CROATIAN NATIONAL BANK

# Semi-annual Information

## Semi-annual Information on the Financial Condition, the Degree of Price Stability Achieved and the Implementation of Monetary Policy in the Second Half of 2017

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HNB

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2017

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# Contents

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# 1 Summary

Economic activity increased by 2.8% on an annual basis in the second half of 2017, with a slowdown in growth at the end of the year. The bulk of the increase in real GDP was mostly due to increases in goods and services exports, albeit with a considerable slowdown in intensity relative to the movements in the first six months. Personal consumption also made a significant positive contribution, reflecting the continuation of growth in real disposable income of households and a high level of consumer confidence. Other domestic demand components also increased, but with a strong deceleration in the dynamics of capital investment in the last quarter, which can be correlated with lower investment activity of the general government. At the same time, the surge in imports continued, so that the contribution of net exports to real GDP growth was negative. Taking 2017 as a whole, real growth stood at 2.9%, or 0.6 percentage points lower than the previous year's performance, but also noticeably lower than the growth in economic activity in the new EU member states.

Favourable labour market trends continued. The rise in the number of employed persons continued and was broadly based, with the largest contribution coming from private sector service activities. Unemployment continued to decrease, partly resulting from continued emigration by the working age population. The registered unemployment rate (seasonally adjusted data) dropped to almost 11% at the end of the previous year. Gross and net wages continued their annual growth. Gross wages were on average 4.6% higher from the second half of 2016, and the increase in net wages was even more pronounced due to amendments to the Income Tax Act, in effect since the beginning of 2017.

Consumer price inflation accelerated in the second half of 2017. This was mostly due to mounting imported inflationary pressures, primarily from the increase in the prices of crude oil, which triggered a rise in the prices of fuel and lubricants for personal vehicles, and also to administrative decisions, which resulted in the rise of electricity prices. The annual consumer price inflation rate increased from 0.7% in June to 1.2% in December.

External imbalances continued their several-year trend of decline. The surplus in the current and capital account was higher in the second half of 2017 than in the same period of the previous year, which was largely due to the effect of a decrease in the primary income account deficit. Net exports of services grew further, primarily travel services. By contrast, the foreign trade deficit widened. Net capital outflow was mostly the result of a further decrease in domestic sectors' net foreign debt liabilities, while the inflow of direct equity investments was still relatively modest. Accordingly, the relative indicators of external debt and the net international investment position improved additionally.

In the second half of 2017, the CNB continued to support the recovery of the domestic economy through its expansionary monetary policy and maintained the stable exchange rate of the kuna against the euro, a prerequisite for the preservation of financial stability and stable inflationary expectations. Structural repo operations continued, aiming to provide banks with long-term kuna liquidity, thus facilitating a long-term decrease in interest rates and stimulating lending in kuna. Due to upward pressures on the kuna, the CNB purchased a large amount of foreign exchange funds from banks in the second half of 2017 and in December, in particular, which raised the already high kuna liquidity of the monetary system to record highs.

High liquidity in the domestic and international financial markets spurred a further decline in the lending and deposit interest rates of banks in Croatia. Together with mostly favourable trends in credit standards and demand for loans, this led to a recovery in the growth of placements, in particular in stronger household lending.

The CNB's international reserves rose by EUR 2.2bn in 2017. The factors behind the strong annual increase in reserves included the significant purchase of foreign currency from banks, ensuring the stability of the domestic currency exchange rate. A satisfactory level of income from the investment of international reserves was generated in the environment of a prolonged period of negative euro interest rates. At the same time, the key mandate in international reserves management – safety and liquidity – was successfully fulfilled.

Bank assets increased slightly in 2017, while profitability decreased. The recapitalisation of OTP banka Hrvatska d.d. for the acquisition of Splitska banka d.d. had a decisive influence on the increase in assets, as a result of which the capital of banks and investments in subsidiaries strengthened. This exceeded the effects that the losses associated with difficulties in the operation of the Agrokor Group and affiliated entities, exchange rate developments, the sale of irrecoverable claims and the exit of one bank from the system had on the assets of banks. Bank profits and profitability indicators decreased markedly, entirely as a result of the increase in expenses on value adjustments and provisions related to the Agrokor Group. The return on average assets (ROAA) and the return on average equity (ROAE) stood at 1.1% and 6.2% respectively.

The share of partly recoverable and fully irrecoverable loans continued to drop, standing at 11.4% at the end of 2017, the sale of claims having a key effect on such developments. The financial problems of the Agrokor Group and the related increased loss recognition slowed down the recovery of the quality of loans. The total capital ratio increased at the end of 2017, reaching a record high of 23.2%, mostly the result of the decrease in the credit risk exposure, primarily due to the growth in importance of the giro accounts of banks with the central bank.

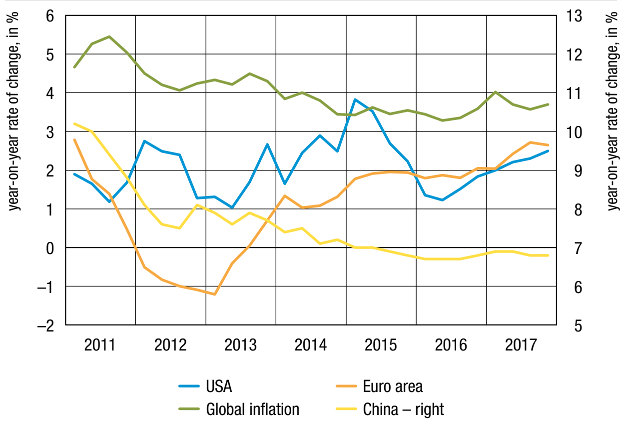
Favourable developments in public finance continued in the second half of 2017. The general government budget balance continued to improve noticeably and, in the mentioned period, the general government surplus (ESA 2010) reached as much as HRK 4.1bn, reflecting a performance slightly over HRK 4.0bn better than in the same period of the previous year. The continuation of the fiscal adjustment was the result of an accelerated increase in tax revenues, while at the same time expenditures increased only moderately at an annual level. Taking 2017 as a whole, the general government budget surplus stood at 0.8% of GDP, which was rather favourable as compared to the expectations of the Government of the Republic of Croatia. The general government debt to GDP ratio stood at 77.5% at the end of 2017, or 2.7 percentage points lower than in 2016.

# 2 Global developments

Global economic activity accelerated further in the second half of 2017. The growth recovery was widespread, mostly among developed countries, accompanied by an additional acceleration in global trade. Favourable developments also continued in the majority of the most important emerging market economies, particularly the European. Global inflation increased moderately, mainly due to the recent rise in the prices of energy products, while core inflation remained relatively subdued. Accommodative monetary policies, still prevailing in the majority of large economies, continued to provide for very favourable financing conditions.

The increase in real GDP in the US, the largest world economy, stood at 2.5% in the second half of 2017. Growth was primarily spurred by robust personal consumption and the recovery of private sector investments. The severe natural disasters that struck the US at the beginning of the third quarter did not have a significant impact on growth because they boosted construction activity and the consumption of durable goods. The US labour market remained highly dynamic, with a historic low unemployment rate. Therefore, domestic inflationary pressures strengthened slightly, so that in the second half of the year inflation mostly reached the Fed's target level of about 2% annually.

Figure 2.1 Economic growth in selected markets and global inflation




Sources: Eurostat, BEA, NBS and IMF.

A strong acceleration of growth in the second half of 2017 was also recorded in the euro area, where it reached 2.7%. Growth accelerated in the majority of member states, the most in the Baltic countries, where annual growth reached 5%. The most significant contribution to the acceleration of growth in the euro area came from its oldest and largest members: Germany and France. The acceleration of growth reflected the economic policy incentives focused on the recovery of investments, while private consumption was further boosted by favourable financing conditions and the improved situation in the labour market. The strengthening of global demand also made a significant positive contribution to economic growth in the euro area.

## 2.1 Croatia's main trading partners

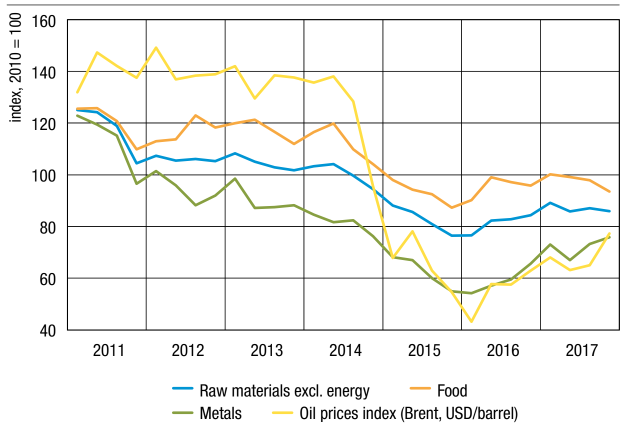
Most of Croatia's major trading partners recorded favourable economic developments in the second half of 2017. This was particularly true for trading partners from the euro area, primarily Slovenia, Austria and Italy, where the highest growth rates in the past several years were recorded. Growth was mostly driven by personal consumption, due to the growth in disposable income, and the growth of investments and exports was also noticeable. The real growth of the German economy also accelerated on the back of strong exports and increasing personal consumption in the conditions of a robust labour market.

In contrast, trading partners in the SE region recorded growth deceleration in the second half of 2017. This particularly refers to Serbia and Bosnia and Herzegovina, largely as a result of unfavourable weather conditions, which in the previous period of the year had hit the agriculture sector severely. Nevertheless, they are still relatively dynamic markets with a slightly higher rate of real growth than other Croatian trading partners.

## 2.2 Prices, exchange rates and financing conditions

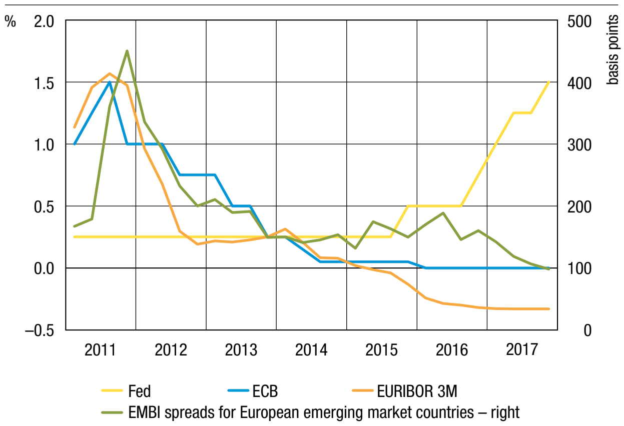
Crude oil prices rose sharply in the second half of 2017, following a decrease in the first half of the year. The average price of a barrel of Brent crude oil stood at USD 63 in December, or up by about 37% and 19% from June and December 2016 respectively. The growth in the prices of oil was attributed to the increase in demand due to more favourable global economic developments and expectations concerning a further decrease in crude oil reserves following the agreement between OPEC members and Russia on limiting supply. The political turmoil in Saudi Arabia at the end of the year also contributed to the rise in the prices of oil. In addition, coal prices increased

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



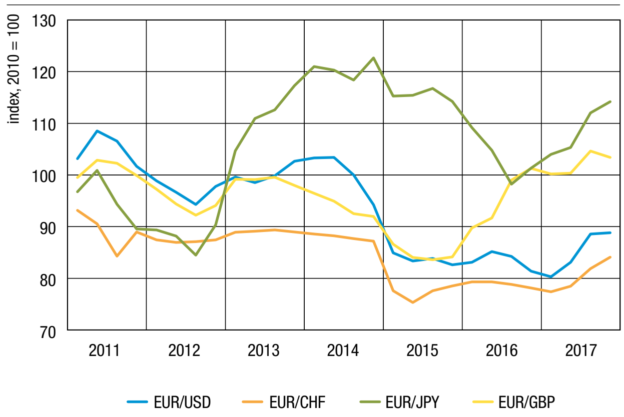

Sources: IMF and Bloomberg.

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




Source: Blomberg.

Figure 2.4 Exchange rates of individual currencies against the euro




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

considerably, which was mainly attributed to the increase in demand for energy products in China during the summer months and a decrease in the production of coal in Indonesia.

With regard to raw material prices excluding energy, metal prices increased, driven by favourable expectations concerning industrial activity in the EU countries and the US. At the same time, the prices of food raw materials declined, which mirrors in particular the decrease in the prices of cereals. In addition, in the last quarter of 2017, a considerable drop in the prices of butter was recorded in the EU market (after reaching their historic highs in September 2017).

With regard to monetary policy, the divergence between US and euro area policies widened additionally in the second half of 2017. After two increases in the first half of the year, the Fed raised its benchmark interest rate by an additional 25 basis points for the third consecutive time in December 2017. Previously, in October, the Fed began the process of winding down its monetary policy quantitative measures. As to the euro area, the ECB left its benchmark interest rate unchanged, but reduced its bond purchase programme from April (EUR 60bn, instead of the previous EUR 80bn a month). In October, the ECB decided on a further programme reduction to EUR 30bn a month, starting from January 2018.

Financing conditions for European emerging market economies, including Croatia, continued to improve during the second half of 2017. During that period, the EMBI index for European emerging market economies decreased by an additional 20 basis points from the end of the first half of the year. In addition to the favourable trend of the decrease in the level, the volatility of the index also decreased, suggesting a slightly reduced uncertainty in financial markets in the second half of 2017.

The euro continued to strengthen against the major currencies on the global foreign exchange market. The exchange rate of the US dollar against the euro reached EUR/USD 1.20 in mid-September, which is an increase of about 5% from the end of June and about 14% from the end of 2016. The major contributors to the strengthening of the euro against the US dollar included a more favourable outlook for the euro area economy and increasing uncertainty about the implementation of the tax reform in the US and its impact on economic growth. However, after September, due to good economic results in the US, the trend for the US dollar to weaken against the euro stopped. At the same time, the rise in risk appetite and more favourable outlook for the euro area economy had an effect on a significant depreciation of the Swiss franc against the euro. Thus at the end of the year, the CHF/EUR exchange rate stood at 1.17, a decrease of 7% from the end of June.

# 3 Aggregate supply and demand

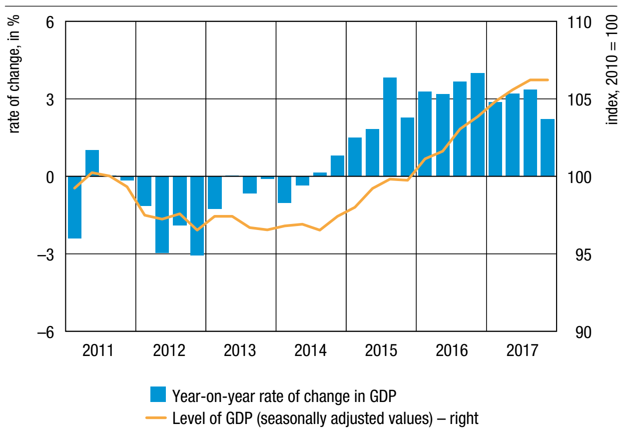
The annual growth in economic activity in the second half of 2017 slowed down slightly compared with the performance in the first six months of 2017, as a result of stagnating trends of real GDP at the end of the year. The exports of goods and services still made the largest contribution to growth in economic activity at an annual level, but its dynamics slowed down relative to the first half of the year. Personal consumption also made a strong positive contribution and other domestic demand components also increased. Broken down by production activities, economic activity grew in all activities except in agriculture, forestry and fishing, with the largest growth recorded in retail trade, transportation and storage. In 2017 as a whole, real GDP increased by 2.9%, which was considerably lower than the contemporaneous growth realised by new EU member states (4.3%).

## 3.1 Aggregate demand

The annual growth of the real exports of goods and services in the second half of 2017 stood at 4.9%, or down by 2.7 percentage points from the first half of the year. The slowdown was the strongest in the last quarter, when the annual growth rate fell to 3.8% from 5.6% from the previous quarter, in particular mirroring lower growth in the exports of goods and services. Despite the mentioned deceleration, taking 2017 as a whole, the exports of goods and services were 6.4% up on the previous year, so that the largest contribution to overall economic growth came from this category of aggregate demand.

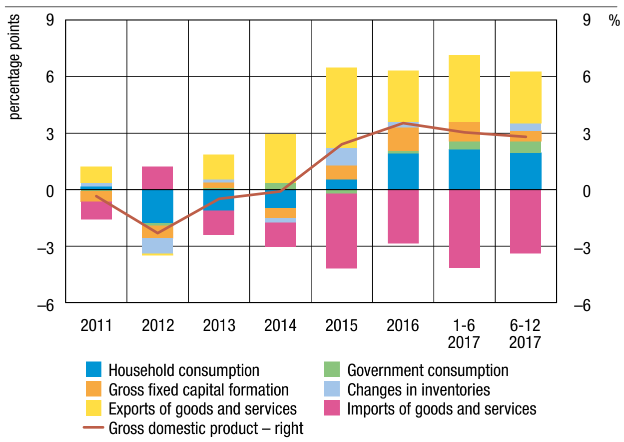
As shown by nominal data on foreign trade in goods for the second half of 2017, the growth of goods exports was

Figure 3.1 Gross domestic product
real values



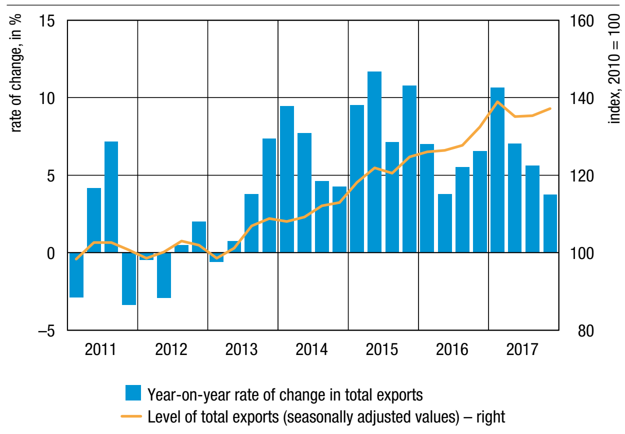

Source: CBS (seasonally adjusted by the CNB).

Figure 3.2 GDP rate of change
contributions by components



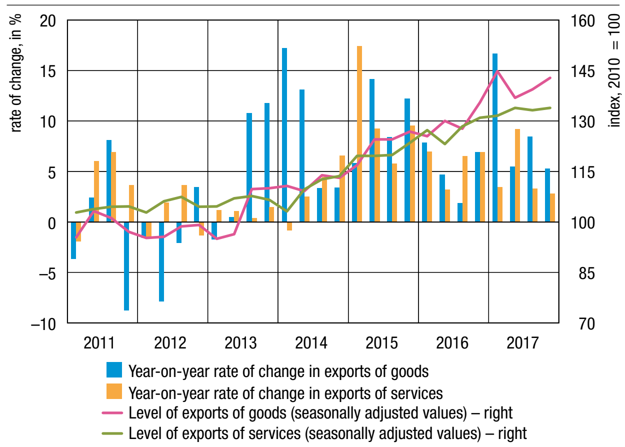

Source: CBS.

Figure 3.3 Exports of goods and services
real values




Source: CBS (seasonally adjusted by the CNB).

Figure 3.4 Real exports of goods and services



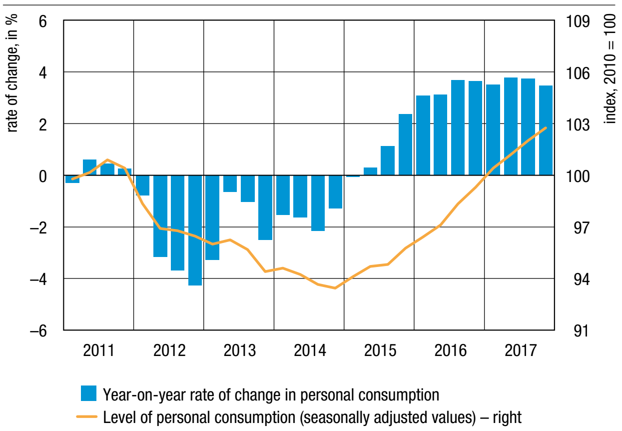

Source: CBS (seasonally adjusted by the CNB).

broad-based across industrial groupings. The exports of intermediate goods increased at the highest rate. The value of the exports of energy also increased markedly, to a large extent due to the rise in the prices of oil and refined petroleum products in the world market.

From July to December 2017, personal consumption continued moving at a dynamics similar to that in the first half of the year, and recorded a 3.5% annual growth. This reflected the continued favourable trends in the labour market, with growth of employment (measured by the number of persons insured with the CPII), while the unemployment rate continued to decrease. Amendments to the Income Tax Act, in effect since the beginning of 2017, were reflected positively in trends in wages, and a very good performance in tourism also contributed to the growth of household consumption. Consumer confidence had a positive impact on increased propensity to consume. Following diminished expectations in the second quarter of 2017, triggered by the crisis at the Agrokor Group, household confidence recovered in the rest of the year. Thus, the consumer confidence index in the last quarter reached the level from the beginning of the year, i.e. the level of the pre-crisis period. If analysed at the level of the whole of the year, personal consumption, second to the exports of goods and services, made the most significant contribution to growth in total economic activity.

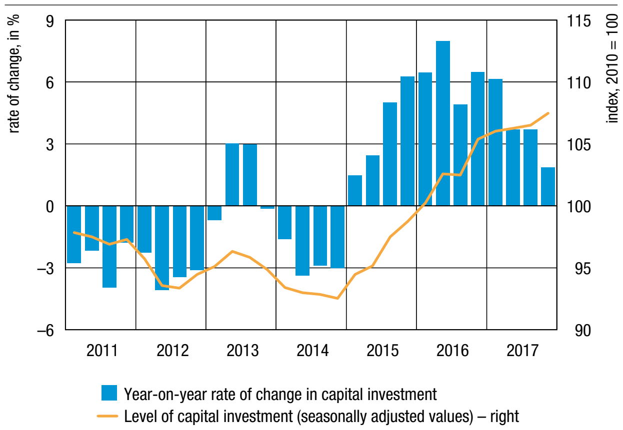
The growth of gross fixed capital formation slowed down significantly in the second half of the previous year to 2.8% from 4.8% in the six months previously. The annual growth of capital investments in the third quarter of 2017 stood at 3.7%, equal to the rate reached in the previous three months. However, investment activity slowed down to 1.9% in the last quarter of 2017, which can be linked to lower general government investments because of the smaller absorption of EU funds. By contrast, private sector investments grew relatively sharply. This is suggested by construction works on buildings, which are connected to private sector investments. In addition, nominal data on foreign trade in goods also indicate the growth of private investments, which show that the imports of capital goods rose throughout the previous year. Thus, investment activity in 2017 increased by 3.8% from 2016 and made

Figure 3.5 Personal consumption
real values



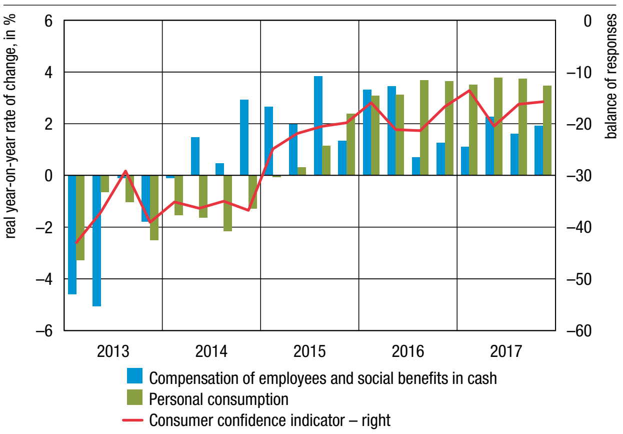

Source: CBS (seasonally adjusted by the CNB).

Figure 3.7 Gross fixed capital formation
real values



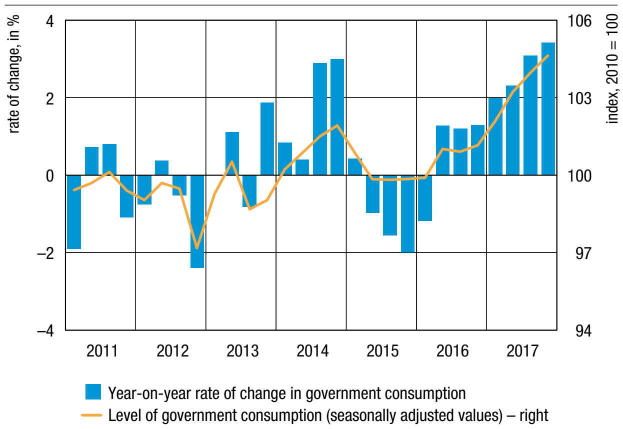

Source: CBS (seasonally adjusted by the CNB).

Figure 3.6 Determinants of personal consumption
real values and index



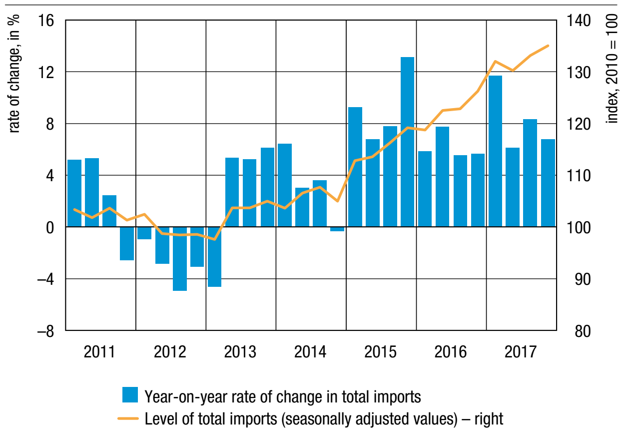

Note: Real values of compensation of employees and social benefits in cash were calculated by deflating nominal values using the personal consumption deflator.
Sources: CBS, Ipsos and CNB.

Figure 3.8 Government consumption
real values



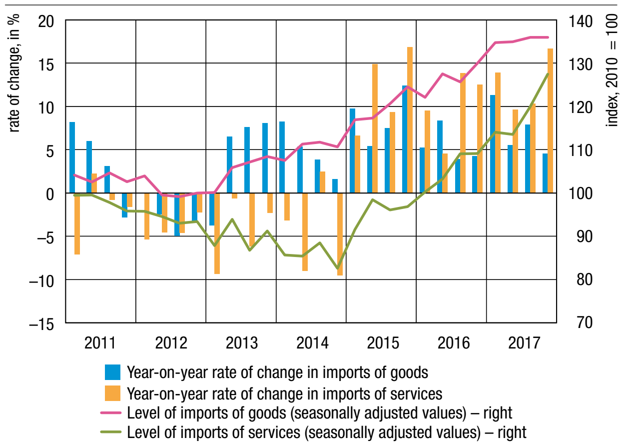

Source: CBS (seasonally adjusted by the CNB).

Figure 3.9 Imports of goods and services
real values




Source: CBS (seasonally adjusted by the CNB).

Figure 3.10 Real imports of goods and services




Source: CBS (seasonally adjusted by the CNB).

a positive contribution to real GDP growth.

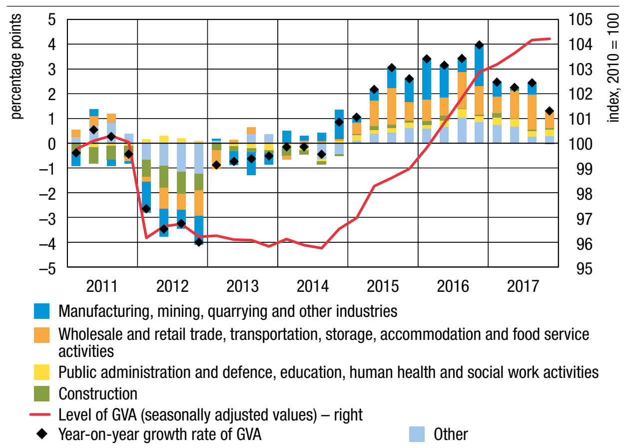
The annual increase in government consumption in the period from July to December 2017 accelerated to 3.3% from the first six months of the same year when it stood at 2.2%, the acceleration being probably partly connected to the growth in the number of employed persons in public and government services. In the whole year, government consumption increased by 2.7% and thus made a slight positive contribution to total growth of economic activity.

The annual increase in the imports of goods and services slowed down slightly in the second half of 2017 to 7.6% from the first six months of the same year when it stood at 8.7%, reflecting a lower growth of the imports of goods, while the imports of services accelerated noticeably. Nominal data on foreign trade in goods suggest lower imports of energy, capital goods and non-durable consumer goods. A significant deceleration of the imports of energy was the consequence of the smaller imports of electricity and natural gas, which can be linked to the relatively mild winter. Since the imports of goods and services grew more sharply than exports, a negative contribution was made by net exports to real GDP growth in the second half of the previous year.

## 3.2 Aggregate supply

The annual growth of gross value added (GVA) decelerated in the second half of 2017 to 1.9% from 2.4% in the period from January to June. The largest contribution to GVA growth came from retail trade, transportation and tourism, mirroring a continued improvement in household purchasing power and favourable developments in tourism. If analysed at the level of the whole year, all GVA components grew, with the exception of agriculture, forestry and fishing.

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




Source: CBS (seasonally adjusted by the CNB).

# 4 Labour market

## 4.1 Employment and unemployment

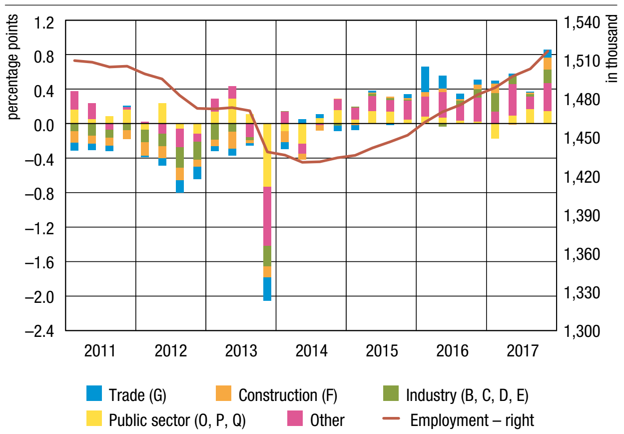
The number of employed persons continued to rise in the second half of 2017. The growth rate slowed down during the summer months, but the growth of employment intensified noticeably at the end of the year. If analysed by activities, growth was broadly based, with the largest contribution coming from private sector service activities. The above movements resulted in a 1.9% higher number of employed persons than in the same period of the previous year.

The continued growth in employment was reflected in the movement in the number of unemployed persons. Unemployment continued decreasing in the second half of 2017, if at a slightly slower pace than in the first six months. In addition to outflows on the basis of employment, the decline in the number of unemployed persons was also under the considerable effect of outflows for other reasons, which was partly due to further emigration of the working age population.

At an annual level, unemployment continued decreasing sharply, so that in the second half of 2017 the number of unemployed persons was approximately 45,000 lower than in the same period in 2016. The decrease in total unemployment was noticeably due to outflows for other reasons, among other things to emigration of the working age population to more developed EU countries.

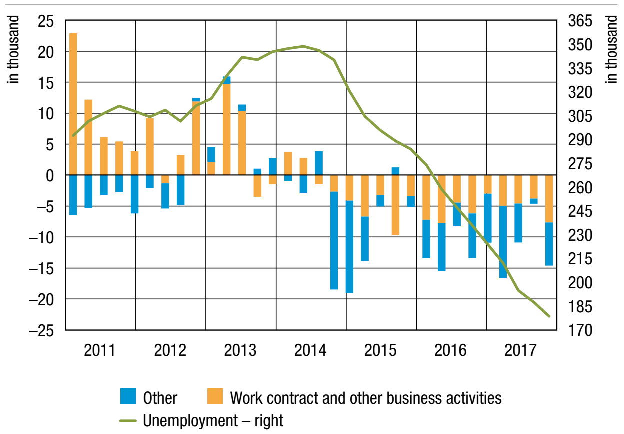
In accordance with the above developments, the unemployment rate continued to decrease. The registered unemployment rate at the end of 2017 stood at 11.2%, according to seasonally adjusted data, which was 0.7 percentage points lower from the end of June (if CPII data are used for the calculation, the unemployment rate at the end of 2017 stood at 10.4%). The registered unemployment rate dropped by 2.7 percentage

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



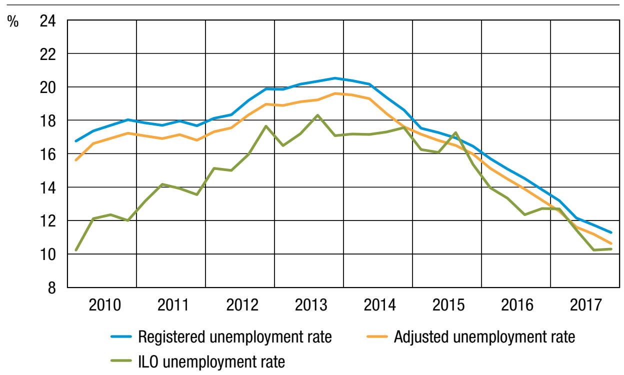

Source: CPII (seasonally adjusted by the CNB).

Figure 4.2 Total unemployment and net unemployment inflows
seasonally adjusted data



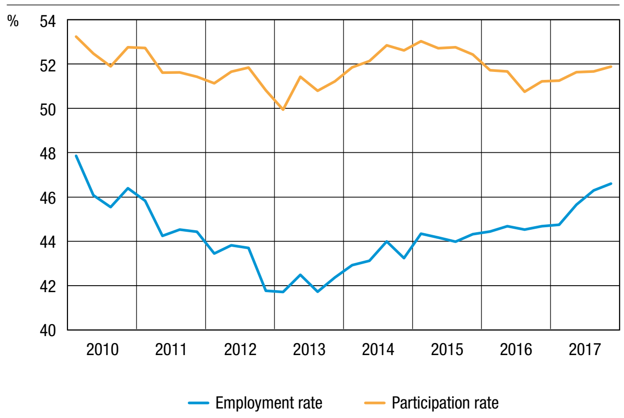

Source: CES (seasonally adjusted by the CNB).

Figure 4.3 Unemployment rates
seasonally adjusted data




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

Figure 4.4 Labour Force Survey
seasonally adjusted series




Source: CBS (seasonally adjusted by the CNB).

points from December 2016.

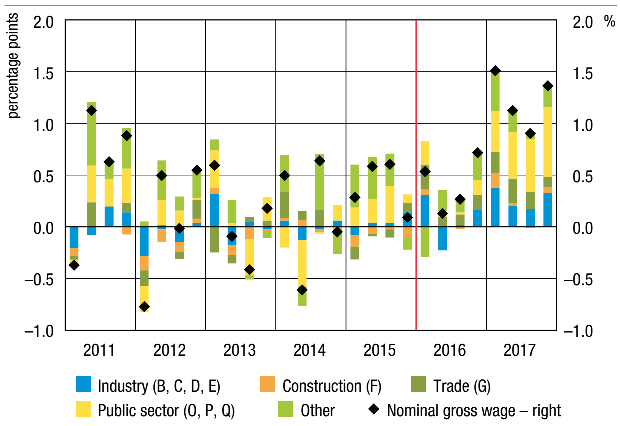
Labour Force Survey data suggest that the unemployment rate decreased somewhat stronger in the second half of 2017, compared with administrative data. In the period from June to December 2017, the ILO unemployment rate decreased to the average 10.3% from 12.1% in the first six months of 2017. The participation rate (i.e. the share of the labour force in the working age population) in the second half of 2017 continued to increase; however, it was still at a relatively low level compared with other EU member states. In addition, the employment rate also continued to grow.

## 4.2 Wages and unit labour costs

The second half of 2017 was marked by the continuation of a relatively sharp increase in wages, which was broadly based, as was growth in employment. If analysed at an annual level, gross wages increased on average by 4.6% from the same period of 2016. The increase in net wages was even more pronounced due to amendments to the Income Tax Act in effect since the beginning of 2017. The annual growth in wages in the public sector intensified based on the Croatian government decision to gradually increase the wages of civil servants and government employees by 6% in 2017.

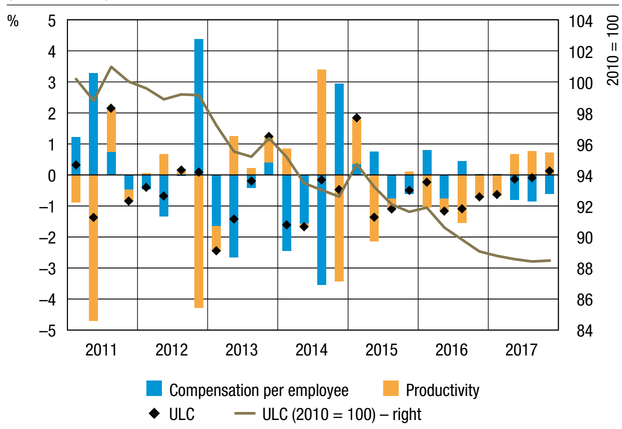
National accounts data, however, suggest a decline in compensation per employee in the second half of 2017. This decline was somewhat stronger than that in labour productivity, so that unit labour costs continued to decline in the period from June to December 2017, albeit at a slower pace. Unit labour costs were down by 1.2% from the second half of 2016.

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




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

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




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

# 5 Inflation

Consumer price inflation accelerated in the second half of 2017. This was mostly due to mounting imported inflationary pressures (primarily the increase in the prices of crude oil) and administrative decisions, which resulted in a rise in the prices of electricity. The annual consumer price inflation rate increased from 0.7% in June to 1.2% in December. Core inflation (which excludes agricultural product prices, energy prices and administered prices) slowed down from 1.8% in June to 1.4% in December. This was mainly due to the slowdown in the annual growth of the prices of meat and milk. The annual rate of change in industrial producer prices (energy excluded) increased from 0.5% in June to 1.0% in December, which shows that inflationary pressures from the production process were intensified. Intermediate goods were the main source of upward pressures on these prices.

In total terms, the indicators of current consumer price trends increased in the second half of 2017, despite the sudden fall at the end of the year, and returned to a level comparable to that at the end of 2016. The inflation diffusion index also increased considerably, standing at 61% in December, which indicates the increase in the number of products in the HICP basket whose prices grew. All of this suggests the strengthening of inflationary pressures.

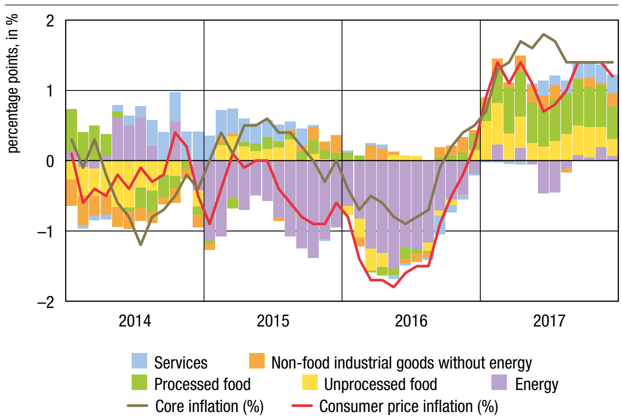
If analysed by the main groupings, the increase in the annual inflation rate in the second half of 2017 was mostly due to the increase in the contribution of energy prices, from –0.5 percentage points in June to 0.1 percentage points in December. This was mainly due to the rise in electricity prices fuelled by the growth in renewable energy sources tariffs and the rise in refined petroleum product prices due to the growth in crude oil prices in the world market.

A moderate contribution to the increase in inflation in the second half of 2017 was made by the prices of services and unprocessed food products. With regard to the prices of services, the prices of refuse collection and catering services increased. In the case of unprocessed food products, the annual rate of change in the prices of vegetables and fruit increased because of the base period effect, i.e. a slightly more pronounced decline in these prices in the second half of 2016. The slowdown in the annual growth rate of meat prices, most probably due to the fall in pork prices in the EU market, had the opposite effect.

The increase in overall inflation in the second half of 2017 was palliated by the deceleration of the annual rise in the prices of processed food products. The main reason for this was the drop in the prices of milk in the last quarter, by which their increase in the first nine months of the year was only partly offset. The growth in the prices of butter and bread had the opposite effect, although the prices of butter started to decline at the end of the year, which mirrors the decrease in the prices of these products in the EU market.

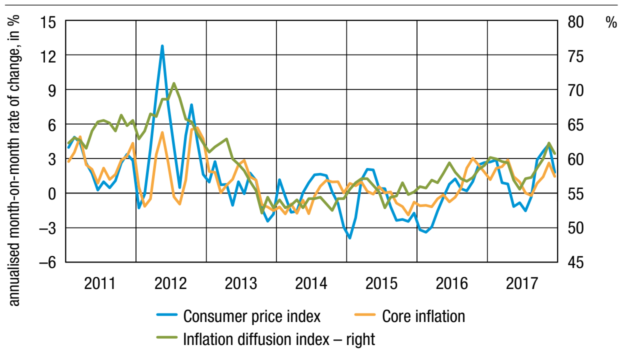
The annual growth of the deflator of imports of goods and services slowed down moderately in the second half of 2017, but it was still much higher than at the end of the previous

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



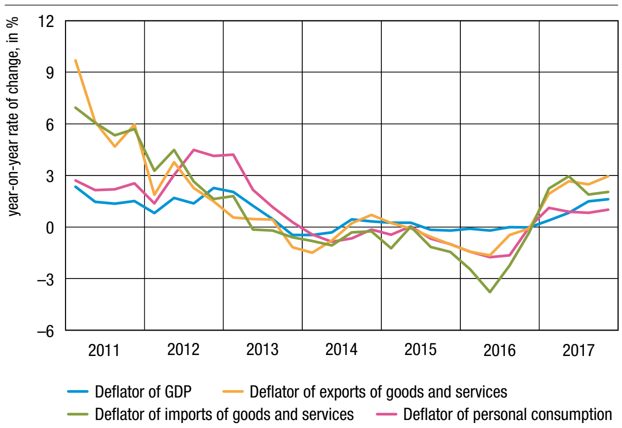

Notes: Core inflation does not include agricultural product prices, energy prices and administered prices. Processed food products include alcoholic beverages and tobacco.
Sources: CBS and CNB calculations.

Figure 5.2 Indicators of current inflation trends




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

Figure 5.3 Deflator of GDP and its individual components




Source: CBS.

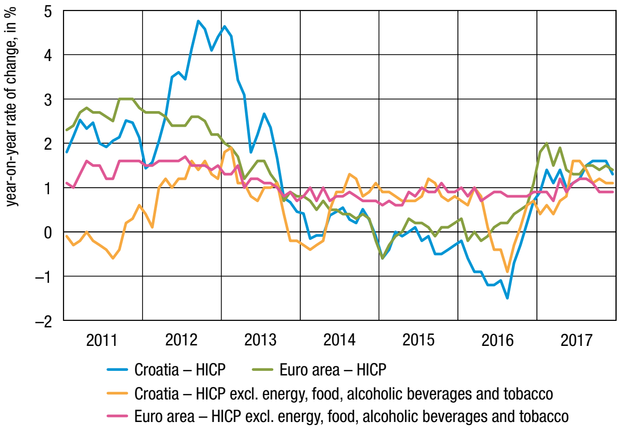
Table 5.1 Price indicators

year-on-year rate of change

| | 12/16 | 3/17 | 6/17 | 9/17 | 12/17 |
|---|---|---|---|---|---|
| Consumer price index and its components | | | | | |
| Total index | 0.2 | 1.1 | 0.7 | 1.4 | 1.2 |
| Energy | –1.1 | –0.1 | –2.8 | 0.5 | 0.4 |
| Unprocessed food | 1.7 | 4.2 | 2.2 | 4.5 | 2.6 |
| Processed food | 1.0 | 2.8 | 2.3 | 2.8 | 2.0 |
| Non-food industrial goods without energy | 0.2 | 0.3 | 0.8 | 0.1 | 0.8 |
| Services | –0.1 | –0.1 | 0.8 | 0.9 | 1.0 |
| Other price indicators | | | | | |
| Core inflation | 0.5 | 1.4 | 1.8 | 1.4 | 1.4 |
| Index of industrial producer prices on the domestic market | –0.1 | 1.1 | 0.4 | 2.2 | 2.1 |
| Index of industrial producer prices on the domestic market (excl. energy) | –0.9 | –0.3 | 0.5 | 0.9 | 1.0 |
| Harmonised index of consumer prices | 0.7 | 1.1 | 1.1 | 1.6 | 1.3 |
| Harmonised index of consumer prices at constant tax rates | 0.6 | 1.0 | 1.0 | 1.6 | 0.8 |

Sources: CBS and Eurostat.

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




Source: Eurostat.

year. As the deflator of exports of goods and services accelerated in the same period, trading conditions improved.

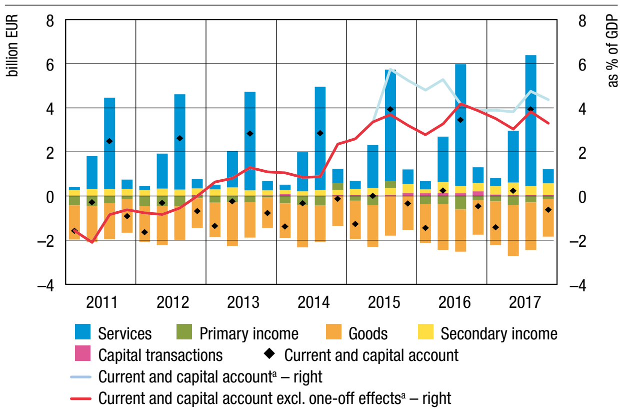
Inflation in the euro area increased only slightly in the second half of 2017, from 1.3% in June to 1.4% in December. The main reason for this was the increase in the prices of food and energy, and to a smaller extent the rise in the prices of industrial goods without energy. Core inflation (which excludes the prices of energy, food, alcoholic beverages and tobacco) slowed down moderately, mostly mirroring the slowdown in the prices of services.

For comparison purposes, Croatia's inflation measured by the harmonised index of consumer prices (HICP) increased from 1.1% in June to 1.3% in December, and remained at a level only slightly lower than that in the euro area. The increase in inflation in Croatia was almost entirely the result of the increase in the prices of energy, in particular of the increase in the prices of electricity, and partly the prices of fuels and lubricants for personal vehicles. With regard to core inflation measured by the HICP (excluding energy, food, alcoholic beverages and tobacco prices), it decreased in Croatia from 1.6% in June to 1.1% in December. This was mostly attributed to the decrease in the prices of accommodation services, pharmaceutical products and the prices of transport services. At the end of the year, core inflation in Croatia was by 0.2 percentage points higher than core inflation in the euro area.

# 6 Current and capital account

The surplus in the current and capital account increased in the second half of 2017, compared with the same period of the previous year, which was largely due to the effect of a decrease in the primary income account deficit. The developments in international trade were marked by further growth of net exports of services, which was followed by the widening of the foreign trade deficit, as a result of which total net exports of goods and services stagnated. The sum of the balances in the secondary income account and in the account of capital transactions also remained almost unchanged. If results are observed in the whole of 2017, the current and capital account surplus stood at 4.4% of GDP (or 3.3% of GDP excluding the effects of bank provisions for loans associated with the Agrokor Group), from the surplus of 3.9% of GDP in 2016.

Figure 6.1 Current and capital account balance and its structure




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

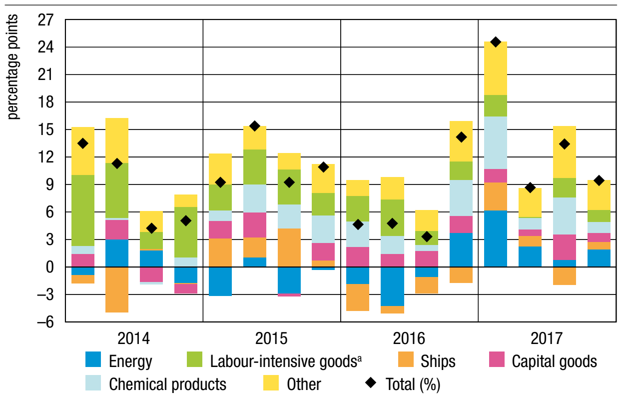
## 6.1 Foreign trade and competitiveness

The increase in the foreign trade deficit reflected the continuation of the growth of personal consumption and the dependence of the Croatian economy on imports. CBS data[1] show that the growth in net imports of various food products, metal industry products, other chemical products and scientific and controlling instruments made a considerable contribution to the annual increase in deficit in the second half of 2017. Unfavourable trends were offset by the marked improvement in the trade in medical and pharmaceutical products.

The dynamics of goods exports slowed down in the rest of the year, following a very robust growth in early 2017. Nevertheless, the annual growth was strong, at 10.8% in the second half of 2017, mostly driven by the exports of chemical products, mainly medical and pharmaceutical products to Belgium, as well as the exports of capital goods, primarily electrical machinery, apparatus and appliances to Turkey, Egypt and Germany and power generating machinery and equipment to Bosnia and Herzegovina. The exports of metal industry products and energy products, i.e. oil and refined petroleum products, also increased, (mostly under the effect of the increase in prices and, to a smaller extent, volumes). In the whole of 2017, total goods exports increased by 13.5%, mainly due to the exports of energy products and ships, a considerable acceleration of growth from the 6.8% recorded in 2016.

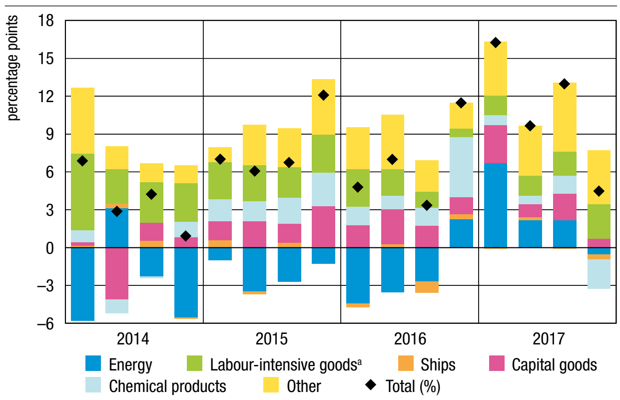
The dynamics of goods imports also slowed down relative to the movements at the beginning of the year, so that the annual growth of imports stood at 7.9% in the second half of

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




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

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




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

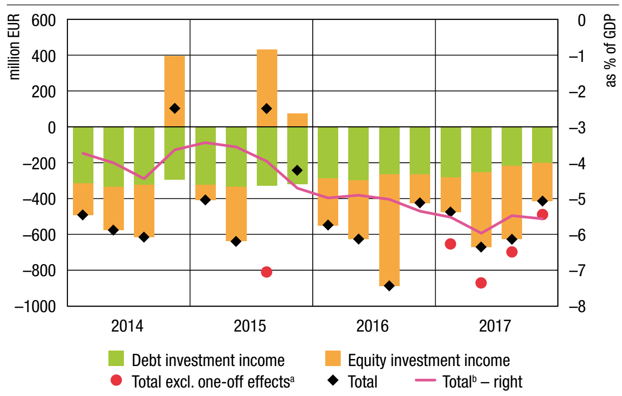
1 The balance of payments data (which exclude non-resident trade and trade in goods under manufacturing services, and have additional adjustments for coverage and classification) show a faster growth in the goods account deficit as a result of a slower growth in exports, i.e. a faster growth in imports, when compared with the CBS data.

2017. The growth of total imports was driven by the growth of the imports of metal industry products from Germany and Italy, as well as the growth of the imports of food products from Hungary and Italy. In addition, the imports of capital goods increased (in particular of electrical machinery, apparatus and appliances from Slovenia), and scientific and controlling instruments from China and Belgium. Only a moderate contribution of energy products to the growth of total imports is the result of the growth in the imports of oil and refined petroleum products (due to the increase in imports prices), which was largely offset by the decline in the imports of electricity and natural and manufactured gas. In the whole of 2017, the annual growth rate of total goods imports stood at 10.6%, and the acceleration from the previous year, when growth stood at 6.6%, was the result of more significant imports of energy products.

With regard to developments in the international trade in services, the growth of net exports continued, the main contributor being travel services. Revenues from tourist consumption of non-residents grew 9.2% in the second half of 2017 from the same period of the previous year. The growth of revenues was accompanied by an increase in volume indicators, i.e. the number of arrivals and nights of foreign guests in commercial accommodation of 9.6% and 7.7% respectively, thanks primarily to guests from Germany, Poland, the United Kingdom, Czech Republic and the Netherlands.

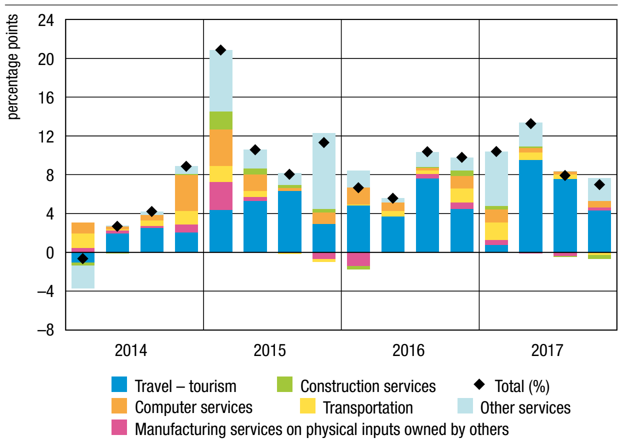
The price and cost competitiveness of Croatian exports, measured by the real effective kuna exchange rates, improved in the second half of 2017, but it was not sufficient to offset the deterioration in the previous half of the year. The mild depreciation of the real effective exchange rates of the kuna deflated by consumer prices and producer prices was entirely due to the nominal weakening of the kuna against the basket of currencies. At the same time, the movement of unit labour costs in Croatia was slightly more favourable than abroad, so that the depreciation of real effective exchange rates of the kuna deflated by unit labour costs was more pronounced, in particular at the level of the whole economy.

Figure 6.6 Investment income



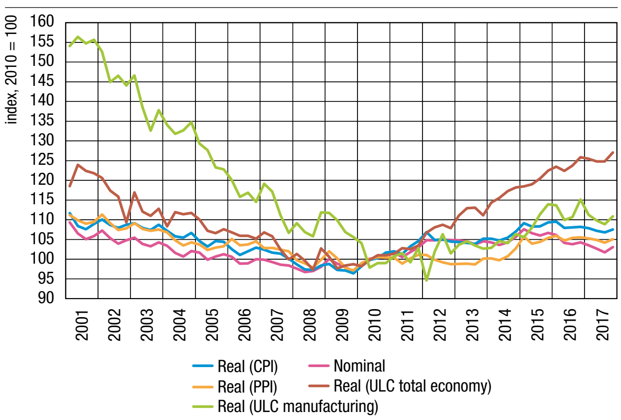

[a] One-off effects include conversion of CHF-linked loans in 2015 and bank provisions for loans to the Agrokor Group in 2017. [b] Sum of the last four quarters, excluding one-off effects.
Source: CNB.

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




Source: CNB.

Figure 6.5 Nominal and real effective exchange rates of the kuna



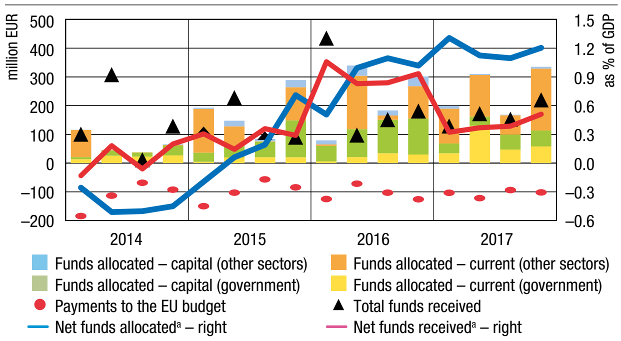

Notes: The unit labour cost is calculated as the ratio between compensation per employee and labour productivity (defined as GDP per person employed). A fall in the index indicates an effective appreciation of the kuna.
Source: CNB.

## 6.2 Income and transactions with the EU

Investment income largely contributed to the significant decrease in the primary income account deficit in the second half of 2017. The profitability of foreign enterprises owned by residents improved from the same period of the previous year, and interest expenses on external debt decreased (which was partly due to discontinued interest accrual on the old external debt of the Agrokor Group). By contrast, profits of corporations and banks in foreign ownership increased only slightly, since the decrease in bank profits (due to provisions for placements associated with the Agrokor Group) were offset by the improved business performance of other corporations, in particular in construction, professional, scientific and technical activities, real estate activities and the production of refined petroleum products.

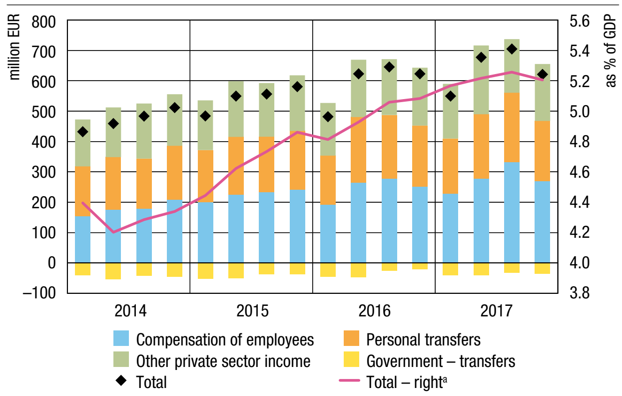
Total net revenues from transactions with the EU budget in the second half of 2017 increased only moderately from the same period of the previous year as a result of the somewhat smaller payments to the EU budget and the slightly larger amount of funds used, in which a significant change of

Figure 6.7 Transactions with the EU budget




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

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




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

structure was noticeable. Significantly more funds for current expenditures were distributed to end users, while at the same time the amount of allocated capital funds was reduced considerably. Taking 2017 as a whole, the surplus of funds utilised from EU funds over the payments to the EU budget, expressed as a percentage of GDP, improved from 1.0% at the end of 2016 to 1.2% at the end of 2017. At the same time, other income, with the exception of income from investments and transactions with the EU budget, also continued to trend upwards, under the effect of the increase in compensations to residents temporarily working abroad.

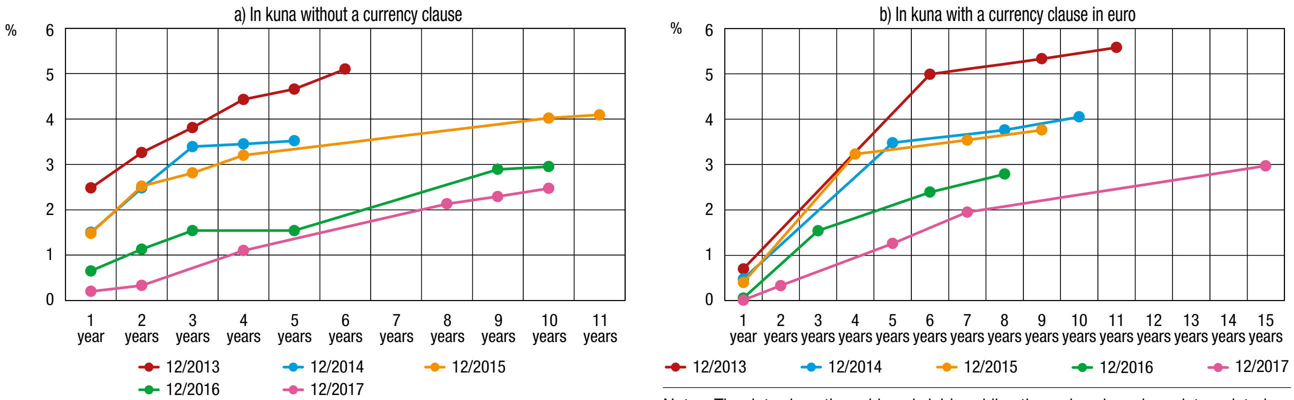
# 7 Private sector financing

Domestic sectors' financing conditions generally continued to improve throughout the second half of 2017. The interest rate paid by the government on borrowing through one-year kuna T-bill issues in the domestic market fell from 0.65% in December 2016 to a record low of 0.20% in December 2017, while the interest rate on one-year euro T-bills decreased to 0.01% in October. The government refinanced EUR 1.5bn worth of maturing T-bills in November by issuing a new 455-day T-bill with an interest rate of 0.10%, which was 0.6 percentage points lower than that paid on the previous issue. The yield curve on Croatian government bonds indicates that longer-term government financing conditions were also more favourable than in the previous years (Figures 7.1a and 7.1b). In addition, in July 2017, the government issued a HRK 3bn kuna bond with a euro currency clause, a yield of 3.30% and a maturity of 15 years, resulting in the extension of the kuna yield curve for bonds with a currency clause in euro (Figure 7.1b). November saw two more bond issues: a 12-year EUR 1.275bn bond with a yield of 2.953% and a 6-year HRK 5.8bn bond with a yield of 1.80%.

The government's foreign borrowing cost, estimated by the sum of the EMBI for Croatia and the yield on the German government bond, continued to decline as well. Standing at 2.2% in late 2017, it was about 0.9 percentage points lower than at the end of 2016 (Figure 7.3). CDS for Croatia narrowed by around 120 basis points in 2017, reaching a level slightly lower than 100 basis points at the end of December, another indication of improving financing conditions. Due to such conditions, Standard & Poor's upgraded Croatia's long-term credit rating outlook from stable to positive in September.

Costs of corporate financing continued to decline in the second half of 2017. The average interest rate on corporate

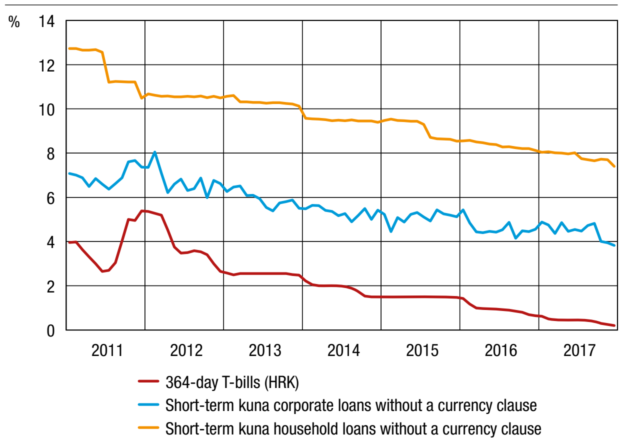
Figure 7.1 Yield-to-maturity on RC bonds




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

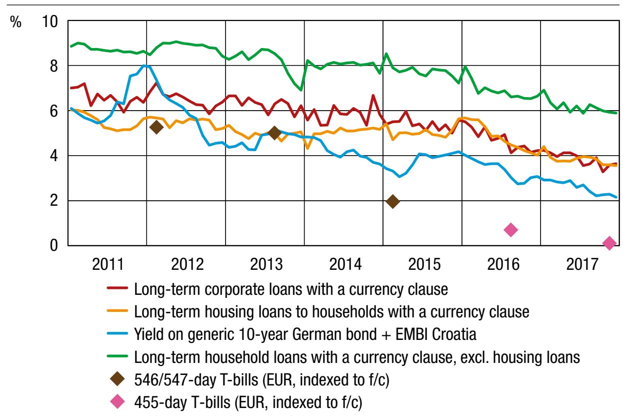
Notes: The dots show the achieved yields, while other values have been interpolated. Data for one-year yield refer to the achieved interest rate on one-year kuna T-bills with a currency clause in euro, while data for the end of 2016 and the end of 2017 refer to November and October respectively.
Source: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

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




Sources: MoF and CNB.

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




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

short-term kuna borrowing dropped by 0.3 percentage points from the first half of the year (Figure 7.2), while the average interest rate on long-term loans with a currency clause decreased by 0.5 percentage points (Figure 7.3). A breakdown of financing costs by the size of loans granted (Figure 7.4) shows that interest rates on loans exceeding HRK 7.5m remained lower than interest rates on loans of smaller amounts, the reason being that larger amount loans are used mostly by large enterprises with greater collateral potential and better creditworthiness.

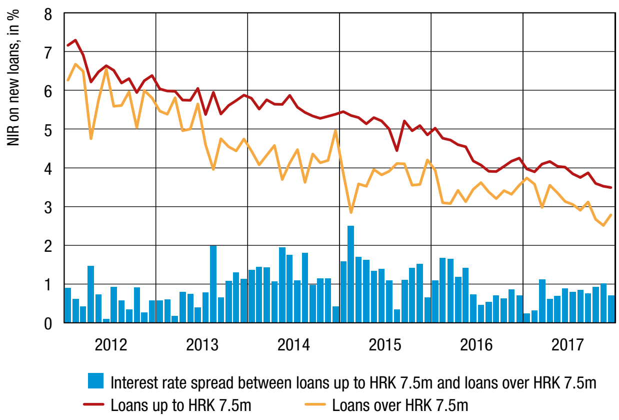
The downward trend in interest rates on household loans continued into the second half of 2017. The interest rate on short-term kuna household borrowing decreased the most, dropping by 0.4 percentage points on average from the first half of the year (Figure 7.2). Favourable trends were seen in interest rates on household borrowing in kuna with a currency clause as well (Figure 7.3).

The continued maintenance of high liquidity in the banking system and the reduction of the costs of banks' sources of funds contributed to the more favourable trends in interest rates on private sector financing. Both the national reference rate (NRR)[2] and the EURIBOR rates declined steadily, the latter falling to record low levels. Real interest rates, deflated by expected inflation, stagnated in 2017 at somewhat lower levels than in 2016, observed on average (Figure 7.5).

Credit standards for corporate loans saw no significant changes in the second half of 2017 (Figure 7.6). On the one hand, a series of factors, notably interbank competition and favourable liquidity conditions, had a favourable impact on credit standards; on the other, they began to tighten in the second quarter of 2017, primarily on account of industry or firm-specific outlooks. The demand for corporate loans slowed down temporarily in the last quarter of 2017 after having grown continuously over the preceding part of the year. Observed at the level of the entire year, the demand for loans increased, particularly that of small and medium-sized enterprises, which was primarily due to the need of enterprises to finance inventories and working capital, but also to finance investments.

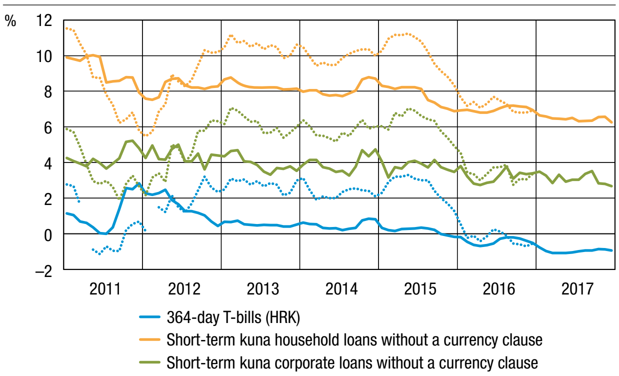
Credit standards for household loans were eased further in the second half of 2017, although the trend slowed down from the first half of the year (Figure 7.7). The easing of credit standards for housing loans as well as for consumer and other loans was primarily the consequence of interbank competition, reduced costs of banks' sources of funds and positive expectations regarding general economic activity. The demand for all types of household loans continued to trend up in the second half of 2017. The main factors driving the growth of demand for housing loans included consumer confidence, a favourable real estate market outlook and the positive effect of the government's housing loans subsidy programme, while the rise in consumer and other loans mainly resulted from increased consumer confidence and consumption of durable consumer goods.

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



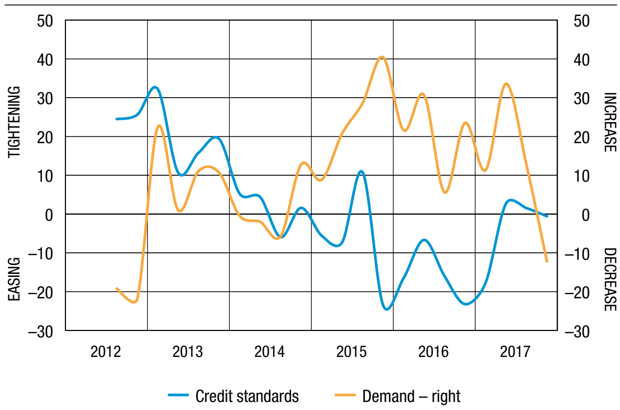

Source: CNB.

Figure 7.5 Achieved and expected real interest rates




Note: Full lines show the expected real interest rates, i.e. the nominal interest rates deflated by the expected values of the consumer price index under the CNB's official projection, and the accompanying dotted lines show the achieved real interest rates, i.e. the nominal interest rates deflated by the achieved values of the consumer price index.
Sources: CNB, CBS and CNB calculations.

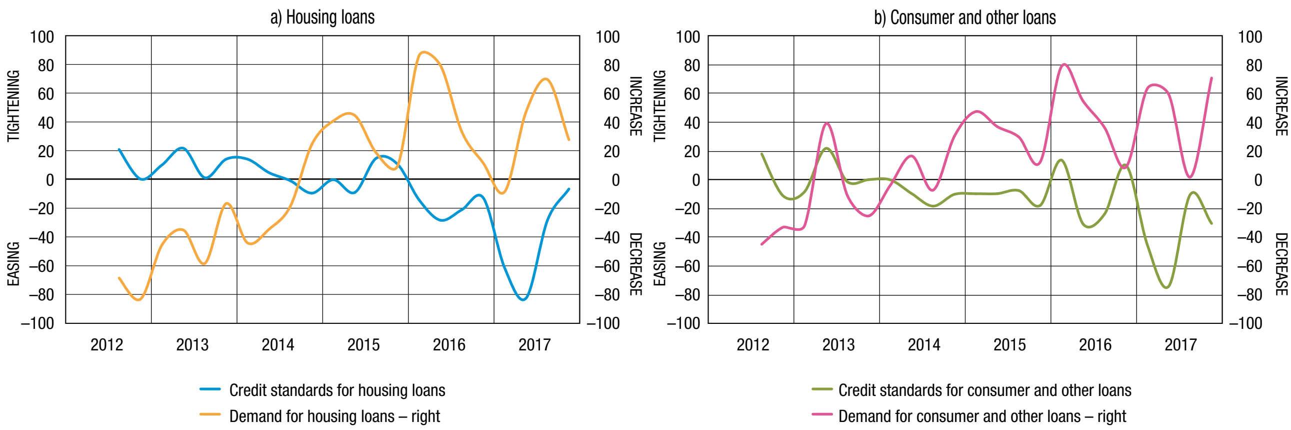
Figure 7.6 Credit standards and corporate demand for loans




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

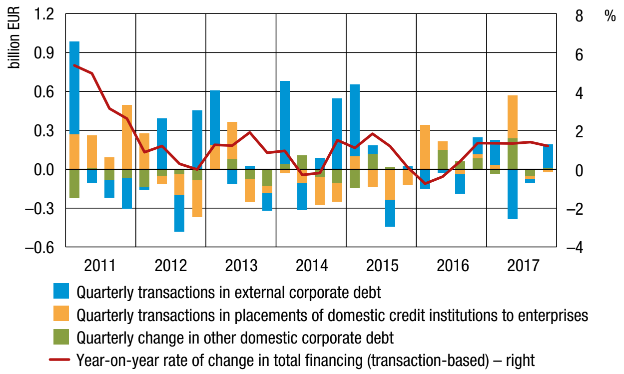
2 The national reference rate (NRR) is the average interest rate paid on deposits by the banking sector. It is used as one of the benchmark interest rates for determining the level of the variable component of the variable interest rate on loans, in accordance with Article 11a of the Credit Consumer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

## Figure 7.7 Credit standards and household demand for loans




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

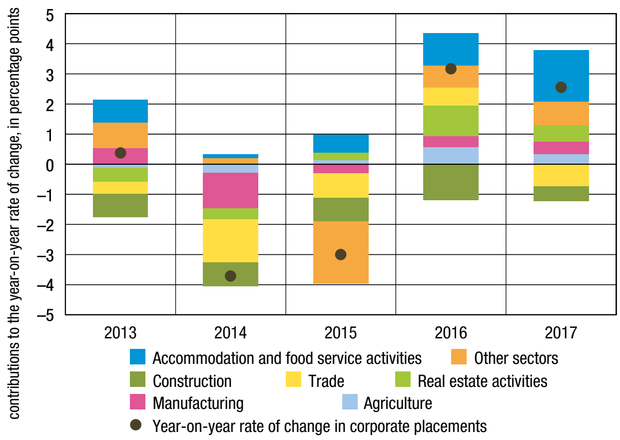
## Figure 7.8 Corporate financing




Notes: Other domestic financing includes borrowing from domestic leasing companies and the CBRD. Foreign financing includes borrowing from foreign banks and foreign affiliated enterprises and excludes the effect of debt-to-equity transactions. Rate of change was calculated based on transactions (except for other domestic debt).
Sources: HANFA, CNB and CNB calculations.

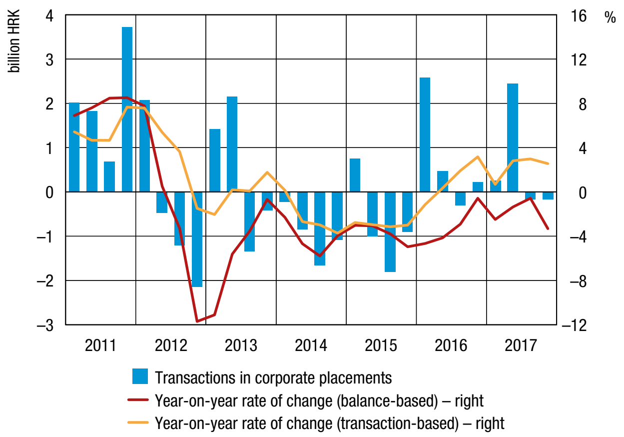
## Figure 7.10 Growth of corporate placements by activity

transaction-based




Source: CNB.

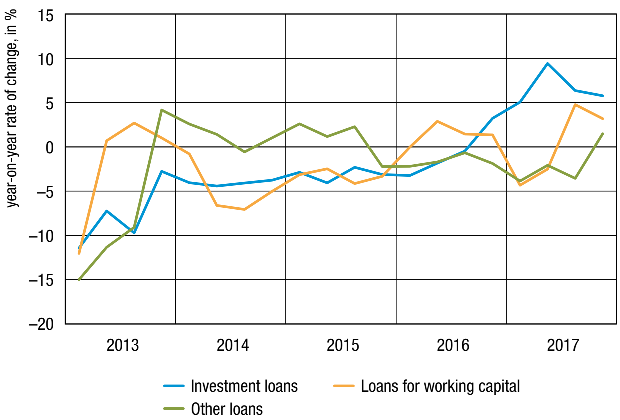
## Figure 7.9 Corporate domestic placements of credit institutions




Source: CNB.

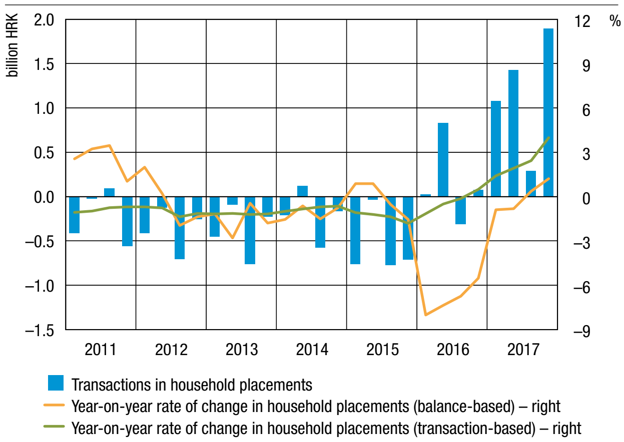
## Figure 7.11 Growth in corporate loans by purpose

transaction-based



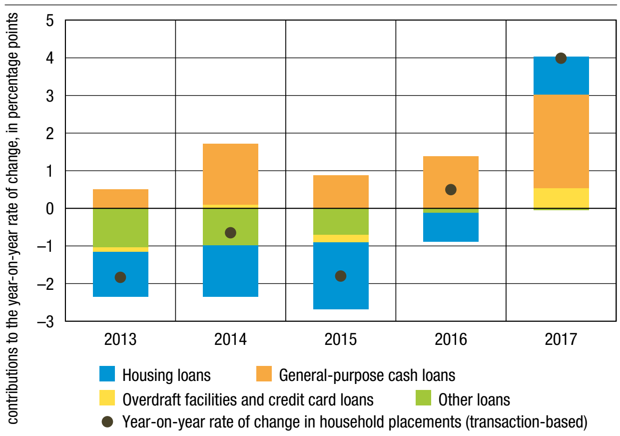

Source: CNB.

Figure 7.12 Household placements




Source: CNB.

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




Source: CNB.

The total debt of non-financial corporations[3] increased slightly in the second half of 2017 due to a rise in external debt, while corporate debt to domestic creditors dropped. The annual rate of growth in total corporate debt was almost the same at end-2017 as in 2016, standing at 1.2% (transaction-based, Figure 7.8). The annual growth resulted from an increase in borrowing by private enterprises (in the domestic and foreign markets), while the total debt of public enterprises declined. Public enterprises slightly increased their domestic debt and deleveraged abroad.

Placements of domestic credit institutions to non-financial corporations decreased somewhat in the second half of 2017 (Figure 7.9). However, the first half of the year saw considerable growth, so that domestic placements to non-financial corporations increased by 2.5% (transaction-based) at the level of the whole of 2017, a slight slowdown from 2016, when the increase stood at 3.2%. In contrast, the annual rate of change in corporate placements calculated on the basis of nominal values remained negative, standing at –3.3% at the end of 2017, mainly as a result of the sale of non-performing placements.

The breakdown of the distribution of corporate loans by activity shows that the growth in loans seen in 2017 was mostly brought about by lending to accommodation and food service activities (Figure 7.10). In contrast, deleveraging continued in construction and was recorded in trade as well. Broken down by loan purpose, investment loans saw the most significant rise in 2017, followed by slightly slower increases in working capital loans and other corporate loans (Figure 7.11).

In contrast to corporate placements, household placements have been increasing at an accelerated annual rate since October 2016, reaching 4.0% at the end of 2017 (transaction-based, Figure 7.12). The increase was due to favourable trends in financing conditions and consumer confidence as well as to labour market developments. Almost all main types of household loans increased at the annual level (Figure 7.13), with the sharpest increase seen in general-purpose cash loans. Housing loans also saw a rise in 2017, an end being put to a long-standing downward trend; the increase was mainly driven by the government's housing loans subsidy programme implemented in the second half of the year.

3 The total debt of non-financial corporations includes the debt of private and public enterprises (excluding public enterprises included in the general government sector).

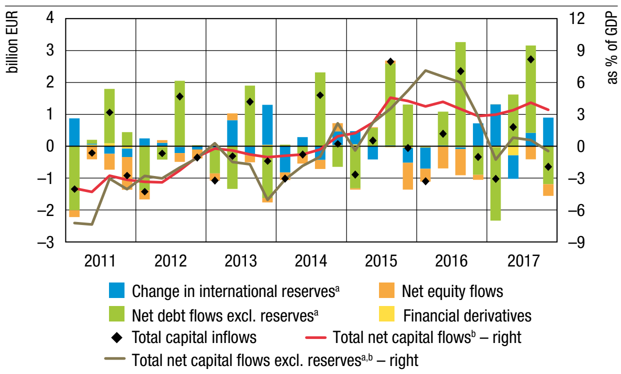
# 8 Foreign capital flows

The second half of 2017 saw the same total net capital outflow as in the same period in 2016 (EUR 2.1bn). However, if the change in gross international reserves and CNB liabilities is excluded, net foreign liabilities of domestic sectors decreased significantly less than in the second half of 2016 (by EUR 0.8bn compared with EUR 1.4bn), mainly due to slower deleveraging. The CNB's net foreign position improved considerably more than in the same period the year before owing to the accumulation of international reserves.

The net inflow of equity investments stood at EUR 0.8bn in the second half of 2017, with foreign equity assets of the domestic sectors moving up by EUR 0.2bn, and foreign liabilities increasing by EUR 0.9bn. The rise in assets primarily reflects equity investments of residents abroad, which were primarily affected by a change in ownership within a group engaged in financial activity. Furthermore, in contrast to 2016, profit was generated in the business of resident-owned foreign enterprises. The increase in liabilities seen in the second half of 2017 was mostly due to the reinvested earnings of non-resident-owned domestic business entities, which stood at a level similar to that recorded in the same period the year before and were again mainly recorded in the banking sector. The inflow of direct equity investments remained relatively modest and was primarily seen in the real estate and trade sectors.

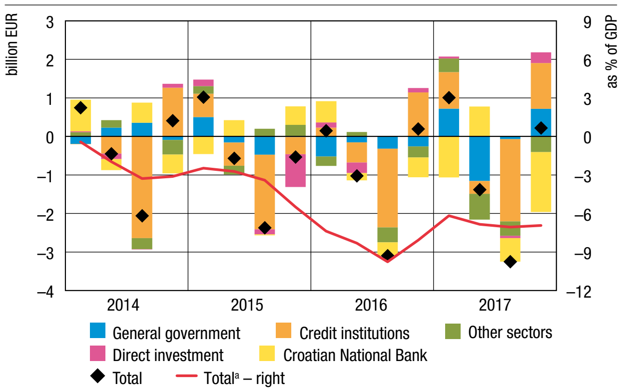
The net outflow of debt capital of EUR 1.5bn (excluding the change in international reserves and CNB liabilities) in the second half of 2017 was mostly accounted for by credit institutions, which improved their net foreign position primarily by reducing their liabilities, but also by increasing their assets. The net foreign position of other domestic sectors improved as well, although the dynamics of their deleveraging was slower than in the same period the year before. On the other hand,

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



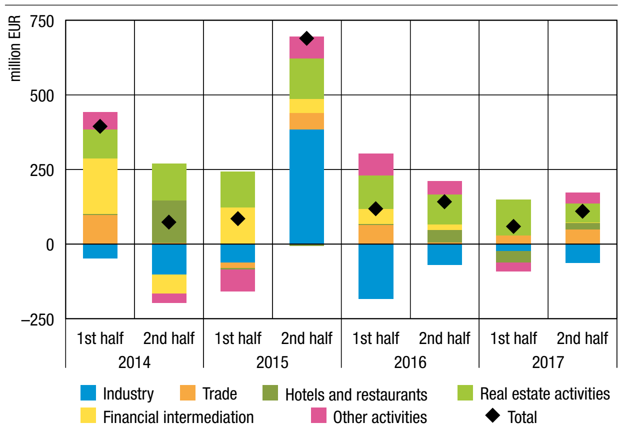

[a] Changes in gross international reserves net of CNB foreign liabilities.
[b] Sum of the previous four quarters.
Notes: Net flows mean the difference between changes in assets and liabilities. Equity flows comprise changes in foreign direct equity investments, reinvested earnings and portfolio equity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

Figure 8.3 Net external debt transactions by sectors



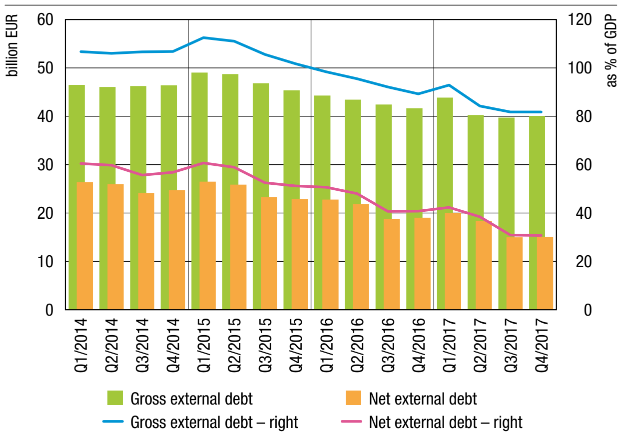

[a] Sum of the previous four quarters.
Notes: Transactions refer to the change in debt excl. cross-currency changes and other adjustments. Net external debt is calculated as the gross external debt stock net of foreign debt claims.
Source: CNB.

Figure 8.2 Foreign direct equity investment in Croatia by activities




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

Figure 8.4 Stock of gross and net external debt



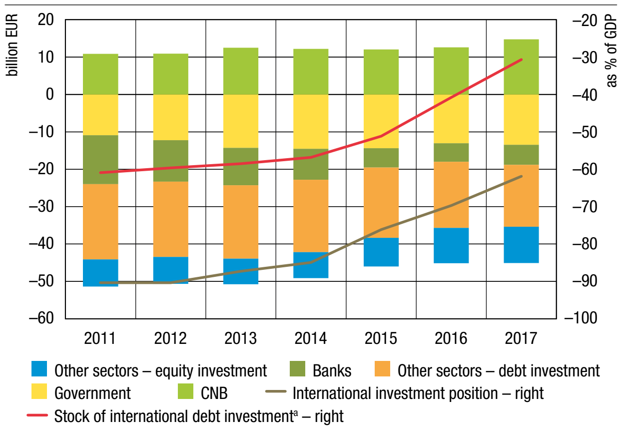

Note: Net external debt is calculated as the gross external debt stock net of foreign debt claims.
Source: CNB.

general government increased its foreign liabilities, mainly owing to the issue of an international bond for refinancing the liabilities of enterprises in the road sector to domestic credit institutions, and, to a lesser extent, to international creditors. The increase in assets within the framework of the TARGET2 system and a stronger growth in international reserves resulted in the improvement of the central bank's net foreign position.

Relative indicators of external debt continued to improve until the end of 2017, influenced by continued deleveraging, increased nominal GDP and favourable cross-currency changes as well as other adjustments. At end-2017, gross external debt was EUR 40.1bn (81.8% of GDP), which is a decrease of 2.5 percentage points from the end of the first half of 2017. At the same time, the decline in the relative indicator of net external debt was significantly more noticeable due to the sharp increase in foreign assets in the second half of the year. By the end of December 2017, net external debt fell to EUR 15.0bn or 30.7% of GDP, a decrease of 7.7 percentage points from the end of the first half of the year.

The net international investment position improved in line with the decrease in net external debt, standing at –61.9% of GDP at end-2017 compared with –69.1% of GDP at end-June. Although the reduced debt had a positive impact, improving the net international investment position, this was to an extent counteracted by the rise in net equity liabilities and the decrease in net financial derivative assets.

Figure 8.5 International investment position (net) by sectors




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

# 9 Monetary policy

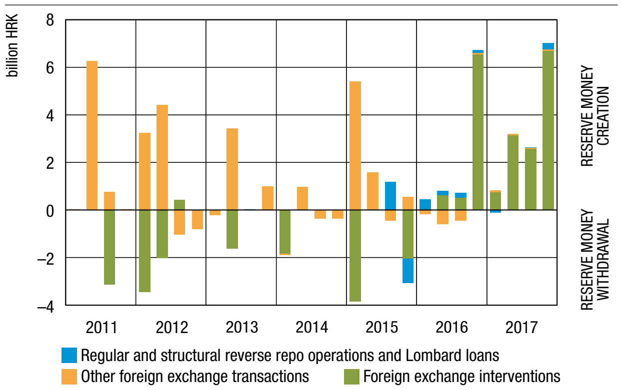
In the second half of 2017, the CNB continued to pursue an expansionary monetary policy, while keeping the stability of the exchange rate of the kuna against the euro. It alleviated the pressures driving the kuna upwards by foreign exchange interventions that resulted in a total of EUR 1,233.0m purchased from banks in the period from early July to late December. The central bank also purchased EUR 14.7m from the Ministry of Finance in the second half of 2017, while it did not carry out any transactions with the European Commission. At the level of the whole of 2017, the net purchase of foreign exchange reached EUR 1,787.6m, generating HRK 13.4bn (Figure 9.1) and thus additionally strengthening the already favourable kuna liquidity of the banking system.

In addition to foreign exchange purchase, the CNB continued to use kuna operations to support the high kuna liquidity of the monetary system. For the first time in a year, the CNB held a structural repo auction in November, placing HRK 0.5bn to banks, so that the total balance of funds placed via structural repo operations amounted to HRK 1.3bn at the end of the year. Compared with the preceding auction, the interest rate at the auction was cut from 1.4% to 1.2%, while the maturity of funds placed was extended from four to five years. The new Decision on monetary policy implementation of the CNB, adopted in September, introduced a system of collateral management by means of a pool of eligible assets for all credit operations of the CNB, thereby providing incentive to the continued implementation of structural repo operations. The introduced pool of eligible assets includes all government debt securities issued in the domestic capital market regardless of maturity. This has enabled credit institutions to raise long-term kuna loans from the CNB on the basis of a wide range of collateral, including short-term securities. The CNB continued to conduct regular weekly reverse repo auctions at a fixed repo rate of 0.3%. However, the interest of banks in short-term funds placed via weekly repo operations remained subdued due to a large surplus of kuna liquidity in the system.

The monetary policy operations described above led to a surge in surplus kuna liquidity, i.e. free reserves in banks' accounts (Figure 9.2). The average surplus kuna liquidity doubled in size from 2016, reaching HRK 19.1bn in December 2017, a record high average monthly level at the time. Owing to favourable liquidity conditions, the interest rate on overnight interbank loans dropped in 2017 to an average of 0.08% (from 0.41% in 2016), while transactions in the interbank market were rare and even completely absent in some months.

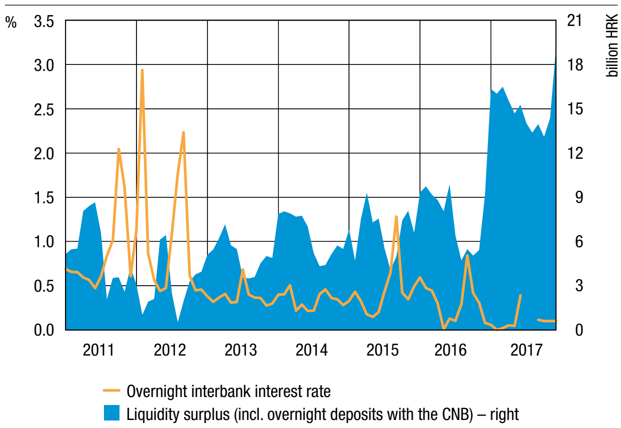
The nominal exchange rate of the kuna against the euro weakened by 1.4% in the second half of the year, mostly as a result of the usual depreciation following the end of the main tourist season. At an annual level, the kuna strengthened by 0.6% against the euro, the exchange rate having gone down from EUR/HRK 7.56 at end-2016 to EUR/HRK 7.51 at end-2017 (Figure 9.3). Appreciation pressures on the kuna were

Figure 9.1 Flows of reserve money (M0) creation



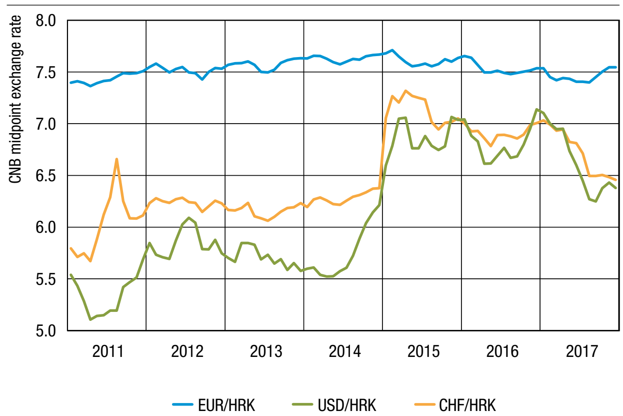

Note: Other foreign exchange transactions include the purchase of foreign exchange from and the sale of foreign exchange to the MoF and the EC and foreign currency swaps with banks, where the positive values refer to the purchase of foreign exchange by the CNB.
Source: CNB.

Figure 9.2 Bank liquidity and overnight interbank interest rate



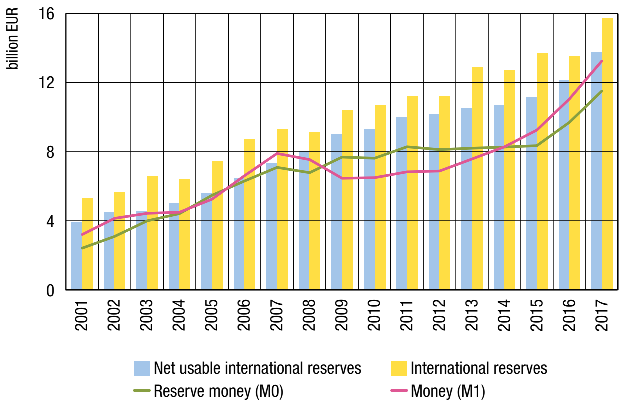

Source: CNB.

Figure 9.3 Nominal exchange rates of the kuna against selected currencies



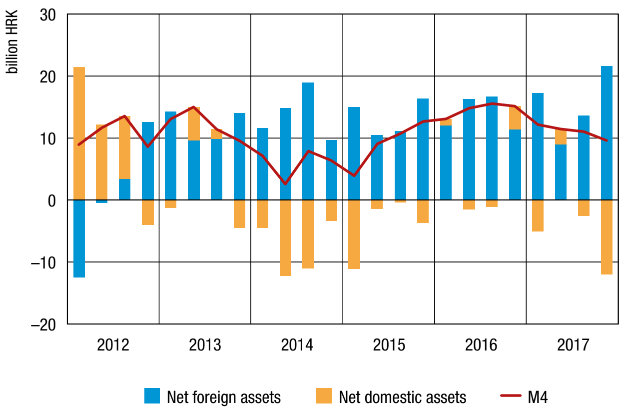

Source: CNB.

Figure 9.4 International reserves of the CNB and monetary aggregates




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

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




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

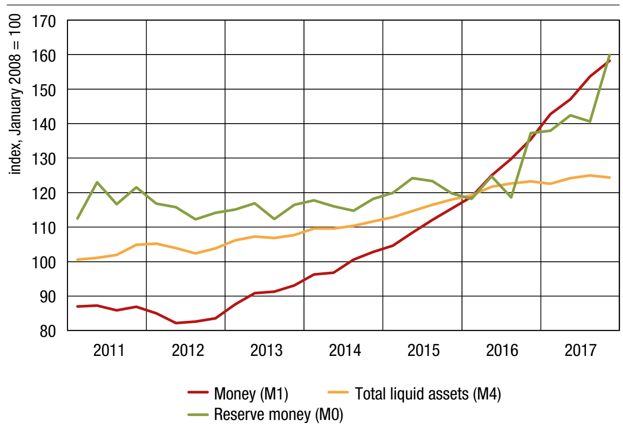
linked with favourable macroeconomic developments such as stronger exports of goods, record tourist season results, increased inflow of EU funds and reduced fiscal risks. The kuna appreciated considerably against the US dollar and the Swiss franc in 2017 as a result of the euro strengthening against these currencies in global financial markets.

Gross international reserves went up by EUR 2.2bn or 16.2% in 2017, reaching EUR 15.7bn at the year's end (Figure 9.4). The rise in reserves was primarily driven by the purchase of foreign currency from banks and the increase in agreed repo transactions from the end of 2016. Net international reserves grew by EUR 1.6bn or 12.9% in 2017, totalling EUR 13.7bn at the end of the year. Gross and net international reserves remained at higher levels than money (M1) and reserve money (M0).

As regards monetary aggregates, the annual rise in total liquid assets (M4) slowed down in the second half of 2017 in both nominal and real terms (Figures 9.5 and 9.6). The slowdown in the growth of M4 is a result of the fall in net domestic assets of the monetary system which primarily reflects the decrease of the government's debt to banks. On the other hand, net foreign assets of the monetary system rose sharply (Figure 9.5), with the central bank's net foreign assets growing faster than the net foreign assets of credit institutions, under the influence of the aforementioned purchase of foreign exchange from credit institutions.

The strong upward trend in real money (M1) continued in the second half of 2017 (Figure 9.6). The increase in money is attributable to the recovery of economic activity and the

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




Source: CNB.

propensity of domestic sectors to keep more liquid forms of financial assets in the conditions of falling interest rates on savings and time deposits. The trend of decreasing foreign currency deposits of households continued accordingly. At the same time, the real value of reserve money (M0) increased noticeably, mainly as a result of the rise in kuna liquidity brought about by CNB foreign exchange transactions.

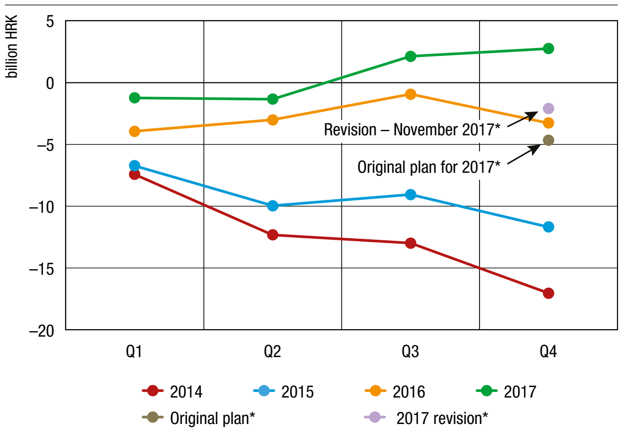
# 10 Public finance

Strong fiscal adjustment continued in the second half of 2017, with improvement intensifying considerably from the first half of the year. In the period from July to December 2017, the general government surplus reached as much as HRK 4.1bn under ESA 2010 methodology, an increase in general government balance of HRK 4.0bn from the same period the year before. Such developments were primarily a result of a noticeable pick-up in the increase of tax revenues, while expenditures remained at a level similar to that recorded in the second half of 2016. As developments in public finance in 2017 were more favourable than expected, the government adopted amendments to the state budget and financial plans of budgetary users in November in order to cut the planned deficit of the general government budget to –0.6% of GDP. The final balance was even more favourable than expected in November, resulting in a general government surplus of 0.8% of GDP observed at the level of the whole of 2017.

The total change of the nominal balance in 2017 was favourably influenced by structural factors, partly due to reduced interest expenses and, to a lesser extent, by favourable cyclical developments. The strong fiscal consolidation initiated in 2015 thus continued.

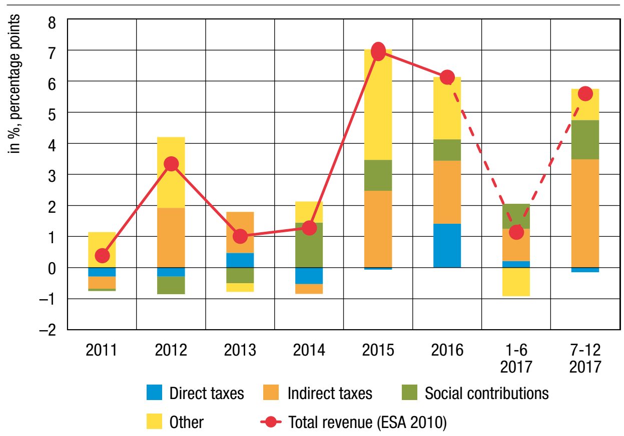
The annual increase in total revenues picked up from the 1.1% recorded in the first half of the year to the 5.6% of the second half of 2017. Such developments primarily reflect a significant acceleration in the rise in tax revenues, notably in indirect taxes. The marked increase in revenues from indirect taxes may be attributed to growing personal consumption and favourable developments in tourism as well as tax changes. Revenues from direct taxes decreased slightly on an annual level, which may primarily be accounted for by the amendments to the Income Tax Act that entered into force in early 2017.

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



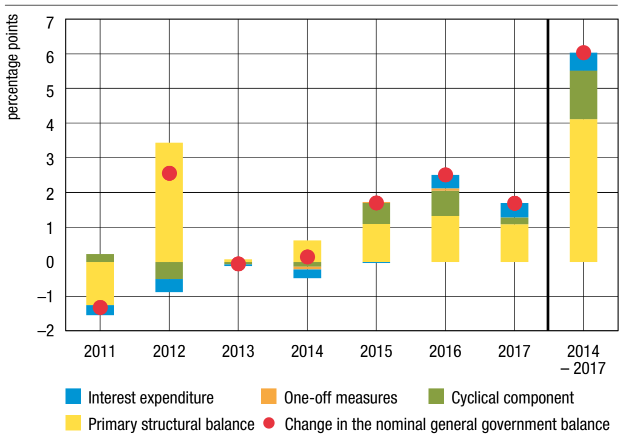

Sources: Eurostat and MoF (CNB calculations).

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



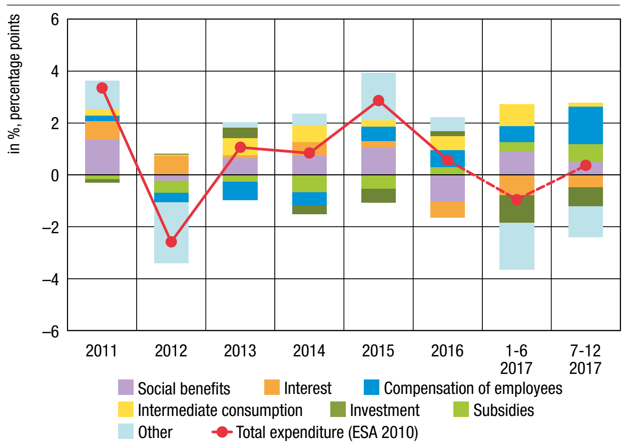

Source: Eurostat (CNB calculations).

Figure 10.2 Decomposition of the change in the nominal general government balance




Source: CNB.

Figure 10.4 Consolidated general government expenditure
ESA 2010, year-on-year rate of change and contributions



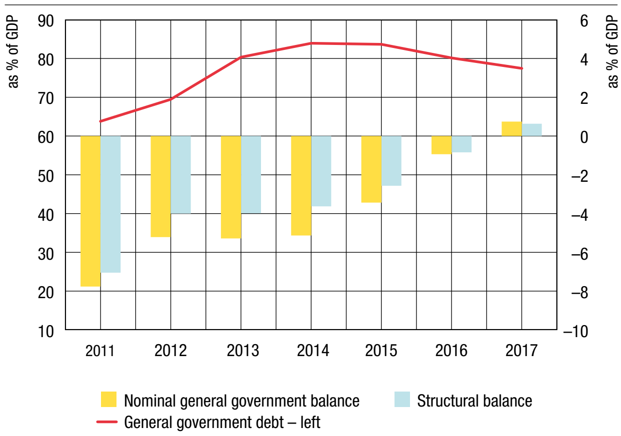

Source: Eurostat (CNB calculations).

In addition to tax revenues, revenues from social contributions grew considerably as well as a result of favourable developments in the labour market. Other revenue categories also witnessed favourable trends in general.

At the same time, general government expenditures saw only a slight increase on an annual level (0.4%) after falling by 1.0% in the first six months. The rise in total expenditures was, for the most part, driven by the increase in expenses on employees, which was primarily associated with the gradual increase in the wages of civil servants and government employees of 6%. Expenditures for subsidies moved up as well, as did expenditures for social benefits and expenditures on intermediate consumption. On the other hand, expenditures for investments decreased substantially, which may probably be attributed to the slow use of EU funds within the new programme period lasting from 2014 to 2020, after 2016 saw the end of the use of funds from the old financial perspective. Furthermore, other capital transfers also experienced a marked decline. This may be accounted for by lower expenditures of the State Agency for Deposit Insurance and Bank Rehabilitation (DAB), which had been substantial in late 2016. Due to the reduced need for borrowing and the more favourable financing conditions, interest expenses fell considerably as well.

Consolidated general government debt stood at HRK 283.3bn (77.5% of GDP) at the end of 2017, having increased by around HRK 3.1bn from the end of June 2017, although at the same time a considerable surplus was achieved in the general government balance. Because of the high share of debt in foreign currency, the rise in general government liabilities in the second half of 2017 was affected by the depreciation of the exchange rate of the kuna against the euro. Furthermore, financial assets of the general government grew, partly as a result of increasing deposits. In late 2017, the government refinanced the significant debt of public enterprises in the road sector under considerably improved conditions, which will have a favourable effect on future interest expenses.

Figure 10.5 General government deficit and debt




Sources: Eurostat and CNB.

# 11 International reserves management

In 2017, international reserves of the CNB saw the most robust growth in relative terms in the last eleven years, their absolute annual increase amounting to EUR 2.2bn and reaching a historical high. The strong growth in international reserves was mostly due to a substantial purchase of foreign currency from banks which ensured the stability of the exchange rate for the domestic currency. Strategic and tactical decisions on international reserves management in previous years, as well as in 2017, generated a satisfactory level of income from the investment of international reserves in the environment of a prolonged period of negative euro interest rates. At the same time, the key mandate in international reserves management – safety and liquidity – was successfully fulfilled.

The Council of the CNB formulates the strategy and policy for international reserves management and specifies the guidelines, criteria and limits on risk exposures. In accordance with the objectives set by the Council of the CNB, the International Reserves Commission develops international reserves investment strategies and adopts tactical decisions taking into account market conditions. In this context, it maintains the reserves at a high liquidity level and appropriate risk exposure and, within the given restrictions, attempts to ensure favourable rates of return on its investments.

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

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

## 11.1 Structure of and developments in international reserves

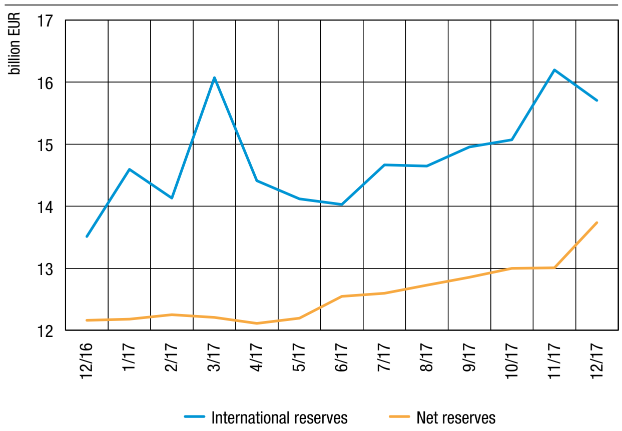
International reserves of the CNB stood at EUR 15,705.9m as at 31 December 2017, up by EUR 2,192.1m or 16.2% from the end of 2016 when they stood at EUR 13,513.8m. During the same period, net reserves, excluding the funds of the Ministry of Finance and the European Commission, the funds with the IMF, special drawing rights and investments in repo operations, increased by EUR 1,571.0m or 12.9%, from EUR 12,164.2m to EUR 13,735.2m.

The factors behind the increase in international reserves in 2017 included strong purchases of foreign currency from banks, a higher level of agreed repo transactions and earnings from reserves management. Net purchases of foreign currency by the CNB amounted to EUR 1,787.6m in 2017, thus creating HRK 13.4bn. The bulk of foreign exchange transactions was accounted for by foreign currency purchases from banks (EUR 1,757.0m), while the remaining and smaller share was accounted for by net purchases from the Ministry of Finance (EUR 30.6m).

International reserves managed by the CNB independently and in line with its own guidelines comprise the held-for-trading portfolios, the investment portfolios, the funds entrusted to an external manager and foreign cash in the vault. Securities of governments and government institutions, deposits with central banks and reverse repo agreements accounted for the largest share in the structure of international reserves investment at the end of 2017.

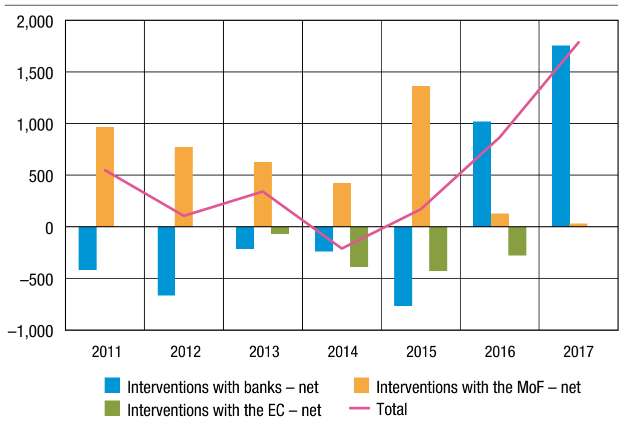
The CNB invests funds with financial institutions and in countries with an investment grade rating; the assessment of creditworthiness is based on ratings issued by internationally recognised rating agencies (Moody's, Standard & Poor's and FitchRatings) and on an internally-developed creditworthiness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

Figure 11.1 Monthly changes in international and net CNB reserves
end of period



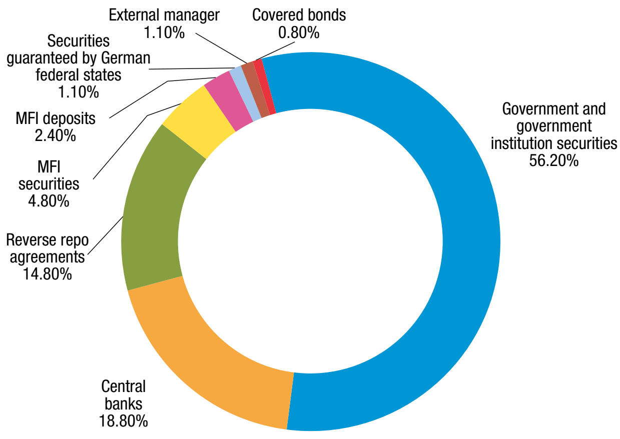

Source: CNB.

Figure 11.2 Foreign exchange interventions of the CNB with the banks, the EC and the MoF
in net amounts, from 2011 to the end of 2017, in million EUR



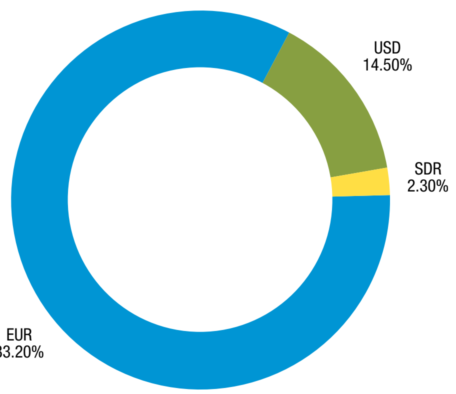

Note: Positive values refer to the purchase and negative to the sale of foreign exchange by the CNB.
Source: CNB.

Figure 11.3 Structure of international reserves investment
as at 31 December 2017




Source: CNB.

Figure 11.4 Currency structure of total international reserves
as at 31 December 2017




Source: CNB.

In its management of international reserves, the CNB is governed primarily by the principle of safety and applies restrictions on investments in individual financial institutions and countries and individual instruments, which serves to diversify credit risk. At the end of 2017, approximately 60% of the CNB international reserves were invested in countries, banks and institutions within the two highest credit rating categories or invested in the BIS and the IMF or in foreign cash in the CNB vault.

In 2017, the currency structure of international reserves changed in favour of euro. The share of the euro stood at 83.2% at the end of 2017, amounting to 78.0% at the end of 2016. Over the same period, the share of the American dollar decreased from 19.1% to 14.5%. The greater share of the euro was due to a change in the currency structure of net reserves and a larger share of euro in repo transactions.

The share of SDRs also went down from 2.9% to 2.3% of international reserves, primarily due to the fall in the value of SDRs against the euro and the rise in the level of international reserves.

## 11.2 Financial markets and international reserves management results in 2017

In 2017, financial markets saw a gradual relaxation of the expansionary monetary policies of the ECB and the Fed and the maintenance of yields below the historical average despite their growth in the European and, especially, the US market.

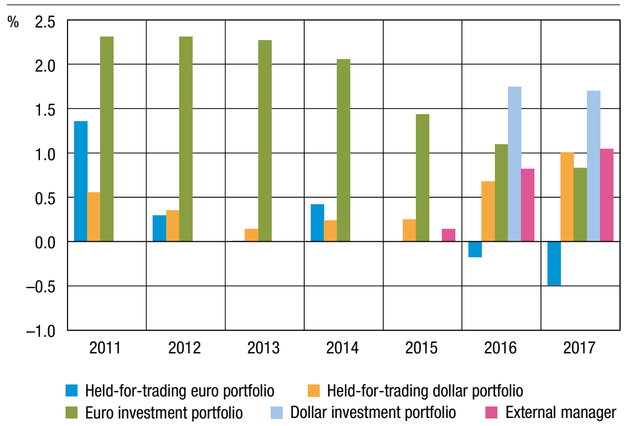
The ECB began curtailing the monthly amounts of purchases within its programme of quantitative easing, keeping its interest rates unchanged. The expectations of gradual easing of expansionary measures, stronger economic growth in the euro area and positive outcome of political events resulted in a mild growth in yields in the European market. This notwithstanding, the German yield curve was in negative territory for all maturities up to six years late in the year, with more than one third of government securities of all euro area members continuing to be marked by a negative yield.

In line with expectations, the Fed raised its benchmark interest rate to a range between 1.25% and 1.50% on three occasions, and concurrently began the process of reducing its balance sheet. The American yield curve flattened in 2017 since yields on its shorter end grew under the effect of the increase of the Fed's interest rate, while they dropped on its longer end because of still subdued inflationary expectations and increased demand for American securities due to yields that were relatively higher than those on European and Japanese securities.

In these conditions and despite the fact that the unfavourable environment of a prolonged period of negative euro interest rates continued, the CNB ensured an adequate income from the investment of international reserves in 2017 as well. This was largely due to strategic and tactical decisions on international reserves management in the 2011 – 2017 period and ongoing adjustments of investment guidelines.

The entire euro portfolio of net reserves generated a rate of return of 0.22% in 2017, while the rate of return on the entire dollar portfolio stood at 1.37%. If held-for-trading and investment portfolios are observed separately, the euro held-for-trading portfolio generated a rate of return of –0.49%, while the dollar held-for-trading portfolio generated a rate of return of 1.01% in 2017. In 2017, the euro-denominated investment portfolio yielded a return of 0.83%, while the

Figure 11.5 Annual rates of return on the CNB foreign currency portfolios from 2011 to 2017




Source: CNB.

dollar-denominated investment portfolio yielded 1.70%.

The held-for-trading portfolios, which account for approximately 50% of net reserves, have short average maturities and are used as a source of liquidity. Investment portfolios, which account for approximately 46% of net reserves have a longer average maturity and serve as a source of more stable long-term income.

In 2017, the rate of return on the US dollar funds entrusted for management to an international financial institution was 1.05%. The funds entrusted to an external manager enabled additional diversification and knowledge-exchange in the field of investment management.

Investments of net international reserves generated a total income of EUR 53.2m or HRK 396.2m in 2017.

# 12 Business operations of credit institutions[4]

The several-year moderate downward trend in the number of credit institutions continued in 2017. Since voluntary winding-up proceedings were initiated in one bank in December, there were 30 credit institutions operating at the end of the year – 25 banks (one savings bank included) and five housing savings banks. In addition, there was one branch of an EU credit institution, while almost 150 institutions from the EU (and the EEA) notified the CNB of the direct provision of mutually recognised services in the territory of the Republic of Croatia.

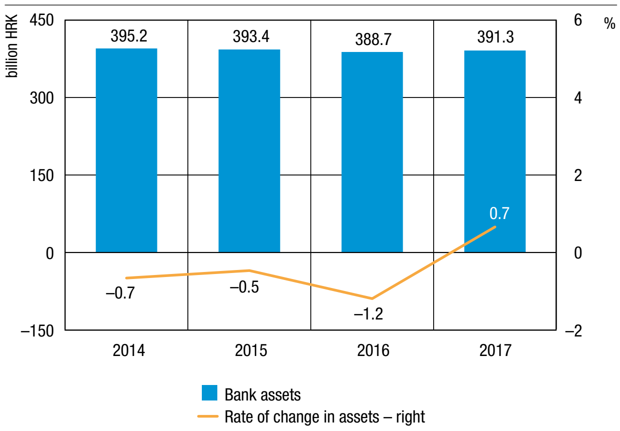
## 12.1 Banks

The assets of banks saw a slight increase (0.7%, Figure 12.1) in 2017, reversing a five-year downward trend. The most significant contribution came from the recapitalisation of OTP banka Hrvatska d.d. enabling the acquisition of Splitska banka d.d., which resulted in the strengthened capital of banks and investments in subsidiaries. This exceeded the effects that the losses associated with difficulties in the operation of a systemically important enterprise and its affiliated entities (hereinafter referred to as 'the Agrokor Group'), exchange rate developments, the sale of irrecoverable claims and the exit of one bank from the system had on the assets of banks. In the composition of bank assets, the share of loans granted dropped to the relatively low 57.9% (Figure 12.8) under the influence of the central government's strong deleveraging with respect to domestic banks and a fall in the lending of foreign parent banks. On the other hand, surplus liquidity was high, as reflected in the unusually large amounts deposited in the banks' giro accounts with the CNB and the high liquidity cover ratio (LCR)[5]. The ratio grew in the second half of the year under the favourable influence of the tourist season and a rise in highly liquid forms of assets, reaching 185.9% at the year's end (compared with the regulatory minimum of 80%, Figure 12.4).

Lending to non-financial corporations and households increased noticeably (transaction-based[6]) in 2017. Loans to corporations providing accommodation and food services saw the sharpest rise among loans to non-financial corporations, ranking third in terms of the amount of loans granted to the sector (following manufacturing and trade), while investment loans recovered considerably. As regards loans to households, general-purpose cash loans increased the most, in line with long-standing trends. A moderate increase in the amount of housing loans granted put an end to the several-year downward trend, which is certainly largely attributable to the housing loans subsidies introduced in July 2017. Only the kuna component recorded a rise among both general-purpose cash loans and housing loans to households, so that kuna loans accounted for almost a half of the total amount of loans granted to the sector. Loans granted at fixed interested rates continued to grow in importance, spurred by, among other things, the CNB's recommendations related to risks associated with a possible change in interest rates.

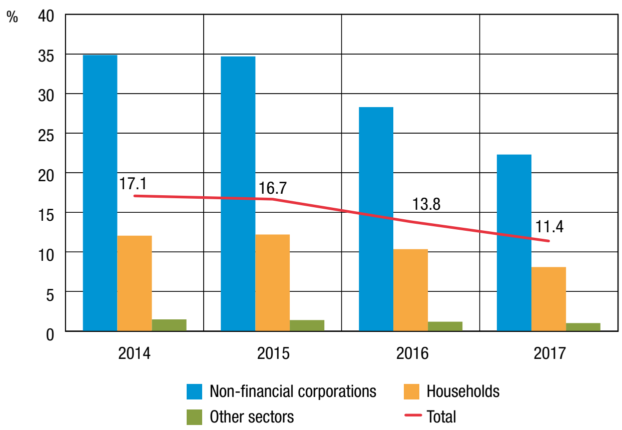
The quality of loans improved – the share of partly recoverable and fully irrecoverable loans (hereinafter referred to as 'non-performing loans') dropped from 13.8% to 11.4% (Figure 12.2), mainly as a result of the sale of claims. The financial difficulties of the Agrokor Group and the related increased

Figure 12.1 Bank assets




Source: CNB.

Figure 12.2 Share of bank partly recoverable and fully irrecoverable loans




Source: CNB.

4 Data on the business operations of credit institutions for 2017 are preliminary, unaudited data. This chapter shows breakdowns and data that are based on the same methodology applied in the compilation of the Banks Bulletin. Therefore, Notes on methodology from the Banks Bulletin No. 30 (http://www.hnb.hr/en/analyses-and-publications/regular-publications/banks-bulletin) may be used to interpret data.

5 LCR measures the ability of a bank to overcome a 30-day stress period from the aspect of liquidity.

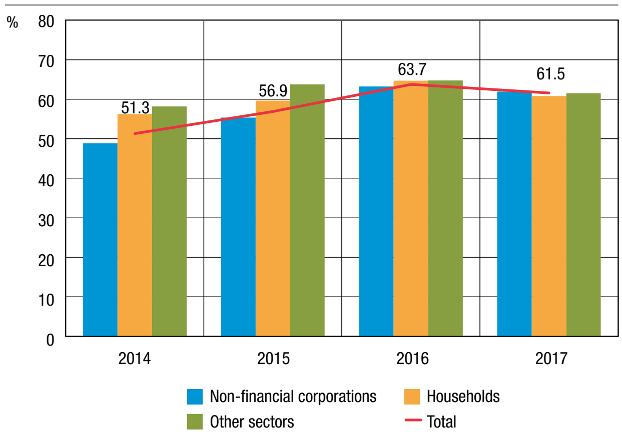
6 Rates of change calculated on the basis of transaction data exclude the impact of exchange rate adjustments and write-offs on loan movements, in which write-offs include partial write-off of the principal in the process of conversion from loans in Swiss francs to euro loans. The effect of the sale of claims is excluded in the amount of write-offs debited to value adjustments.

recognition of losses marred the effect of positive changes in the economic environment and slowed down the recovery of loan quality. In the non-financial corporations sector, the share of non-performing loans dropped by as much as six percentage points, but still remained relatively high (22.3%). Despite large amounts of sold claims, loans in construction still constituted the largest share of non-performing loans in the sector of non-financial corporations (Figure 12.16), with more than half of the loans granted to that sector categorised as non-performing. New credit activity improved the quality of loans granted to corporations providing accommodation and food services. The share of non-performing loans in that activity amounted to 13.0%, which was, besides the share of non-performing loans in agriculture, the lowest indicator recorded among the leading activities in the loan distribution to the sector. The improvement of the quality of household loans was mainly driven by the developments in housing loans, where the share of non-performing loans fell to 6.2%.

The upward trend registered in identified losses, i.e. the coverage of non-performing loans by value adjustments, observed since 2011, ended. The coverage fell to 61.5% (Figure 12.3) as a result of the sale of well covered claims and the inflow of new non-performing loans. Sale of claims continued to trend sharply upwards in 2017, with three quarters of their amount accounted for by non-financial corporations. The past few years witnessed a surge in the coverage of non-performing loans in the sector on account of the rules on the gradual increase in value adjustments for long-term delinquent placements that motivated banks to pursue a more active approach in resolving non-performing loans, including their sale in the secondary market[7].

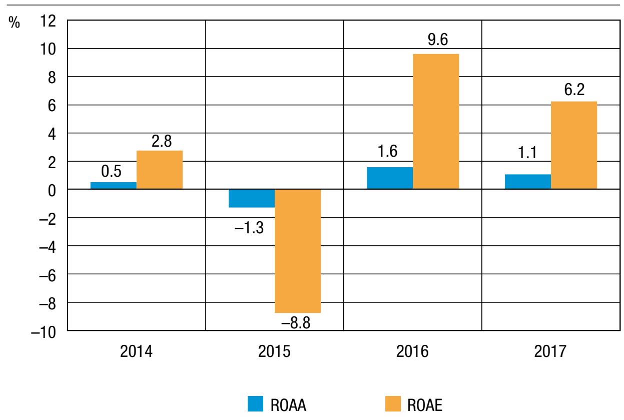
As regards the banks' sources of financing, the trend of substituting domestic funds for foreign funds continued, while sight deposits[8] and kuna deposits continued to grow in

Figure 12.3 Coverage of partly recoverable and fully irrecoverable loans by value adjustments



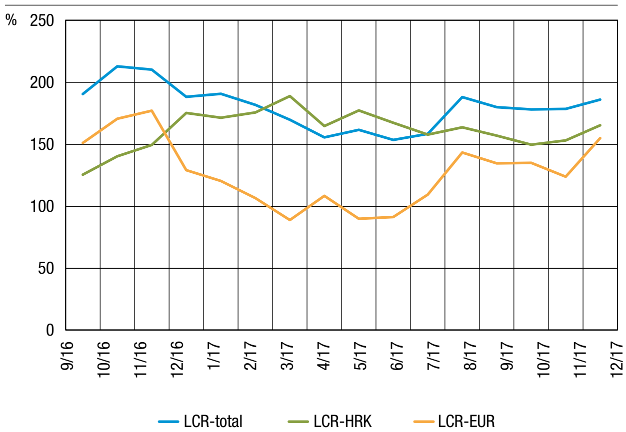

Source: CNB.

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



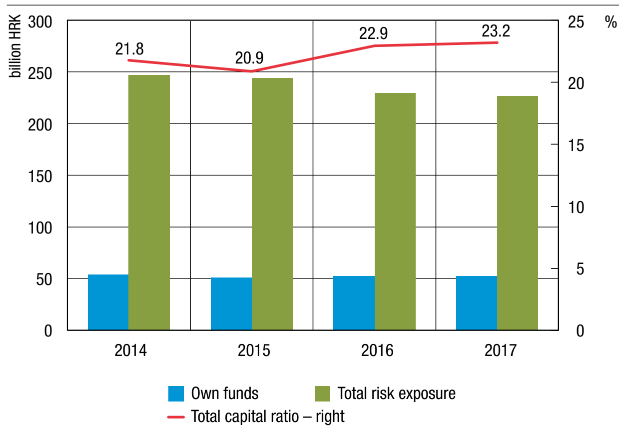

Source: CNB.

Figure 12.4 Liquidity coverage ratio (LCR)




Source: CNB.

Figure 12.6 Bank total capital ratio




Source: CNB.

7 Sale of placements is regulated by the Decision on the sale of placements by credit institutions (OG 127/2014).

8 Transaction account deposits and savings deposits.

significance. The rise in domestic sources of financing was greatly due to the effects of the good tourist season, i.e. the developments seen in the third quarter of the year when deposits of non-financial corporations engaged in accommodation and food service activities and trade increased substantially, along with the deposits of households from coastal region counties and the City of Zagreb. As for the structure of deposits, which increased slightly, sight deposits continued to increase in importance. They accounted for almost one half of total deposits, with the dominant effect of their growth recorded in the household sector. Reduced attractiveness of time deposits in banks, most likely due to low interest rates and the taxation of interest payments on savings, contributed to the trend, causing households to turn to other forms of investment. The sources from majority foreign owners went down by a quarter, further reducing their modest contribution to 2.9% of total sources.

Bank profits and profitability indicators fell strongly, by one third, on account of increasing costs arising from value adjustments and provisions associated with the Agrokor Group. ROAA and ROAE stood at 1.1% and 6.2% respectively (Figure 12.5). The disappearance of the base period effects contributed to the decline in earnings in 2017, particularly the effects stemming from the sale of equity holdings in 2016 (Visa[9], etc.). Excluding the Visa effect from 2016, the operating profitability of banks reached a record level in 2017. Its increase from 2016 was primarily a result of stronger income from commissions and fees, notably those linked to credit cards, particularly the dynamic currency conversion services (DCC[10]). The effects of income from dividends of subsidiaries were positive as well, while cost efficiency had a negative effect, having weakened somewhat as a result of growing employee expenses. Interest income continued to decline, with lower interest income from the Agrokor Group contributing to the trend. However, the net interest margin recorded a slight rise under the influence of significant savings on interest expenses, particularly in the household sector. Nine banks operated with losses, the same number as in 2016. In addition, three banks were operationally non-profitable, meaning that they were unable to cover the general operating expenses with their operating income.

Total capital ratio grew, reaching a record high (23.2%, Figure 12.6). The increase from 2016 was primarily brought about by reduced credit risk exposure, mainly due to the increasing significance of the banks' giro accounts with the central bank, for such exposures carry a risk weight of 0% and accordingly do not require capital allocation. In the unlikely unfavourable scenario of complete irrecoverability of non-performing loans, the total capital ratio of banks would amount to 18.6%, indicating a healthy capital base that can withstand additional losses without significant difficulties.

## 12.2 Housing savings banks

The assets of housing savings banks grew by 1.4% in 2017, with the deposits with financial institutions rising at the highest rate, followed by housing loans to households. Their quality deteriorated somewhat, but remained very good nevertheless. As in banks, balance sheets of housing savings banks recorded a stronger kuna component. All housing savings banks operated with a profit (from continuing operations, before tax), which increased by 4.0% in the observed year, primarily as a result of lower interest expenses. ROAA and ROAE remained virtually the same, standing at 0.7% and 5.9% respectively. Expenses on provisions had an unfavourable effect on the performance of housing savings banks, particularly provisions for restructuring costs and liabilities to employees. The total capital ratio rose noticeably, to 28.5%, as a result of the decrease in risk exposures and the increase in own funds owing to the strengthening of retained earnings.

9 In the first half of 2016, banks sold their holdings in Visa Europe Ltd to its parent company from the USA, generating an estimated income of HRK 650m.

10 Dynamic currency conversion service enables the users of cards issued outside of Croatia to opt for card debiting in the card holder's currency when withdrawing cash at an ATM or making payments at an EFTPOS terminal. In practice, this means that, if a user selects the DCC service, a domestic bank performs currency conversion, i.e. the conversion of the kuna into the card holder's currency.

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

| | Dec. 2015 | | Dec. 2016 | | Dec. 2017 | |
|---|---|---|---|---|---|---|
| | Number of banks | Share | Number of banks | Share | Number of banks | Share |
| Domestic ownership | 12 | 9.7 | 11 | 10.3 | 10 | 9.9 |
| Domestic private ownership | 10 | 4.4 | 8 | 4.0 | 7 | 3.7 |
| Domestic state ownership | 2 | 5.3 | 3 | 6.3 | 3 | 6.1 |
| Foreign ownership | 16 | 90.3 | 15 | 89.7 | 15 | 90.1 |
| **Total** | **28** | **100.0** | **26** | **100.0** | **25** | **100.0** |

Source: CNB.

Table 12.2 Structure of bank assets
end of period, in million HRK and %

| | Dec. 2015 | | Dec. 2016 | | | Dec. 2017 | | |
|---|---|---|---|---|---|---|---|---|
| | Amount | Share | Amount | Share | Change | Amount | Share | Change |
| Money assets and deposits with the CNB | 49,425.3 | 12.6 | 56,355.2 | 14.5 | 14.0 | 70,736.0 | 18.1 | 25.5 |
| Money assets | 7,289.7 | 1.9 | 7,706.9 | 2.0 | 5.7 | 8,440.2 | 2.2 | 9.5 |
| Deposits with the CNB | 42,135.6 | 10.7 | 48,648.2 | 12.5 | 15.5 | 62,295.8 | 15.9 | 28.1 |
| Deposits with financial institutions | 27,727.6 | 7.0 | 21,162.5 | 5.4 | –23.7 | 19,249.6 | 4.9 | –9.0 |
| MoF treasury bills and CNB bills | 12,258.7 | 3.1 | 8,783.9 | 2.3 | –28.3 | 8,607.1 | 2.2 | –2.0 |
| Securities | 37,901.3 | 9.6 | 47,158.8 | 12.1 | 24.4 | 44,365.0 | 11.3 | –5.9 |
| Derivative financial assets | 2,431.1 | 0.6 | 2,665.8 | 0.7 | 9.7 | 1,075.1 | 0.3 | –59.7 |
| Loans | 246,949.2 | 62.8 | 235,954.5 | 60.7 | –4.5 | 226,693.6 | 57.9 | –3.9 |
| Loans to financial institutions | 5,002.3 | 1.3 | 5,076.1 | 1.3 | 1.5 | 3,614.1 | 0.9 | –28.8 |
| Loans to other clients | 241,946.9 | 61.5 | 230,878.5 | 59.4 | –4.6 | 223,079.4 | 57.0 | –3.4 |
| Investments in subsidiaries, associates and joint ventures | 4,185.3 | 1.1 | 4,365.7 | 1.1 | 4.3 | 8,540.5 | 2.2 | 95.6 |
| Foreclosed and repossessed assets | 1,550.0 | 0.4 | 1,265.5 | 0.3 | –18.4 | 1,096.1 | 0.3 | –13.4 |
| Tangible assets (net of depreciation) | 4,456.1 | 1.1 | 4,256.2 | 1.1 | –4.5 | 4,214.1 | 1.1 | –1.0 |
| Interest, fees and other assets | 6,509.5 | 1.7 | 6,753.8 | 1.7 | 3.8 | 6,727.3 | 1.7 | –0.4 |
| **Total assets** | **393,394.3** | **100.0** | **388,721.9** | **100.0** | **–1.2** | **391,304.3** | **100.0** | **0.7** |

Source: CNB.

Table 12.3 Structure of bank liabilities and capital
end of period, in million HRK and %

| | Dec. 2015 | | Dec. 2016 | | | Dec. 2017 | | |
|---|---|---|---|---|---|---|---|---|
| | Amount | Share | Amount | Share | Change | Amount | Share | Change |
| Loans from financial institutions | 622.4 | 0.2 | 1,506.9 | 0.4 | 142.1 | 1,638.3 | 0.4 | 8.7 |
| Short-term loans | 611.2 | 0.2 | 503.5 | 0.1 | –17.6 | 363.7 | 0.1 | –27.8 |
| Long-term loans | 11.2 | 0.0 | 1,003.4 | 0.3 | 8,844.7 | 1,274.6 | 0.3 | 27.0 |
| Deposits | 294,214.6 | 74.8 | 295,302.8 | 76.0 | 0.4 | 297,747.4 | 76.1 | 0.8 |
| Transaction account deposits | 76,631.9 | 19.5 | 101,391.0 | 26.1 | 32.3 | 131,478.5 | 33.6 | 29.7 |
| Savings deposits | 21,052.5 | 5.4 | 19,954.7 | 5.1 | –5.2 | 14,917.0 | 3.8 | –25.2 |
| Time deposits | 196,530.2 | 50.0 | 173,957.2 | 44.8 | –11.5 | 151,351.9 | 38.7 | –13.0 |
| Other loans | 23,658.6 | 6.0 | 17,554.7 | 4.5 | –25.8 | 14,285.3 | 3.7 | –18.6 |
| Short-term loans | 2,109.5 | 0.5 | 1,674.3 | 0.4 | –20.6 | 1,097.1 | 0.3 | –34.5 |
| Long-term loans | 21,549.2 | 5.5 | 15,880.4 | 4.1 | –26.3 | 13,188.2 | 3.4 | –17.0 |
| Derivative financial liabilities and other financial liabilities held for trading | 2,339.2 | 0.6 | 2,269.8 | 0.6 | –3.0 | 932.8 | 0.2 | –58.9 |
| Debt securities issued | 300.8 | 0.1 | 353.6 | 0.1 | 17.6 | 429.8 | 0.1 | 21.5 |
| Short-term debt securities issued | 0.8 | 0.0 | 0.0 | 0.0 | –100.0 | 0.0 | 0.0 | 0.0 |
| Long-term debt securities issued | 300.0 | 0.1 | 353.6 | 0.1 | 17.9 | 429.8 | 0.1 | 21.5 |
| Subordinated instruments issued | 2,724.0 | 0.7 | 2,659.3 | 0.7 | –2.4 | 2,370.2 | 0.6 | –10.9 |
| Hybrid instruments issued | 2,198.4 | 0.6 | 2,190.9 | 0.6 | –0.3 | 2,101.9 | 0.5 | –4.1 |
| Interest, fees and other liabilities | 17,361.6 | 4.4 | 12,031.9 | 3.1 | –30.7 | 13,437.2 | 3.4 | 11.7 |
| **Total liabilities** | **343,419.6** | **87.3** | **333,870.1** | **85.9** | **–2.8** | **332,942.8** | **85.1** | **–0.3** |
| Share capital | 34,275.4 | 8.7 | 33,858.8 | 8.7 | –1.2 | 34,304.9 | 8.8 | 1.3 |
| Current year profit (loss) | –4,615.8 | –1.2 | 5,031.3 | 1.3 | – | 3,532.7 | 0.9 | –29.8 |
| Retained earnings (loss) | 15,579.3 | 4.0 | 11,228.1 | 2.9 | –27.9 | 15,472.0 | 4.0 | 37.8 |
| Legal reserves | 1,035.2 | 0.3 | 1,033.1 | 0.3 | –0.2 | 921.6 | 0.2 | –10.8 |
| Reserves provided for by the articles of association and other capital reserves | 2,892.5 | 0.7 | 2,842.7 | 0.7 | –1.7 | 2,970.0 | 0.8 | 4.5 |
| Revaluation reserves | 1,115.1 | 0.3 | 863.8 | 0.2 | –22.5 | 1,171.6 | 0.3 | 35.6 |
| Previous year profit (loss) | –307.0 | –0.1 | –5.9 | 0.0 | –98.1 | –11.4 | 0.0 | 91.7 |
| **Total capital** | **49,974.7** | **12.7** | **54,851.8** | **14.1** | **9.8** | **58,361.5** | **14.9** | **6.4** |
| **Total liabilities and capital** | **393,394.3** | **100.0** | **388,721.9** | **100.0** | **–1.2** | **391,304.3** | **100.0** | **0.7** |

Source: CNB.

Table 12.4 Bank income statement
in reference periods, in million HRK and %

| | Amount | | Change |
|---|---|---|---|
| | Jan. – Dec. 2016 | Jan. – Dec. 2017 | |
| Continuing operations | | | |
| Interest income | 16,524.6 | 14,670.5 | –11.2 |
| Interest expenses | 5,699.2 | 3,770.4 | –33.8 |
| Net interest income | 10,825.4 | 10,900.1 | 0.7 |
| Income from fees and commissions | 4,520.9 | 4,810.6 | 6.4 |
| Expenses on fees and commissions | 1,303.8 | 1,437.5 | 10.3 |
| Net income from fees and commissions | 3,217.1 | 3,373.1 | 4.8 |
| Income from equity investments | 773.8 | 826.3 | 6.8 |
| Gains (losses) | 1,865.5 | 1,170.3 | –37.3 |
| Other operating income | 579.0 | 468.0 | –19.2 |
| Other operating expenses | 1,241.3 | 933.2 | –24.8 |
| Net other non-interest income | 1,977.1 | 1,531.3 | –22.5 |
| Total operating income | 16,019.6 | 15,804.5 | –1.3 |
| General administrative expenses and depreciation | 7,209.6 | 7,387.3 | 2.5 |
| Net operating income before loss provisions | 8,810.0 | 8,417.2 | –4.5 |
| Expenses on value adjustments and provisions | 2,854.9 | 4,288.0 | 50.2 |
| Other gains (losses) | 215.8 | 19.8 | –90.8 |
| **Profit (loss) from continuing operations, before taxes** | **6,170.9** | **4,149.0** | **–32.8** |
| Income tax on continuing operations | 1,296.8 | 620.7 | –52.1 |
| Profit (loss) from continuing operations, after taxes | 4,874.1 | 3,528.3 | –65.4 |
| Discontinued operations | | | |
| Profit (loss) from discontinued operations, after taxes | 157.2 | 4.3 | –97.3 |
| **Current year profit (loss)** | **5,031.3** | **3,532.7** | **–29.8** |

Source: CNB.

Table 12.5 Classification of bank placements and assumed off-balance sheet liabilities by risk categories
end of period, in million HRK and %

| Risk (sub) category | Dec. 2015 | | | Dec. 2016 | | | Dec. 2017 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Placements and assumed off-balance sheet liabilities | Value adjustments and provisions | Coverage | Placements and assumed off-balance sheet liabilities | Value adjustments and provisions | Coverage | Placements and assumed off-balance sheet liabilities | Value adjustments and provisions | Coverage |
| A | 362,550.9 | 3,348.0 | 0.9 | 365,032.2 | 3,344.5 | 0.9 | 363,407.0 | 3,164.8 | 0.9 |
| B-1 | 12,528.5 | 1,836.8 | 14.7 | 8,411.0 | 1,185.9 | 14.1 | 7,471.5 | 950.5 | 12.7 |
| B-2 | 18,363.9 | 9,484.3 | 51.6 | 12,168.7 | 6,488.8 | 53.3 | 9,898.4 | 5,309.5 | 53.6 |
| B-3 | 8,008.0 | 6,578.8 | 82.2 | 8,029.2 | 6,599.4 | 82.2 | 8,515.3 | 6,981.1 | 82.0 |
| C | 10,453.1 | 10,453.9 | 100.0 | 10,691.5 | 10,693.2 | 100.0 | 7,743.3 | 7,743.6 | 100.0 |
| **Total** | **411,904.4** | **31,701.9** | **7.7** | **404,332.6** | **28,311.7** | **7.0** | **397,035.6** | **24,149.4** | **6.1** |

Source: CNB.

Table 12.6 Bank loans
end of period, in million HRK and %

| | Dec. 2015 | | Dec. 2016 | | | Dec. 2017 | | |
|---|---|---|---|---|---|---|---|---|
| | Amount | Share | Amount | Share | Change | Amount | Share | Change |
| Loans | | | | | | | | |
| General government | 57,544.8 | 20.9 | 50,997.2 | 19.5 | –11.4 | 39,883.9 | 16.2 | –21.8 |
| Non-financial corporations | 87,269.5 | 31.7 | 83,378.8 | 31.9 | –4.5 | 81,775.0 | 33.3 | –1.9 |
| Construction | 12,157.8 | 4.4 | 9,945.0 | 3.8 | –18.2 | 7,652.4 | 3.1 | –23.1 |
| Information and communication | 2,256.2 | 0.8 | 1,769.0 | 0.7 | –21.6 | 1,540.8 | 0.6 | –12.9 |
| Agriculture | 4,620.0 | 1.7 | 4,972.0 | 1.9 | 7.6 | 5,248.2 | 2.1 | 5.6 |
| Real estate activities | 6,599.3 | 2.4 | 6,009.9 | 2.3 | –8.9 | 5,358.2 | 2.2 | –10.8 |
| Manufacturing | 19,916.1 | 7.2 | 19,245.0 | 7.4 | –3.4 | 18,860.0 | 7.7 | –2.0 |
| Transportation and storage | 2,931.2 | 1.1 | 3,057.1 | 1.2 | 4.3 | 3,060.6 | 1.2 | 0.1 |
| Accommodation and food service activities | 7,906.5 | 2.9 | 8,530.8 | 3.3 | 7.9 | 9,923.9 | 4.0 | 16.3 |
| Professional, scientific and technical activities | 4,110.8 | 1.5 | 4,865.8 | 1.9 | 18.4 | 4,948.1 | 2.0 | 1.7 |
| Trade | 17,361.4 | 6.3 | 16,364.2 | 6.3 | –5.7 | 15,542.4 | 6.3 | –5.0 |
| Other activities | 9,410.2 | 3.4 | 8,619.9 | 3.3 | –8.4 | 9,640.3 | 3.9 | 11.8 |
| Households | 120,426.7 | 43.7 | 113,246.0 | 43.4 | –6.0 | 114,538.4 | 46.6 | 1.1 |
| General-purpose cash loans | 39,808.8 | 14.5 | 40,734.7 | 15.6 | 2.3 | 42,942.9 | 17.5 | 5.4 |
| Mortgage loans | 2,599.4 | 0.9 | 2,207.0 | 0.8 | –15.1 | 1,940.5 | 0.8 | –12.1 |
| Credit card loans | 3,716.2 | 1.3 | 3,607.9 | 1.4 | –2.9 | 3,529.3 | 1.4 | –2.2 |
| Investment loans | 2,503.3 | 0.9 | 2,326.3 | 0.9 | –7.1 | 2,314.2 | 0.9 | –0.5 |
| Overdrafts | 7,856.8 | 2.9 | 7,422.1 | 2.8 | –5.5 | 6,993.4 | 2.8 | –5.8 |
| Housing loans | 54,998.8 | 20.0 | 48,236.0 | 18.5 | –12.3 | 48,439.3 | 19.7 | 0.4 |
| Other household loans | 8,943.4 | 3.2 | 8,712.0 | 3.3 | –2.6 | 8,378.9 | 3.4 | –3.8 |
| Other sectors | 10,180.4 | 3.7 | 13,577.6 | 5.2 | 33.4 | 9,724.9 | 4.0 | –28.4 |
| **Total** | **275,421.4** | **100.0** | **261,199.5** | **100.0** | **–5.2** | **245,922.2** | **100.0** | **–5.8** |
| Partly recoverable and fully irrecoverable loans | | | | | | | | |
| General government | 14.7 | 0.0 | 8.6 | 0.0 | –41.2 | 7.9 | 0.0 | –8.1 |
| Non-financial corporations | 30,256.6 | 66.0 | 23,586.3 | 65.4 | –22.0 | 18,225.0 | 65.2 | –22.7 |
| Construction | 8,169.3 | 17.8 | 6,534.3 | 18.1 | –20.0 | 4,252.1 | 15.2 | –34.9 |
| Information and communication | 1,048.9 | 2.3 | 925.6 | 2.6 | –11.8 | 296.7 | 1.1 | –67.9 |
| Agriculture | 782.6 | 1.7 | 640.9 | 1.8 | –18.1 | 599.3 | 2.1 | –6.5 |
| Real estate activities | 2,479.2 | 5.4 | 2,154.0 | 6.0 | –13.1 | 1,388.5 | 5.0 | –35.5 |
| Manufacturing | 6,876.0 | 15.0 | 4,814.3 | 13.4 | –30.0 | 3,594.3 | 12.9 | –25.3 |
| Transportation and storage | 402.7 | 0.9 | 338.1 | 0.9 | –16.0 | 478.3 | 1.7 | 41.5 |
| Accommodation and food service activities | 1,575.9 | 3.4 | 1,333.1 | 3.7 | –15.4 | 1,295.0 | 4.6 | –2.9 |
| Professional, scientific and technical activities | 1,572.5 | 3.4 | 1,318.7 | 3.7 | –16.1 | 983.7 | 3.5 | –25.4 |
| Trade | 6,069.2 | 13.2 | 4,646.5 | 12.9 | –23.4 | 3,442.6 | 12.3 | –25.9 |
| Other activities | 1,280.3 | 2.8 | 880.8 | 2.4 | –31.2 | 1,894.5 | 6.8 | 115.1 |
| Households | 14,673.8 | 32.0 | 11,699.9 | 32.5 | –20.3 | 9,234.5 | 33.0 | –21.1 |
| General-purpose cash loans | 3,674.7 | 8.0 | 3,062.8 | 8.5 | –16.7 | 2,562.1 | 9.2 | –16.3 |
| Mortgage loans | 871.6 | 1.9 | 664.4 | 1.8 | –23.8 | 520.1 | 1.9 | –21.7 |
| Credit card loans | 140.1 | 0.3 | 116.4 | 0.3 | –16.9 | 80.6 | 0.3 | –30.7 |
| Investment loans | 618.7 | 1.3 | 510.9 | 1.4 | –17.4 | 386.9 | 1.4 | –24.3 |
| Overdrafts | 960.7 | 2.1 | 741.5 | 2.1 | –22.8 | 416.6 | 1.5 | –43.8 |
| Housing loans | 5,374.5 | 11.7 | 3,941.7 | 10.9 | –26.7 | 2,990.4 | 10.7 | –24.1 |
| Other household loans | 3,033.4 | 6.6 | 2,662.3 | 7.4 | –12.2 | 2,277.9 | 8.1 | –14.4 |
| Other sectors | 917.4 | 2.0 | 750.7 | 2.1 | –18.2 | 484.1 | 1.7 | –35.5 |
| **Total** | **45,862.5** | **100.0** | **36,045.4** | **100.0** | **–21.4** | **27,951.6** | **100.0** | **–22.5** |

| | Dec. 2015 | | Dec. 2016 | | | Dec. 2017 | | |
|---|---|---|---|---|---|---|---|---|
| | Amount | Share | Amount | Share | Change | Amount | Share | Change |
| Value adjustments of partly recoverable and fully irrecoverable loans | | | | | | | | |
| General government | 4.2 | 0.0 | 3.7 | 0.0 | –13.5 | 2.2 | 0.0 | –40.1 |
| Non-financial corporations | 16,739.5 | 64.2 | 14,912.5 | 64.9 | –10.9 | 11,286.4 | 65.6 | –24.3 |
| Construction | 4,843.2 | 18.6 | 4,405.2 | 19.2 | –9.0 | 3,075.5 | 17.9 | –30.2 |
| Information and communication | 531.7 | 2.0 | 527.6 | 2.3 | –0.8 | 159.1 | 0.9 | –69.8 |
| Agriculture | 382.7 | 1.5 | 390.8 | 1.7 | 2.1 | 352.6 | 2.0 | –9.8 |
| Real estate activities | 1,324.0 | 5.1 | 1,364.8 | 5.9 | 3.1 | 772.0 | 4.5 | –43.4 |
| Manufacturing | 3,662.6 | 14.0 | 2,903.7 | 12.6 | –20.7 | 2,195.6 | 12.8 | –24.4 |
| Transportation and storage | 250.7 | 1.0 | 186.7 | 0.8 | –25.5 | 178.7 | 1.0 | –4.3 |
| Accommodation and food service activities | 620.1 | 2.4 | 615.7 | 2.7 | –0.7 | 586.1 | 3.4 | –4.8 |
| Professional, scientific and technical activities | 804.2 | 3.1 | 813.6 | 3.5 | 1.2 | 616.1 | 3.6 | –24.3 |
| Trade | 3,587.6 | 13.8 | 3,152.4 | 13.7 | –12.1 | 2,256.5 | 13.1 | –28.4 |
| Other activities | 732.7 | 2.8 | 551.9 | 2.4 | –24.7 | 1,094.2 | 6.4 | 98.3 |
| Households | 8,745.2 | 33.5 | 7,566.7 | 32.9 | –13.5 | 5,615.0 | 32.6 | –25.8 |
| General-purpose cash loans | 2,586.7 | 9.9 | 2,138.3 | 9.3 | –17.3 | 1,738.1 | 10.1 | –18.7 |
| Mortgage loans | 459.7 | 1.8 | 396.7 | 1.7 | –13.7 | 320.9 | 1.9 | –19.1 |
| Credit card loans | 130.0 | 0.5 | 107.9 | 0.5 | –17.0 | 65.6 | 0.4 | –39.2 |
| Investment loans | 336.3 | 1.3 | 346.5 | 1.5 | 3.0 | 275.1 | 1.6 | –20.6 |
| Overdrafts | 915.4 | 3.5 | 697.9 | 3.0 | –23.8 | 379.0 | 2.2 | –45.7 |
| Housing loans | 2,812.8 | 10.8 | 2,506.4 | 10.9 | –10.9 | 1,758.9 | 10.2 | –29.8 |
| Other household loans | 1,504.3 | 5.8 | 1,373.0 | 6.0 | –8.7 | 1,077.5 | 6.3 | –21.5 |
| Other sectors | 589.9 | 2.3 | 487.8 | 2.1 | –17.3 | 300.5 | 1.7 | –38.4 |
| **Total** | **26,078.8** | **100.0** | **22,970.6** | **100.0** | **–11.9** | **17,204.1** | **100.0** | **–25.1** |

Notes: The distribution by institutional sectors is conducted in accordance with the European System of Accounts 2010 (ESA 2010). Households include households and non-profit institutions serving households. Data on financial institutions and non-residents are included in the item Other sectors.
Source: CNB.

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

end of period, in million HRK and %

| | Dec. 2015 | | Dec. 2016 | | | Dec. 2017 | | |
|---|---|---|---|---|---|---|---|---|
| | Amount | Share | Amount | Share | Change | Amount | Share | Change |
| **Own funds** | **50,917.1** | **100.0** | **52,568.9** | **100.0** | **3.2** | **52,363.6** | **100.0** | **–0.4** |
| Tier 1 capital | 46,586.3 | 91.5 | 48,859.2 | 92.9 | 4.9 | 49,163.5 | 93.9 | 0.6 |
| Common equity tier 1 capital | 46,586.3 | 91.5 | 48,859.2 | 92.9 | 4.9 | 49,163.5 | 93.9 | 0.6 |
| Capital instruments eligible as common equity tier 1 capital | 33,717.6 | 66.2 | 33,904.3 | 64.5 | 0.6 | 34,363.4 | 65.6 | 1.4 |
| Retained earnings | 11,820.6 | 23.2 | 14,278.2 | 27.2 | 20.8 | 17,378.4 | 33.2 | 21.7 |
| Other items | 1,048.1 | 2.1 | 676.6 | 1.3 | –35.4 | –2,578.3 | –4.9 | –481.1 |
| Additional tier 1 capital | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Tier 2 capital | 4,330.9 | 8.5 | 3,709.7 | 7.1 | –14.3 | 3,200.1 | 6.1 | –13.7 |
| **Total risk exposure amount** | **243,830.0** | **100.0** | **229,271.8** | **100.0** | **–6.0** | **226,064.9** | **100.0** | **–1.4** |
| Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries | 211,793.3 | 86.9 | 202,283.2 | 88.2 | –4.5 | 199,416.6 | 88.2 | –1.4 |
| Standardised approach | 182,231.5 | 74.7 | 174,732.6 | 76.2 | –4.1 | 171,077.3 | 75.7 | –2.1 |
| Internal ratings based approach (IRB) | 29,561.8 | 12.1 | 27,550.6 | 12.0 | –6.8 | 28,339.2 | 12.5 | 2.9 |
| Position, foreign exchange and commodities risks | 8,550.8 | 3.5 | 4,569.6 | 2.0 | –46.6 | 5,169.1 | 2.3 | 13.1 |
| Operational risk | 22,871.3 | 9.4 | 22,099.5 | 9.6 | –3.4 | 21,352.5 | 9.4 | –3.4 |
| Credit valuation adjustment | 614.7 | 0.3 | 319.5 | 0.1 | –48.0 | 126.8 | 0.1 | –60.3 |
| **Common equity tier 1 capital ratio** | **19.1** | **–** | **21.3** | **–** | **11.5** | **21.7** | **–** | **2.1** |
| **Tier 1 capital ratio** | **19.1** | **–** | **21.3** | **–** | **11.5** | **21.7** | **–** | **2.1** |
| **Total capital ratio** | **20.9** | **–** | **22.9** | **–** | **9.8** | **23.2** | **–** | **1.0** |

Source: CNB.

## Table 12.8 Structure of housing savings bank assets

end of period, in million HRK and %

| | Dec. 2015 | | Dec. 2016 | | | Dec. 2017 | | |
|---|---|---|---|---|---|---|---|---|
| | Amount | Share | Amount | Share | Change | Amount | Share | Change |
| Money assets and deposits with the CNB | 0.0 | 0.0 | 0.0 | 0.0 | 20.0 | 0.0 | 0.0 | –75.0 |
| Money assets | 0.0 | 0.0 | 0.0 | 0.0 | 20.0 | 0.0 | 0.0 | –75.0 |
| Deposits with the CNB | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Deposits with financial institutions | 563.9 | 7.3 | 518.4 | 6.6 | –8.1 | 678.0 | 8.6 | 30.8 |
| MoF treasury bills and CNB bills | 162.4 | 2.1 | 84.7 | 1.1 | –47.8 | 88.8 | 1.1 | 4.8 |
| Securities | 2,706.7 | 34.8 | 2,876.0 | 36.8 | 6.3 | 2,819.5 | 35.6 | –2.0 |
| Derivative financial assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Loans | 4,226.0 | 54.4 | 4,223.1 | 54.1 | –0.1 | 4,234.9 | 53.5 | 0.3 |
| Loans to financial institutions | 52.0 | 0.7 | 37.2 | 0.5 | –28.6 | 22.3 | 0.3 | –40.0 |
| Loans to other clients | 4,174.0 | 53.7 | 4,186.0 | 53.6 | 0.3 | 4,212.7 | 53.2 | 0.6 |
| Investments in subsidiaries, associates and joint ventures | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Foreclosed and repossessed assets | 1.4 | 0.0 | 1.9 | 0.0 | 39.8 | 1.1 | 0.0 | –40.2 |
| Tangible assets (net of depreciation) | 2.2 | 0.0 | 1.9 | 0.0 | –11.2 | 2.9 | 0.0 | 49.0 |
| Interest, fees and other assets | 109.6 | 1.4 | 105.0 | 1.3 | –4.2 | 93.0 | 1.2 | –11.5 |
| **Total assets** | **7,772.2** | **100.0** | **7,811.1** | **100.0** | **0.5** | **7,918.2** | **100.0** | **1.4** |

Source: CNB.

Table 12.9 Structure of housing savings bank liabilities and capital

end of period, in million HRK and %

| | Dec. 2015 | | Dec. 2016 | | | Dec. 2017 | | |
|---|---|---|---|---|---|---|---|---|
| | Amount | Share | Amount | Share | Change | Amount | Share | Change |
| Loans from financial institutions | 42.0 | 0.5 | 37.0 | 0.5 | –11.9 | 4.0 | 0.1 | –89.2 |
| Short-term loans | 42.0 | 0.5 | 37.0 | 0.5 | –11.9 | 4.0 | 0.1 | –89.2 |
| Long-term loans | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Deposits | 6,645.0 | 85.5 | 6,621.9 | 84.8 | –0.3 | 6,777.4 | 85.6 | 2.3 |
| Transaction account deposits | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Savings deposits | 0.0 | 0.0 | 0.0 | 0.0 | –37.0 | 1.9 | 0.0 | 11,023.5 |
| Time deposits | 6,645.0 | 85.5 | 6,621.8 | 84.8 | –0.3 | 6,775.5 | 85.6 | 2.3 |
| Other loans | 95.4 | 1.2 | 94.5 | 1.2 | –1.0 | 93.9 | 1.2 | –0.6 |
| Short-term loans | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Long-term loans | 95.4 | 1.2 | 94.5 | 1.2 | –1.0 | 93.9 | 1.2 | –0.6 |
| Derivative financial liabilities and other financial liabilities held for trading | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt securities issued | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Short-term debt securities issued | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Long-term debt securities issued | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Subordinated instruments issued | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Hybrid instruments issued | 83.2 | 1.1 | 82.7 | 1.1 | –0.6 | 67.4 | 0.9 | –18.5 |
| Interest, fees and other liabilities | 129.7 | 1.7 | 137.6 | 1.8 | 6.1 | 124.3 | 1.6 | –9.7 |
| **Total liabilities** | **6,995.4** | **90.0** | **6,973.7** | **89.3** | **–0.3** | **7,067.1** | **89.3** | **1.3** |
| Share capital | 487.9 | 6.3 | 487.9 | 6.2 | 0.0 | 487.9 | 6.2 | 0.0 |
| Current year profit (loss) | 47.5 | 0.6 | 46.4 | 0.6 | –2.3 | 49.7 | 0.6 | 7.0 |
| Retained earnings (loss) | 177.6 | 2.3 | 200.5 | 2.6 | 12.9 | 221.5 | 2.8 | 10.4 |
| Legal reserves | 10.5 | 0.1 | 11.6 | 0.1 | 10.1 | 11.9 | 0.2 | 2.9 |
| Reserves provided for by the articles of association and other capital reserves | –10.7 | –0.1 | –17.9 | –0.2 | 67.7 | –17.4 | –0.2 | –3.0 |
| Revaluation reserves | 64.0 | 0.8 | 108.9 | 1.4 | 70.2 | 97.5 | 1.2 | –10.4 |
| Previous year profit (loss) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total capital** | **776.8** | **10.0** | **837.4** | **10.7** | **7.8** | **851.1** | **10.7** | **1.6** |
| **Total liabilities and capital** | **7,772.2** | **100.0** | **7,811.1** | **100.0** | **0.5** | **7,918.2** | **100.0** | **1.4** |

Source: CNB.

### Table 21.10 Housing savings bank income statement

in reference periods, in million HRK and %

| | Amount | | Change |
|---|---|---|---|
| | Jan. – Dec. 2016 | Jan. – Dec. 2017 | |
| Continuing operations | | | |
| Interest income | 331.2 | 317.5 | –4.1 |
| Interest expenses | 200.5 | 181.6 | –9.4 |
| Net interest income | 130.6 | 135.9 | 4.0 |
| Income from fees and commissions | 50.7 | 45.8 | –9.8 |
| Expenses on fees and commissions | 5.7 | 4.9 | –13.3 |
| Net income from fees and commissions | 45.0 | 40.8 | –9.3 |
| Income from equity investments | 0.0 | 0.0 | 0.0 |
| Gains (losses) | 9.8 | 7.6 | –22.7 |
| Other operating income | 3.4 | 4.0 | 16.5 |
| Other operating expenses | 22.0 | 22.4 | 1.8 |
| Net other non-interest income | –8.8 | –10.8 | 23.5 |
| Total operating income | 166.9 | 165.9 | –0.6 |
| General administrative expenses and depreciation | 103.3 | 99.2 | –4.0 |
| Net operating income before loss provisions | 63.6 | 66.7 | 4.9 |
| Expenses on value adjustments and provisions | 7.6 | 8.4 | 11.3 |
| Other gains (losses) | 0.0 | 0.0 | 0.0 |
| **Profit (loss) from continuing operations, before taxes** | **56.0** | **58.3** | **4.0** |
| Income tax on continuing operations | 9.6 | 8.6 | –10.5 |
| Profit (loss) from continuing operations, after taxes | 46.4 | 49.7 | 7.0 |
| Discontinued operations | | | |
| Profit (loss) from discontinued operations, after taxes | 0.0 | 0.0 | 0.0 |
| **Current year profit (loss)** | **46.4** | **49.7** | **7.0** |

Source: CNB.

### Table 12.11 Classification of housing savings bank placements and assumed off-balance sheet liabilities by risk categories

end of period, in million HRK and %

| Risk category | Dec. 2015 | | Dec. 2016 | | | Dec. 2017 | | |
|---|---|---|---|---|---|---|---|---|
| | Amount | Share | Amount | Share | Change | Amount | Share | Change |
| A | 5,539.7 | 98.8 | 5,544.2 | 98.7 | 0.1 | 5,667.0 | 98.6 | 2.2 |
| B | 58.2 | 1.0 | 65.1 | 1.2 | 11.8 | 68.3 | 1.2 | 5.0 |
| C | 9.9 | 0.2 | 10.7 | 0.2 | 8.5 | 9.6 | 0.2 | –10.3 |
| **Total** | **5,607.8** | **100.0** | **5,619.9** | **100.0** | **0.2** | **5,744.9** | **100.0** | **2.2** |

Source: CNB.

### Table 12.12 Coverage of housing savings bank total placements and assumed off-balance sheet liabilities by total value adjustments and provisions

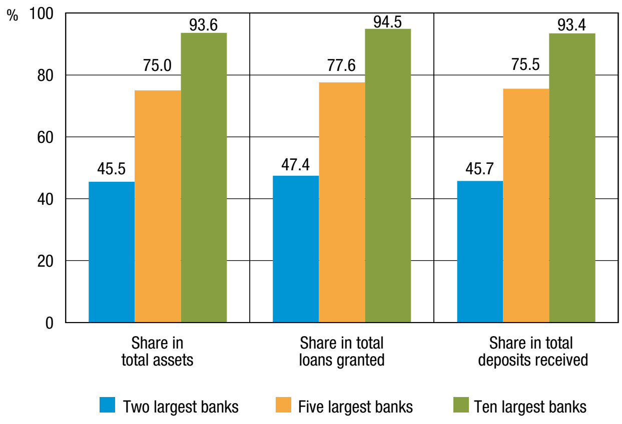
end of period, in million HRK and %

| | Dec. 2015 | Dec. 2016 | Dec. 2017 |
|---|---|---|---|
| Total value adjustments against placements and provisions for assumed off-balance sheet liabilities | 68.3 | 76.0 | 77.8 |
| Value adjustments and provisions | 20.0 | 27.9 | 28.8 |
| Collectively assessed value adjustments and provisions | 48.4 | 48.1 | 49.0 |
| Total placements and assumed off-balance sheet liabilities | 5,607.8 | 5,619.9 | 5,744.9 |
| **Coverage** | **1.2** | **1.4** | **1.4** |

Source: CNB.

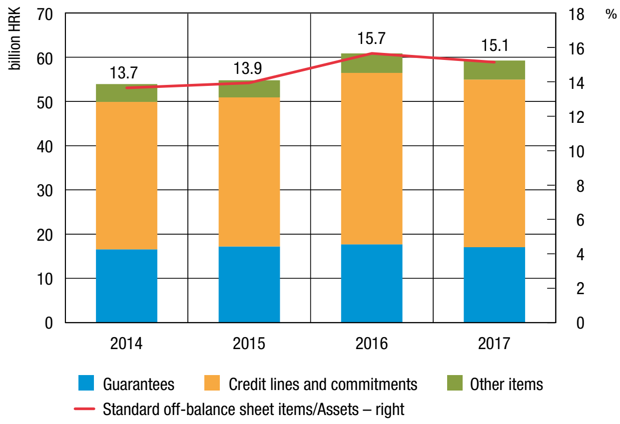
## Figure 12.7 Shares of assets, loans and deposits of the largest banks in total assets, loans and deposits

as at 31 December 2017



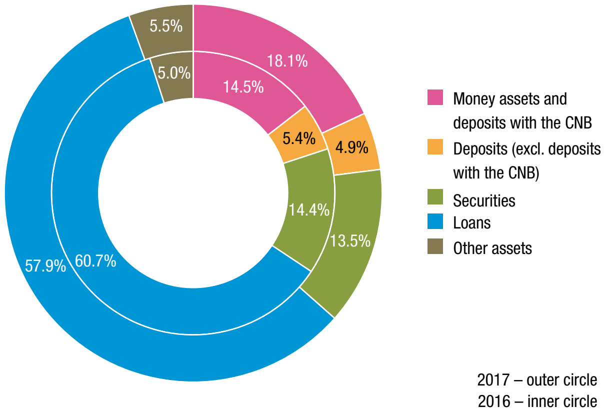

Source: CNB.

## Figure 12.10 Bank standard off-balance sheet items



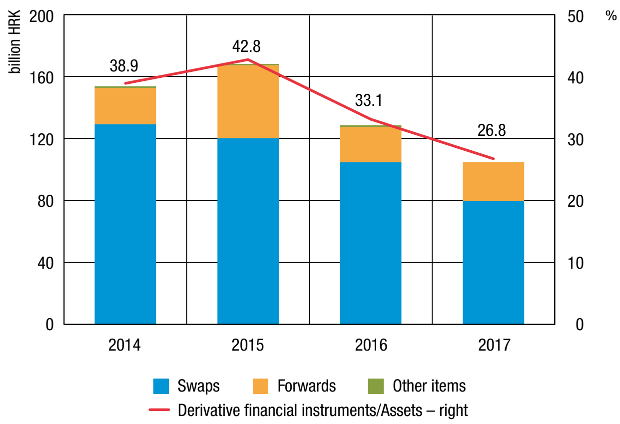

Source: CNB.

## Figure 12.8 Structure of bank assets



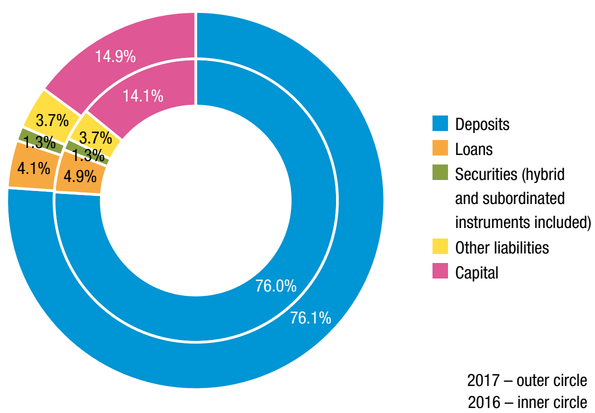

Source: CNB.

## Figure 12.11 Bank derivative financial instruments (notional amount)




Source: CNB.

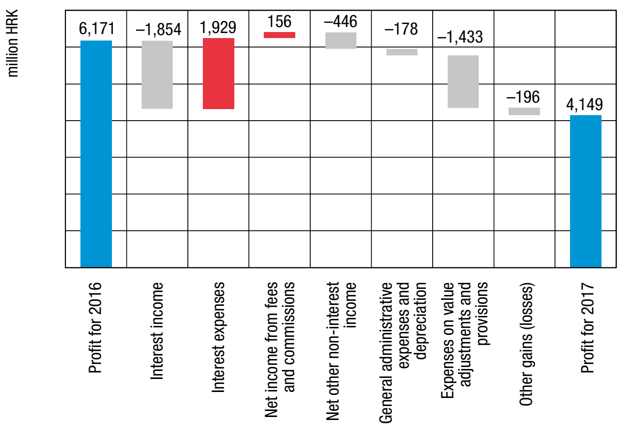
## Figure 12.9 Structure of bank liabilities and capital




Source: CNB.

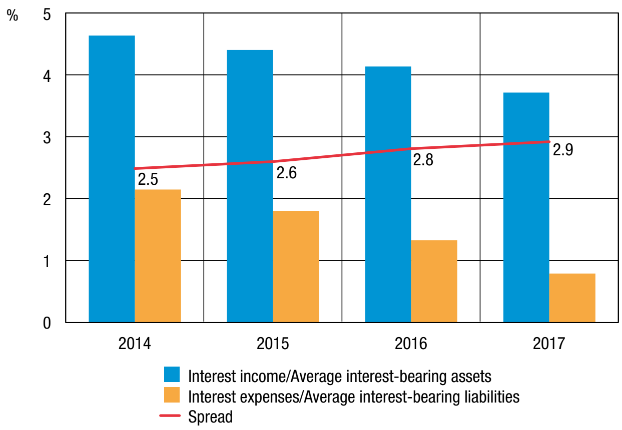
## Figure 12.12 Development in profit items

profit from continuing operations, before taxes[a]



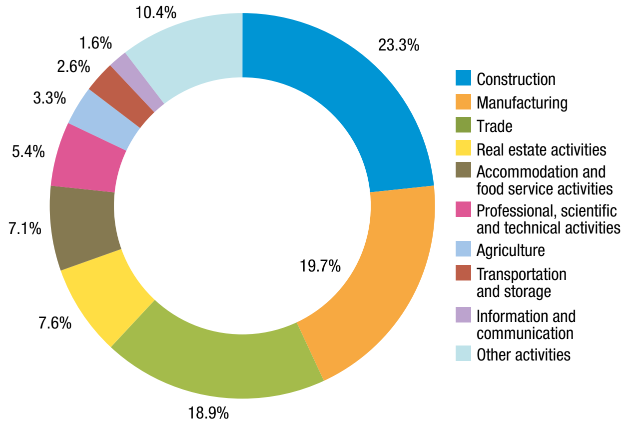

[a] Red/gray bars show the positive/negative contribution of the item to profit developments.
Source: CNB.

Figure 12.13 Spread



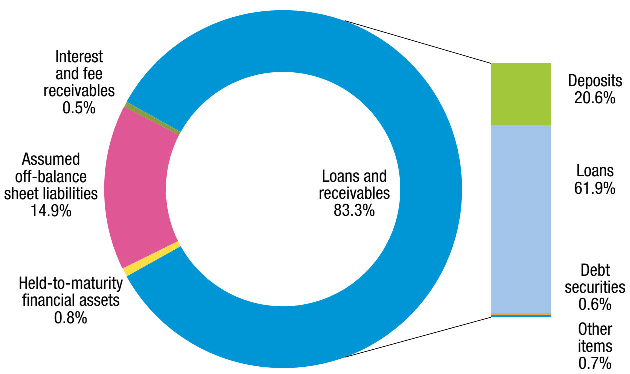

Source: CNB.

Figure 12.16 Structure of bank partly recoverable and fully irrecoverable loans to non-financial corporations by activities
as at 31 December 2017



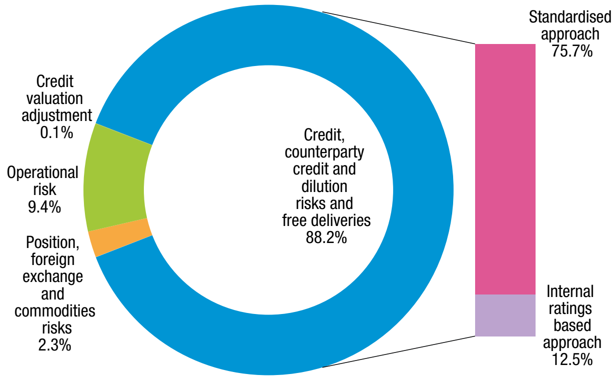

Source: CNB.

Figure 12.14 Structure of bank placements and assumed off-balance sheet liabilities
as at 31 December 2017



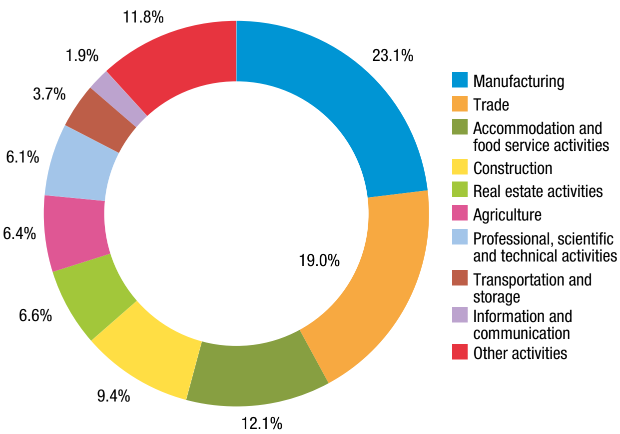

Source: CNB.

Figure 12.17 Structure of bank total risk exposure
as at 31 December 2017




Source: CNB.

Figure 12.15 Structure of bank loans to non-financial corporations by activities
as at 31 December 2017




Source: CNB.

# Abbreviations and symbols

## Abbreviations

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

## Symbols

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

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