.2	2,183.5	2,123.9	1,910.8	2,096.5	2,284.2	3,080.0
1.2. Domestic debt of central government funds	3,439.4	3,535.2	3,446.0	3,444.9	3,207.8	3,122.9	3,144.5	3,139.7	3,129.6	3,601.3	3,940.8	4,008.9	4,011.8
Money market instruments	–	–	–	–	–	–	–	–	–	–	–	–	–
Bonds	1,636.1	1,680.2	1,651.2	1,643.4	1,641.9	1,637.6	1,625.2	1,641.7	1,637.6	1,629.8	1,664.7	1,649.7	1,652.2
Credits from DMBs	1,803.3	1,855.0	1,794.8	1,801.5	1,566.0	1,485.3	1,519.3	1,498.1	1,492.0	1,971.6	2,276.1	2,359.2	2,359.6
2. External debt of central government	42,413.4	43,252.4	44,508.3	44,269.6	43,756.9	43,065.9	43,065.2	43,684.2	43,928.2	43,833.0	45,120.5	44,699.9	45,019.7
2.1. External debt of the Republic of Croatia	39,656.8	40,448.1	41,727.6	41,500.7	41,005.8	40,623.0	40,684.7	40,718.6	40,890.6	40,843.8	42,060.1	41,660.2	41,260.4
Money market instruments	–	–	–	–	–	–	–	–	–	–	–	–	–
Bonds	30,029.0	30,472.3	31,005.0	30,830.5	30,503.0	30,170.6	30,848.5	30,736.5	30,715.5	30,402.1	30,961.2	30,560.1	30,115.3
Credits	9,627.8	9,975.9	10,722.6	10,670.2	10,502.8	10,452.3	9,836.3	9,982.1	10,175.1	10,441.8	11,098.9	11,100.1	11,145.1
2.2. External debt of central government funds	2,756.7	2,804.3	2,780.6	2,768.9	2,751.2	2,442.9	2,380.4	2,965.6	3,037.6	2,989.2	3,060.4	3,039.7	3,759.3
Money market instruments	–	–	–	–	–	–	–	–	–	–	–	–	–
Bonds	696.6	721.6	709.5	703.6	691.4	305.2	283.3	289.6	288.3	288.9	293.7	288.1	1,019.3
Credits	2,060.0	2,082.7	2,071.1	2,065.3	2,059.8	2,137.7	2,097.1	2,675.9	2,749.2	2,700.3	2,766.7	2,751.6	2,739.9
3. Total (1+2)	67,320.8	69,658.0	69,958.2	70,534.7	70,002.5	69,472.7	69,824.4	69,979.5	69,981.4	70,986.2	73,317.8	72,839.1	73,766.4
Supplement: Central government guaranteed debt <sup>a</sup>													
– guarantees for domestic debt	6,025.6	6,278.5	6,246.1	6,791.7	6,686.1	6,604.8	6,429.4	6,433.2	6,888.7	7,396.7	7,660.8	7,921.7	7,528.1
– guarantees for external debt	8,548.9	8,705.2	8,587.8	8,448.7	8,369.2	8,274.0	7,899.5	7,894.3	7,891.9	7,781.0	8,050.6	8,024.3	7,940.4

<sup>a</sup> Data do not include the guarantees issued by the Republic of Croatia to the central government

Table I3: Central Government Debt

Data on the central government debt are gathered from available data and are not reconciled with the Ministry of Finance of the Republic of Croatia. The central government debt consists of domestic and external debt. The sources of data on domestic debt of the central government are the following: the Ministry of Finance Monthly

Statistical Review, Monetary Authorities Accounts and Deposit Money Banks' Accounts. The source of data on the central government external debt is the external debt statistics collected by the CNB. The supplement provides data on the central government guaranteed debt. DMBs are the source of data on guarantees for domestic debt, while the external debt statistics collected by the CNB are the source of data on guarantees for external debt.

Table J1: Retail Prices, Cost of Living and Producer Prices Indices

Year	Month	Chain indices			Monthly year-on-year indices			Cumulative year-on-year indices		
		Retail prices	Cost of living	Producer prices	Retail prices	Cost of living	Producer prices	Retail prices	Cost of living	Producer prices
1994	December	100.2	100.9	100.2	97.0	102.5	94.5	197.5	207.2	177.7
1995	December	100.2	100.7	100.5	103.7	104.6	101.6	102.0	104.0	100.8
1996	December	100.0	100.4	100.3	103.4	103.7	101.5	103.5	104.3	101.4
1997	December	100.7	101.2	99.9	103.8	104.9	101.6	103.6	104.1	102.3
1998	December	100.2	100.7	100.0	105.4	105.3	97.9	105.7	106.4	98.8
1999	December	100.3	101.0	100.3	104.4	103.6	105.9	104.2	103.5	102.6
2000	December	100.0	100.5	100.2	107.4	106.8	111.2	106.2	105.3	109.7
2001	December	99.8	100.6	99.0	102.6	102.5	96.9	104.9	104.8	103.6
2002	January	100.8	101.1	99.9	103.3	103.2	97.4	103.3	103.2	97.4
	February	100.1	100.0	100.6	102.8	102.9	97.2	103.0	103.0	97.3
	March	100.4	100.1	98.9	103.2	102.9	97.7	103.2	103.0	97.4
	April	100.4	100.5	100.9	102.2	102.0	98.6	102.9	102.8	97.7
	May	100.2	100.7	100.2	101.8	101.5	98.8	102.6	102.5	97.9
	June	100.1	99.2	100.3	102.2	101.0	99.0	119.7	102.2	98.1
	July	99.6	99.1	100.5	102.3	101.3	100.2	102.6	102.1	98.4
	August	99.9	99.8	99.9	101.2	101.1	100.7	102.4	102.0	98.7
	September	100.5	100.3	100.4	101.5	101.1	100.4	102.2	101.9	98.9
	October	100.5	100.3	101.0	102.1	101.8	100.6	102.2	101.9	99.2
	November	99.7	100.3	99.4	102.0	102.0	101.5	102.3	101.9	99.4
	December	100.1	100.4	99.9	102.3	101.8	102.3	102.2	101.9	99.6

Source: Central Bureau of Statistics.

Table J2: Core Retail Prices Indices

Year	Month	Chain indices			Monthly year-on-year indices		
		Total	Goods	Services	Total	Goods	Services
1994	December	100.1	99.9	101.2	96.3	94.8	109.1
1995	December	100.1	100.0	100.5	103.1	102.6	107.1
1996	December	100.0	100.0	100.0	102.8	101.9	109.5
1997	December	100.2	100.2	100.5	102.5	102.3	104.5
1998	December	100.1	100.0	100.2	105.7	105.3	107.8
1999	December	100.1	100.2	100.0	104.2	104.2	104.1
2000	December	100.1	100.1	100.2	104.6	104.8	103.5
2001	December	99.8	99.7	100.8	101.7	101.1	105.6
2002	January	100.2	100.0	101.1	101.9	101.0	106.6
	February	100.1	100.2	100.1	101.8	101.0	106.7
	March	100.3	100.3	100.1	101.8	101.2	105.8
	April	100.1	100.1	100.0	101.4	100.8	105.2
	May	100.0	100.0	100.1	101.0	100.5	104.1
	June	100.1	100.1	100.0	101.0	100.4	104.1
	July	99.7	99.7	100.0	100.4	100.0	103.3
	August	100.0	100.0	99.9	100.3	99.9	102.9
	September	100.3	100.3	100.1	100.6	100.3	102.7
	October	100.5	100.5	100.5	101.1	100.8	103.0
	November	99.9	100.2	98.4	101.0	101.0	101.2
	December	100.0	100.0	100.0	101.2	101.4	100.2

Source: Central Bureau of Statistics.

Table J2: Core Retail Prices Indices

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

and services used in the calculation of the retail price index. A total of 88 goods and services are excluded and their share in the retail price basket stands at 23.04% in 2002 (of which: agricultural products account for 2.24 percentage points, and administrative prices for 20.80 percentage points). The zero weighting method is used to exclude prices and goods.

Table J3: Average Monthly Net Wages

In current prices, in kuna

Year	Month	Nominal amount in kuna	Chain indices	Monthly year-on-year indices	Cumulative year-on-year indices
1994	December	1,646.0	119.0	153.4	233.2
1995	December	1,883.0	99.4	114.4	145.7
1996	December	2,217.0	104.4	117.7	111.8
1997	December	2,544.0	100.8	114.8	116.9
1998	December	2,935.0	104.6	115.4	112.8
1999	December	3,262.0	100.9	111.2	114.0
2000	December	3,499.0	99.9	107.3	108.9
2001	December	3,582.0	96.6	102.4	106.5
2002	January	3,597.0	100.4	101.4	101.4
	February	3,500.0	97.3	103.1	102.3
	March	3,622.0	103.5	102.5	102.3
	April	3,696.0	102.0	105.2	103.1
	May	3,800.0	102.8	104.9	103.4
	June	3,722.0	97.9	106.2	103.9
	July	3,757.0	101.0	105.8	104.2
	August	3,738.0	99.5	104.8	104.3
	September	3,673.0	98.3	107.1	104.6
	October	3,766.0	102.5	106.4	104.8
	November	3,916.0	104.0	105.7	104.8
	December	3,839.0	98.0	107.2	105.0

Source: Central Bureau of Statistics.

# List of abbreviations and symbols

avg.	– average	m	– million
BIS	– Bank for International Settlements	MIGA	– Multilateral Investment Guarantee Agency
bn	– billion	MoF	– Ministry of Finance
c.i.f.	– cost, insurance and freight	NCEA	– National Classification of Economic Activities
CBRD	– Croatian Bank for Reconstruction and development	NCS	– National Clearing System
CBS	– Central Bureau of Statistics	NDA	– net domestic assets
CEFTA	– Central European Free Trade Agreement	NFA	– net foreign assets
CESI	– Central European Stock Index	OECD	– Organization for Economic Co-operation and Development
CEI	– Croatian Employment Institute	OPEC	– Organization of Petroleum Exporting Countries
CH	– Croatian Highways	o/w	– of which
CIHI	– Croatian Institute for Health Insurance	PPI	– producer price index
CLVPS	– Croatian Large Value Payment System	res.	– reserve
CMI	– Croatian Monetary Institute	RPI	– retail price index
CNB	– Croatian National Bank	RR	– reserve requirement
CPII	– Croatian Pension Insurance Institute	SDR	– special drawing rights
CR	– Croatian Roads	SITC	– Standard International Trade Classification
DAB	– State Agency for Deposit Insurance and Bank Rehabilitation	VAT	– Value Added Tax
dep.	– deposits	VSE	– Varaždin Stock Exchange
DMB	– deposit money bank	WTO	– World Trade Organization
dom.	– domestic	ZIBOR	– Zagreb Interbank Offered Rate
EBRD	– European Bank for Reconstruction and Development	ZMM	– Zagreb Money Market
ECB	– European Central Bank	ZSE	– Zagreb Stock Exchange
EFF	– Extended Fund Facility		
EFSSAL	– Enterprise and Financial Sector Adjustment Loan		
EMU	– European Monetary Union		
EU	– European Union		
excl.	– excluding		
FINA	– Financial Agency		
FDI	– foreign direct investment		
f.o.b.	– free on board		
f/c	– foreign currency		
GDP	– gross domestic product		
HICP	– harmonized index of consumer prices		
IBRD	– International Bank for Reconstruction and Development		
IDA	– International Development Association		
IDB	– Inter-American Development Bank		
IFC	– International Finance Corporation		
IIF	– Institute for International Finance		
ILO	– International Labor Organization		
IMF	– International Monetary Fund		
JCIF	– Japanese Center for International Finance		
LOI	– Letter of Intent		

Abbreviations for currencies	
HRK	– Croatian kuna
ATS	– Austrian schilling
FRF	– French franc
DEM	– German mark
CHF	– Swiss franc
GBP	– pound sterling
ITL	– Italian lira
USD	– US dollar
SIT	– Slovenian tolar
EUR	– euro
JPY	– Japanese yen

Symbols	
–	– no entry
....	– data not available
0	– value is less than 0.5 of the unit of measure being used
∅	– average
a, b, c,...	– indicates a note beneath the table and figure

