CROATIAN NATIONAL BANK

Annual Report

2010

Zagreb, June 2011

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Contents

Summary

Overall economic activity in Croatia declined for the second consecutive year in 2010, by 1.2% according to preliminary CBS data. The economic downturn that started in mid-2008 was only temporarily halted during the third quarter, and activity weakened again towards the end of the year.

Broken down by aggregate demand components, adverse movements in the real sector mainly arose from a continued plunge in gross fixed capital formation in all sectors. Moreover, household consumption continued downwards, primarily due to unfavourable labour market movements. Government consumption also contributed negatively to the change in overall economic activity. These developments in domestic demand led to a further decline in goods and services imports. By contrast, foreign demand for domestic goods and services strengthened, thanks to the economic revival in most major Croatian export markets.

On the production side, real gross value added in the overall economy dropped by 1.7% in 2010. Activity decreased in all divisions, except financial intermediation. However, while the GVA decline in 2009 was mostly due to a contraction in industry and trade, last year's fall was mostly the result of a slowdown in construction activity.

Adverse trends in the real sector impacted negatively on the labour market indicators. CES-registered unemployment reached the level last recorded in early 2006. The registered unemployment rate thus stood at 18.6% at the end of the year, whereas the average annual rate jumped to 17.4%. This was accompanied by a fall in the employment rate, which was 3.7% lower at end-2010 than a year before. With a certain time lag and due to the recession, nominal gross wages fell by 0.5% in 2010 from the previous year.

Low consumer price inflation was one of the main characteristics of the macroeconomic environment in 2010, its average annual rate having decreased to 1.1% (from 2.4% in 2009). Apart from the above-mentioned fall in domestic demand, the slowdown in consumer price inflation was also driven by reduced unit labour costs. By contrast, pressures on inflation growth were mostly the consequence of an increase in the prices of crude oil, food and other raw materials on the global market, and were heightened by the depreciation of the kuna against the US dollar. However, relatively low annual rates of change in producer prices of durable and non-durable consumer goods suggest that, amid relatively low demand, most producers refrained from shifting the effects of price increases in energy and other raw materials to consumers, but rather reduced other costs and their profit margins. A slowdown in consumer price inflation over 2010 was also due to a favourable base period effect, given the marked increase in administrative prices a year before.

The kuna vs. euro exchange rate remained stable during 2010, contributing to the stability of domestic prices and the overall macroeconomic environment. During the first five months, the supply and demand for foreign exchange were in equilibrium. Appreciation pressures strengthened in June, so that the central bank twice intervened on the foreign exchange market at the end of June and once early in July, purchasing a total of EUR 363.7m from banks. In contrast to this, due to mounting depreciation pressures in the fourth quarter, the central bank sold a total of EUR 350.1m to banks on two occasions. The exchange rate of the kuna against the euro stabilised in December, standing at HRK 7.39/EUR at the end of the year, down 1.1% from the level recorded at end-2009.

Apart from maintaining the stability of the domestic currency as the main anchor of price and financial system stability, the monetary policy implemented by the Croatian National Bank in 2010 was focused on ensuring high liquidity in the banking system. The objective of such a policy was to revive bank lending by improving financing conditions, in order to mitigate the weakening of domestic economic activity. The CNB also cut its reserve requirement rate from 14% to 13%, thus supporting the Government in its efforts to stimulate economic recovery in collaboration with the CBRD.

Ample liquidity in the banking system led to very low overnight interest rates on the interbank market and contributed to a fall in interest rates on T-bills, as well as on short-term corporate loans, which dropped by about two percentage points over 2010. However, interest rates on long-term loans to the private sector remained at the levels attained in 2009. Interest rates on long-term corporate loans with a currency clause still exceeded 7%, whereas interest rates on the same loans to households dropped during 2010, from about 9% to 8%, i.e. the same as in early 2009. The main factors enabling the maintenance of long-term interest rates at the specified levels were the still high sovereign risk premium, which was reflected in the maintenance of the high level of yields on Croatian bonds, and a continued increase in partly recoverable or fully irrecoverable bank loans (bad loans).

Neither the continued unfavourable conditions on the credit supply side, nor changes on the credit demand side, contributed to any significant strengthening of bank lending. In line with this, after a contraction a year before, bank placements to the private sector rose mildly in 2010 (by 6.9% in nominal terms, or 3.6%, excluding the exchange rate effect). The increase in lending exclusively related to loans extended to the corporate sector, whereas loans to households stagnated. By contrast, domestic banks continued their strong government funding activities. Monetary aggregates recovered mildly, with total liquid assets (M4) rising by 4.4% in 2010.

Continued weakening of economic activity and the ageing of the credit portfolio led to a further increase in non-performing loans. Despite the continued dominant influence of deteriorated corporate loans on the movements in total bad loans, the

strengthening of the Swiss franc against the kuna additionally fuelled the growth of bad loans to the household sector, and increased their contribution to the dynamics of total bad loans. As a result of all these factors, the share of bad loans in total loans went up from 7.8% at end-2009 to 11.2% at end-2010. These movements led to a decrease in interest income and an increase in loss provision expenses, but, given the improved cost effectiveness and reduced interest expenses, as well as the strengthening of other sources of income, primarily from fees and commissions, the banking system profitability indicators remained relatively high in 2010. According to preliminary unaudited data, pre-tax profits of banks rose by HRK 0.3bn from 2009, standing at HRK 4.5bn, and returns on average assets (ROAA) and average equity (ROAE) were 1.2% and 7.0% respectively. However, it is worth noting that the increase in the banking system profits was primarily due to the profits generated by one medium-sized bank, which had reported considerable losses a year before. Excluding the effect of this change, the business performance of banks was worse than in 2009.

The level of capitalisation in the domestic banking system remained high. During 2010, capital adequacy ratio rose by two percentage points, reaching 18.4% at the end of the year. However, this increase was almost entirely due to the adjustment of domestic regulations with the relevant EU directives, i.e. the so-called Basel II framework. Specifically, in contrast to the previously applied regulations, the new regulatory framework for the calculation of the minimum capital adequacy ratio does not envisage higher risk weights on bank assets exposed to currency-induced credit risk, which led to a sharp fall in the average credit risk weight. The CNB tried to compensate for this decrease by raising the minimum capital adequacy ratio from 10% to 12%, by which Croatia has used national discretion to impose a regulatory capital adequacy ratio higher than the 8% prescribed by the Capital Requirements Directive.

In 2010, the domestic capital market continued to be strongly affected by movements in the global financial market. After some positive movements observed in early 2010, the remainder of the year was dominated by the effects of negative signals from the world markets, induced by concerns over the culmination of the Greek crisis and the dynamics of global economic recovery. A major change of trend in the domestic capital market was only seen in December, as the MOL bid to purchase the remaining package of INA shares owned by small and institutional shareholders raised optimism, liquidity and the prices of shares on the domestic capital market. This led to an increase in the value of the ZSE share index, CROBEX, by 5.3% at end-2010 from the end of 2009. Despite the trend reversal observed towards the end of the year, the annual share turnover declined considerably in 2010 from the previous year.

In contrast to the movements on the equity securities market, investment activity on the Croatian debt security market intensified over 2010. Bond turnover doubled in 2010 relative to the previous year. This was mainly due to three new government bond issues and the listing of a new corporate bond on the domestic debt securities market in 2010. Nevertheless, until the end of 2010, the CROBIS value remained the same as at end-2009.

The narrowing of current account imbalances that had started in 2009 continued in 2010. The current account deficit decreased by three fourths from 2009 levels, and its relative indicator improved from –5.3% of GDP to as little as –1.3% of GDP. As in the previous year, most of this decrease was due to developments in goods trade, i.e. a recovery of exports and stagnation of imports. Broken down by type of goods, the most significant improvement in the balance was observed in net export of ships that tripled in 2010 relative to previous year's level. Trade in oil and refined petroleum products produced a negative effect on total deficit, mainly due to higher prices of oil on the global market. Trade in other goods saw positive movements, i.e. exports continued upwards and imports declined mildly. Besides considerable improvements in goods trade, other flows also had a positive impact on the total current account balance, particularly important among them being the lower deficit in the factor income account.

Due to the low current account deficit, external financing needs decreased markedly. Capital inflows, net of the change in international reserves, thus stood at a low of EUR 1.6bn, which is one third of the 2009 level. Relatively modest foreign direct investments in Croatia were largely directed to financial intermediation (mainly reinvested earnings in the banking sector and the conversion of some non-banking financial institutions' debt into capital), various forms of trading and real estate transactions, including equity investments in real estate.

Inflows of debt sources of finance were very modest during 2010. Banks thus repaid more liabilities than they contracted, whereas other domestic sectors (notably corporates) mainly refinanced their existing foreign liabilities. Only the central government increased its external debt, primarily in the form of a USD 1.25bn bond issue on the US market. Despite the absence of any significant foreign borrowing by domestic sectors, gross external debt of the Republic of Croatia increased by EUR 1.2bn because of the weakening of the euro (in which the external debt is expressed) against the US dollar and Swiss franc. Due to these changes, gross external debt of the Republic of Croatia climbed to EUR 46.4bn (101.0% of GDP) at the end of 2010.

Gross international reserves of the Republic of Croatia rose by 2.7% in 2010, standing at EUR 10.7bn at year-end. This was sufficient to cover 7.2 months' worth of imports of goods and services. Similar growth rates in 2010 were observed in net usable international reserves, which reached EUR 9.3bn at the end of the year. The increase in reserves was primarily due to positive exchange rate differentials arising from the strengthening of the US dollar against the euro on the global foreign exchange market. In 2010, international reserves were managed according to the principles of high liquidity and safety in a risky global financial environment and with all-time low interest rates recorded on euro and dollar money markets. Given such circumstances, the rate of return on the net euro portfolio stood at 1.09% in 2010, whereas the rate of return on the net dollar portfolio was 0.67%.

A deterioration of the consolidated general government balance that had started in 2009 continued in 2010. Specifically, as suggested by the MoF preliminary data, consolidated general government revenue decreased relative to 2009, despite the application of a higher general VAT rate and the special tax on salaries, pensions and other income. By contrast, general government expenditure, including the acquisition of non-financial assets, stagnated, as a consequence of reduced capital investments paralleled by a slight increase in current expenditures. As a result of these movements, the consolidated general government net borrowing (including the change in arrears) reached a high of HRK 14.5bn, which represented an increase from 3.2% of GDP in 2009 to 4.3% of GDP in 2010. Total fiscal deficit, comprising, among other things, activated guarantees and debt payments to pensioners, amounted to 5.3% of GDP or HRK 17.6bn in 2010. The government financed almost the entire deficit by borrowing. This resulted in continued steep growth of general government debt, which climbed to 41.2% of GDP at the end of 2010, up more than six percentage points from 2009.

The stabilisation of the net operating income enabled banks to maintain satisfactory profit levels, despite the strong pressures coming from the costs of value adjustments of non-performing loans. As shown by the results of stress tests carried out on a regular basis, such bank profitability, coupled with exceptionally high capital adequacy provides a strong buffer against a possible serious deterioration of the macroeconomic environment. In the case of such an adverse scenario, which is unlikely, but possible, the entire banking system would remain stable and well capitalised, although some, mostly smaller banks would probably need recapitalisation.

As to the supervision of credit institutions, all the planned tasks arising from the CNB strategic guidelines aimed at maintaining the stability of the banking system were completed in 2010. On-site examination was carried out in 23 credit institutions, the assets of which account for 81.1% of total banking system assets. A total of 37 on-site examinations were carried out in these credit institutions. In consequence of the violations, irregularities and weaknesses evidenced in the on-site examination reports, the CNB provided recommendations for the improvement of business processes and IT systems, and imposed measures for the elimination of the violations and irregularities established and for the improvement of the situation. Apart from on-site examinations, off-site examinations resulted in 160 written analyses of the credit institutions' operations, 154 of which related to individual credit institutions and the remaining six to groups of credit institutions.

Macroeconomic developments

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1.1 International environment

After the severe global economic crisis in 2008 and the gradual recovery in the following year, 2010 saw a continued revival in economic growth that, to some extent, surpassed expectations. Developing countries and emerging markets recorded higher growth rates, whereas most developed countries continued to recover at relatively slow paces. Inflationary pressures were in line with the uneven recovery of particular economies, and were significantly less pronounced in advanced economies, due to continued under-utilisation of capacities and adverse labour market circumstances, whereas the strong recovery of some emerging economies created a need for introducing initial restrictive measures in order to prevent the economy from overheating.

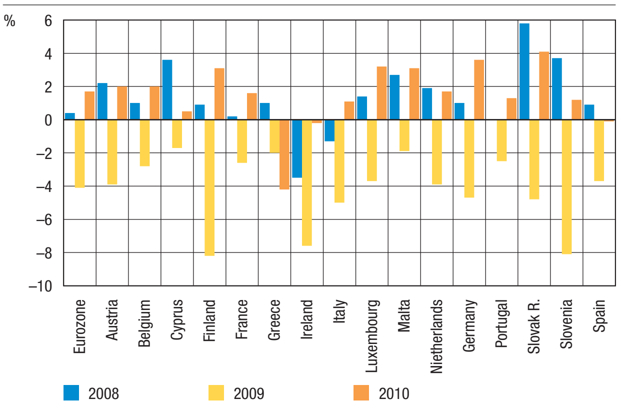
1.1.1 European Union and the eurozone

Real economic growth in the European Union stood at 1.8% in 2010, while in the eurozone it was somewhat weaker (at 1.7%). It should be noted that none of the eurozone countries recorded any annual increase in economic activity during that year. In detail, GDP shrank markedly in Greece and, according to available data, slight decreases in GDP were also seen in Ireland and Spain. This coincided with a 3.6% boost in overall economic activity in Germany, which had a beneficial effect on economic activity in countries in which Germany is the major foreign trade partner. Almost all economies in the eurozone that recorded growth at the annual level also saw positive quarterly GDP movements throughout the year, and in most countries, the strongest economic activity dynamics were observed in the second quarter. As shown by the contributions of individual components to overall economic activity during the year, except in the first quarter, foreign demand had a positive impact on economic growth in the eurozone. By contrast, domestic demand mainly contributed less, except in the second quarter. Slightly better outturns in the second quarter were due to a one-off increase in investment consumption, resulting from temporary factors. Moreover, the second half of the year was marked by a statistically positive contribution of a change in inventories ascribable to the renewal of inventories following a sharp contraction during the recession period. The realised economic growth was insufficient to reverse the negative labour market trends, so that the average annual unemployment rate in the eurozone went up again in 2010 from the year before, even if less markedly (i.e. from 9.4% to 10.0%).

Uncertainty on financial markets, arising from concerns about the sustainability of public finance in certain eurozone countries led to the establishment of a special European Union fund in mid-2010, the so-called European Financial Stability Facility. Negative movements were particularly pronounced in Greece over the first quarter, but in the second quarter, the focus of the crisis shifted to Ireland, which was forced, due to a high cost of the rehabilitation of its banking system, to apply for a financial bailout from the IMF and the previously mentioned EU fund. These movements again brought up the issue of the stability of other vulnerable members of the eurozone, primarily Portugal, but also Spain, as well as of a possible impact of such developments on the stability of the single currency.

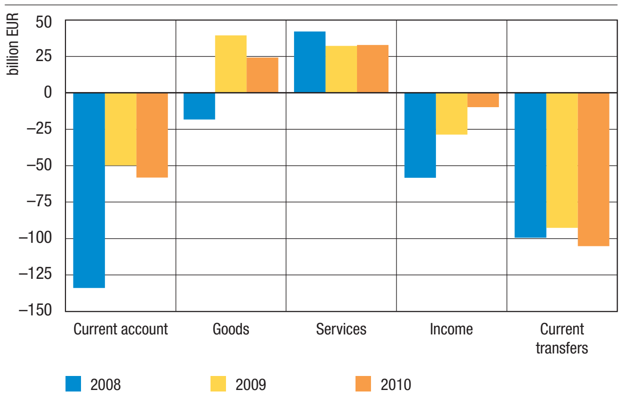
These developments also influenced the movements of the current account balance. Total current account deficit in the eurozone stood at EUR 58.1bn in 2010, which was above its level in 2009 (EUR 49.8bn). The widening of the deficit was due to a deterioration in the foreign trade balance caused by a recovery of imports slightly stronger than that of exports. This was paralleled by a worsening of the current transfers account balance, due to a relatively sharp fall in income, whereas the factor income account balance improved, thanks to a recovery of income from direct investments outside the eurozone.

1.1 Real GDP growth in eurozone countries



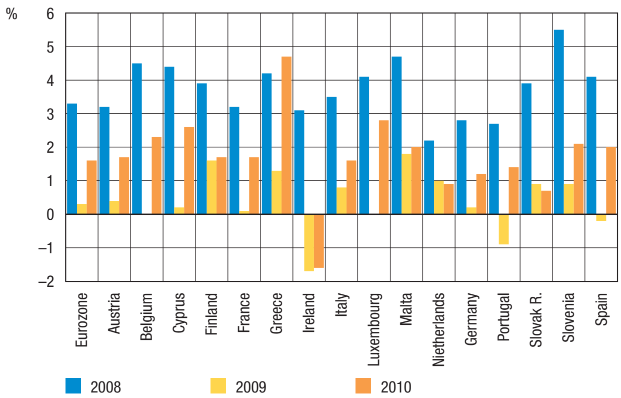
Note: From 2008, data for the eurozone include Malta and Cyprus and from 2009 the Slovak R. as well.
Source: Eurostat.

1.2 Current account balance in the eurozone



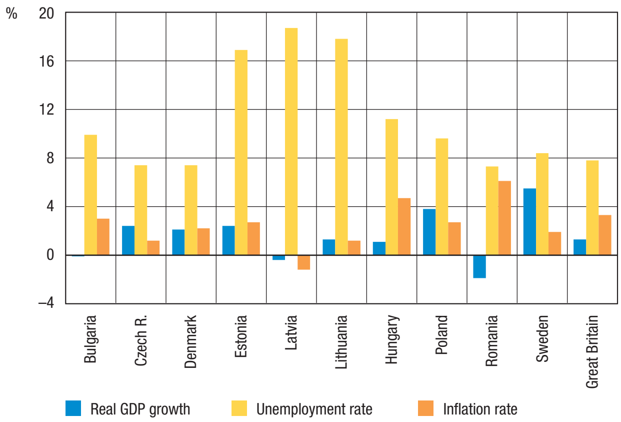
Note: From 2008, data for the eurozone include Malta and Cyprus and from 2009 the Slovak R. as well.
Source: Eurostat.

1.3 HICP rates of change in eurozone countries



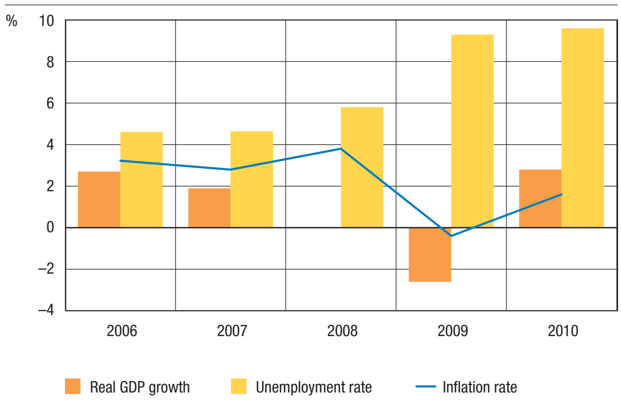
Note: From 2008, data for the eurozone include Malta and Cyprus and from 2009 the Slovak R. as well.
Source: Eurostat.

1.4 Real GDP growth, unemployment and inflation rates in non-eurozone EU countries in 2010



Source: Eurostat.

1.5 Real GDP growth, unemployment and inflation rates in the USA



Sources: Bureau of Economic Analysis and Department of Labor.

Following downward price pressures in 2009, moderate economic growth in the eurozone during 2010 led to no inflationary pressures, the inflation rate standing at 1.6% for the entire year. The price growth was largely the result of a rise in energy prices and, late in the year, a rise in raw materials prices. In the first half of 2010, the movement of the annual rate of change in energy prices was mostly determined by the base period effect, and in the second half by a gradual increase in oil prices, by 40% at the end of 2010 from the previous year. Inflationary pressures built up at the end of the year, partly due to food prices, which grew at an accelerated annual rate. Since the described price pressures had no major impact on consumer price trends, the European Central Bank kept its key interest rate at the level seen in May 2009, i.e. 1.0%.

The recovery in other countries of the European Union outside the eurozone was more uneven than in the eurozone. Particularly strong economic growth was seen in Sweden and Poland. By contrast, real GDP in Romania dropped by 1.9%, and, according to the latest available data, a slight downturn in economic activity was also seen in Latvia and Bulgaria. Concerning price movements, most of the countries in this group recorded higher inflation rates than those in the eurozone, which is mainly due to a higher weight of food prices in the consumer price index, and, consequently, a stronger spillover effect of the growth in global prices of food raw materials and products.

1.1.2 United States of America

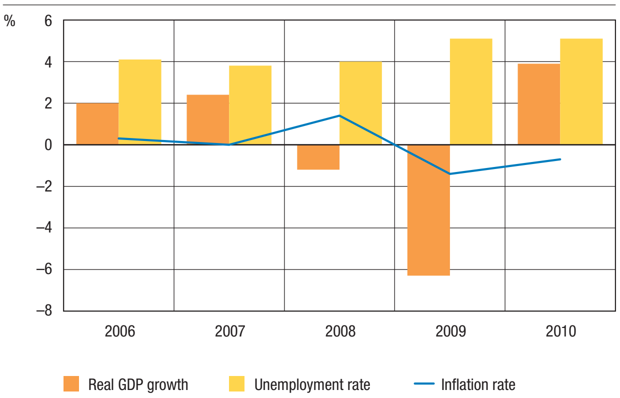
In 2010, the US economy came out of its deepest recession since World War II, growing at a real annual rate of 2.8%. After the first positive quarterly rates of real GDP growth, observed as early as the second half of 2009, the economic recovery continued throughout 2010. The strongest quarterly growth was recorded in the first quarter of 2010, partly due to the effect of extensive incentive measures applied in the previous year, but also due to a strong statistically positive contribution of the change in inventories. In the quarters that followed, economic activity grew at lower rates, but strengthened slightly as the year went by. The acceleration in economic activity, paralleled by marked growth in the prices of raw materials on the global market, did not significantly affect the growth of prices in the US economy. Despite the record low benchmark interest rates, expansive economic policy measures and external inflationary pressures, there was a serious output gap in the economy that determined the moderate annual consumer price growth of 1.6%, with the core inflation index in October 2010 (taking into account the previous twelve months' average) being at its lowest level since records began.

The absence of any notable economic recovery in the US can be ascribed to a slowdown in personal consumption, the most important component in individual economic activity. This was due to negative trends in the net assets of households (determined by a slump in real estate prices over the previous period), exceptionally unfavourable labour market conditions and the continued aversion of banks to an increase in their lending to households. By contrast, investment activity was a strong positive contributor to domestic demand trends in 2010, supported by a positive contribution of the change in inventories (except in the last quarter), and a boost in private investment in equipment and software. Concurrently, government consumption made a slight positive contribution to total change in economic activity over the second and third quarters, whereas net foreign demand contributed negatively to overall economic activity during the first three months, due to an increase in goods and services imports stronger than in exports. These trends proved insufficient to reverse the labour market trend, and the average unemployment rate increased to 9.6% at the entire-2010 level.

1.1.3 Japan

Despite its unsteady movements during the year, the Japanese economy saw strong annual growth in 2010, unlike in the previous two years. As a result, real GDP went up by 3.9% from 2009. Viewed by quarter, economic activity intensified in the first and third quarters, but contracted slightly in the last quarter, as shown by available data. Favourable movements in the first half of the year were mostly due to a positive contribution of net exports, as a result of rising foreign demand for exports, spurred by fast-growing Asian economies. Concurrently, the contribution of domestic demand to economic growth was more modest, primarily due to the implemented fiscal incentive measures. A slight acceleration of the Japanese economy over the third quarter was only temporary and was supported by the government's subsidies for the purchase of cars and real estate, as well as by a one-off increase in demand for tobacco products before the introduction of higher tax rates. Moreover, in response to an increasing appreciation of the Japanese yen, which started to have an impact on demand for exports, the central bank intervened on the foreign exchange market in September, for the first time since March 2004. Adverse economic movements in the last quarter provoked further reactions of economic policy makers, so that the central bank slashed its key interest rate to a range of between 0.0% and 0.1% (from 0.1%). Moreover, a purchase plan for various financial instruments was announced as an interim measure. Since such real developments were reflected in the price trends, the average annual rate of change in consumer prices was again negative in 2010 (–0.7%).

1.6 Real GDP growth, unemployment and inflation rates in Japan



Sources: Eurostat and Statistics Bureau of Japan.

1.1.4 Developing and emerging market countries

Developing and emerging market countries were the main generators of global economic growth in 2010. The real GDP growth rate reached 7.1%[1] (2.6% in 2009). Unlike in the previous year, positive growth rates were seen in all groups of countries under review, but the highest rates were again recorded in Asian economies. As in the previous year, these rates were attributable to strong domestic demand, only partly supported by the effects of the previously applied economic policy incentives, but also to a boost in the global trade volume and the prices of certain raw materials, accounting for a large share in the exports of certain countries from this group. Moreover, a positive influence on economic activity was also made by growing FDI inflows.

The Chinese economy recorded a double-digit rate of real GDP growth (10.3%[2]) in 2010, up 0.9 percentage points from 2009. One of the main growth generators was dynamic domestic demand that remained stable even after the expansive fiscal policy measures were phased out. Reduced government investment in infrastructure was compensated for by increased private investment. In addition to this, personal consumption and foreign demand also contributed positively to economic growth. Favourable economic trends, coupled with a surge in the prices of various kinds of property induced the central bank to raise its interest rates in October, for the first time since 2007.

Following an economic slowdown in 2009, India saw a strong recovery in 2010, its economic growth rate increasing from 5.7% in 2009 to a high of 9.7%.[3] In India as well, the main determinant of economic recovery was strong domestic demand, which, as in China, spurred concerns over unwished growth of inflation and induced the monetary authorities gradually to tighten their measures during 2010.

After a marked economic contraction in 2009 (–7.9%), the Russian Federation recorded an economic growth rate of 3.7% in 2010, thanks to an increase in crude oil prices on the global market and a recovery of domestic demand. The value of Russian exports went up due to the growth in global demand and higher oil prices. By contrast, economic growth was adversely affected by numerous natural disasters, so that bad weather conditions during the summer caused interruptions in the functioning of certain industrial facilities and reduced demand for agricultural goods, thus boosting the prices of food on the domestic market.

1 Estimate, *WEO Update*, IMF, January 2011.
2 Estimate, *WEO Update*, IMF, January 2011.
3 Estimate, *WEO Update*, IMF, January 2011.

After being hit by the global crisis, most of the countries of Latin America saw economic contraction in 2009. However, in 2010, this region witnessed higher-than-expected rates of economic growth. Given that many countries in this region are exporters of raw materials, the growth in the prices of certain raw materials on the global market and the recovery of global demand impacted positively on GDP movements, unlike in the previous year. The recovery was also driven by macroeconomic policy incentive measures and relatively favourable external funding conditions.

1.1.5 Southeast European countries

Economic contraction in Bosnia and Herzegovina, Montenegro, Macedonia and Serbia in 2009 was followed by positive real economic growth[4] in these countries. In 2010 Albania stood out for growth, which accelerated from the 2009 levels (to 3.5%), and Bosnia and Herzegovina reported the lowest growth rate (1.1%).

Among the available economic indicators for Bosnia and Herzegovina, prominence should be given to industrial production which increased annually by 1.6%, with strong growth rates observed in the manufacture of durable consumer goods and intermediate goods, and a decline only seen in the manufacture of capital goods. The data on foreign trade in goods (expressed in convertible marks) suggest a steep annual increase in nominal exports (by 28.3%) and slightly slower growth in imports (by 10.3%). The structure of exports points to the crucial impact of foreign demand on industrial output movements, with the fastest growth observed in the exports of energy, intermediate goods and durable consumer goods. On the goods imports side, the largest increase involved energy and intermediate goods, whereas an annual decline was again observed only in the capital goods imports. Exports from Bosnia and Herzegovina to Croatia picked up by 13.4% (after having declined by 18.4% in 2009), and imports from Croatia increased by 11.0% (in 2009, they had decreased by 33.3%), so that Croatia remained the main foreign trade partner of Bosnia and Herzegovina. Concerning domestic demand, nominal retail trade turnover seems to have strengthened in the second half of the year, suggesting a gradual recovery of personal consumption.

Real GDP in Serbia went up by 1.5% in 2010 from the previous year. The recovery from recession and the achieved economic growth were additionally spurred by favourable foreign demand trends. The nominal value of goods exports in 2010 (expressed in Serbian dinars) increased by 36.3% from the previous year, whereas imports went up by 20.4%, with positive rates of change observed in all categories of goods. Looking at the structure of import markets, the largest increase in imports (by 37.6%) was seen in the group of Central and Eastern European countries (a more detailed breakdown by country is not available). Furthermore, the total volume index of industrial production increased by 3% in 2010, and, viewed by main industrial groupings, the trends observed were similar to those in Bosnia and Herzegovina (an increase in the manufacture of intermediate and durable consumer goods and a decrease in the manufacture of capital goods). By contrast, personal consumption recovery was held back by unemployment growth and scarce sources of finance, as suggested by the trend in real retail trade in goods, which shrank annually. As a result of a public sector wage freeze, real government consumption declined annually, whereas, according to the National Bank of Serbia's estimates, investment consumption made a positive contribution to total change in economic activity during 2010.

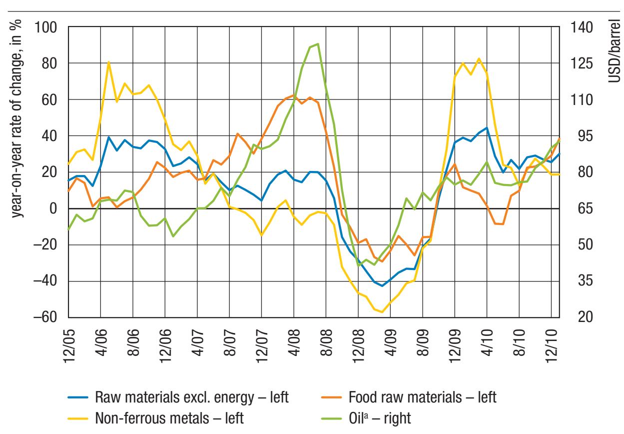
Economic activity in other countries in the group also intensified, particularly due to the beneficial effect of foreign demand. Thanks to the continued low level of domestic demand, the current account deficits held steady at their last year's levels, i.e. much below those in the pre-crisis period. In line with a relatively mild recovery in most countries, inflationary pressures were not too strong. The only exception was Serbia, which reported a slightly stronger increase in food prices.

1.1.6 Trends in the prices of raw materials and foreign exchange rate

Following their sharp fluctuation over the previous two years, oil prices remained relatively stable through most of 2010, moving around the level from the last quarter of 2009, i.e. USD 75 per barrel. The only exception was a short-lived jump in prices observed in March and April 2010, stirred by an uptick in optimism and the expectations that the global economic recovery would stimulate demand for crude oil. It is worth noting that the annual growth rates of oil prices were exceptionally high in the first half of the year, as a result of the base period effect. The last quarter of 2010 saw a relatively strong increase in crude oil prices: the annual price at year-end reached USD 90.0 per barrel, up about 20% from December 2009.

Following negative rates of change in prices of most raw materials on the global market for most of 2009, raw materials prices started to trend upwards in the last quarter. This upward

1.7 Crude oil price in the world market



[a] The average oil price: Dubai Fateh, UK Brent and West Texas Intermediate.
Sources: Bloomberg and HWWI.

4 Consensus Forecast, February 2011.

trend continued into the first half of 2010, driven, among other things, by higher metal prices due to the rising demand in developing countries. Food prices rose at a slightly slower pace in this period, but their decline during the crisis was also significantly slower. The second half of the year saw further growth in the prices of raw materials excluding energy, with a significant increase observed in the prices of food products. Apart from some unfavourable supply side factors (e.g. a ban on cereal exports in Russia on account of the previous summer's natural disasters), such movements were caused by weakening of the US dollar exchange rate, given that the raw materials prices are most frequently expressed in this currency. Relative to end-2009, the HWWI index, which measures the developments in raw materials prices on the global market (expressed in USD, excluding energy), increased by 30.1% in December 2010 from the same month in 2009. In line with all this, the average annual rate of change in the prices of raw materials excluding energy was positive in 2010, standing at 30.0% (–19.4% in 2009). Concerning exchange rate movements, the EUR/USD exchange rate was exposed to strong depreciation pressures during the first half of 2010, due to insecurity on the global foreign exchange markets and growing investor risk aversion on the back of unfavourable ratings of fiscal and economic trends in some eurozone countries. This trend reversed around mid-year, appreciation pressures prevailing until early November. This was mostly due to a growing perception that certain eurozone countries would manage to cover their budget deficits successfully, but also due to some US economic indicators, which proved worse than expected. However, mounting investor concern over fiscal difficulties in certain eurozone countries, coupled with uncertainty about the possibility of a timely institutional response and the published indicators, suggesting differences in the level of recovery among the eurozone economies, led to renewed weakening of the euro against the US dollar. At the end of 2010, the exchange rate stood at USD 1.33/EUR, down 7.6% from the end of 2009 (USD 1.44/EUR). Investor ratings on global foreign exchange markets of fiscal movements in eurozone countries also had a powerful impact on changes in the CHF/EUR exchange rate. The Swiss franc appreciated markedly in 2010, as investors saw it as a safe currency. At the end of 2010, the exchange rate was CHF 1.25/EUR, which represented an annual appreciation of the Swiss franc against the euro by 16.3%.

1.2 Economic activity

According to CBS[5] data, Croatia's real gross domestic product declined by 1.2% in 2010. This was the second consecutive year in which overall economic activity had a negative rate of change (in 2009, GDP shrank by 6.0%). Seasonally adjusted data show that the downturn, which began in mid-2008, was briefly interrupted in the third quarter of 2010. However, in late 2010, aggregate economic activity resumed its downward trend.[6]

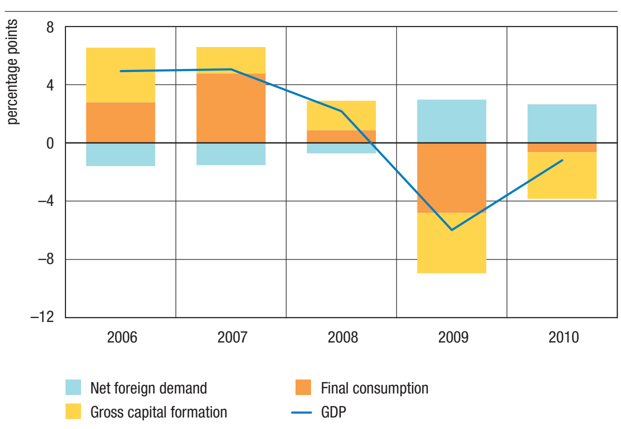
1.2.1 Demand

Broken down by components of aggregate demand, adverse developments in the real sector in 2010 were mostly a reflection of the continued sharp fall in gross fixed capital formation. The negative rate of change in GDP was also due to the further decline in household consumption, while changes in government consumption also made a negative contribution. The described developments in domestic demand led to a new drop in imports of goods and services. By contrast, foreign demand for domestic goods and services strengthened, so that net exports contributed positively to real GDP change in 2010 as well.

Despite the continued marked improvement in trade conditions, inflationary pressures were subdued in 2010 due to the ongoing slump in domestic demand. As a result, the general price level, measured by the implicit GDP deflator, increased by only 1.0% during the year under review, while it had been 3.3% during 2009.

After a sharp 8.5% decrease in 2009, real household consumption shrank by another 0.9% in 2010. The causes of such

1.8 Contributions of domestic and foreign demand to real GDP growth



Sources: CBS and CNB calculations.

5 The CBS data on GDP for 2008, 2009 and 2010 are based on quarterly GDP estimates and are therefore preliminary.

6 By seasonal adjustment, the effects of events of an economic or a non-economic character that commonly take place during the year (e.g. holiday consumption) are excluded from the data time series. Some series also require calendar adjustment, which implies elimination of differences in the number of business days which can, to some extent, account for differences in the levels of these series (e.g. a fall in the number of hours worked). The adjusted data are used for the analysis of the trend in data changes during consecutive periods, whereas the changes from the same period in the previous year are analysed on the basis of original data, or a data time series adjusted only for the difference in the number of business days.

movements should in the first place be sought in the decline in disposable income, which was entirely due to the drop in the real net wage bill. The number of employed was much lower in 2010 than in 2009, while the average real net wage also decreased. Although most other components of disposable income (e.g. domestic and net foreign transfers to households and net income from abroad) recorded positive changes, they were insufficient to offset the negative impact of the labour market changes on household income. In addition, consumer loans recorded a negative growth rate as a result of low consumer optimism and limits on the supply side, while savings deposits grew in the period under review. Disposable income dropped more than personal consumption but the difference was not financed by increased borrowing and/or a smaller increase in savings deposits. This suggests that the share of household income not covered by the official statistics went up in 2010. Specifically, the CNB's disposable income estimate is primarily based on the wage bill and current transfer estimates, excluding income from the grey economy as well as some forms of income from work (e.g. royalties) and property income.

As a result of reduced expenditures for the use of goods and services and transfers in kind, government consumption recorded a negative annual rate of change of 0.8% in 2010. By contrast, 2010 movements in government consumption were under a slight positive influence of the increase in the number of civil servants and government employees (according to preliminary CBS data for 2010).

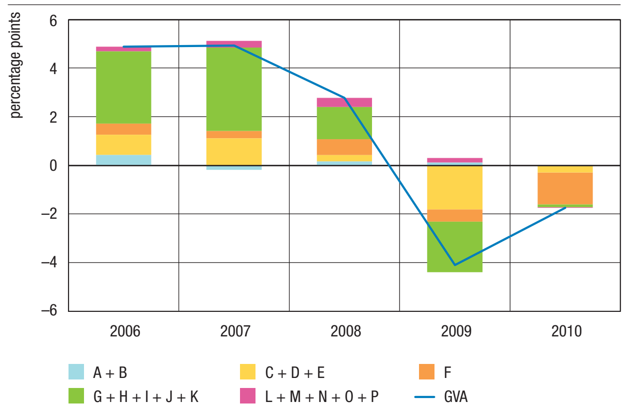
Investment activity contracted sharply in 2010 as well. Total gross fixed capital formation decreased by 11.3% (after falling by 11.8% in 2009). Therefore, this component of aggregate demand had the largest negative impact on real GDP developments. Such developments primarily reflect reduced investments by the private sector. Due to weak aggregate demand and the resulting under-utilisation of production capacities, coupled with the persistently high degree of economic uncertainty, enterprises continued to abstain from any major capital investment in 2010. As in 2009, investment activity was unfavourably affected by the reluctance of households to invest in real estate (largely due to the drop in disposable income and perception of excessively high prices of residential real estate) paired with more difficult terms and conditions for financing residential investments. As a result, there is still a surplus of residential real estate in the market, which limits investments in construction of new dwellings. Public investments in non-financial assets, most of which relate to construction works on buildings and civil engineering works, were mostly postponed due to the lack of finance in 2010. A negative contribution to real economic developments in 2010 also came from the category of changes in inventory. However, one should note that this category includes a statistical discrepancy (a mismatch between the methods for calculating GDP, the expenditure approach and the production approach).

In 2010, foreign trade was marked by a recovery in exports of goods and services. As expected, faster economic growth in the majority of Croatia's main export markets led to a stronger demand for Croatian goods and services. Total exports grew by 6.0% in 2010, but were still much below their level in the period immediately before the crisis. At the same time, the real value of imports of goods and services decreased by 1.3% in 2010 due to negative developments in domestic demand.

1.2.2 Output

The GDP by production approach shows that real gross value added (GVA)[7] in the economy decreased by 1.7% in 2010. The fall was recorded in all activities except financial intermediation. In contrast to 2009, when the strongest contraction was observed in industry and trade, the 2010 dynamics of aggregate

1.9 Contributions of NCEA activities[a] to the real change in gross value added

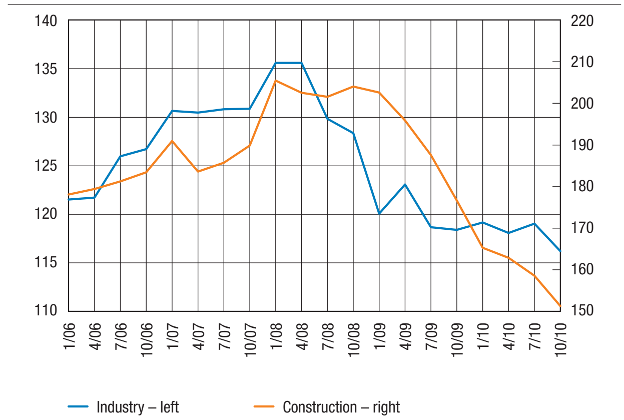


[a] A, B – Agriculture, hunting, forestry/Fishing, C, D, E – Mining and quarrying/Manufacturing/Electricity, gas and water supply, F – Construction, G – Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods, H – Hotels and restaurants, I – Transport, storage and communication, J, K – Financial intermediation/Real estate, renting and business activities, L, M, N, O, P – Public administration and defence; compulsory social security/Education/ Health and social work/Other community, social and personal service activities/Private households with employed persons

Sources: CBS and CNB calculations.

1.10 Gross value added in industry and construction

seasonally adjusted values, chain index, 2000 = 100



Source: CBS data adjusted by the CNB.

7 In the national accounts, gross value added (GVA) in the economy is expressed in so-called basic prices, whereas gross domestic product (GDP) is expressed in market prices. The difference between these two values is the total amount of tax on products reduced by subsidies (net indirect taxes).

GVA was largely determined by the decline in construction activity. Looking at changes in GVA in other economic activities, it is evident that negative annual rates were mostly the result of developments in the first half of the year, while the reduction in the tax burden for households and the relatively successful tourist season led to slightly more favourable developments in the period after July.

Industry and construction

GVA in industry continued to fall in 2010, albeit at a much slower pace than in 2009 (–1.6% vs –9.3%). Available data suggest that such developments were due to the decline in the domestic component of aggregate demand, while exports of goods picked up noticeably in the same period. As GVA data are available at an aggregate level, a more detailed analysis is based on the dynamics of the volume index of industrial production since there is a high correlation between these time series.

The industrial contraction in 2010 largely reflects negative production trends in mining and quarrying and, to a much lesser extent, production in manufacturing. By contrast, energy supply recorded an annual growth in 2010 as well. Broken down by main industrial groupings, production of intermediate goods dropped the most, which can be attributed to a sharp fall in construction activity, as well as a reduction in other industrial activities. Data on foreign trade in goods point to a strengthening of foreign demand for domestic consumer goods in 2010. With regard to non-durable goods, such trends were sufficient to offset the renewed slump in domestic demand, which resulted in a slight increase in production of these goods. However, this was not the case with durable goods, the production of which recorded an annual decrease. Capital goods recorded similar trends. Exports of capital goods went up nearly 30% in 2010; such a high growth rate largely reflects increased exports of other transport equipment (mostly ships). As production of ships is a long-term process, ships exported in 2010 probably had the strongest impact on production in previous years (production of other transport equipment decreased sharply in 2010). However, even excluding ships, exports of capital goods increased in 2010. This means that the decline in production was in this case also due to the contraction of domestic demand.

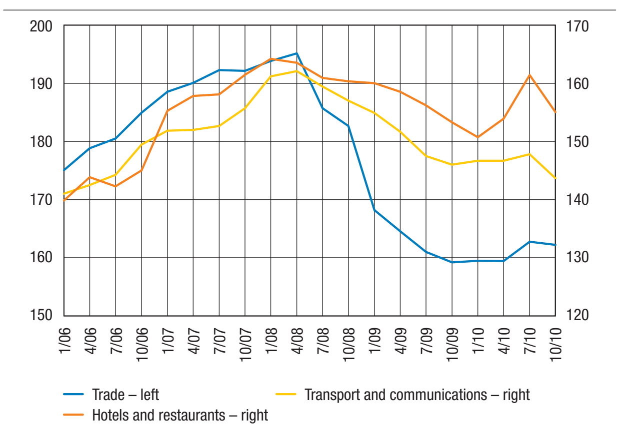
Gross value added in construction shrank by as much as 16.4% on an annual basis in 2010 and contributed the most to the negative change in total GVA at an aggregate level. The economic crisis spread to construction with a time lag relative to other activities. Construction works started in previous years and provided with a complete financial package were finished in the first quarter of 2009. However, adverse trends picked up steam in the second half of 2009 and gained additional momentum at the beginning of 2010. Such developments reflect the fall in construction investment by both private and public sectors; the decline was recorded in both works on buildings and on civil engineering projects. Data suggest that residential construction was hit particularly hard. The number of completed dwellings dropped by as much as 51.8% in 2010. Against the background of the mounting illiquidity, aggravated financing conditions and excess supply of residential units on the market, it is likely that many enterprises extended the deadline for completion of construction projects in progress or postponed the start of new projects. To prevent an even larger widening of the deficit, the government and some public enterprises reduced their investment activity, which was primarily related to works on buildings and civil engineering projects, such as roads and motorways.

Non-financial services

Unfavourable developments that characterised the labour market and contributed to the continued weakening of personal consumption led to a fall in gross value added in wholesale and retail trade of 1.2% in 2010. Negative trends were much stronger at the beginning of 2010, while the remainder of the year and the third quarter in particular recorded positive annual rates of change in GVA in trade due to the reduction in the tax burden for households. In 2010, GVA in hotels and restaurants held steady at the level reached in 2009 (its annual rate of change was –0.1%). It should be noted that the third quarter, which encompasses the peak tourist season, recorded growth in this activity's GVA but it was insufficient to offset the negative trends through to the year-end. However, it is noteworthy that this activity's developments underestimate the direct and indirect effects of tourism on real economic developments, which are extremely difficult to quantify, given the strong interdependency between tourism and other economic branches.

As industry and trade were mostly marked by continued negative trends, activity in transport, storage and communications also decreased (–2.4%) in 2010. In the case of transport, passenger transport, measured by the number of passengers carried and passenger-kilometres, decreased. By contrast, goods transport decreased when measured by tonnes carried, while it increased when measured by tonne-kilometres probably because exporters and importers increasingly turned to cheaper sea transport. In telecommunication services, minutes spent in the fixed network decreased. For the first time since data have been collected, a decrease was also recorded in minutes spent in the mobile network.

1.11 Gross value added in trade, hotels and restaurants, and transport and communications
seasonally adjusted values, chain index, 2000 = 100



Source: CBS data adjusted by the CNB.

1.2.3 Labour market

Unfavourable trends in the real sector affected labour market developments – inflows of unemployed persons into the CES register increased over 2010, employment level decreased gradually and wages showed negative annual rates of change.

Employment and unemployment

The downward trend in employment that started at end-2008 continued over the last two years. The number of jobs lost in 2009 (56,021) increased by 66,330 in 2010. In relative terms, employment fell by 4.4% in 2010 (3.6% in 2009). The decline was the sharpest at the end of 2009 and early in 2010, but it slowed down gradually as the year went by. The drop in employment was more pronounced in crafts and trades and freelance occupations, as well as in the group of individual farmers insured with the CPIA, than in legal persons. Nevertheless, as in the previous periods, the largest negative contribution to overall employment movements came from employment in legal persons. According to the data from the CPIA used in the analysis of overall employment developments the number of insured persons fell by 4.2% (65,426) over 2010 from the previous year, which was twice the decline recorded in 2009.

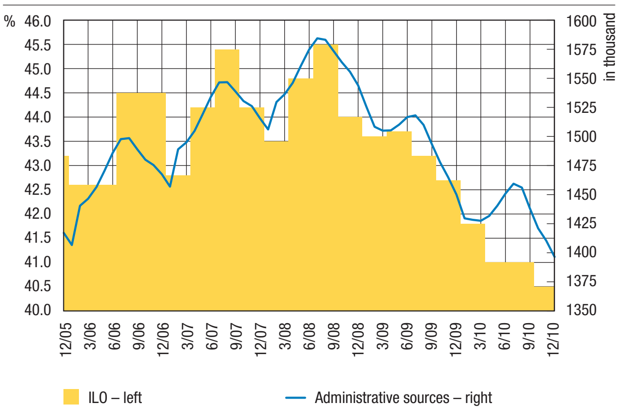
If analysed by NCEA activity, most activities saw reductions in the number of employed persons relative to 2009. However, government and public sector services were among the activities that recorded employment growth (1.2%), with education showing the highest growth rates. In contrast, construction saw the largest number of lost jobs, but this was expected, given this activity's delayed response to the contraction, as opposed to other sectors. Moreover, marked negative contributions to total employment movements also came from trade and industrial sectors.

Despite the CBS and CPIA data, suggesting a decline in employment, the CES data point to a substantial increase in new hirings over 2010 from the previous year, which was partly due to a very small number of CES-mediated hirings during the whole of 2009. Moreover, clearings from the CES records for reasons other than employment grew substantially over the last two years, particularly in the period between mid-2009 and mid-2010, mostly due to marked outflows from the labour force and clearings from the records for non-compliance reasons. Not only outflows but also inflows, of newly registered unemployed persons into the CES register, went up (by 6.9%) during 2010, although less markedly than the year before (35.2%), suggesting that most employers had adapted to new business conditions and, consequently, to a reduced need for workers as early as 2009. The majority of the newly registered had been previously employed, and had been laid off by their employers (mainly due to the termination of fixed-term employment contracts or a reduced volume of business).

The marked growth in outflows from the register was still not sufficient to offset the effects of the increase in the number of newly registered unemployed persons, which eventually raised the level of registered unemployment. The upward trend in unemployment, observed since end-2008, slowed down continuously during 2010, but at the end of the year the number of unemployed persons registered with the CES still stood at 319,845. At the entire-2010 level, unemployment rose by 39,251 (14.9%) from the year before. In terms of the age structure, unemployment increased in all age groups, particularly in the groups between 20 and 24 years and between 25 and 29 years of age. By contrast, in terms of the education level, the largest contribution to registered unemployment came from persons who had completed secondary school education (accounting for slightly more than 60% of total unemployed persons), whereas the sharpest annual increase (by 31.4%) was seen in unemployed persons with a university or an academic degree, as well as those with a master's or doctoral degree. Under such circumstances, the registered unemployment rate reached 18.6% at end-2010, and the average annual rate was 17.4% (14.9% in 2009).

According to the CBS Labour Force Survey, unemployment surged by 29.0% annually in 2010, and the number of

1.12 Total employment according to administrative sources and ILO unemployment rate



Source: CBS.

1.13 Unemployed persons registered with the Croatian Employment Service

Source: CES.

Table 1.1 Inflows into and outflows from the CES register
rate of change over the same period last year, in %

	2009/ 2008	1 – 6/2010 1 – 6/2009	7 – 12/2010 7 – 12/2009	2010/ 2009	Share in total flow		
					1 – 6/2010	7 – 12/2010	2010
1 Newly registered							
1.1 By type of inflow	**35.2**	**12.1**	**3.1**	**6.9**	**100.0**	**100.0**	**100.0**
– Directly from employment	46.2	5.8	–1.8	1.5	67.3	65.7	66.4
– From private agriculture or similar works	8.5	–21.5	0.0	–8.5	0.3	0.4	0.4
– Directly from school	13.4	4.6	8.1	7.4	3.7	11.8	8.2
– From inactivity	15.9	32.4	17.3	24.6	28.8	22.1	25.1
1.2 By previous work experience	**35.2**	**12.1**	**3.1**	**6.9**	**100.0**	**100.0**	**100.0**
– First-time job seekers	10.8	15.9	10.6	12.5	14.8	20.3	17.8
– Previously employed	41.6	11.5	1.3	5.8	85.2	79.7	82.2
2 Outflow from the CES register	2.5	24.4	13.6	18.9	100.0	100.0	100.0
– Outflow from the register to employment	–7.8	18.3	20.4	19.3	56.2	51.9	54.1
– Employed based on work contract and other activities	–28.7	20.1	24.4	22.4	1.8	2.4	2.1
– Cleared for other reasons	21.5	33.7	6.3	18.2	42.0	45.7	43.8

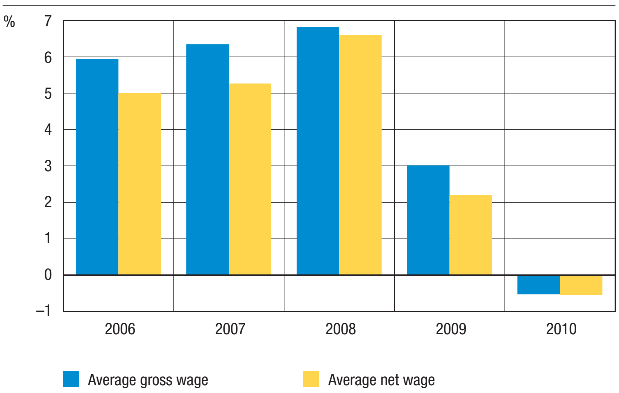
Source: CES.

persons defined as employed in the Survey dropped by 4.0%. The average Labour Force unemployment and employment rates stood at 11.8% and 41.1%, respectively. It should be noted that, due to methodological changes, the data on employment and unemployment obtained through the Survey differ from data based on administrative sources.

Wages and labour costs

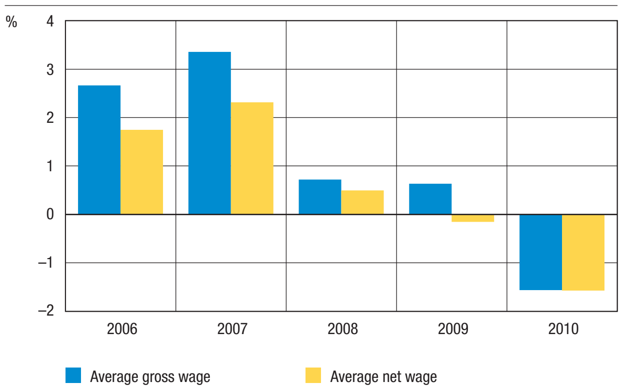
At the end of 2009, unfavourable economic movements started to produce increasingly strong spillover effects on wages, which resulted in their negative annual rates of change. The decline in wages continued throughout 2010, with both gross and net nominal wages falling by 0.5% annually from 2009. As shown by available data, employers responded to the economic recession mostly by staff reductions and, to a lesser extent, by making wage cuts. However, it should be borne in mind that the wage statistics do not include direct cash payments to employees on which no legally prescribed levies have been paid. During 2010, the nominal net wage trends were influenced by the special tax on salaries, pensions and other income, as well as changes in income taxation. From the introduction of the special tax in August 2009, two rates were applied: a 2% rate on total monthly income between HRK 3000 and HRK 6000, and a 4% rate on total monthly income in excess of HRK 6000. However, in July 2010, the decision to repeal the lower special tax rate of 2% entered into force, affecting net wages by 2% (2.8% before the decision was enforced). This coincided with the introduction of changes in tax brackets and income tax rates, which also influenced the net wage movements. The special tax was lifted in November 2010, so the previously mentioned 0.5% fall in nominal net wages also includes the base effect of the tax abolishment.

1.14 Average nominal wages
year-on-year rate of change



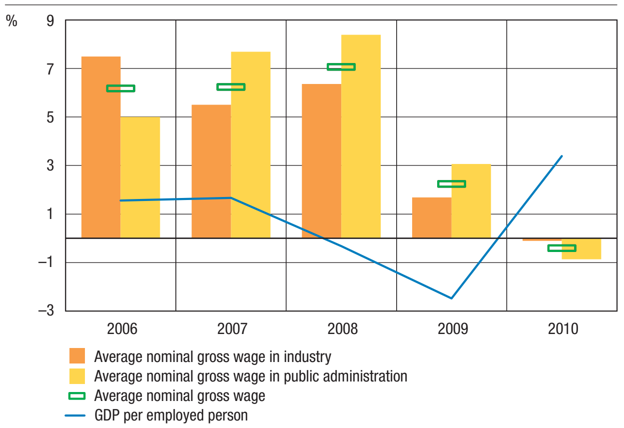
Note: Data refer to wages paid in the current year. Data on nominal net wages include the impact of the special tax on salaries, pensions and other income.
Source: CBS.

1.15 Average real wages
year-on-year rate of change



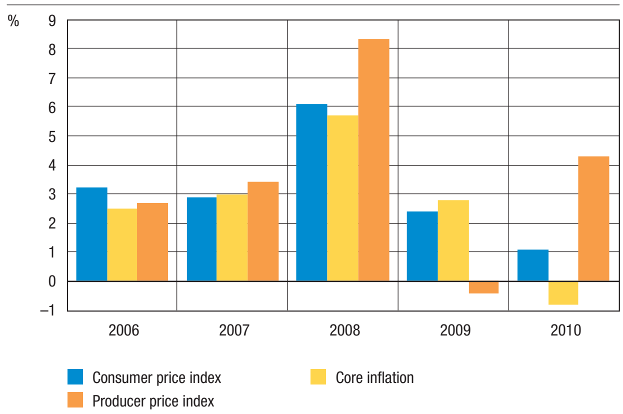
Note: Data refer to wages paid in the current year. Data on real net wages include the impact of the special tax on salaries, pensions and other income.
Source: CBS.

1.16 Gross wage and GDP per employed person
year-on-year rate of change



Note: Data refer to wages calculated in the current year.
Source: Calculation based on CBS data.

1.17 Consumer price index, core inflation and producer price index
average year-on-year rate of change



Source: CBS.

During 2010, real gross and net wages dropped by 1.6% annually. It is noteworthy that the fall in nominal wages was sharper due to the growth of consumer price inflation.

In 2010, the average wage in almost all NCEA divisions decreased relative to that a year before. The public sector saw a sharper wage decrease than the private sector, due to a strong base effect observed during the first quarter, as a result of a lower wage calculation base for civil servants and other government employees applied since 1 April, and a reduced wage calculation base for government officials. The largest negative contribution to wage movements came from private sector wages, mostly from the fall recorded in construction and in professional, scientific and technical services. Wage developments in industry did not differ from those in other economic activities and were more unfavourable in the entire sector than in 2009. Looking at the entire economy, the annual fall in employment was sharper than the decline in production measured by GDP, resulting in an increase in labour productivity during 2010. Coupled with a decrease in nominal gross wages, this led to a decline in unit labour costs at the annual level.

1.2.4 Prices and the exchange rate

Prices

Consumer price inflation in Croatia was low in 2010, with its average annual rate of change dropping from 2.4% in 2009 to 1.1% in 2010. The slowdown in consumer price inflation was driven by shrinking domestic demand, declining unit labour costs and a stable kuna/euro exchange rate. Furthermore, due to relatively weak demand, most producers were unable to pass on the price increases in energy and other raw materials to consumers and instead adjusted to rising import costs by reducing other costs and/or profit margins. This is confirmed by the relatively low annual rates of change of the producer prices of durable and non-durable consumer goods. The slowdown in consumer price inflation was also due to the base effect resulting from the disappearance of impact of the 2009 substantial increase in administratively regulated prices (gas, tobacco products, health care and hospital services). In contrast, a rise in world food raw materials and crude oil prices put upward pressures on inflation, intensified by the depreciation of the kuna/US dollar exchange rate. Rates of change in annual core inflation were mostly negative in 2010, with the average annual rate decreasing from 2.8% in 2009 to –0.8% in 2010. Industrial producer prices were primarily affected by the increase in the world prices of raw materials, which brought their average annual rate of change up from –0.4% in 2009 to 4.3% in 2010.

Consumer prices

Alternative inflation indicators also suggest low and stable consumer price inflation. Monthly overall and core inflation rates (seasonally adjusted and annualised) were relatively low in 2010, lower than their long-term averages, and less volatile than in 2009. These indicators trended upwards in 2010, mainly because of the pressures from the external environment, above all the rising world prices of energy products and other raw materials.

The annual consumer price inflation rate edged down from 1.9% in December 2009 to 1.8% in December 2010. Services prices made the major contribution to the decline in overall inflation, but this decrease was largely offset by an increase in the contribution of the four major CPI components, primarily energy and food products. The upward pressures on consumer prices mainly arose from a rise in world raw material prices. Weak domestic demand and unfavourable conditions in the domestic market produced the opposite effect, reflected primarily in developments in services prices, whose annual rates of change hit historic lows.

Core inflation was lower than overall consumer price inflation, with its annual rate of change decelerating slightly from 0.2% in December 2009 to 0.1% in December 2010. Core inflation had negative annual rates of change throughout 2010, primarily due to an annual decrease in the prices of some food products (especially meat) and of clothing and footwear.

Table 1.2 Consumer price index, the five main categories of products
year-on-year rate of change

	Weight 2010	12/2009	3/2010	6/2010	9/2010	12/2010
Total	100.0	1.9	0.9	0.7	1.4	1.8
Energy	14.9	7.9	10.1	10.4	9.2	9.7
Unprocessed food	13.9	–1.6	–4.7	–2.7	–0.6	–0.3
Processed food (incl. alcoholic drinks and tobacco)	23.4	1.8	0.3	–1.8	0.7	2.5
Industrial non-food without energy	27.1	–0.5	–0.5	–1.1	–0.5	–0.4
Services	20.8	3.9	1.9	1.9	1.0	0.3

Source: CBS.

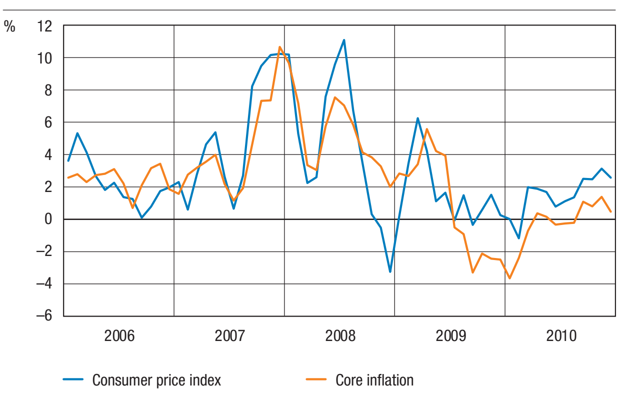
As already mentioned, the largest contribution to the slowdown in consumer price inflation came from the slowdown in the annual growth rate of services prices, down from 3.9% in December 2009 to 0.3% in December 2010. This slowdown primarily resulted from a decline in the annual rates of change of health care and hospital services due to a base effect related to a marked increase in these prices in 2009, with a slightly smaller contribution coming from an annual decrease in education prices and a slowdown in the annual growth of prices of water supply, hotel and restaurant services and cultural services. It should be emphasised that, in a situation of decreasing demand, most companies did not transfer the price increases in energy and other raw materials to consumers, as corroborated by movements in the prices of road transport services, which were down by 4.2% in December 2010 from the same month in the previous year despite a rise of 17.5% in refined petroleum product prices in the observed period.

Energy is the component that made the largest contribution to the annual growth of overall consumer price inflation in 2010, due predominantly to an increase in refined petroleum product prices, caused by the price increase in crude oil on the world market. The annual rate of change of domestic energy prices grew from 7.9% in December 2009 to 9.7% in December 2010.

Non-processed food product prices decreased annually in 2010, but their rate of decrease decelerated from –1.6% in December 2009 to –0.3% in December 2010 due to an increase in the annual rate of change of agricultural product prices. An accelerated annual decrease in meat prices had the opposite effect. Furthermore, the annual rate of change of processed food products (tobacco and alcohol included) rose from 1.8% in December 2009 to 2.5% in December 2010. The rise was primarily due to price increases in oil and milk, and in bread and other bakery products in the second half of 2010, partly resulting from the price growth of food raw materials (especially cereals and oil seeds) on the world market, which spilled over onto domestic prices. A decrease in the annual rate of change of tobacco products produced the opposite effect because the calculation of these prices no longer included the contribution of the price rise in tobacco products in early 2009, caused by an increase in excises. However, tobacco product prices rebounded in November 2010 because of an increase in the producer prices of these products in the previous month.

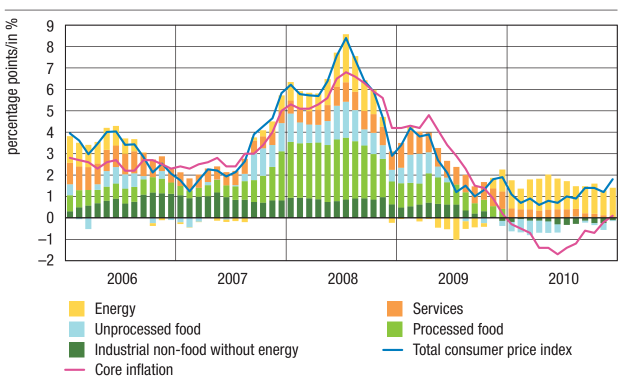
Industrial producer prices, excluding food and energy, which account for approximately 27% of the overall CPI basket, were strongly affected by weak domestic demand and adverse trends in the domestic labour market. These prices declined annually throughout 2010 due predominantly to the decreasing prices of clothes and footwear as well as cars. The annual rate of change of industrial producer prices, excluding food and energy, stood at –0.4% in December 2010, changing only slightly from

1.18 Consumer price index and core inflation[a]
annualised month-on-month rate of change[b]



[a] Core inflation excludes agricultural product prices and administrative prices.
[b] The month-on-month rate of change is calculated from the quarterly moving average of seasonally adjusted price indices.
Sources: CBS and CNB calculations.

1.19 Year-on-year inflation rates and contribution[a] of components to consumer price inflation



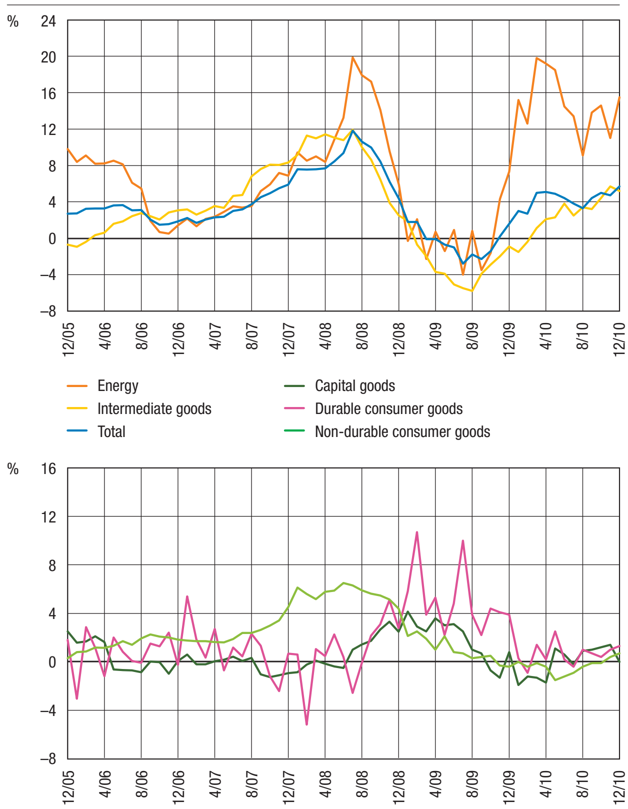
[a] The contribution is defined as the relative importance of a CPI component for total inflation. The sum of contributions of all components expressed in percentage points in a relevant month is the amount of the annual consumer price inflation rate (certain divergences are possible due to the rounding of data).
Sources: CBS and CNB calculations.

–0.5% in December 2009. However, it should be pointed out that considerable import pressures have been stemming from the price growth of energy products and other raw materials (e.g. textile fibres, iron ore and metals) on the world market.

Industrial producer prices

Developments in domestic industrial producer prices in 2010 were predominantly affected by external factors, i.e. by a rise in world raw material prices whose annual rates of change went up from 1.6% in December 2009 to 5.7% in December 2010. A breakdown by the main industrial groupings shows that the prices of energy and intermediate products increased at the highest rates. Regarding energy prices, the highest increase was recorded by the annual rate of change of crude oil and natural gas extraction prices and by the producer prices of refined petroleum products. Of intermediate products, the highest growth was recorded by metal prices and by the producer prices of rubber and plastic products. In contrast, the annual rates of change of the prices of other main components of the industrial producer price index were relatively low, falling below their average values in 2009. However, as of mid-2010, pressures stemming from the strong growth of world raw material prices made an impact on the growth of domestic producer prices of food products.

1.20 Producer price index by main industrial groupings
year-on-year rate of change



Source: CBS.

Residential property prices

The decrease in residential property prices in Croatia started in the first half of 2009 continued in 2010, accelerating in the second half of the year, when real estate prices dropped by 9.4% from the same period in 2009. The 2009 decrease in real estate prices was due to a reduction in demand for real estate, occurring against a background of stagnation in household disposable income, a sharp decrease in consumer optimism and an increase in interest rates on home loans. The real value of newly extended home loans, an important indicator of trends in real estate demand, fell by 41.6% in 2009 from the previous year. However, these trends did not continue in 2010; the real value of newly extended home loans grew by 3.3%, indicating a slight recovery of demand for real estate. Nevertheless, it should be noted that the real value of newly extended home loans was half as low as, for example, that recorded in 2007. In addition to a drop in real estate prices, a favourable effect on demand was produced by a decrease in interest rates on home loans in 2010.[8] The relative financial availability of real estate also improved given that the drop in real estate prices in 2010 was more significant than that in household disposable income.

As concerns supply, the market evidently abounds with unsold real properties, with the result that the relatively large real estate supply, coupled with weak demand, has resulted in downward pressures on real estate prices. The downward trend in the number of building permits for flats issued continued in 2010 and will tend to reduce real estate supply in the years to come. A total of 13,378 permits were issued in 2010, a decrease of 45% compared with 2007.

Table 1.3 Croatian residential real estate price index
year-on-year rate of change

	Weight	2006	2007	2008	2009	2010	2008		2009		2010	
							1st half	2nd half	1st half	2nd half	1st half	2nd half
Croatia	100.0	17.0	13.2	4.6	–3.9	–6.2	4.5	4.7	–4.7	–3.1	–3.0	–9.4
Zagreb	65.3	16.9	11.9	2.1	–5.3	–8.0	1.8	2.3	–3.0	–7.5	–5.9	–10.1
Adriatic Coast	22.0	17.4	16.7	6.9	–2.8	–3.5	9.0	4.7	–7.6	2.3	1.2	–7.8

Note: The methodology used for compiling the hedonic real estate price index in Croatia is such that each calculation of the new value of the index (at the end of a semi-annual period) involves a reassessment of all the parameters of real estate prices achieved by the given equations, which, in turn, results in a revision of the real estate price index for the previous semi-annual and annual periods. Therefore, the indices from the previous years are altered with each update, but are also more precisely measured, being calculated by a larger number of data.
Sources: *Burza nekretnina* and CNB calculations.

8 The interest rate on home loans (with a currency clause) declined from 6.45% in December 2009 to 6.02% in December 2010.

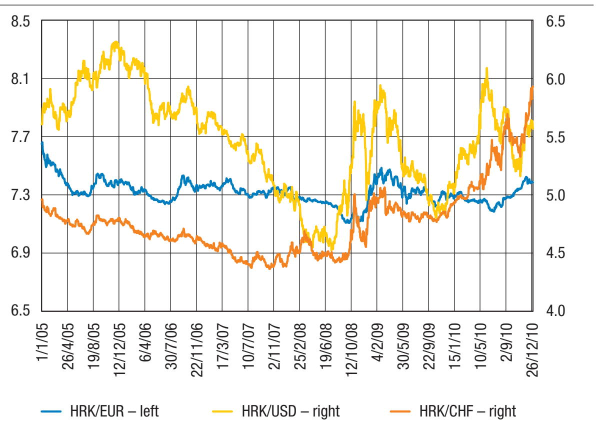
Exchange rate

The kuna/euro exchange rate was stable in 2010, thus contributing to the stability of domestic prices and the financial system, as well as to the stability of the overall macroeconomic environment. The daily exchange rate moved within a range of –1.4% to 1.9% around its average value of HRK 7.29/EUR, accounting for an appreciation of the kuna of 0.7% from the previous year. In 2010, the year-end exchange rate stood at HRK 7.39/EUR, an increase of 1.1% over that at the end of 2009. The intra-year dynamics shows that the kuna/euro exchange rate was quite stable against a background of balanced foreign exchange supply and demand, with pressures on the kuna to appreciate mounting in June. These pressures resulted from the activities of market participants related to expectations of a new foreign currency indexed government bond issue and additional capital inflows from public enterprise borrowing. The kuna also strengthened due to a decline in corporate demand for foreign exchange and the start of the tourist season. Depreciation pressures prevailed in the second part of the third quarter, and especially in the fourth quarter of 2010, primarily driven by rising demand for foreign exchange from the banking sector (repayments of foreign liabilities and profit allocations to foreign owners) and the corporate sector (payments for imports). The kuna/euro exchange rate stabilised in December.

The CNB conducted five foreign exchange interventions in 2010. The first three interventions (two in late June and one in early July) were aimed at alleviating the appreciation of the kuna/euro exchange rate, with the CNB purchasing a total of EUR 363.7m from banks. The central bank intervened again in the foreign exchange market in the second half of November, selling a total of EUR 350.1m to banks and thus alleviating depreciation pressures on the domestic currency. The net effect of CNB foreign exchange interventions in 2010 was relatively low, in contrast with the previous year, which had seen a net EUR 324.8m purchased from banks by the central bank. The net volume of foreign exchange transactions between the MoF and the CNB was also relatively modest in 2010 as the central bank net purchased only EUR 5.9m, compared with EUR 570.4m in 2009.

1.21 Daily nominal exchange rate – HRK vs. EUR, USD and CHF

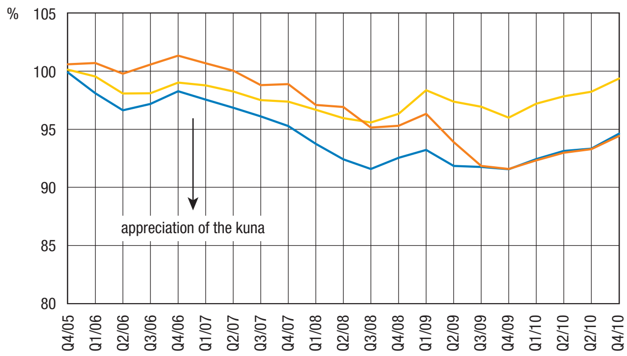
CNB midpoint exchange rate

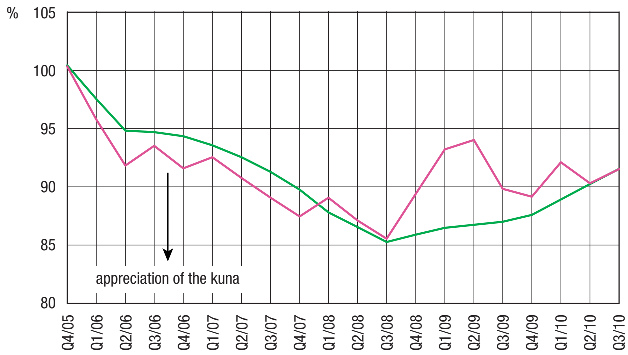


Source: CNB.

1.22 Indices[a] of the nominal and real effective kuna exchange rate deflated by consumer prices, producer prices and unit labour costs

2005 = 100





[a] A fall in the index denotes an appreciation of the kuna.
Source: CNB calculations.

While the average annual kuna/euro exchange rate appreciated in 2010, the kuna depreciated against other currencies in the effective exchange rate basket. The kuna recorded the highest rate of depreciation versus the Japanese yen and the US dollar, due to global foreign exchange market trends, including the euro weakening against these currencies on the back of investor concern about fiscal problems encountered by some eurozone members. Consequently, the average annual nominal effective exchange rate of the kuna depreciated by 1.0% in 2010.

The real effective exchange rates of the kuna depreciated throughout 2010, signalling a mild improvement in price and cost competitiveness of Croatian exports. The average real effective exchange rate of the kuna deflated by consumer prices was 1.4% lower in 2010 than in 2009, due primarily to the already mentioned nominal depreciation of the kuna versus the basket of currencies of Croatia's main trading partners, and to some extent to a slower growth of domestic prices relative to foreign prices. Developments in domestic consumer prices were mainly determined by weak domestic demand and a drop in unit labour costs. In contrast with consumer prices, domestic producer prices grew at higher rates than those in the main trading partners in 2010, with the result that the average real exchange rate of the kuna appreciated only slightly by 0.2% from the previous year despite the nominal effective depreciation. However, the real effective exchange rate of the kuna deflated by producer prices was weaker in late 2010 than in late 2009.

The latest available data for the first three quarters of 2010 show that the real effective exchange rate deflated by unit labour costs for the whole economy depreciated at an annual rate of 4.0%, for the most part because the decrease in unit labour costs was much more pronounced in Croatia than in most of its trading partners, in some of which there was even a growth. In contrast, unit labour costs in industry decreased at lower rates in Croatia than in most of its main trading partners. As a result, the average real effective exchange rate of the kuna deflated by unit labour costs in industry appreciated slightly by 1.1% in the first three months of 2010 from the same period in 2009, although it was weaker in comparison with late 2009. Unit labour costs decreased due to the growth of labour productivity, resulting from the fact that the decrease in employment exceeded the decrease in production; this was coupled with a drop in employee compensation.

1.2.5 Monetary developments and monetary policy

In 2010, the Croatian National Bank continued to pursue the policy of supporting high liquidity in the domestic banking system in order to spur bank lending and thus soften the continuous weakening of domestic economic activity. In contrast to 2009, when the central bank successfully maintained the country's foreign currency liquidity position, which was threatened at that time, by a series of regulatory changes and foreign exchange interventions, in 2010, the CNB focused more on supporting high kuna liquidity with a view to improving financing terms in the domestic banking market.

In a monetary environment characterised by a stable exchange rate for the domestic currency, low inflation and interest rates in the money market, there was no need for major changes in monetary policy instruments. The only change was made in early February when the central bank reduced the reserve requirement rate from 14% to 13% to support the incentive programme of the Government and the CBRD aimed at spurring economic recovery. Out of the funds thus released, a bank loan was granted to the CBRD, which used this loan and the funds of banks for corporate lending according to predetermined criteria.

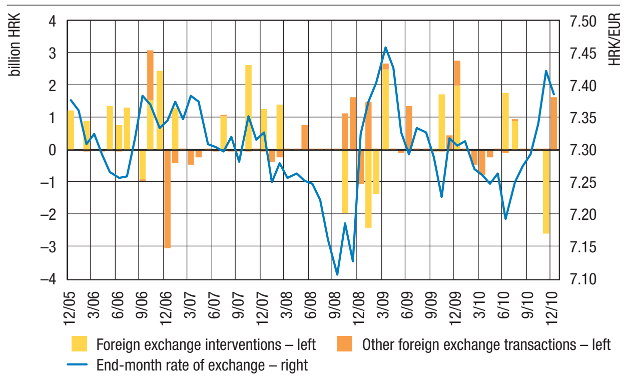
Although the amount of excess free reserves of banks was nearly five times higher than in the previous year, which resulted in low overnight interest rates in the interbank market throughout the year, long-term interest rates on bank loans fell only slightly. Among other things, this was due to the persistent upward trend in the ratio of non-performing loans. With such supply side conditions in an environment of a continued overall economic slowdown, changes on the demand side could not lead to any considerable intensification of bank lending. After a contraction in 2009, bank placements to the private sector grew in 2010. This increase was due exclusively to corporate lending, which was stronger than in 2009, while lending to the household sector recorded no recovery. The government also continued to raise substantial funds from domestic banks; the rise in total placements in 2010 ran parallel to a slight recovery in most monetary aggregates.

Monetary policy and flows of creating and withdrawing reserve money

The main instrument for the creation and withdrawal of reserve money in 2010 consisted of foreign exchange transactions of the central bank, which included CNB interventions in the foreign exchange market and direct purchase and sale transactions with the government. The net effect of foreign exchange transactions on the system's liquidity was almost neutral on an annual basis.

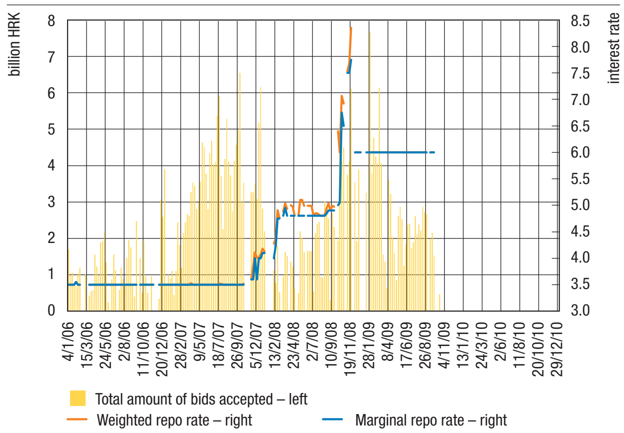
In 2010, the central bank successfully eased both upward and downward pressures on the domestic currency. Against the backdrop of strong appreciation pressures in June and July, which stemmed from the foreign-currency-indexed government

1.23 Foreign exchange transactions of the Croatian National Bank and midpoint HRK/EUR rate of exchange



Note: The positive value of foreign exchange interventions and foreign exchange transactions refers to the repurchase of foreign exchange by the CNB. Other foreign exchange transactions include the purchase of foreign exchange from and the sale of foreign exchange to the MoF and foreign currency swaps with banks.
Source: CNB.

1.24 Regular reverse repo operations



Source: CNB.

bond issue in the domestic market and capital inflows from public enterprise borrowing, the CNB intervened three times by purchasing EUR 363.7m. The ensuing exchange rate developments up to end-November did not call for central bank interventions in the foreign exchange market. At that time, depreciation pressures mounted due to an increase in demand for foreign exchange on the part of the banking and corporate sectors. The pressures were curbed by two foreign exchange interventions at which the CNB sold a total of EUR 350.1m. Throughout the whole of 2010, the central bank purchased foreign exchange in the net amount of EUR 13.6m from banks, which only slightly increased the kuna liquidity in the system (by HRK 24.8m).

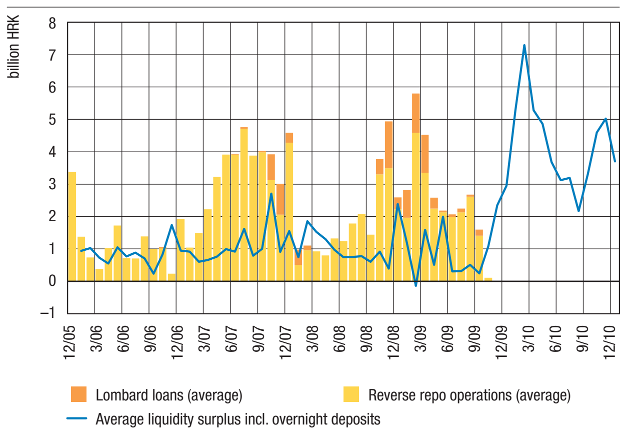
As with foreign exchange transactions with commercial banks, foreign exchange purchases from and sales to the central government were equally balanced in 2011. In the first half of the year, the CNB sold to the government EUR 234.0m, required for the payment of foreign liabilities falling due. On the other hand, it purchased from the government a total of EUR 239.9m, most of it towards the very end of the year. At that time, the government converted a portion of the foreign exchange funds deposited with the CNB originating from previous foreign borrowings. On an annual basis, only EUR 5.9m net was purchased in foreign exchange transactions with the government, which also slightly increased the kuna liquidity in the monetary system (by HRK 61.7m).

Regular reverse repo operations were not used in 2010, which reflects the substantial kuna liquidity surplus that had characterised the banking system since the last quarter of 2009. At that time, the CNB purchased from the government and banks a large amount of foreign exchange funds, thereby giving a strong boost to the kuna liquidity in the system. Since that time, commercial banks held in their accounts with the central bank much larger amounts of kuna funds than required under the reserve requirement calculations. The average daily liquidity surplus in the system, including overnight deposits with the CNB, was HRK 4.3m in 2010, while it was HRK 0.9bn in 2009.

The very comfortable liquidity position also affected the use of other monetary policy instruments. Banks made use of the overnight deposit facility with the CNB on a daily basis and the average daily balance of overnight deposits was HRK 3.9bn. In contrast, Lombard loans were not used in 2010, while interest-free intraday loans, which are used to increase limits in banks' settlement accounts, were used for only six days, and their average amount was HRK 0.5bn.

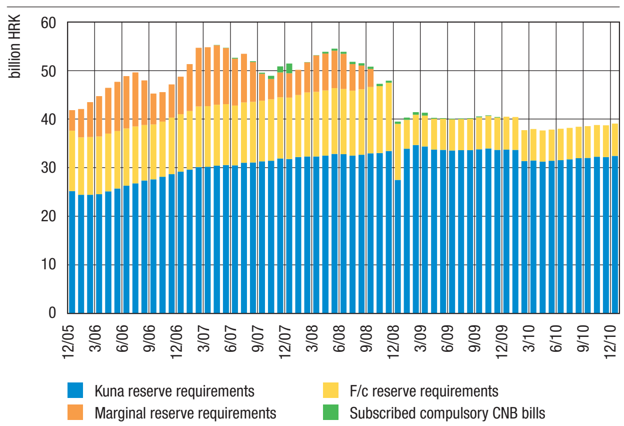
Reserve requirements continued to be used as the main monetary policy instrument for kuna liquidity sterilisation. The one percentage point cut in the reserve requirement rate in February 2010 led to a one-off decrease in the total calculated reserve requirements (of 6.7%). However, as the calculated reserve requirements recovered in the rest of the year due to an autonomous increase in the base (largely on account of deposit growth), their annual decline was 3.5%. Foreign currency funds predominate strongly in the funding sources of banks. However, due to the central bank decision that 75% of the foreign currency reserve requirements be set aside and maintained in kuna, kuna reserve requirements accounted for HRK 32.4bn of the total calculated reserve requirements, which stood at HRK 39.1bn at the end of 2010.

1.25 Reserve money creation through reverse repo operations and Lombard loans



Source: CNB.

1.26 Calculated reserve requirements and subscribed compulsory CNB bills



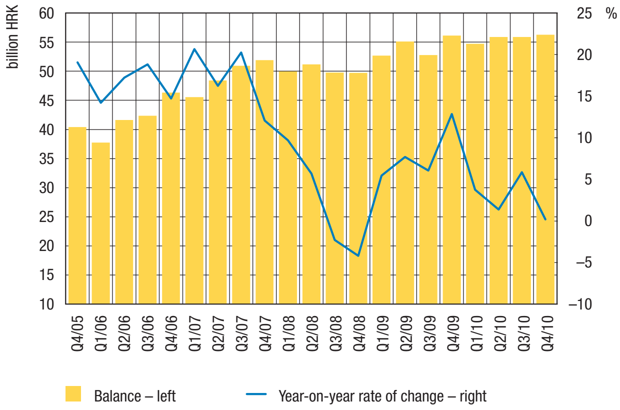
Source: CNB.

Reserve money and international reserves

Reserve money (M0) stood at HRK 56.2bn at the end of 2010, almost the same as at the end of 2009. A negligible impact of net foreign exchange transactions of the central bank on the creation of reserve money, the absence of the need for lending to banks through reverse repo auctions and Lombard loans and approximately the same level of currency in circulation kept the main components of this monetary aggregate at levels similar to those at the end of 2009.

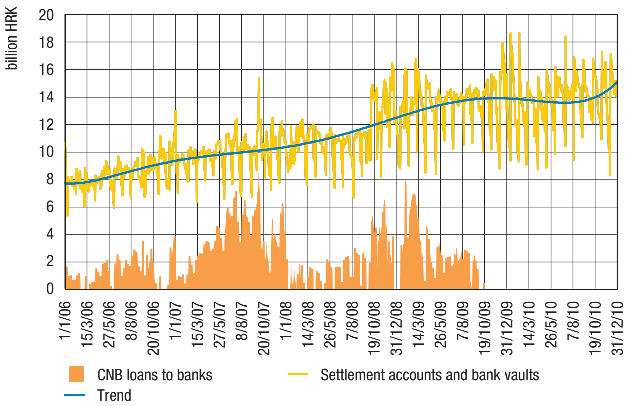
Still, the structure of the monetary aggregate M0 experienced some changes. Funds set aside for reserve requirements decreased by around HRK 0.9bn, due to the cut in the reserve requirement rate early in the year. The balances in banks' settlement accounts also decreased, by HRK 1.8bn. These funds

1.27 Reserve money



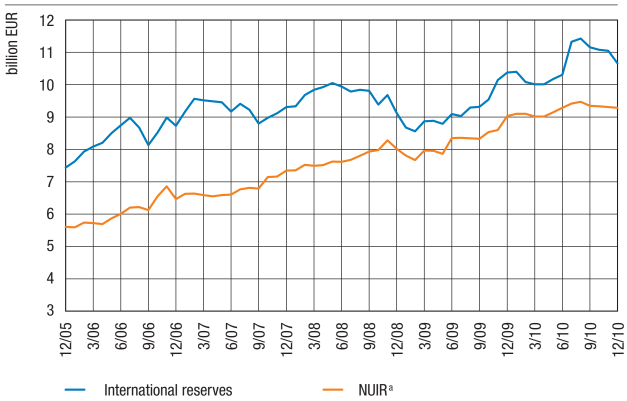
Source: CNB.

1.28 Bank settlement accounts with the CNB and liquidity loans



Note: CNB loans include Lombard loans, regular repo operations and fine-tuning operations.
Source: CNB.

1.29 International reserves of the CNB



[a] NUIR = international reserves – foreign liabilities – reserve requirements in f/c – government foreign currency deposits – general and special SDR allocations.
Source: CNB.

were transferred either to the central bank as overnight deposits or to banks' vaults.

In addition to structural changes, the balance of reserve money also fluctuated over the year, largely on account of changes in government kuna deposits with the CNB. In contrast to the previous years, the government deposited with the central bank the funds for pension and wage payments at the beginning of each month, instead of depositing them with banks, which caused temporary outflows of kuna liquidity from the system and a reduction in reserve money.

Not only were government kuna deposits volatile, but 2010 witnessed large inflows and outflows of government foreign currency deposits with the CNB. This particularly refers to their increase in July, when the government deposited USD 1.2bn raised through the international bond issue. The funds were spent gradually and government foreign currency deposits were slightly below USD 0.5bn (HRK 2.7bn) at the end of the year.

Inflows and outflows of government foreign currency deposits also affected the movements in gross international reserves in 2010. After decreasing in the first several months, gross international reserves did not change much until mid-2010. They grew sharply afterwards due to the deposited foreign exchange funds that the government raised through the bond issue in foreign markets and purchases of foreign currency from banks. Because of the gradual depletion of government deposits and the sale of foreign exchange in November interventions, gross international reserves fell to EUR 10.7bn by the year-end, up 2.7% on the end of 2009.

In contrast to gross international reserves, net usable reserves were less volatile. They stood at EUR 9.3bn at end-2010, growing annually by 2.8%. Net reserves grew on account of positive exchange rate differentials arising from the strengthening of the US dollar against the euro in the global foreign exchange market, income from the investment of reserves and the net purchase of foreign exchange from the government and banks.

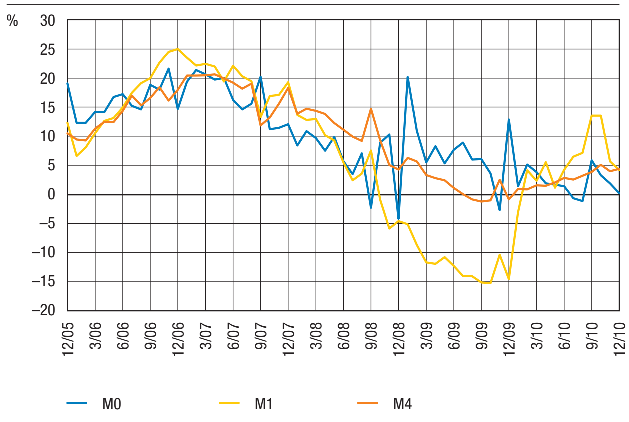
Developments in monetary aggregates

Against the background of continued adverse economic developments, monetary and credit aggregates grew slightly in 2010. Bank placements to the private sector, which contracted in 2009, recovered gradually in 2010, exclusively as a result of corporate loans. Accordingly, money (M1) grew by 4.2% or HRK 2.0bn, standing at HRK 49.2bn at the year-end. Total liquid assets (M4) also increased; growing by HRK 9.8bn or 4.4% from the end of the previous year, they stood at HRK 232.9bn at the end of 2010.

Within the structure of the monetary aggregate M4, foreign currency deposits increased while kuna deposits decreased, so that the degree of euroisation of the domestic banking system continued to grow, albeit at a much more moderate rate than in the previous two years. Therefore, the share of foreign currency deposits in total deposits reached 80.9%, an increase of 3.3 percentage points from the end of 2009.

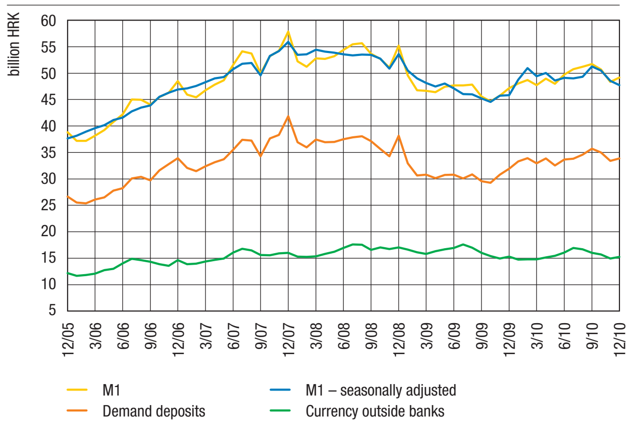
The 2010 increase in money (M1) was entirely the result of

1.30 Monetary aggregates
year-on-year rate of change



Source: CNB.

1.31 Money (M1)



Source: CNB.

the rise in demand deposits as the other component of money, currency outside banks, held almost steady. The absence of a substantial recovery in demand deposits and the persistently low demand for currency reflected continued unfavourable trends in the real sector.

The nominal increase in savings and time deposits of the domestic private sector in 2010 was almost equal to that in 2009, 4.5% (HRK 7.8bn). However, excluding the exchange rate effect (which increases the kuna amount of deposits denominated in or indexed to foreign currency), the rise in total deposits was actually lower than in 2009. Observing the currency structure of deposits, kuna deposits continued to fall in 2010, by 11.0% on an annual basis, while foreign currency deposits continued to increase, by 9.0%.

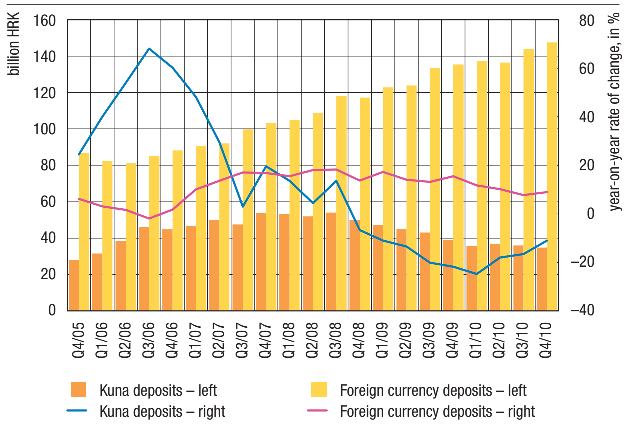
The continued substitution of foreign currency deposits for kuna deposits was due to the high propensity of households to save in foreign currency and withdrawals of corporate kuna deposits. Kuna savings and time deposits of the household sector were only 0.9% higher in 2010 than in 2009, while its foreign currency deposits grew by 9.2%. Corporate kuna deposits dropped by 21.2%, while corporate foreign currency deposits went up 12.2%.

Bank placements

After a contraction in 2009, lending recovered moderately in 2010. Bank placements to the non-banking sector stood at HRK 247.6bn at the end of 2010, which represents an increase of HRK 15.9bn or 6.9% relative to the end of 2009. This was mostly the result of exchange rate changes, above all a substantial weakening of the kuna against the Swiss franc (20.8% on an annual basis), the currency to which some 18% of total placements to the private sector are indexed. Excluding the exchange rate effects, the annual growth in placements was nearly twice as low, HRK 8.3bn or 3.6%.

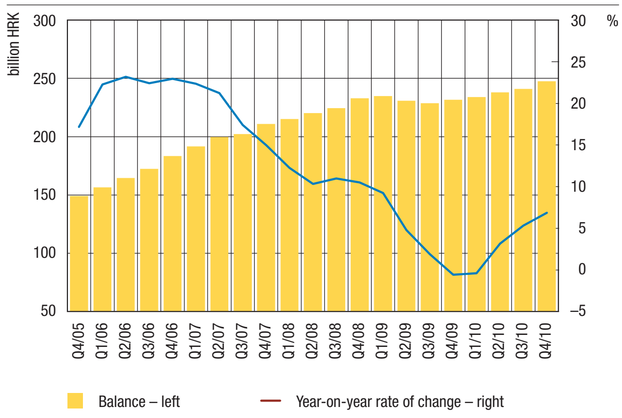
In 2010, bank lending was directed exclusively to the corporate sector. Corporate loans grew by HRK 9.5bn or 9.6% in 2010. The loan growth was completely accounted for by

1.32 Kuna and foreign currency deposits



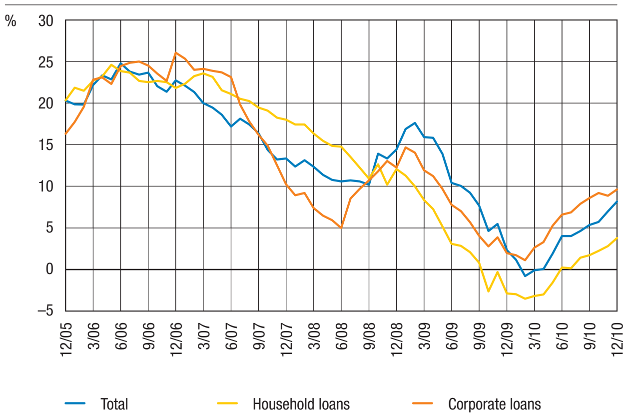
Source: CNB.

1.33 Bank placements to the non-banking sector



Source: CNB.

1.34 Bank loans
year-on-year rate of change



Source: CNB.

enterprises in majority private ownership, while state-owned enterprises slightly reduced their credit liabilities to banks in 2010. The breakdown of loans by purpose shows that loans were intended mostly for financing working capital, while loans for financing investments held steady due to the lack of investment demand and the still unfavourable conditions for long-term loans.

A portion of the corporate loan growth may be attributed to lending within the Economic Recovery Programme of the Croatian government, implemented through the CBRD and in cooperation with commercial banks. The government implemented the incentive programme to spur lending in 2010 by the use of two models (model A and model B). Under model A, the government (through the CBRD) directly participated in lending, providing 40% of the total amount of loans that banks granted to end users, while banks provided the remaining 60%. In 2010, there were nine auctions at which a total of HRK 1.1bn of CBRD quotas was allocated. Adding to this the funds from commercial banks, a total of HRK 2.8bn was used by the end of 2010, which is slightly more than half of the total credit potential of model A. Out of this amount, HRK 2.1bn[9] was disbursed to end users by the year-end. In addition, under model B, the government was to have undertaken to cover some of the risks associated with new bank loans by establishing a guarantee fund. However, this model failed to yield the desired results; only one auction was held, at which HRK 36.9m worth of guarantees was granted for a mere HRK 106.9m of bank loans.

In contrast to corporate lending, adverse economic developments continued to prevent a noticeable recovery in household demand for loans. Household loans grew by HRK 4.6bn or 3.8% in nominal terms. However, excluding the exchange rate effects, loans to this sector actually dropped by 1.4%. Exchange rate changes affected most the balance of home and car loans, which account for the largest share of Swiss-franc indexed loans. The sharpest annual fall was recorded in car (–18.0%) and credit card loans (–12.5%).

Banks adjusted the currency structure of loans granted to changes in the currency structure of funding sources. The share of loans denominated in or indexed to foreign currencies in total loans to the private sector grew to 73.2% by the end of 2010, up 2.3 percentage points on the end of 2009.

Banks' net claims on the central government

The central government borrowed heavily from banks in 2010. Total bank claims on the central government grew by HRK 6.1bn (13.7%) in 2010. The strongest change was recorded in loans to the government, which grew by HRK 4.6bn from the end of 2009. It should be noted that of that amount HRK 2.0bn was accounted for by a syndicated bank loan to the CBRD for the purpose of financing model A.

Government deposits with banks and the CNB also grew in 2010 (HRK 2.8bn), but much less than government liabilities to banks. The balance of central government deposits was mostly affected by the July issue of bonds in the domestic and foreign markets since the funds thus raised were deposited temporarily with the CNB and, to a lesser extent, banks. The funds were withdrawn gradually over 2010 to finance current liabilities. As a result, the government's net position in relation to banks and the CNB deteriorated by HRK 3.2bn in 2010.

Developments in net foreign assets

Net foreign assets of the monetary system decreased by 2.2% in 2010, which is in contrast to 2009, when they increased by 7.8%. As net foreign assets of the CNB grew slightly (3.9%), the decrease in net foreign assets of the monetary system was entirely due to a deterioration in the foreign position of banks. This was the result of a decline in foreign assets and a parallel increase in foreign liabilities of banks relative to the previous year. Still, the fall in net foreign assets of banks was much less pronounced than in 2009. At end-2010, the net foreign position of banks was HRK 3.9bn (12.7%) lower than at end-2009, with foreign assets standing at HRK 47.2bn and foreign liabilities at HRK 81.9bn.

Developments in foreign liabilities and assets of banks were primarily influenced by the usual seasonal movements. Over the summer months, banks used seasonal inflows of domestic deposits to increase foreign assets and reduce foreign liabilities, while the last quarter witnessed opposite movements, which was in line with increased needs to finance the current account deficit towards the year-end.

1.2.6 Money market

High banking system liquidity was maintained throughout 2010. Accordingly, banks' needs for primary liquidity financing through the money market were relatively modest, tending to keep the total money market turnover at a low level, whereas

9 It should be noted that within total loans granted to end users under model A, the portion of the loans directly financed by the CBRD is not included in the monetary statistics data (HRK 0.8bn out of the total of HRK 2.1bn), and thus in the growth of bank loans to the corporate sector.

interest rates mainly held steady at their beginning-of-year level (around 1.0%).

Relatively low and stable interest rates on the money market were accompanied by stagnation in interest rates on all-maturity T-bills. This was the result of a rather large investor interest boosted by good liquidity in the system and reduced government needs for deficit financing by means of short-term securities issues in conditions of increased use of other sources of funding, mainly government bonds.

As a result of the good liquidity of the financial system and a weaker demand for loans, bank lending and deposit interest rates mainly continued to fall, with the exception of short-term interest rates on household loans, which remained very stable. A slightly stronger reduction in lending than in deposit interest rates contributed to a mild decrease in total interest rate spread in 2010, except in December, when it recorded a somewhat stronger contraction.

Money market interest rates

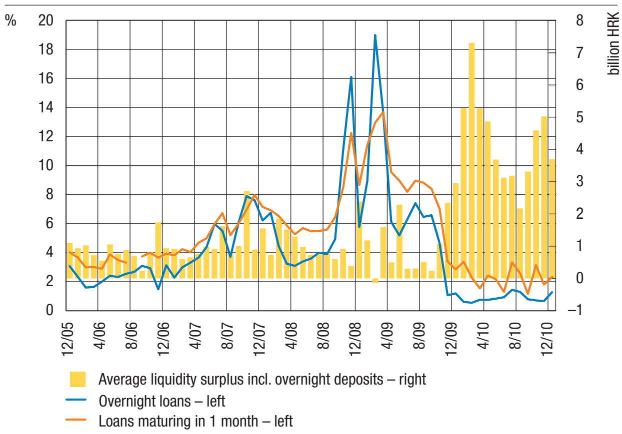
Favourable financial system liquidity and moderate lending activities reduced banks' need for money market financing, as a result of which a downward trend in the money market turnover continued throughout most of 2010, whereas interest rates held steady at their record lows (below 2.0%). In 2010, banks met their primary liquidity needs by means of secondary sources of liquidity on the money market in the average daily amount of HRK 1.3bn (HRK 321.8bn on an annual level), which is the lowest level of the average daily turnover since 2006. Exceptions to such movements were the usual seasonal fluctuations in turnover and interest rates in the third quarter, under the influence of stronger demand for kuna liquidity in the peak tourist season.

In 2010, bank money market financing mostly related to loans in demand deposit trading (HRK 276.0bn), although the volume of those loans was half that of the previous year. A decrease in financing through repo agreements was somewhat less pronounced, their share in the structure of sources of money market financing rising additionally (to approximately 14.0%), which can partly reflect the relative attraction of collateralised transactions in the period of increased credit risks. The remaining funding needs were met by means of securities trading.

In non-banking financial institutions' lending the biggest trading fall was in demand deposits, which had been gaining in significance in the previous three years, while a considerable fall was also recorded in interbank trading. In contrast, only trading with other legal persons recorded a growth, primarily at the end of 2010, reaching one-third of total demand deposit trading.

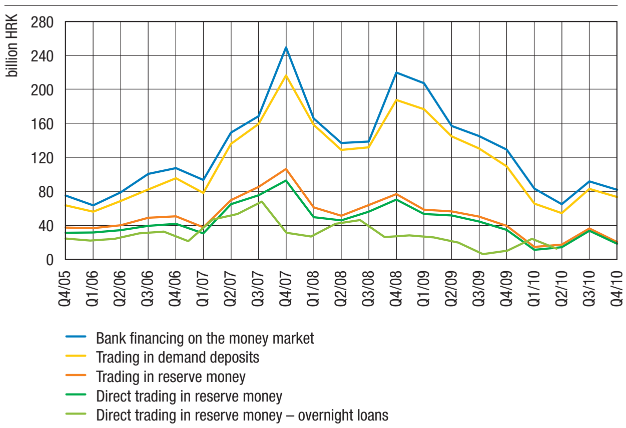
In 2010, the volume of interbank demand deposits trading decreased by HRK 115.0bn (56.5%) from 2009, while a stronger growth was evident at the beginning of the second half of the year when an increased demand for reserve money was fully met by banks in direct trade in deposit money (a total of HRK 52.2bn was thus raised in the second semester, which is more than twice as much as in the first half of the year). Direct interbank trading thus continued to dominate the interbank trading

1.36 Interest rates in direct interbank trading and bank liquidity surplus



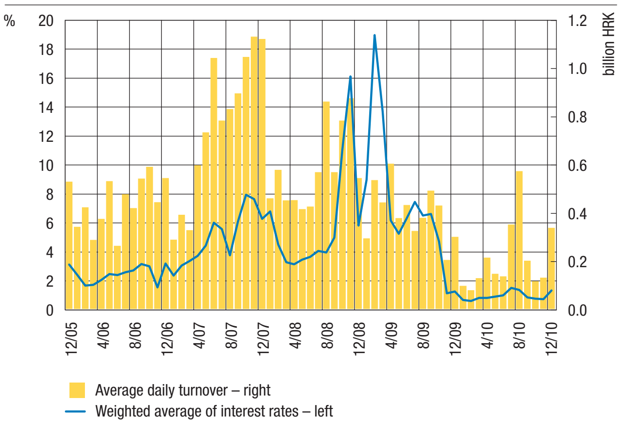
Source: CNB.

1.35 Money market turnover
quarterly data



Source: CNB.

1.37 Direct interbank trading in overnight loans
monthly averages



Source: CNB.

in reserve money in 2010. At the same time, interbank trading with Zagreb Money Market (ZMM) intermediation continued to decrease, by approximately HRK 672.0m on average in each quarter, i.e. by 45.3% at the entire 2010 level.

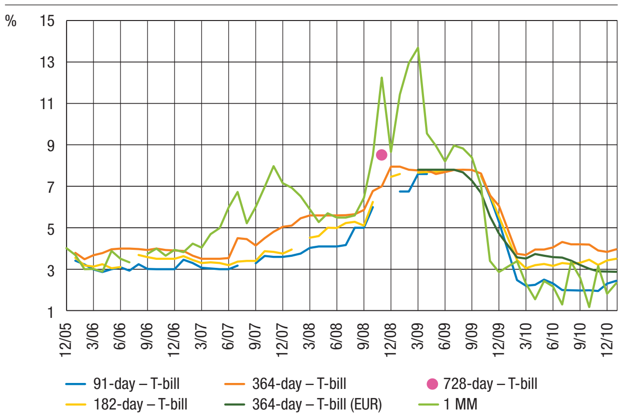
Overnight loans, the most liquid instrument in direct interbank trading in reserve money, fell by HRK 47.1bn (by almost 47.0%) in 2010. Nevertheless, their dominant position in direct trade received an additional boost in the observed year, after the volume of longer maturity loans decreased due to discontinuation of repo auctions by the end of 2009. Accordingly, in 2010, two-week loans decreased by as much as 79.9%, one-week loans fell by 75.3% and one-month loans fell by 67.6% (these sources of financing accounted for approximately one-fourth of the turnover in that segment of interbank trading in 2010).

Very good liquidity of the financial system in 2010 kept interest rates on overnight loans at record low levels throughout 2010 (below 1.0% on average). The usual seasonal strengthening of demand for the kuna only slightly contributed to the increase in interest rates on overnight loans, which reached 1.45% and 1.31% in July and August, respectively, also rising slightly at year-end, when they stood at 1.28%.

Interest rates in the short-term securities market

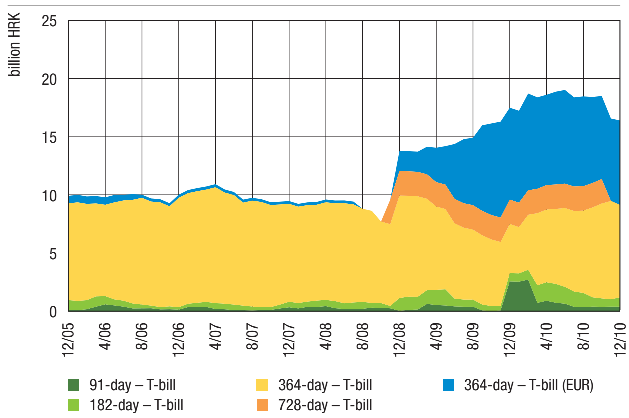
In 2010, the government mostly refinanced its short-term debt with domestic banks, whereas the budget deficit was mainly financed by the issue of government bonds on the domestic and foreign markets. As a result of the issue of three new bonds on the domestic market and of one international bond in 2010, the government's need for additional liquidity through regular T-bill auctions was reduced, so that the amounts of their issues generally did not exceed the amounts of T-bills that were falling due. In 2010, the Ministry of Finance held a total of 36 auctions where a total of HRK 24.3bn was raised, which is HRK 2.6bn more than in the previous year. Two-year T-bills falling due in November 2010 worth almost HRK 2.7bn were covered by an additional issue of government bonds by the end of the year, thus increasing the predominance of kuna T-bill issues over the

1.38 Interest rates on T-bills and in direct interbank trading



Sources: MoF and CNB.

1.39 T-bill stock
maturity structure



Sources: MoF and CNB.

euro issues, which had been almost equal in 2009.

In an environment of abundant financial sector liquidity, the disproportion between the investor demand and planned issue amounts, especially of kuna T-bills, additionally increased. A relatively strong demand compared to the supply of T-bills contributed thus to a fall in the required yields on kuna 91-day T-bills (they amounted to 2.48% in January and to 2.30% in December 2010) and on one-year euro T-bills (they dropped by 0.69 percentage points in 2010, i.e. from 3.57% in January to 2.88% in December), whereas yields on other short-term government securities remained mainly stable, despite mild fluctuations during the year. At the end of 2010, yields on 182 and 364-day kuna T-bills stood at 3.43% and 3.84%, respectively. Yield spreads on T-bills with the shortest and longest maturity thus widened considerably in 2010, with the exception of one-year euro T-bills, whose yields approached the yields on the shortest maturity T-bills, under the influence of restricted supply.

In December 2010, the stock of total subscribed T-bills was reduced by HRK 1.4bn relative to December 2009, amounting to approximately HRK 20.7bn at year-end. The largest debt decline was recorded in 364-day (euro) T-bills and 91 and 728-day (kuna) T-bills, whereas a considerable increase in net debt was recorded only in one-year kuna T-bills. Consequently, in the structure of the total subscribed T-bills, towards the end of the year, the preference for one-year euro T-bills changed slowly in favour of one-year kuna T-bills, which accounted for almost 48.4% of the total subscribed T-bills in December 2010 compared to 44.3% of euro T-bills with the same maturity. The shares of 91 and 182-day T-bills stood at 2.4% and 4.9%, respectively, at end-December 2010.

Bank interest rates

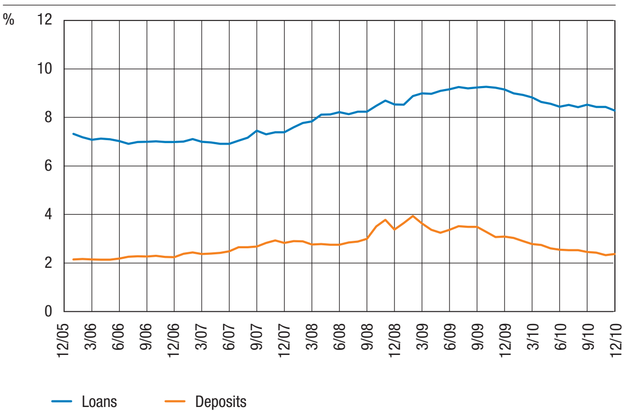
The tendency of banks to reduce interest rates, which started at end-2009 in response to the improvement of the global economic outlook and increased investor appetite for risk, continued into 2010. It was also driven by a consequent abundant liquidity of the banking system, accompanied by low money market interest rates throughout 2010. Deposit rates mainly followed movements of banks' lending interest rates, keeping the general interest rate level rather stable, despite a mild growth in interest rate spread between kuna loans without a currency clause and kuna deposits.

A strong reduction in interest rates on short-term corporate loans without a currency clause, recorded at end-2009 and in early 2010, continued, though at a slower rate, until the end of 2010, when rates dropped very close to their record lows of mid-2007. These interest rates thus fell from 9.29% in December 2009 to 6.98% in December 2010. This can primarily be accounted for by a reduction in interest rates on short-term loans maturing within one year and on overdraft facilities, as well as by a change in the structure of corporate demand for one-year kuna loans relative to somewhat more expensive overdrafts. In the segment of short-term loans, interest rates on short-term household loans without a currency clause, which were in December 2010 almost equal to those in December 2009 (12.64% compared to 12.68%), showed exceptional stability. In that respect, interest rates on short-term household credit card loans and overdrafts were very stable, whereas only interest rates on less dominant other short-term loans showed a certain volatility.

The weighted interest rate on long-term corporate loans with a currency clause, despite the usual volatility, held steady at the level reached at the end of 2008. That interest rate was only mildly reduced in December 2010 relative to the end of 2009 (7.19 against 7.31%). In contrast, the weighted interest rate on long-term household loans with a currency clause, after reaching its peak of 9.24% in November 2009, was on a continuous decline towards the end of 2010 (it stood at 8.16% in December), under the influence of reduced interest rates on car loans and other long-term loans.

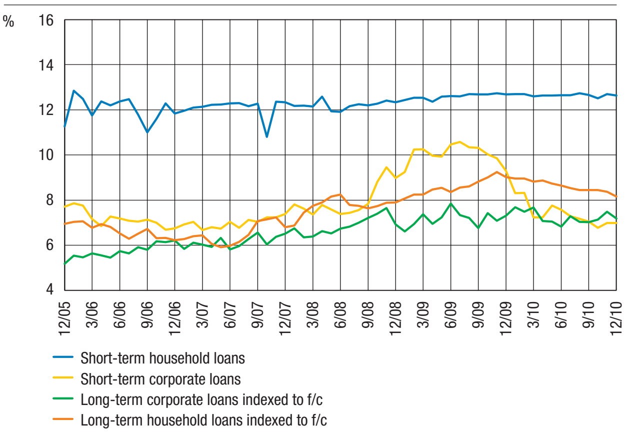
A fall in interest rates on kuna time deposits without a currency clause, which marked the whole of 2009, continued into the first half of 2010, so that, after having stabilised in the second half of the year, they were still very low, at 1.93%. Movements

1.40 Average bank interest rate estimates (weighted by the amount of total loans granted)



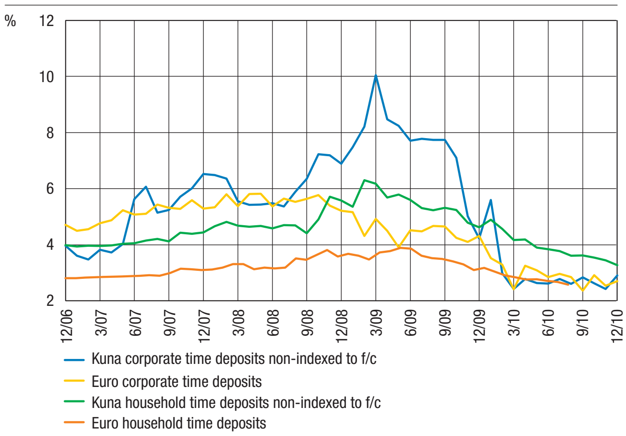
Source: CNB.

1.41 Average bank interest rates[a] on kuna loans



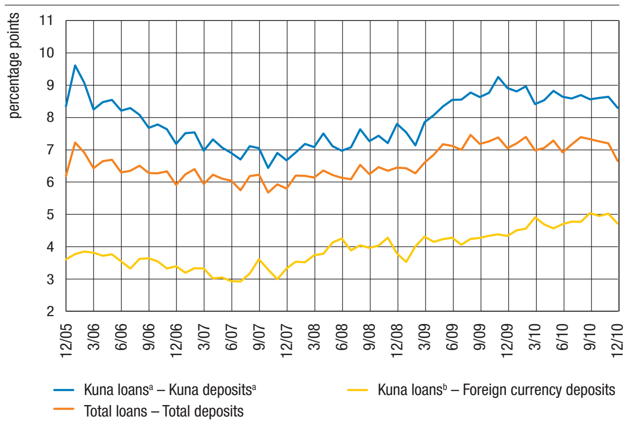
[a] The average weighted interest rate on newly granted loans in the reporting period.
Source: CNB.

1.42 Average bank interest rates[a] on time deposits maturing in one to three months



[a] The average weighted interest rate on newly granted loans in the reporting period.
Source: CNB.

1.43 Spread between average bank interest rates on newly granted loans and deposits



[a] Non-indexed to f/c. [b] Indexed to f/c.
Source: CNB.

of these interest rates reflect a decrease in interest rates on kuna corporate time deposits with a maturity of up to one month, the dynamics of which is closely related to the movements on the money market. That decrease was slightly milder for deposits with longer maturity. Interest rates on kuna household deposits continued to fall mildly, which is evident in all segments of deposits by maturity. Interest rates on foreign currency time deposits were on a continuous decrease throughout 2010, rising only in December, which mitigated, to a certain extent, their considerable fall recorded in that year (in December 2009, they stood at 3.58%, in November 2010, they reached 2.20%, while in December 2010, they leaped by 0.49 percentage points, to 2.69%). The decrease was slightly more pronounced in the segment of foreign currency corporate deposits.

The described movements in lending and deposit interest rates contributed to a very mild decrease in total interest rate spread in 2010, except in December, when it recorded a somewhat stronger contraction. The interest rate spread on foreign-currency indexed kuna loans and foreign currency deposits recorded a moderate increase (in December 2009, it amounted to 4.30 percentage points and in December 2010, 4.69 percentage points), but the opposite tendencies in the interest rate spread on "pure" kuna loans and deposits (without a currency clause), which were reduced to a greater extent in the same period (from 8.90 percentage points in December 2009 to 8.29 percentage points in December 2010), determined the dynamics of the overall interest rate spread.

1.2.7 Capital market

The European and the world capital markets were marked by negative trends in early 2010, spurred by concerns over the dynamics of global economic growth in the light of uncertainty as regards the outcome of Greek efforts to restrain wide budget deficits and achieve fiscal sustainability and because of monetary policy tightening in China. As the government debt crisis threatened to deepen and spread to other eurozone countries, concerns over global economic recovery dynamics increased additionally in the second quarter of 2010, fuelling investor aversion to risky investments. Despite positive trends in the domestic and in regional markets in the first months of 2010, the domestic capital market was adversely affected by negative developments in the global financial markets in the second quarter of the year. Similar developments continued into the following months, until December when a significant change in the trend took place as a result of MOL's bid for the purchase of the remaining INA shares in the ownership of small and institutional shareholders, which upped optimism, improved liquidity and share prices on the domestic capital market. As a result, the ZSE share index, the CROBEX, rose by 5.3% in 2010, standing at 2111 points at the end of December, while the increase in the segment of the most liquid shares was even stronger (the CROBEX10 rose by 9.5% in 2010). A reversal in the trends towards the end of the year notwithstanding, the annual share turnover throughout 2010 declined compared to the previous year (HRK 5.8bn compared to HRK 7.4bn in 2009).

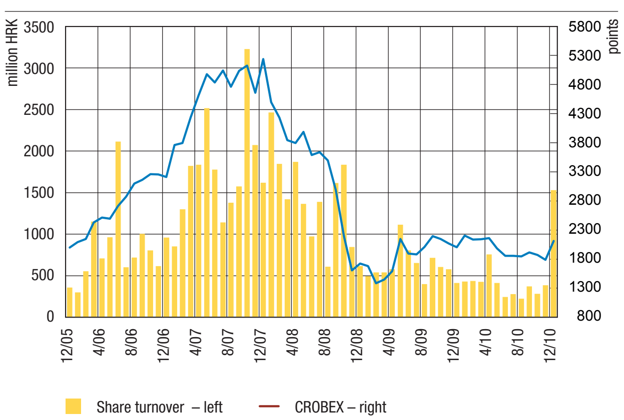
In contrast with developments in the equity securities market, investor activity in the Croatian debt securities market picked up in 2010. Bond turnover increased twofold compared to the previous year, reaching HRK 7.1bn in 2010. This was mainly due to the issue of three new government bonds worth approximately EUR 2.2bn in nominal terms but also to a new corporate bond worth approximately EUR 41m in nominal terms, placed on the domestic market in 2010. A total of 36 bonds were listed on the domestic capital market at the end of 2010, an increase of three bonds over the end of 2009. Nevertheless, the value of the CROBIS index held steady at the previous year's end level until the end of 2010 (its value declining by 0.2% in 2010).

After falling in early 2010, the required yields on the Croatian eurobonds rose significantly in the second quarter of the year with the escalation of the Greek crisis and uncertainties regarding the economic recovery of major European economies. July and August brought about a gradual easing of investor concern, and a small decline in the spreads on required yields. However, growing concern as regards fiscal sustainability in some eurozone countries triggered by slow economic activity recovery and these countries' persistently high budget deficits raised the risk perception of global investors and led again to an increase in the requested yields on Croatian eurobonds until the end of the year.

Equity securities market

Owing to the optimism that marked the beginning of 2010, the regional capital market indices traded on positive territory, with share prices on the domestic capital market mostly trending upwards at the beginning of 2010. Negative signals coming from the global financial markets due to the eurozone government debt crisis escalation affected the domestic market in the second quarter of the year, driving down the CROBEX index in the first half of 2010 by 7.4%. Following stagnation in the third quarter, the CROBEX index regained value towards the end of the year, mainly owing to MOL's December takeover bid

1.44 ZSE monthly share turnover and end-month CROBEX



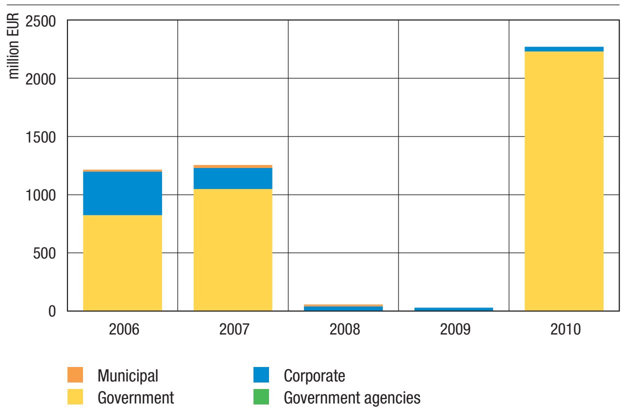
Source: ZSE.

for INA shares. At the end of 2010, the value of the ZSE share index stood at 2011 points, an increase of 5.3% since the end of 2009. The new share index of the most-widely traded shares with a large market capitalisation, the CROBEX10, rose by 9.5% by the end of 2010, pointing to a price growth concentration in the more liquid shares segment. Its activity strengthening towards the end of 2010 could not, however, compensate for its poor activity throughout the year, with the share turnover[10] in the domestic equity securities market, which had been falling steadily since 2008, falling by 22.3% in 2010 relative to 2009; it stood at only HRK 5.8bn, its lowest annual turnover since 2005. The number of shares listed on the ZSE also declined from 280 to 258.

The increase in the price of most of the shares listed on the ZSE in December 2010 and a sharp increase in their liquidity in that month, led to an increase in the market capitalisation of shares[11] of 43.0% at the end of 2010 from the end of the previous year, so that it stood at HRK 193.6bn, or 57.9% of the realised GDP.

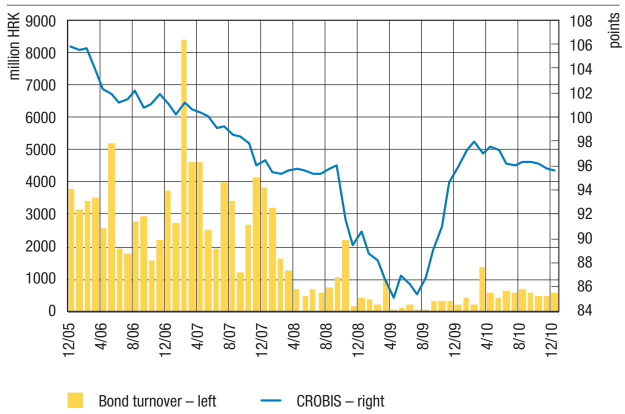
In 2010, financial instruments on the domestic capital market were traded on the regulated[12] and an alternative, less demanding market, the so called multilateral trading platform (MTP).[13] In addition to the already listed common shares of INA, Istraturist Umag d.d., Medika d.d., Podravka d.d., Viro tvornica šećera d.d., Atlantic grupa d.d., T-HT, Ingra d.d., Magma d.d., Varteks d.d., Genera d.d., Institut IGH d.d., OT-Optima telekom d.d., Dalekovod d.d., Petrokemija d.d. and common and preferential shares of Croatia osiguranje d.d., also listed in the official market during the year were the common shares of AD Plastika d.d., Končar-elektroindustrija d.d. and Uljanik plovidba d.d., while the common shares of Belišće d.d. were excluded from this market segment. The most-widely traded shares were the shares of T-HT, which had a turnover of HRK 1.5bn, and accounted for 25.8% of the total annual share turnover. In terms of their share in total turnover, the shares of INA, Adris grupa d.d. and Atlantska plovidba d.d. came next, accounting for 20.9%, 4.6% and 4.1%, respectively of the total turnover.

1.45 Bond issues in the domestic market



Source: ZSE.

1.46 ZSE monthly bond turnover and end-month CROBIS



Source: ZSE.

Debt securities market

Bond turnover[14] in 2010 stood at HRK 7.1bn, an increase of HRK 3.8bn or 112.4% on the previous year. A considerable growth in the activities on the domestic debt securities market is a consequence of the listing of two new government bond issues in 2010. Heightened government activity on the domestic debt securities market resulted in the listing of three new government bonds in 2010 and one corporate bond. A government kuna bond issued in 2005, nominally worth HRK 3.0bn, fell due in March 2010. To refinance this issue and obtain new funding, the Ministry of Finance issued two new 10-year bonds in early March: a kuna bond nominally worth HRK 3.5bn, at 6.95% yield and a kuna bond indexed to the euro of EUR 350m and a yield at issue of 6.7%. In mid-July 2010, the Ministry of Finance issued its second tranches: HRK 1.5bn worth of kuna bonds and EUR 650m worth of kuna bonds indexed to the euro. By end-2010, another issue of government bonds was placed

10 The data on the total share turnover from January 2002 to February 2007 are the sum of turnovers of individual shares at the VSE and ZSE. Unified ZSE data have been used since the VSE and ZSE merger in March 2007.

11 The ZSE market capitalisation is calculated by multiplying the last price of each share by its issue number. However, the calculation also includes the share's liquidity so that the market capitalisation of a share not traded in the previous month is halved. For the shares not traded in the previous three months, the calculation includes only one fourth of its market capitalisation.

12 The Regulated Market is divided into the Regular Market, the Official Market and the Prime Market.

13 t is a multilateral trading system that matches supply of and demand for financial instruments by multiple interested parties according to prearranged rules and is run by an investment firm or a market operator. The ZSE is at the moment the only operator of such a trading platform, but turnover in that market is not reported as a part of total ZSE turnover.

14 The data on the total bond turnover from January 2004 to February 2007 are the sum of the respective bond turnovers on the VSE and ZSE, with the unified ZSE data used since the VSE and ZSE merger in March 2007. It needs emphasizing that the bond turnover on the VSE had been negligible, standing below 0.4% of the total turnover on both stock exchanges in all the observed years.

Table 1.4 Bond issues in the domestic market, stock as at end-December 2010

Series	Issuer	Issue date	Maturity	Currency	Issue nominal value	Nominal interest rate	Last price[a]	Current yield 31/12/2010
RHMF-O-125A	Republic of Croatia	23/5/2002	23/5/2012	EUR	500,000,000	6.875%	104.01	6.610%
RHMF-O-142A	Republic of Croatia	10/2/2004	10/2/2014	EUR	650,000,000	5.500%	102.90	5.345%
RHMF-O-19BA	Republic of Croatia	29/11/2004	29/11/2019	EUR	500,000,000	5.375%	89.10	6.033%
RHMF-O-157A	Republic of Croatia	14/7/2005	14/7/2015	EUR	350,000,000	4.250%	89.45	4.751%
RHMF-O-15CA	Republic of Croatia	15/12/2005	15/12/2015	HRK	5,500,000,000	5.250%	97.70	5.374%
RHMF-O-137A	Republic of Croatia	11/7/2006	11/7/2013	HRK	4,000,000,000	4.500%	86.95	5.175%
RHMF-O-172A	Republic of Croatia	8/2/2007	8/2/2017	HRK	5,500,000,000	4.750%	92.80	5.119%
RHMF-O-203A	Republic of Croatia	5/3/2010	5/3/2020	HRK	5,000,000,000	6.750%	102.20	6.605%
RHMF-O-203E	Republic of Croatia	5/3/2010	5/3/2020	EUR	1,000,000,000	6.500%	103.40	6.286%
RHMF-O-17BA	Republic of Croatia	25/11/2010	25/11/2017	HRK	4,000,000,000	6.250%	99.25	6.297%
GDKC-O-116A	City of Koprivnica	29/6/2004	29/6/2011	HRK	60,000,000	6.500%	93.52	6.950%
GDZD-O-119A	City of Zadar	1/9/2004	1/9/2011	EUR	18,500,000	5.500%	98.10	5.607%
GDRI-O-167A	City of Rijeka	18/7/2006	18/7/2016	EUR	24,574,513	4.125%	–	–
GDST-O-137A	City of Split	24/72006	24/7/2013	EUR	8,000,000	4.563%	101.30	4.504%
GRVI-O-17AA	City of Vinkovci	23/10/2007	23/10/2017	HRK	42,000,000	5.500%	–	–
GROS-O-17AA	City of Osijek	30/10/2007	30/10/2017	HRK	25,000,000	5.500%	–	–
GDST-O-15BA	City of Split	27/11/2007	27/11/2015	EUR	8,100,000	4.750%	–	–
GDST-O-177A	City of Split	8/7/2008	8/7/2017	EUR	8,200,000	6.000%	–	–
HBOR-O-112A	CBRD	11/2/2004	11/2/2011	EUR	300,000,000	4.875%	–	–
RBA-O-112A	Raiffeisenbank Austria d.d.	10/2/2006	10/2/2011	HRK	600,000,000	4.125%	100.36	4.110%
PODR-O-115A	Podravka d.d.	17/5/2006	17/5/2011	HRK	375,000,000	5.125%	96.20	5.327%
NEXE-O-116A	Nexe grupa d.d.	14/6/2006	14/6/2011	HRK	750,000,000	5.500%	87.25	6.304%
HEP-O-13BA	Hrvatska elektroprivreda d.d.	29/11/2006	29/11/2013	HRK	500,000,000	5.000%	91.70	5.453%
ATGR-O-11CA	Atlantic grupa d.d.	6/12/2006	6/12/2011	HRK	115,000,000	5.750%	87.82	6.547%
INGR-O-11CA	Ingra d.d.	6/12/2006	6/12/2011	HRK	200,000,000	6.125%	75.50	8.113%
OPTE-O-142A	Optima telekom d.o.o.	1/2/2007	1/2/2014	HRK	250,000,000	9.125%	50.00	18.250%
JDGL-O-126A	Jadran Galenski laboratorij d.d.	11/6/2007	11/6/2012	HRK	125,000,000	5.650%	–	–
JDRA-O-129A	Jadranka d.d.	13/9/2007	13/9/2012	HRK	75,000,000	6.475%	97.10	6.668%
JRLN-O-12AA	Jadrolinija d.d.	25/10/2007	25/10/2012	HRK	70,000,000	6.500%	100.50	6.468%
OIV-O-14BA	Odašiljači i veze d.o.o.	20/11/2007	20/11/2014	HRK	100,000,000	7.250%	95.00	7.632%
HEP-O-17CA	Hrvatska elektroprivreda d.d.	7/12/2007	7/12/2017	HRK	700,000,000	6.500%	94.88	6.851%
RPRO-O-181A	Rijeka promet d.d.	25/1/2008	25/1/2018	HRK	192,000,000	6.813%	–	–
PLOR-O-133A	Plodine d.d.	4/3/2008	4/3/2013	HRK	100,000,000	9.000%	85.00	10.588%
MTEL-O-137A	Metronet telekomunikacije d.d.	17/7/2009	17/7/2013	EUR	19,800,000	12.000%	–	–
SCVI-O-14CA	Športski centar Višnjik d.o.o.	23/12/2008	23/12/2014	EUR	9,600,000	8.813%	–	–
HP-O-127A	HP-Hrvatska pošta d.d.	1/7/2009	1/7/2012	EUR	41,000,000	9.000%	–	–

[a] Regularly traded.
Source: ZSE, monthly report, December 2010.

on the market; kuna seven-year bonds nominally worth HRK 4.0bn at a yield to maturity at issue of 6.43%. In addition, a corporate bond of Hrvatska pošta d.d. issued in July last year, with a nominal value of EUR 41m, was also listed on the domestic capital market in the first half of 2010. At the end of 2010, 36 bond issues[15] were listed on the domestic debt securities market; ten of them were government bonds, one was a CBRD bond, eight were municipal bonds and seventeen were corporate bonds, which is an increase of one corporate and two government bonds compared to the end of December 2009.

The value of the ZSE bond index, the CROBIS,[16] mostly rose throughout the first half of 2010 but declined in the second half of the year. This resulted in a small annual fall in the CROBIS index (0.2%), which stood at 95.6 points at the end of December. The yield of domestically issued government bonds with relatively shorter remaining maturities fell slightly in 2010 relative to the end of the previous year, while the yields on government bonds with a remaining maturity of over 5 years, the

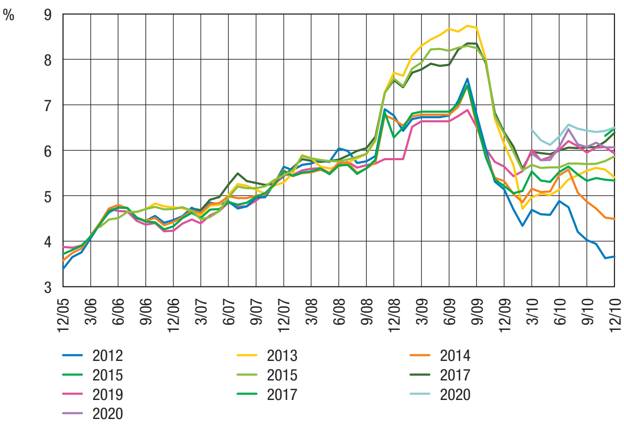
15 This figure and the market capitalisation calculations exclude the bonds of the Fund for Compensation of Expropriated Property.
16 The CROBIS includes ten Republic of Croatia bonds.

Table 1.5 Republic of Croatia eurobond issues, stock as at end-2010

Bond	Issue date	Currency	Amount	Nominal interest rate	Yield on issue day	Spread on issue day	Spread[a] 31/3/2010	Spread[a] 30/6/2010	Spread[a] 30/9/2010	Spread[a] 31/12/2010
Eurobonds, 2011	14/3/2001	EUR	750,000,000	6.75%	6.90%	215	150	278	152	....
Eurobonds, 2014	15/4/2004	EUR	500,000,000	5.000%	5.11%	101	205	331	257	299
Eurobonds, 2015	27/5/2009	EUR	750,000,000	6.500%	6.57%	406	251	409	324	362
Eurobonds, 2019	5/11/2009	USD	1,500,000,000	6.750%	7.01%	324	231	389	374	369
Eurobonds, 2020	14/7/2010	USD	1,250,000,000	6.625%	6.75%	365			303	296

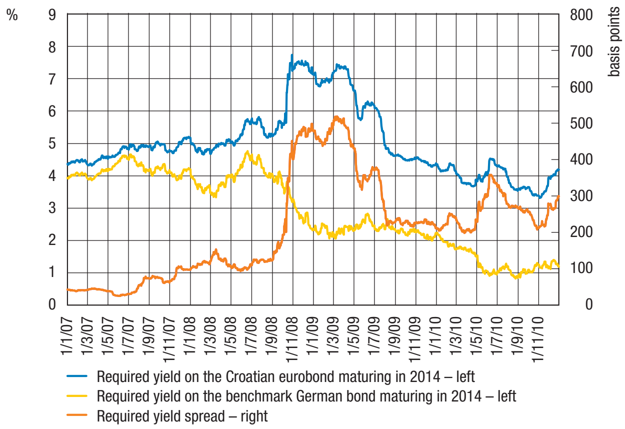
[a] In relation to benchmark bond.
Source: Bloomberg.

1.47 Trends in yields to maturity of government bonds on the domestic market



Source: Bloomberg.

1.48 Required yields on Croatian and benchmark German eurobonds maturing in 2014 and their spread



Source: Bloomberg.

three new government bonds[17] included, rose.

The market capitalisation of all bonds[18] on the domestic capital market at the end of December 2010 was HRK 52.7bn (EUR 7.1bn), or 15.7% of GDP for 2010. The market capitalisation of government, municipal and CBRD bonds was HRK 48.3bn (EUR 6.5bn or 14.4% of GDP, while market capitalisation of corporate bonds stood at HRK 4.4bn (EUR 592m) which represents 1.3% of GDP.

The most liquid bond during the observed period was the new foreign currency indexed kuna bond of the Republic of Croatia, due in 2020, which accounted for 33.8% of the total turnover (HRK 2.4bn). A relatively large turnover was also registered in kuna bond trading due in 2020 (20.2% or HRK 1.4bn) and in 2017 (11.2%, or HRK 800.1m). Since only one, relatively smaller, issue of corporate bonds was placed on the market in 2010, the share of corporate bonds in the total annual bond turnover fell in 2010 relative to the previous year and stood at 5.6% of the total annual bond turnover on the ZSE.

The international government bond issued in 2003, nominally valued at EUR 500m, fell due at the end of February 2010. In mid-July 2010 the Republic of Croatia issued abroad a new, US dollar-denominated ten-year bond, nominally valued at USD 1.25bn at a fixed annual interest rate of 6.63%. As the last payment under the London Club fell due towards the end of that month, the total number of Croatian government bond issues listed on the international capital markets at the end of 2010 was five, one less compared to the end of 2009. Three of the mentioned five international bonds of the Republic of Croatia were denominated in euro and two in American dollars. The total nominal value of all the five issues of Croatian bonds on the international markets at the end of 2010 stood at HRK 30.1bn or EUR 4.1bn, a decrease of HRK 182.0m (EUR 69.0m) compared to the end of the previous year.

The fall in the required yields on Croatian eurobonds that started in the second quarter of 2009 continued into the first three months of 2010. However, the culmination of the Greek crisis and uncertainties regarding economic recovery of major European economies led to a significant increase in yields on almost all emerging market economies at the end of the first quarter of 2010 and halted the trend of decline in the required yields

17 A change in the yield on three new government bonds issued in 2010 was calculated in relation to their average yield in the month of their issue.
18 Excluding the bonds of the Fund for Compensation of Expropriated Property.

on Croatian eurobonds. In the third quarter of 2010, global investors again turned to more risky investments, driving the required yields on the Croatian international bonds down again. The end of 2010 again brought increased risk aversion, so that the spreads between required yields on Croatian eurobonds falling due in 2014 and 2015 and yields on the comparable German bonds amounted to 299 and 362 basis points at the end of December 2010, a considerable increase compared to end-December 2009, when these spreads amounted to 215 and 274 basis points. The yield spread between the Croatian international USD-denominated bond maturing in 2019 and the benchmark American bond stood at 369 basis points at the end of 2010, which is also a significant increase compared to the end of December 2009, when this spread stood at 239 basis points. The yield spread between the new Croatian eurobond denominated in US dollars and maturing in 2020 and the benchmark US bond totalled 296 basis points, which was a mild decrease relative to the period immediately after its issue in July 2010.

1.2.8 Balance of payments

After a sharp fall in the volume of international trade and a lower availability of sources of finance in 2009, a continuation of the trends from the previous period marked 2010. While a plunge in goods imports was the key contributor to current account deficit contraction in 2009, that trend was fuelled by a strong recovery of exports in 2010. In 2010, the balance of payments deficit thus dropped to only one fourth of the amount recorded in the previous year and it stood at EUR –0.6bn, its relative indicator declining from –5.3% of GDP to –1.3% of GDP. A lower negative balance in the factor income account, mainly due to reduced interest expenses and increased revenue from direct investment, had an additional positive impact on overall deficit, whereas in the services and current transfers accounts only slight changes since 2009 were recorded.

A decrease in current account deficit in 2010 was also accompanied by a smaller capital inflow, which accounted for only a third of the funds received in the previous year. Net direct investment was more modest and there was no significant borrowing, except by the public sector. Nevertheless, due to unfavourable cross-currency changes caused by weakening of the euro against other world currencies, a growth in debt was recorded, which, for the first time, reached the nominal GDP value.

Current account

As in the previous year, in 2010, the described sharp reduction in current account imbalance (of 4 percentage points of GDP) was largely a consequence of the movements in the goods account, i.e. a reduction of one fifth of the foreign trade deficit relative to 2009. This was caused by exports recovery, while imports continued to fall in the first part of the year, followed by only a slight recovery. On a whole year basis, exports increased by 18.1%, according to the balance of payments data, and imports stagnated (–0.3%). It should be noted that a dynamic exports growth was, to a great extent, a result of larger exports of other transport equipment (mostly ships), but recovery was also evident in most other SITC divisions. As regards the results by individual export markets, a stronger recovery of exports to the developed countries should be pointed out. In imports of goods, a decreased demand for imports of other goods compensated for the increased value of imported oil and refined petroleum products due to higher price levels of that energy product.

Following a sharp fall in net revenues from services in the previous year, 2010 saw a moderate growth. Such movements were mainly the result of reduced expenditures for services from abroad, which is in line with the still weakened domestic demand. The largest fall was recorded by expenditures on travel services, especially business travel. Revenues recorded a slight growth, a fall in tourism revenues having been compensated by

Table 1.6 Current account structure
as % of GDP

	2006	2007	2008	2009[a]	2010[b]
Current account balance	–6,6	–7,2	–8,8	–5,3	–1,3
Goods	–21,0	–21,7	–22,6	–16,2	–12,9
o/w: Oil and refined petroleum products	–3,1	–3,2	–3,9	–2,5	–2,9
Other transport equipment	1,1	0,9	0,5	0,6	1,7
Other goods	–20,2	–20,4	–20,2	–15,0	–12,4
Adjustments	1,3	0,9	0,9	0,7	0,6
Services	14,5	14,7	14,8	12,6	12,8
o/w: Tourism revenues	15,8	15,6	15,6	14,0	13,6
Income	–3,0	–2,5	–3,3	–4,0	–3,5
Current transfers	2,8	2,4	2,2	2,3	2,4

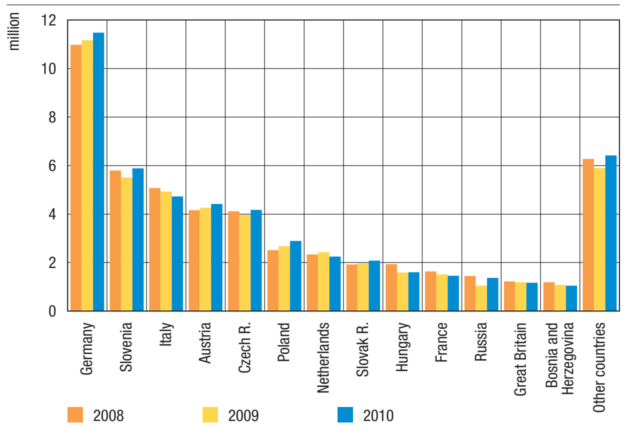
[a] Revised data. [b] Preliminary data.
Source: CNB.

Table 1.7 Current account
in million EUR and %

	2008	2009[a]	2010[b]	Rate of change 2010/2009
A CURRENT ACCOUNT	–4,217	–2,408	–582	–75.8
1 Goods	**–10,794**	**–7,387**	**–5,945**	**–19.5**
1.1 Credit	9,814	7,703	9,099	18.1
1.2 Debit	–20,608	–15,090	–15,045	–0.3
2 Services	**7,075**	**5,770**	**5,893**	**2.1**
2.1 Credit	10,091	8,454	8,496	0.5
2.2 Debit	–3,016	–2,684	–2,603	–3.0
3 Income	**–1,568**	**–1,827**	**–1,609**	**–11.9**
3.1 Credit	1,399	808	914	13.1
3.2 Debit	–2,967	–2,635	–2,523	–4.2
4 Current transfers	**1,070**	**1,036**	**1,079**	**4.2**
4.1 Credit	1,684	1,608	1,675	4.2
4.2 Debit	–614	–572	–595	4.2

[a] Revised data. [b] Preliminary data.
Source: CNB.

1.49 Foreign tourist nights in commercial accommodation facilities by country of residence



Source: CBS.

1.50 Current account balance

Source: CNB.

a noticeable growth in revenues from other types of services. The largest increase in revenues was thus recorded by other business services, especially legal and accounting and research and development services. Foreign trade recovery also contributed to more favourable movements of revenues from transport services, so that, in line with a resumed growth in the volume of trade in goods, a noticeable growth was recorded in revenues from sea and road cargo transport services. Revenues from passenger transport services recorded a mild fall.

After a sharp fall in the previous year (–14.5%), tourism revenues again recorded a mild negative result (–2.2%). Such movements can mostly be accounted for by lower revenues outside commercial accommodation facilities (these revenues are earned by tourists who stay in their own real estate property, or visit their relatives and friends, etc.), while commercial accommodation facilities recorded an increase in revenues and number of visitors. According to the CBS data, arrivals of foreign tourists staying in commercial accommodation facilities increased by 4.8% relative to 2009, while overnight stays rose by 3.6%. The structure of tourist nights by country of residence shows the sharpest increase in the number of nights stayed by tourists from Slovenia and Russia, which almost compensated for their fall in 2009. The positive trends continued for German, Austrian and Polish tourists, whose overnight stays did not decrease during the crisis. In contrast, a downward trend has become even more pronounced for Italian tourists, whose overnight stays in Croatia have been decreasing since 2006, their fall standing at 3.9% in 2010. Nights stayed by tourists from South-East European countries, predominantly from Bosnia and Herzegovina, were mainly reduced, but less intensely than in the previous year.

In 2010, the deficit of foreign trade in goods and services amounted to only EUR 52m (EUR 1.6bn in 2009), i.e. 0.1% of GDP (it was 3.5% of GDP in 2009), while the coverage ratio between imports of goods and services and exports of goods and services increased from 90.9% in 2009 to 99.7% in 2010.

The reduction in the current account imbalance was additionally spurred by a fall in the negative balance in factor income account by 11.9%, due to both increase in revenues and decrease in expenditures. The latter is entirely a consequence of reduced interest expenses of domestic sectors, more specifically banks and enterprises, as a result of lower interest rates on the international market. The only exception is the government sector, whose interest expenses rose as a consequence of external debt growth and the risk perception that contributed to a deterioration of borrowing terms. As regards a growth in total revenues, it was mainly determined by the movements in revenue from direct investment. More specifically, after foreign enterprises in resident ownership incurred a loss in 2009, their business activity recovered in 2010, which resulted in a positive value of their revenues on the basis of paid out dividends and reinvested earnings. In addition, employee compensations also increased, whereas a decrease in domestic sector revenues from investment in foreign assets had the opposite effect.

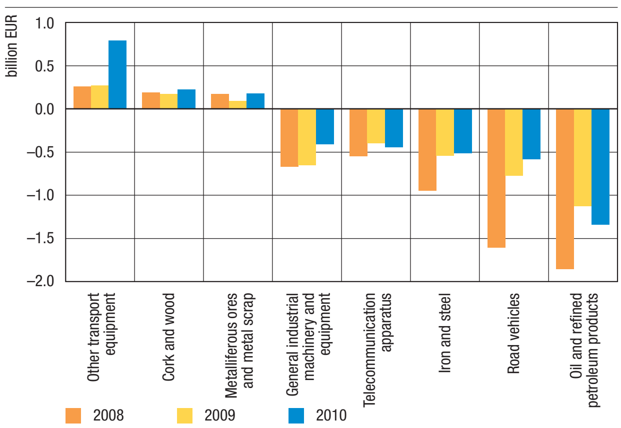
A 4.2% growth in the positive balance was recorded in the current transfers account due to a larger growth of revenues than expenditures. Increase in revenues was recorded only in the private sector, primarily on the basis of gifts and donations, whereas central government revenues were mildly reduced. It was in fact due to gifts and donations that most of the increase in total revenues in the observed period was achieved.

Trade in goods

Following a sharp fall in the volume of trade in goods in 2009, movements recorded in 2010 were much more favourable, especially on the exports side. According to the CBS data, the foreign trade deficit thus again fell by one fifth relative to the previous year, amounting to EUR 6.2bn. Trade in ships, i.e. exports almost three times higher than in 2009, contributed most to the contraction in the deficit. The positive influence of trade in ships was somewhat reduced by a rise in the negative balance in trade in oil and refined petroleum products, which, in turn, can be related to price effects.

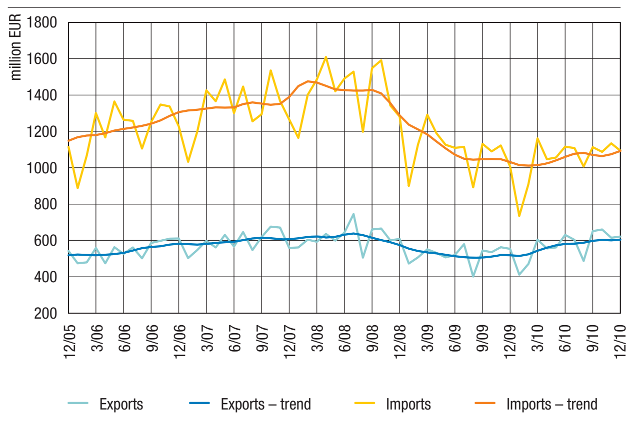
According to the CBS data, total exports of goods

1.51 Foreign trade balance by selected SITC divisions



Source: CBS.

1.52 Goods exports (f.o.b.) and goods imports (c.i.f.)
other transport equipment, oil and refined petroleum products excluded



Sources: CBS and CNB.

amounted to EUR 8.9bn in 2010, an increase of 18.2% over the previous year. Exports of other transport equipment (mostly ships), which almost doubled relative to 2009 and accounted for more than one third of total increase in exports, had the greatest impact on such movements. A significant growth was also recorded in exports of oil and refined petroleum products, but it is mostly related to a rise in prices of that energy product on the global market (of one fourth relative to the previous year), whereas the exported quantities increased by 4.6%. However, export recovery was also noticeable in most of the remaining SITC divisions, increasing by 10.0% throughout the year. A strong growth was recorded by exports of metalliferous ores and metal scrap, medical and pharmaceutical products (of which a half was to Russia and the USA), plastics in primary forms and artificial fertilisers.

In contrast to exports, slightly positive developments were observed in imports only in mid-2010. Accordingly, total imports of goods (according to the CBS data), at the entire 2010 level, stagnated relative to 2009, amounting to EUR 15.1bn. Import of oil and refined petroleum products was the main generator of imports growth, which was in this case exclusively a consequence of price increase, whereas the quantities of imported oil were reduced by 8.4% compared to 2009. However, the adverse developments in most of the remaining divisions continued into the first half of the year, imports of other goods (excluding oil and ships) thus recording a 4.1% decrease at the annual level, despite a mild annual growth in the second half of the year. This can mainly be accounted for by a decline in imports of capital goods, primarily general industrial machinery and equipment and machinery specialised for particular

Table 1.8 Exports and imports by economic classification of countries
in %

Economic classification of countries	Exports			Imports		
	2008	2009	2010[a]	2008	2009	2010[a]
Developed countries	69.3	68.3	71.0	72.2	72.2	70.3
EU-27	60.9	60.6	61.1	64.1	62.7	60.2
Slovenia	7.8	7.4	7.8	5.6	5.7	5.9
Hungary	2.4	1.8	2.2	3.2	3.2	2.8
EU-15	44.2	43.9	44.6	48.5	47.0	45.1
Austria	5.8	5.4	5.3	4.9	5.0	4.8
Italy	19.2	19.0	18.7	17.1	15.4	15.2
Germany	10.7	11.0	10.4	13.4	13.5	12.5
EFTA	1.2	1.7	1.1	1.7	2.6	2.0
Developing countries	30.7	31.7	29.0	27.8	27.8	29.7
Bosnia and Herzegovina	15.3	12.8	11.6	2.7	2.7	3.1
Serbia, Montenegro	6.8	6.9	4.8	1.4	1.6	1.5
Russia	1.3	1.5	2.0	10.3	9.5	9.0
China	0.3	0.4	0.3	6.2	6.8	7.2

[a] Preliminary data.
Source: CBS.

industries, these two divisions mostly recording a fall in imports from Italy. Furthermore, a considerable fall in imports of road vehicles continued in 2010, although at a significantly slower pace throughout the year.

Certain changes in the previous trends were observed in the geographic structure of trade in goods. More specifically, after a longer period of a decrease in the share of developed countries in Croatian exports, in 2010 that share increased, which can be accounted for by a growth of exports three times as fast to that group of countries than to developing countries. This, in turn, is a consequence of a sharp rise in exports to old EU member states, primarily to Italy, which can mostly be explained by the already mentioned increase in ship exports. In contrast to exports, trends from the several previous years continued on the imports side; a moderate fall in imports from developed countries, along with a simultaneous growth of imports from developing countries, resulted in an increase in the share of the latter group in total Croatian imports. That increase in the share of imports from developing countries is primarily a consequence of stronger imports of oil and refined petroleum products, notably from Turkey and Azerbaijan, and aluminium from Bosnia and Herzegovina. A fall in imports from developed countries largely reflects a decrease in imports from Germany on account of the already mentioned decrease in imports of road vehicles and capital goods.

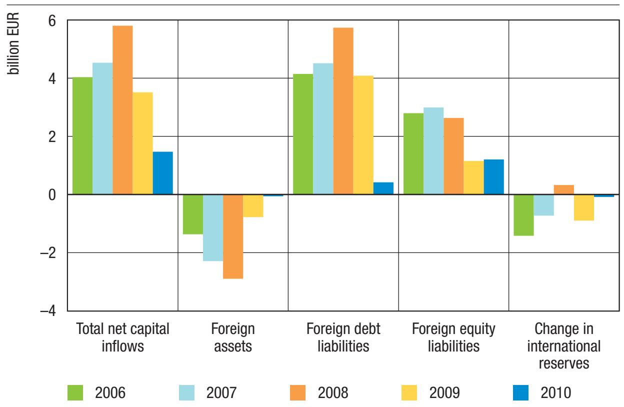
Capital and financial account

In 2010, the net capital inflow in the financial account amounted to only a third of the net capital inflow recorded in the previous year. Excluding the change in international reserves, which increased moderately, net inflow amounted to EUR 1.6bn (against EUR 4.4bn in 2009), and a decrease was evident in most of the sources of financing. Net foreign direct investment thus halved, while there was almost no new foreign borrowing, except by the public sector. As a consequence, in 2010 a growth in foreign assets of domestic sectors, which in the previous years had followed the increased foreign savings inflows, was absent.

In 2010, total foreign assets of domestic sectors increased by EUR 0.1bn, which is a considerably smaller growth than in the previous years. This departure can largely be explained by a decreased balance of direct investment abroad due to changes in ownership relations within the group of companies related to round tripping transactions.[19] If these transactions are excluded, new investment abroad was even larger than in 2009, and among the significant projects, the takeover of the Slovenian company Droga Kolinska d.d. by Atlantic Grupa d.d. (EUR 0.2bn) should be noted. In addition, resident owners of foreign enterprises did not record operating losses, as was the case in 2009, which also had a favourable impact on the balance of direct investment abroad. As regards foreign assets of banks, their reduction of EUR 0.2bn was somewhat more pronounced than in the previous year. In 2010, domestic investment funds made more investments than in 2009, especially in equity holdings in foreign capital markets.

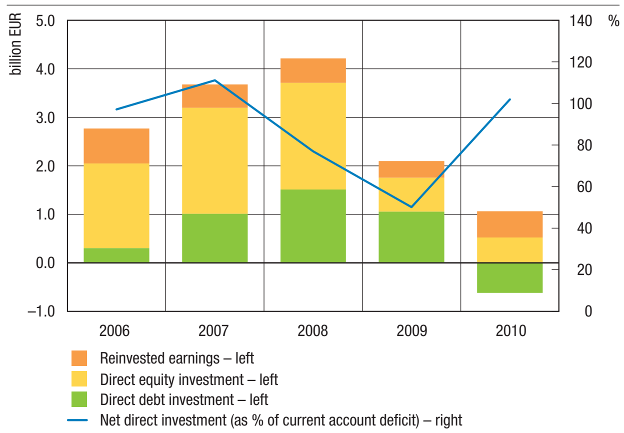
In 2010, newly incurred foreign liabilities of domestic sectors mostly related to equity liabilities, since foreign borrowing was almost absent. As regards equity liabilities, if the previously mentioned decrease related to round tripping transactions is excluded, new direct equity investments in Croatia mildly outstripped the results from 2009 (EUR 0.8bn against EUR 0.7bn). Nevertheless, it should be noted that a part of these investments related to a transformation of a portion of the debt of individual enterprises to foreign owners into capital (EUR 0.2bn), rather than to new projects. In addition, the amount of reinvested earnings also increased, mostly owing to

1.53 Financial transactions with foreign countries



Note: A negative change in foreign assets and international reserves denotes their growth.
Source: CNB.

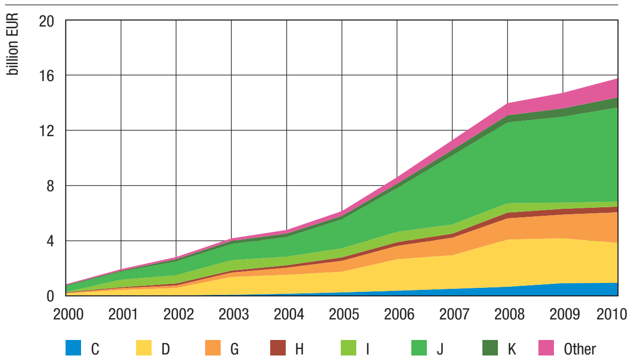
1.54 Structure of foreign direct investment in Croatia



Source: CNB.

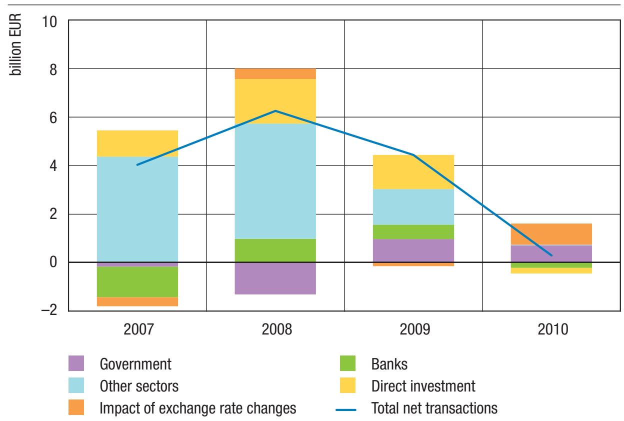
19 At end-2010, an enterprise abroad through which round-tripping transactions were made in Croatia in 2008 and 2009 in the amount of EUR 0.8bn and EUR 0.6bn, respectively, was wound up. Apart from the impact on external debt (for more details see the section on external debt), changes in ownership relations within the group of companies also had an effect on the financial account of the balance of payments. More specifically, in 2010, the stock of direct investment in Croatia and the stock of investment abroad were reduced, each in the similar amount of EUR 0.4bn, but the net effect on the financial account was neutral.

1.55 Structure of direct equity investment and reinvested earnings by NCEA
cumulative data



Note: NCEA (2002) C – Mining and quarrying, D – Manufacturing, G – Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods, H – Hotels and restaurants, I – Transport, storage and communication, J – Financial intermediation, K – Real estate, renting and business activities
Source: CNB.

1.56 Contributions of domestic sectors' net transactions and exchange rate changes to total external debt growth



Source: CNB.

an improvement of business performance of leasing companies and companies engaged in the activity of production of refined petroleum products. The balance of liabilities arising from loans to affiliated enterprises abroad was reduced in 2010, after a year-long growth. The largest contribution to this was made by considerable repayments of debt by non-banking financial institutions to foreign owners. In general, although direct investment from abroad was still rather modest in comparison with the results from the period before the economic crisis, its amount in 2010 was sufficient to cover the current account deficit.

Broken down by activities, the bulk of direct equity investment and reinvested earnings in 2010 was generated in financial intermediation (mainly reinvested earnings in the banking sector and transformation of a part of the debt of non-banking financial institutions into capital), various trade activities and real estate transactions, including equity investment in real estate. With the exception of equity investment in real estate, which became the subject of separate statistical monitoring only in 2007, these activities attracted sizable amounts of investment from abroad in the previous years as well. On the other hand, it should also be noted that dividend payments from profit accumulated in the previous years, especially in the post and telecommunication activities, also had a negative impact on the balance of direct investments in 2010.

External debt

Following a significant growth deceleration in 2009, foreign borrowing stagnated in 2010, and a decline in the private sector debt was compensated by a stronger growth in the public sector debt. Nevertheless, as a result of unfavourable cross-currency changes caused by weakening of the exchange rate of the euro against the US dollar and Swiss franc, external debt increased by EUR 0.9bn (including other adjustments), while the new withdrawals exceeded the repayments by only EUR 0.3bn. Gross external debt thus increased by EUR 1.2bn, reaching EUR 46.4bn in end-December 2010, where that amount includes, in contrast to the previously analysed data, the debt that was until 2010 classified as round-tripping investment (EUR 1.3bn).[20] In addition, it should be stressed that the coverage of gross external debt was extended to include liabilities based on instruments issued by the domestic sectors in the domestic market, but traded by non-residents.[21]

When only net transactions are taken into account, it is evident that in 2010 only the public sector made additional borrowings, while banks' repayments of liabilities were larger than withdrawals of new loans and other domestic sectors mainly refinanced their due liabilities. The unfavourable impact of the exchange rate changes was mostly felt, in absolute terms, by the corporate sector due to the amount of its debt, but, in relative terms, that impact was most pronounced in banks, as a result of a large share of the Swiss franc, and in the central government, where the share of the US dollar in the currency structure was rather high.

The external debt of the government sector, which includes the central government, central government funds and local government, reached EUR 6.6bn at the end of 2010 and the bond worth USD 1.25bn issued on the US market in July contributed most to its annual growth of EUR 0.7bn (excluding cross-currency changes). After that the central government mainly refinanced due liabilities, without a significant change in the debt balance. Furthermore, in 2010, government liabilities to non-residents who invested in short-term government securities issued on the domestic market also increased. Apart

20 After winding-up of the foreign enterprise through which round-tripping transactions had been made in Croatia, borrowings incurred in that process were no longer considered round-tripping, but were rather attributed to total gross external debt.

21 The balance of gross external debt increased by EUR 0.6bn at the end of 2010, due to the extension of coverage. In accordance with the new coverage, a review of historical data was made for the period from 2005, when data began to be collected, until 2009, which resulted in an increased level of debt of EUR 0.5bn on average in these years.

Table 1.9 Gross external debt by domestic sectors
end of period, in million EUR and %

	2006	2007	2008	2009	2010	as % of GDP				
						2006	2007	2008	2009	2010
1 Government[a]	6,087	6,065	4,762	5,739	6,565	15.3	14.0	10.0	12.6	14.3
2 Croatian National Bank	3	2	2	1	1	0.0	0.0	0.0	0.0	0.0
3 Banks	10,237	8,893	10,089	10,689	10,769	25.8	20.5	21.1	23.4	23.5
4 Other sectors	10,520	14,828	19,901	21,375	21,664	26.5	34.2	41.7	46.8	47.2
5 Direct investment	2,878	3,933	5,836	7,440	7,400	7.2	9.1	12.2	16.3	16.1
o/w: Hybrid and subordinated instruments	169	56	218	378	407	0.4	0.1	0.5	0.8	0.9
Total (1+2+3+4+5)	29,725	33,721	40,590	45,244	46,399	74.8	77.7	85.0	99.1	101.0

[a] Government does not include the CBRD. From early 2008 on, it also excludes CM whose debt at that point stood at EUR 1.2bn. Both CBRD and CM have been reclassified to other sectors.
Source: CNB.

from the government sector, enterprises in public and mixed ownership also considerably intensified their foreign borrowing in the previous year (their debt growth, excluding exchange rate changes also stood at EUR 0.7bn) and the bulk of new borrowings took place in the first nine months, which was followed by stagnation. The CBRD's debt balance was reduced mildly in 2010, only slightly mitigating the debt growth of the entire public sector, which, having increased by EUR 1.3bn (excluding exchange rate changes), reached EUR 14.2bn in end-December 2010. The contingent debt of the public sector, i.e. the publicly guaranteed private sector debt, has been on a continuous decrease for several years, falling to only EUR 5m at the end of 2010.

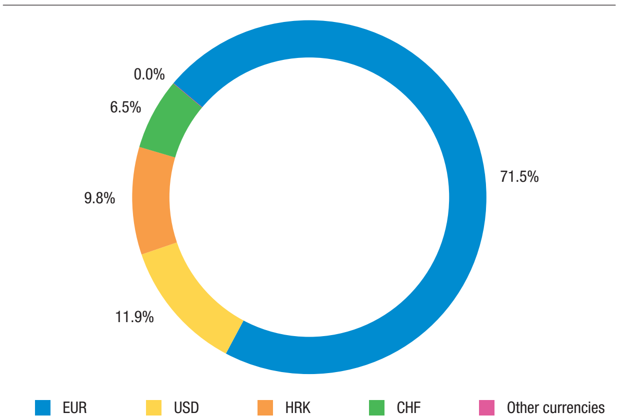
The debt balance of banks, despite negative net transactions in 2010 (EUR –0.2bn), increased moderately due to the exchange rate changes. Bank borrowing followed the usual seasonal dynamics during the year, depending on foreign exchange inflows, with the result that the debt of banks increased sharply in the last quarter, after having slumped in the summer months. External debt of banks based on hybrid and subordinated instruments, which is included in direct investment, held steady in 2010 at the level of EUR 0.4bn reached at the end of 2009.

In contrast to previous years, when they were the main generator of total external debt growth, in 2010, other domestic sectors mainly used the new loans only in the amount required for refinancing of foreign liabilities falling due. Accordingly, in the period of restricted access to foreign sources of finance and reduced needs due to weak economic activity, other domestic sectors recorded a debt growth of only EUR 31m (excluding exchange rate changes), which is several times less than in 2009 (EUR 1.5bn) and especially in the period before the crisis (over EUR 4bn annually). As already mentioned, in 2010 only public enterprise borrowing increased. Non-banking financial institutions again reduced their debt, this time by EUR 0.8bn. Non-financial corporates in majority private ownership had positive transactions worth only EUR 0.2bn, with their borrowing stagnating markedly in the first part of the year, which was followed by a moderate recovery of foreign lending.

As regards debt of domestic sectors to affiliated enterprises abroad, in 2010, negative net transactions of EUR 0.2bn mainly reflected a decrease in the debt of non-banking financial institutions.

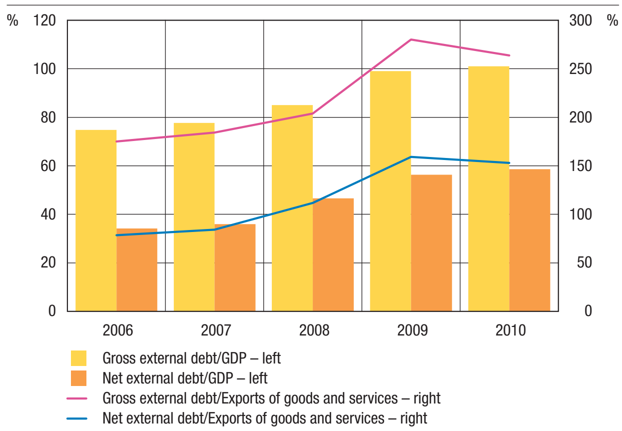
The euro predominated in the currency structure of external debt, with its share of 71.5%. Relative to the previous years,

1.57 Currency structure of external debt
as at 31 December 2010



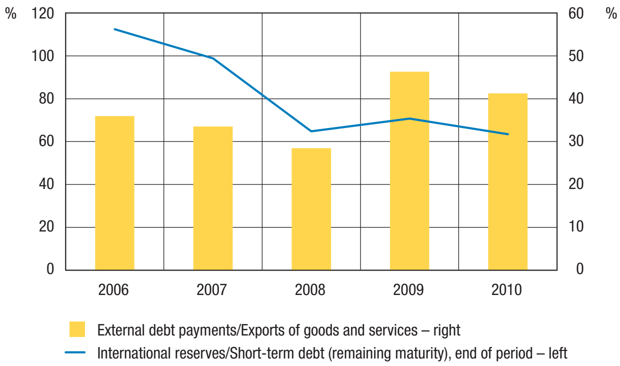
Source: CNB.

1.58 External debt indicators



Source: CNB.

1.59 Relative indicators of external debt burden and international reserves adequacy



Note: External debt payments include principal payments on bonds, long-term trade credits and long-term loans (excl. liabilities to affiliated enterprises), as well as total interest payments net of interest payments on direct investment.
Source: CNB.

when it exceeded 75%, the share of the euro was considerably reduced, which can mostly be accounted for by its weakening against other world currencies. In 2010, the share of debt denominated in the US dollar thus rose to 11.9% and the largest contribution to this change was made, apart from its strengthening against the euro of 7.6%, by an additional borrowing of the central government on the US market. Although the Swiss franc strengthened against the euro by as much as 16.3%, its share held steady at the level of 6.5%, on account of partial deleveraging of corporates in that currency. In 2010, a rise in the share of the kuna to 9.8% was also evident, mostly as a result of an increase in the share of the domestic currency in corporate external debt. Since the government repaid the Samurai bond in mid-2009, the external debt ceased to be denominated in the yen.

According to the maturity structure, after its considerable decrease in 2009, the share of short-term debt increased mildly in 2010, from 11.2% to 13.0% This is mainly a consequence of an increase in late repayments of corporate external debt, which results in arrears becoming a short-term debt. A part of that increase may also be attributed to larger investments of non-residents in short-term securities issued on the domestic market. In addition, short-term corporate borrowings from affiliated enterprises abroad also increased slightly.

Despite decreased borrowing of the domestic sectors, increase in gross external debt, spurred by cross-currency changes, also resulted in deterioration of the relative indicator of external debt, which, at the end of 2010, exceeded for the first time the amount of gross domestic product, reaching 101.0% of GDP (2 percentage points more than at end-2009). In contrast, the share of external debt in exports of goods and services improved by 16.3 percentage points (from 280.0% in 2009 to 263.7% in 2010), as a result of a growth in the export value of goods and services considerably faster than in debt. Similar developments were also noticeable in the relative indicators of net debt, since the balance of debt foreign assets did not change significantly. At end-2010, net external debt of the Republic of Croatia thus stood at 58.6% of GDP (relative to 56.3% of GDP at end-2009), i.e. 153% of exports of goods and services (159.2% at end-2009).

After the burden of external debt repayment by domestic sectors rose sharply in 2009 (from 28.5% in 2008 to 46.3% of exports of goods and services), that relative indicator dropped to 41.2% of exports of goods and services in 2010. The improvement of the relative indicator is, to a greater extent, a consequence of recovery of exports of goods and services, while the amount of repayments was reduced by only 3.0%. Reduced repayments of the central government and banks were largely compensated by the increased repayments of corporates, especially on the basis of long-term loans. In contrast, short-term debt grew faster than international reserves, mirrored by a deterioration in the short-term debt-reserves ratio.

1.2.9 Government finance

Fiscal policy features in 2010

The deterioration in the consolidated general government balance that started in 2009 continued throughout 2010. Preliminary MoF data show that consolidated general government revenues were lower than in 2009, despite the introduction of a higher basic VAT rate and a special tax on salaries, pensions and other income. By contrast, general government expenditures including the acquisition of non-financial assets held steady due to lower capital investments and a parallel slight increase in current expenditures. As a consequence, consolidated general government net borrowing (including the change in arrears) stood at a high HRK 14.5bn, growing from 3.2% of GDP in 2009 to 4.3% of GDP in 2010.

The overall fiscal deficit,[22] which better reflects the amount of funds the government must raise by borrowing and/or the disposal of financial and non-financial assets stood at 5.3% of GDP in 2010 or HRK 17.6bn, which is also a noticeable increase since the previous year. As the funds raised through disposal of financial and non-financial assets were negligible, the government financed almost the entire fiscal deficit through borrowing and debt continued to soar. General government debt grew by HRK 20.0bn, to 41.2% of GDP at the end of 2010. As general government financing needs were lower than the increase in borrowing, some of the funds deposited with the CNB were transferred from 2010 to 2011.

Among important changes in tax legislation in 2010 was the repeal of the lower rate of the special tax in July and of the higher rate in November.[23] In addition, under the Act on Amendments to the Income Tax Act,[24] applied as of July, income tax rates and tax brackets were changed, making a negative impact on income tax revenues in the second half of 2010. Although a large number of reliefs in the income tax system

22 For more on the methodology of calculation, see Box 4 Measures of Croatia's fiscal balance in CNB Bulletin No.165.
23 Act on Amendments to the Act on the Special Tax on Salaries, Pensions and Other Income, OG 56/2010.
24 OG 80/2010.

were repealed at the same time, a positive impact of this repeal on the budget will be evident only in 2011. Also, excise duties on unleaded petrol[25] and cigarettes[26] were raised in September and October 2010 respectively.

Revenues, expenditures and net acquisitions of non-financial assets of consolidated general government

Preliminary MoF data on budget execution show that consolidated general government revenues were HRK 123.7bn in 2010, down 3.4% on 2009 and somewhat short of budget projections.

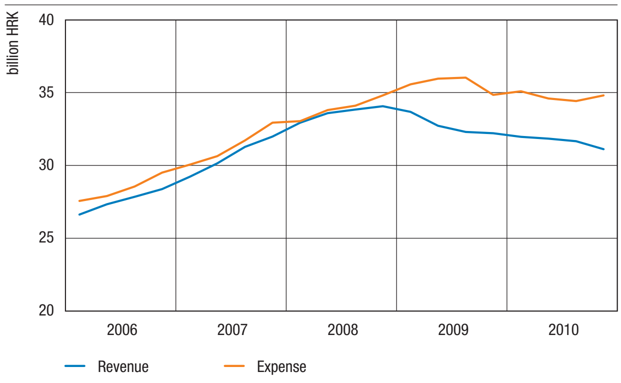
Tax revenues were 2.5% lower than in 2009, mostly due to the fall in profit tax revenues, which were almost a third lower. This was primarily a consequence of a sharp economic contraction in 2009, as monthly advance tax on current year profit is paid based on the business performance in the previous year. However, as unfavourable economic developments continued into 2010, profit taxpayers probably requested an additional reduction in their monthly advance tax payments. Income tax revenues also dropped substantially, partly on account of unfavourable labour market developments and partly on account of the stated legal changes in the income tax system. By contrast, excise revenues increased noticeably, mostly due to the collection of tax debt arising from excises on refined petroleum products (including road fees). Revenues from excises on tobacco products also grew, in part due to the increase in excise duties on cigarettes, as did revenues from excises on alcohol. Revenues from excises on cars continued to decline, though at a noticeably slower pace than in 2009. In addition to excise revenues, VAT revenues increased as well (1.7%), which may be attributed to the base effect of the increase in the basic VAT rate. Furthermore, revenues from the special tax grew sharply due to the base effect.

Revenues from social contributions substantially added to the drop in total revenues due to the decrease in the gross wage bill. This was also due to adverse developments in the economy as a whole, as indicated by reported unpaid payment orders for taxes and contributions issued by legal persons.

Consolidated general government expenditures were 0.9% higher in 2010 than in 2009 and stood at HRK 133.7bn. Compared with projected expenditures at the general government level, one may notice that the outcome was almost equal to projections, which was the result of divergent movements in main expenditure categories. Expenditures for compensation of employees, grants and social benefits were lower than projected, while, among other expenditure categories, expenditures for interest payments and subsidies were substantially larger than planned.

Social benefits, which account for the major share in total expenditures, were 1.1% higher than in 2009. This was in part due to the rise in expenditures for pensions, which was primarily a result of the rise in the number of pension beneficiaries.

1.60 Consolidated general government revenue and expense
four-quarter moving averages



Note: Revenue includes proceeds from the disposal of non-financial assets and expense includes expenditures for the acquisition of non-financial assets. From 2008 on, CM is excluded from consolidated general government.
Sources: MoF and CNB calculations.

One should note that there was no indexation[27] of pensions in 2010, while some pensions granted in line with special regulations on pension insurance[28] had been decreased since July. It should be said that the growth in the number of pension beneficiaries was strongly affected by the increase in early retirement due to the reduction of surplus workers against the background of adverse economic developments, as well as the announcements that early retirement would be heavily penalised. The rise in social benefits was in part due to the increase in expenses for unemployment and maternity benefits.

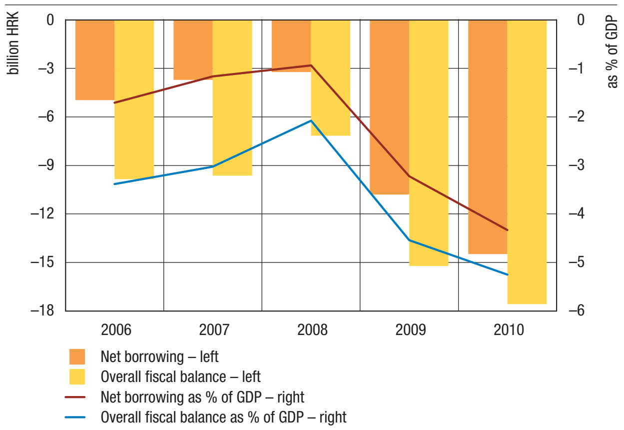
Expenditures for employees dropped by 0.7%, reflecting the base effect of the decrease in the wage calculation base for civil servants and government employees and the non-payment of Christmas bonuses, which more than offset the impact of the slight increase in employment in civil and government services.

Subsidies were also reduced, as a consequence of lower payments to private enterprises. Looking at the revised budget for 2010, one may conclude that the reduction was partly due to lower subsidies for shipyards. By contrast, due to intensive government borrowing in the previous two years and more expensive sources of financing, interest expense rose noticeably, and expenditures for the use of goods and services also increased.

The acquisition of non-financial assets was reduced by almost one fifth from 2009, while their disposal held steady. The cut in capital investments was mostly associated with long-term assets, which include investments in road and other infrastructure. One should note that their slight annual increase was projected under the revised consolidated general government budget for 2010. Hence, it may be concluded that a noticeable reduction in the acquisition of non-financial assets relative to 2009 was probably the outcome of the deferral of capital investments, partly also due to problems with closing the financial construction.

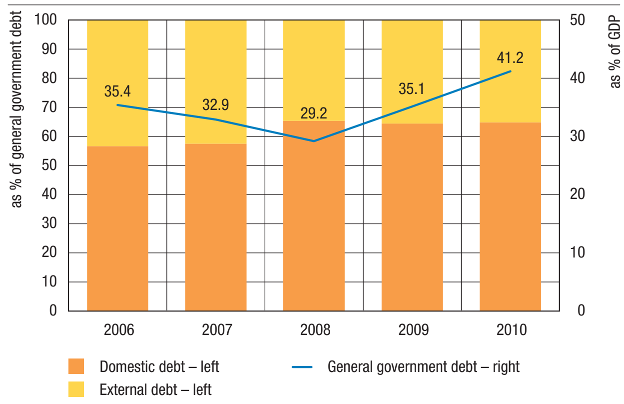
25 Regulation on the Excise Duty on Unleaded Petrol, OG 102/2010.
26 Regulation on the Excise Duty on Cigarettes, OG 102/2010.
27 Act on the Special Tax on Salaries, Pensions and Other Income, OG 94/2009.
28 Act on the Reduction of Pensions Determined or Earned under Special Regulations on Pension Insurance, OG 71/2010.

1.61 Net borrowing and consolidated general government overall fiscal balance (GFS 2001)



Note: From 2008 on, CM is excluded from consolidated general government.
Sources: MoF and CNB calculations.

1.62 General government debt
end of period



Note: From 2008 on, CM debt has been excluded from consolidated central government debt.
Source: CNB.

Consolidated general government balance

The deficit of revenues over expenditures led to a negative net operating balance of HRK 9.9bn. When net acquisitions of non-financial assets and the change in arrears were added to this, net borrowing of the consolidated general government stood at HRK 14.5bn in 2010. The deficit was almost entirely generated at the state budget level.

A broader measure of the fiscal balance, i.e. the overall fiscal balance is obtained by subtracting from the net borrowing of the consolidated general government the revenues from the disposal of non-financial assets and adding to them outlays for net loans granted, shares, other securities and the annual instalment of debt to pensioners. The overall fiscal balance stood at HRK 17.6bn in 2010, up HRK 2.4bn over the previous year. In addition to the stated developments in revenues and expenditures, this increase was influenced by larger expenditures for shares, mostly due to the capital injection to Hrvatska poštanska banka. By contrast, expenditures for net loans were reduced substantially due to lower expenditures for activated guarantees to shipyards and higher returns based on previously granted loans.

Government debt

General government debt continued to grow strongly in 2010. It increased by HRK 20.0bn or 17.0% from January to December, standing at HRK 137.8bn or 41.2% of GDP at the end of 2010. It should be noted that the depreciation of the kuna against the euro and US dollar contributed to the statistical increase in debt. Contingent government debt arising from guarantees issued also grew markedly, to HRK 58.6bn or 17.5% of GDP at end-2010.

General government borrowed mostly in the domestic market, so that domestic debt increased by HRK 13.5bn in the reference period. The structure of domestic debt shows that the said increase was largely due to domestic bond issues. In 2010, three government bonds were issued (the two July issues were merged with those made in March), totalling HRK 9.0bn and EUR 1.0bn with a currency clause. Apart from deficit financing, the funds thus raised were used for refinancing due liabilities, among others, HRK 3.0bn worth of domestic bonds and HRK 2.7bn worth of two-year T-bills. General government refinanced maturing domestic syndicated loans of EUR 500m and EUR 750m by taking a new loan of the same amount. Domestic debt of extrabudgetary funds rose by HRK 0.8bn, largely as a result of borrowing by Croatian Roads, while local government debt grew by HRK 0.1bn.

General government external debt grew by HRK 6.6bn, largely on account of bonds issued in the US capital market and the World Bank loan of EUR 200m. In the period under review, general government repaid, among other things, EUR 500m worth of foreign bonds that fell due and the last instalments payable to the London Club. External debt of extrabudgetary funds increased by HRK 0.2bn, while local government debt was slightly reduced.

Monetary policy instruments and international reserves management

HNB

2.1 Instruments of monetary policy in 2010

The Croatian economy was in 2010 marked by the continued recession, as evidenced by the steady fall in employment, income and investment. At the same time, the monetary environment was characterised by low inflation and a stable exchange rate for the kuna. Without threatening the achievement of its main objective, the CNB supported high kuna liquidity in an effort to contribute to the recovery of bank lending. In line with this goal, the CNB cut the reserve requirement rate from 14% to 13% in early February, hence freeing up funds for the Government and CBRD programme aimed at stimulating economic recovery.

2.1.1 Open market operations

Open market operations serve to correct imbalances in the CNB balance sheet arising from changes in individual items that influence liquidity supply and demand in the banking system. The matching of supply and demand allows a fine management of liquidity and minimises volatility of money market interest rates.

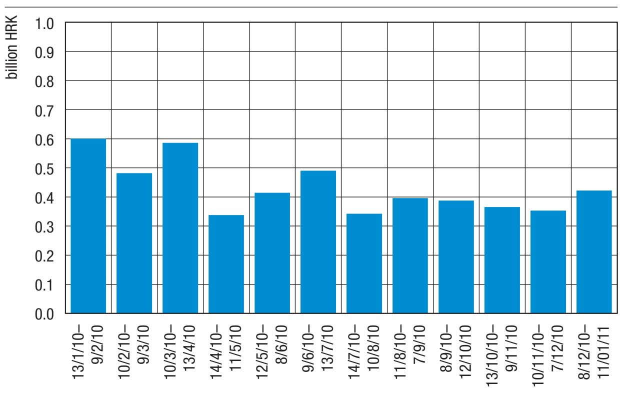
Demand for reserves is determined by the total amount of the kuna component of reserve requirements and demand for surplus liquidity. Total average demand for reserves stood at HRK 32.4bn in 2010. Of that amount, the kuna component of reserve requirements averaged HRK 32.0bn, with the average surplus liquidity standing at around HRK 0.4bn. The average balance of total demand for liquidity decreased by 5.3% in 2010, due to the decline in the kuna component of reserve requirements. Average surplus liquidity ranged from HRK 0.3bn to HRK 0.6bn during the reserve maintenance periods in 2010. The highest maximum amount of average surplus liquidity was recorded in January.

The supply of reserves is determined by autonomous factors, i.e. CNB balance sheet items that affect banking system liquidity and are beyond the direct control of the central bank. The most significant autonomous factors include net foreign assets, currency outside banks, banks' vault cash and government kuna deposits. Autonomous factors averaged HRK 36.2bn in 2010, up 11.0% over 2009. Of the autonomous factors, the average daily balance of government kuna deposits increased the most, by more than eight times.

The average daily balance of banks' vault cash and net foreign assets increased by 20.0% and 14.3% respectively in 2010 compared with the previous year. In the same period, the average daily balance of currency outside banks shrank by 4.6%.

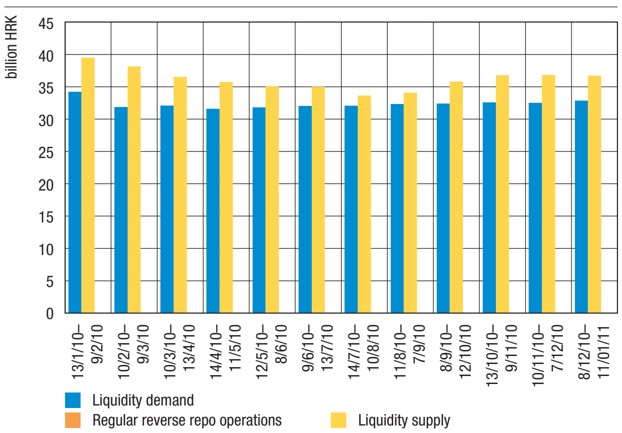
As total average supply exceeded total average demand, the net liquidity sterilised by monetary policy instruments averaged

2.2 Average liquidity surplus in reserve requirement maintenance periods
by maintenance periods



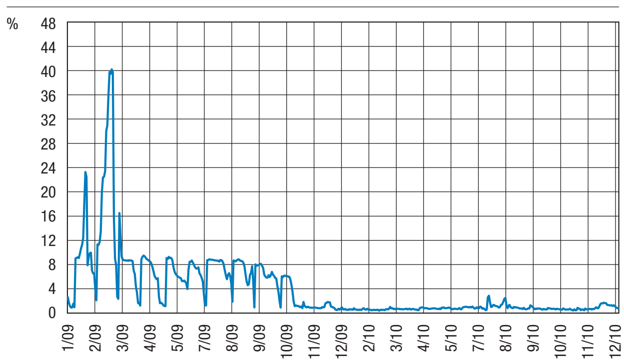
Source: CNB.

2.1 Liquidity demand and supply
average balance in reserve requirement maintenance periods



Source: CNB.

2.3 Overnight interest rates



Source: CNB.

HRK 3.7bn in 2010, which is in contrast to 2009, when a net liquidity of HRK 1.6bn was created.

The average level and variability of overnight interest rates in the money market were lower in 2010 than in 2009. The overnight interest rate ranged from 0.39% to 2.86% in 2010, while it ranged from 0.52% to 40.21% in 2009. As a result, the variation coefficient stood at 41.93% in 2010 and was lower than in 2009, when it was 94.16%.

The Croatian National Bank uses the following types of open market operations:

a) regular operations,
b) fine-tuning operations, and
c) structural operations.

Regular operations

Regular operations provide the bulk of funding for the banking sector. They are used to manage the system's liquidity and are conducted at regular reverse repo auctions. As a rule, these auctions are held on a weekly basis (on Wednesdays), with a maturity of up to one week. Access to auctions is given to domestic banks and acceptable collateral includes kuna T-bills of the Ministry of Finance.

Regular operations were not used in 2010 due to abundant liquidity in the domestic banking system.

Fine-tuning operations

Unlike regular operations, which are used exclusively to improve the system's liquidity, fine-tuning operations are used to decrease or increase the system's liquidity temporarily. These operations are conducted on an ad hoc basis to manage the liquidity situation in the market and steer interest rates, in particular when it is necessary to smooth the effects of interest rate changes caused by unexpected market fluctuations. Fine-tuning operations may be executed as repo and reverse repo operations, and as outright purchases and sales of securities and foreign currency. The frequency and maturity of fine-tuning operations are not standardised, which ensures a high level of flexibility and the possibility to respond quickly to any sudden market fluctuation. These operations are conducted at auctions through non-standardised bids or bilateral procedures with a limited number of participants. Acceptable collateral consists of kuna- and foreign currency-denominated T-bills of the Ministry of Finance.

Fine-tuning operations were not used in 2010.

Structural operations

The third type of open market operations is structural operations, which are carried out when a longer-term liquidity structure adjustment is required. Conducted through outright securities purchase and sale transactions, and repo and reverse repo operations, they are used to increase or reduce the system's liquidity. Their maturity and frequency are not standardised and they are carried out at standard bid auctions in which banks participate. Eligible collateral for these types of operations includes all types of government securities.

No structural operations took place in 2010.

2.1.2 Standing facilities

Standing facilities are instruments available to banks on their own initiative for an unlimited number of days in a month to stabilise any unexpected changes in bank liquidity. Standing facilities have an overnight maturity and may take the form of a Lombard loan in case of liquidity shortage or a deposit facility in case of liquidity surplus. These facilities provide an interest rate corridor on the money market, with the interest rate on the Lombard facility setting a ceiling and the interest rate on the overnight deposit with the CNB setting a floor to that corridor.

Lombard loan

The Lombard rate provides a ceiling to the interest rate corridor on the money market. In 2010, it was set at 9.0%. The facility is granted against a pledge. Throughout 2010, it could be used on a daily basis up to the amount of 50% of the nominal value of the pledged T-bills with an original maturity of up to one year.

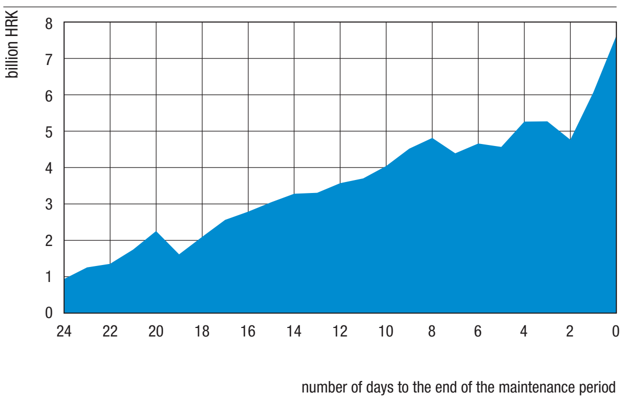
A Lombard loan is used on a bank's request or is granted automatically in the event of default on an intraday loan, and exclusively at the end of a business day. It is repayable on the next business day. The CNB may at its discretion deny a bank, temporarily or permanently, the use of the Lombard facility.

Lombard loans were not used in 2010.

Deposit facility

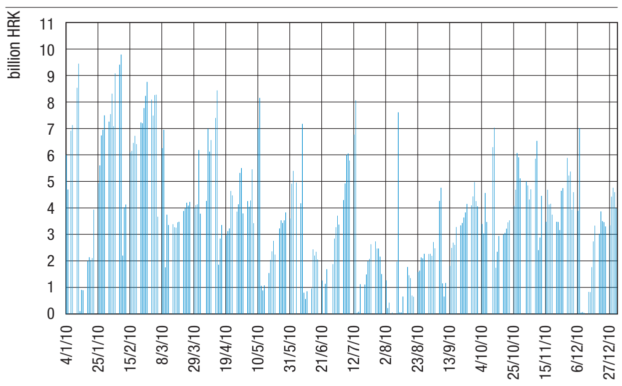
The banks may deposit any end-of-day liquidity surplus with the CNB. It is an overnight deposit that is repayable to the banks at the beginning of the next business day and that is remunerated by the CNB at 0.5% annually, an interest rate that is also the floor of the interest rate corridor on the money market. Funds deposited by banks in the form of overnight deposits with the CNB are not included in the reserve requirement maintenance. The CNB may at its discretion deny a bank, either temporarily or permanently, the use of the deposit facility.

2.4 Changes in overnight deposit balance in reserve requirement maintenance periods
average daily balances



Source: CNB.

2.5 Overnight deposits
daily balances



Source: CNB.

Throughout 2010, the banks made use of the overnight deposit facility with the CNB on a daily basis, particularly, in terms of the deposit amount, in the first quarter of 2010. Within a reserve maintenance period, the use of overnight deposits is commonly more frequent in the second part of the period, when the banks are more confident that they will meet the reserve requirement. Overnight deposits commonly increase immediately before a new maintenance cycle.

They were used on all business days in 2010 and their average daily amount was HRK 3.9bn. The largest daily amount of the overnight deposit of HRK 9.8bn was recorded in February 2010. The maximum average monthly amount of the facility, also registered in that month, stood at HRK 7.0bn. The minimum average monthly amount, of HRK 1.5bn, was recorded in August 2010.

2.1.3 Reserve requirements

In 2010, reserve requirements remained the main instrument for sterilising excess liquidity in the banking system. Starting from the reserve requirement calculation on 10 February 2010, the reserve requirement rate was cut from 14% to 13%. The base for the calculation of reserve requirements consists of the kuna and foreign currency components. The calculation period extends from the first to the last day of a calendar month, and the maintenance period begins on the second Wednesday in a month and ends on the day preceding the second Wednesday of the following month. The kuna and foreign currency reserve requirement allocation percentages are 70% and 60%, respectively, of the calculated reserve requirements. However, the foreign currency component of reserve requirements calculated on the basis of non-residents' foreign currency funds and foreign currency funds received from legal persons in a special relationship with a bank is set aside at the rate of 100%. The remaining part of reserve requirements may be maintained by average daily balances in the accounts of liquid claims.

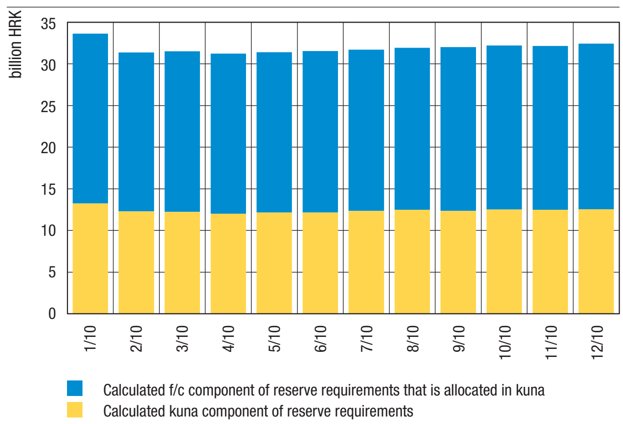
Kuna and foreign currency components of reserve requirements

After declining steadily in the first quarter of 2010, the kuna component of the base increased in the remaining part of the year, except in August and October. It peaked at HRK 96.9bn in December and bottomed out at HRK 92.5bn in March. The growth of the kuna component of the base did not exceed 1.7% per month in 2010. In the January-December period of 2010, the kuna component of the base increased by 2.6%.

The kuna component of reserve requirements peaked at HRK 33.6bn in January and bottomed out at HRK 31.3bn in April 2010. Although the kuna component of the base increased from January to December, the kuna component of reserve requirements dropped by 3.6% due to the lowering of the reserve requirement rate in February 2010.

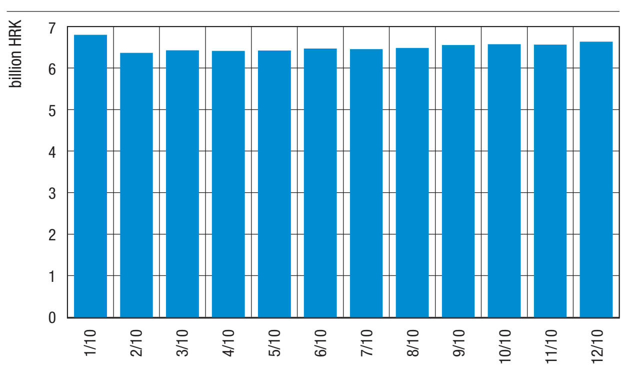
The foreign currency component of the base was HRK 195.8bn in January, which was its lowest level in 2010. It recorded steady growth over the year, except for minor decreases

2.6 Total kuna component of reserve requirements
balance in maintenance periods



Source: CNB.

2.7 Total foreign currency component of reserve requirements
balance in maintenance periods



Source: CNB.

in March, June and October, and reached its annual high of HRK 205.7bn in December. The foreign currency component of the base grew annually by 5.1%. It recorded the highest monthly increase of 1.1% in August, while the remaining part of 2010, overall, saw a lower monthly growth.

The foreign currency component of reserve requirements fluctuated in 2010 in line with the changes in the foreign currency component of the base. It decreased by 2.4% on an annual basis due to the cut in the reserve requirement rate. The foreign currency component of reserve requirements fluctuated between the lowest level of HRK 6.4bn in February and the highest level of HRK 6.8bn in January.

The remuneration paid for the allocated kuna component of reserve requirements was 0.75% throughout most of 2010. However December 2010 saw the adoption of the Decision on amendments to the Decision on the interest rates and remuneration of the CNB,[1] which set the rate of remuneration paid for the kuna component of reserve requirements at 0.25% per year as of 6 January 2011. The CNB pays no remuneration on the foreign currency component of reserve requirements set aside.

2.1.4 Other instruments

Minimum required foreign currency claims

One instrument used to maintain the foreign currency liquidity of banks is the minimum required foreign currency claims. In 2010, the minimum required amount of foreign currency claims was set at 20.0% of foreign currency liabilities. The banks are obliged to meet the prescribed maintenance percentage on a daily basis, with liquid foreign currency claims being those (with the exception of loan-related claims) maturing in less than three months.

The coverage of foreign currency liabilities by foreign currency claims in 2010 was at its annual maximum of 24.51% on 30 September and at its annual minimum of 22.28% on 26 February. This ratio stood at 23.21% at the end of the year.

Croatian National Bank bills in kuna

Dematerialised negotiable 35-day kuna CNB bills are sold at auctions at a discount and with same day settlement. The CNB sets auction dates and access to the primary market is open to domestic banks, foreign bank branches and the CBRD. The Central Depository and Clearing Company serves as a depository for CNB bills.

Though constituting a part of the operating monetary policy framework, CNB bills in kuna were not issued in 2010.

Short-term liquidity loans

Granted against financial collateral, short-term liquidity loans take the form of repo transactions (repo loans) or collateralised loans. Loans may be used for a period of up to twelve months. The interest rate on this type of loan is equal to the rate charged on a Lombard loan increased by 0.5 percentage points if the loan is used for a period of up to three months, or increased by 1 percentage point if the loan is used for a period of over three months.

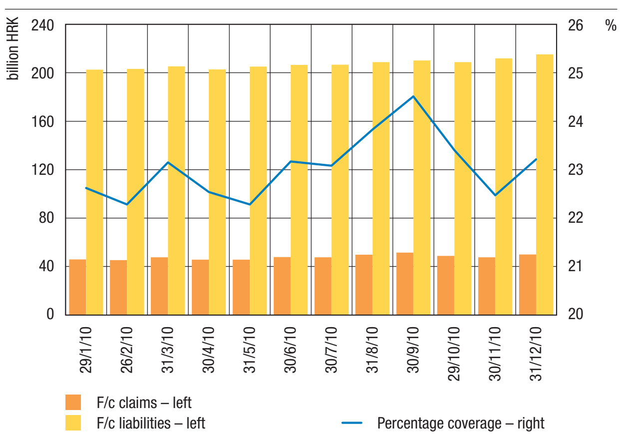
There was no need for the use of short-term liquidity loans in 2010.

Intraday loans

Intraday loans are payment system instruments which serve to improve the flow of payment transactions during business hours. The banks may use intraday loans on a daily basis in the form of a settlement account limit, with the limit being the permissible negative settlement account balance. In 2010, these collateralised loans could be used up to 50% of the nominal value of the pledged T-bills with an original maturity of up to one year.

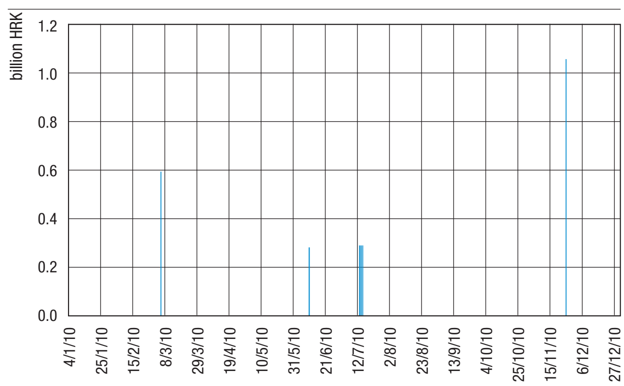
Any unpaid intraday loan at the end of a business day is automatically considered an application for a Lombard loan to the

2.8 Minimum foreign currency liquidity
end-month balance



Source: CNB.

2.9 Use of intraday loans



Source: CNB.

1 OG 147/2010.

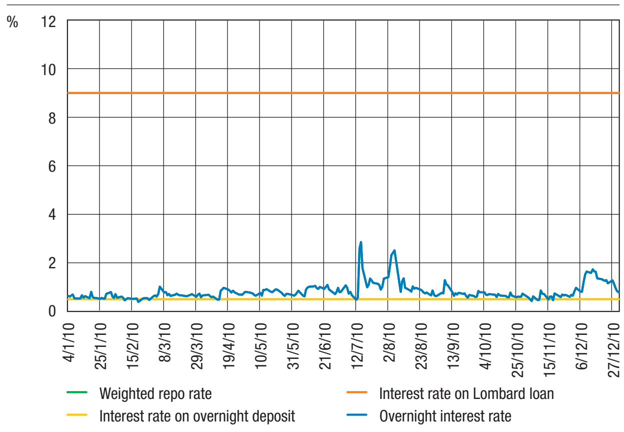
amount of any negative balance in a bank's settlement account. Denial of such loans, or any restriction on the amounts of Lombard loans granted, automatically implies identical restrictions on the use of intraday loans. The CNB charges no interest on intraday loans.

In 2010, banks used intraday loans for only 6 days: one day in March, June and November each and three days in July. Intraday loans granted ranged from HRK 282.1m in June to HRK 1,057.0m in November, while the average amount during the days of use was HRK 467.0m in 2010.

2.1.5 Croatian National Bank interest rates and remuneration

Interest rates on standing facilities form a corridor that should limit the range of fluctuations in overnight money market rates. The ceiling of the corridor is the interest rate on a Lombard loan (9.0% a year) and the floor is the interest rate on overnight deposits with the CNB (0.5% a year).

2.10 Interest rate spread, repo rates and overnight interest rates



Source: CNB.

2.2 International reserves management

The Croatian National Bank manages the international reserves of the Republic of Croatia; under the Act on the Croatian National Bank, these reserves constitute a part of the balance sheet of the central bank. The way in which the international reserves are managed is consistent with the established monetary and foreign exchange policies; in managing the international reserves, the CNB is governed primarily by the principles of liquidity and safety. The international reserves of the Republic of Croatia comprise all claims and all banknotes in a convertible foreign currency as well as special drawing rights.

2.2.1 Institutional and organisational framework, principles of management, risks and manner of international reserves management

Institutional and organisational framework of international reserves management

The Council of the CNB formulates the strategy and policy for international reserves management and sets out the risk management framework. The International Reserves Commission is the body responsible for the development of strategies for international reserves investment in accordance with the objectives and criteria set by the Council of the CNB and for the adoption of tactical decisions on international reserves management, while taking into account market conditions.

Principles of and risks in international reserves management

Managing the international reserves of the Republic of Croatia, the central bank is guided by the principles of security and liquidity of investment (Article 19 of the Act on the Croatian National Bank). In this context, it maintains a high liquidity of reserves and appropriate risk exposure and, within the given restrictions, attempts to ensure favourable rates of return on its investments.

Risks present in international reserves management are primarily financial risks such as credit, interest rate and currency risks, though other risks such as liquidity and operational risks also play a role. The CNB limits exposure to credit risk by investing in highly rated government bonds, collateralised deposits and non-collateralised deposits in financial institutions with the highest credit rating. Interest rate risk, or the risk of a fall in the value of the international reserves portfolio due to unfavourable interest rate changes, can be controlled by means of benchmark portfolios. Currency risk arises from currency fluctuations between the kuna and the euro and the kuna and the US dollar. Liquidity risk can be controlled by investing reserves into easily marketable bonds and partly into short-term deposit instruments. Operational risk can be controlled by strict separation of functions and responsibilities, precisely defined methodologies and procedures, and regular internal and external audits.

Manner of international reserves management

Under the Decision on international reserves management, the Croatian National Bank manages international reserves in two ways: 1) actively – in accordance with its own guidelines and 2) passively – in accordance with the foreign currency liabilities assumed.

The CNB actively manages that part of international reserves formed through outright purchase of foreign currency from the banks and the Ministry of Finance in accordance with the set benchmark portfolios, thus achieving an adequate risk-return profile. The other part of the reserves, formed on the basis of allocated foreign currency reserve requirements of banks, deposits of the MoF, repo transactions, swap arrangements and special drawing rights (SDR), is managed passively by the CNB, depending on assumed foreign currency liabilities, and with the aim of ensuring protection against currency and interest rate risks.

The terminology of reporting on international reserves of the CNB includes the terms of gross and net reserves. Gross reserves imply total international reserves. Net reserves imply foreign cash and the share of reserves actively managed by the CNB.

2.2.2 International reserves in 2010

The year 2010 was marked by the world economic recovery and the escalation of the eurozone debt crisis. The policy of increased budgetary spending in the crisis conditions helped stabilise the financial system and put an end to the decline in economic activity. However, it also led to a rise in budget deficits and public debt. A deterioration in debt indicators increased the yields on bonds issued by some issuers; the first to be affected was Greece, in the second half of 2009. The crisis escalated in 2010; next to Greece, the hardest hit were Ireland, Portugal and Spain.

Table 2.1 Monthly changes in total and net CNB international reserves
end of period, in million EUR

Month	Total reserves	Net reserves
December 2009	10,375.55	9,034.53
January 2010	10,393.64	9,102.87
February 2010	10,081.35	9,096.27
March 2010	10,007.92	9,011.95
April 2010	10,014.78	9,015.01
May 2010	10,176.35	9,146.81
June 2010	10,304.97	9,287.81
July 2010	11,324.83	9,420.41
August 2010	11,428.23	9,472.68
September 2010	11,154.20	9,359.78
October 2010	11,076.73	9,332.18
November 2010	11,044.04	9,305.81
December 2010	10,660.12	9,287.77
Change Dec. 2010 – Dec. 2009	284.57	253.24

Source: CNB.

Against this background, demand for government bonds of countries that are traditionally considered the safest, such as Germany and the US, increased and prices of their bonds grew. This is why the realised rates of return on the CNB net euro and dollar portfolios were higher than expected in 2010.

Total international reserves of the CNB stood at EUR 10.7bn on 31 December 2010, an increase of EUR 0.3bn (2.7%) compared with the end of 2009, when they stood at EUR 10.4bn. Net international reserves, which do not include foreign currency reserve requirements, special drawing rights in the IMF and funds of the MoF, grew by EUR 0.3bn in 2010, from EUR 9.0bn to EUR 9.3bn.

The main factors leading to changes in the level of total international reserves in 2010 on the inflow side were:

- EUR 1.6bn in total inflow for the account of the MoF (of which the CNB purchased EUR 0.2bn from the MoF);
- EUR 0.2bn in positive cross-currency changes arising primarily from an 8.2% increase in the dollar/euro exchange rate;
- EUR 91.7m in funds earned based on total CNB international reserves investments; and
- EUR 13.6m net in foreign currency purchases from the banks through interventions;

and on the outflow side:

- EUR 1.5bn in total outflow from the account of the MoF (EUR 0.2bn of which the CNB sold to the MoF); and
- EUR 79.4m fall in total allocated foreign currency reserve requirements.

Total CNB turnover in the foreign exchange market in 2010

In 2010, the Croatian National Bank purchased a total of EUR 603.6m and sold a total of EUR 584.1m in the foreign exchange market. The CNB thus purchased a total of EUR 19.5m net, releasing HRK 86.4m to circulation. The CNB purchased EUR 363.7m from the banks, while it sold EUR 350.1m. The CNB purchased EUR 239.9m from the Ministry of Finance and sold to it EUR 234.0m.

Risks in international reserves management and structure of international reserves investment in 2010

Credit risk in international reserves management

Credit risk is the risk that a counterparty will not settle an obligation in full, either when due or at any time thereafter. The CNB provides for several levels of protection against credit risk:

Table 2.2 Total CNB turnover in the foreign exchange market, 1 January – 31 December 2010
at the exchange rate applicable on the value date, in million

	Purchase (1)		Sale (2)		Net (1 – 2)	
	EUR	HRK	EUR	HRK	EUR	HRK
Domestic banks	363.70	2,619.40	350.10	2,594.60	13.60	24.79
Ministry of Finance	239.94	1,767.06	234.03	1,705.34	5.91	61.72
Foreign banks	0.00	0.00	0.02	0.15	–0.02	–0.15
Total	603.64	4,386.46	584.15	4,300.09	19.49	86.37

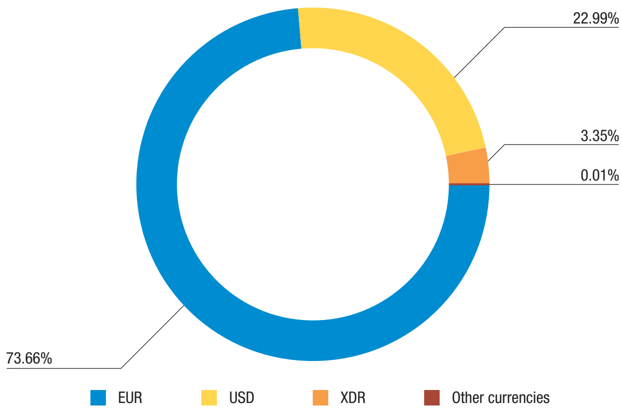
Source: CNB.

Table 2.3 Structure of international reserves investment according to credit risk as at 31 December 2010
in %

Investment	31/12/2010		31/12/2009	
	Net reserves	Total reserves	Net reserves	Total reserves
1 Countries				
Government bonds	75.43	65.72	79.47	69.20
Reverse repo agreements	12.66	14.16	6.14	7.72
Central banks	5.74	9.71	4.58	9.15
Bank bonds	–	–	1.99	1.74
Covered bonds	–	–	0.36	0.31
2 International financial institutions	4.90	8.64	5.90	10.52
3 Banks	1.27	1.78	1.56	1.37
Total	100.00	100.00	100.00	100.00

Source: CNB.

2.11 Currency structure of total international reserves
as at 31 December 2010



Source: CNB.

- the CNB invests only in funds of financial institutions and countries with the highest credit rating. The evaluation of creditworthiness is based on ratings issued by large, internationally recognised rating agencies (Moody's, Standard & Poor's and FitchRatings);
- there are restrictions on investments in individual financial institutions and countries which serve to diversify credit risk; and
- a large share of investments in financial institutions is collateralised, i.e. covered by government bonds whose market value is equal to or higher than the value of the funds placed.

The lion's share of the CNB's foreign currency portfolios is invested in safe instruments, such as government securities and instruments issued by international financial institutions, e.g. the Bank for International Settlements (BIS), central banks, and bank deposits covered by government bonds. After the eruption of the global financial crisis in 2008, non-collateralised investments in commercial banks were reduced to a minimum.

Special attention is paid to diversification by debt issuers – countries in whose securities and other instruments the CNB may invest international reserves. In response to the debt crisis in some European countries, which escalated in May 2010, investment in some countries, e.g. Portugal, Ireland, Italy and Spain, was either much more tightly restricted or ceased completely.

The share of total international reserves invested in government bonds stood at 65.7% on the last day of 2010, down from 69.2% as at 31 December 2009. The main reason for the decrease was the reduction of the average duration of the CNB net portfolio, which was made in February 2010 to lower interest rate risk. By contrast, investment in reverse repo agreements increased from 7.7% to 14.2%. Investment in central banks went up from 9.1% at end-2009 to 9.7% at end-2010, while investment in international financial institutions decreased from 10.5% to 8.6%.

Currency structure of international reserves

On 31 December 2010, the euro accounted for 73.66% of the total international reserves, slightly up from 73.07% at the end of 2009. The share of the American dollar decreased from 23.73% at the end of 2009 to 22.99% on the last day of December 2010. The share of SDRs increased from 3.20% to 3.35% in the same period.

The portion of the reserves that arises from allocated foreign currency reserve requirements, MoF funds and repo operations is not exposed to currency risk as it is invested in the same currency in which it was deposited in CNB accounts.

Interest rate risk in international reserves management

Interest rate risk is the risk of a fall in the price of bonds or the value of foreign currency portfolios of international reserves due to an increase in interest rates in fixed income markets. The interest rate risk of the international reserves of the CNB is controlled by means of precisely defined benchmark portfolios. Benchmark portfolios meet the required risk-return profile, thus reflecting the long-term investment strategy of the reserves. In the current situation of low interest rates, special attention in international reserves management is paid to interest rate risk. The average duration of CNB net foreign currency portfolios was thus reduced in 2010, which further protected the value of reserves against a substantial increase in interest rates.

Results and analysis of CNB foreign currency portfolio management in 2010

In 2010, the rate of return on the CNB net euro portfolio stood at 1.09%[2] on an annual level, while the rate of return on the CNB net dollar portfolio during the same period stood at 0.67%.

Due to the low euro and dollar yield curves, the realised rates of return on the CNB net euro and dollar portfolios were relatively low, but were still higher than expected since bond prices also increased in 2010. After the escalation of the credit crisis in Greece, Ireland, Portugal and Spain, investors turned to countries traditionally considered the safest, such as Germany

2 Rates of return are presented on a gross basis.

Table 2.4 Realised income in 2010 and rates of return on the CNB foreign currency portfolios

at market value, in million EUR and USD and %

Portfolio	Realised income	Annual rate of return					
	2010	2005	2006	2007	2008	2009	2010
EUR	78.45	2.19	2.41	3.94	5.68	1.73	1.09
USD	15.12	2.78	4.67	6.23	4.57	0.50	0.67

Source: CNB.

and the US. In response to stronger demand, prices of these countries' bonds went up. Prices grew more strongly in the first half of 2010, but were corrected in the second half of the year.

In 2010, around 62% of the CNB net dollar portfolio was accounted for by bonds issued by the United States of America, while some 70% of the CNB net euro portfolio was accounted for by government securities of the Federal Republic of Germany (or bonds for which it guarantees), which contributed to the safety of the CNB's foreign currency portfolios and to their good return.

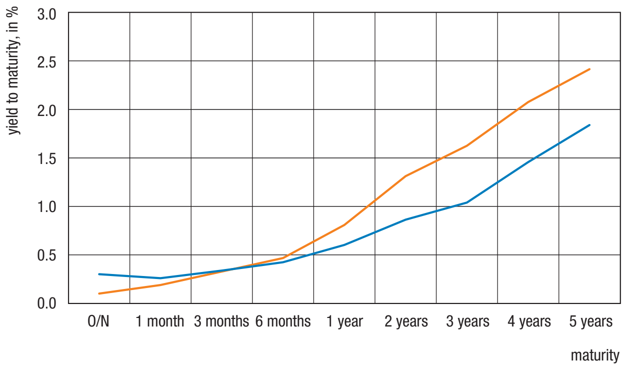
The actively managed net euro portfolio generated an income of EUR 78.4m in 2010, while the dollar portfolio generated an income of USD 15.1m.

The return on the CNB net euro portfolio (1.1%) was more than twice as high as that on the euro risk-free rate – German treasury bills, the return on which was 0.5% in 2010. The return on the CNB net dollar portfolio in 2010 (0.7%) was also higher than that on the safest dollar investment – three-month US treasury bills, which was 0.1% in the reporting year.

The relatively higher return on CNB net foreign currency portfolios was primarily due to higher exposure to interest rate risk, i.e. the share of longer-term bonds, the prices of which increased in 2010.

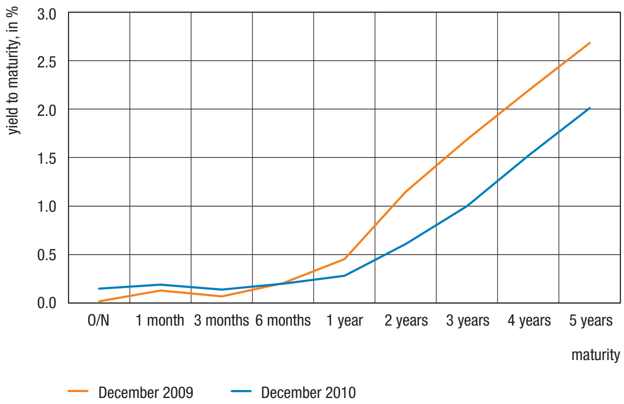
The European Central Bank and the US central bank (Fed) did not change their key interest rates in 2010, keeping them at exceptionally low levels. The ECB's benchmark one-week repo rate remained at 1.00%, while the Fed's overnight interest rate ranged between 0% and 0.25%.

2.13 Yield curve on German government bonds



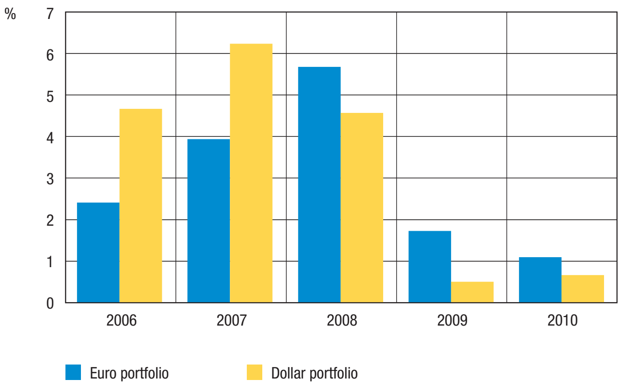
Note: O/N stands for overnight interest rate.
Source: Bloomberg.

2.14 Yield curve on American government bonds



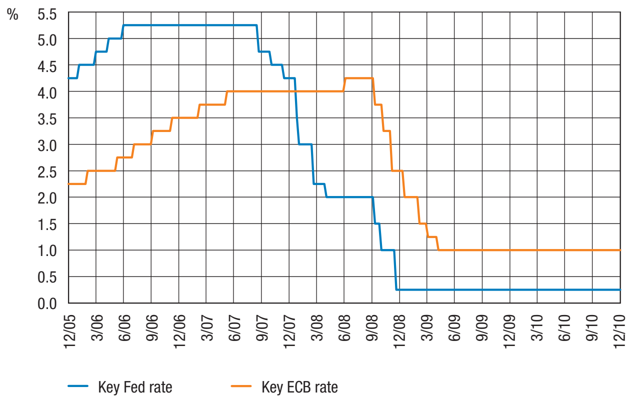
Note: O/N stands for overnight interest rate.
Source: Bloomberg.

2.12 Annual rates of return on the CNB euro and dollar portfolios



Source: CNB.

2.15 Changes in key Fed and ECB rates



Source: CNB.

Banking sector

HNB

Negative developments in the real sector of the economy and deterioration in the quality of credit portfolios kept the growth of bank balance sheets down to 3.5% in 2010. Furthermore, the bulk of this growth was the result of exchange rate changes, and bank balance sheets rose effectively by only 0.8%. Growing uncertainty coupled with the fact that the citizens were less inclined to put money in other forms of investment boosted the domestic sources of growth in bank assets. As a result, household savings continued to trend upwards slowly but steadily, in line with the trend present since mid-2009, making it possible for the banks to rely less on the sources of funding from their majority foreign owners. Credit activity was slow again, though it picked up slightly compared to 2009. The largest share of the credit increase was channelled to corporates, while household loans, influenced by poorer demand for some types of credit, fell in real terms. Corporates used the bulk of the loans they received for working capital and to a lesser extent to finance new projects. Increased risk of default on bank loans and low credit activity in relation to new and low-risk clients led to a significant increase in the level of partly recoverable or fully irrecoverable corporate loans. This led in turn to a deterioration in the quality of total bank loans and the quality of household loans, partly as a result of materialisation of currency-induced credit risk, particularly in relation to household loans indexed to the Swiss franc. The absence of any significant credit activity and the growth in the share of partly recoverable and fully irrecoverable loans to 11.2% of total bank loans led to a fall in the interest income and profit of the majority of banks. Nevertheless, owing to improved cost effectiveness and the growth of other sources of income, most notably from commissions and fees, indicators of bank returns remained solid, with ROAA standing at 1.2% and ROAE at 7.0%. In the light of growing credit portfolio losses, the good liquidity position and strong capitalisation of the majority of banks had a positive influence on banking system stability, as seen in the capital adequacy ratio of banks which stood at 18.4% at the end of 2010. The significant increase over the previous year can be attributed to legislative alignment with the relevant EU directives, i.e. the Basel II framework. Unlike the previous regulations, the new regulatory framework for the calculation of the minimum capital adequacy ratio does not require increased weights for currency-induced credit risk, with the result that the average credit risk weight has decreased significantly.

3.1 Business operations of banks

At the end of 2010, there were 38 credit institutions operating in the Republic of Croatia: 32 banks, one savings bank and five housing savings banks. Compared to the end of 2009, the number of credit institutions had fallen by one as a result of compulsory winding up proceedings initiated in Obrtnička štedna banka d.d. and withdrawal of this bank's authorisation in the third quarter of 2010.

Bank assets (including a savings bank) stood at HRK 391.6bn and accounted, as in the previous year, for 98.3% of the total assets of all credit institutions. Housing savings bank assets stood at HRK 6.5bn and accounted for the remaining 1.7% assets of credit institutions.[1]

The number of banks has not changed significantly over the past five years. Their share in the total assets of all credit institutions rose by a little over half a percentage point during that period, while the share of housing savings banks, the number of which rose from four to five during that period, further decreased.

At the end of 2010, six large banks[2] dominated the market and accounted for 82.1% of the total assets of all banks. The number of large banks, their line-up in terms of the amount of assets and their total market share have not changed significantly in the last five years. Compared to end-2009, when large bank

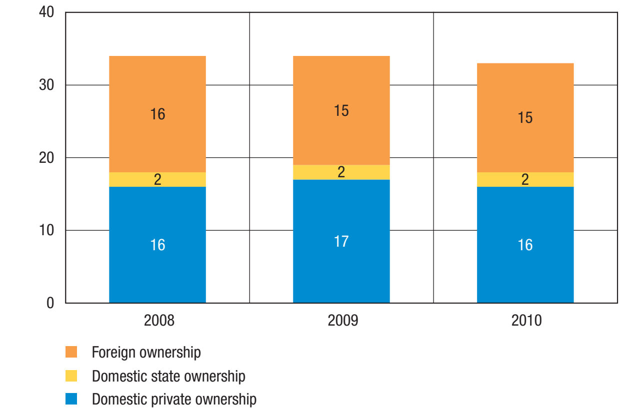
Table 3.1 Number of credit institutions
end of period

	2008	2009	2010
Banks			
Number of banks at the beginning of the year	33	33	32
Banks that merged with other banks	–	1	–
Number of banks at the end of the year	33	32	32
Savings banks			
Number of savings banks at the beginning of the year	0	1	2
Authorised savings banks	2	–	–
Number of savings banks whose authorisation has been withdrawn	–	–	1
Number of savings banks at the end of the year	1	2	1
Housing savings banks			
Number of housing savings banks at the beginning of the year	5	5	5
Authorised housing savings banks	–	–	–
Number of housing savings banks at the end of the year	5	5	5

Note: A štedna banka malog poduzetništva d.d. was granted a licence in 2008 and began operating in 2009.
Source: CNB.

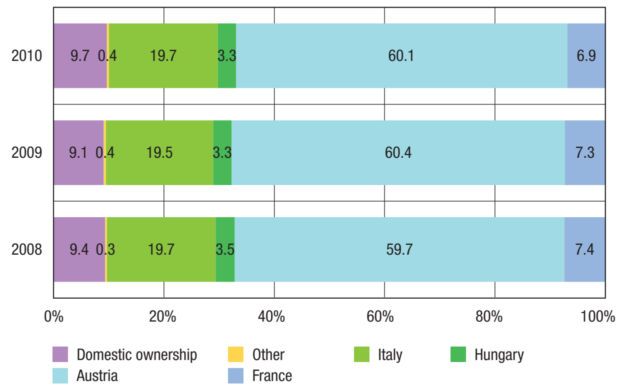
1 Data for 2010 are based on the preliminary unaudited reports of credit institutions.
2 The banks (savings banks included) have been divided into three peer groups, depending on the size of the relative share of a bank's assets in the total assets of all banks at the end of the reporting period: large, medium-sized and small banks. Large banks are banks whose assets exceed 5% of the total assets of all banks, medium-sized banks are banks whose assets are greater than 1% and less than 5% of the total assets of all banks, and small banks are banks whose assets are less than 1% of the total assets of all banks. Housing savings banks, due to their specific nature, constitute a separate group.

3.1 Number of banks by ownership residence and form of ownership
end of period



Source: CNB.

3.2 Bank assets by shareholder domicile
end of period



Note: For the purpose of this overview, a shareholder's domicile means the registered office of a company or the residence of the owner (a natural person).
Source: CNB.

assets accounted for the largest-ever share of the total assets of all banks (82.7%), the share of this bank group had declined by 0.6 percentage points. The total assets of the medium-size group of banks rose by 3.2%, or only slightly slower than total bank assets as a whole and the share of this bank group in the total assets of all banks remained almost unchanged. By contrast, the assets of the group of small banks rose much faster (11.6%) than the assets of other bank groups, with their share in total assets rising by 0.7 percentage points.

As the bank that ceased to operate towards the end of 2010 was a domestically-owned private bank, the number of banks in domestic ownership fell by one, while the number of banks in

Table 3.2 Bank peer groups and their share in total bank assets
end of period

	Number of banks			Share		
	2008	2009	2010	2008	2009	2010
Large banks	6	6	6	79.4	82.7	82.1
Medium-sized banks	4	3	3	12.5	9.1	9.0
Small banks	24	25	24	8.1	8.2	8.9
Total	34	34	33	100.0	100.0	100.0

Source: CNB.

Table 3.3 Bank assets by ownership residence and form of ownership
in %

Banks by ownership residence and form of ownership	Share of bank peer group assets in total bank assets		
	2008	2009	2010
Banks in majority ownership of domestic shareholders	4.9	4.9	5.4
Banks in majority state ownership	4.5	4.2	4.3
Banks in majority ownership of foreign shareholders	90.6	90.9	90.3
Total	100.0	100.0	100.0

Source: CNB.

the majority ownership of foreign shareholders remained unchanged, 15. The share of bank assets in the majority ownership of foreign shareholders in the total assets of all banks fell by a slight 0.6 percentage points in the past year. The share of state-owned domestic banks remained almost unchanged; however, with a high annual increase in assets of 13.2%, banks majority-owned by domestic private shareholders increased their share in the total banking system assets by 0.5 percentage points.

Austrian shareholders again accounted for the major share of the total assets of all banks. At the end of 2010, the assets of six banks in the majority ownership of Austrian shareholders accounted for 60.1% of total bank assets, which is a small decline compared to the end of 2009. Italian shareholders accounted for the next largest share in total bank assets, and even increased their share in total bank assets in 2010, while shareholders from France, Hungary, San Marino and Switzerland were majority owners of one bank each at the end of 2010.

3.1.1 Bank balance sheet and off-balance sheet items

Assets

Total bank assets amounted to HRK 391.6bn at the end of 2010, an increase of HRK 13.2bn or 3.5% relative to the end of 2009. The annual rate of increase in assets was higher than it had been in 2009, halting the downward trend in assets growth that had begun in 2007. However, the slight acceleration in the annual rate of assets growth notwithstanding, the increase was attributable primarily to the change in the exchange rate of the kuna and increased kuna equivalent of foreign assets, i.e. assets in foreign currencies and assets in kuna indexed to a foreign currency. In 2010, the exchange rate of the kuna depreciated significantly against the Swiss franc (20.8%) and somewhat less against the other two currencies (the euro and the American dollar) which, together with the Swiss franc, comprise almost the entire foreign currency assets. The effects of the exchange rate of the kuna against these three currencies excluded, foreign

Table 3.4 Structure of bank assets
end of period, in million HRK and %

	2008		2009			2010		
	Amount	Share	Amount	Share	Change	Amount	Share	Change
Money assets and deposits with the CNB	42,671.2	11.5	47,673.1	12.6	11.7	47,373.7	12.1	–0.6
Money assets	5,394.3	1.5	5,430.9	1.4	0.7	5,675.4	1.4	4.5
Deposits with the CNB	37,276.9	10.1	42,242.2	11.2	13.3	41,698.3	10.7	–1.3
Deposits with banking institutions	35,592.9	9.6	32,741.9	8.7	–8.0	30,160.0	7.7	–7.9
MoF treasury bills and CNB bills	10,062.5	2.7	9,366.8	2.5	–6.9	10,030.3	2.6	7.1
Securities and other financial instruments held for trading	6,840.0	1.8	5,522.4	1.5	–19.3	5,501.3	1.4	–0.4
Securities and other financial instruments available for sale	12,480.3	3.4	14,000.5	3.7	12.2	14,876.3	3.8	6.3
Securities and other financial instruments held to maturity	4,798.8	1.3	4,012.2	1.1	–16.4	3,692.0	0.9	–8.0
Securities and other financial instruments not traded in active markets but carried at fair value	669.0	0.2	1,644.9	0.4	145.9	1,090.0	0.3	–33.7
Derivative financial assets	121.9	0.0	212.4	0.1	74.2	154.6	0.0	–27.2
Loans to financial institutions	5,796.7	1.6	6,065.1	1.6	4.6	6,389.5	1.6	5.3
Loans to other clients	240,808.0	65.1	246,363.2	65.1	2.3	260,823.2	66.6	5.9
Investments in subsidiaries, associates and joint ventures	1,774.1	0.5	1,980.9	0.5	11.7	2,232.0	0.6	12.7
Foreclosed and repossessed assets	391.7	0.1	604.9	0.2	54.5	757.2	0.2	25.2
Tangible assets (net of depreciation)	4,503.8	1.2	4,372.3	1.2	–2.9	4,316.5	1.1	–1.3
Interest, fees and other assets	6,624.6	1.8	6,889.5	1.8	4.0	7,232.7	1.8	5.0
Net of: Collectively assessed impairment provisions	3,042.4	0.8	3,079.5	0.8	1.2	3,011.0	0.8	–2.2
Total assets	370,093.0	100.0	378,370.6	100.0	2.2	391,618.3	100.0	3.5

Source: CNB.

assets fell only slightly in real terms compared to the end of 2009 and then exclusively as a result of the real fall in assets in Swiss francs. Owing to a simultaneous increase in the kuna part of the assets, total bank assets rose in real terms by only 0.8% from the end of 2009.

The increase in assets from the end of 2009 was seen in all three bank groups during the observed period, but was the largest in the small bank group (11.6% or HRK 3.6bn). Large bank assets rose by HRK 8.5bn (2.7%), while the assets of medium-sized banks, after declining significantly in 2009 as a result of a merger between one medium-sized and one large bank[3] and a decline in the assets of the remaining banks in that group, rose by HRK 1.1bn (3.2%) at the end of 2010. The majority of banks witnessed an increase in their assets at the end of 2010 and only three small banks saw a decline in their assets compared to the end of 2009.

The increase in received deposits of banks, despite a concomitant fall in loan-related liabilities and excluding the increase resulting from depreciation of the kuna, led to a mild real growth in the sources of financing. The capital of banks also increased slightly, owing to recapitalisations carried out in 2010 and increased current year profit, which, combined with the accrued sources, provided potential for small bank placement growth. The data on the increased net loans point to a small recovery in the credit activities of banks compared to the year before, although, given the currency structure of the credit portfolio and the high predominance of foreign currency and kuna indexed to a foreign currency loans in that portfolio, the mentioned depreciation of the exchange rate of the kuna played a significant role in the higher level of net loans at the end of 2010. At the end of 2010, total net loans of banks amounted to HRK 267.2bn, an increase of HRK 14.8bn or 5.9% relative to the end of 2009. The real growth in net loans was much slower and stood at approximately 1.8%. This growth was due to an increase in loans denominated in or indexed to the euro and in kuna loans.

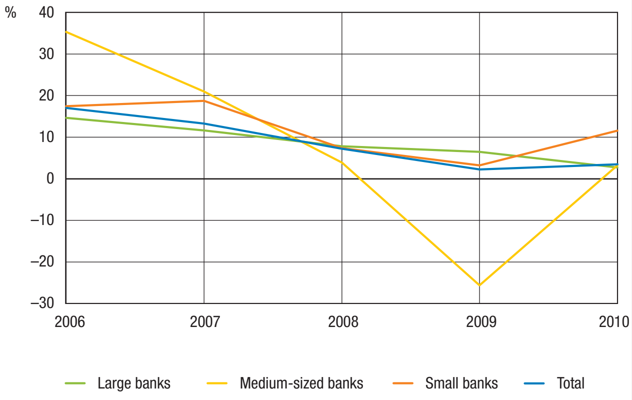
All bank groups witnessed an increase in net loans. Compared to the end of 2009, net loans grew the fastest in small banks (8.8%) then in medium-sized and large banks (7.0% and 5.5%, respectively).

As regards other more significant forms of assets, the banks witnessed an increase only in their securities investments, which totalled HRK 35.2bn, an increase of 1.9% from the end of 2009. This increase was associated primarily with increased investments in domestic securities, T-bills of the MoF, and to a lesser extent, in RC bonds, in contrast with investments in almost all other types of debt securities which fell at the end of 2010. The banks also reduced their equity investments in all sectors except non-banking financial institutions by a total of 8.9%. The banks again distributed the bulk of securities in the available-for-sale portfolio, marking them to market. As a result, at the end of 2010, the banks reported HRK 23.3m in unrealised profit.

A system-wide increase in securities investments can be attributed to their increase in small and medium-sized banks, while large banks reported a smaller amount of such investments compared to the end of 2009. Securities investments of

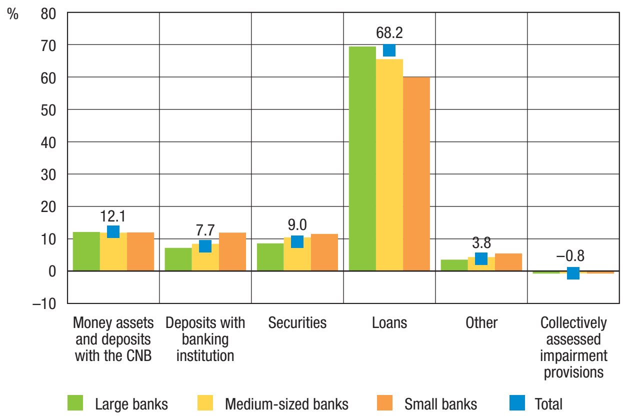
3 Slavonska banka d.d., Osijek merged with Hypo Alpe-Adria Bank d.d., Zagreb.

3.3 Rates of change in bank peer group assets



Source: CNB.

3.4 Structure of bank peer group assets
as at 31 December 2010



Source: CNB.

small banks were up 35.2% at the end of 2010, with the increase being attributable mainly to bigger investments in long-term instruments such as domestic and foreign government bonds. Investments in RC bonds and foreign government bonds were up in medium-sized banks too, with the total amount of securities investments of medium-sized banks rising by 4.9%. By contrast, large banks reduced their investments in long-term instruments and increased their investments in T-bills of the MoF and money market instruments, with total securities investments of large banks falling by 2.0% compared to the end of 2009.

At the end of 2010, banks' deposits with other banks were down HRK 2.6bn (7.9%) from the end of 2009, the decline being attributable mainly to a fall in deposits with foreign banks. Of the total amount of deposits placed, 20.7% were placed to foreign banks as majority owners of domestic banks and the amount of these deposits rose 8.0% from the end of 2009. Though to a smaller extent, the banks also reduced their deposits with the CNB (1.3%), as a result of a fall in the settlement accounts and allocated reserve requirements.[4] At the end of 2010, the banks deposited HRK 4.0bn in overnight deposits with the CNB, an increase of HRK 2.4bn from the end of 2009.

The developments and changes in individual types of bank assets had a somewhat more significant impact only on the share of net loans. A higher growth rate of net loans compared to the growth rate of total assets and a slower growth or a decline in other forms of investment led to an increase in the share of loans in bank assets from 66.7% at the end of 2009 to 68.2% at the end of 2010. The share of deposits with other banks accounted for 7.7% of total bank assets, a decline of almost one percentage point from the end of 2009. Money assets and deposits with the CNB also fell by a small 0.5 percentage points and accounted for 12.1% of assets at the end of 2010. A fall in almost all types of assets except net loans led to a small asset restructuring in large banks in favour of a larger share of net loans, which stood at 69.4% at the end of 2010 (67.6% at the end of 2009). Medium-sized banks also saw an increase in the share of net loans to 65.6%. The increase in net loans in small banks notwithstanding, their share in assets fell to 59.9% (by 1.5 percentage points), while a considerable increase in the securities investments of small banks led to an increase in the share of securities in small banks' assets from 9.5% at the end of 2009 to 11.5% at the end of 2010.

Changes in the currency structure of banks compared to the end of 2009 were very small and mainly attributable to an increase in the amount of net loans in foreign currencies and kuna loans with a currency clause. The increase in the amount of these loans was mainly due to an increase in their kuna equivalent as a result of exchange rate changes, and to a lesser extent to their real growth. The concomitant fall in deposits placed with foreign banks related to foreign currency-denominated deposits, which partly offset the increase in foreign exchange assets. As a result, total foreign exchange assets, including kuna assets with a currency clause, rose slightly (3.8%) and accounted for 65.7% of total assets at the end of 2010, a slight increase over the end of 2009. The 2.9% increase in kuna assets was due equally to more substantial bank investments in domestic securities and to loans to domestic financial institutions.

Liabilities and capital

Bank liabilities, which had been steady in the first half of 2010, rose slightly in the second half of the year owing to the growth in the sources of financing, most notably household deposits. The total sources of financing of banks rose by 3.1% compared to the end of 2009, with the depreciation of the exchange rate of the kuna, given the currency structure and the prevailing share of foreign currency liabilities, playing a large role in this increase. This effect excluded, the sources of financing rose by approximately1.6% in real terms.

4 Under the Decision on amendments to the Decision on reserve requirements which entered into force on 10 February 2010, the reserve requirement rate was cut from 14% to 13% (OG 18/2010).

Table 3.5 Structure of bank liabilities and capital
end of period, in million HRK and %

	2008		2009			2010		
	Amount	Share	Amount	Share	Change	Amount	Share	Change
Loans from financial institutions	**19,270.0**	**5.2**	**21,180.5**	**5.6**	**9.9**	**18,178.8**	**4.6**	**–14.2**
Short-term loans	8,314.0	2.2	10,167.9	2.7	22.3	7,407.9	1.9	–27.1
Long-term loans	10,956.1	3.0	11,012.6	2.9	0.5	10,770.9	2.7	–2.2
Deposits	**247,813.9**	**67.0**	**256,810.0**	**67.9**	**3.6**	**269,182.8**	**68.7**	**4.8**
Giro account and current account deposits	41,313.1	11.2	34,526.9	9.1	–16.4	37,258.1	9.5	7.9
Savings deposits	25,640.1	6.9	24,531.3	6.5	–4.3	26,705.5	6.8	8.9
Time deposits	180,860.7	48.9	197,751.7	52.3	9.3	205,219.2	52.4	3.8
Other loans	**32,862.6**	**8.9**	**31,787.5**	**8.4**	**–3.3**	**31,594.3**	**8.1**	**–0.6**
Short-term loans	7,955.1	2.1	6,133.5	1.6	–22.9	6,977.0	1.8	13.8
Long-term loans	24,907.5	6.7	25,654.0	6.8	3.0	24,617.3	6.3	–4.0
Derivative financial liabilities and other financial liabilities held for trading	**1,578.3**	**0.4**	**418.9**	**0.1**	**–73.5**	**1,475.2**	**0.4**	**252.1**
Debt securities issued	**3,392.3**	**0.9**	**119.3**	**0.0**	**–96.5**	**124.3**	**0.0**	**4.2**
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	3,392.3	0.9	119.3	0.0	–96.5	124.3	0.0	4.2
Subordinated instruments issued	**53.3**	**0.0**	**396.6**	**0.1**	**643.6**	**468.4**	**0.1**	**18.1**
Hybrid instruments issued	**2,055.7**	**0.6**	**3,016.4**	**0.8**	**46.7**	**3,431.2**	**0.9**	**13.7**
Interest, fees and other liabilities	**13,139.7**	**3.6**	**12,067.3**	**3.2**	**–8.2**	**12,521.6**	**3.2**	**3.8**
Total liabilities	320,165.9	86.5	325,796.6	86.1	1.8	336,976.6	86.0	3.4
Share capital	**28,287.6**	**7.6**	**28,781.8**	**7.6**	**1.7**	**29,468.2**	**7.5**	**2.4**
Current year profit/loss	**4,612.5**	**1.3**	**3,277.7**	**0.9**	**–28.9**	**3,760.9**	**1.0**	**14.7**
Retained earnings/loss	**5,694.1**	**1.5**	**7,764.9**	**2.0**	**36.4**	**8,927.2**	**2.3**	**15.0**
Legal reserves	**969.4**	**0.3**	**1,084.1**	**0.3**	**11.8**	**1,097.9**	**0.3**	**1.3**
Reserves provided for by the articles of association and other capital reserves	**10,511.3**	**2.8**	**11,789.2**	**3.1**	**12.2**	**11,381.3**	**2.9**	**–3.5**
Unrealised gains/losses on value adjustments of financial assets available for sale	**–112.5**	**0.0**	**–27.7**	**0.0**	**–75.4**	**23.3**	**0.0**	**–**
Reserves arising from hedging transactions	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Previous year profit/loss	**–35.3**	**0.0**	**–96.0**	**0.0**	**171.8**	**–17.1**	**0.0**	**–82.2**
Total capital	49,927.1	13.5	52,574.0	13.9	5.3	54,641.7	14.0	3.9
Total liabilities and capital	370,093.0	100.0	378,370.6	100.0	2.2	391,618.3	100.0	3.5

Source: CNB.

Household deposits grew 8.1% at an annual rate as a result of their steady growth throughout the year, while their increase of HRK 11.4bn represented a twofold increase compared to 2009, and accounted for almost the whole of the growth in deposits. Other sectors' deposits grew at a much slower rate and those of financial institutions fell. As a result, total deposits rose by HRK 12.4bn or 4.8%. Deposit growth was sufficient for the financing of the slow credit activities so the banks reduced their liabilities arising from loans received from domestic banks by HRK 3.2bn (6.0%). In relative terms, deposits grew the most in small banks (13.6%), and as in the case of large and medium-sized banks, this growth was based on household deposits growth. The group of small banks the only bank group that increased its liabilities based on received loans (10.7%), with the funds of small banks' foreign owners accounting for a significant part of this increase. Total deposits of medium-sized banks rose by 7.0% compared to 2009 and those of large banks by 3.6%. Medium-sized banks saw a somewhat more significant decline in received loans (32.9%), in contrast to large banks, where this decline stood at 5.1%.

Banks reduced the use of loans and deposits from majority foreign owners by 2.9%, with the share of these sources in total received deposits and loans standing at 18.3%, a slight decrease from the end of 2009. Large banks again accounted for the largest share of loans and deposits from majority foreign owners (21.2%), in contrast with medium-sized and small banks which accounted for much smaller shares (6.5% and 3.1%, respectively).

Owing to a well-capitalised banking system and a satisfactory capital adequacy level, only several banks needed additional own funds, so that the amount of issued subordinated and hybrid instruments rose by 18.1% and 13.8%, respectively. The role of these instruments in the sources of financing continued to be small, given that subordinated and hybrid instruments, combined with issued securities, accounted for 1.2% of the total sources. As regards other liabilities, the amount of derivative financial liabilities rose sharply (252.1%) from the end of 2009, though their share in the liabilities of banks remained relatively low.

No significant changes were observed in the structure of bank liabilities. The biggest change involved a decline in the share of received loans in total liabilities and capital from 14.0% at the end of 2009 to 12.7% at the end of 2010. The share of deposits rose slightly to 68.7% of the total liabilities and capital of banks.

The growth in balance sheet capital slowed down compared to 2009, growing by 3.9% or HRK 2.1bn. The retained earnings of banks were up HRK 1.2bn (15.0%) at the end of 2010, despite bigger dividend payments than in the previous years and coverage of the part of the previous years' operating losses from the retained earnings. Banks' share capital rose by almost HRK 700.0m as a result of recapitalisations in five small and one medium-sized bank in 2010. Total share capital rose by 2.4% compared to 2009. The increase in total capital was also due to a higher current year profit and to a lesser extent to unrealised profit on value adjustment of financial assets available for sale. The banks paid out approximately HRK 2.5bn in dividends to their shareholders in 2010, which is over three quarters of the profit generated in 2009 and much above the previous five year average when the banks retained a larger share of the profit as capital and paid out on average a little over 20% of the profit generated in the previous year.

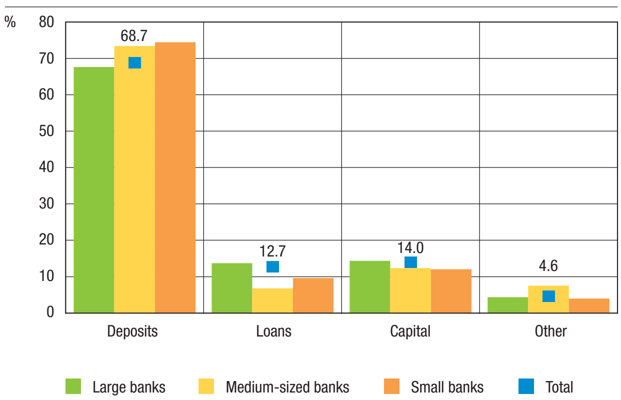
Despite a slowdown in the annual growth rate of total capital, the share of capital in bank liabilities continued its slight upward trend, and stood at 14.0% at the end of 2010. The size of this share was still being influenced by significant capital investments and a higher level of retained earnings in the previous five years, with a small positive impact in 2010 coming from a further increase in the level of most capital items. The share of capital in the liabilities of large banks was above average and stood at 14.3%. Compared to the end of 2009, the capital of large banks rose by 3.7%, pushing the share of capital in the liabilities of large banks slightly upwards, mainly owing to the retained part of the previous year's profit. Large recapitalisation in one medium-sized bank and current year profit, as against a considerable loss in the previous year, led to an increase in capital of 9.3% and an increase in its share in the liabilities of medium-sized banks from 11.7% at the end of 2009 to 12.3% at the end of 2010. Largely affected by losses brought forward and current year losses, the capital of small banks rose by a small 1.4% from the end of 2009, mainly owing to an increase in share capital. Due to the low capital growth rate and a simultaneous increase in the liabilities of small banks, the share of capital in the liabilities of small banks fell by 1.2 percentage points and stood at 12.0% at the end of 2010.

Compared to the end of 2009, developments in the currency structure of the total liabilities and capital of banks were mainly influenced by changes in deposits. The growth in long-term foreign currency deposits led to a significant increase in total foreign currency liabilities and capital items of 5.2%. Compared to the end of 2009, kuna liabilities and capital of banks rose 1.8% faster than kuna deposits as a result of higher current year profit and retained earnings and an increase in share capital. Foreign currency indexed kuna liabilities and capital fell by 1.5%, mainly as a result of a fall in deposits. The described developments had a small impact on the structure of liabilities and capital, the foreign exchange part of which, including foreign currency-indexed items, rose by 0.7 percentage points to 59.3% of total liabilities and capital of banks. Items in foreign currencies accounted for 55.3% and items in kuna for 40.7% of total liabilities and capital of banks.

Standard off-balance sheet items

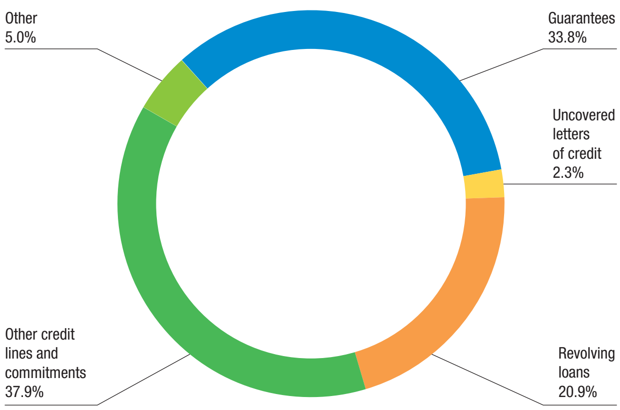
After increasing the total amount of standard off-balance sheet items for many years, the banks reversed this trend in 2009 by reducing considerably almost all forms of standard off-balance sheet items. Banks' unwillingness to increase credit risk exposure through off-balance sheet liabilities continued, though at a lower intensity, into 2010, so that at the end of 2010, the banks reported HRK 59.3bn in off-balance sheet items, a

3.5 Structure of bank peer group liabilities and capital
as at 31 December 2010



Source: CNB.

3.6 Structure of bank standard off-balance sheet items
as at 31 December 2010



Source: CNB.

decrease of HRK 1.5bn or 2.4% compared to the end of 2009. The standard off-balance sheet items to assets of banks ratio also decreased, falling from 16.1% at the end of 2009 to 15.1% at the end of 2010.

The main generators of change, i.e. of the increase and decrease in the total amount of standard off-balance sheet items in the previous years were credit lines and other financing commitments (including revolving loans). Their sharp fall in 2008 and 2009 slowed down towards the end of 2010 so that the amount of credit lines and other financing commitments fell only slightly, compared to 2009. The fall in issued guarantees of HRK 1.4bn (6.5%) was the main reason for the fall in total standard off-balance sheet items at the end of 2010, compared to the end of 2009. Credit lines and other financing commitments again accounted for the major share of the total standard off-balance sheet items (58.8%) while issued guarantees accounted for 33.8%, or the next largest share of the total standard off-balance sheet items.

At the end of 2010, total exposure of banks to financing commitments and contingent liabilities that may entail payments, shown as the total amount of standard off-balance sheet items to assets ratio, was again the highest in large banks (16.4%) in relative terms. Medium-sized banks reported a somewhat lower ratio (10.8%), while small banks again reported the lowest standard off-balance sheet items to assets ratio (7.9%). Compared to the end of 2009, only medium-sized banks reported an increase in the amount of standard off-balance sheet items (13.0%), attributable to the higher amount of issued guarantees. Unlike medium-sized banks, large banks reduced the amount of issued guarantees, thus causing a total reduction in standard off-balance sheet items of large banks of 3.4%. Small banks also witnessed a small decline in the total amount of standard off-balance sheet items compared to the end of 2009 (1.3%).

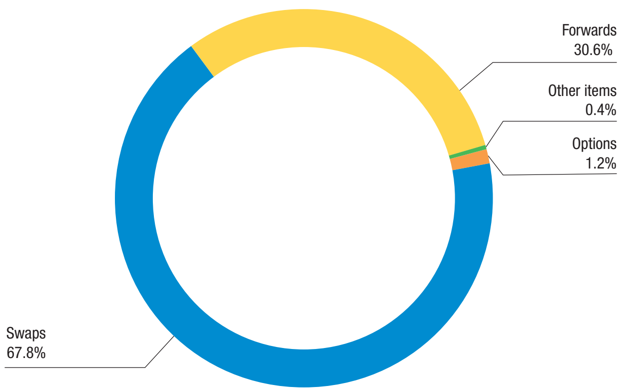
Derivative financial instruments

Just like the year before, the total notional value of derivative financial instruments declined in 2010, though the rate of the decline was somewhat lower than in 2009. Derivative financial instruments, with interest rate as the underlying variable, fell considerably, as reflected in the fall in their share to 27.6% while derivative financial instruments, with the exchange rate as the underlying variable, rose slightly, increasing their share to 71.9%. The bulk, or a little over two thirds of derivative financial instruments, consisted of swaps.

Large banks accounted for over 90% of the total notional value of derivative financial instruments and these banks' derivative financial instruments to assets ratio stood at 29.9%. In medium-sized banks, this share was 17.7% and in small banks only 1.3%. Nine small banks did not report derivative financial instruments.

Despite the fact that derivative financial instruments are mainly used by banks as a hedge against risks, most notably

3.7 Structure of bank derivative financial instruments (notional amount)
as at 31 December 2010



Source: CNB.

currency risk, the banks tend to report them mainly as held-for-trading instruments and not as hedging instruments. This can probably be attributed to the complex hedge accounting rules that would have to be applied in the latter case. The instruments held for trading accounted for 98.6% of the total derivative financial instruments, embedded derivatives for 1.2% and derivatives used as hedging instruments for the remaining 0.2% of the total derivative financial instruments.

The bulk of derivative financial instruments in most banks involved non-residents, most notably the majority foreign owners or sister companies (members of international banking groups that domestic banks belong to). The banks use derivatives to shorten their rather considerable long prompt net open positions, particularly in Swiss francs, which is associated with the increased popularity of loans in that currency in the period up to 2007 and a low level of sources in that currency. Also, the banks tend to close positions arising from deals with domestic clients with the majority foreign owners (back-to-back deals).

The last quarter of 2010 saw a considerable increase in the use of swap arrangements, probably as a result of regulatory arbitrage. The sources from the majority foreign owners rose slightly during that period but their structure changed considerably in favour of the kuna component as a result of a considerable increase in kuna and the total sources from the majority foreign owners in two large banks. Given that foreign currency and foreign currency indexed kuna liabilities are subject to minimum foreign currency liquidity maintenance,[5] the growth in the kuna sources from the majority foreign owners can probably be ascribed to regulatory arbitrage. As the majority foreign owners do not have kuna, the domestic banks enter into swap arrangements with them, selling kuna and purchasing foreign exchange on the spot market and selling foreign exchange and purchasing kuna on the forward market. With a considerable increase in the amount of domestic banks' deposits with the

5 Under the Decision on the minimum required amount of foreign currency claims (OG 59/2008, 17/2009 and 23/2009), in 2010 the banks were required to cover 20% of their foreign currency liabilities by foreign currency claims.

majority foreign owners, the described transactions might have been used not only to ensure greater lending potential but also to boost banks' balance sheets at the end of the business year.

3.1.2 Earnings

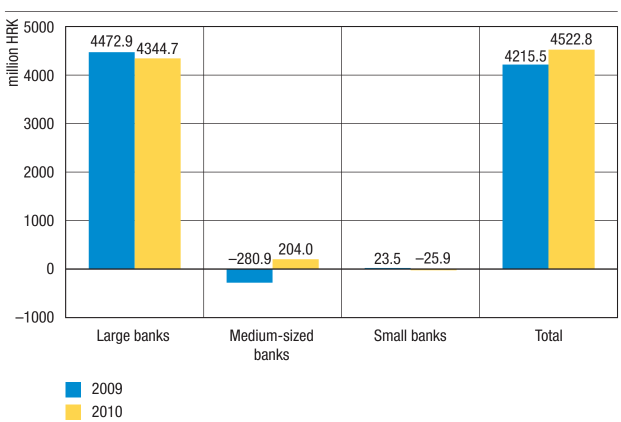
Income statement

Bank pre-tax profit, according to unaudited preliminary data, stood at HRK 4.5bn at the end of 2010, which is an increase of HRK 307.3m or 7.3% compared to the end of 2009. The increase in bank profit can be attributed to the profit generated by one medium-sized bank that had recorded a significant loss (HRK 448.8m) at the end of 2009. The effect of this considerable change in the aggregated income statement of all banks excluded, the banks' operating results fell compared to the end of the previous year by HRK 197.2m or 4.2%. Such an unfavourable macroeconomic environment resulted in low credit activity, a fall in the income from the main activities and increased expenses on loss provisions. Notwithstanding a further reduction in operating costs, pre-tax profit of banks at the end of 2010 was even lower than that at the end of 2007 and 2008.

At the end of 2010, pre-tax profit was reported by 27 banks. Compared to the end-2009 balance, only two large and four small banks reported increased profit and three banks reported profit at the end of 2010 after having incurred losses the previous year. Six small banks, which accounted for 1.5% of total bank assets at the end of 2010, generated a total of HRK 201.9m in losses.

Pre-tax profit reported by large banks stood at HRK 4.3bn, a decrease of HRK 128.2m or 2.9% compared to the end of 2009. This was due to a decline in profits in four large banks ranging from a mere 0.1% to a high 36.0%. Despite greater net and operating income, large banks witnessed a considerable increase in expenses on loss provisions (12.6%), which had a negative impact on their final business results. Small banks also witnessed a considerable increase in expenses on loss provisions (12.5%) which exceeded the amount of operating income. A small increase in costs coupled with stagnant net income and an increase in expenses on loss provisions, resulted in a loss of HRK 25.9m in small banks at the end of 2010. In contrast with 2009 when medium-sized banks reported a loss as a result of a loss in one bank in the group, at the end of 2010, medium-sized banks reported a profit of HRK 204.0m owing to reduced expenses on loss provisions and other operating costs.

3.8 Bank income before taxes



Source: CNB.

Owing to further considerable reduction in costs, the banks' net income rose by 2.6% and their operating income (net income before loss provisions) by 4.9% in 2010. Expenses on loss provisions were the only bank cost item that grew, while considerably lower financing costs compared to their high end-year values due to ZIBOR developments in the previous year, were the main reason for the decline in total costs.

A slight increase in financing in 2010, most notably short-term, accompanied by downward trending deposit interest rates, led to a significant fall in interest expenses of banks of over HRK 3.0bn or 22.8%. Interest expenses declined on all types of sources, with the largest influence on the total decline coming from deposits for which the banks set aside HRK 2.1bn (20.0%) less than at the end of 2009. Almost all sectors saw a decline in deposit expenses, with the largest decline being witnessed in non-resident (HRK 821.2m or 39.5%) and corporate deposits (HRK 770.8m or 47.4%), largely attributable to the lower ZIBOR in 2010. Expenses on received loans and debt securities also fell considerably (44.7% and 14.9%, respectively). Up by 4.3%, expenses on household deposits were the only growing item compared to the end of 2009. As a result of such interest expenses developments, the average expense on interest liabilities declined from the end of 2009 and led to a small increase in interest rate spread. Regulatory changes, such as lower savings deposits insurance premium[6] and a smaller percentage of reserve requirements allocation, had a positive influence on the fall in deposit interest rates in 2010.

At the end of 2010, interest income of banks was down HRK 1.6bn (7.1%) compared to the end of 2009. Almost one half of the decline in interest income could be attributed to a fall in income from loans and the other half could be attributed to a decline in interest income from all other forms of investment (debt securities, deposits, and swaps). The only small increase in credit activities, the growth in the share of non-performing loans and the slightly lower interest rates resulted in a fall in income from loans to all sectors of 3.9%. The largest fall in interest income was seen in interest income from loans granted to financial institutions (HRK 255.9m or 64.5%) and loans to corporates (HRK 217.5m or 3.0%), while in relative terms, the smallest decline in interest income was seen in the household sector (0.6%). This led to increased significance of income from household loans, whose share in total interest income of all types of placements rose from 45.2% in 2009 to 48.4% in 2010.

Other non-interest income fell by a considerable HRK 1.3bn or 37.0%, compared to the end of 2009. The high level in 2009 was due to gains from derivative instruments that were used as a hedge against interest rate risk and that served to

6 The Act on Amendments to the Deposit Insurance Act (OG 153/2009).

Table 3.6 Bank income statement
in million HRK

	Large banks		Medium-sized banks		Small banks		Total	
	Jan.–Dec. 2009	Jan.–Dec. 2010	Jan.–Dec. 2009	Jan.–Dec. 2010	Jan.–Dec. 2009	Jan.–Dec. 2010	Jan.–Dec. 2009	Jan.–Dec. 2010
Total interest income	18,589.7	17,097.4	2,158.1	1973.0	2,082.2	2,143.6	22,830.0	21,214.0
Total interest expenses	10,926.8	8,081.8	1,248.4	1010.5	1,103.5	1,158.0	13,278.7	10,250.3
Net interest income	7,662.9	9,015.6	909.7	962.5	978.6	985.6	9,551.3	10,963.7
Total income from fees and commissions	3,208.7	3,363.6	771.8	763.6	321.7	306.0	4,302.2	4,433.2
Total expenses on fees and commissions	753.2	709.3	467.2	429.0	99.2	86.7	1,319.6	1,224.9
Net income from fees and commissions	2,455.5	2,654.3	304.5	334.7	222.5	219.4	2,982.5	3,208.3
Other non-interest income	2,986.8	1,696.7	155.9	192.8	246.9	245.4	3,389.7	2,134.9
Other non-interest expenses	405.8	438.6	137.2	88.2	85.4	89.0	628.5	615.8
Net other non-interest income	2,581.0	1,258.1	18.7	104.6	161.5	156.4	2,761.2	1,519.1
Net non-interest income	5,036.5	3,912.4	323.2	439.3	384.0	375.8	5,743.7	4,727.4
General administrative expenses and depreciation	5,603.2	5,629.5	892.2	869.5	1,068.7	1,083.0	7,564.1	7,582.0
Net operating income before loss provisions	7,096.3	7,298.5	340.7	532.2	293.9	278.4	7,730.9	8,109.2
Expenses on value adjustments and provisions for identified losses	2,663.8	2,994.8	640.0	339.7	273.4	297.2	3,577.3	3,631.8
Expenses on collectively assessed impairment provisions	–40.5	–41.0	–18.5	–11.5	–3.0	7.1	–61.9	–45.4
Total expenses on loss provisions	2,623.4	2,953.8	621.5	328.2	270.5	304.4	3,515.4	3,586.3
Income/loss before taxes	4,472.9	4,344.7	–280.9	204.0	23.5	–25.9	4,215.5	4,522.8
Income tax	851.4	709.6	34.9	18.5	51.5	34.0	937.8	762.0
Current year profit/loss	3,621.5	3,635.2	–315.8	185.6	–28.1	–59.9	3,277.7	3,760.9
Memo items:								
Gains (losses) from trading activities	2,339.5	–2,113.5	132.0	–225.3	152.2	121.1	2,623.6	–2,217.6
Gains (losses) from securities trading	52.6	97.1	28.2	8.5	3.5	1.9	84.3	107.6
Gains (losses) from foreign currency trading	895.4	768.6	121.5	122.8	147.8	119.2	1,164.7	1,010.6
Gains (losses) from domestic currency trading	1.9	2.6	0.0	0.1	–0.1	–0.5	1.8	2.1
Gains (losses) from derivatives trading	1,389.5	–2,981.8	–17.7	–356.7	1.0	0.6	1,372.8	–3,337.9
Gains (losses) from exchange rate differentials	–35.2	3,159.9	7.3	342.3	–0.5	10.4	–28.4	3,512.7
Number of banks operating with losses	0	0	1	0	9	6	10	6

Source: CNB.

offset high interest expenses associated with sources linked to ZIBOR. At the end of 2010, the banks reported HRK 3.3bn in losses from derivatives trading and as these derivatives were mainly used by the banks as a hedge against currency risk, it should be noted that a significant profit was generated on accrued exchange rate differences totalling HRK 3.5bn. The decline in income was also witnessed in other non-interest bearing income transactions of banks, such as foreign exchange trading, assets not traded in active markets and carried at fair value through profit and loss, held-to-maturity assets, equity investments, and investments in subsidiaries.

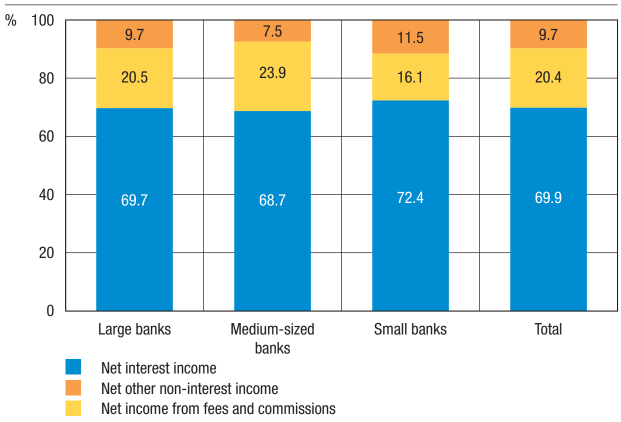
The banks generated increased income only from commissions and fees (3.1%), owing to greater income from fees for other services,[7] while income from fees for payment operations services steadily trended downwards, influenced by a fall in this type of income of corporates. The banks reduced expenses on fees and commissions by 7.2%, which had a favourable effect on developments in net income from fees and commissions, which was up 7.6%.

Bank costs rose only slightly from the end of 2009 as a result of increased employee expenses of 0.9% and an increase in other administrative expenses of 2.0%.

Total expenses on loss provisions of banks rose by 2.0% from the end of 2009 as a result of almost equal increases in dynamics in both large and small banks (12.6% and 12.5%, respectively). The increase in expenses on loss provisions was

7 The fees for issuing guarantees or other commitments, mandated operations, safekeeping securities and security transactions in the name and for the account of other persons, safe custody services, keeping of deposit accounts, services of issuing and managing unused credit lines, consultancy and advisory services to clients, issuing and using bank credit cards, collecting credit card receivables from buyers when the bank does not keep these receivables in its books, and other services.

3.9 Structure of bank net income
as at 31 December 2010



Source: CNB.

offset by their considerable decline in medium-sized banks (47.2%), which was driven by a decline in one bank in this group. The banks increased expenses for loss provisions for B and C risk category placements by 1.5% to almost HRK 3.6bn, offsetting the increase in total expenses by income freed by the lifting of collectively assessed impairment provisions, in spite of the fact that this income was a little lower than at the end of 2009. At the end of 2010, the banks used 44.2% of their operating income to cover expenses on loss provisions, only a slight decrease compared to the end of 2009. Large banks had the best loss provision expenses to operating income ratio (40.5%). They were followed by medium-sized banks (61.7%) and small banks whose loss provision expenses to operating income ratio amounted to 8.5%.

In contrast with the end of 2009, when the structure of net income reflected greater reliance of banks on one-off and less stable income and the share of net other non-interest income in the structure of net income was extremely high (18.1%), the share of net other non-interest income fell by 8.4 percentage points to its common level of 9.7% at the end of 2010. A considerable change in the share of net other non-interest income in the structure of net income of banks during the observed period can fully be ascribed to the developments in income associated with the use of derivative financial instruments as a hedge against risks. A decline in the share of net other interest income led to an increase in the share of the other two components of net income; net interest income rose by 7.4 percentage points to 69.9%, and net income from commissions and fees rose by one percentage point to 20.5% of net income. The increase in these two items led to a small increase in the share of net interest income and net income from fees and commissions in net income. Thus, a fall in interest income notwithstanding, net interest income rose by 14.8% from the end of 2009, owing to a significant fall in interest expenses. The increase in income, coupled with a simultaneous fall in expenses on fees and commissions resulted in an increase in net income from fees and commissions of 7.6%.

Indicators of returns

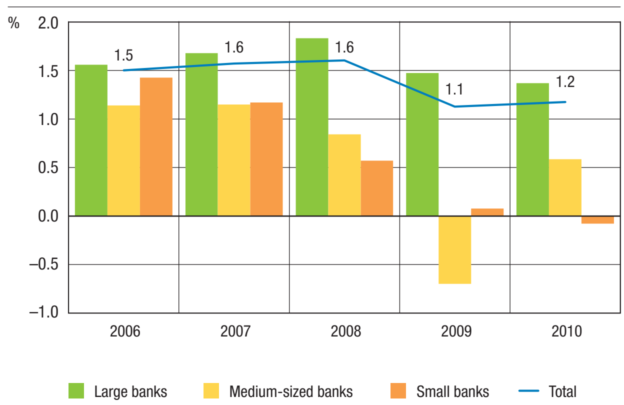
The indicators of returns on average assets and average equity rose slightly compared to the end of 2009. This can be attributed primarily to the profit generated by one medium-sized bank, in contrast with a significant loss generated by that bank and a negative influence that this loss had on total bank performance at the end of 2009. Thus, at the end of 2010, the return on average assets (ROAA) stood at 1.2%, and the return on average equity (ROAE) stood at 7.0%.

ROAA and ROAE were the highest in large banks where they stood at 1.4% and 8.0%, respectively, only a slight decrease compared to the end of 2009. Despite improvement compared to the end of 2009, medium-sized banks witnessed low profitability, with their ROAA and ROAE standing at 0.6% and 4.4%, respectively. The indicators of profitability in small banks were negative due to losses in six small banks. Only seven banks (four large and three small banks) had an ROAA above 1% and only two banks (one large and one small bank) had an ROAE above 10%.

A decline in the costs of financing the sources of bank funds had a favourable effect on the interest rate spread, i.e. the difference between interest income on average interest-bearing assets and interest expenses on average interest-bearing liabilities. Following a decline in 2009, the interest rate spread widened in 2010, returning to the previous years' levels. Despite a slight increase in interest rate liabilities during the observed period, interest rate expenses fell considerably, from 4.3% at the end of 2009 to 3.3% at the end of 2010. This was particularly due to the low benchmark interest rate (ZIBOR) in 2010, whose high values considerably increased interest expenses of the sources of financing in the first part of 2009. Despite a simultaneous slight increase in interest assets, poor credit activity and an increase in the share of irrevocable placements that do not generate income led to a decline in income on average interest assets from 6.5% to 6.0%.

Even though the interest rate spread narrowed only in the small bank group, it remained the widest in this bank group

3.10 Bank return on average assets (ROAA)
end of period



Source: CNB.

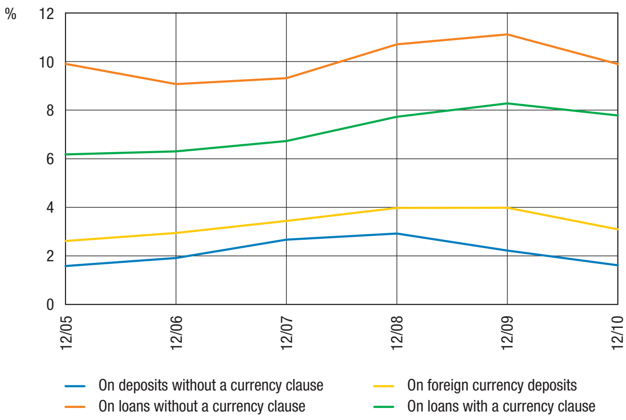
and stood at 2.9% at the end of 2010. The interest rate spread increased in other bank groups, particularly in the large bank group where it rose by a little over half a percentage point, reaching 2.7%. In medium-sized banks, this spread rose only slightly, reaching 2.2%.

A decline in interest income and expenses was additionally boosted by a small downward trend in interest rates. As regards developments in monthly weighted average interest rates of banks, there is evidence of a fall in the interest rates on foreign currency deposits and of a continuation of the fall in interest rates on deposits not indexed to a foreign currency that had started towards the end of 2009. There was a slight fall in interest rates on loans, both those with and without a currency clause.

The number of employees in the banks rose by 40 to 21,770 in 2010, and owing to a small increase in assets, the average amount of assets per employee in the system rose from HRK 17.4m to almost HRK 18.0m. Though increasing in all bank

3.13 Weighted averages of bank monthly interest rates

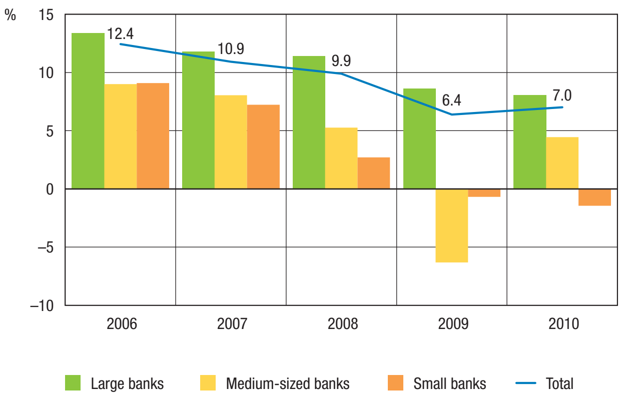
on annual basis



Source: CNB.

3.11 Bank return on average equity (ROAE)

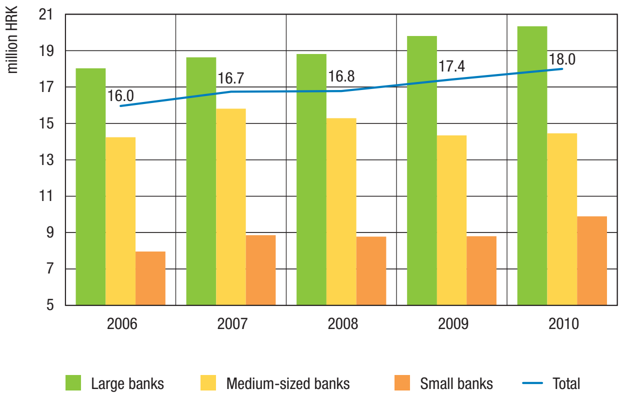
end of period



Source: CNB.

3.14 Bank assets per employee

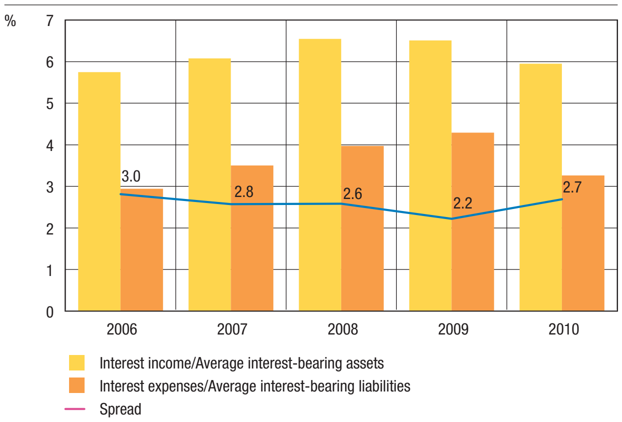
end of period



Source: CNB.

3.12 Income from interest-bearing assets and expenses on interest-bearing liabilities

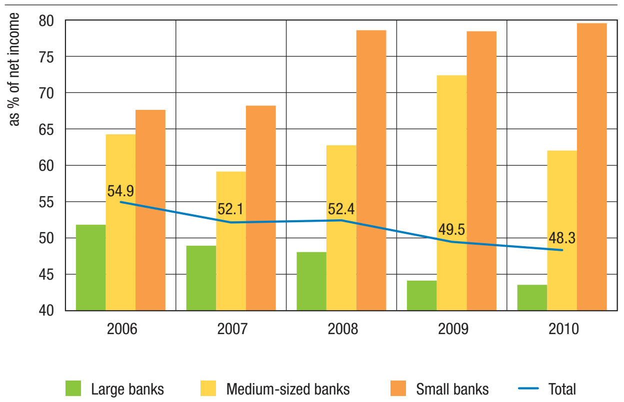
end of period



Source: CNB.

3.15 Bank operating expenses

end of period



Source: CNB.

groups, this indicator was again the strongest in large banks and stood at HRK 20.3bn. Despite a considerable increase in the number of employees in medium-sized banks, the amount of assets per employee in medium-sized banks also rose to HRK 14.5m. The number of employees in small banks declined compared to the end of 2009 owing to a fall in the number of banks in the group as a result of a winding up procedure in a savings bank. The amount of assets per employee of small banks had been growing steadily and stood at HRK 10.0m at the end of 2010.

An increase in the net income of banks in 2010 led to improved cost effectiveness in banks, as measured by cost to income ratio. From the end of 2009, when the banks used 49.5% of net income to cover general administrative expenses and depreciation, the cost to income ratio fell to 48.3% at the end of 2010. This indicator was again much less favourable than the average in medium-sized and small banks (62.0% and 79.6%, respectively) and, as usual, much more favourable in large banks (43.5%).

3.1.3 Credit risk

Placements and assumed off-balance sheet liabilities

At the end of 2010, total placements and assumed off-balance sheet liabilities of banks that are exposed to credit risk and are subject to classification into risk categories stood at HRK 419.9bn, a decrease of HRK 6.7bn or 1.6% compared to the end of 2009. The reason for the decline in total credit risk exposure is exclusively of a methodological nature. The new regulations on the classification of placements and assumed off-balance sheet liabilities have been applied since 31 March 2010.[8] One of the most significant changes introduced compared to the previous regulations involves the exclusion of the available for sale financial assets portfolio from placements and assumed off-balance sheet liabilities that are classified into risk categories. At the end of 2009, this portfolio stood at HRK 19.9bn. The effects of methodological changes excluded, bank placements and assumed off-balance sheet liabilities rose by 3.2% in 2010.

Total bank exposure to credit risk comprises placements (balance sheet items) and assumed off-balance sheet liabilities. The placements can be divided into a loan and receivables portfolio and a portfolio of held-to-maturity financial assets, with the receivables on interest and fees being covered by a separate item (receivables based on income). Owing to a lower amount of issued guarantees, the assumed off-balance sheet liabilities declined by 2.4% in 2010 in contrast with placements which rose by 4.2%, the effect of methodological changes excluded. This increase was mainly the result of an increase in the riskiest placement component, loans granted (loans and receivables portfolio), which rose by 5.3% in 2010. The credit activities of banks increased slightly compared to 2009, partly financed through a reduction in other forms of investments. Compared to the end of 2009, the largest decline was seen in the item deposits made, which, driven by a fall in deposits with foreign financial institutions, declined by 3.7%. The portfolio of held-to-maturity financial assets also declined heavily (14.3%), with a particular fall being witnessed in investments in RC bonds. By withdrawing deposits with foreign financial institutions, the banks optimised their liquid foreign exchange position, which was well above the prescribed minimum of 20% at the end of 2009. In addition, changes in the system of reserve requirements, whose reduced rate made it possible to reduce also that part of reserve requirements that is maintained by the average daily balance of liquid foreign currency claims, were also able to play a role in diminishing the need for keeping funds in the accounts with foreign financial institutions.

Partly recoverable placements (risk categories B-1, B-2 and B-3) and fully irrecoverable placements and assumed off-balance sheet liabilities (risk category C) totalled HRK 33.1bn at the end of 2010. They accounted for 7.9% of the total amount of placements and assumed off-balance sheet liabilities, while placements with no objective evidence of value impairment and off-balance sheet liabilities for which no outflows are expected, or where if outflows do take place, they are expected to be fully recovered (risk category A) accounted for the remaining 92.1% of the total. The amount of placements and assumed off-balance

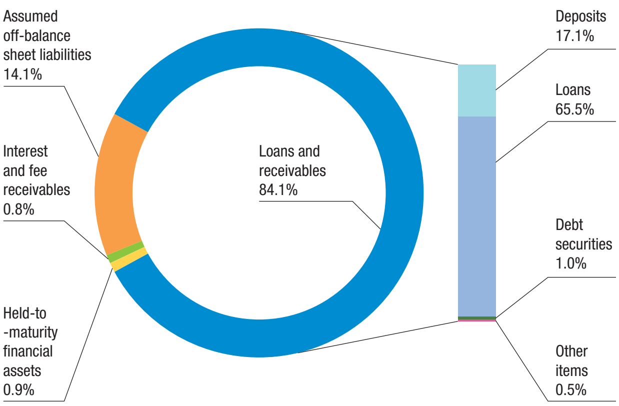
Table 3.7 Classification of bank placements and assumed off-balance sheet liabilities by risk categories
end of period, in million HRK and %

Risk category	2008			2009			2010		
	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	408,397.9	3,674.9	0.9	403,906.5	3,613.0	0.9	386,829.3	3,566.5	0.9
B-1	6,312.0	661.4	10.5	10,764.0	1,416.9	13.2	16,241.4	2,120.8	13.1
B-2	2,744.7	1,128.2	41.1	5,303.4	2,225.6	42.0	9,243.8	4,116.6	44.5
B-3	808.9	572.4	70.8	1,283.3	931.8	72.6	1,883.3	1,508.5	80.1
C	4,214.6	4,193.3	99.5	5,366.6	5,281.8	98.4	5,709.5	5,709.2	100.0
Total	422,478.1	10,230.1	2.4	426,623.8	13,469.1	3.2	419,907.4	17,021.5	4.1

Source: CNB.

8 Decision on the classification of placements and off-balance sheet liabilities of credit institutions (OG 1/2009, 75/2009 and 2/2010).

3.16 Structure of bank placements and assumed off-balance sheet liabilities
as at 31 December 2010



Source: CNB.

sheet liabilities of risk category A slowed down considerably compared to the end of 2009 as a result of the exclusion of the portfolio of financial assets available for sale from placements and assumed off-balance sheet liabilities classified into risk categories and the fact that this portfolio comprised predominantly central government and foreign central government securities, i.e. the highest quality securities. When the effect of methodological changes was excluded, placements and assumed off-balance sheet liabilities of risk category A rose by a slight 0.7% in 2010. Within risk category A, there are placements which involve a payment delay of over 90 days. These placements may be classified as risk category A, provided the bank has taken legal steps towards collecting its receivables by exercising the instruments of collateral and no more than two years have elapsed since the bank has taken legal actions towards collecting such receivables. Risk category A placements which involve a payment delay of over 90 days stood at HRK 5.6bn at the end of 2010 and accounted for 1.6% of total placements. Compared to the end of 2009, they fell by 10.7%. By contrast, risk category B[9] and C placements and assumed off-balance sheet liabilities rose sharply in 2010, though at a slower rate than in 2009. They rose by HRK 10.4bn or 45.6% in 2010, a decrease compared to 61.3% in 2009, and accounted for 5.3% of total placements and assumed off-balance sheet liabilities at the end of that year. Loans (from the loans and receivables portfolio) had a predominant effect on the quality of total placements and assumed off-balance sheet liabilities of banks. Risk category B and C loans accounted for 92.9% of total B and C category placements and assumed off-balance sheet liabilities, rising by HRK 10.4bn or 50.9% in 2010. The data on the monthly amounts of rolled over and restructured placements point to a gradual fall in the intensity of such activities in 2010. Worth noting in particular is that, in accordance with the regulations, a restructuring of placements that are not ensured by eligible instruments of collateral and that is caused by debtors' financial distress requires a reclassification into lower risk categories.

In 2010, B and C category placements and assumed off-balance sheet liabilities reached their highest quarterly grow rate in the last quarter of the year, probably attributable to tougher exposure quality assessment and efforts to offer a more realistic picture of bank performance in 2010.[10] As a result, total value adjustments and provisions, including those collectively assessed[11] grew the most in the last quarter of 2010, reaching HRK 17.0bn at the end of that year. Value adjustments and provisions accounted for 4.1% of total placements and assumed off-balance sheet liabilities. This shows this indicator's growth for the second consecutive year, and clearly points to the effect of the spillover of the economic crisis to the domestic banking sector. Category A value adjustments and provisions declined due to the methodological changes and a decline in category A placements and assumed off-balance sheet liabilities, while category B and C value adjustments and provisions rose by 36.5% during 2010. The average loss on B and C category placements and assumed off-balance sheet liabilities fell from 43.4% at the end of 2009 to 40.7% at the end of 2010. As banks have to make value adjustments/provisions of 100%[12] for C category placements and assumed off-balance sheet liabilities, a better picture of the coverage can be obtained by observing the coverage ratio of B category placements and assumed off-balance sheet liabilities and the relevant value adjustments. This ratio rose from 26.4% at the end of 2009 to 28.3% at the end of 2010.

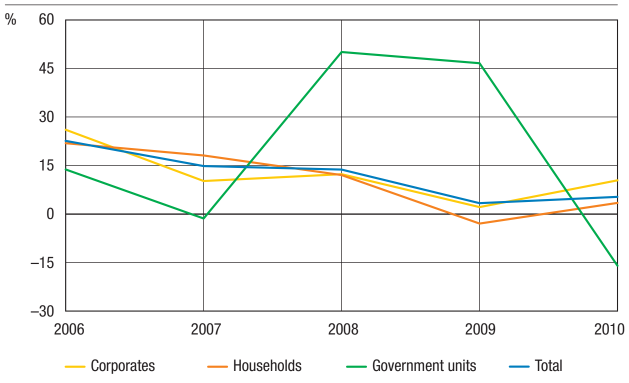
In 2010, B and C category placements and assumed off-balance sheet liabilities rose the most in large banks. Nevertheless, this bank group accounted for the lowest share of B and C category placements in total placements and assumed off-balance sheet liabilities (7.3%). At the end of 2010, this indicator stood at 10.8% in both medium-sized and small banks. In the previous year, the share of B and C category placements and assumed off-balance sheet liabilities was higher in small banks; however, the growth rate of B and C category placements and assumed off-balance sheet liabilities was considerably lower in this bank group than in the other two bank groups in 2010.

Loans

The slow domestic economy coupled with growing credit portfolio losses resulted in further high risk aversion and low, though somewhat faster than in 2009, credit activities of banks in 2010. Granted bank loans (distributed in the loans and receivables portfolio) stood at HRK 275.0bn at the end of 2010, which is an increase of HRK 13.8bn or 5.3%, compared to the end of the previous year. The reported growth in bank loans was

9 The sum total of placements and assumed off-balance sheet liabilities classified into risk categories B-1, B-2 and B-3.
10 Data for end-2010 are based on the preliminary unaudited reports of banks.
11 Credit institutions have to maintain the level of impairment (value adjustment) for placements and provisions for off-balance sheet liabilities graded A in the amount that is not below 0.85% or above 1.20% of the total balance of placements and off-balance sheet liabilities graded A.
12 Mandatory value adjustments/provisions of 100% for C category placements were introduced on 31 March 2010. The previous mandatory value adjustments/provisions for that placement category ranged from 90% to 100%.

3.17 Rates of change of bank loans



Note: From 2010, loans comprise loans classified into loans and receivables category, the sectorisation is made in accordance with the ESA 95 methodology, and household loans comprise loans to non-profit institutions serving households.
Source: CNB.

largely influenced by exchange rate changes and if their effects are excluded, bank loans grew by 3.5% in real terms.

Changes in the methodology make comparison of 2010 data with those in the previous periods much more difficult.[13] Where the effect of methodological changes on the distribution of loans by sectors is excluded as far as possible, the bulk of the loans increase in 2010 involved corporate loans used mainly for working capital financing and liquidity maintaining. Less risky sectors, government units and financial institutions came next in terms of the amount of increase. Banks also granted a much bigger amount of loans to non-residents than in 2009 though the share of loans to non-residents in total bank loans remained low (0.8%).[14]

Household loans rose by 4.0% in 2010, though in real terms, with the exchange rate effects excluded, they fell slightly. Compared to 2009 which also witnessed a fall in household loans, the fall in these loans slowed down somewhat in 2010.

Given a significant share (of almost one quarter) of loans in Swiss francs (kuna loans indexed to that currency included) in total household loans, the smaller demand for loans indexed to that currency and their considerable fall in real terms led to a real fall in total household loans. Given that a significant share of home loans is indexed to the Swiss franc (43.9%), there was a considerable difference between nominal and real developments and, their substantial nominal increase notwithstanding, the total amount of these loans held steady in real terms. Given a 7.8% increase (exchange rate effects excluded) in home loans in the euro (kuna loans indexed to that currency included) in 2010, the stagnation in the total home loans was associated with the fall in home loans indexed to the Swiss franc and a fall in home loans in kuna (not indexed to a foreign currency).

Car loans and credit card loans continued to trend downwards for the second consecutive year, at a slightly faster rate, in addition. As these loans have the lowest level of B and C risk category loans, such developments can probably be ascribed to slower demand for these types of loans rather than restrictions on the supply side. The demand factor probably played a predominant role in the fall in credit card loans and overdraft facilities. By contrast, a real increase was seen in longer term, household sector loans, most notably general-purpose cash loans and mortgage loans, probably used by households for servicing other due liabilities towards the banks.

From 31 March 2010, when loan distribution by activities became available in accordance with the National Classification of Economic Activities 2007, to the end of 2010, banks' loans to financial and insurance activities increased the most, and the majority of growth related to holding companies.[15] Activities related to the real estate market, construction and real estate transactions had the second largest loan growth, amounting to HRK 4.6bn or 15.3% in the observed period. They were followed by public administration and defence, accommodation providers and food preparation industry. Wishing to attract new and high quality clients, banks granted considerably more loans to activities that are otherwise less prominent in their credit portfolios, for instance, to education, the arts, entertainment and other service activities, as well as to activities relating to environment protection and renewable energy sources.[16] Manufacturing and trade recorded a fall in their share in loan distribution by activities relative to end-March 2010. In the observed period, loans to these activities increased mildly, while their share dropped in the last quarter of 2010.

At the end of 2010, in distribution of bank loans to residents, in terms of loan type, home loans accounted for the largest share (21.3%), followed by working capital (15.4%) and investments loans (13.9%) and cash general-purpose loans and shares in syndicated loans. Investment loans, working capital loans and cash-general purpose loans had by far the largest share in the distribution of B and C category loans and, due to their poor quality, construction loans[17] and loans for payments made based on guarantees and similar instruments also had large shares. Loans for payments made based on guarantees and other similar instruments and factoring also recorded a strong relative growth in the period from 31 March to

13 As from 31 March 2010, credit institutions submit credit exposure and credit quality data by means of reporting records (Decision on statistical and prudential reporting, OG 35/2010, 95/2010 and 146/2010) and exposure distribution by sectors and by activities is determined in the CNB based on personal identification numbers of clients submitted by credit institutions based on reporting records and personal identification numbers database of the CBS. Exposure distribution by sectors is conducted in accordance with the System of National Accounts, SNA 93, the European System of Accounts, ESA 95, and the distribution by activities in accordance with the National Classification of Economic Activities (NCEA 97). Until 31 March 2010, exposure distribution by sectors and activities was conducted by banks in accordance with regulations governing the chart of accounts (sectors), the supervisory reports and the National Classification of Economic Activities 2002.

14 Loans to clients in Slovenia and Bosnia and Herzegovina accounted for a little over one half of the stock of loans to non-residents in 2010.

15 According to the Methodology for statistical application of the National Classification of Economic Activities 2007 (OG 102/2007 and 123/2008), the class "activities of holding companies" relates to the companies whose core business is possession, i.e. ownership of a group of companies, rather than carrying out of administrative tasks or management of the group.

16 Water supply, sewerage, waste management and remediation activities.

17 Construction loan is a loan used for the financing of residential or commercial construction projects intended exclusively for market sale.

Table 3.8 Bank loans
end of period, in million HRK and %

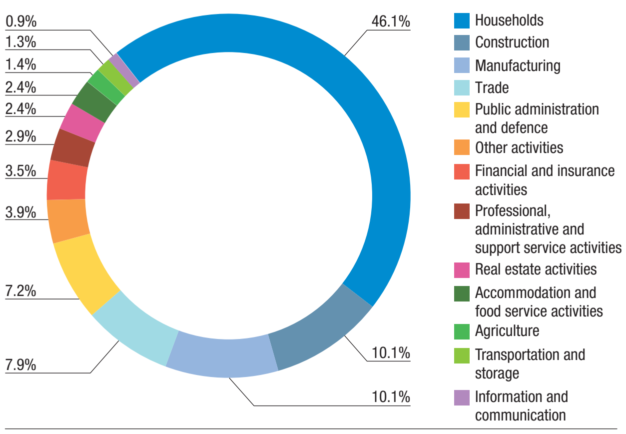
	2008			2009			2010		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
Loans									
Government units	21,509.8	8.5	50.1	31,547.7	12.1	46.7	26,505.5	9.6	–16.0
Corporates	96,827.7	38.3	12.3	98,924.4	37.9	2.2	109,234.6	39.7	10.4
Households	125,922.6	49.8	12.1	122,195.0	46.8	–3.0	127,136.5	46.2	4.0
Home loans	52,317.5	20.7	15.7	52,959.6	20.3	1.2	57,981.2	21.1	9.5
Mortgage loans	3,130.1	1.2	6.7	3,084.2	1.2	–1.5	3,513.0	1.3	13.9
Car loans	9,646.0	3.8	2.7	7,810.5	3.0	–19.0	6,236.8	2.3	–20.1
Credit card loans	5,529.7	2.2	12.3	5,022.3	1.9	–9.2	4,386.8	1.6	–12.7
Other household loans	55,299.3	21.9	10.9	53,318.4	20.4	–3.6	55,018.6	20.0	3.2
Other sectors	8,422.1	3.3	–8.5	8,472.0	3.2	0.6	12,077.7	4.4	42.6
Total	**252,682.2**	**100.0**	**13.8**	**261,139.0**	**100.0**	**3.3**	**274,954.2**	**100.0**	**5.3**
Partly recoverable and fully irrecoverable loans									
Government units	67.0	0.5	149.7	62.1	0.3	–7.4	75.5	0.2	21.7
Corporates	7,234.8	58.0	14.2	12,736.0	62.6	76.0	19,505.1	63.5	53.1
Households	4,998.4	40.1	18.8	7,081.3	34.8	41.7	9,915.9	32.3	40.0
Home loans	891.9	7.1	23.0	1,446.6	7.1	62.2	2,584.7	8.4	78.7
Mortgage loans	304.0	2.4	2.5	368.0	1.8	21.1	788.6	2.6	114.3
Car loans	277.6	2.2	–5.2	330.3	1.6	19.0	257.6	0.8	–22.0
Credit card loans	102.8	0.8	69.2	152.6	0.7	48.4	174.6	0.6	14.4
Other household loans	3,422.1	27.4	20.9	4,783.8	23.5	39.8	6,110.4	19.9	27.7
Other sectors	178.0	1.4	40.2	481.7	2.4	170.5	1,227.6	4.0	154.9
Total	**12,478.3**	**100.0**	**16.7**	**20,361.1**	**100.0**	**63.2**	**30,724.1**	**100.0**	**50.9**
Value adjustments of partly recoverable and fully irrecoverable loans									
Government units	14.5	0.2	21.9	5.5	0.1	–61.9	6.0	0.1	8.8
Corporates	2,904.6	45.2	1.2	4,232.1	48.6	45.7	6,137.6	51.8	45.0
Households	3,391.3	52.7	20.3	4,309.5	49.5	27.1	5,253.8	44.3	21.9
Home loans	384.3	6.0	6.0	516.7	5.9	34.4	747.0	6.3	44.6
Mortgage loans	118.7	1.8	0.4	116.6	1.3	–1.7	226.5	1.9	94.2
Car loans	204.9	3.2	–6.4	206.4	2.4	0.8	141.5	1.2	–31.4
Credit card loans	89.0	1.4	88.3	125.6	1.4	41.2	149.9	1.3	19.4
Other household loans	2,594.4	40.4	25.2	3,344.2	38.4	28.9	3,988.8	33.6	19.3
Other sectors	118.9	1.8	–1.2	163.5	1.9	37.5	461.6	3.9	182.3
Total	**6,429.3**	**100.0**	**10.5**	**8,710.6**	**100.0**	**35.5**	**11,859.0**	**100.0**	**36.1**

Note: From 2010, loans comprise loans classified into loans and receivables category, the sectorisation is made in accordance with the ESA 95 methodology, and household loans comprise loans to non-profit institutions serving households.
Source: CNB.

end-2010, while working capital loans and cash general-purpose loans grew most in absolute terms. Car purchase loans, loans for export financing and overdraft facilities fell most and the decrease rates were also very high in finance lease, consumer and margin loans. Investment loans rose mildly but their share in total bank loans dropped. All this points to a use of bank loans for the purpose of maintaining liquidity position and to an absence of any stronger financing of new projects, whereas households were still cautious as regards further consumption and borrowing. Unfavourable movements in the economy had a special impact on the poor quality of construction loans, as well as other loans related to real estate market, so that the B and C risk category loans increased most for construction loans and high quality growth rates were also recorded for home loans and mortgage loans.

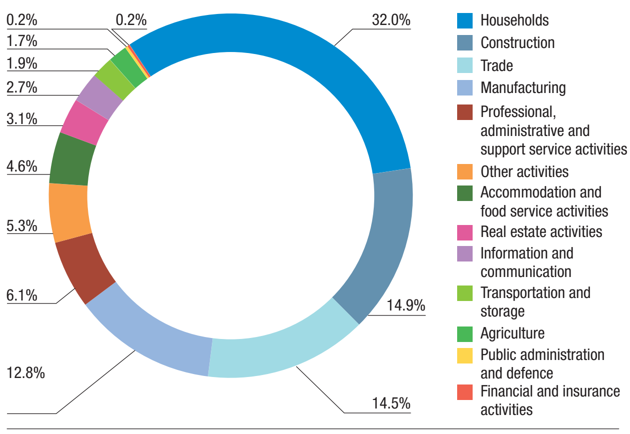
In 2010, small banks, of all bank groups, had the largest growth rate of loans granted (8.5%), the majority of this growth being accounted for by loans to corporates. They thus remained the only bank group in which corporate loans had the largest share in the sector distribution of loans. In large and medium-sized banks, and thus at the level of all banks, household loans had the largest share. Despite a strong exchange rate effect and the related growth in household loans, their share in the sector distribution was reduced. The share of corporate loans rose noticeably at the same time. This is a result of an increase in corporate loans in large banks, where the loans granted grew

3.18 Structure of bank loans by activities
as at 31 December 2010



Source: CNB.

3.19 Structure of bank partly recoverable and fully irrecoverable loans by activities
as at 31 December 2010



Source: CNB.

by a total of 4.7%. In medium-sized banks, the loan growth amounted to 7.9%, mostly as a consequence of a strong growth in loans to government units.

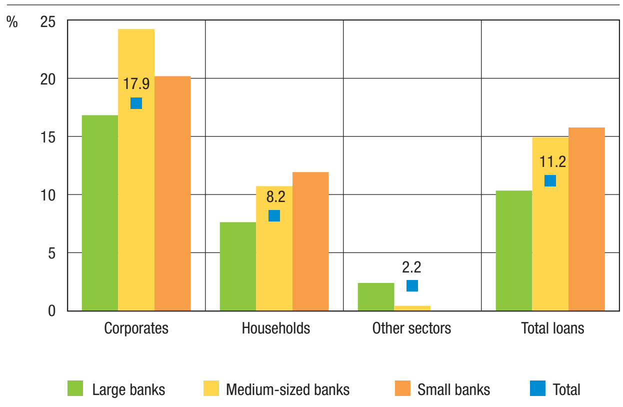
A growth in B and C risk category loans, which was evident, to a larger extent, as of the last quarter in 2008, continued into 2010. The growth rate in B and C risk category loans was lower than in 2009 (50.9% against 63.2%), and despite a mild recovery of lending activity their level increased. The share of these loans in total loans rose from 7.8% in 2009 to 11.2% at end-2010. This can be accounted for by an increased delinquency in repayment of bank loans, primarily in the corporate sector and a low level of lending activities in relation to new and low-risk clients. The B and C category loans increased considerably for corporate loans, which made the crucial contribution to a rise in total loans in categories B and C, and a high growth rate of loans in these risk categories was recorded for households. The loan quality of these two sectors still had a crucial impact on the quality of total bank loans. The share of due but unpaid receivables in total loans increased noticeably for corporates and for households, especially in the case of mortgage and home loans. Since most of the household loans belong to a portfolio of small loans, where classification into risk categories is possible on the basis of the criterion of timeliness in meeting the obligations (while the criteria of creditworthiness and collateral quality need not be used), a growth of due but unpaid receivables based on mortgage and home loans was accompanied by a growth in B and C category mortgage and home loans and due household liabilities were, for the same reason, covered to a large extent by value adjustments. In view of the fact that home and mortgage loans are regularly highly collateralised by real estate, the coverage of these loans by value adjustments was smaller than for other types of household loans.

A considerable growth in household home loans classified into risk categories B and C was largely generated by the quality deterioration of home loans in Swiss francs (including loans in kuna indexed to Swiss francs). The loans in Swiss francs had the largest share in the banks' credit portfolios at the end of 2007. In 2008, volatility of the kuna exchange rate against the Swiss franc increased, diminishing thus the attractiveness of and demand for that type of loan, as a result of which its share has been on a decline. At the end of 2010, these loans accounted for 12.9% of total bank loans and most of their amount, slightly more than 85%, was granted to the household sector. Since loans in Swiss francs account for 43.9% of household home loans, a strong deterioration of their quality during 2010 contributed to a rise in the share of B and C category loans in total banks' home loans. At end-2010, the share of loans classified into categories B and C stood at 3.0% for home loans in euros and at 5.7% for home loans in Swiss francs.

Car purchase loans are the only type of household loans in which the share of B and C category loans decreased, but where loans classified into risk category A for car purchase with a payment delay of over 90 days strongly increased at the same time. As a result of a rise in almost all types of household loans, loans classified into risk category A with a payment delay of over 90 days increased noticeably for that sector. It is therefore possible that household loans classified into categories B and C will rise considerably in the forthcoming period, since households react more slowly to unfavourable economic developments than corporates. Since the amount of A category corporate loans with a payment delay of over 90 days was reduced, the total amount of these loans dropped considerably in 2010. Similarly, a fall in their share in total bank loans from 1.7% at end-2009 to 1.4% at end-2010 was also recorded.

From 31 March to the end of 2010, a rise in B and C category construction loans contributed most to a growth in total loans in the B and C loan categories (excluding household loans). In terms of size of B and C category loans, they were followed by loans granted to trade, accommodation providers and the food preparation industry, professional, administrative and other service activities and real estate transactions, where the highest growth rate of B and C category loans was recorded. Loans in categories B and C increased most for accommodation providers and the food preparation industry, since B and C category

3.20 Share of bank partly recoverable and fully irrecoverable loans
as at 31 December 2010



Source: CNB.

loans in that category almost doubled, while a noticeable loan quality improvement was recorded for agriculture (including forestry and fisheries). At the end of 2010, trade had the poorest loan quality among the predominant activities in terms of size of share (exceeding 5%), B and C loan categories accounting for 20.4% in total loans, followed by construction, which accounted for 16.5%. Loans to trade activity increased only mildly in the observed period, whereas construction loans recorded a sizeable growth, which was outstripped only by the growth of household loans (a result, as already mentioned, of the exchange rate effect). A growth in construction loans classified in B and C categories was especially pronounced in the last quarter of 2010, when they rose by 27.0%. Even stronger growth in that quarter was recorded by loans for real estate transactions classified into categories B and C (140.4%), the share of B and C loan categories in total loans to that activity having doubled relative to the end of the previous quarter, reaching 14.6%.

Apart from providing direct support to construction by increased lending, banks attempted to increase the attractiveness and availability of home loans by reducing interest rates on these loans, thus stimulating real estate market activities. In addition, home loans represent one of the most important cross-selling channels, by means of which banks attempt to increase income and compensate for decreased earnings due to smaller volume of lending, lower income from fees for payment operation services and, above all, losses incurred as a result of materialisation of credit risk.

Since the last quarter of 2008, when a more noticeable growth of partly recoverable and fully irrecoverable bank loans began, a growth in these loans has been most pronounced in large banks. In 2010, loans classified in categories B and C increased in large banks by 56.4%, primarily under the influence of a rise in B and C category corporate loans. Small banks also recorded a stronger growth in B and C loans for corporates than for households. Only in medium-sized banks was a growth in household loans classified into categories B and C more pronounced, due to a strong growth (primarily of home loans) in one bank from that group. B and C loan categories in medium-sized and small banks increased by a total of 41.3% and 28.8%, respectively. The share of B and C loan categories together remained lower in large banks than in other groups. In large banks, the share amounted to 10.3%, in medium-size banks 14.8% and in small banks 15.9%. The above stated values mainly reflect the structure of the credit portfolios of individual bank groups. In small banks, the share of less risky sectors, such as households and government units, is considerably lower, while the share of corporates is higher than in large and medium-sized banks. Small banks cannot follow larger and generally more stable corporates, while household loans are dominated by other loans (cash general-purpose loans, overdraft facilities, etc.), whose quality is poorer than the quality of home loans, which have the largest share in the household loans portfolio in large banks.

Currency-induced credit risk

In the structure of bank assets, especially loans, a large share can be accounted for by foreign currency claims and kuna claims indexed to a foreign currency. Accordingly, in those clients whose inflows are mainly in kuna and most of whose liabilities based on loans are indexed to a foreign currency, there is a currency-induced credit risk (CICR), i.e. a risk that, in the case of weakening of the kuna, the client will not be able to increase the kuna inflows and thus regularly meet its loan liabilities. Out of a total amount of bank loans (net), 74.7% was exposed to CICR at the end of 2010, while that indicator stood at 72.6% at the end of 2009. Hedged loans accounted for 7.2% of loans exposed to CICR, loans not subject to hedge assessment (as they are exempted from the obligation of assessment due to their small amount) accounted for 3.0% of these loans and the remaining 89.9% went to loans unhedged against CICR, i.e. to loans to clients with an unmatched currency position who have their loan liabilities indexed to a foreign currency. In 2010, loans in euro or indexed to the euro rose considerably and accounted for slightly more than 4/5 of the total foreign currency (and indexed) bank loans. Loans in Swiss francs (those indexed included) fell considerably in real terms, i.e. if exchange rate effects are excluded, which is probably due to the fact that they became less attractive on account of the marked fluctuation in the exchange rate of the kuna against the Swiss franc recently. The exchange rate movements must have contributed to materialisation of credit risk associated with loans in Swiss francs, but other factors also had an effect, such as a rise in interest rates on these loans as the first signs of the crisis appeared and their strong growth in the years of relaxation of credit conditions.

3.1.4 Liquidity risk

Sources of financing

At the end of 2010, banks' sources of financing[18] amounted to total of HRK 323.0bn, an annual increase of HRK 9.7bn or

18 Sources of financing are composed of received deposits, received loans, issued debt securities and issued subordinated and hybrid instruments.

Table 3.9 Structure of bank sources of financing
end of period, in %

	Large banks		Medium-sized banks		Small banks		Total	
	2009	2010	2009	2010	2009	2010	2009	2010
Deposits	81.0	82.3	85.5	89.3	87.3	87.4	82.0	83.4
Loans	17.9	16.7	12.6	8.2	11.5	11.3	16.9	15.4
Debt securities issued	0.0	0.2	0.0	0.1	0.0	0.1	0.0	0.0
Hybrid and subordinated instruments issued	1.0	0.9	2.0	2.3	1.1	1.3	1.1	1.2
Total sources of financing	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Deposits and loans of majority foreign owner	22.0	21.0	8.3	6.3	1.8	2.9	19.1	18.0

Source: CNB.

3.1%. The increase in nominal terms was almost identical to that in 2009. However, it should be noted that depreciation of the kuna exchange rate against three most significant currencies (the euro, Swiss franc and US dollar) contributed to a large part of the increase in 2010, the annual growth rate of sources of financing standing at around 1.6%, if the effect of these changes is excluded.

While 2009 was marked by scarcity and increased prices of sources of financing and reliance on sources of foreign majority owners, in 2010, a rise in sources was based almost entirely on a growth in the domestic component, especially household deposits. These deposits rose by HRK 11.4bn or 8.1% and deposit interest rates had a mild downward trend. As a result of a low base period value, in addition to households, all other domestic sectors except financial institutions also recorded a mild improvement. The sources of foreign majority owners were reduced (by HRK 1.7bn or 2.8%), but a growth in deposits of other non-residents ultimately brought about a rise in total foreign sources. All this points to a moderate recovery of domestic sources of financing, which, in addition to sources of other non-residents, was sufficient for accomplishing the planned balance sheet growth. A fall in sources of foreign majority owners, as well as reduced domestic interbank financing relative to the end of 2009, is, among other things, a consequence of banks' continued reluctance to stimulate lending activity more strongly.

Sources of financing at the annual level grew in all bank groups and the strongest relative growth was recorded by small banks (of HRK 3.5bn or 13.5%). Large banks increased their sources of financing by HRK 5.4bn or 2.1% and medium-sized by HRK 683.9m or 2.4%.

In view of the types of sources of financing, a rise in the total sources primarily reflects an increase in deposits by HRK 12.4bn or 4.8%. Issued subordinated and hybrid instruments went up by HRK 486.5m or 14.3%, which was the largest relative growth among the sources of financing in the observed period. Other types of sources of financing were also reduced, most of all, loans received (by HRK 3.2bn or 6.0%), which was reflected in a decreased share of loans received in the structure of sources of financing, to 15.4%, whereas the share of deposits recorded a relative increase (to 83.3%).

In individual groups of banks no significant changes in the structure of sources of financing were recorded. Deposits continued to be the dominant source of financing in all bank groups, most notably in medium-sized banks, where their share was 89.3%. Large banks again accounted for the largest share of received loans (16.7%) in the total sources of financing, although their share fell by 1.2 percentage points compared to the end of 2009. The amount of issued subordinated and hybrid instruments increased for all bank groups, and particularly for small banks (by 31.82%), which almost equally related to an increase in three banks from that group.

The reduction in the sources of funds received from the majority foreign owners[19] (of 2.8%) contributed to a 1.0 percentage point (or 18.3) decrease in their share in total sources

Table 3.10 Sectoral structure of received loans
end of period, in million HRK and %

	2008		2009			2010		
	Amount	Share	Amount	Share	Change	Amount	Share	Change
Loans from government units	125.7	0.2	62.2	0.1	–50.6	15.2	0.0	–75.5
Loans from financial institutions	19,270.0	37.0	21,180.5	40.0	9.9	18,178.8	36.5	–14.2
Loans from corporates	3.5	0.0	4.6	0.0	29.7	1.7	0.0	–62.7
Loans from foreign financial institutions	32,603.9	62.5	31,712.7	59.9	–2.7	31,571.0	63.4	–0.4
Loans from other non-residents	129.3	0.2	8.0	0.0	–93.8	6.4	0.0	–20.3
Total loans received	52,132.6	100.0	52,968.0	100.0	1.6	49,773.1	100.0	–6.0
Loans from majority foreign owner	22,735.6	43.6	23,641.7	44.6	4.0	23,033.5	46.3	–2.6

Source: CNB.

19 Further analysis of the sources of financing involves mainly received deposits and loans.

of financing. At the end of the year, the amount of the received deposits and loans from owners decreased by HRK 1.1bn and HRK 608.2m, respectively, the largest part of financing still relating to deposits (60.4%). Out of the total amount of deposits of majority foreign owners, slightly more than 40% were kuna deposits (without a currency clause). Majority foreign owners were still the most important sources of financing in the foreign market (72.9% of all the loans from non-residents and 46.3% of the total received loans).

The described changes are mainly influenced by the changes in large banks, in which these sources of financing were reduced by HRK 1.6bn or 2.8%, due to a considerable decrease in two large banks. One large bank recorded a strong growth in these sources of funds. Medium-sized banks recorded a fall in the sources of financing of majority foreign owners (21.5%), whereas small banks' debt from this source increased by as much as 86.0%, due to rise in loans and deposits in two banks from that group. This resulted in a decrease in shares of majority foreign owners in total sources of financing in large and medium-sized banks to 21.2% and 6.5%, respectively, and an increase in small banks to 3.1%.

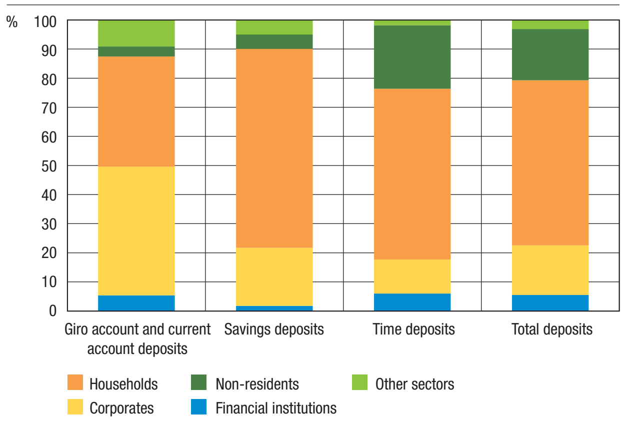
A decrease in total received bank loans by HRK 3.2bn (6.0%) can, in its entirety, be accounted for by loans from domestic banks, which dropped by a total of 69.7%, while loans from non-residents were only slightly smaller (0.5%). Consequently, the importance of the CBRD in the sources of financing grew additionally, that bank now accounting for 88.5% of all the loans from domestic sources and 32.3% of total received loans. Medium-sized and small banks again relied predominantly on domestic loans, which accounted for 80.7% and 81.3%, respectively, of the total of received loans, while large banks relied predominantly on loans from non-residents, which accounted for 69.9% of total received loans, most notably those received from majority foreign owners, which accounted for 73.3% of loans received from non-residents.

Bank deposits grew at the annual level (4.8%), primarily due to a stable growth in household deposits of HRK 11.4bn or 8.1%, but also due to a mild recovery of corporate deposits. In the second half of 2010, they compensated for the fall in the first half of the year, their total balance increasing by HRK 721.2m or 1.6% at the end of the year relative to the end of 2009. Non-resident deposits rose by HRK 1.5bn or 3.2%, as a consequence of a growth in deposits of other non-residents, which almost in entirety compensated for a fall in deposits received from majority foreign owners of HRK 1.1bn (3.0%). As a result of the described changes, the share of households in total deposits rose by 1.7 additional percentage points to 56.7%, and due to a somewhat slower growth, the share of deposits received from foreign majority owners and corporates dropped by 17.6% and 17.2% respectively.

The largest share of all deposits was accounted for by time deposits, which had the largest absolute growth (HRK 7.5bn) at the annual level, but the rate of their relative growth (3.8%) was smaller than the average deposit growth, as a result of which their share in total deposits decreased mildly (to 76.2%). The remaining two types of deposits, deposits in giro and current accounts and savings deposits, grew at considerably higher rates (7.9% and 8.9%, respectively), their share in total bank deposits thus increasing. Accordingly, at end-2010, deposits in giro and current accounts accounted for 13.8% and savings deposits accounted for 9.9% of total bank deposits.

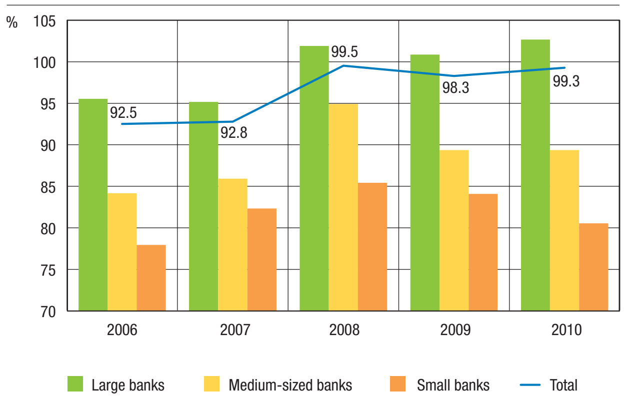
The overall deposit growth during 2010 was based on a growth of foreign currency deposits, which rose by HRK 12.9bn (7.6%) relative to the end of 2009, primarily due to a rise in household foreign currency time and savings deposits, while kuna deposits held steady. This had an effect on a growth in the share of foreign currency deposits in total deposits to 67.4% of total deposits. Together with kuna deposits with a currency clause, the share of deposits indexed to foreign currencies amounted to 69.1%. Most of these deposits were again euro deposits (87.8%), and the remaining amount related to the US dollar (6.0%) and the Swiss franc (5.1%). Depreciation of the kuna exchange rate against these currencies thus had a significant impact on a rise in total deposits

3.21 Sectoral structure of received deposits
as at 31 December 2010



Source: CNB.

3.22 Bank loans granted/deposits received
end of period



Source: CNB.

which amounted to 1.6% excluding the exchange rate effect.

A somewhat faster growth rate of loans granted than of deposits received at the end of the year contributed to a mild rise in their ratio relative to the end of 2009. Large banks again had the biggest impact on the level of this ratio, which was the highest in this bank group, and stood at over 100% (102.7%). Medium-sized and small banks followed with the ratios of 89.4% and 80.5%, respectively.

Maturity adjustment of bank assets and liabilities

The negative cumulative gap[20] in the maturity category of up to one year increased by HRK 12.4bn to HRK 64.2bn, at the end of 2010. An increase in the cumulative short-term mismatch in the observed one-year period was the result of a simultaneous decline in assets with the remaining maturity up to one year (HRK 5.1bn or 2.5%) and an increase in the liabilities with the same maturity (HRK 7.3bn or 2.9%). The largest gap, that with up to one month maturity, narrowed from HRK 33.6bn to HRK 26.0bn, primarily due to changes in short-term time deposits.

A reduction in short-term assets is primarily a result of a fall in short-term loans, primarily a replacement of short-term loans to government units with long-term loans to that sector (HRK 12.0bn) and deposits with banking institutions, to a lesser extent. At the same time, of the bank liabilities with a remaining maturity up to one year, only deposits rose more significantly, by HRK 8.0bn or 3.7%. A decrease in time deposits with the shortest maturity up to one month was recorded, as well as an almost equal increase in deposits with a maturity of three to twelve months. Long-term time deposits rose mildly, especially those with a maturity longer than three years, pointing to an extension of maturities relative to the end of 2009.

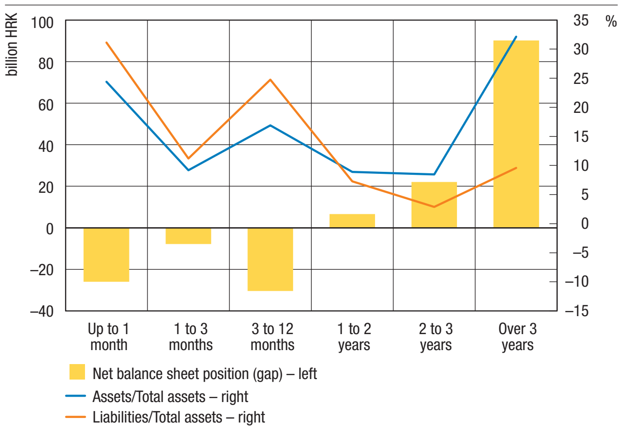
Consequently, the share of deposits with the remaining maturity of up to one year fell from 85.0% to 84.1% of total deposits. The share of loans received with a remaining maturity shorter than one year dropped by one percentage point, to 46.3%, as a result of a reduction in loans received from financial institutions with the shortest maturity (of up to one month). All this had an effect on a continued decrease in the coverage of short-term liabilities by short-term assets, from 79.7% at end-2009 to 75.6% at end-2010.

Minimum liquidity coefficient

The quantitative requirements related to liquidity risk management imply on-going monitoring and projection of the expected inflows and outflows in two given periods (up to one week and up to one month) separately for kuna and on an aggregate basis for all convertible currencies. Non-convertible currencies are monitored separately if they are materially significant (i.e. where outflows in a currency account for over 1% of total assets). The expected cash flows are subjected to the given stress scenario so as to determine whether the credit institution has sufficient liquid assets (assets and inflows) available to meet its liquidity needs within a given period. Assets and liabilities categories are adjusted by the prescribed volatility adjustments or volatility adjustments obtained by the credit institution on the basis of own estimates of volatility adjustments.[21] The minimum liquidity coefficient (MLC), the measure of meeting liquidity needs, must be at least 1 in both given periods and by all currencies in question.

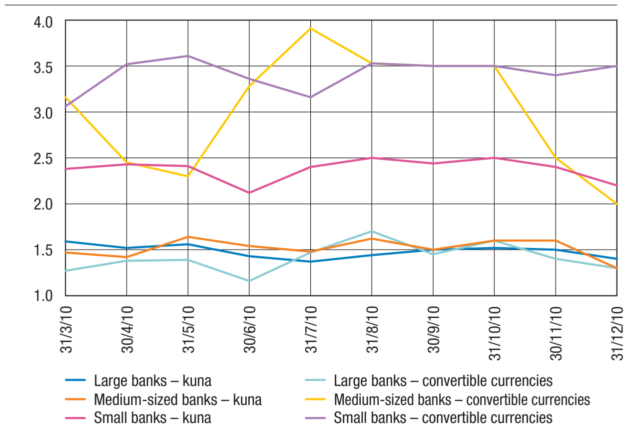
Throughout the entire first year of application of these provisions, banks' liquidity coefficients were above the prescribed minimum in the given period and by all currencies. The coefficient for kuna at the level of all banks ranged from 1.7 to 2.2 in the period up to one week and from 1.4 to 1.6 in the period up to one month. Considerably higher values of the coefficient were maintained by banks in the period up to one week for convertible currencies (from 2.0 to 3.0) and it ranged from 1.4

3.23 Asset and liability maturity match or mismatch
as at 31 December 2010



Source: CNB.

3.24 Minimum liquidity coefficient



Source: CNB.

20 This represents the difference between net assets and liabilities with the same period until maturity.
21 At the end of 2010, only one large bank used own estimates of volatility adjustments.

to 1.9 in the period up to one month. Since no bank had significant outflows in non-convertible currencies, the minimum liquidity coefficient was not calculated for non-convertible currencies. Banks maintained somewhat larger liquidity surpluses in the period up to one week than in the period up to one month, so that the reported minimum liquidity coefficients were slightly higher. All this indicates that banks within a month and under the given stress conditions had sufficient liquidity both in kuna and in convertible currencies to meet all the estimated liquidity needs.

As expected, large banks reported the lowest value of minimum liquidity coefficients, both in kuna and in convertible currencies, and the value of their coefficients ranged, throughout the whole year, within a very narrow band and at satisfactory levels, pointing to efficient liquidity management which was maintained without severe disturbances throughout the year. From June to end-September 2010, higher values of the coefficient were observed in convertible currencies in the period up to one week, as a result of the expected inflows based on short-term government securities and a fall in outflows based on time deposits of professional participants in the money market in the Republic of Croatia.

Somewhat higher liquidity coefficients were reported by small and medium-sized banks, for convertible currencies in particular. This was to be expected in view of their predominant reliance on domestic sources of financing, which especially applies to small banks. The coefficient of medium-sized banks for convertible currencies moved within the broadest range and thus fluctuated most, which, as a consequence of the reduced expected outflows based on derivative financial instruments and increased inflows from time deposits with foreign financial institutions, was in July reflected in an increase of the minimum liquidity coefficient and in December, the opposite directions of these changes resulted in a decrease of that coefficient.

Total readily marketable assets[22] of banks at the end of the year stood at HRK 56.9bn, which accounted for 14.6% of total bank assets, i.e. banks were able to liquidate a little over one tenth of their total assets without any major losses within four working days. The first period of application excluded,[23] readily marketable assets of banks did not change significantly in the remaining three quarters, reaching the highest level at the end of the third quarter, when they amounted to HRK 58.1bn. At the year-end, small banks had the highest share of readily marketable assets in total assets (17.6%), a slightly lower share was recorded for medium-sized banks (16.3%), while large banks, as expected, maintained the lowest share of readily marketable assets (14.0%), due to their faster and simpler access to sources of liquidity.

Readily marketable assets were almost equally distributed to assets in kuna (48.5% at the end of 2010) and assets in convertible currencies[24] (51.5%). The bulk of readily marketable assets in kuna (HRK 20.3bn or 73.42%) comprised deposits with the CNB and T-bills of the Ministry of Finance while the bulk of readily marketable assets (HRK 24.2bn or 82.8%) in convertible currencies comprised deposits with credit institutions and securities available for sale.

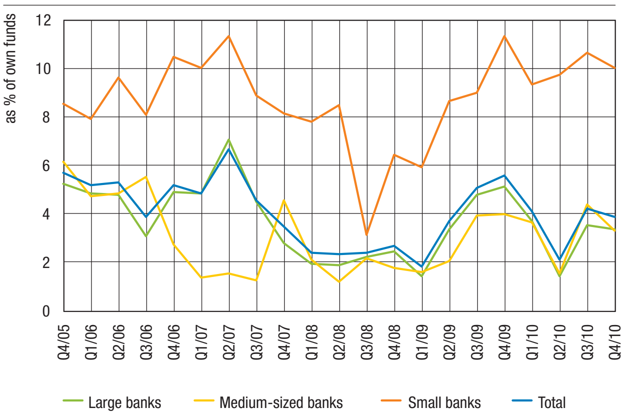
3.1.5 Currency adjustment of bank assets and liabilities

In terms of currency structure, items in foreign currencies and items in kuna indexed to a foreign currency accounted for the major share of the balance sheet of banks. At the end of 2010, these items accounted for 65.7% of total assets and 68.9% of liabilities (capital excluded). Due to a high level of items in foreign currency and in kuna indexed to a foreign currency, changes in the total assets and liabilities are related to developments in the exchange rate of the kuna, particularly against the most widely represented currencies in bank balance sheets.

The share of kuna assets rose from the end of 2009 by HRK 3.7bn or 2.9% while the kuna countervalue of the foreign currency share, i.e. assets in foreign currencies and assets in kuna indexed to a foreign currency, rose by a total of HRK 9.5bn or 3.7%. A growth in total foreign currency assets was consequent upon an increase in assets in euro of HRK 6.9bn or 3.4% and in assets in Swiss francs (HRK 1.0bn or 2.8%) and US dollars (HRK 1.4bn or 16.1%). As a result of these changes, total bank assets rose by 3.5% in 2010.

An increase in the foreign exchange share of assets largely reflected changes in the exchange rate of the kuna against three major currencies: the euro, the Swiss franc, and the US dollar, which accounted for 99.1% of the total foreign currency assets at

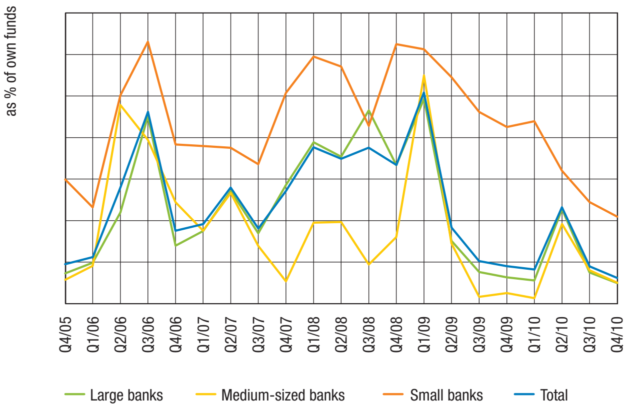
3.25 Long foreign exchange position of banks



Source: CNB.

22 Readily marketable assets (RMA) are those liquid assets which are available to the credit institution and which may be turned into cash quickly (within four working days) and easily (with no significant losses).
23 This is because of the severe difficulties experienced in the first application of that part of the provisions of subordinate legislation in some banks.
24 It should be noted that, for the purpose of the Decision on liquidity risk management, all the foreign currency indexed kuna exposures are considered exposures in kuna.

3.26 Short foreign exchange position of banks
quarterly averages



Source: CNB.

the end of 2010. From the end of 2009, the exchange rate of the kuna against the euro weakened by 1.1% and against the Swiss franc and the US dollar by a high 20.8% and 9.4%, respectively. Exchange rate effects excluded, it is evident that assets in euros and assets in US dollars recorded a real growth (2.3% and 6.1%, respectively), while assets in Swiss francs dropped by 14.9% in real terms, which resulted in an increase in total foreign currency assets of 0.5% in real terms in 2010. As a result, the real growth of total bank assets amounted to 0.8% in 2010.

The real fall in loans denominated in Swiss francs or indexed to that currency contributed most to the described movements in bank assets. These effects excluded, the amount of loans denominated in Swiss francs or indexed to Swiss francs had fallen by HRK 6.2bn or 14.9% at the end of 2010 since the end of 2009. Similarly, depreciation of the kuna exchange rate against the euro caused a fall in the growth of euro loans, which stood at HRK 4.7bn or 2.3% in real terms. At the same time, as regards foreign currency liabilities of banks, a sizeable real growth of liabilities in Swiss francs (9.8%) and US dollars (14.8%) was evident.

The euro accounted for the largest share, or 81.5%, of foreign currency and foreign currency-indexed assets at the end of 2010. It was followed by the Swiss franc (13.7%) and the US dollar (4.0%), while all other foreign currencies accounted for less than 0.9% of total foreign currency assets. Compared with the end of 2009, a continuation of the downward trend of the share of assets in Swiss francs was evident, which would have been even more pronounced had there not been significant depreciation of the kuna against the Swiss franc. The euro accounted for 86.3%, or a somewhat bigger share of foreign currency liabilities than foreign currency assets while the Swiss franc and the US dollar accounted for smaller shares in foreign currency liabilities than in assets (7.7% and 5.1%, respectively). The fall in the share of the euro in foreign currency liabilities was stronger than in assets, whereas the shares in the Swiss franc and the US dollar increased relative to the end of 2009 (1.5 and 0.8 percentage points, respectively).

All three groups of banks in the system had a bigger average long foreign exchange position than short position in the fourth quarter 2010 – for large banks it amounted to 3.4% of own funds, for medium-sized banks 3.3% of own funds and for small banks 9.8% of own funds. In the remaining quarters of 2010, except in the second quarter, the average long position was bigger than the short position. Although in the second quarter of 2010 as well, the long position was bigger the than short position in the majority of banks, the total short position was larger due to the short positions of two large banks.

3.1.6 Interest rate risk in the non-trading book

For the purpose of measuring interest rate risk in the non-trading book, the CNB prescribed the application of the standard interest rate shock which assumes a simultaneous parallel positive or negative shift in all interest bearing positions in the non-trading book (regardless of the interest rate type and currency) on the reference yield curve of 200 basis points. All interest rate-sensitive non-trading book positions are distributed in 13 time zones, each of which is assigned an appropriate weight calculated as the estimated modified duration for that zone multiplied by the assumed interest rate shock. The result is the estimate of the change in the economic value of the non-trading book, i.e. the estimate of the present value of all expected net cash flows measured by the net weighted position which may not exceed 20% of own funds.

At the end of 2010, a change in the economic value of the non-trading book at the level of all banks amounted to HRK 825.9m, which is almost half as much as on the first date of

Table 3.11. Interest rate risk in the non-trading book
as at 31 December 2010, in million HRK and %

Currency	Interest rate type	Net position (before weighting)	Net weighted position
HRK	Administered interest rate	–11,836.3	–156.5
	Variable interest rate	26,868.9	340.3
	Fixed interest rate	3,794.6	423.2
EUR	Administered interest rate	–15,150.8	349.1
	Variable interest rate	46,936.8	77.8
	Fixed interest rate	–29,547.0	–18.9
CHF	Administered interest rate	28,100.4	261.4
	Variable interest rate	–6,501.5	–24.1
	Fixed interest rate	–4,548.9	–365.0
USD	Administered interest rate	–2,844.3	–20.3
	Variable interest rate	1,145.1	0.0
	Fixed interest rate	1,021.2	–2.9
Other	Administered interest rate	–5,127.8	–28.5
	Variable interest rate	2,873.7	0.9
	Fixed interest rate	928.4	–10.5
Change in the economic value of the non-trading book			825.9
Own funds			52,454.2
Change in the economic value of the non-trading book as % of own funds			1.6

Source: CNB.

application (31 March 2010), when it stood at HRK 1.6bn. Measured in relation to total own funds, it decreased from 2.9% to 1.6% at the end of 2010. It can be concluded that bank exposure to a sudden change in interest rates is not significant, that it is considerably lower than the prescribed minimum and shows signs of a downward trend. The reason for this is that in all long periods of a possible interest rate change (from 1 year to more than 20 years), which are assigned higher risk weights, banks recorded very small surpluses of assets, so that their effect on net weighted position was insignificant. The largest net exposure was recorded by banks in the shortest-maturity category, where a surplus of interest rate-sensitive assets of almost HRK 44.0 was reported. Nevertheless, the cumulative gap in the maturity category of up to one year was not significant (4.0% of total interest rate-sensitive assets), since the received sight deposits and savings deposits are distributed, in accordance with the instructions, in time zones of 6-12 months.

Net weighted position was reduced in 2010 primarily as a result of a growth in liabilities in Swiss francs (especially liabilities with a long period of a possible interest rate change), which was not accompanied by a growth in assets, with a positive weighted position in that currency decreasing gradually and recording a negative sign at the end of the year (HRK 127.8m). Total net weighted position reported in kuna was positive (surplus assets over liabilities), amounting to HRK 607.1m, which is a mild decrease relative to end March. Net weighted position reported in euro (HRK 408.0m) was also positive and recorded a growth in the observed period, as a result of a growth of euro assets that was twice as strong as the growth of the corresponding liabilities. Smaller negative positions were reported in US dollars and in all other less important currencies (HRK 23.3m and HRK 38.1m, respectively), and their level was almost unchanged throughout the year.

Medium-sized banks had the highest ratio of change in economic value and banks' own funds (5.8%), followed by small banks (3.7%), and large banks had the lowest ratio of change in economic value and banks' own funds (3.5%) and thus the smallest potential change in the net present value of non-trading book positions.

At the year-end, a total of 91.6% of assets and 95.7% of liabilities were sensitive to interest rate changes. Relative to the end of the first reporting period, the share of interest rate-sensitive items of assets and liabilities increased, as a result of which a rise in these positions (of HRK 17.8bn or 5.23%) was more significant than the overall rise in assets in that period.

The largest portion of the interest rate-sensitive balance sheet positions related to positions with interest rates subject to change based on a decision of a credit institution's management board (administered interest rate): 40.2% on the assets side and 46.8% on the liabilities side. Positions with variable interest rates came next and accounted for 35.0% of interest rate-sensitive assets, while the share of these positions on the side of interest rate-sensitive liabilities was twice as low and stood at 16.8%. Positions with fixed interest rates accounted for the remaining 24.8% of interest rate-sensitive assets and a predominant 36.4% share of interest rate-sensitive liabilities.

Relative to the balance at the end of the first period of application, on the assets side, positions with variable interest rates increased most (HRK 24.7bn or 24.6%), which is much higher than the total growth in interest rate-sensitive assets (HRK 15.9bn or 4.3%). Almost half of the growth in positions with variable interest rates was on account of a decrease of HRK 10.5bn or 10.6% in positions with fixed interest rates. Interest rate-sensitive assets with administered interest rates stagnated, and a mild rise (of 2.5%) was mainly a consequence of depreciation of the kuna against the euro and Swiss franc.

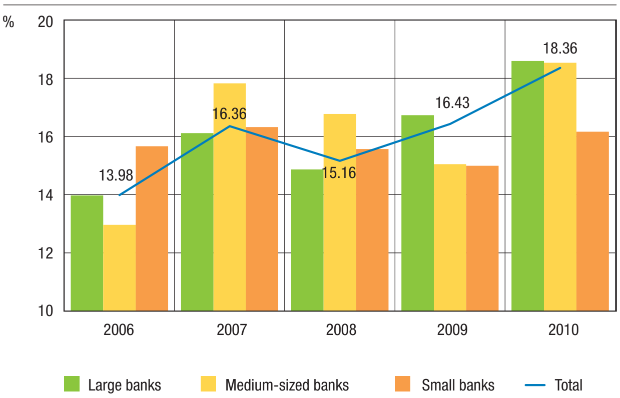
A somewhat smaller growth in the observed period was recorded in interest rate-sensitive liabilities (HRK 13.2bn or 4.3%) on the basis of an increase in positions with administered interest rates, whereas a decrease in positions with variable interest rates was compensated by a rise in positions with fixed interest rates.

In can be concluded that bank exposure to interest rate risk in the non-trading book was not significant and that it decreased additionally in 2010, under the influence of a growth in long-term liabilities, especially in Swiss francs, and a restructuring of interest rate-sensitive balance sheet positions. More specifically, for the purpose of increasing the parts of balance sheets which may be affected quickly and easily through interest rate policies, banks increased their shares of interest rate-sensitive assets with variable interest rates and shares of liabilities with administrated interest rates, while positions in which the possibility of steering interest rates is limited were reduced.

3.1.7 Capital adequacy

The calculation of the capital adequacy ratio by the employment of new regulations aligned with the Capital Requirements Directive (2006/48/EC and 2006/49/EC) began for credit institutions in the Republic of Croatia as of 31 March 2010. In addition to capital requirements for credit risk, where new regulations introduced the possibility of applying internal models, and capital requirements for market risk, the new regulatory

3.27 Bank capital adequacy ratio
end of period



Source: CNB.

Table 3.12 Own funds, capital requirements and capital adequacy ratio of banks
as at 31 December 2010, in million HRK and %

	Large banks		Medium-sized banks		Small banks		Total	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share
Own funds	43,601.9	100.0	4,575.3	100.0	4,277.0	100.0	52,454.2	100.0
Original own funds	42,148.7	96.7	4,035.3	88.2	3,940.0	92.1	50,124.1	95.6
Paid up capital (excl. cumulative preferential shares) net of own shares	22,166.8	50.8	3,714.2	81.2	3,541.7	82.8	29,422.7	56.1
Reserves and retained earnings	19,576.9	44.9	215.3	4.7	397.0	9.3	20,189.2	38.5
Additional own funds	2,776.2	6.4	623.3	13.6	378.7	8.9	3,778.2	7.2
Paid-up cumulative preferential shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hybrid and subordinated instruments	2,776.2	6.4	623.3	13.6	400.8	9.4	3,800.3	7.2
Items deducted from original own funds and additional own funds	–1,323.1	–3.0	–83.3	–1.8	–41.6	–1.0	–1,448.0	–2.8
Ancillary own funds (for market risk coverage)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital requirements	28,139.2	100.0	2,962.3	100.0	3,187.9	100.0	34,289.4	100.0
Credit, counterparty credit and dilution risks and free deliveries	25,409.8	90.3	2,599.0	87.7	2,847.9	89.3	30,856.8	90.0
Standardised Approach	25,409.8	90.3	2,599.0	87.7	2,847.9	89.3	30,856.8	90.0
Corporates	10,388.3	36.9	1,067.7	36.0	909.4	28.5	12,365.3	36.1
o/w: Secured by real estate property	123.8	0.4	0.0	0.0	30.0	0.9	153.8	0.4
Retail	12,358.9	43.9	1,310.8	44.2	1,583.2	49.7	15,252.9	44.5
o/w: Secured by real estate property	122.8	0.4	1.8	0.1	42.2	1.3	166.7	0.5
Other	2,662.6	9.5	220.6	7.4	355.3	11.1	3,238.5	9.4
Settlement/delivery risks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Position, foreign exchange and commodity risks	379.0	1.3	58.6	2.0	33.1	1.0	470.6	1.4
o/w: Internal models	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Traded debt instruments	229.2	0.8	28.4	1.0	0.0	0.0	257.6	0.8
Foreign exchange	135.3	0.5	5.7	0.2	33.1	1.0	174.1	0.5
Other risks	14.5	0.1	24.5	0.8	0.0	0.0	38.9	0.1
Risk of exceeding the permitted exposure limits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operational risk	2,350.5	8.4	304.7	10.3	306.9	9.6	2,962.0	8.6
Simplified approach	0.0	0.0	115.0	3.9	278.5	8.7	393.5	1.1
Standardised approach	1,848.4	6.6	189.7	6.4	28.3	0.9	2,066.5	6.0
Advanced measurement approach	502.0	1.8	0.0	0.0	0.0	0.0	502.0	1.5
Surplus/deficit of own funds	15,462.6	–	1,613.0	–	1,089.2	–	18,164.8	–
Capital adequacy ratio	18.59	–	18.53	–	16.10	–	18.36	–

Source: CNB.

framework introduced for the first time an explicit capital requirement for operational risk. The minimum capital adequacy ratio was raised from 10% to 12%, implying that the Republic of Croatia exercised national discretion, which allows the prescription of a rate of capital adequacy of over 8%, as prescribed by the aforementioned Directive.

To determine the capital requirements for credit risk, counterparty risk, dilution risk and free delivery risk (hereinafter: credit risk) all the banks applied the standardised approach, and the application of internal models for measuring credit risk by individual large banks is envisaged for 2011. The standardised approach to credit risk implies that the portfolio subject to weighting should first be classified in one of the prescribed 15 risk categories, which may then be mitigated by means of one of the credit risk mitigation techniques. Credit risk weight determination in most categories depends on the credit quality step to which the relevant exposure belongs, i.e. on the credit assessment assigned to it by an eligible external credit assessment institution. The most significant capital savings compared to the previous regulations are due to the insensitivity of the new calculation to currency-induced credit risk, lower capital requirements for parts of exposures in which some of the recognised credit risk mitigation techniques have been used and to exposure categories secured by real property. The CNB attempted to offset a part of these savings by raising the minimum capital adequacy ratio.

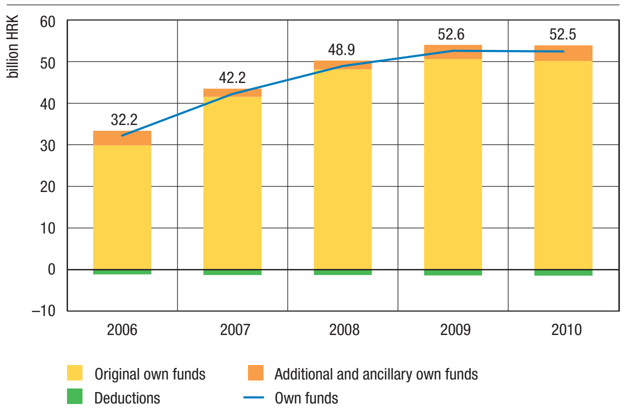
The capital adequacy ratio of banks at the end of 2010 was 18.4%, which is an increase of 2.0 percentage points compared to 16.4% at the end of the previous year. Banks' own funds stagnated relative to 2009, so that a rise in capital adequacy ratio in the observed period was a consequence of a changed methodology of exposure calculation. This particularly refers to credit risk exposure, which entirely disregards the effect of the currency-induced credit risk that accounted for more than one half of credit risk-weighted exposures at the end of 2009. It should be noted that currency-induced credit risk has not been left out of the new capital adequacy framework with the introduction of new rules but that it has, together with other risks, become an integral part of the second pillar of the new framework, i.e. regulations related to the internal capital of credit institutions.[25] The first reports with the calculation of internal capital for 2010 should be delivered by credit institutions until the end of April 2011.

Broken down by bank groups, the strongest increase of 3.5 percentage points, i.e. a rise to 18.5%, in capital adequacy ratio was recorded by medium-sized banks, which was a result of a rise in original and additional own funds and a fall in capital requirements for credit risk. It was followed by the large bank group whose capital adequacy ratio rose by 1.9 percentage points and amounted to 18.6%. With an increase of 1.2 percentage points, small banks reported the smallest change in their capital adequacy ratio, which stood at 16.2%. The bulk of bank assets (85.7%) again went to banks with a capital adequacy ratio above 15%, though two small banks had a capital adequacy ratio below 13%, and one of them had a capital adequacy ratio below the legally prescribed minimum of 12% (it stood at 7.9%).

At the end of 2010, banks' own funds amounted to HRK 52.5bn, which is a slight decrease compared to the end of 2009 (of HRK 122.8m or 0.2%), as a result of a fall of HRK 475.9m or 0.9% in its most important component, original own funds. The fall in original own funds fully related to large banks and was a consequence of reduced provisions and reinvested earnings due to dividends paid out. That fall was partly offset by recapitalisation in the form of ordinary shares in five small banks and in one medium-sized bank. Additional own funds increased by HRK 383.2m (11.3%) due to payment of subordinated and hybrid instruments in all bank groups.

Bearing all this in mind, small and medium-sized banks recorded an increase in own funds owing to a growth in both of their components, although a growth in additional own funds in both bank groups (13.4% and 33.5%, respectively) was stronger than the growth in original own funds (5.8% and 2.2%, respectively). By the increase in additional own funds (of 8.4%), large banks partly offset a reduction in their original own funds (1.8%) The total net weighted balance and off-balance sheet exposures, before the use of credit risk mitigation techniques and conversion of off-balance sheet items, rose slightly compared to the end of the previous year (HRK 4.1bn or 1.0%). However, after the use of all recognised credit risk mitigation techniques and conversion of off-balance sheet items, net exposure declined significantly compared to the end of 2009 (by HRK 58.8bn or 18.6%).

3.28 Bank own funds
end of period



Source: CNB.

In view of their effects, there are credit risk mitigation techniques the application of which implies a substitution of weights without a direct reduction in the exposure amount and the techniques allowing for a reduction of net credit risk exposure amount. Techniques with the substitution effect allow individual exposure to an obligor to be assigned a weight of the protection provider (unfunded credit protection) instead of a weight of the obligor, i.e. the weight that the credit institution would assign in case of a direct exposure to collateral (financial collateral simple method). The final effect on net exposure, in that case, depends on the weight of the protection provider or collateral. In contrast, the financial collateral comprehensive method, allows for a direct reduction in net exposure.

In the second half of 2011, banks gradually decreased the use of weight substitution techniques, so that the total amount of these techniques had at the end of the year risen only insignificantly, from HRK 18.8bn to HRK 21.1bn, since the end of the first period in which the technique was employed (31 March 2010), that is, from 4.3% to 4.6% of the net exposure amount. At the end of the year, the exposure transfer techniques primarily related to the use of guarantees and other commitments (90.2%), mainly received from the government. The remaining portion (8.8%) related to the financial collateral simple method, while other instruments of funded credit protection accounted for less than 1%. The analysis of inflows and outflows by exposure categories, shows that bank exposure was reduced most in the categories: *corporates* and *public sector entities* (by HRK 11.2bn and HRK 7.7bn, respectively) and that inflow to the category: *central governments and central banks* increased (by HRK 17.9bn). This was reflected in the changed structure of exposure by weights before and after the application of the techniques as a reduction of risk weight of 100% (by HRK 16.9bn) and risk weight of 20% (by HRK 8.6bn), while the largest increase (of HRK 8.1bn) was reported in net exposure carrying a 0% risk weight.

25 The goal of new regulations is to enhance capital adequacy framework in two dimensions – development of regulations that, in addition to minimum capital requirements (pillar 1) as a quantitative dimension, also include the qualitative dimension, i.e. supervisory review (pillar 2) and market discipline (pillar 3).

Table 3.13 Breakdown of net exposure to credit risk by risk weights
as at 31 December 2010, in million HRK

	Retail	Corporates	Central governments and central banks	Institutions	Public sector entities	Local and regional self-government	Collective investment undertakings	Other	Total
Total exposure	140,524.2	101,275.5	101,781.4	33,268.9	8,751.6	3,107.8	520.6	18,585.2	407,815.2
On-balance sheet items	132,107.3	84,758.3	100,416.8	31,332.6	7,912.0	3,040.6	520.6	17,915.1	378,003.2
Off-balance sheet items	8,415.6	15,993.6	1,363.4	627.3	350.4	67.2	0.0	478.5	27,296.0
Securities transactions and long settlement transactions	0.0	378.1	1.2	560.5	489.2	0.0	0.0	191.6	1,620.6
Derivative financial instruments	1.4	145.5	0.0	748.5	0.0	0.0	0.0	0.0	895.4
Contracts for novation and other netting agreements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Breakdown of total exposure by risk weights									
Weight 0%	0.0	0.0	92,329.1	519.4	3,416.7	0.0	0.0	9,380.9	105,646.0
Weight 10%	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.2
Weight 20%	0.0	4.8	51.9	27,432.5	23.7	0.0	2.1	533.6	28,048.7
Weight 35% (residential real estate property)	3,517.7	129.3	0.0	0.0	0.0	0.0	0.0	0.6	3,647.6
Weight 50%	315.7	2,480.6	9,092.5	4,631.1	5,310.6	3,028.3	5.0	2.7	24,866.4
o/w: Commercial real estate property	315.7	2,472.4	0.0	2.3	0.0	0.0	0.0	2.7	2,793.0
Weight 75%	51,738.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	51,738.4
Weight 100%	81,027.8	92,231.9	211.3	649.6	0.6	2.2	449.9	8,598.1	183,171.4
o/w: Past due items	2,592.2	5,050.0	0.0	6.8	0.0	2.2	0.1	68.4	7,719.7
Weight 150%	3,924.7	6,282.4	96.7	36.3	0.0	77.3	63.6	14.0	10,494.9
o/w: Past due items	3,411.6	4,457.2	94.0	34.7	0.0	14.8	0.0	4.0	8,016.4
Other risk weights	0.0	146.5	0.0	0.0	0.0	0.0	0.0	55.2	201.7
Credit risk mitigation techniques – substitution effects									
Total outflow	–1,563.3	–11,151.0	0.0	–184.8	–7,671.5	–65.2	0.0	–427.9	–21,063.7
Total inflow	54.4	161.4	17,918.9	469.1	41.7	557.6	0.0	1,860.6	21,063.7

Source: CNB.

The financial collateral comprehensive method, which allows for a reduction of net credit risk exposure amount, was used most by five large banks and by two medium-sized and two small banks, to a smaller extent. Total reduction of the exposure amount on that basis has been on a continuous increase in 2010, and the overall use of these techniques rose to HRK 17.6bn or 3.9% of net exposure at the end of 2010.

All the banks used weight substitution techniques to cut capital requirements for credit risk, in amounts ranging from 0.1% to 11.1% of the net exposure amount. The banks used the financial collateral comprehensive method in a range from 1.2% to 23.3% of the net exposure amount. In line with the expectations, all eligible techniques were used most by banks from the group of large banks, which substituted the exposure amount of HRK 18.1bn with lower risk weights and reduced the exposure by HRK 16.8bn through the application of the financial collateral comprehensive method.

The use of the new method for the calculation of credit risk weighted exposures resulted in a HRK 58.8bn or 18.6% lower weighted exposure amount relative to the end of 2009 as well as in a substantially lower average weight for credit risk (63.1% compared to 78.3% at the end of 2009). However, the total capital requirements for credit risk, which stood at HRK 30.9bn did not fall so much (HRK 738.2m or 2.3%), due to the increased minimum capital adequacy ratio (12% compared to the previous 10%).

The greatest change in the structure of total net exposure amount of banks by credit risk weights relative to the previous periods was reflected in the absence of increased weights relating to exposures with a more pronounced currency-induced credit risk in the 2006 – 2009 period. At the end of 2010, only HRK 10.5bn (2.6%) was weighted by a 150% risk weight, and most of that amount (HRK 0.8bn) related to past-due items whose value adjustments of the unsecured part of the exposure were below 20%.

The bulk of the exposure subject to weighting (before the credit risk mitigation techniques) was weighted by a 100% risk weight (HRK 183.2bn or 44.9%), while most of that amount did not have a credit assessment (HRK 146.8bn). A fourth of the exposure was weighted by a 0% risk weight (HRK 105.6bn), whereas a half of that amount was weighted by a risk weight of 75% (HRK 51.7bn or 12.7%). The exposure amounts weighted by risk weights of 20% and 50% had an almost equal share (6.9% and 6.1%, respectively), while only a small portion of the risk weight of 50% related to exposures secured by commercial real estate property. The exposure amounts secured by residential real estate property (risk weight 35%) accounted for only 0.9% of the total exposure amount, since large and medium-sized banks again either reported very small exposure amounts assigned to that risk weight or did not use it at all. Other risk weights were almost insignificant (0.1%).

If the net weighted exposure amount is classified by exposure categories, it is evident that the bulk of that amount related to three categories, among which the *retail* category[26] was the most important (HRK 140.5bn or 34.5%). It was followed by the *governments and central banks* (HRK 101.8bn) and *corporates* (HRK 101.3bn) categories. All other categories together (12 of them) accounted for 15.7% of the exposure amount.

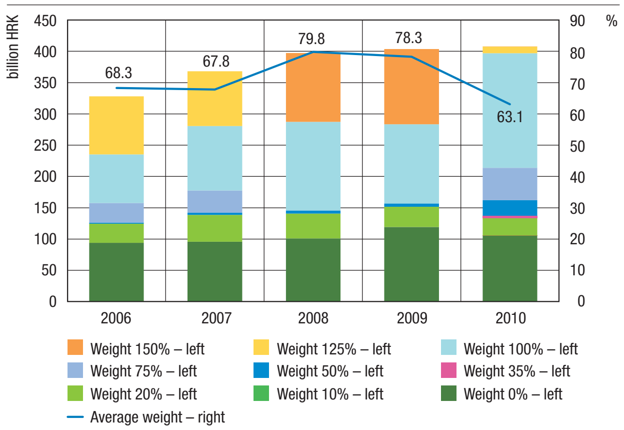
In the retail category, the largest portion of the exposure amount (57.7%) had a risk weight of 100%, a smaller portion (36.8%) met the criteria for the assignment of a risk weight of 75%, while only 2.7% were weighted by a risk weight of 35%. The category of exposure to the central governments and the central banks came second in order of importance, partly on account of the substitution techniques used (inflow of 17.9bn), and it was deemed almost entirely non-risky, so that a 0% risk weight related to 90.7% of the exposure classified into that category. The largest part of the total net exposure amount in the category of corporates was classified into a risk category of 100% (HRK 92.2bn or 91.1%), since most of the corporates to which banks were exposed are not assigned a credit assessment (almost HRK 76.0bn). The average weight for the corporate sector thus stood at 101.8%.

At the end of 2010, capital requirements stood at HRK 34.3bn, increasing by HRK 2.3bn or 7.2% compared to the end of 2009. An increase in capital requirements was a consequence of the introduction of capital requirements for operational risk, which amounted to almost HRK 3.0bn. Capital requirements for credit risk were reduced mildly (by 2.3%) as a result of a changed method of calculating the weighted exposure amount and particularly its much lower sensitivity to currency-induced credit risk. The decline notwithstanding, capital requirements for credit risk continued to be the most significant component of total capital requirements (90.0%), followed by capital requirements for operational risk, which accounted for 8.6% of total capital requirements. The remaining 1.4% related to capital requirements for market risks, which were raised mildly relative to the end of 2009, as a result of increased risk of investment in debt and equity securities (by 64.8m or 16.0), whereas capital requirements for currency risk held steady.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events and it includes legal risk. Unlike other risks, operational risk is distributed across the entire bank and is characteristic of all activities, processes, products and systems. Therefore it was necessary to provide a broad definition of the measure of exposure to that risk. Basically, the banks have three approaches at their disposal and the regulatory capital requirements under the basic indicator approach have been set at approximately 15% of the average value of the last three annual calculations of the so called relevant indicator, which is based on net income from all bank activities. The standardised approach is a somewhat more complex method. It implies the classification of business activities into set business lines, where for each business activity a relevant indicator is calculated, weighted by the given rate of initial capital requirements, which ranges from 12% to 18%. The most complex approach is the advanced measurement approach, a fully internally-based model for operational risk measurement; it best reflects specific bank exposure and implies fulfilment of a number of conditions before permission to use it can be obtained.

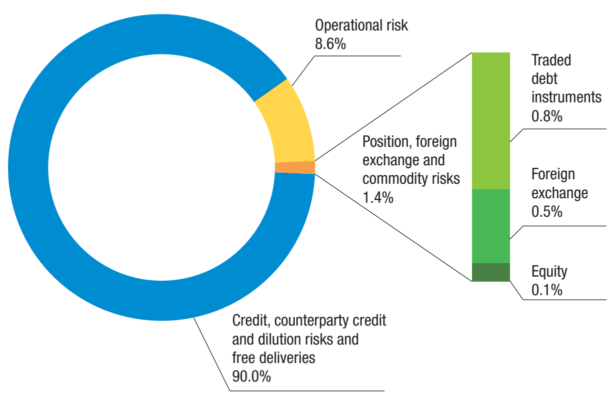
Capital requirements for operational risk, with a share of

3.29 Breakdown of net exposure to credit risk by risk weights
end of period



Source: CNB.

3.30 Structure of bank total capital requirements
as at 31 December 2010



Source: CNB.

26 The category of retail exposure may, in addition to exposure to natural persons and subject to fulfilment of certain conditions (exposure amount up to HRK 2.5m, over 500 accounts per product type) also include exposures to small and medium-sized corporates, sole traders, those employed in crafts and trades and freelance occupations. A 75% risk weight may be used provided the listed conditions are met. In the case of natural persons, when these conditions are not met, the exposures have to be weighted by a 100% risk weight.

Table 3.14 Breakdown of bank capital adequacy ratio
end of period

	2008		2009		2010	
	Number of banks	Share in bank assets	Number of banks	Share in bank assets	Number of banks	Share in bank assets
Ratio lower than 10%	0	0.0	0	0.0	1	0.6
Ratio from 10% to 12%	4	11.8	6	5.8	0	0.0
Ratio from 12% to 15%	14	31.9	11	25.9	11	13.8
Ratio from 15% to 20%	9	50.6	9	55.3	12	72.5
Ratio higher than 20%	7	5.8	8	13.0	9	13.2

Note: From 31 March 2010 on, the minimum capital adequacy ratio is 12% (10% prior to this date).
Source: CNB.

8.6% in total capital requirements, amounted to somewhat less than HRK 3.0bn at the end of the year. Most of that amount, HRK 2.3bn (79.4%), accounting for 8.4% of their total capital requirements, was allocated by large banks. Capital requirements for operational risks of medium-sized banks totalled HRK 304.7m or 10.3% of their total capital requirements, while capital requirements for operational risks of small banks accounted for almost HRK 306.9m or 9.6% of their total capital requirements.

In the assessment of capital requirements for operational risk, one large bank decided on the advanced measurement approach in the last quarter of 2010, thus reducing its capital requirements for operational risk. Five large banks, two medium-sized and one small bank decided on the standardised approach and the remaining 24 banks on the basic indicator approach. The classification of business activities of banks in business lines for the purposes of the calculation of the capital requirements for operational risk by means of the standardised approach suggests that the highest values of the relevant indicator were reported in the business lines retail and corporate banking, while other business lines were mainly estimated as less important.

The introduction of capital requirements for operational risk led to an increase in the total capital requirements and a fall in unutilised own funds of banks from HRK 22.0bn to HRK 18.2bn, though it still accounted for a large share of own funds (34.6%). Large banks had the biggest share of unutilised own funds (HRK 15.5bn or 2.6bn on average per bank), followed by medium-sized banks (HRK 1.6bn or HRK 0.8bn per bank), while small banks had the smallest share of unutilised own funds (HRK 1.1bn or HRK 45.4m per bank).

3.2 Business operations of housing savings banks

The number of housing savings banks in 2010 was 5, the same as at the end of 2009. Having decreased by 5% in the first half of the year, their total assets increased in the second half of 2010 and were 1.9% higher at end-2010 than at end-2009, standing at HRK 6.9bn. As bank assets grew nearly two times faster, the share of housing savings bank assets in the total assets of credit institutions in the Republic of Croatia fell slightly, to 1.7%.

The ownership structure of housing savings banks stayed the same; one housing savings bank was in majority domestic ownership and the remaining four were in the direct or indirect majority ownership of foreign shareholders. At end-2010, the latter accounted for 96.7% of the total assets of all housing savings banks, while the one housing savings bank in majority domestic ownership continued to increase its share in the total assets of all housing savings banks; its assets grew by almost one third and its share reached 3.3%.

3.2.1 Balance sheet

Housing savings bank assets slightly increased in 2010 (1.9%) due to the rise in household deposits in the second half of 2010 and the usual increase in deposits towards the end of the year, which can be attributed to government incentives paid to depositors in housing savings banks. Among other sources of financing, loans received grew noticeably while the amount of hybrid instruments increased slightly. In the period under review, assets of four housing savings banks increased.

Almost one half of the total 2010 increase in housing savings bank assets relative to the end of 2009 was the result of the weakening of the kuna against the euro. Kuna items with a euro currency clause predominated in the currency structure of housing savings bank assets, accounting for 86.2%. Their increase relative to end-2009 was entirely the result of the rise in their kuna value, i.e. the depreciation of the kuna. Accordingly, thanks to the parallel increase in kuna assets, total assets of housing savings banks did nevertheless record a low real growth rate of 1.0% in 2010.

Relative to the end of 2009, housing savings banks decreased the amount of net loans by 4.1%, so that the share of loans in their asset structure fell by 4.3 percentage points, to 69.4%. The decrease in net loans was influenced by a substantial decrease in loans to government units, including loans to

Table 3.15 Structure of housing savings bank assets
end of period, in million HRK and %

	2008		2009			2010		
	Amount	Share	Amount	Share	Change	Amount	Share	Change
Money assets and deposits with the CNB	0.0	0.0	0.0	0.0	23.5	0.0	0.0	–28.6
Money assets	0.0	0.0	0.0	0.0	23.5	0.0	0.0	–28.6
Deposits with the CNB	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deposits with banking institutions	259.7	3.7	177.8	2.6	–31.6	185.0	2.7	4.1
MoF treasury bills and CNB bills	327.7	4.7	295.4	4.4	–9.9	570.6	8.3	93.2
Securities and other financial instruments held for trading	76.5	1.1	0.0	0.0	–100.0	0.0	0.0	0.0
Securities and other financial instruments available for sale	1,121.1	16.1	71.5	1.1	–93.6	137.4	2.0	92.3
Securities and other financial instruments held to maturity	692.7	9.9	794.5	11.8	14.7	798.6	11.6	0.5
Securities and other financial instruments not traded in active markets but carried at fair value	241.4	3.5	99.7	1.5	–58.7	101.6	1.5	1.9
Derivative financial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans to financial institutions	273.9	3.9	117.0	1.7	–57.3	73.6	1.1	–37.1
Loans to other clients	3,780.7	54.3	4,847.8	71.9	28.2	4,689.1	68.3	–3.3
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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tangible assets (net of depreciation)	8.8	0.1	7.5	0.1	–14.6	7.2	0.1	–3.5
Interest, fees and other assets	240.9	3.5	383.2	5.7	59.1	355.3	5.2	–7.3
Net of: Collectively assessed impairment provisions	58.0	0.8	55.9	0.8	–3.7	50.8	0.7	–9.0
Total assets	6,965.5	100.0	6,738.5	100.0	–3.3	6,867.6	100.0	1.9

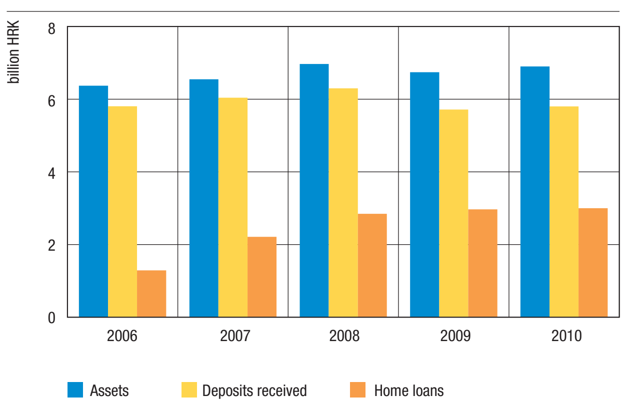
Source: CNB.

all entities financed by special extrabudgetary taxes,[27] and a decrease in loans to banks. The amount of home loans to savers of housing savings banks remained at the level of the end of 2009: HRK 3.0bn or 62.6% of total net loans. At the end of 2010, housing savings banks accounted for slightly less than 5.0% of total home loans granted by all credit institutions.

The second housing savings banks asset item in terms of size, investments in securities and other financial instruments, rose by 27.5% during the same period, with their share in total assets increasing from 18.7% at end-2009 to 23.4% at end-2010. Following a decline in securities investments over several previous years, these investments increased; relative to the end of 2009, the increase was mostly accounted for by the 93.2% rise in investment in MoF T-bills. Investments in RC bonds, which are the second instrument in the securities portfolio of housing savings banks, also increased, but at a much lower rate (7.5%). At the end of 2010, investments in RC bonds accounted for an even larger share of total securities investments of housing savings banks (64.5%), while investments in MoF T-bills accounted for 35.5%.

Housing savings banks distributed slightly over one half of MoF T-bills and RC bonds to the held-to-maturity portfolio (50.3%). This portfolio decreased by 3.1% and its share in the structure of the securities portfolio shrank by 15.9 percentage points in the reference period. By contrast, the available-for-sale portfolio rose by 113.8% and accounted for 43.4% of the total securities investments at the end of 2010. The remaining 6.3% of investments were distributed in the securities portfolio which is not actively traded and is carried at fair value through profit and loss.

3.31 Assets, deposits and loans of housing savings banks
end of period



Source: CNB.

27 E.g. Croatian Institute for Health Insurance, Croatian Pension Insurance Administration, Croatian Motorways, Croatian Roads, etc.

Table 3.16 Structure of housing savings bank liabilities and capital
end of period, in million HRK and %

	2008		2009			2010		
	Amount	Share	Amount	Share	Change	Amount	Share	Change
Loans from financial institutions	0.1	0.0	134.6	2.0	90,879.1	183.1	2.7	36.0
Short-term loans	0.0	0.0	134.5	2.0	–	183.0	2.7	36.0
Long-term loans	0.1	0.0	0.1	0.0	–23.6	0.1	0.0	–31.9
Deposits	6,298.1	90.4	5,713.3	84.8	–9.3	5,791.5	84.3	1.4
Giro account and current 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	0.0	172.8	2.5	–
Time deposits	6,298.1	90.4	5,713.3	84.8	–9.3	5,618.6	81.8	–1.7
Other loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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	91.3	1.3	96.1	1.4	5.3	96.7	1.4	0.6
Interest, fees and other liabilities	263.4	3.8	375.1	5.6	42.4	342.2	5.0	–8.8
Total liabilities	6,652.9	95.5	6,319.2	93.8	–5.0	6,413.4	93.4	1.5
Share capital	450.9	6.5	487.9	7.2	8.2	487.9	7.1	0.0
Current year profit/loss	12.9	0.2	49.4	0.7	282.4	17.7	0.3	–64.2
Retained earnings/loss	–61.6	–0.9	–50.0	–0.7	–18.8	–1.3	0.0	–97.4
Legal reserves	3.4	0.0	4.8	0.1	39.6	5.5	0.1	13.7
Reserves provided for by the articles of association and other capital reserves	0.6	0.0	0.1	0.0	–77.8	–0.2	0.0	–
Unrealised gains/losses on value adjustments of financial assets available for sale	–93.7	–1.3	–72.9	–1.1	–22.3	–55.3	–0.8	–24.1
Reserves arising from hedging transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Previous year profit/loss	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total capital	312.5	4.5	419.3	6.2	34.2	454.2	6.6	8.3
Total liabilities and capital	6,965.5	100.0	6,738.5	100.0	–3.3	6,867.6	100.0	1.9

Source: CNB.

The decline in the deposits of housing savings bank savers, which was first recorded at end-2009, continued in the first half of 2010. However, in the second half of the year, and the fourth quarter in particular, deposits increased and their annual growth rate was 1.4%. These deposits grew by a total of HRK 78.2m from the end of 2009, and the increase was recorded by three housing savings banks. In the structure of housing savings bank liabilities, the share of deposits remained almost the same. A more noteworthy change was recorded by the ratio of loans granted to deposits received which, due to the parallel decrease in the amount of net loans of housing savings banks, went down from 86.9% at end-2009 to 82.2% at end-2010.

Within sources of housing savings bank financing, deposit growth ran parallel to the increase in loans received from banks, of 36.0%, while the amount of hybrid instruments issued grew marginally (0.6%).

The total capital of housing savings banks grew by HRK 34.9m or 8.3% in 2010 despite the fact that their share capital was not increased, while their current year profit was considerably lower. The total capital increased mostly because housing savings banks used their 2009 profit to reduce retained loss from previous years, while a somewhat smaller boost to capital growth was made by the reduction in unrealised value adjustment losses on available-for-sale assets. The increase in capital, which was accompanied by a lower growth rate of assets, led to a slight increase in its share in total housing savings bank liabilities, from 6.2% to 6.6%.

3.2.2 Income statement

Pre-tax profit of housing savings banks at the end of 2010 was reduced by more than one half relative to the end of 2009, standing at HRK 25.7m. One housing savings bank reported losses, while the profit made by two out of the remaining four that reported profits was higher than at end-2009.

Pre-tax profit fell as a result of the decline in most categories

Table 3.17 Housing savings bank income statement
in million HRK and %

	Jan. – Dec. 2009	Jan. – Dec. 2010	
	Amount	Amount	Change
Total interest income	339.1	304.6	–10.2
Total interest expenses	201.7	192.5	–4.6
Net interest income	137.4	112.1	–18.4
Total income from fees and commissions	74.7	70.1	–6.2
Total expenses on fees and commissions	9.1	8.4	–8.1
Net income from fees and commissions	65.6	61.7	–5.9
Other non-interest income	2.6	10.7	309.8
Other non-interest expenses	26.7	36.2	35.8
Net other non-interest income	–24.1	–25.5	6.2
Net non-interest income	41.6	36.2	–12.9
General administrative expenses and depreciation	128.2	129.9	1.3
Net operating income before loss provisions	50.7	18.4	–63.7
Expenses on value adjustments and provisions for identified losses	–0.3	–2.1	674.3
Expenses on collectively assessed impairment provisions	–2.9	–5.1	78.8
Total expenses on loss provisions	–3.1	–7.3	131.1
Income/loss before taxes	53.8	25.7	–52.3
Income tax	4.5	8.0	79.6
Current year profit/loss	49.4	17.7	–64.2

Source: CNB.

of income, particularly those that do not arise from placements associated with the main activity, i.e. home loans. Net income of housing savings banks dropped by 17.1% in 2010, mostly on account of lower interest income, which fell by 10.2% from end-2009 to end-2010. The reduction in interest income was largely a result of income from loans to government units and income from loans and deposits to financial institutions. Interest income on household loans also dropped in the period under review, by 0.7%

In contrast to banks, which substantially cut their interest expenses, housing savings banks' options to reduce these expenses are very limited since deposits of housing savings bank savers predominate in the structure of their funding sources. Interest expenses were reduced by 4.6% relative to the end of 2009, largely on account of the cut in expenses associated with deposits of housing savings bank savers and lower expenses for insurance premiums for savings deposits. Net interest income of housing savings banks decreased by 18.4%.

The decline in profit was also influenced by a 5.9% decrease in net income from fees and commissions and a 6.2% increase in negative net other non-interest income. The rise in the difference between non-interest expenses and income was due to a significant growth of these expenses (35.8%), though other non-interest income also grew steeply, by 309.8%. General administrative expenses and depreciation increased slightly in 2010 (1.3%), so that operating income of housing savings banks, i.e. net operating income before loss provisions, was noticeably lower than at end-2009 (63.7%). The suspension of expenses on loss provisions and income generated on that basis, of HRK 7.3bn, partially offset the drop in profit.

Although the increase in general operating expenses and depreciation was not significant, the substantial decline in net income at end-2010 further worsened the cost effectiveness of housing savings banks. The cost to income ratio of housing savings banks rose from 71.7% at the end of 2009 to 87.6% at the end of 2010. Cost effectiveness, measured as the ratio of housing savings bank assets per employee, decreased. In the period under review, the number of employees increased more (by 3.6%) than housing savings bank assets, so that assets per employee stood at HRK 17.0m at end-2010, which is somewhat less than at end-2009.

Profitability of housing savings banks deteriorated significantly in 2010. As profits earned decreased, the return on average assets (ROAA) fell from 0.8% at end-2009 to 0.4% at end-2010, while the return on average equity (ROAE) went down from 13.5% to 4.0% in the same period.

3.2.3 Credit risk

Total placements and assumed off-balance sheet liabilities of housing savings banks stood at slightly less than HRK 6.0bn at end-2010, which is a decrease of HRK 430.1m or 6.7% compared with end-2009. This decrease was due to the exclusion of the portfolio of financial assets available for sale from placements and assumed off-balance sheet liabilities classified into risk categories.

At end-2010, only one housing savings bank classified all its placements and assumed off-balance sheet liabilities as fully recoverable, while the remaining four classified a marginal portion (0.3%–1.6%) of their placements as partly recoverable or fully irrecoverable.

Table 3.18 Classification of housing savings bank placements and assumed off-balance sheet liabilities by risk categories
end of period, in million HRK and %

Risk category	2008		2009			2010		
	Amount	Share	Amount	Share	Change	Amount	Share	Change
A	6,598.5	99.5	6,385.1	99.6	–3.2	5,945.1	99.5	–6.9
B-1, B-2 and B-3	24.6	0.4	18.8	0.3	–23.6	31.5	0.5	67.9
C	6.5	0.1	4.2	0.1	–34.7	1.4	0.0	–67.6
Total	6,629.5	100.0	6,408.1	100.0	–3.3	5,978.0	100.0	–6.7

Source: CNB.

Table 3.19 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 %

	2008	2009	2010
Total value adjustments against placements and provisions for assumed off-balance sheet liabilities	69.8	64.2	57.3
Value adjustments and provisions	10.7	8.1	6.2
Collectively assessed value adjustments and provisions	59.0	56.2	51.0
Total placements and assumed off-balance sheet liabilities	6,629.5	6,408.1	5,978.0
Coverage	1.1	1.0	1.0

Source: CNB.

Broken down by risk categories, risk category A continued to account for the bulk of total placements and assumed off-balance sheet liabilities (99.5%), falling only marginally from the end of 2009. Accordingly, collectively assessed impairment provisions again accounted for the major share of total value adjustments and provisions. Risk category B increased from HRK 18.8m to HRK 31.5m, growing by a high 67.9% in relative terms, while fully irrecoverable placements and assumed off-balance sheet liabilities (risk category C) decreased by the same extent, from HRK 4.2m to HRK 1.4m. All this led to the decrease in total value adjustments and provisions from HRK 8.1m to HRK 6.2m (29.9%).

The portfolio of loans and receivables accounted for a major share (85.3%) of the total placements and assumed off-balance sheet liabilities. Loans were predominant and accounted for 73.0% or HRK 3.7bn although the share of debt securities was also large and stood at HRK 1.0bn or 20.4%. Home loans accounted for the bulk (80.2%) of loans in the portfolio of loans and receivables.

Home loans accounted for almost all placements and assumed off-balance sheet liabilities classified into risk categories B and C, while a minor share was accounted for by claims arising from interest income. The share of home loans classified into risk categories B and C (distributed in the loans and receivables portfolio) grew from 0.5% to 1.1%, while relevant value adjustments were almost a third lower, so that the coverage of non-performing home loans dropped from 35.7% to 18.0%.

3.2.4 Capital adequacy

The capital adequacy ratio of housing savings banks stood at 19.5% at end-2010; it grew by 3.2 percentage points from the end of 2009 (16.3%) due to changes in the methodology for calculating capital requirements.

Own funds stood at HRK 508.0m at the end of 2010, growing by HRK 10.4m (2.1%) relative to end-2009, largely on account of the growth in core capital. The boost to core capital (which grew by HRK 9.7m) was made by the reduction in unrealised value adjustment losses on available-for-sale assets. In 2010, no housing savings bank increased its capital by a capital injection or subscription of hybrid instruments (housing savings banks have no subordinated instruments reported).

Total capital requirements of housing savings banks increased by HRK 8.5m (2.8%) due to the introduction of the capital requirement for operational risk of HRK 43.2m. The change in the methodology for calculating capital requirements for credit risk affected housing savings banks more than banks because of their simple investment structure, the high share of exposures in the "central governments and central banks" exposure class (50.9%) and a relatively higher use of the 35% and 75% risk weights for the "retail" exposure class. As a result, the capital requirement for credit risk was reduced by HRK 33.8m or 11.2%, so that housing savings banks had a much lower average credit risk weight (31.4%) than banks. Capital requirements for position, currency and commodity risks decreased by HRK 0.9m or 24.0% and still related only to capital requirements for currency risk as the only market risk reported by housing savings banks. At the end of 2010, capital requirements for credit risk thus accounted for 85.3% of total capital requirements (compared to 98.7% at the end of 2009), while capital requirements for operational and market risks accounted for 13.8% and 0.9%, respectively, of total capital requirements.

3.3 Report on prudential regulation and supervision

Among CNB tasks regulated by the Act on the Croatian National Bank[28] is the exercise of supervision and oversight of credit institutions and credit unions in accordance with the Credit Institutions Act[29] and the Credit Unions Act,[30] the fundamental acts governing the conditions for the establishment, operation and dissolution of these institutions, as well as supervision of their operation. The main objectives of supervision exercised by the CNB are to maintain confidence in the Croatian banking system, and promote and safeguard its safety and stability.

Supervision of credit institutions consists of several coordinated activities aimed at verifying whether credit institutions (banks, savings banks and housing savings banks) operate in compliance with risk management rules, provisions of the Credit Institutions Act and regulations adopted under that act, other laws governing the carrying out of financial activities, their own rules, and professional standards and rules. In addition to supervision, the CNB exercises oversight of the implementation of the Act on the Croatian National Bank, regulations adopted under that act, and the implementation of other laws and regulations for which it is competent.

The CNB exercises supervision of credit institutions by:

- collecting and analysing prescribed reports and other reports and information;
- ongoing monitoring of the lawfulness of operation of credit institutions, by carrying out on-site examinations of credit institutions' operations; and
- imposing supervisory measures in order to take actions at an early stage to improve the safety and stability of credit institutions' operation and to eliminate illegalities.

The CNB exercises supervision of credit unions in a similar manner.

3.3.1 New regulations on business operations and supervision of credit institutions and credit unions

The Act on Amendments to the Credit Institutions Act entered into force early in 2010 so as to align domestic legislation with amendments to the Capital Requirements Directive (CRD).[31] Amendments to the CRD (and the Credit Institutions Act) were the outcome of significant changes in the EU acquis in the area of financial services in response to the turmoil in financial markets that began in 2007 and culminated in late 2008 and early 2009.

In addition to the Credit Institutions Act, all relevant subordinate legislation underwent the necessary changes by the end of 2009.[32] Eleven subordinate regulations were amended, while three subordinate legislations were repealed and three new subordinate regulations were adopted in their place.[33] Completely

Table 3.20 Workshops for credit institutions

Date	Participants	Theme
25–28 January 2010	Credit institutions	Amendments to the Credit Institutions Act
		Decision on large exposures of credit institutions
		Amendments to the Decision on the obligation to make provisions for litigations conducted against a credit institution
		Decision on outsourcing
		Amendments to Decision on the classification of placements and off-balance sheet liabilities of credit institutions
		Amendments to the Decision on the capital adequacy of credit institutions
		Amendments to the Decision on reports on own funds and capital requirements of credit institutions
		Amendments to the Decision on own funds of credit institutions
		Decision on liquidity risk management
		Decision on the management of interest rate risk in the non-trading book
28–29 April 2010	Credit institutions	Decision on adequate information system management
27–28 May 2010	Credit institutions	Presentation of the National Computer Emergency Response Team, its activities and reporting obligations of credit institutions vis-a-vis the CNB in case of major violations
14–15 October 2010	Nine largest banks	7th Workshop on new statistical and prudential reporting system
26 October 2010	Credit institutions	7th Workshop on new statistical and prudential reporting system

Source: CNB.

28 OG 75/2008.
29 OG 117/2008, 74/2009 and 153/2009.
30 OG 141/2006 and 25/2009.
31 Capital Requirements Directive – CRD (Directive 2006/48/EC and Directive 2006/49/EC).
32 Amendments to this Act were published in Official Gazette No 153 of 21 December 2009 and entered into force on 1 January 2010.
33 All amended and new subordinate regulations (14) were published in Official Gazette No 2 of 4 January 2010.

aligned subordinate regulations were implemented as of 31 March 2010, and the first reports prepared under the new reporting system were received by the end of April 2010.

Before the final proposal of the amended Credit Institutions Act and subordinate regulations was drafted, there was a public discussion, all the proposals having been published on the CNB website. The final proposals took into account the comments and recommendations received within the framework of the public discussion.

On its website, the CNB has posted unofficial consolidated versions of the Credit Institutions Act and subordinate regulations, as well as their English translations, to facilitate their use by credit institutions and the general public.

In 2010, the CNB organised several workshops for credit institutions with a view to familiarising them in detail with amended and new supervisory regulations, improving understanding and ensuring successful implementation.

The most important activities in 2010 concerning the amended regulations related to providing opinions and answers to questions posed by credit institutions, financial institutions, consumers and other interested parties regarding problems in understanding and implementation of new regulations. The practice of posting all relevant answers and opinions on the CNB website was maintained to ensure a uniform and consistent implementation of regulations. In 2010, the CNB received a total of 497 queries from credit institutions, answering 467 by the end of the year.

As the European Commission published sets of potential changes in the regulatory framework on several occasions in the previous two years, the CNB made projections of the impact of significant proposed changes on the operation of credit institutions. In late 2010, the CRD was significantly amended by Directives 2010/76/EU and 2010/78/EU. Directive 2010/76/EU[34] amends the CRD as regards capital requirements for the trading book and for re-securitisations, and the supervisory review of remuneration policies. Directive 2010/78/EU[35] amends the parts of the CRD in respect of the powers of the new body – European Banking Authority (EBA),[36] which replaced the former Committee of European Banking Supervisors (CEBS). Accordingly, the CNB made a plan to introduce the necessary changes in the domestic legal framework regulating the operation of credit institutions to align it with the EU acquis and to complete drafts of all regulations as early as the first half of 2011.

3.3.2 Supervision of credit institutions

3.3.2.1 On-site examination of credit institutions

The CNB carries out on-site examinations in accordance with the adopted methodology for supervision and the on-site examination plan adopted at the end of each year for the following year. All the planned tasks arising from the CNB strategic guidelines relating to on-site examination were completed in 2010. Emphasis was placed on core tasks that include the on-site examination of credit institutions. On-site examinations in 2010 covered 23 credit institutions accounting for 81.1% of total assets of all credit institutions (according to unaudited data as at 31 December 2010).

A total of 37 on-site examinations were carried out in these institutions, adding up to 3314 supervisory days. Two on-site examinations were carried out for the purpose of validation of the internal ratings-based approach (IRB) for credit risk. In addition, in two banks on-site examinations were carried out using the advanced measurement approach for the calculation of capital requirements for operational risk.

The on-site examination plan for 2010 was based on the established cycle of conducting regular on-site examinations of credit institutions. Different specialised on-site examinations covering 87.4% of total assets of the group of large banks were carried out. The on-site examination of medium-sized and small banks covered 41.8% and 72.9% respectively of total assets of these bank groups. The examined assets of housing savings banks make up 30.1% of total assets of housing savings banks.

In 2010, eleven on-site examinations of risk management were carried out, covering 58.6% of banking system assets, with special emphasis on credit risk management and adequate value adjustments and provisions for bad placements. Within this framework, a special analysis was made of the risk profile and capacity of credit risk exposure, which included the following areas:

- credit risk exposure to certain activities associated with a higher degree of risk;
- analysis of credit risk management adequacy in the segment of project financing and placements with a bullet payment;
- credit risk management in cases of extended collection deadlines, rollover or restructuring of placements and the assessment of the adequacy of value adjustments and provisions; and
- on-site examination of the methodology and the process of value adjustment and provisions for placements to households and legal persons.

By type and scope, the following on-site examinations were also carried out in 2010:

- six examinations of the system of internal controls in the operating procedures of credit institutions;
- eleven examinations of the implementation of monetary and foreign exchange policy measures;
- four examinations of credit institutions' IT systems; and
- one examination of the risk function organisation.

34 Directive 2010/76/EU (CRD III) of 24 November 2010 amending Directives 2006/48/EC and 2006/49/EC.
35 Directive 2010/78/EU of 24 November 2010 amending Directives 98/26/EC, 2002/87/EC, 2003/6/EC, 2003/41/EC, 2003/71/EC, 2004/39/EC, 2004/109/EC, 2005/60/EC, 2006/48/EC, 2006/49/EC and 2009/65/EC in respect of the powers of the European Supervisory Authority (European Banking Authority), the European Supervisory Authority (European Insurance and Occupational Pensions Authority) and the European Supervisory Authority (European Securities and Markets Authority).
36 Regulation (EU) No 1093/2010 of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC.

Table 3.21 On-site examinations carried out in 2010

Bank groups	Examined areas							Assets covered by on-site examinations as at 31 December 2010[a], in thousand HRK	The share of assets covered by on-site examinations in total assets, in %
	"Internal control systems"	IT systems	"Implementation of monetary and foreign exchange policy measures"	Risk management	Validation of IRB based model	Assessment of AMA framework	Risk function organisation		
Large banks			1	3	2	2	1	280,981,394	87.4
Medium-sized banks	1	1	1					14,795,484	41.8
Small banks	5	3	9	7				25,372,694	72.9
Total (all banks)	6	4	11	10	2	2	1	321,149,572	82.0
Housing savings banks				1				2,063,400	30.1
Total (all credit institutions)	6	4	11	11	2	2	1	323,212,972	81.1[b]

[a] Unaudited data. [b] The percentage refers to the total amount of credit institution assets covered by on-site examinations and examined by using a representative sample that was selected in line with the best global supervisory practices.
Source: CNB.

Within the framework of on-site supervision of credit institutions in 2010, on-site examinations of the implementation of legal provisions in the segment of money laundering and terrorist financing were carried out in 14 credit institutions.

Following the on-site examinations carried out in 2010 and violations, irregularities and weaknesses that were established in issued reports, the CNB issued recommendations for the improvement of business processes and IT systems and imposed measures for the elimination of established violations and improvement of the situation. Based on issued reports, eight decisions on supervisory measures were issued. A total of 60 supervisory measures were ordered via the issued decisions, 62% of which were related to credit risk, 10% to market risk, 17% to the IT system and the remaining 11% to other areas of operation. The CNB also issued one decision authorising the use of the advanced measurement approach for the calculation of capital requirements for operational risk. The issuance of two more decisions for credit institutions is underway as a result of on-site examinations carried out in 2010.

Further, in 2010, CNB employees performed tasks relating to the adoption of the new, and improvement of the existing, methodology:

- creation of the methodology for validation of the advanced measurement approach for the calculation of capital requirements for operational risk;
- creation of the methodology to supervise credit risk management by credit institutions;
- creation of the methodology to supervise the IRB approach in credit institutions;
- creation of reporting standards on findings and assessments of IT systems of credit institutions in audit reports; and
- improvement of the existing methodology for the performance of on-site examinations.

3.3.2.2 Off-site examination

Off-site examination is one of the segments of supervision of credit institutions' operations that is carried out by the CNB. It implies supervision of credit institutions by collecting and analysing reports and information, ongoing communication with credit institutions and the analysis of additional information submitted by credit institutions at the request of the CNB. The purpose of off-site examination is to establish the risk profile of a credit institution and adopt timely measures to ensure and maintain the stability of each credit institution and the system as a whole. By this type of examination, the CNB has improved and expedited supervision of credit institutions, in line with the best global practices.

One of the segments in the process of alignment of legal regulations with EU directives was the alignment of the CNB reporting system on the business operations of credit institutions. Over the past few years, the CNB has been in the process of adjusting the prudential reporting system for the purposes of supervision, including financial reporting of credit institutions (FINREP, Consolidated Financial Reporting Framework) and reporting on the capital adequacy (COREP, Common Reporting Framework). The new reporting system is derived from a series of subordinate regulations; credit institutions submitted to the CNB the first reports for the purpose of compiling supervisory reports and capital adequacy reports as at 31 March 2010. As a result, in the first half of 2010, special attention was paid to detailed checks of the quality of new reports, in addition to regular activities of analysing financial reports. Changes in the reporting system entailed methodological adjustments of the CNB in order to adjust the off-site examination process. In view of developments in 2010, particular efforts were devoted to the analysis of additional data submitted by credit institutions at the request of the CNB relating to liquidity, due but unpaid receivables, and rollover or restructuring of placements.

In all, 160 written analyses based on off-site examinations were made in 2010, 154 of which were for individual credit institutions and 6 for groups of credit institutions. As a rule, written off-site analyses are made on a quarterly basis, while detailed specialised analyses of certain areas of credit institutions' operations are made when necessary. In 2010, off-site examinations continued to be based on the risk assessment of credit institutions in accordance with the CAMELS methodology[37]; in addition to an assessment of overall business operations of a credit institution, these analyses include a credit institution's performance indicators, a review and analysis of key financial and supervisory reports, a review of the implementation of supervisory measures (if imposed on a credit institution) as well as compliance with legal restrictions. Written off-site analyses also provide general information on a credit institution and main operating guidelines, data on the market share of the particular credit institution in the entire system and its market share by individual type of products, recommendations for on-site examinations, if any, with a special emphasis on established problem areas, important decisions of the general meeting and other relevant information. In 2010, assessment of operations was expanded to include the management of interest rate risk in the non-trading book and monthly management of liquidity risk, operational risk and corporate governance.

In addition to off-site examinations of individual credit institutions, an analysis of consolidated financial statements of groups of credit institutions is made. In 2010, the CNB monitored the operation of seven groups of credit institutions. In view of the 2010 regulatory changes concerning the composition of groups of credit institutions, almost all banks that are obliged to report on a consolidated basis made use of the option to reduce the scope of the group in line with the provisions of Article 282 of the Credit Institutions Act. As a result, the impact of a bank on performance indicators of the group was even more prominent in 2010 than in the previous periods, so that the conclusions of analyses of consolidated reports closely followed those of individual banks' analyses.

Analyses of additional data submitted upon CNB request

In 2010, the CNB continued its activities on the analysis of liquidity, data on due but unpaid receivables and credit risk quality.

Intensive monitoring of system liquidity by receiving and analysing individual ten-day reports of credit institutions continued up to June 2010. Starting from 31 March 2010, in line with new regulations, credit institutions began to submit data on liquidity risk on a monthly basis, which secured an adequate basis for continuous quality monitoring of liquidity.

Throughout 2010, the CNB received and analysed monthly data on due but unpaid receivables of credit institutions, as well as data on rolled over and restructured placements and, in the case of larger divergences, required additional explanations from credit institutions. Data collected and templates created provided information and enabled a comparison of a two-year series of data broken down by sector (government, financial institutions, state enterprises, other enterprises, non-profit institutions, households, non-residents) and by maturity. In the second half of 2010, the CNB made a comparative analysis of data submitted based on the existing reporting system and data submitted based on the new reporting system. Following the analysis, deficiencies in new reports were established and eliminated, which provided an adequate foundation for the monitoring of due but unpaid receivables based on new supervisory reports.

On the basis of data as at 31 December 2009, the CNB made for all credit institutions detailed analyses on an individual basis of the credit portfolio classified into risk category A with a payment delay of more than 90 days (A90) and risk category B. Credit institutions obliged to set aside additional provisions for non-performing placements set aside a portion of these provisions on 31 December 2009 and a portion in 2010. In 2010, the credit portfolios of individual credit institutions shown not to have classified individual placements in line with the regulations were subject to analysis that led to the imposition of supervisory measures.

Reports, decisions and written warnings

Following off-site examinations in 2010, the CNB prepared fourteen reports on examination findings, six decisions on the imposition of supervisory measures and written warnings to the members of credit institutions' management as regards their failure to implement supervisory measures in the manner and within the time limits set in the CNB decisions.

Cooperation with foreign supervisors

The increased role of the college of supervisors at the European level, which is in line with the new CEBS guidelines, further intensified cooperation with foreign supervisors. Based on signed memoranda of understanding and for the purpose of improving cooperation with external supervisors, in 2010 CNB representatives participated in ten workshops and/or colleges of supervisors relating to the supervision of banking groups that include domestic credit institutions. The intention of the European Banking Authority is further to strengthen the role of colleges of supervisors and make joint decisions regarding the risk profile of banking groups and the capital adequacy of group members based on the guidelines published in the CEBS consultative document No 39 Guidelines for the joint assessment of the elements covered by the supervisory review and evaluation process (SREP) and the joint decision regarding the capital adequacy of cross border groups.

As in the previous years, presentations on the general risk profile of an institution and methodology of risk analysis for each individual risk to which a credit institution is exposed were prepared for these colleges of supervisors, as were presentations on the impact of the financial crisis on the operation of a credit institution together with prudential and/or monetary measures and future development aspects.

In 2010, the CNB delivered to consolidating supervisors the main findings, conclusions and recommendations of on-site examinations of domestic credit institutions that are members of banking groups. Within the framework of cooperation with

37 According to CAMELS methodology, each credit institution is assigned a composite rating, based on the assessment and rating of the following six components relating to the financial position and performance of that institution: capital adequacy (C), asset quality (A), management quality (M), earnings (E), liquidity (L) and sensitivity to market risk (S).

foreign supervisors, the CNB is responsible for the creation of the Supervisory Risk Report, i.e. the annual assessment of the domestic credit institution, which serves as an element for making the final risk assessment of a banking group by the consolidating (home) supervisor. Six supervisory reports were prepared in 2010 with the balance as at end-2009; the said reports were updated with the data for the first half of 2010. Starting with the data as at 31 December 2009, the CNB began to exchange quarterly bulletins with the Austrian supervisory authority (Supervisory Newsletter) on the operation of domestic banks in the majority ownership of Austrian banks. In 2010, 16 such bulletins were prepared and a meeting with the representatives of the Austrian regulator was organised.

Memoranda of understanding in the field of banking supervision of groups of credit institutions, which the CNB concluded with the Austrian, Italian and Hungarian supervisory authorities, were updated in 2010. The preparation of a memorandum of understanding in the field of supervision of savings banks in majority foreign ownership has been announced.

Other regular annual activities

Regular annual meetings with the management boards of credit institutions were held in 2010 to exchange information on business policies, possible operating problems, expected difficulties and methods to resolve identified problems.

In 2010, the CNB continued to cooperate with the Croatian Financial Services Supervisory Agency (HANFA) by participating in the work of the joint Working Committee. In addition, the CNB continued to cooperate with other government authorities (the Ministry of Finance, courts, the State Attorney's Office, etc.).

3.3.2.3 Banking system analysis

As a part of its regular activities, the CNB publishes regular semi-annual and annual publications and regular and ad hoc analyses on the situation and trends in the banking system needed by the management of the Prudential Regulation and Bank Supervision Area and by the CNB management.

Of the regular publications, No 20 and No 21 of Banks Bulletin were issued in 2010. In addition, regular quarterly reports on the banking system needed by the CNB management and Council, indicators of banking institutions operations (data on bank operations for the CNB website), reports on debtors whose debt exceeds HRK 5m and the SDDS format relating to the banking system were compiled at the end of each quarter. As over the previous years, the CNB prepared a contribution for the BSCEE (Banking Supervisors from Central and Eastern Europe) consisting of quantitative data and written information on the situation in the banking system and CNB supervisory activities.

In 2010, the CNB replied to written queries and questionnaires from different international and foreign institutions and members of the press, as well as all other queries relating to data on the banking system of the Republic of Croatia. It also participated in regular meetings with credit rating agencies, as well as meetings with different international and foreign institutions.

3.3.3 Supervision of credit unions

On 31 December 2010, there were 23 credit unions operating in the Republic of Croatia and their total assets stood at HRK 532.2m. Nine credit unions are currently in the process of winding up, while one credit union is undergoing bankruptcy proceedings.

In 2010, the CNB supervised the operation of credit unions by collecting, monitoring and analysing data presented in financial and supervisory reports. In addition, an on-site examination was carried out in one credit union. In terms of capital, information technology, organisation and personnel, credit unions are not at the level of credit institutions, which significantly hampers supervision.

Analyses of financial and supervisory reports submitted by all credit unions and analyses of submitted monthly liquidity reports were made in the course of 2010. Based on these reports, 12 off-site analyses were compiled. The analysis of quarterly reports showed irregularities arising from the permissible exposure amounts and limits being exceeded; nine reports on established irregularities were drafted and two decisions were issued to eliminate irregularities. Two reports on the operation and supervision of the system of credit unions were prepared for the purposes of the CNB Council in 2010.

Furthermore, 14 meetings with members of management and supervisory boards of credit unions were held in 2010. Based on off-site analyses and findings reported to management and supervisory boards, a decision to initiate voluntary winding-up proceedings was adopted at the general meetings of three credit unions.

In order to improve the understanding of regulations governing the operation of credit unions, the CNB continued in 2010 to reply to queries made by credit unions; responses have also been posted on the CNB website. In addition, the CNB prepared the draft amendments to the Credit Unions Act to improve regulations concerning these institutions and improve their operation.

3.3.4 Issuance of authorisations and approvals to credit institutions and credit unions

The CNB runs procedures relating to the issuance of authorisations and approvals as laid down under the Credit Institutions Act, the Act on Housing Savings and State Incentives for Housing Savings, the Credit Unions Act and other laws and subordinate legislation, issues decisions relating to licensing (issuing and withdrawing authorisations and approvals), gives opinions on the implementation of relevant regulations and recommends or adopts regulations in the area of licensing.

The aim of licensing as a supervisory tool is the stable and safe operation of credit institutions. Viewing licensing as a special part of supervision, its immediate objective is to act preemptively against decisions and activities that might negatively affect a credit institution's operation.

Through the system of authorisations and approvals, the CNB can control some of the decisions and legal transactions of

Table 3.22 The number and type of decisions issued in the area of licensing in 2010

Type of decisions issued	Number
Banks	72
Approval for the chairperson or member of the management board	51
Authorisation to provide banking and financial services	18
Approval to acquire a qualifying holding	3
Savings banks	5
Approval for the chairperson or member of the management board	2
Authorisation of general operating conditions	2
Approval to outsource internal audit function	1
Housing savings banks	2
Withdrawal of authorisation	1
Initiation of compulsory winding-up proceedings	1
Credit unions	3
Approval for the member of the management board	1
Refusing applications for authorisation	1
Withdrawal of authorisation	1
Total (all institutions)	82

Source: CNB.

a credit institution prior to their adoption, execution or realisation, so, as a supervisory tool, licensing can have two functions:

- to detect in advance and prevent decisions and transactions that might have an adverse effect on future operations of a credit institution; and
- make the credit institution implement the imposed supervisory measures.

Under the law, the CNB is competent for issuing (among others) the following authorisations and approvals:

- authorisation of credit institutions and credit unions;
- authorisation to provide banking and financial services;
- prior approval to acquire a qualifying holding in a credit institution;
- prior approval for management board members of credit institutions and credit unions;
- prior approval to the credit institution for acquisition of a 20% share in another undertaking that exceeds 10% of a credit institution's own funds; and
- authorisation of the general operating conditions of a housing savings bank.

Since the Credit Institutions Act provides for the possibility of withdrawal of authorisation from a credit institution and of approval for a management board member, this also falls within the competence of the Croatian National Bank.

In 2010, a total of 82 decisions to issue or withdraw authorisations or approvals were issued to banks, housing savings banks, savings banks and credit unions.

3.3.5 Market competition

The Credit Institutions Act lays down that the CNB is responsible for the protection of market competition in the market of banking and financial services provided by credit institutions until Croatia's accession to the European Union. Within the framework of its 2010 activities in the area of market competition the CNB conducted a comprehensive sector-wide analysis of the behaviour of commercial banks in the field of household loans for motor vehicle purchases. This continued the analysis started in 2009 in order to establish all the facts and reach a decision as regards potential intervention in response to the behaviour of commercial banks. The analysis focused on:

- the relationship between the bank and the insurance undertaking in the context of provisions of claim insurance contracts;
- any embedded provisions on the tied purchase of motor third-party liability insurance or motor hull insurance contained within or based on the claim insurance contract between the bank and the insurance undertaking;
- any embedded provisions on the tied purchase or some other restrictive provisions in the cooperation agreement between the commercial bank and its car dealer partner; and
- establishing a possible division of this lending market segment among banks with regard to car dealers in terms of car brands they sell or on some other basis.

A survey of customer mobility in the current account market was made in 2010. Following the analysis of banks' responses to the Questionnaire on customer mobility in the current account market, the CNB prepared a comprehensive document on the situation in this market segment, including recommendations for further CNB activities.

As the provisions of Article 374 of the Credit Institutions Act stipulate that the CNB's responsibility in the area of market competition will be transferred to the Croatian Competition Agency on the date of Croatia's accession to the EU, a draft Memorandum of Understanding between that agency and the CNB was prepared.

CNB representatives also participated in the work of the management board of the twinning project implemented by the Croatian Competition Agency in cooperation with the Italian competition agency.

As in the previous years, in 2010 the map of dominant positions was continuously developed, the main indicators of sector concentration were monitored and on-going monitoring of comparative practice continued.

3.3.6 Consumer protection

Following the adoption of relevant regulations governing in detail the field of consumer protection, the year 2010 was marked by intensive CNB activities related to the supervision of the implementation of new regulations. In implementing its supervisory function, the CNB used, among other things, information contained in consumer complaints, which are delivered to the CNB address in accordance with Article 309, paragraph (5) of the Credit Institutions Act.

As insufficient or inadequate transparency of credit institutions' business operations was most often mentioned in consumer complaints in the previous period, the CNB took appropriate actions to improve the situation. In 2010, a project was started to develop and/or document a methodology for changes in variable interest rates and a methodology for changes in fees for deposit and lending services to consumers. The project was divided into two phases. The first phase includes activities directed towards 12 banks that are significant because of their size or regional influence, while the second phase includes all other banks. By the end of 2010, all 12 credit institutions posted a methodology and criteria for changes in variable interest rates on their websites.

The CNB was particularly active in dealing with complaints of consumers – users of banking and financial services. In this regard, appropriate organisational changes were made within the CNB itself. The CNB also established relationships and communicated with various media representatives who often approached the CNB with specific topics and queries related to the consumer protection policy and the CNB's role in consumer protection.

In 2010, CNB representatives also participated in the work of the National Consumer Protection Council. On the basis of the National Consumer Protection Programme 2009 – 2012, a more detailed plan of the CNB's activities was developed for the 2011-2012 period, where priority areas requiring further improvements are defined.

3.3.7 Projects related to supervision of credit institutions

In the course of 2010, the following projects were underway in the CNB in the field of supervision:

- transposition of EU legislation into Croatian legislation;
- reporting projects (supervisory reports and reports on the capital adequacy and capital requirements); and
- improvement of the methodology for the risk assessment of credit institutions.

The EU legislation transposition was completed by the publication of the latest amendments to the Credit Institutions Act and by amendments to the subordinate legislation. The CNB will continue to harmonise and improve the legislation governing the area of credit institution operation.

The new reporting of credit institutions is being implemented under two projects. They provide data needed to compile European supervisory reports (FINREP), the implementation of which is expected in 2013, and European reports on capital adequacy and capital requirements (COREP).

Supervisory reports of credit institutions that are compiled by the CNB on the basis of data submitted by credit institutions have been in official use since 2010. This completed the project started in 2007 with the aim of optimising financial reporting by credit institutions in view of various reporting requirements, primarily of a statistical or prudential nature. The transition from table reports to data delivery contributed to the improved use of these data through data warehouses.

The second project of the new reporting requirement includes further activities to develop and improve reports by credit institutions related to capital adequacy, liquidity, interest rate risk in the non-trading book and currency risk. A major portion of the project was implemented in early 2010 with the entry into force of new regulations and completion of the test cycle of the reception of forms.

To provide adequate supervisory tools for systematic monitoring and analysis of risks to which credit institutions are exposed in their operations, a project to advance the methodology for assessing risks in credit institutions was launched in May 2009. The working group in charge of preparing a detailed methodology concerning market risk, liquidity risk, and the risk assessment of credit institutions, as well as designing, testing and advancing the statistical model for capital, assets and earnings indicators was also active in 2010.

The working group included experts for the area of statistical regressions of capital, assets and earnings indicators, design of a detailed methodology for asset quality and earnings, design of a methodology for publishing internal capital data and establishment of a methodology for IT risk management. As a result, the working group proposed information to be publicly disclosed. Indicators in the area of capital and asset quality that were selected in early 2010 have been additionally tested on new data from April 2010 to establish whether the model should be further developed.

HNB

Payment operations

HNB

4.1 Interbank payment systems

In 2010, interbank payment transactions were cleared through the Croatian Large Value Payment System (CLVPS) and the National Clearing System (NCS) according to the rules on settlement in the accounts of participants (the CNB, banks, savings banks and the CBRD) in interbank payment systems.

In 2010, interbank payment systems operated without any major deviations from the payment execution schedule and there were no serious situations that could in any way compromise the operational safety of interbank payment systems, the basic infrastructure of domestic payment operations. The accessibility of the CLVPS to payment system participants was as high as 99.99%, and minor difficulties in its use were due to technical and technological reasons or problems with the SWIFT telecommunication network.

Statistical indicators on domestic interbank payment operations point to a downward trend in the number of payment transactions carried out through the NCS and the CLVPS in 2010 relative to 2009 and an upward trend in their value.

4.1.1 Croatian Large Value Payment System

A total of 279,730 payment transactions were settled through the CLVPS in 2010, with the average transaction value standing at HRK 14.6m. The number of payment transactions settled through the CLVPS decreased by 3.9% relative to 2009 and the total value of the transactions increased by 33.7%. The largest value of payment transactions was recorded in March and the largest number in December.

The structure of exchanged payment messages shows that as many as 64.2% of total messages were payment messages (MT103) used by banks to execute client payments. Payment messages used by banks (MT202) and direct transfers accounted for 28.9% and 7.0% of the total respectively. Direct transfers are payment messages used by the central bank to carry out its legal obligations and manage payment systems, as well as to execute payments ordered by banks encountering technical and communication difficulties.

The concentration index shows that five banks account for 63% of the total number and for 48% of the total value of payment transactions executed through the CLVPS.

4.1.2 National Clearing System

A total of 131.5m payment transactions were executed through the NCS in 2010, with an average value of HRK 4,944. The number of payment transactions executed through the NCS increased by 0.5% relative to 2009, while their total value decreased by 6.5%. An analysis of the clearing of payment transactions relative to the NCS cycles will show that the largest value of payment transaction (51.0%) was cleared in the third cycle. In relation to the total number of payment transactions executed through the NCS, the same number of payment transactions (35%) was cleared in the prescribed duration of

Table 4.1 CLVPS – payment transactions executed in 2010

Month	CLVPS	
	Payment transaction number	Payment transaction value (in million HRK)
January	18,494	320,067
February	20,510	419,015
March	25,482	428,948
April	23,036	363,041
May	23,724	304,536
June	23,149	270,300
July	26,199	357,218
August	22,173	254,346
September	23,993	305,991
October	21,647	310,948
November	23,832	359,472
December	27,491	379,273
Total	279,730	4,073,154

Source: CNB.

Table 4.2 CLVPS – overview of payment transactions executed

	2009	2010
Payment transaction number	291,085	279,730
Payment transaction value (in million HRK)	3,046,065	4,073,154
Payment transaction average value (in million HRK)	10.5	14.6

Source: CNB.

Table 4.3 CLVPS – concentration index in 2010

	Payment transaction number	Payment transaction value (in million HRK)
5 banks[a]	175,426	1,964,439
Share (in %)	63	48
Total	279,730	4,073,154

[a] Banks accounting for the largest shares in terms of payment transaction number and value.
Source: CNB.

Table 4.4 NCS – payment transactions executed in 2010

Month	NCS	
	Payment transaction number	Payment transaction value (in million HRK)
January	9,409,922	44,747
February	9,893,757	48,890
March	11,650,014	55,405
April	10,903,563	53,655
May	11,143,221	52,639
June	10,820,891	51,891
July	11,699,884	58,360
August	10,774,491	55,137
September	11,205,303	56,202
October	10,981,319	53,693
November	11,240,366	54,636
December	11,799,445	64,941
Total	131,522,176	650,196

Source: FINA.

Table 4.5 NCS – overview of payment transactions executed

	2009	2010
Payment transaction number (in million)	131	132
Payment transaction value (in million HRK)	695,415	650,196
Payment transaction average value (in HRK)	5,315	4,944

Source: FINA.

Table 4.6 NCS – total value and number of payment transactions by clearing cycles in 2010

	I clearing cycle	II clearing cycle	III clearing cycle	Total
Payment transaction number	39,171,325	46,204,367	46,146,484	131,522,176
Share (in %)	30	35	35	100
Payment transaction value (in million HRK)	107,548	210,986	331,661	650,196
Share (in %)	17	32	51	100

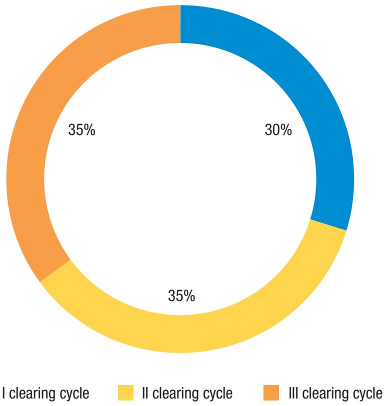
Note:
I clearing cycle – from 18.15 T_{-1} to 8.30 T_0 • II clearing cycle – from 8.30 T_0 to 12.30 T_0
III clearing cycle – from 12.30 T_0 to 18.15 T_0
Source: FINA.

Table 4.7 NCS – concentration index in 2010

	Payment transaction number	Payment transaction value (in million HRK)
5 banks[a]	92,857,075	403,834
Share (in %)	71	62
Total	131,522,176	650,196

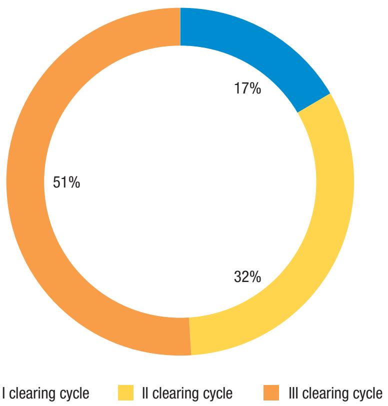
[a] Banks accounting for the largest shares in terms of payment transaction number and value.
Source: FINA.

4.1 NCS – number of payment transactions by clearing cycles in 2010



Source: FINA.

4.2 NCS – value of payment transactions by clearing cycles in 2010



Source: FINA.

the second and third clearing cycles. The largest number and value of payment transactions executed through the NCS were recorded in December.

The concentration index shows that five banks account for 71% of the total number and for 62% of the total value of payment transactions executed through the NCS.

4.2 Interbank/interinstitutional cooperation in the area of payment operations

In 2010, the National Payment System Committee (NPSC) held a thematic meeting at which the members (the representatives of the Croatian National Bank, Ministry of Finance, Croatian Chamber of Economy Banking Association and Croatian Bank Association) were informed of the readiness of FINA and credit institutions (banks, savings banks and credit unions) for the implementation of the Act on Execution of Cash Assets (as of 1 January 2011). Pursuant to the Act, all payment bases (writs of execution and debentures) are to be received by FINA, which is the operating manager of the overall system of forced collection of payments. Also discussed at the meeting was the model for the bill of exchange collection, as operations on the collection of bills of exchange have, since 1 January 2011, no longer been governed by payment system regulations.

The Council of NCS participants (consisting of the representatives of the CNB, banks and FINA) held one thematic meeting featuring an overview of NSC operations in 2010. Also presented at the meeting were a proposal for an amendment to the Work Schedule for Clearing through the NCS and a proposal for an amendment to NCS tariffs, the latter involving a reduction of the difference between transaction processing fees in the first and third cycles and those in the second cycle. There was also a proposal to introduce an additional discount on the number of transactions and provide for the possibility that tariffs for transaction processing could be declared separately from tariffs for the exchange of payment transactions. FINA representatives held presentations on the operation and second phase of the NCS Reengineering Project, which involves the improvements of technical standards (introducing SWIFTNet FileAct as an additional exchange channel, implementing IBAN, extending the payment purpose field and introducing SEPA payment instruments).

In accordance with the Decision on Economic Recovery and Development, issued by the Government of the Republic of Croatia on 14 January 2010, the CNB opened a special purpose transaction account – economic recovery and development account – to meet the needs of the Croatian Bank for Reconstruction and Development.

4.3 Payment statistics reports

In accordance with the Decision on the obligation to submit the report on payment statistics (OG 189/2004 and 127/2009), the CNB received payment statistics from reporting entities (banks, savings banks and credit card issuers) within the prescribed deadlines, processed them and made them publicly available.

Of the total number of business entities' accounts opened with banks, as many as 91.3% were accounts for regular operations, whereas only 8.7% were business entities' sub-accounts. Business entities and citizens held 5,722,351 bank accounts. Citizens had 5,275,091 accounts, which made up 92.2% of the total number of accounts opened with banks. Of this, 78.4% were current accounts, 19.7% giro accounts and 1.9% "other citizens' accounts".

As at 31 December 2009, there were more than 1281 bank operating units in the Republic of Croatia. Of the 3794 ATMs

Table 4.8 Number of transaction accounts
as at 31 December 2010

Business entities' accounts	447,260
Business entities' regular operating accounts	408,255
Business entities' sub-accounts	39,005
Citizens' accounts	5,275,091
Giro accounts	1,040,611
Current accounts	4,133,734
Other citizens' accounts[a]	100,746
Total	5,722,351

[a] Specific purpose citizens' accounts and accounts of non-residents – natural persons resident abroad.
Source: CNB.

Table 4.9 Number of bank operating units, ATMs and POS (EFTPOS) terminals
as at 31 December 2010

	Total
Operating units	1,281
ATMs	3,794
ATMs owned by banks	3,207
ATMs owned by other legal persons	587
POS (EFTPOS) terminals	92,690
POS (EFTPOS) owned by banks	59,949
POS (EFTPOS) owned by other legal persons	32,741

Source: CNB.

Table 4.10 Issued payment cards and payment transactions according to card types

Type	Valid general and business payment cards			
	Number of payment cards in circulation[a]	Share (in %)	Total transactions	
			Number	Value (in HRK)
Credit card	174,031	1.9%	2,372,128	797,729,045
Revolving card[b]	739,885	8.3%	28,956,605	7,281,019,518
Deferred debit card[c]	519,098	5.8%	27,585,404	10,931,384,728
Charge card[d]	557,381	6.2%	31,767,954	9,184,147,673
Debit card	6,846,034	76.4%	176,550,723	77,433,847,541
Prepaid card	119,534	1.3%	199,930	55,235,821
Other	4,892	0.1%	53,735	18,055,719
Total	8,960,855	100.0%	267,486,479	105,701,420,045

[a] As at 31 December 2010. [b] Revolving card – the card user may pay total expenses in full or gradually (in instalments) in line with the agreed model of payment. [c] Deferred debit card – total expenses are debited directly to the transaction account of the user in the bank following the receipt of the payment order issued by the card issuer. [d] Charge card (issued by non-banking institutions) – the card user pays total expenses in full, at the latest when total expenses made fall due.
Source: CNB.

in the country, 84.5% were owned by banks and the remaining 15.5% by other legal entities. Of the total of 92,690 POS (EFTPOS) terminals, 64.7% were owned by banks and the rest by other legal entities.

As at 31 December 2009, there were 8,960,855 payment cards in circulation in the Republic of Croatia, 95.3% of which were general payment cards (payment cards issued in the names of citizens) and 4.7% were business payment cards (payment cards issued in the names of business entities). As regards payment card types, debit cards accounted for the largest share in the total number of cards, 76.4%. Of the total number of cards, as many as 74.1% have a chip function (payment cards containing one or more chips for data storage, identification or special purpose processing).

4.4 Alignment of domestic payment system regulations with the *acquis communautaire*

The Electronic Money Act, enacted in November 2010 (OG 139/2010), came into effect on 1 January 2011, repealing the Act on Electronic Money Institutions (OG 117/2008 and 74/2009); the enactment of this act was part of the obligations assumed with a view to aligning the Croatian legislation with the acquis.

The Electronic Money Act is a result of the alignment of the Croatian legislation with the acquis, i.e. with Directive 2000/46/EC on the taking up, pursuit of and prudential supervision of the business of electronic money institutions. This Act regulates electronic money, issuers of electronic money, the issuance and redemption of electronic money, conditions for the establishment, operation and dissolution of electronic money institutions having their registered office in the Republic of Croatia, including electronic money institutions under exemption, and the prudential supervision of their operation, as well as conditions under which electronic money institutions having their registered office outside the Republic of Croatia may operate in the Republic of Croatia. The Electronic Money Act regulates electronic money issuers in the same manner as they are regulated in the members of the European Economic Area, especially with regard to provisions on prudential requirements, the possibility for electronic money institutions to, in addition to issuing electronic money, provide payment services defined by the Payment System Act (OG 133/2009), safeguarding of the funds of electronic money holders and regulating the issuance and redeemability of electronic money.

4.5 Adoption of subordinate regulations

On 24 November 2010, the CNB Council adopted a Decision amending the Decision on the work schedule for settlement/clearing through interbank payment systems (OG 133/2010). The Decision provides for a change in the transaction clearing time, primarily in the NCS, and then indirectly in the clearing of payment transactions through the CLVPS. The most important changes relate to the extension of the first and third NCS cycles. The extension of the third NCS cycle (from 15:00 to 16:00) also means the extension of the clearing day within the interbank payment system, which directly enables interbank payments of payment service users in the Republic of Croatia to be conducted within the same clearing day for one hour longer than previously prescribed.

While the Payment System Act (which came into effect on 1 January 2010) prescribes that subordinate regulations for its implementation are to be enacted within six months of its coming into effect, the CNB had already compiled the regulations in the first half of 2010. In order for the public to be notified of the draft proposals for these regulations in good time, they were posted on the CNB website (from 1 July to 1 November 2010) allowing for public discussion on the following regulations:

- the Decision concerning the operating procedures for the Croatian Large Value Payment System;
- the Decision on the National Clearing System;
- the Decision on the method of opening transaction accounts;
- the Decision on payment orders;
- the Decision on the register of payment institutions and registers of electronic money institutions;
- the Decision on payment institutions' own funds;
- the Decision on the safeguarding of funds of payment service users.

These subordinate regulations, with the exception of the regulations governing the operations of interbank payment systems, were enacted and came into force immediately following the start of the implementation of the new Payment System Act (OG 3/2011).

In addition, two subordinate regulations were compiled which were enacted pursuant to the Electronic Money Act:

- the Decision on payment institutions own funds;
- the Decision on the safeguarding of funds of electronic money holders

These subordinate regulations too were put forward for public discussion; they were enacted and came into force immediately following the start of the implementation of the Electronic Money Act in the first half of January 2011.

Currency department operations

HNB

5.1 Currency outside banks

As at 31 December 2010, currency outside banks amounted to HRK 15.2bn, which is a decrease of 0.6% from the end of 2009.

On 31 December 2010, there were 145.1m banknotes, worth HRK 14.3bn, in circulation, that is, outside the CNB vault and cash centres. In comparison with the end of 2009, the number of banknotes outside the CNB rose by 4.2%, while the total value of all banknotes outside the CNB vault and cash centres decreased by 0.7%.

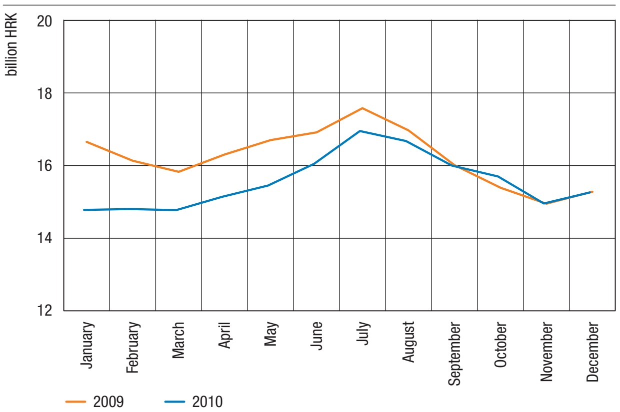
The total number of banknotes in circulation increased by 5.9m in 2010, which includes an increase in all denominations except 1,000 kuna banknotes, the number of which decreased by 0.3m. While the total value of banknotes in circulation dropped by HRK 0.1, the 5% increase in their number resulted from a decrease in the share of lower denominations (50, 20 and 10 kuna).

Of banknotes in circulation, 200 kuna banknotes, with a share of 29%, and 100 kuna banknotes, with a share of 19%, were the most numerous, accounting for HRK 10.8bn or 58.7% of the total value of banknotes in circulation in 2010. The large share of 200 and 100 kuna banknotes in total banknotes in circulation is attributed to their widespread use in ATM payments.

As at 31 December 2010, there were 1.64bn coins outside the CNB vault, worth a total of HRK 0.91bn. The number of coins outside the vault rose by 4.4% at the end of 2010 relative to 2009, while their total value increased by 4.6%. The number of coins in circulation rose by 78.7m in 2010.

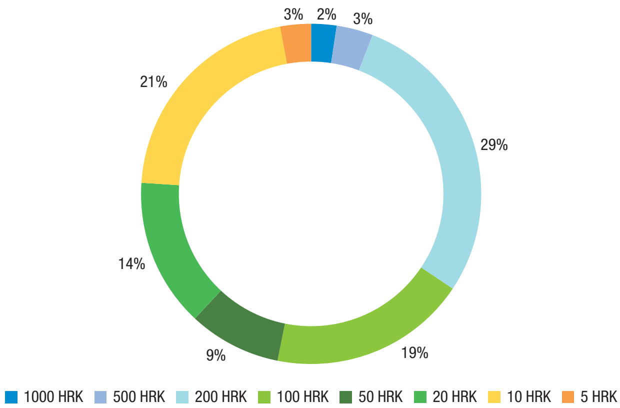
Of coins in circulation, the most numerous in 2010 were 10 lipa coins (392.0m pieces or 23.8% of the total number of coins in circulation). In terms of value, 5 kuna coins accounted

5.1 Currency outside banks
end of period



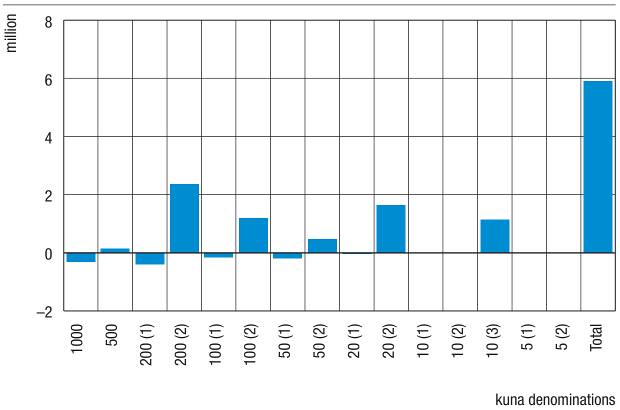
Source: CNB.

5.3 Structure of total volume of banknotes in circulation by denomination
end-2010



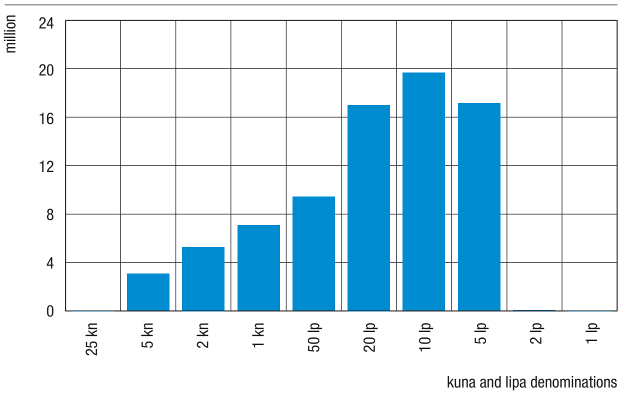
Source: CNB.

5.2 Change in the number of banknotes in circulation in 2010 as compared to 2009



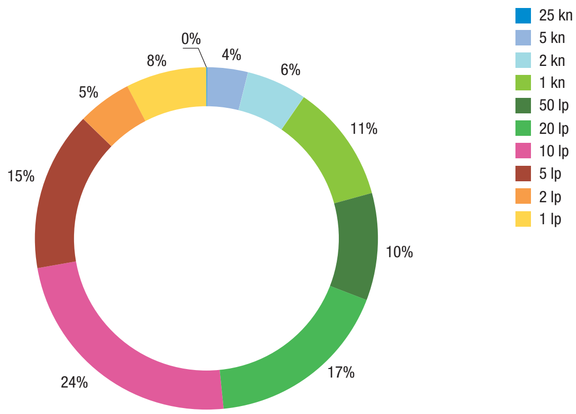
Note: 1, 2 and 3 in the brackets mark the series of issuance.
Source: CNB.

5.4 Change in the number of coins in circulation in 2010 as compared to 2009



Source: CNB.

5.5 Structure of total volume of coins in circulation by denomination
end-2010



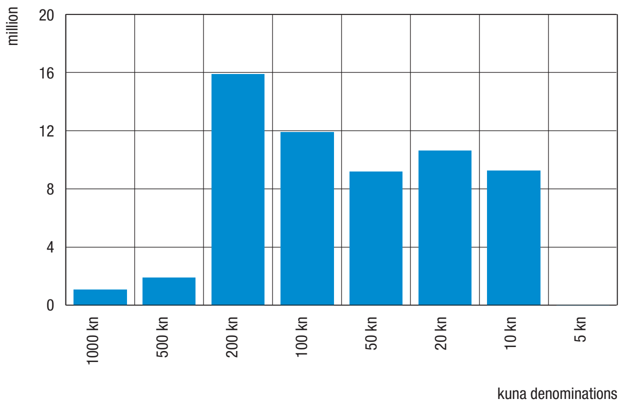
Source: CNB.

for the largest share, HRK 316.7m or 34.7% of the total value of coins in circulation.

5.2 Cash supply

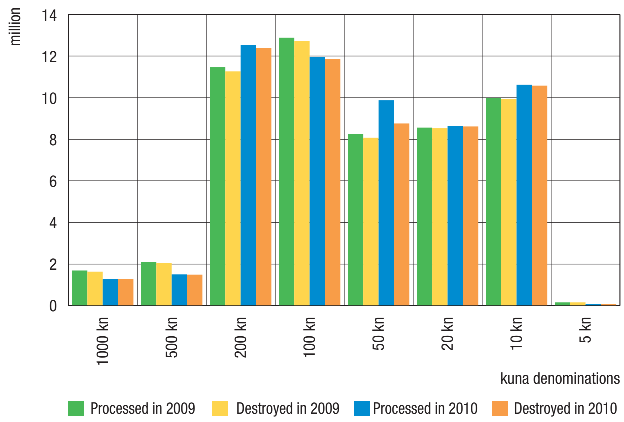
A total of HRK 7.1bn worth of kuna banknotes (59.9m pieces) and HRK 52.4m worth of coins (90.7m pieces) was issued from the CNB vault to cash centres in response to their orders in 2010 to meet the needs of banks for cash and to maintain adequate reserves in cash centres. The total value of issued banknotes increased by HRK 2.7bn (59.7%) from 2009, while the number increased by 6.6m or 12.3%. The total value and total number of issued coins grew by 4.6% and 11.8% respectively.

5.6 Banknotes issued to cash supply centres in 2010



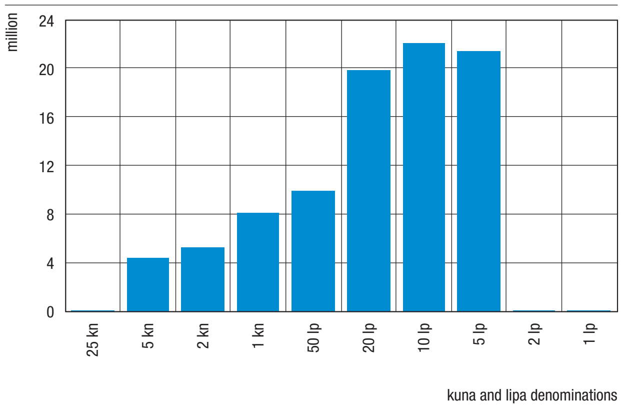
Source: CNB.

5.8 Processed and destroyed banknotes



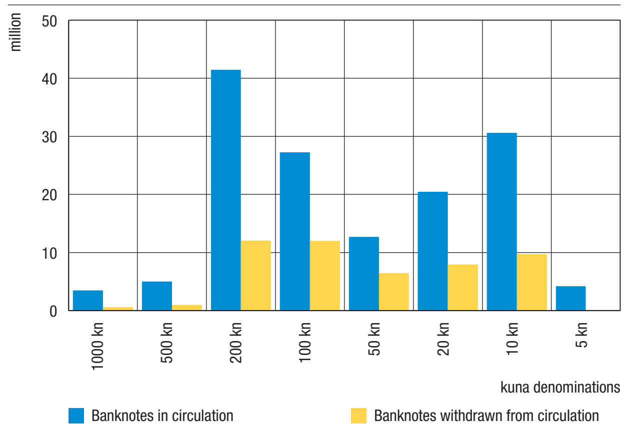
Source: CNB.

5.7 Coins issued to cash supply centres in 2010



Source: CNB.

5.9 Ratio of withdrawn banknotes and banknotes in circulation in 2010



Source: CNB.

5.3 Withdrawal and processing of worn-out banknotes

In 2010, the Currency Department withdrew 52.5m banknotes, worth a total of HRK 6.5bn, from cash centres. The banknote processing system processed a total of 56.4m banknotes (banknotes worth 3.9m of the total number processed had been withdrawn in 2009), of which 97.4% or 54.9m banknotes, worth HRK 6.3bn, were destroyed as failing to meet the quality standards set for circulation banknotes.

The renewal index (destroyed banknotes/banknotes in circulation × 100) was approximately 37% in 2010, with the number of banknotes in circulation and the number of destroyed banknotes totalling 145.1m and 54.9m respectively on 31 December 2010.

5.4 Banknote authentication

In 2010, the National Analysis Centre registered 681 counterfeit kuna banknotes, worth a total of HRK 274,960, in banknote authentication procedures. The number of registered counterfeit kuna banknotes increased by 14% from 2009. The relevant indicators show that 4 counterfeits were detected per 1 million banknotes in circulation in 2010.

Table 5.1 Registered counterfeit banknotes in 2010

	1000	500	200	100	50	20	10	5	Total
Number	188	82	176	61	47	104	23	0	681
Share (in %)	27.6	12.0	25.8	9.0	6.9	15.3	3.4	0.0	100.0

Source: CNB.

In 2010, 1,613 counterfeit foreign currency banknotes were registered in banknote authentication procedures. Of the total number of registered foreign counterfeit banknotes, the largest share (1,398 banknotes) was accounted for by counterfeit euro banknotes, the second largest share (130 banknotes) went to counterfeit US dollar banknotes, and the remaining 85 banknotes were counterfeits of the following currencies: the convertible mark, Canadian dollar, Swiss franc, German mark, pound sterling, Italian lira and Serbian dinar. Registered euro counterfeits increased by 57% in 2010 from 2009, whereas the number of counterfeit US dollar banknotes grew by 4%.

In the same period, the Coin National Analysis Centre registered 5 counterfeit 5 kuna coins and 594 counterfeit euro coins in coin authentication procedures. Of the counterfeit euro coins, 447 pieces were 2-euro coins (75%), 127 pieces were 1-euro coins (21%) and 20 pieces were 0.50-euro coins (4%). The number of registered counterfeit coins decreased by 6% in 2010 from 2009.

In 2010, the National Counterfeit Centre held 20 specialist one-day courses for employees of banks and institutions specialised for cash operations, as part of the National Programme of Training Courses on Banknote and Coin Authentication for Bank and Financial Institution Employees. These courses provided training to 275 employees of banks and financial institutions.

5.5 Commemorative coin issues

In 2010, the CNB issued 1,000 numismatic sets of kuna and lipa circulation coins, with the year of issue 2010.

In cooperation with the Croatian Monetary Institute, to which it contractually assigned the manufacture and sale, the CNB issued the following commemorative gold and silver coins:

- a 10 kuna gold coin “200th Anniversary of the Birth of Louis Braille”, 5,000 pieces,
- a 150 kuna silver coin “2010 FIFA World Cup South Africa”, 7,500 pieces,
- a 20 kuna gold coin “King Tomislav”, 5,000 pieces,
- a 150 kuna silver coin “100th Anniversary of Aviation in Croatia”, 5,000 pieces.

HNB

Publicness

As a government institution whose activities have a significant impact on domestic macroeconomic stability and the perception of Croatia in the world, the Croatian National Bank continued to devote a great deal of attention to the clarification of its goals, measures and achieved effects to the domestic and international public.

These objectives were addressed by interviews and media statements of CNB officials, their appearances at conferences in the country and abroad, including at the Dubrovnik Economic Conference organised under CNB auspices, as well as by publications, prepared with the participation of all the central bank's organisational units, intended to provide information to the public, which are also available, in Croatian and English, at the CNB website www.hnb.hr.

In 2010, the central bank's communication with the public to a large extent involved replies to inquiries from domestic and foreign journalists, pupils, students, entrepreneurs, employees of various companies, embassies, and others. Efforts were made to provide as prompt and complete responses as possible to all inquiries relating to the fields of competence of the central bank, irrespective of whether the inquirers invoked the legal right of access to information related to the area of activity of public authorities. The Public Relations Office answered about 3,000 inquiries, including a large number of specific inquiries from banks and other financial institutions to which the requested explanations and other information were provided by central bank departments. It is evident that the members of the public are increasingly well informed about the fields of competence of the central bank and that they more and more use electronic communications; the number of e-mail inquiries has doubled in the last five years (up from 822 in 2005 to 1,645 in 2010, excluding journalists' inquiries), while the number of inquiries sent by fax and post has decreased.

Due to a growing number of users of banking services requiring explanations or complaining about the actions of some banks, the central bank established a separate consumer protection department in 2010.

As in previous years, central bank actions were also communicated to the public through press releases at CNB Council sessions and other major CNB events, informal meetings with media representatives and presentations of monetary policy tasks and instruments organised for groups of students and pupils. Some international institutions used the streamlined communication channels of the central bank to present their regional analyses and projections to the Croatian public.

HNB

International relations

HNB

7.1 CNB activities connected with the relations between the Republic of Croatia and the European Union

In 2010, further progress was achieved in accession negotiations between the Republic of Croatia and the European Union. All chapters in the negotiations of which the CNB participated as competent or co-competent authority, such as Free movement of capital, Financial services, Economic and monetary policy and Financial control were provisionally closed.

The chapter Economic and monetary policy was provisionally closed as long ago as December 2008. However, the authorities still had to amend Article 53 of the Constitution of the Republic of Croatia and thus confirm that the legislative framework set by the new July 2008 Act on the Croatian National Bank ensures full central bank independence. The relevant article was amended in June 2010 in the context of constitutional changes.

Although the chapter Financial services had been provisionally closed in November 2009, the CNB continued to regularly monitor changes in the EU *acquis communautaire* and align its regulations accordingly. The CNB also regularly organises seminars and workshops on new developments in the *acquis communautaire* in this area for entities subject to supervision and for CNB employees.

The benchmarks that were to be met to close the chapter Free movement of capital involved the completion of legislative alignment in the area of capital movements and payments, acquisition of real property by EU member state citizens and the prevention of money laundering. When these benchmarks were met the way was paved for the provisional closing of this chapter at the Intergovernmental Accession Conference on 5 November 2010. Due to the global financial crisis and the possible negative effects on financial and exchange rate stability, full liberalisation of resident deposit transactions abroad had been postponed and full capital account liberalisation took place on 1 January 2011. A seven-year transitional period was negotiated in this area, with the possibility of an additional three year extension, during which period Croatia can retain, even after EU accession, the existing restrictions on the acquisition of ownership of agricultural land for legal and natural persons from the EU and the European Economic Area.

In the context of the chapter Financial control that was provisionally closed at the Intergovernmental Accession Conference on 27 July 2010, one of the five benchmarks that had to be met for provisional closing of this chapter was the establishment and work of a national counterfeit centre and a banknote and coin analysis centre. The national centres have been operational since March 2009 and the preparations were underway in 2010 for the implementation of an IPA project "Development of an effective system for the fight against counterfeiting of banknotes and coins in Croatia".

In 2010, CNB experts participated in the drafting of the seventh Pre-accession Economic Programme 2011-2013 and in the drafting of the 2011 Annual action plan for the transposition and implementation of the *acquis communautaire*. CNB representatives also participated in the work of bodies set up pursuant to the Stabilisation and Association Agreement and in the preparation of materials for these bodies, such as the Subcommittee on Economic and Financial Matters and Statistics and the Subcommittee on the Internal Market and Market Competition. CNB experts also prepared relevant materials for the meetings of the Stabilisation and Association Council and the Stabilisation and Association Committee.

Further progress in accession negotiations was also confirmed by the European Commission Progress Report on the RC 2010, issued in November 2010. It was estimated that the short-term macroeconomic policy response was in general adequate for addressing the domestic consequences of the global economic and financial crisis. Given the constraints arising from a high-level of euroisation, monetary policy had succeeded in maintaining the stability of the exchange rate and financial stability, while at the same time easing pressures on liquidity. Key vulnerabilities that continue to affect the Croatian economy are the high and rising level of external debt and the relatively high exposure of the non-tradable sector to currency risks. As regards the chapters that fall within the competence of the CNB, the Report states that further progress has been achieved in the field of free movement of capital, most notably in the area of payment system alignment with the *acquis communautaire*, capital account liberalisation and the fight against money laundering. However, the Report stresses that ongoing efforts are needed to complete capital movements liberalisation and consolidate the implementation of anti-money laundering legislation. Significant progress has been achieved in the chapter on Financial services, both in terms of legislative alignment and administrative capacity strengthening. However, the Report stresses the need for further capacity strengthening of the regulators so as to enhance their supervisory activities and consultations and cooperation with service providers on the financial markets. As regards the chapter on Economic and monetary policy, the Report underlines the amendments to the Constitution that have been made and the fact that alignment with the *acquis communautaire* in this area has been completed, but notes that improvements are needed in policy coordination. Finally, in the chapter on Financial control, the Report stresses that the transposition of the new EU legislation into the national legislation has made headway in the area of the protection of the euro against counterfeiting.

With a view to exchanging experience, the CNB continued contacts with the representatives of EU member states' central banks, the European Central Bank and other EU institutions in 2010. Particularly noteworthy were a regular annual pre-accession dialogue with representatives of the Executive Board of the European Central Bank and the fifth annual dialogue with representatives of the Austrian National Bank.

In the context of a broader 2009 Crisis Response Programme, a programme of EU technical assistance was drafted in the area of macroprudential and microprudential supervision in eight EU membership candidate and potential candidate countries. The programme aims at strengthening the resilience of the financial systems in these countries over the medium term by aligning the system of supervision with the newly adopted international and EU standards. One of the seminars, held in the context of this programme, on microprudential supervision, was held in May 2010 in Zagreb. Lecturers and experts giving lectures at this seminar included both foreign and CNB professionals.

In 2010, a CNB representative also participated in meetings of the working group of experts for the compilation of a financial sector stability report in candidate countries in the context of ECB International Relations Committee. The report was issued in June 2010.

Pending completion of Croatia's EU accession negotiations, experts of the European Central Bank responsible for the area of legal and translation affairs paid a visit to Croatia in April 2010. The purpose of their visit was to acquaint themselves with relevant expert services of the CNB, to present their work and agree future cooperation. A meeting was also held in Frankfurt in July 2010, where changes in the CNB's information system necessary for its compliance with the needs of the European system of central banks were discussed.

As regards major economic and financial developments in the EU throughout 2010, the year was generally marked by economic recovery in most member states as well as by the public finance crisis in some eurozone countries. The crisis reached its peak in May 2010, as Greece was forced to apply for financial assistance from the EU and the IMF. Soon afterwards, at a meeting of EU finance ministers, it was decided that a temporary European Financial Stabilisation Mechanism, totalling EUR 60bn and intended for all EU countries and a temporary European Financial Stability Facility, totalling EUR 440bn, intended only for eurozone states, were to be set up. Towards the end of November 2010, Ireland also agreed a financial package with the IMF and the EU. At its meeting in December, the European Council decided to set up the European Stability Mechanism to replace the European Financial Stability Facility from mid-2013. This mechanism envisages private sector participation in future bailouts of failing eurozone countries.

The economic and financial crisis prompted the need for economic policy and economic management coordination strengthening within the EU; in that context proposals were brought forward in September 2010 to reform the system of supervision of public finances and macroeconomic imbalances.

The crisis also revealed weaknesses and limitations in the financial control in the EU. As a result, it was confirmed in September 2010 that three new supervisory bodies (one each for the banking, securities and insurance and occupational pensions sectors) as well as the European Systemic Risk Board to be in charge of the supervision of the entire financial sector and of risk assessment were to be set up. These bodies became operational in January 2011. Also worth noting is that the European Council issued a decision in July 2010 on the introduction of the euro in Estonia as of 1 January 2011.

7.2 International Monetary Fund (IMF)

The Republic of Croatia's quota in the IMF (SDR 365.1m) and its voting rights (0.18% of the total voting rights) remained unchanged in 2010. The Republic of Croatia continued to exercise its interests within the IMF through the Dutch constituency, which in addition to Croatia includes another 12 countries (Armenia, Bosnia and Herzegovina, Bulgaria, Cyprus, Georgia, Israel, Macedonia, Moldova, Montenegro, the Netherlands, Romania and Ukraine). The voting power of the Constituency is 4.8% of the total votes in the IMF, which makes it the seventh strongest out of the total 24 constituencies. The Constituency is headed by Age F. P. Bakker, the Dutch representative, who acts as Executive Director of the Constituency.

The regular annual Article IV consultations with the Republic of Croatia were concluded on 21 June 2010. Based on the report of the IMF Mission that visited the RC towards the end of April and in early May 2010, the IMF Executive Board commended Croatian authorities for skilfully navigating the economy through the global financial crisis, as their swift intervention had helped preserve financial stability, contain the fiscal deficit and maintain investor confidence and access to international markets. It was noted that the incipient recovery was faced with considerable downside risks given the uncertain global outlook and significant domestic economic vulnerabilities. To increase competitiveness and attract investment to bring about stronger and more balanced growth, the authorities needed to ensure well-focused medium-term fiscal consolidation, in particular cuts on the expenditure side and ambitious structural reforms. Support was given to containment of rising contingent fiscal liabilities through the adoption of the Fiscal Responsibility Act. Structural reforms, it was observed, should aim at removing inefficiencies in the labour market and business environment and the need for greater flexibility in employment policies and social benefits, further privatisation, reduced para-fiscal fees and simplified business entry requirements were underlined. The IMF directors welcomed the inclusion of these measures in the Economic Recovery Programme, and noted that its speedy and full implementation would be instrumental in strengthening market confidence and assisting Croatia in entering the EU from a position of strength. The maintenance of a broadly stable exchange rate would provide an appropriate anchor, given market volatility and high financial euroisation. Continued vigilant monetary and financial sector policies were called for, as banks remain vulnerable to credit and liquidity risks.

IMF experts again visited Zagreb in November 2010 to update their projections. In their closing statement, IMF experts concluded that recovery had been delayed longer than previously expected and that full implementation of structural reforms outlined in the Economic Recovery Programme was needed. They noted that low competitiveness and a high structural budget deficit might lead to a protracted period of slow growth and rising debt and that downside risks to the economic outlook were significant, mainly due to the large external financing requirement, delayed fiscal consolidation and slow recovery in domestic demand. The banking sector was found to be stable, although the quality of bank assets continued to deteriorate. Given the stable exchange rate policy, which reflects high euroisation and foreign debt levels, IMF experts found that the required improvement in competitiveness needed to be achieved through other policies, most notably fiscal policy. However, since the fiscal position had deteriorated in 2010, it would be essential to adopt and implement appropriate fiscal measures to make expenditure cuts and generate savings. The required structural reforms included reforms in the labour market, public administration, the pension system, health care and privatisation.

The cooperation and exchange of opinions with IMF experts continued in 2010, the main occasion being the visit of the CNB delegation to the IMF during the spring and autumn meetings of the International Monetary and Financial Committee and the Annual Meeting of the IMF Board of Governors in Washington in October. Furthermore, at the Constituency meetings, CNB representatives had the opportunity to learn more about current activities of the IMF.

To strengthen the effectiveness, credibility and legitimacy of the central global financial institution, in 2010 the IMF continued with its modernisation efforts in many areas, in particular the reform of the quota and governance systems. Accordingly, in December 2010, the Board of Governors of the International Monetary Fund (IMF) issued a Resolution on the 14th General Review of Quotas and associated reforms of the IMF Executive Board. Croatia was represented by the vote cast by CNB Governor who acted upon a conclusion previously adopted by the Government of the Republic of Croatia. The Resolution proposes the doubling of the total IMF quota to approximately SDR 476.8bn, the largest increase in IMF quota in the history of that institution. To align IMF member countries' quotas with their actual position in the global economy, the proposed changes involve a shift of more than 6 percent of total quota shares to dynamic emerging market and developing countries and a shift of more than 6 percent of quota shares from over-represented to under-represented member countries, while at the same time preserving the voting power of the poorest member countries. It was agreed that further work should be done on the overall quota revision and that the 15th General Review of Quotas should be commenced as soon as possible. Another essential part of this Resolution concerns a proposal for amendments to IMF Articles of Agreement as regards the reform of the IMF Executive Board, cancelling the category of appointed Executive Directors and replacing it with the rule of election for all Executive Directors. Although the number of Executive Directors prescribed by the Articles of Agreement should remain the same, 20, it was agreed under this Resolution that, after the said amendments to the Articles of Agreement and an increase in the quota enter into force, the Board of Governors should take care that the Fund's membership maintains an Executive Board consisting of 24 Executive Directors, reducing the number of Executive Directors representing advanced European countries by two in favour of representatives of emerging market economies and developing countries. Executive Directors elected by 7 or more members should be entitled to designate two alternate Executive Directors. The adoption of the Resolution was preceded by a preliminary agreement of G-20 countries' ministers and central bank governors on the basic elements of reform, while the member countries are expected to accept Resolution proposals no later than the Annual Meetings in 2012. Following the entry into force of the proposed changes, ten member states holding the majority of the total voting power will be the USA, Japan, China, Germany, France, United Kingdom, Italy, Russia and Brazil.

It should be noted that member states' quota and voting power reform started back in 2006 in order to achieve alignment with the actual positions of member states in the world economy: the first round of reforms in 2006 included an *ad hoc* increase in the quotas of four member states whose quotas at the time were much below their actual position in the global economy, while the second round of reforms, which took place in 2008, involved a range of changes, including, in particular an *ad hoc* increase in the quotas of 54 member countries of SDR 20.8bn and amendments to the IMF Articles of Agreement on the increase in the number of votes and representation in the IMF, which entered into force on 3 March 2011.

The proposed doubling of the total IMF quota in the context of the 14th General Review of Quotas implies an increase in Croatia's quota in the IMF from SDR 365.1m to SDR 717.4m, which is an increase of SDR 352.3m. If accepted, the proposed increase would mean a reduction in Croatia's present voting power from 0.174% to 0.172% and a reduction in the share in the total quota from the present 0.153% to 0.150%.[1]

In the context of the broadening of its activities, several years ago the IMF started preparing economic analyses and projections for individual regions and presenting them in the relevant countries. The last presentation of this type in the Republic of Croatia was held at the premises of the CNB in May 2010 at which, among the matters discussed, there was also the issue of publication related to the challenges arising from capital flows management in emerging market European economies.

The Republic of Croatia continued to use the IMF's technical assistance in 2010. In this regard, note should be taken of the technical assistance provided to CNB experts in the area of macroeconomic modelling and forecasting.

As the fiscal agent of the RC and a depository of the International Monetary Fund, the CNB is responsible for keeping deposit accounts of the IMF and, in the name and for the account of the Republic of Croatia, for regular servicing of obligations arising from the allocation of special drawing rights.

1 Initial shares as defined in the amendments to IMF Articles of Agreement adopted in 2008.

7.3 Bank for International Settlements (BIS)

At its Annual General Meeting, held on 28 June 2010, the BIS adopted its Annual Report.

The regular meetings of central bank governors from BIS member countries at which topical issues in the area of international banking and finance are discussed continue to provide a strong incentive to central bank cooperation in these areas. Committees and expert bodies operating within the BIS, which include CNB representatives, are also important in the context of promoting this cooperation.

A separate and important form of cooperation between the CNB and BIS was achieved in the area of international reserves management.

7.4 Cooperation with other international financial institutions

The bulk of CNB's cooperation with other international financial institutions entails its cooperation with development banks of which the Republic of Croatia is a member: the World Bank Group, the European Bank for Reconstruction and Development and the Inter-American Development Bank. RC membership in these banks is regulated by special acts, pursuant to which the Ministry of Finance of the RC is the authority responsible for cooperation with these institutions and is authorised to perform all operations and transactions in the name of RC that are permissible under these institutions' articles of association. The CNB is the depository, i.e. it keeps all deposit accounts owned by these international financial institutions, in their name and for their account, and performs financial transactions with these organisations as the payment agent of the Republic of Croatia. It is also responsible for the execution of withdrawals and repayments of funds based on structural loans granted by the IBRD to the Republic of Croatia.

In addition to carrying out these legally prescribed tasks, in 2010 CNB representatives exchanged views at meetings with World Bank and EBRD representatives on the macroeconomic situation in Croatia and the planned strategy of these development banks for the Republic of Croatia in the forthcoming period. The EBRD 19th Annual Meeting and Business Forum held in May 2010 in Zagreb and the Joint Institute of International Finance and EBRD Conference on Financial Systems in Emerging Europe also held in Zagreb in that year provided additional contributions to this exchange of views in 2010.

7.5 Foreign exchange system and foreign exchange policy measures of the Republic of Croatia

The legal basis for the foreign exchange system in the Republic of Croatia is provided by the Foreign Exchange Act.[2] Subordinate legislation provides measures for the implementation of the foreign exchange policy. These measures determine the level of restrictions on the movement of capital between residents and non-residents and the terms and manner of using foreign means of payment and kuna in transactions between residents and between residents and non-residents.

7.5.1 Free movement of capital

Under the Stabilisation and Association Agreement, which entered into force on 1 February 2005, the Republic of Croatia has undertaken to abolish restrictions on payments and transfers of funds associated with current transactions and gradually to abolish restrictions on capital transactions.

The Act on Amendments to the Foreign Exchange Act,[3] which came into effect in December 2006, provided for the abolishment of the remaining restrictions on capital transactions as of 1 January 2009. However, this was successively postponed to protect the Republic of Croatia from undesired effects of capital outflows under the conditions of global financial and economic crisis.

This postponement, and the successive liberalisation of the remaining restrictions on payments and transfers of funds between residents and non-residents, were regulated by three Government regulations on amendments to the Foreign Exchange Act,[4] two of which were adopted in 2009. The regulation of December 2009[5] lifted restrictions on transfers of funds related to gifts and grants abroad, payments and collections in foreign cash and checks between residents and non-residents, taking foreign cash, checks and materialised securities in

2 OG 96/2003, 140/2005, 132/2006, 150/2008, 92/2009, 153/2009 and 145/2010.
3 OG 132/2006.
4 OG 150/2008, 92/2009 and 153/2009.
5 OG 153/2009.

and out of the country, and participation of residents in foreign exchange markets abroad. Also, the same Regulation repealed as of 1 July 2010 the provision preventing residents from granting non-residents short-term loans with a repayment term of less than three months.

During 2010, residents were only exceptionally and with the approval of the CNB allowed to open accounts abroad and transfer funds to such accounts abroad. This restriction was lifted on 1 January 2011, based on a provision of the Act on Amendments to the Foreign Exchange Act.[6]

In 2010, 333 approvals were granted for opening accounts abroad and for keeping funds in these accounts abroad, with the total balance in these accounts as at 31 December 2010 standing at EUR 28.3m.

7.5.2 Authorised exchange offices

Pursuant to the Foreign Exchange Act, the CNB issues authorisations to conduct exchange transactions to legal persons and crafts and trades (authorised exchange offices). A total of 85 authorisations were issued in 2010 while eight were withdrawn, so that the number of valid authorisations towards the end of 2010 stood at 1354.

As concerns their legal form, 62% of authorised exchange offices are limited liability companies, 27% are crafts and trades, 9% are joint stock companies and 2% are other legal persons.

Authorised exchange offices have to use protected computer programs certified by the CNB. The use of such programs was introduced for the purpose of strengthening fiscal and financial discipline and is directly related to the pursuit of anti-money laundering policy. Five certificates were issued in 2010.

According to the data on the turnover of authorised exchange offices received and processed by the CNB, authorised exchange offices' turnover in transactions with natural persons totalled around HRK 28bn in 2010. Of that amount, HRK 19.6bn went to the purchase of foreign cash and checks denominated in foreign currency and HRK 8,4bn went to the sale of foreign cash. Most authorised exchange offices' transactions (91%) were in euro.

7.5.3 Activities related to anti-money laundering and terrorist financing

March 2007 saw the establishment of a Croatian National Bank Committee for the Prevention of Money Laundering and Terrorist Financing, whose main task is to cooperate with other competent government bodies for the purpose of monitoring and implementing the *acquis communautaire* in this field. Two working groups were established to achieve this goal: an inter-institutional working group for the prevention of money laundering and terrorist financing and an inter-departmental working group for the suppression of terrorism, which includes a CNB representative.

One of the Committee's tasks in 2010 was to prepare a report on the RC for MONEYVAL and its presentation at the 34th plenary meeting of MONEYVAL held in December in Strasbourg.

The Committee continued to cooperate with the Office for Money Laundering Prevention on various issues ranging from giving opinions on credit institutions regarding the interpretation of the Act on the Prevention of Money Laundering and Terrorist Financing, CNB Guidelines, supplying the data necessary for completing EU negotiations in Chapter 4 Free movement of capital to the drafting of reports on the measures and activities taken for the implementation of the Action plan in the fight against money laundering and terrorist financing which fall within the sphere of competence of the CNB.

In 2010, the CNB provided training for the reporting entities supervised by the CNB at seminars and through a special section on the CNB's web site.

6 OG 145/2010.

HNB

Financial statements of the Croatian National Bank

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Independent Auditor's Report

To the Governor and the Council of the Croatian National Bank:

We have audited the accompanying financial statements of the Croatian National Bank ("the Bank") which comprise the Statement of Financial Position as at 31 December 2010, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and explanatory notes to the financial statements.

Responsibility for the Financial Statements

The Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting legislation in the Republic of Croatia and the Croatian National Bank Act. This responsibility includes: designing, carrying out and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an independent opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2010 and of its financial performance and its cash flows for the year then ended in accordance with statutory accounting requirements in the Republic of Croatia and the Croatian National Bank Act.

Branislav Vrtačnik

Certified Auditor and member of the Board
Deloitte d.o.o.
Radnička cesta 80

Zagreb, Republic of Croatia
22 February 2011

Deloitte

Deloitte Audit s. r. o.
Nile House
Karolinská 654/2
Prague, Czech Republic
22 February 2011

Income statement

(All amounts are expressed in thousands of kunas)

	Notes	2010	2009
Interest and similar income	3	454,593	793,483
Interest and similar expense	4	(215,569)	(209,053)
Net interest income		**239,024**	584,430
Fee and commission income		5,455	5,433
Fee and commission expenses		(5,595)	(5,274)
Net fee and commission income / (expense)		**(140)**	159
Dividend income		14,283	5,170
Net investment result – equity method		713	136
Net securities trading result	5	225,096	261,531
Net effect on revaluation of precious metals	5	3,536	1,204
		228,632	262,735
Net exchange differences	6	1,861,595	(15,542)
Other income	7	10,255	5,018
Operating income		**2,354,362**	**842,106**
Operating expenses	8	(341,363)	(330,447)
Decrease/(increase) in provisions	9	(1,431)	41,568
Net income		**2,011,568**	**553,227**
– Allocated to general reserves		(2,011,568)	(234,853)
– Allocated to the State Budget		–	(318,374)

Statement of comprehensive income

(All amounts are expressed in thousands of kunas)

	Notes	2010	2009
1 Net income		**2,011,568**	**553,227**
2 Other comprehensive income:			
2.1 Changes in the reserve on revaluation of fixed assets (IAS 16)		30,470	–
2.2 Gains or losses on remeasurement of financial assets available for sale (IAS 39)		3,464	187
Other comprehensive income, net		**33,934**	**187**
3 Total comprehensive income (1 + 2)		**2,045,502**	**553,414**

Statement of financial position

(All amounts are expressed in thousands of kunas)

	Notes	31 December 2010	31 December 2009
Assets			
Cash and current accounts with other banks	10	1,484,132	1,764,619
Deposits with other banks	11	22,709,757	17,544,652
Trading securities	12	51,906,505	54,084,538
Loans	13	95	103
Balances with the International Monetary Fund	14	5,765,326	5,335,647
Equity investments	15	61,940	57,764
Accrued interest and other assets	16	200,426	180,608
Tangible and intangible assets	17	618,061	590,554
TOTAL ASSETS		**82,746,242**	**79,558,485**
Liabilities			
Banknotes and coins in circulation	18	19,311,462	18,941,723
Due to banks and other financial institutions	19	41,735,214	42,265,598
Due to the State and State institutions	20	4,255,422	4,205,200
Due to the International Monetary Fund	21	5,759,299	5,330,233
Accrued interest and other liabilities	22	1,292,850	469,238
Total liabilities		**72,354,247**	**71,211,992**
Equity			
Initial capital	23	2,500,000	2,500,000
Reserves	23	7,891,995	5,846,493
Total equity		**10,391,995**	**8,346,493**
TOTAL EQUITY AND LIABILITIES		82,746,242	79,558,485

The financial statements set out on pages 118 to 144 were approved on 22 February 2011 by:

Statement of changes in equity

(All amounts are expressed in thousands of kunas)

	Initial equity	General reserves	Revaluation reserves	Unrealised profit/ loss (exchange differences on own securities)	Operating surplus/(deficit)	Total equity
Balance at 1 January 2009	2,500,000	5,250,086	364,851	(3,484)	–	8,111,453
Net profit	–	–	–	–	553,227	553,227
Profit transferred to general reserves	–	234,853	–	–	(234,853)	–
Profit allocated to the State Budget	–	–	–	–	(318,374)	(318,374)
Exchange differences on financial assets available for sale	–	–	–	187	–	187
Amortisation of fixed assets at revalued amounts	–	6,253	(6,253)	–	–	–
Balance at 31 December 2009/1 January 2010	2,500,000	5,491,192	358,598	(3,297)	–	8,346,493
Net profit	–	–	–	–	2,011,568	2,011,568
Profit transferred to general reserves	–	2,011,568	–	–	(2,011,568)	–
Exchange differences on financial assets available for sale	–	–	–	3,464	–	3,464
Revaluation of fixed assets	–	–	30,470	–	–	30,470
Amortisation of fixed assets at revalued amounts	–	5,002	(5,002)	–	–	–
Balance at 31 December 2010	2,500,000	7,507,762	384,066	167	–	10,391,995

Statement of cash flows

(All amounts are expressed in thousands of kunas)

	2010	2009
Cash flows from operating activities		
Interest received	557,535	882,376
Interest paid	(220,833)	(211,984)
Fees and commissions received	5,379	5,411
Fees and commissions paid	(5,635)	(4,950)
Dividends received	14,283	5,170
Other receipts	23,760	8,545
Expenses paid	(271,985)	(282,888)
	102,504	**401,680**
Changes in operating assets and liabilities		
Decrease/(increase) in deposits with other banks	(4,231,914)	(4,541,353)
Decrease/(increase) in loans	8	59,812
Sale/(purchases) of trading securities	3,889,292	(1,484,748)
Decrease/(increase) in other assets	(51,419)	2,764
Increase/(decrease) in other liabilities	148	11,468
Increase/(decrease) in amounts due to IMF	(23)	2,423,894
Increase/(decrease) of currency in circulation	369,739	(1,537,551)
Increase/(decrease) in amounts due to banks and other financial institutions	(1,252,156)	5,314,045
Increase/(decrease) in amounts due to the State	1,254,412	3,849,261
	(21,913)	**4,097,592**
Net cash from operating activities	**80,591**	**4,499,272**
Cash flow from investing activities		
Purchases of property and equipment	(34,617)	(53,546)
Net cash from investing activities	**(34,617)**	**(53,546)**
Cash flow from financing activities		
Net issuance of CNB bills	–	(460,604)
Payments to the State Budget	(318,755)	(1,342,652)
Net cash from financing activities	**(318,755)**	**(1,803,256)**
Exchange rate effect – positive/(negative) exchange differences	**204,054**	**66,030**
Net increase/(decrease) in cash	**(68,727)**	**2,708,500**
Cash at beginning of year	**4,187,343**	**1,478,843**
Cash at end of year (Note 25)	**4,118,616**	**4,187,343**

The notes on pages 122 to 144 form an integral part of these financial statements.

Notes to the financial statements for the year ended 31 December 2010

Note 1 – General information and accounting standards

1.1 General information

The Croatian National Bank is the central bank of the Republic of Croatia with headquarters in Zagreb, Trg hrvatskih velikana 3. Its status has been defined by the Act on the Croatian National Bank. The Croatian National Bank is owned by the Republic of Croatia, which guarantees for all its obligations. The Croatian National Bank is autonomous and independent in fulfilling its objectives.

The primary objective of the Croatian National Bank is maintaining price stability. The Croatian National Bank supports the economic policy of the Republic of Croatia and, without compromising the achievement of its objective, acts in accordance with the principles of open market economy and free competition.

The Croatian National Bank reports to the Croatian Parliament on the financial condition, degree of price stability and fulfilment of monetary policy goals, and is represented by the Governor of the Croatian National Bank.

The tasks performed by the Croatian National Bank as provided by the Constitution and the Act include:

- Determining and implementing monetary and foreign exchange policies;
- Maintaining and managing international reserves of the Republic of Croatia;
- Issuing banknotes and coins;
- Issuing and withdrawing authorisations, approvals and licences in accordance with laws regulating credit institutions, credit unions, payment institutions and payment transaction settlement systems, and foreign currency operations and operations of authorised foreign exchange operators;
- Performing supervision and oversight in accordance with laws regulating the operations of credit institutions, credit unions, payment institutions and payment transaction settlement systems;
- Maintaining accounts of credit institutions and performing payment transactions on those accounts, issuing loans to, and receiving deposit funds from credit institutions;
- Regulating and improving the payment system;
- Performing tasks on behalf of the Republic of Croatia as defined by law;
- Promulgating regulations from its area of competence; and
- Performing other tasks specified by law.

Bodies of the Croatian National Bank are the Council of the Croatian National Bank and the Governor of the Croatian National Bank.

The Council of the Croatian National Bank comprises the Governor, Deputy Governor and Vice Governors of the Croatian National Bank by virtue of their office and eight external members.

The Council of the Croatian National Bank is competent and responsible for the achievement of the objective and for the carrying out of the tasks of the Croatian National Bank and defines policies with respect to the activities of the Croatian National Bank.

Members of the Council of the Croatian National Bank:

- Dr. Sc. Željko Rohatinski, Governor
- Prof. Boris Vujčić, Dr. Sc., Deputy Governor
- Davor Holjevac, Vice Governor
- Relja Martić, Vice Governor
- Mr. Sc. Tomislav Presečan, Vice Governor
- Mr. Sc. Adolf Matejka, Vice Governor

- Prof. Boris Cota, D.Sc.
- Prof. Vlado Leko
- Dr. Sc. Branimir Lokin
- Dr. Sc. Željko Lovrinčević
- Prof. Silvije Orsag
- Prof. Jure Šimović
- Dr. Sc. Sandra Švaljek
- Prof. Mladen Vedriš, Dr. Sc.

1.2 Accounting standards

The financial statements of the Croatian National Bank have been prepared in accordance with the Act on the Croatian National Bank, the Accounting Act and the International Financial Reporting Standards, which comprise International Accounting Standards ('IASs'), together with the related amendments and Interpretations, and International Financial Reporting Standards ('IFRSs'), together with the related amendments and Interpretations, as determined by the Financial Reporting Standards Board and published in the Official Gazette of the Republic of Croatia.

1.2.1 The International Financial Reporting Standards, promulgated by the Croatian Financial Reporting Standards Board and published in the Official Gazette No. 136 of 12 November 2009, have been in effect as of 1 January 2010.

The impact of the promulgation of those Standards on the financial statements of the Croatian National Bank has not been material.

The accounting policies of the Croatian National Bank applicable to the reporting periods from 1 January 2010 differ from those applied in the preparation of the most recent annual financial statements of the Croatian National Bank in the following:

- The titles of the financial statements have been revised in accordance with International Accounting Standard 1, according to which the complete set of the financial statements includes the following (IAS 1. 10):
- Statement of financial position as at the end of the period;
- Statement of comprehensive income for the period;
- Statement of changes in equity for the period;
- Statement of cash flows for the period;
- Notes;
- A statement of financial position as at the beginning of the earliest comparative period.

- The income statement, which is referred to under IAS 1 as the statement of comprehensive income, presents all components of profit or loss recognised for the period in two statements: a single statement displaying components of net profit (separate income statement) and a second statement beginning with net profit and displaying components of other comprehensive income (statement of comprehensive income).

1.2.2 The pronouncements of the Croatian Financial Reporting Standards Board promulgated in 2010 comprise the following:

1 **Decision on the Amendments to the Decision on the Promulgation of International Financial Reporting Standards (Official Gazette No. 8 of 15 January 2010).**
By the Amendments, the Financial Reporting Standards Board has adopted the following revised Standards:
- International Financial Reporting Standard 3 "Business Combinations";
- International Accounting Standard 27 "Consolidated and Separate Financial Statements";
- The requirements of the revised Standards have resulted in amending certain existing accounting standards.

The amendments to the International Financial Reporting Standard 3 have lead to consequential amendments to the following Standards:

- International Financial Reporting Standard 1 – First-time Adoption of International Financial Reporting Standards;
- International Financial Reporting Standard 2 – Share-based Payment
- International Financial Reporting Standard 7 – Financial Instruments: Disclosures
- International Accounting Standard 12 – Income Taxes;
- International Accounting Standard 16 – Property, Plant and Equipment;
- International Accounting Standard 28 – Investments in Associates;
- International Accounting Standard 32 – Financial Instruments: Presentation;
- International Accounting Standard 33 – Earnings per Share;
- International Accounting Standard 34 – Interim Financial Reporting
- International Accounting Standard 36 – Impairment of Assets;
- International Accounting Standard 37 – Provisions, Contingent Liabilities and Contingent Assets;
- International Accounting Standard 38 – Intangible Assets;
- International Accounting Standard 39 – Financial Instruments: Recognition and Measurement;

The amendments to the International Accounting Standard 27 have lead to consequential amendments to the following Standards:

- International Financial Reporting Standard 1 – First-time Adoption of International Financial Reporting Standards;
- International Financial Reporting Standard 5 – Non-current Assets Held for Sale and Discontinued Operations;
- International Accounting Standard 1 – Presentation of Financial Statements;
- International Accounting Standard 7 – Statement of Cash Flows;
- International Accounting Standard 21 –The Effects of Changes in Foreign Exchange Rates;
- International Accounting Standard 28 – Investments in Associates;
- International Accounting Standard 31 – Interests in Joint Ventures;
- International Accounting Standard 39 – Financial Instruments: Recognition and Measurement;

2 **Decision on the Promulgation of International Financial Reporting Interpretations Committee's (IFRIC) Interpretations 15 and 16 (Official Gazette No. 8 of 15 January 2010).**

The following IFRICs have been adopted:

- IFRIC 15 – Agreements for the Construction of Real Estate
- IFRIC 16 – Hedges of a Net Investment in a Foreign Operation;

3 **Decision on the Amendments to the Decision on the Promulgation of International Financial Reporting Standards (Official Gazette No. 18 of 8 February 2010)**

By the Amendments, the Financial Reporting Standards Board has adopted the following revised Standards:

- International Financial Reporting Standard 1 (revised) "First-time Adoption of International Financial Reporting Standards";
- Amendments to International Financial Reporting Standard 4 "Insurance Contracts";
- Amendments to International Financial Reporting Standard 7 "Financial instruments: Disclosures";
- Amendments to IFRIC 9 "Reassessment of Embedded Derivatives"
- Amendments to International Accounting Standard 39 "Financial Instruments: Recognition and Measurement";

4 **Decision on the Promulgation of International Financial Reporting Interpretations Committee's (IFRIC) Interpretations 17 and 18 (Official Gazette No. 18 of 8 February 2010)**

The following revisions and Interpretations have been adopted:

- IFRIC 17 – Distribution of Non-cash Assets to Owners;
- IFRIC 18 – Transfers of Assets from Customers;

The adoption of IFRIC 17 has lead to consequential amendments of the following Standards:

- International Financial Reporting Standard 5 – Non-current Assets Held for Sale and Discontinued Operations
- International Accounting Standard 10 – Events After the Reporting Period;

The adoption of IFRIC 18 has lead to consequential amendments of the following Standard:

- International Financial Reporting Standard 1 – First-time Adoption of International Financial Reporting Standards.

5 **Decision on the Amendments to the Decision on the Promulgation of International Financial Reporting Standards (Official Gazette No. 65 of 26 May 2010)**

The adoption of the Decision has lead to amendments to the following International Financial Reporting Standards:

- International Financial Reporting Standard 2 – Share-based Payment
- International Financial Reporting Standard 5 – Non-current Assets Held for Sale and Discontinued Operations
- International Financial Reporting Standard 8 – Business Combinations;
- International Accounting Standard 1 – Presentation of Financial Statements;
- International Accounting Standard 7 – Statement of Cash Flows;
- International Accounting Standard 17 – Leases;
- International Accounting Standard 36 – Impairment of Assets;
- International Accounting Standard 38 – Intangible Assets;
- International Accounting Standard 39 – Financial Instruments: Recognition and Measurement;

The adoption of the Decision has lead to amendments to IFRIC 9 "Reassessment of Embedded Derivatives".

6 **Decision on the Amendments to the Decision on the Promulgation of International Financial Reporting Interpretations Committee's (IFRIC) Interpretations 15 and 16 (Official Gazette No. 65 of 26 May 2010)**

The Decision has amended IFRIC 16 – Hedges of a Net Investment in a Foreign Operation.

The promulgated decisions specified under 1.2.2 have not lead to any changes in the accounting policies of the Croatian National Bank or had any impact on the financial statements for the current and prior periods.

1.2.3 In addition to the Decisions specified under 1.2.2 above, the Board adopted the following decisions in 2010 applicable to the preparation and presentation of the annual financial statements for the periods beginning on 1 January 2011:

1 **Decision on the Promulgation of International Financial Reporting Interpretations Committee's (IFRIC) Interpretation 19 (Official Gazette No. 120 of 27 October 2010)**

Promulgating IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"

2 Decision on the Amendments to the Decision on the Promulgation of International Financial Reporting Standards (Official Gazette No. 120 of 27 October 2010).

By these Amendments, the Financial Reporting Standards Board has adopted the following:

- Amendments to International Financial Reporting Standard 1 (revised) "First-time Adoption of International Financial Reporting Standards";
- Amendments to International Financial Reporting Standard 7 "Financial instruments: Disclosures";
- International Accounting Standard 24 – Related Party Disclosures;
- Amendments to International Financial Reporting Standard 8 "Operating segments";
- Amendments to IFRIC 14 "IAS 19 – the limits on a defined benefit asset, minimum funding requirements and their interaction.

It is anticipated that the adoption of the Decisions specified under 1.2.3 above will have no significant impact on the accounting policies and financial statements of the Croatian National Bank in the future periods.

The financial statements have been prepared under the accrual basis of accounting and using the historical cost convention, except for certain financial assets and liabilities, and tangible assets, which are carried at revalued amounts.

The financial statements are expressed in thousands of kunas.

The preparation of the financial statements in accordance with generally accepted accounting principles requires the use of estimates and judgements that affect the reported amounts of assets and liabilities at the date of the financial statements, and of income and expenses for the reporting period. The estimates are based on the management's best estimate of current events and operations, and actual results may differ from those estimates.

Note 2 – Summary of significant accounting policies

2.1 Interest income and expense

Interest income and expense are recognised in the Income Statement on an accruals basis.

Interest income includes coupons earned on fixed income financial instruments and accrued discount on purchased securities.

2.2 Fee and commission income and expense

Fee and commission income from services provided by the Croatian National Bank is recognised when the service is provided.

Fee and commission expense is included in the Income Statement for the period in which services are received.

2.3 Dividend income

Dividend income on equity investments is recognised in the Income Statement when the right to receive dividends is established.

2.4 Foreign exchange gains and losses

Transactions in foreign currencies are translated into Croatian kunas at the exchange rates effective at the dates of the transactions. At each date of the statement of financial position, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates effective on that date. Gains and losses on translation are included in the Income Statement for the period using the midpoint exchange rate of the Croatian National Bank, except for Special Drawing Rights (SDRs), which are translated to Croatian kunas at the XDR exchange rate provided by the International Monetary Fund.

Foreign exchange gains and losses arising from fluctuations in exchange rates are reported in the Income Statement as unrealised gains or losses in the period in which they occur. Foreign exchange gains and losses arising from equity instruments available-for-sale are recognised directly in equity. Gains and losses arising from trading in foreign currencies are included in realised income and expenses in the period in which they occur.

The exchange rates of major foreign currencies at 31 December 2010 were as follows:

- USD 1 = HRK 5.568252 (2009: HRK 5.089300)
- EUR 1 = HRK 7.385173 (2009: HRK 7.306199)
- XDR 1 = HRK 8.675295 (2009: HRK 7.978445)

2.5 Provision charge and reversal

Provisions based on value adjustments for identified losses are recognised in the Statement of Income at the end of the related reporting period. The provisions are reversed to the extent of the amounts recovered, and the reversal is credited to income for the period in which the amounts are recovered. Financial assets carried at fair value are not provided against.

The Croatian National Bank recognises a provision when it has a present legal or constructive obligation as a result of a past event; when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and when a reliable estimate can be made of the obligation. No provision is recognised unless all of these conditions are met.

2.6 Financial instruments

2.6.1 Classification

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

a) Financial assets at fair value through profit or loss
This category comprises marketable debt securities in which the Croatian National Bank invests international reserve funds it manages, for the purpose of generating profit from interest or changes in the fair value of the underlying instrument.

b) Loans and receivables
This category comprises loans approved by the Croatian National Bank without the intention of short-term profit taking.

c) Financial assets available for sale
This category comprises the investments of the Croatian National Bank in equity securities.

2.6.2 Recognition and derecognition

The Croatian National Bank recognises and derecognises financial instruments on a settlement date basis. Any gains and losses arising from changes in the fair value of financial instruments are recognised as of the last day of the reporting period.

2.6.3 Measurement

Financial instruments are measured initially at fair value plus, in the case of a financial asset or financial liability not designated at fair value through profit and loss, transaction costs.

Subsequent to initial recognition, trading securities are measured at fair value, which corresponds to the quoted market price in an active financial market. Gains and losses from changes in the fair value of trading securities are recognised in the statement of income statement within “Net securities trading result”. Foreign exchange gains and losses are presented within “Net foreign exchange differences”.

Financial instruments with no fixed maturities and prices not quoted in an active market, and whose fair value cannot be reliably measured, are measured at cost, less any impairment loss.

2.7 Impairment of financial assets

Financial assets are reviewed at each date of the Statement of Financial Position to determine whether there is objective evidence of impairment. If any such evidence exists, the asset's recoverable amount is estimated, and an impairment loss is recognised. Impairment is assessed primarily by reference to the past due status of the amount receivable.

2.8 Repurchase and reverse repurchase agreements

The Croatian National Bank enters into securities purchase/sale agreements under which it agrees to resell/repurchase the same instrument on a specific future date at a fixed price. Securities purchased with the obligation to resell them in the future are not recognised on the statement of financial position.

Payments arising from those agreements are recognised as deposits placed with banks or other financial institutions, and are collateralised by securities underlying the repurchase agreement. Securities sold under repurchase agreements are not removed from the balance sheet but are reported in accordance with the accounting policy applicable to such financial assets. Receipts from sales of securities are recognised as amounts due to banks and other financial institutions. The difference between the sale and the repurchase price is included in interest income or expense and accrued over the period of the transaction.

2.9 Deposits with other banks

Deposits with domestic and foreign banks represent balances on non-transactional accounts and are recognised at nominal value.

2.10 Balances with the International Monetary Fund

Balances with the International Monetary Fund (IMF) are denominated in Special Drawing Rights (XDR).

2.11 Gold and other precious metals

Gold and other precious metals are recognised at values prevailing at world market. Gains and losses arising from changes in fair value are included in the Income Statement for the period in which they arise.

2.12 Currency in circulation

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

2.13 Cash and cash equivalents

For the purpose of the Statement of Cash Flows, cash and cash equivalents are defined as cash and current accounts with foreign banks, and balances with the International Monetary Fund

2.14 Taxation

In accordance with relevant legislation the Croatian National Bank is not subject to Croatian income tax.

2.15 Tangible and intangible assets

Tangible and intangible assets are reported in the Statement of Financial Position at cost less accumulated depreciation, except for buildings, which are carried at revalued amounts less accumulated depreciation. Depreciation is provided under the straight-line method.

Gains on revaluation are included as a separate component of equity. Losses on revaluation are charged to the revaluation reserve account to the extent of the revaluation surplus previously recognised in equity, and any loss in excess of the previously recognised surplus is charged to the Income Statement for the reporting period.

The following annual depreciation rates are used:

Depreciable asset class	2010	2009
	%	%
Business buildings	2.0	2.5
Apartments	5.0	5.0
Garages	2.5	2.5
Mobile phones	50.0	50.0
Fixed-line switchboard and phones	25.0	25.0
Office equipment	25.0	25.0
Restaurant equipment	25.0	25.0
Machinery and equipment	20.0	20.0
Furniture	20.0	20.0
Safety vaults	10.0	10.0
Vehicles	25.0	25.0
Servers and other hardware	25.0	25.0
Software and PCs	33.33	33.33
Intangible assets	25.0	25.0
Systems	10.0	10.0

In 2010, the estimated useful life of the business buildings was reviewed and increased from 40 to 50 years. In addition, a portion of fixed assets from the class "System" were reclassified to business buildings. The changes in the accounting estimates resulted from the application of new information. They reflected through a depreciation charge in 2010 lower by HRK 4,912 thousand than it would have been had the changes not been applied.

2.16 Appropriation

Net income is allocated in accordance with Article 57 of the Croatian National Bank Act..

Note 3 – Interest and similar income

(All amounts are expressed in thousands of kunas)

	2010	2009
Deposits	81,445	103,786
Trading securities	373,145	546,818
International Monetary Fund	1	2
Loans to domestic banks	–	142,505
Other	2	372
	454,593	793,483

Note 4 – Interest and similar expenses

(All amounts are expressed in thousands of kunas)

	2010	2009
Kuna reserve requirements	167,858	176,489
Foreign currency reserve requirements	–	15,906
Compulsory kuna-denominated CNB bills	–	608
Repurchase transactions	13,611	12,639
Deposits for economic development	10,147	–
Overnight deposits from domestic banks in kunas	18,748	2,868
Other	5,205	543
	215,569	209,053

Note 5 – Net securities trading result and precious metal revaluation

(All amounts are expressed in thousands of kunas)

	2010	2009
Net securities trading result, including net changes in fair value of trading securities	225,096	261,531
Net effect on revaluation of precious metals	3,536	1,204
	228,632	262,735

Note 6 – Net exchange differences

(All amounts are expressed in thousands of kunas)

	2010	2009
Net exchange differences	1,861,595	(15,542)
	1,861,595	(15,542)

Note 7 – Other income

(All amounts are expressed in thousands of kunas)

	2010	2009
Gains on sale of numismatics	3,897	862
Other income	6,358	4,156
	10,255	5,018

Note 8 – Operating expenses

(All amounts are expressed in thousands of kunas)

	2010	2009
Staff costs (see the following Note) 8.1	171,976	164,107
Materials, services and administrative expenses	92,290	95,722
Costs of production of banknotes and coins in Croatian kunas	40,654	30,784
Depreciation and amortisation	36,443	39,834
	341,363	330,447

Operating expenses include staff costs in the amount of HRK 171,976 thousand (2009: HRK 164,107 thousand), out of which HRK 5,456 thousand relate to the Croatian National Bank management (2009: HRK 5,500 thousand). Materials, services and administrative expenses include compensations to the members of the Croatian National Bank Council which amount to HRK 3,272 thousand (2009: HRK 3,193 thousand).

Note 8.1 – Staff costs

(All amounts are expressed in thousands of kunas)

	2010	2009
Net salaries	71,850	69,684
Contributions from and on salaries	42,370	41,076
Taxes and surtaxes	19,785	19,590
Other staff costs	37,971	33,757
	171,976	164,107

The average number of staff during 2010 was 630 (2009: 619).

Note 9 – (Decrease)/Increase in provisions

(All amounts are expressed in thousands of kunas)

	2010	2009
a) Loans		
Amounts collected	–	(59,804)
b) Accrued interest and receivables		
Amounts collected	–	(7,639)
c) Provisions for risks and charges		
New provisions made	8,230	30,182
Released provisions	(6,799)	(4,307)
	1,431	(41,568)

Note 10 – Cash and current accounts with other banks

(All amounts are expressed in thousands of kunas)

	31 December 2010	31 December 2009
Cash on hand	1,173	838
Foreign currency cash in the CNB treasury vault	1,477,752	1,463,453
Current accounts with foreign banks	5,207	300,328
	1,484,132	1,764,619

Note 11 – Deposits with other banks

(All amounts are expressed in thousands of kunas)

	31 December 2010	31 December 2009
Deposits with foreign central banks	6,161,705	5,179,758
Deposits with foreign commercial banks	16,535,483	12,351,737
Deposits with domestic commercial banks	12,569	13,157
	22,709,757	17,544,652

Geographical concentration of deposits with other banks:

(All amounts are expressed in thousands of kunas)

	31 December 2010	31 December 2009
Croatia	12,569	13,157
Europe	22,462,208	14,896,764
USA	234,980	2,634,731
	22,709,757	17,544,652

At 31 December 2010, the largest credit risk exposure to a single counterparty was to the central bank rated “Aaa” and amounted to HRK 5,927,610 thousand (31 December 2009: HRK 4,306,701 thousand).

Note 12 – Trading securities

(All amounts are expressed in thousands of kunas)

	31 December 2010	31 December 2009
EUR-denominated securities	40,855,890	43,041,330
USD-denominated securities	11,050,615	11,043,208
	51,906,505	54,084,538

Note 13 – Loans

a) By type of loan

(All amounts are expressed in thousands of kunas)

	31 December 2010	31 December 2009
Loans to domestic banks		
– Repo loans	–	–
– Lombard loans	–	–
Other loans	776	784
Gross loans	**776**	**784**
Less: provision for loan impairment	(681)	(681)
	95	103

b) Movements in provision for loan impairment

(All amounts are expressed in thousands of kunas)

	31 December 2010	31 December 2009
Balance at 1 January	(681)	(60,485)
Amounts collected	–	59,804
Balance at 31 December	(681)	(681)

At the reporting date, the Croatian National Bank did not have any past due but not impaired loans. The loan impairment provision was formed in previous periods against receivables from banks in bankruptcy or liquidation.

Note 14 – Balances with the International Monetary Fund

(All amounts are expressed in thousands of kunas)

	31 December 2010	31 December 2009
Membership quota	3,130,842	2,912,923
Special Drawing Rights (SDR) and deposits	2,634,484	2,422,724
	5,765,326	5,335,647

Note 15 – Equity investments

(All amounts are expressed in thousands of kunas)

	31 December 2010	31 December 2009
Membership in other international institutions	43,197	39,733
Investments in domestic companies	18,743	18,031
	61,940	57,764

The membership in other international institutions relates to the shares of the Bank for International Settlements, Basle, and the shares of SWIFT (Society for Worldwide Interbank Financial Telecommunications). Investments in domestic companies represent the share of 42.6% in the equity capital of the Croatian Monetary Institute.

Note 16 – Accrued interest and other assets

(All amounts are expressed in thousands of kunas)

	31 December 2010	31 December 2009
Accrued interest	12,956	11,264
Prepaid expenses	132,985	119,807
Numismatics	9,924	11,841
Gold and other precious metals	8,268	4,700
Other assets	95,195	91,897
	259,328	**239,509**
Impairment allowance	(58,902)	(58,901)
	200,426	180,608

(All amounts are expressed in thousands of kunas)

	31 December 2010	31 December 2009
Movements in impairment allowance		
Balance at 1 January	(58,901)	(66,540)
Amounts collected	–	7,639
Amounts written off	(1)	–
Balance at 31 December	(58,902)	(58,901)

The major portion of prepaid expenses in the amount of HRK 126,595 thousand (2009: HRK 113,965 thousand) relates to the prepaid expenses of printing banknotes and minting coins.

Note 17 – Tangible and intangible assets

(All amounts are expressed in thousands of kunas)

	Land and buildings	Computers	Furniture and equipment	Motor vehicles	Other assets	Assets under development	Software and licences	Total
Balance at 31 December 2008								
Cost or revaluation	410,880	91,969	74,757	10,967	3,928	96,101	36,059	724,661
Accumulated depreciation/amortisation	(10,255)	(68,090)	(35,322)	(7,070)	–	–	(22,393)	(143,130)
Net book value	**400,625**	**23,879**	**39,435**	**3,897**	**3,928**	**96,101**	**13,666**	**581,531**
Year ended 31 December 2009								
Opening net book amount	400,625	23,879	39,435	3,897	3,928	96,101	13,666	581,531
Additions	–	–	–	–	345	48,685	–	49,030
Assets put into use	28	15,525	9,985	–	–	46,012	20,474	–
Net written off	–	(3)	(169)	–	(1)	–	–	(173)
Charge for the year	(7,314)	(12,021)	(7,775)	(1,661)	–	–	(11,063)	(39,834)
Closing net book amount	**393,339**	**27,380**	**41,476**	**2,236**	**4,272**	**98,774**	**23,077**	**590,554**
Balance at 31 December 2009								
Cost or revaluation	410,908	87,813	83,854	10,225	4,272	98,774	56,533	752,379
Accumulated depreciation/amortisation	(17,569)	(60,433)	(42,378)	(7,989)	–	–	(33,456)	(161,825)
Net book value	**393,339**	**27,380**	**41,476**	**2,236**	**4,272**	**98,774**	**23,077**	**590,554**

Note 17 – Tangible and intangible assets (continued)

(All amounts are expressed in thousands of kunas)

	Land and buildings	Computers	Furniture and equipment	Motor vehicles	Other assets	Assets under development	Software and licences	Total
Balance at 31 December 2009								
Cost or revaluation	410,908	87,813	83,854	10,225	4,272	98,774	56,533	752,379
Accumulated depreciation/amortisation	(17,569)	(60,433)	(42,378)	(7,989)	–	–	(33,456)	(161,825)
Net book value	**393,339**	**27,380**	**41,476**	**2,236**	**4,272**	**98,774**	**23,077**	**590,554**
Year ended 31 December 2010								
Opening net book amount	393,339	27,380	41,476	2,236	4,272	98,774	23,077	590,554
Additions	–	–	–	–	160	33,420	–	33,580
Assets put into use	66,899	4,915	2,548	–	–	81,124	6,762	–
Revaluation	30,470	–	–	–	–	–	–	30,470
Transfer	28,587	–	(28,587)	–	–	–	–	–
Net written off	–	–	(100)	–	–	–	–	(100)
Charge for the year	(6,930)	(11,716)	(4,155)	(1,570)	–	–	(12,072)	(36,443)
Closing net book amount	**512,365**	**20,579**	**11,182**	**666**	**4,432**	**51,070**	**17,767**	**618,061**
Balance at 31 December 2010								
Cost or revaluation	514,986	91,003	42,421	10,225	4,432	51,070	63,295	777,432
Accumulated depreciation/amortisation	(2,621)	(70,424)	(31,239)	(9,559)	–	–	(45,528)	(159,371)
Net book value	**512,365**	**20,579**	**11,182**	**666**	**4,432**	**51,070**	**17,767**	**618,061**

Assets (land and buildings) were last revalued by independent experts in 2010. Fair values were determined based on market values. If land and buildings were carried at cost less depreciation, their net book value as at 31 December 2010 would be HRK 128,299 thousand. The tangible fixed assets of the Croatian National Bank are subject neither to a mortgage nor to a fiduciary relationship.

Note 18 – Banknotes and coins in circulation

(All amounts are expressed in thousands of kunas)

	2010	2009
Banknotes and coins put into circulation as of January 1	18,941,723	20,479,274
Increase/(decrease) in circulation during the year	369,739	(1,537,551)
Banknotes and coins put into circulation – total as at December 31	19,311,462	18,941,723

In HRK	Nominal value	31 December 2010		31 December 2009	
		Pieces	Value in thousands of kunas	Pieces	Value in thousands of kunas
Coins	0.01	125,697,068	1,257	125,661,790	1,257
Coins	0.02	83,948,334	1,679	83,892,014	1,678
Coins	0.05	248,638,364	12,432	231,506,310	11,575
Coins	0.10	392,680,979	39,268	373,023,166	37,302
Coins	0.20	289,410,855	57,882	272,406,734	54,481
Coins	0.50	166,676,579	83,338	157,260,840	78,631
Coins	1	183,776,918	183,777	176,703,639	176,704
Coins	2	93,671,799	187,344	88,405,666	176,811
Coins	5	63,314,097	316,570	60,240,142	301,201
Coins	25	1,116,451	27,911	1,114,249	27,856
Banknotes	5	4,192,890	20,964	4,213,202	21,066
Banknotes	10	30,546,262	305,463	29,420,327	294,203
Banknotes	20	20,465,582	409,312	18,855,237	377,105
Banknotes	50	12,709,164	635,458	12,423,641	621,182
Banknotes	100	27,267,981	2,726,798	26,222,094	2,622,209
Banknotes	200	41,429,153	8,285,831	39,449,647	7,889,930
Banknotes	500	5,025,291	2,512,646	4,876,318	2,438,159
Banknotes	1,000	3,503,532	3,503,532	3,810,373	3,810,373
TOTAL			19,311,462	1,709,485,389	18,941,723

Note 19 – Due to banks and other financial institutions

(All amounts are expressed in thousands of kunas)

	31 December 2010	31 December 2009
Kuna reserve requirements	22,705,131	23,600,572
Foreign currency reserve requirements	4,773,226	5,041,745
Other deposits from domestic banks	14,245,061	13,611,596
Deposits from foreign banks and other financial institutions	8,685	8,083
Court-mandated deposits	3,111	3,602
	41,735,214	42,265,598

Note 20 – Due to the state and state institutions

(All amounts are expressed in thousands of kunas)

	31 December 2010	31 December 2009
Domestic currency account balances	1,529,024	1,872,967
Foreign currency account balances	2,726,398	2,332,233
	4,255,422	4,205,200

Note 21 – Due to the International Monetary Fund

(All amounts are expressed in thousands of kunas)

	31 December 2010	31 December 2009
Kuna-denominated bills of exchange	3,121,651	2,904,372
Net cumulative allocations	2,629,802	2,418,561
Other IMF's accounts	7,846	7,300
	5,759,299	5,330,233

The bills of exchange denominated in Croatian kuna relate to the membership of the Republic of Croatia in the International Monetary Fund.

Note 22 – Accrued interest and other liabilities

(All amounts are expressed in thousands of kunas)

	31 December 2010	31 December 2009
Accrued interest	17,059	17,189
Due to employees	5,974	5,451
Taxes and contributions	6,926	6,186
Due to the Ministry of Finance	5,746	323,963
Trade accounts payable	9,386	11,576
Other liabilities	1,247,759	104,873
	1,292,850	469,238

Other liabilities include funds on a transaction account opened on the basis of a contractual arrangement between the Croatian National Bank and the Croatian Bank for Reconstruction and Development ('HBOR') for the purpose of the Financing Models provided within the Measures for Economic Recovery and Development adopted by the Government of the Republic of Croatia. The funds indented for economic recovery and development account for the most part of other liabilities and amount to HRK 1,144,572 thousand. Included in other liabilities are long-term provisions for risks and charges, out of which HRK 41,780 thousand (2009: HRK 41,780 thousand) are in respect of legal actions and HRK 18,911 thousand (2009: HRK 17,480 thousand) in respect of provisions for employee benefits.

Note 23 – Equity

The equity funds of the Croatian National Bank consist of the initial capital and reserves.

The initial capital in the amount of HRK 2,500,000 thousand is held solely by the Republic of Croatia. The capital is non-transferable and cannot be used as collateral.

Reserves comprise general and specific reserves. General reserves are formed for the purpose of covering general risks of operations of the Croatian National Bank, they are not limited in size, and they are formed in accordance with the Act on the Croatian National Bank. Specific reserves are formed for the purpose of covering identified losses in accordance with decisions of the Council of the Croatian National Bank.

Note 24 – Contingent liabilities and commitments and treasury inventory system

Legal actions: At 31 December 2010, there were several legal actions outstanding against the Croatian National Bank. In the opinion of the management and internal legal advisors of the Croatian National Bank, the Bank may lose certain cases, and, consequently, provisions for potential losses on such cases were made by the Bank in the amount of HRK 41,780 thousand (see Note 22).

Capital commitments: At 31 December 2010 the capital commitments of the Croatian National Bank amounted to HRK 13,559 thousand (31 December 2009: HRK 2,887 thousand).

Treasury inventory system

(All amounts are expressed in thousands of kunas)

	31 December 2010	31 December 2009
Non-issued banknotes and coins	79,116,486	79,137,270
Tax stamps and bill of exchange forms	318,722	522,119
	79,435,208	79,659,389

Note 25 – Cash and cash equivalents

(All amounts are expressed in thousands of kunas)

	31 December 2010	31 December 2009
Cash on hand	1,173	838
Foreign currency cash in the CNB treasury vault	1,477,752	1,463,453
Current accounts with foreign banks	5,207	300,328
Special Drawing Rights (SDR) and deposits with the IMF	2,634,484	2,422,724
	4,118,616	4,187,343

Note 26 – Appropriations

(All amounts are expressed in thousands of kunas)

	31 December 2010	31 December 2009
Operating surplus	2,011,568	553,227
Transfer of surplus to general reserves	(2,011,568)	(234,853)
Surplus allocated to the State Budget	–	(318,374)
	–	–

As the operating surplus is below the net gains on revaluation of the balance-sheet items arising from fluctuations in exchange rates and market prices, it is entirely transferred to the general reserve funds, in accordance with Article 57 of the Act on the Croatian National Bank.

Note 27 – Fair value of financial assets and liabilities

The fair values of assets and liabilities of the Croatian National Bank approximate their carrying amounts due to the short-term nature of those instruments, except for financial instruments held for trading, which are accounted for at quoted market prices, and therefore their book values correspond with their fair values.

Note 28 – Risk management

The Croatian National Bank manages international reserves of the Republic of Croatia based on the principles of liquidity and safety. The Bank maintains high liquidity of international reserves and appropriate risk exposures, and seeks to achieve a favourable return on its investments within the defined limits.

Risks inherent to managing international reserves consist primarily of financial risks such as credit risk, interest rate risk and foreign exchange risk. However, marked attention is given also to liquidity and operating risks.

Note 28.1 – Credit risk

Credit risk is the risk that the counterparty will not settle its liability i.e. that invested funds will not be recovered in full or within the planned schedule.

The Croatian National Bank manages its credit risk exposure, by investing its foreign currency reserves into high-quality instruments with minimum risk, such as government bonds, bonds of international financial institutions with government guarantee, secured bonds, bonds of international financial institutions with high credit ranking and in both collateralised and non-collateralised deposits made exclusively with high-credibility banks. Collateralised deposits represent deposits secured by government bonds in the amount equal to, or in excess of the value of the deposit.

Its assessment of counterparties' creditworthiness is based on ratings of major internationally recognized rating agencies (Moody's, Standard & Poor's, and Fitch).

Placements with individual financial institutions and countries are subject to limits, which diversifies the credit risk.

The Croatian National Bank invests the international reserve funds in governments bonds of countries rated Aaa to Aa3 (Moody's), reverse repo agreements with commercial banks with ratings of Aaa to A3, in deposits with central banks rated Aaa to Aa3 and deposits with international financial institutions, and in deposits placed with commercial banks rated Aaa to A1.

The Croatian National Bank may invest the international reserve funds into commercial banks whose short-term obligations received one of two highest ratings from at least two of the rating agencies.

28.1.1 Credit risk concentration by type of asset

(All amounts are expressed in thousands of kunas)

	2010	2009
Government securities	51,739,461	52,456,800
Bank bonds with government guarantee	–	1,315,947
Guaranteed bonds (public sector collateral)	–	237,588
Securities of international financial institutions	167,044	74,203
Total securities	**51,906,505**	**54,084,538**
Reverse repo agreements	11,379,736	6,724,297
Deposits	7,327,318	5,631,930
Deposits with international financial institutions	6,635,499	7,902,286
Total deposits	**25,342,553**	**20,258,513**
TOTAL	77,249,058	74,343,051

28.1.2 Credit risk by counterparty credit rating

(All amounts are expressed in thousands of kunas)

	31 December 2010	31 December 2009
Rating (Moody's)		
	Government securities	Government securities
Aaa	48,470,242	49,080,773
Aa1	1,241,080	1,204,797
Aa2	2,028,139	2,171,230
Total	**51,739,461**	**52,456,800**
	Bank bonds	Bank bonds
Aaa	–	329,885
Aa1	–	986,062
Total	**–**	**1,315,947**
	Guaranteed bonds	Guaranteed bonds
Aaa	–	237,588
Total	**–**	**237,588**
	Securities of international financial institutions	Securities of international financial institutions
Aaa	167,044	74,203
Total	**167,044**	**74,203**
TOTAL SECURITIES	51,906,505	54,084,538
	Reverse repo agreements	Reverse repo agreements
Aaa	234,961	873,833
Aa1	–	3,110,139
Aa2	1,182,161	–
Aa3	9,962,614	2,740,325
Total	**11,379,736**	**6,724,297**
	Deposits	Deposits
Aaa	6,412,240	4,596,793
Aa1	–	5,356
Aa2	210,729	441,144
Aa3	704,296	588,443
A1	–	47
Not rated	53	147
Total	**7,327,318**	**5,631,930**
	Deposits with international financial institutions	Deposits with international financial institutions
Not rated	6,635,499	7,902,286
Total	**6,635,499**	**7,902,286**
TOTAL DEPOSITS	25,342,553	20,258,513
TOTAL	77,249,058	74,343,051

28.1.3 Geographical concentration of credit risk

(All amounts are expressed in thousands of kunas)

Instrument	Eurozona	Other	Total
Balance at 31 December 2010			
Government securities	43,572,297	8,167,164	51,739,461
Securities of international financial institutions	167,044	–	167,044
Total securities	**43,739,341**	**8,167,164**	**51,906,505**
Reverse repo agreements	6,574,765	4,804,971	11,379,736
Deposits	6,671,828	655,490	7,327,318
Deposits with international financial institutions	–	6,635,499	6,635,499
Total deposits	**13,246,593**	**12,095,960**	**25,342,553**
TOTAL at 31 December 2010	56,985,934	20,263,124	77,249,058
Balance at 31 December 2009			
Government securities	44,260,350	8,196,450	52,456,800
Bank bonds	1,315,947	–	1,315,947
Guaranteed bonds	237,588	–	237,588
Securities of international financial institutions	74,203	–	74,203
Total securities	**45,888,088**	**8,196,450**	**54,084,538**
Reverse repo agreements	5,192,706	1,531,591	6,724,297
Deposits	5,626,781	5,149	5,631,930
Deposits with international financial institutions	–	7,902,286	7,976,489
Total deposits	**10,819,487**	**9,439,026**	**20,258,513**
TOTAL at 31 December 2009	56,707,575	17,635,476	74,343,051

Note 28.2 – Foreign exchange risk

The Croatian National Bank holds most of its assets in foreign currencies, which exposes it to foreign exchange risk in terms of fluctuations in the exchange rates of the kuna against the euro and the US dollar which affect the statement of income and, consequently, the financial performance of the Croatian National Bank.

International reserves formed out of the allocated foreign exchange reserve requirement and marginal reserve requirement, Ministry of Finance funds, repo liabilities and funds in Special Drawing Rights (XDRs) are managed passively, based on the currency structure of foreign currency obligations.

The Croatian National Bank takes on exposure to foreign exchange risk only in respect of the net international reserves, while other foreign currency reserves are invested in the same currency in which the funding is received; hence, no exposure to foreign exchange risk arises on that basis.

28.2.1 Sensitivity analysis – impact of percentage fluctuations in exchange rates on the Income Statement

2010 Sensitivity analysis

(All amounts are expressed in thousands of kunas)

2010	USD	EUR
	±5%	±1%
Impact of fluctuations in exchange rates on the Income Statement	655,400/(655,400)	554,800/(554,800)

The table above shows the sensitivity of the Income Statement of the CNB in case of increase/decrease in the EUR/HRK exchange rate by ± 1% and in case of increase/decrease in the USD/HRK exchange rate by ± 5%. Historically, the yearly volatility of the USD/HRK exchange rate has been 5 times higher than the EUR/HRK exchange rate volatility.

A positive figure denotes an increase in the result reported in the Income Statement where the Croatian kuna depreciates against the relevant currency by the percentages specified above, while in the case of the Croatian kuna appreciation against the relevant currencies, the balances would be negative, and the result of the Croatian National Bank reported in the Income Statement would be lower.

In the case of a 1-percent decrease in the EUR/HRK as at 31 December 2010, the result of the CNB reported in the Income Statement would be lower by approximately HRK 554,800 thousand, while for a 5-percent decrease in the USD/HRK exchange rate, the result would be lower by approximately HRK 655,400 thousand.

Calculation methodology:

The amount of the net euro and net US dollar international reserves as at balance sheet date is multiplied by the difference between the EUR/HRK exchange rate or the USD/HRK exchange rate valid at that date and those rates increased/decreased by the relevant percentages.

2009 Sensitivity analysis

(All amounts are expressed in thousands of kunas)

2009	USD	EUR
	±5%	±1%
Impact of fluctuations in exchange rates on the Income Statement	621,000/(621,000)	536,000/(536,000)

28.2.2 CNB exposure to foreign exchange risk – analysis of assets and liabilities by currency

(All amounts are expressed in thousands of kunas)

	EUR	USD	XDR	Other foreign currencies	HRK	Total
Balance at 31 December 2010						
Assets						
Cash and current accounts with other banks	1,477,945	1,748	–	4,257	182	1,484,132
Deposits with other banks	15,648,628	7,048,560	–	–	12,569	22,709,757
Trading securities	40,855,890	11,050,615	–	–	–	51,906,505
Loans	–	–	–	–	95	95
Balances with the IMF	–	–	5,765,326	–	–	5,765,326
Equity investments	78	–	43,119	–	18,743	61,940
Accrued interest and other assets	4,913	763	–	–	194,750	200,426
Tangible and intangible assets	–	–	–	–	618,061	618,061
Total assets	**57,987,454**	**18,101,686**	**5,808,445**	**4,257**	**844,400**	**82,746,242**
Liabilities						
Banknotes and coins in circulation	–	–	–	–	19,311,462	19,311,462
Due to banks and other financial institutions	2,463,804	2,309,421	–	–	36,961,989	41,735,214
Due to the State and State institutions	42,397	2,683,415	–	586	1,529,024	4,255,422
Due to the IMF	–	–	5,759,299	–	–	5,759,299
Accrued interest and other liabilities	535	75	–	1	1,292,239	1,292,850
Total liabilities	**2,506,736**	**4,992,911**	**5,759,299**	**587**	**59,094,714**	**72,354,247**
Net position	55,480,718	13,108,775	49,146	3,670	(58,250,314)	10,391,995

	EUR	USD	XDR	Other foreign currencies	HRK	Total
Balance at 31 December 2009						
Assets						
Cash and current accounts with other banks	1,757,992	1,784	–	4,823	20	1,764,619
Deposits with other banks	10,590,840	6,940,655	–	–	13,157	17,544,652
Trading securities	43,041,330	11,043,208	–	–	–	54,084,538
Loans	–	–	–	–	103	103
Balances with the IMF	–	–	5,335,647	–	–	5,335,647
Equity investments	77	–	39,656	–	18,031	57,764
Accrued interest and other assets	2,188	796	1,967	–	175,657	180,608
Tangible and intangible assets	–	–	–	–	590,554	590,554
Total assets	**55,392,427**	**17,986,443**	**5,377,270**	**4,823**	**797,522**	**79,558,485**
Liabilities						
Banknotes and coins in circulation	–	–	–	–	18,941,723	18,941,723
Due to banks and other financial institutions	1,794,395	3,247,350	–	–	37,223,853	42,265,598
Due to the State and State institutions	5,282	2,323,884	–	3,067	1,872,967	4,205,200
Due to the IMF	–	–	5,330,233	–	–	5,330,233
Accrued interest and other liabilities	59	8	1,967	–	467,204	469,238
Total liabilities	**1,799,736**	**5,571,242**	**5,332,200**	**3,067**	**58,505,747**	**71,211,992**
Net position	53,592,691	12,415,201	45,070	1,756	(57,708,225)	8,346,493

Note 28.3 – Interest rate risk

Interest rate risk is the risk of decline in the value of foreign currency portfolios of international reserves of the CNB due to adverse changes in interest rates on the fixed-yield instrument markets. Interest rate risk of international reserves of the CNB is managed by applying precisely defined reference portfolios. Reference portfolios meet the required risk/reward ratio and reflect the long-term reserve investment strategy.

As with foreign exchange risk, the CNB has an open interest rate position only on net international reserves due to the fact that other assets are managed based on the maturities of obligations.

Interest rate risk of net international reserves of the CNB is limited by setting the strategic modified average remaining term to maturity (strategic duration) to less than one year.

28.3.1 Sensitivity analysis – exposure of the CNB's net international reserves to fluctuations in interest rates

2010 Sensitivity analysis

(All amounts are expressed in thousands of kunas)

2010	USD	EUR
Yield curve increase/decrease	±50 b. p.	±50 b. p.
Effect of a change in the level of the yield curve on the Income Statement	(32,800)/32,800	(180,000)/180,000

Should as at 31 December 2010 the entire USD yield curve increase by 50 basis points (0.5%), the result of the CNB reported in the Income Statement for the year would be lower by approximately HRK 32,800 thousand, while in the case of the EUR yield curve increasing by 50 basis points, the result would be lower by approximately HRK 180,000 thousand.

For a 50 b.p. decrease of the yield curve, the result reported in the Income Statement would be higher by approximately the same amounts.

Calculation methodology:

The net amount of dollar and euro reserves as at 31 December 2010 multiplied by modified duration and by 50 basis points (0.5%). Modified duration denotes by how many basis points the value of the portfolio will decrease should the interest rate curve increase by 1 percentage point.

2009 Sensitivity analysis

(All amounts are expressed in thousands of kunas)

2009	USD	EUR
Yield curve increase/decrease	±50 b. p.	±50 b. p.
Effect of a change in the level of the yield curve on the Income Statement	(52,000)/52,000	(217,000)/217,000

The lower exposure of the CNB's net international reserve funds to the interest rate risk at 31 December 2010 versus 31 December 2009 is a result of a shorter modified duration of the CNB's net foreign exchange portfolios.

28.3.2 Interest rate risk analysis

(All amounts are expressed in thousands of kunas)

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Non-interest bearing	Total
Balance at 31 December 2010						
Assets						
Cash and current accounts with other banks	–	–	–	–	1,484,132	1,484,132
Deposits with other banks	18,338,933	4,358,255	–	–	12,569	22,709,757
Trading securities	51,906,505	–	–	–	–	51,906,505
Loans	95	–	–	–	–	95
Balances with the IMF	2,629,980	–	–	–	3,135,346	5,765,326
Equity investments	–	–	–	–	61,940	61,940
Accrued interest and other assets	–	–	–	–	200,426	200,426
Tangible and intangible assets	–	–	–	–	618,061	618,061
Total assets	**72,875,513**	**4,358,255**	**–**	**–**	**5,512,474**	**82,746,242**
Liabilities						
Banknotes and coins in circulation	–	–	–	–	19,311,462	19,311,462
Due to banks and other financial institutions	31,464,757	–	–	–	10,270,457	41,735,214
Due to the State and State institutions	1,278,162	–	–	–	2,977,260	4,255,422
Due to the IMF	2,629,802	–	–	–	3,129,497	5,759,299
Accrued interest and other liabilities	1,144,572	–	–	–	148,278	1,292,850
Total liabilities	**36,517,293**	**–**	**–**	**–**	**35,836,954**	**72,354,247**
Net position	36,358,220	4,358,255	–	–	(30,324,480)	10,391,995
Balance at 31 December 2009						
Assets						
Cash and current accounts with other banks	–	–	–	–	1,764,619	1,764,619
Deposits with other banks	14,491,593	2,759,990	279,912	–	13,157	17,544,652
Trading securities	54,084,538	–	–	–	–	54,084,538

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Non-interest bearing	Total
Loans	103	–	–	–	–	103
Balances with the IMF	2,418,581	–	–	–	2,917,066	5,335,647
Equity investments	–	–	–	–	57,764	57,764
Accrued interest and other assets	–	–	–	–	180,608	180,608
Tangible and intangible assets	–	–	–	–	590,554	590,554
Total assets	**70,994,815**	**2,759,990**	**279,912**	**–**	**5,523,768**	**79,558,485**
Liabilities						
Banknotes and coins in circulation	–	–	–	–	18,941,723	18,941,723
Due to banks and other financial institutions	30,217,317	–	–	–	12,048,281	42,265,598
Due to the State and State institutions	1,710,159	–	–	–	2,495,041	4,205,200
Due to the IMF	2,418,561	–	–	–	2,911,672	5,330,233
Accrued interest and other liabilities	–	–	–	–	469,238	469,238
Total liabilities	**34,346,037**	**–**	**–**	**–**	**36,865,955**	**71,211,992**
Net position	36,648,778	2,759,990	279,912	–	(31,342,187)	8,346,493

Note 28.4 – Liquidity risk

Liquidity risk is the risk of inability to settle all the liabilities and obligations arising from the operations of the Croatian National Bank as they fall due. Hence, the Croatian National Bank has to ensure, through its strategy, sufficient liquid funds on a daily basis to settle all of its liabilities and commitments.

Liquidity risk is controlled by investing international reserves into readily marketable bonds and partly in deposit instruments with short maturities.

Liquid funds include all assets that are convertible into cash within a period of 1 to 3 days. The CNB invests total international reserves into deposits with maturities of up to 1 month and into securities with maturities less than 5 years, provided that those securities are readily convertible into cash at any time.

During 2010, there were 84 percent of net international reserves on average that were liquid on a daily basis.

As at 31 December 2010, the share of liquid funds in the net international reserves of the CNB was as follows:

1) Securities	75.67%
2) Daily-basis maturity of deposits	1.35%
3) FIXBIS and FRIBIS deposits	4.66%
4) Cash in vault	2.15%
5) Repo pool with the Fed	0.34%.

In the following tables, the financial liabilities of the Croatian National Bank are analysed into relevant groupings by the remaining contractual maturity from the balance sheet date. The tables have been drawn up based on the undiscounted cash flows of financial liabilities on the earliest date on which payment could be required and include both interest and principal cash flows.

(All amounts are expressed in thousands of kunas)

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Balance at 31 December 2010						
Liabilities						
Banknotes and coins in circulation	19,311,462	–	–	–	–	19,311,462
Due to banks and other financial institutions	41,726,529	–	–	–	8,685	41,735,214
Due to the State and State institutions	4,255,422	–	–	–	–	4,255,422
Due to the IMF	–	–	–	–	5,759,299	5,759,299
Accrued interest and other liabilities	1,193,666	1,784	60,691	38,126	2,096	1,296,363
Total liabilities	**66,487,079**	**1,784**	**60,691**	**38,126**	**5,770,080**	**72,357,760**
Balance at 31 December 2009						
Liabilities						
Banknotes and coins in circulation	18,941,723	–	–	–	–	18,941,723
Due to banks and other financial institutions	42,257,515	–	–	–	8,083	42,265,598
Due to the State and State institutions	4,205,200	–	–	–	–	4,205,200
Due to the IMF	–	–	–	–	5,330,233	5,330,233
Accrued interest and other liabilities	53,839	322,692	59,260	38,126	2,190	476,107
Total liabilities	**65,458,277**	**322,692**	**59,260**	**38,126**	**5,340,506**	**71,218,861**

Management and internal organisation of the Croatian National Bank

Members of the Council of the Croatian National Bank

Chairman of the Council	Željko Rohatinski
Members of the Council	Boris Cota
	Davor Holjevac
	Vlado Leko
	Branimir Lokin
	Željko Lovrinčević
	Relja Martić
	Adolf Matejka
	Silvije Orsag
	Tomislav Presečan
	Jure Šimović
	Sandra Švaljek
	Mladen Vedriš
	Boris Vujčić

Management of the Croatian National Bank

Governor	Željko Rohatinski
Deputy Governor	Boris Vujčić
Vicegovernor	Davor Holjevac
Vicegovernor	Relja Martić
Vicegovernor	Adolf Matejka
Vicegovernor	Tomislav Presečan

Executive directors

Research and Statistics Area	Ljubinko Jankov
Central Banking Operations Area	Irena Kovačec
Foreign Exchange Operations Area	
Prudential Regulation and Bank Supervision Area	Željko Jakuš
Planning, Controlling and Accounting Area	Diana Jakelić
Payment Operations Area	Neven Barbaroša
Information Technology Area	Mario Žgela
Support Services Area	Boris Ninić
International Relations Area	Michael Faulend

Internal organisation of the Croatian National Bank

COUNCIL OF THE CROATIAN NATIONAL BANK

- Governor
- Deputy Governor
- Vicegovernor
- Vicegovernor
- Vicegovernor
- Vicegovernor
- Office of the Governor
- Internal Audit Office
- Public Relations Office
- Security Office

Research and Statistics Area
- Research Department
  - Monetary Analysis Division
  - Balance of Payments and Exchange Rate Analysis Division
  - Real Sector and Budget Analysis Division
- Statistics Department
  - Monetary and Financial Statistics Division
  - Balance of Payments and International Investment Position Statistics Division
  - External Debt Statistics Division
- Financial Stability Department
- Econometric Modelling Department

Central Banking Operations Area
- Monetary Operations Department
  - Liquidity Forecasts Division
  - Open Market Operations Division
  - Transactions Processing Division
  - Monetary Policy Instruments Reporting Division
- International Reserves and Foreign Exchange Liquidity Department
  - Foreign Exchange Trading and Investment Division (*front office*)
  - Foreign Exchange Settlement Division (*back office*)
  - Investment Research and Performance Evaluation Division (*middle office*)

Prudential Regulation and Bank Supervision Area
- Prudential Regulation and Banking System Analysis Department
  - Prudential Regulation Division
  - Banking System Analysis Division
- Off-Site Supervision Department
- On-Site Risk Management Supervision Department
  - Market and Liquidity Risk Management Supervision Division
  - Credit Risk Management Supervision Division
- Specialised On-Site Supervision Department
  - Internal Control Systems Supervision Division
  - Information Systems Supervision Division
  - Monetary and Foreign Exchange Policy Measures Implementation Supervision Division
- Licensing and Market Competition Department

Payment Operations Area
- Cashless Payment Operations Department
  - Payment Operations Regulation, Analysis and Development Division
  - Payment Systems Operations Division
  - Client Services Division
- Currency Department
  - Issue and Handling Operations Division
  - Custody Services Division
  - National Counterfeit, National Analysis and Coin National Analysis Centres

Foreign Exchange Operations Area
- Foreign Exchange Policy Department
  - Foreign Exchange System and Measures Division
  - Foreign Exchange Measures Implementation Division
- International Banking Department
  - International Payments Division
  - Correspondent Banking Division
  - SWIFT Division

International Relations Area
- European Relations Department
  - EU Economic Division
  - EU Institutions Administrative Operations Division
- International Financial Institutions Department
  - International Financial Institutions Economic Division
  - International Financial Institutions Administrative and Financial Operations Division

Planning, Controlling and Accounting Area
- Planning and Controlling Department
- Accounting Department
  - Central Accounting Division
  - Domestic Currency Analytical Bookkeeping Division
  - Foreign Exchange Analytical Bookkeeping Division
  - Internal Accounting Operations Division
  - Finance and Administrative Accounting Division

Information Technology Area
- Application Systems Development Department
  - Design Division
  - Programming Division
  - Quality Assurance Division
- IT Operations Department
  - System and Database Administration Division
  - User Support Division
  - Information System Security and Protection Division
  - Library and Documentation Centre

Support Services Area
- Legal Department
- Human Resources Department
- Technical Services Department
  - Technical Support Services Division
  - Maintenance Division
- General Services Department
  - General Support Services Division
  - Mail Services Division
  - Supply and Property Division
  - Restaurant
- Procurement Department
- Publishing Department
  - Publishing Division
  - Translating and Language-Editing Division

List of banking institutions 31 December 2010

HNB

Authorised banks

BANCO POPOLARE CROATIA d.d.
Petrovaradinska 1
10000 Zagreb
Phone: + 385 1 63 45 666
Fax: + 385 1 61 90 615
SWIFT: BPCRHR22

BANKA BROD d.d.
I. pl. Zajca 21
35000 Slavonski Brod
Phone: + 385 35 445 711
Fax: + 385 35 445 755
SWIFT: BBRDHR22

BANKA KOVANICA d.d.
P. Preradovića 29
42000 Varaždin
Phone: + 385 42 40 34 03
Fax: + 385 42 21 21 48
SWIFT: SKOVHR22

BANKA SPLITSKO-DALMATINSKA d.d.
114. brigade 9
21000 Split
Phone: + 385 21 54 02 80
Fax: + 385 21 54 02 90
SWIFT: DALMHR22

BKS BANK d.d.
Mljekarski trg 3
51000 Rijeka
Phone: + 385 51 35 35 55
Fax: + 385 51 35 35 66
SWIFT: BFKKHR22

CENTAR BANKA d.d.
Amruševa 6
10000 Zagreb
Phone: + 385 1 48 03 444
Fax: + 385 1 48 03 441
SWIFT: CBZGHR2X

CREDO BANKA d.d.
Zrinsko-Frankopanska 58
21000 Split
Phone: + 385 21 38 06 55
Fax: + 385 21 38 06 82
SWIFT: CDBSHR22

CROATIA BANKA d.d.
Kvaternikov trg 9
10000 Zagreb
Phone: + 385 1 23 91 111
Fax: + 385 1 23 32 470
SWIFT: CROAHR2X

ERSTE & STEIERMÄRKISCHE BANK d.d.
Jadranski trg 3a
51000 Rijeka
Phone: + 385 51 20 82 11
Fax: + 385 51 33 05 25
SWIFT: ESBCHR22

HRVATSKA POŠTANSKA BANKA d.d.
Jurišićeva 4
10000 Zagreb
Phone: + 385 1 48 04 539
Fax: + 385 1 48 04 528
SWIFT: HPBZHR2X

HYPO ALPE-ADRIA-BANK d.d.
Slavonska avenija 6
10000 Zagreb
Phone: + 385 1 60 30 063
Fax: + 385 1 60 35 100
SWIFT: HAABHR22

IMEX BANKA d.d.
Tolstojeva 6, 21000 Split
Phone: + 385 21 40 61 00
Fax: + 385 21 34 84 53
SWIFT: IMXXHR22

ISTARSKA KREDITNA BANKA UMAG d.d.
E. Miloša 1, 52470 Umag
Phone: + 385 52 70 23 00
Fax: + 385 52 70 23 88
SWIFT: ISKBHR2X

JADRANSKA BANKA d.d.
A. Starčevića 4
22000 Šibenik
Phone:+ 385 22 24 22 42
Fax: + 385 22 33 58 81
SWIFT: JADRHR2X

KARLOVAČKA BANKA d.d.
I. G. Kovačića 1
47000 Karlovac
Phone: + 385 47 61 42 00
Fax: + 385 47 61 42 06
SWIFT: KALCHR2X

KREDITNA BANKA ZAGREB d.d.
Ul. grada Vukovara 74
10000 Zagreb
Phone: + 385 1 61 67 300
Fax: + 385 1 61 16 466
SWIFT: KREZHR2X

MEĐIMURSKA BANKA d.d.
V. Morandinija 37
40000 Čakovec
Phone: + 385 40 34 00 00
Fax: + 385 40 34 00 10
SWIFT: MBCKHR2X

NAVA BANKA d.d.
Tratinska 27
10000 Zagreb
Phone: + 385 1 36 56 777
Fax: + 385 1 36 56 700
SWIFT: NAVBHR22

OTP BANKA HRVATSKA d.d.
Domovinskog rata 3
23000 Zadar
Phone: +385 23 20 15 00
Fax: +385 23 20 18 59
SWIFT: OTPVHR2X

PARTNER BANKA d.d.
Vončinina 2
10000 Zagreb
Phone: + 385 1 46 02 260
Fax: + 385 1 46 02 288
SWIFT: PAZGHR2X

PODRAVSKA BANKA d.d.
Opatička 1a
48300 Koprivnica
Phone: + 385 48 65 50
Fax: + 385 48 62 25 42
SWIFT: PDKCHR2X

PRIMORSKA BANKA d.d.
Scarpina 7
51000 Rijeka
Phone: + 385 51 35 57 04
Fax: +385 51 33 27 62
SWIFT: SPRMHR22

PRIVREDNA BANKA ZAGREB d.d.
F. Račkoga 6
10000 Zagreb
Phone: + 385 1 47 23 344
Fax: + 385 1 47 23 131
SWIFT: PBZGHR2X

RAIFFEISENBANK AUSTRIA d.d.
Petrinjska 59
10000 Zagreb
Phone: + 385 1 45 66 466
Fax: + 385 1 45 66 481
SWIFT: RZBHHR2X

SAMOBORSKA BANKA d.d.
Trg kralja Tomislava 8
10430 Samobor
Phone: + 385 1 33 62 530
Fax: + 385 1 33 61 523
SWIFT: SMBRHR22

SLATINSKA BANKA d.d.
V. Nazora 2
33520 Slatina
Phone: + 385 33 84 04 00
Fax: + 358 33 55 11 38
SWIFT: SBSLHR2X

SOCIÉTÉ GÉNÉRALE – SPLITSKA BANKA d.d.
R. Boškovića 16
21000 Split
Phone: + 385 21 30 43 04
Fax: + 385 21 31 25 86
SWIFT: SOGEHR22

ŠTEDBANKA d.d.
Slavonska avenija 3
10000 Zagreb
Phone: 385 1 63 06 666
Fax: 385 1 61 87 015
SWIFT: STEDHR22

VABA d.d. BANKA VARAŽDIN
Aleja kralja Zvonimira 1
42000 Varaždin
Phone: + 385 42 65 94 00
Fax: + 385 42 65 94 01
SWIFT: VBVZHR22

VENETO BANKA d.d.
Draškovićeva 58
10000 Zagreb
Phone: + 385 1 48 02 666
Fax: + 385 1 48 02 685
SWIFT: CCBZHR2X

VOLKSBANK d.d.
Varšavska 9
10000 Zagreb
Phone: + 385 1 48 01 300
Fax: + 385 1 48 01 365
SWIFT: VBCRHR22

ZAGREBAČKA BANKA d.d.
Paromlinska 2
10000 Zagreb
Phone: + 385 1 61 04 000
Fax: + 385 1 61 10 555
SWIFT: ZABAHR2X

Authorised savings banks

A ŠTEDNA BANKA MALOG PODUZETNIŠTVA d.d.
Radnička cesta 45
10000 Zagreb
Phone: +385 1 22 26 522
Fax: +385 1 22 26 523
SWIFT: ASBZHR22

Representative offices of foreign banks

BKS BANK AG, Zagreb
COMMERZBANK AKTIENGESELLSCHAFT, Zagreb
DEUTSCHE BANK AG, Zagreb
LHB INTERNATIONALE HANDELSBANK AG, Zagreb
UNION DE BANQUES ARABES ET FRANÇAISES – UBAF, Zagreb

Authorised housing savings banks

HPB – STAMBENA ŠTEDIONICA d.d.
Savska cesta 58
10000 Zagreb
Phone: + 385 1 55 53 903
Fax: + 385 1 55 53 905

PBZ STAMBENA ŠTEDIONICA d.d.
Radnička cesta 44
10000 Zagreb
Phone: + 385 1 63 63 730
Fax: + 385 1 63 63 731

PRVA STAMBENA ŠTEDIONICA d.d.
Savska 60
10000 Zagreb
Phone: + 385 1 60 65 111
Fax: + 385 1 60 65 120

RAIFFEISEN STAMBENA ŠTEDIONICA d.d.
Radnička cesta 47
10000 Zagreb
Phone: + 385 1 60 06 100
Fax: +385 1 60 06 199

WÜSTENROT STAMBENA ŠTEDIONICA d.d.
Heinzelova 33a
10000 Zagreb
Phone: + 385 1 48 03 788
Fax: + 385 1 48 03 798

Statistical appendix

HNB

Classification and presentation of data on claims and liabilities

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

The financial institutions sector includes the following subsectors: monetary authorities (the central bank), banks, other banking institutions and non-banking financial institutions. The central bank is the Croatian National Bank (CNB). Banks are institutions to which the Croatian National Bank has issued a license to perform banking business services in accordance with the Banking Act, including savings banks during a transition period. Data on banks do not include claims and liabilities of banks undergoing bankruptcy proceedings, nor former branches of banks headquartered outside the Republic of Croatia. Other banking institutions comprise housing savings banks, savings and loan cooperatives and investment funds. Non-banking financial institutions are financial institutions not classified as banks or other banking institutions (e.g. insurance companies, pension funds).

The central government and funds consists of two subsectors, the Republic of Croatia and central government funds. Until December 2003, the subsector Republic of Croatia included government authorities, comprising the Croatian Roads, the Croatian Motorways and the State Agency for Deposit Insurance and Bank Rehabilitation. The subsector central government funds includes the Croatian Institute for Health Insurance, the Croatian Pension Insurance Administration, the Croatian Employment Service, the Croatian Privatisation Fund, the Croatian Waters and the Croatian Bank for Reconstruction and Development.

Since January 2004, the Croatian Roads, the Croatian Motorways, and the State Agency for Deposit Insurance and Bank Rehabilitation have been reclassified, from the subsector Republic of Croatia to the subsector central government funds.

Other domestic sectors include local government authorities, public and other enterprises and households, including craftsmen and non-profit institutions providing services to households. The subsector other enterprises also comprises banks undergoing bankruptcy proceedings. In some tables other domestic sectors are divided into the following subsectors: local government (which comprises units of local and regional self-government), public and other enterprises, and households (including craftsmen and non-profit institutions).

Foreign sector includes foreign legal and natural persons.

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

A Monetary and credit aggregates

Table A1 Monetary and credit aggregates

end of period, in million HRK and %

Year	Month	Reserve money	Money M1	Money M1a	Broadest money M4	Net domestic assets	Domestic credit	Monthly rates of growth					
								Reserve money	Money M1	Money M1a	Broadest money M4	Net domestic assets	Domestic credit
2001	December	17,803.2	23,703.5	23,936.5	106,071.4	57,410.0	74,964.5	8.01	13.00	11.96	11.65	3.40	1.16
2002	December	23,027.9	30,869.8	31,876.7	116,141.8	83,324.4	97,463.7	10.72	6.11	6.79	1.65	7.92	2.15
2003	December	30,586.2	33,888.7	34,630.9	128,893.1	96,121.7	111,661.4	8.90	1.78	1.93	0.14	3.11	0.66
2004	December	33,924.4	34,562.1	35,186.5	139,947.7	108,205.1	127,308.6	8.69	2.86	2.68	0.23	2.15	1.99
2005	December	40,390.8	38,817.1	39,855.4	154,647.0	131,343.2	149,168.3	9.38	4.34	3.87	–0.02	1.84	1.94
2006	December	46,331.2	48,521.0	49,141.7	182,458.6	154,844.1	183,379.5	3.17	4.75	4.07	1.57	3.38	2.99
2007	December	51,923.9	57,878.3	58,663.4	215,822.1	166,375.5	210,828.4	3.73	6.71	6.62	3.95	3.54	2.65
2008	December	49,743.0	55,222.3	56,044.6	225,018.5	183,279.1	232,982.1	–9.89	8.17	8.49	3.17	5.68	1.96
2009	December	56,141.9	47,181.7	47,760.5	223,094.6	178,083.2	231,661.9	4.55	3.13	3.25	–0.23	–0.91	0.10
2010	January	57,770.5	48,084.2	48,541.3	223,486.8	181,640.3	233,047.7	2.90	1.91	1.63	0.18	2.00	0.60
	February	57,234.3	48,701.2	49,190.9	223,347.0	184,078.9	232,731.5	–0.93	1.28	1.34	–0.06	1.34	–0.14
	March	54,694.4	47,726.2	48,329.4	222,043.1	184,290.7	233,912.8	–4.44	–2.00	–1.75	–0.58	0.12	0.51
	April	54,076.0	48,982.2	49,554.8	222,055.0	184,328.8	234,763.6	–1.13	2.63	2.54	0.01	0.02	0.36
	May	54,796.4	47,986.9	48,636.6	222,569.0	185,391.6	236,037.1	1.33	–2.03	–1.85	0.23	0.58	0.54
	June	55,858.3	49,715.7	50,349.9	224,581.4	187,596.3	238,070.7	1.94	3.60	3.52	0.90	1.19	0.86
	July	54,794.4	50,749.5	51,454.6	226,952.6	177,911.9	239,485.1	–1.90	2.08	2.19	1.06	–5.16	0.59
	August	54,707.7	51,234.6	51,991.4	231,585.1	177,141.4	240,991.2	–0.16	0.96	1.04	2.04	–0.43	0.63
	September	55,881.8	51,734.5	52,434.1	232,683.0	178,595.2	240,940.2	2.15	0.98	0.85	0.47	0.82	–0.02
	October	56,243.4	50,695.8	51,496.0	232,440.6	178,850.5	241,289.8	0.65	–2.01	–1.79	–0.10	0.14	0.15
	November	54,710.8	48,343.0	49,170.1	232,467.4	182,917.1	246,240.0	–2.73	–4.64	–4.52	0.01	2.27	2.05
	December	56,249.1	49,151.7	49,748.5	232,869.6	188,845.0	247,520.2	2.81	1.67	1.18	0.17	3.24	0.52

Table A1 Monetary and credit aggregates • The table shows data on some basic monetary and credit aggregates, including their monthly growth rates. In previous publications of the CNB, data on claims and obligations of savings banks were not included in the compilation of the monetary aggregates.

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

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

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

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

Domestic credit comprises banks' claims on other domestic sectors, other banking institutions and non-banking financial institutions.

B Monetary institutions

Table B1 Monetary survey

end of period, in million HRK

	2009	2010											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
ASSETS													
1 Foreign assets (net)	45,011.4	41,846.6	39,268.1	37,752.4	37,726.2	37,177.4	36,985.1	49,040.7	54,443.7	54,087.8	53,590.0	49,550.3	44,024.6
2 Domestic credit	253,523.6	258,672.7	261,468.2	262,292.6	262,541.2	265,046.1	267,863.5	257,861.1	258,583.0	259,872.7	260,708.6	265,509.3	272,601.4
2.1 Claims on central government and funds (net)	21,861.7	25,625.0	28,736.7	28,379.8	27,777.7	29,009.0	29,792.7	18,376.0	17,591.8	18,932.5	19,418.8	19,269.3	25,081.2
2.2 Claims on other domestic sectors	229,870.2	231,076.3	230,602.7	231,979.0	232,452.7	233,893.8	235,918.6	236,779.4	238,571.2	238,027.4	238,245.0	242,207.3	244,039.2
2.3 Claims on other banking institutions	681.7	844.2	934.7	733.1	1,062.7	883.2	795.1	1,175.2	1,040.5	976.3	1,074.1	1,518.6	890.9
2.4 Claims on non-banking financial institutions	1,109.9	1,127.3	1,194.2	1,200.8	1,248.2	1,260.2	1,357.0	1,530.5	1,379.5	1,936.4	1,970.7	2,514.1	2,590.0
Total (1+2)	**298,534.9**	**300,519.3**	**300,736.3**	**300,044.9**	**300,267.4**	**302,223.5**	**304,848.6**	**306,901.9**	**313,026.7**	**313,960.5**	**314,298.7**	**315,059.6**	**316,626.0**
LIABILITIES													
1 Money	47,181.7	48,084.2	48,701.2	47,726.2	48,982.2	47,986.9	49,715.7	50,749.5	51,234.6	51,734.5	50,695.8	48,343.0	49,151.7
2 Savings and time deposits	39,139.4	37,566.6	36,290.8	35,504.6	35,143.5	35,362.4	36,896.0	35,808.1	36,435.7	35,946.0	35,412.0	35,433.1	34,823.4
3 Foreign currency deposits	135,410.6	136,377.7	136,988.6	137,324.5	136,478.0	137,718.3	136,457.8	139,140.6	142,524.4	143,793.2	145,166.4	147,488.9	147,557.1
4 Bonds and money market instruments	1,362.8	1,458.3	1,366.3	1,487.7	1,451.3	1,501.4	1,511.8	1,254.3	1,390.5	1,209.3	1,166.4	1,202.4	1,337.4
5 Restricted and blocked deposits	2,598.3	2,585.2	2,659.7	2,451.4	2,477.0	2,751.0	2,774.9	2,628.6	2,439.3	2,584.4	2,771.4	2,398.2	2,389.0
6 Other items (net)	72,842.0	74,447.3	74,729.6	75,550.5	75,735.4	76,903.5	77,492.3	77,320.6	79,002.3	78,693.0	79,086.6	80,194.0	81,367.5
Total (1+2+3+4+5+6)	**298,534.9**	**300,519.3**	**300,736.3**	**300,044.9**	**300,267.4**	**302,223.5**	**304,848.6**	**306,901.9**	**313,026.7**	**313,960.5**	**314,298.7**	**315,059.6**	**316,626.0**

Table B1 Monetary survey • The monetary survey shows consolidated data from the Monetary authorities accounts (Table C1) and Banks' accounts (Table D1).

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

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

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

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

Table B2 Number of reporting banks and savings banks and their classification by total assets

Year	Month	Total number of reporting banks	Reporting banks classified according to their total assets						Total number of reporting savings banks	Savings banks classified according to their total assets		
			Less than 100 million kuna	100 million kuna to less than 500 million kuna	500 million kuna to less than 1 billion kuna	1 billion kuna to less than 2 billion kuna	2 billion kuna to less than 10 billion kuna	10 billion kuna and over		Less than 10 million kuna	10 million kuna to less than 100 million kuna	100 million kuna and over
1	2	3	4	5	6	7	8	9	10	11	12	13
2001	December	44	3	13	7	7	10	4	21	4	12	5
2002	December	46	4	13	7	9	8	5	10	3	5	2
2003	December	42	2	13	8	5	8	6	7	3	2	2
2004	December	39	1	12	9	6	5	6	6	3	3	–
2005	December	36	1	10	6	8	5	6	3	2	1	–
2006	December	35	2	6	5	10	4	8	3	2	1	–
2007	December	35	2	5	2	12	5	9	2	1	1	–
2008	December	36	2	7	1	11	6	9	2	1	1	–
2009	December	36	3	5	3	10	7	8	2	1	1	–
2010	January	36	3	5	2	11	7	8	2	1	1	–
	February	36	3	5	2	11	7	8	2	1	1	–
	March	36	3	5	2	11	7	8	2	1	1	–
	April	36	3	5	2	11	7	8	2	1	1	–
	May	36	3	5	2	11	7	8	2	1	1	–
	June	36	3	5	2	11	7	8	2	1	1	–
	July	36	3	5	2	11	7	8	2	1	1	–
	August	36	3	5	2	11	7	8	2	1	1	–
	September	36	3	5	2	11	7	8	2	1	1	–
	October	36	3	5	2	11	7	8	2	1	1	–
	November	36	3	5	2	11	7	8	2	1	1	–
	December	36	3	5	2	9	9	8	2	1	1	–

Table B2 Number of reporting banks and savings banks and their classification by total assets • The table shows the total number of banks and savings banks during the transition period which report monthly to the CNB. Their operations are shown in the Banks' accounts. Monetary statistics includes reporting institutions under winding-up and, until February 2005, institutions whose operating licences have been revoked, but which have not initiated winding-up proceedings.

The table also shows the classification of reporting banks and savings banks according to their total assets.

C Monetary authorities

Table C1 Monetary authorities accounts

end of period, in million HRK

	2009	2010											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
ASSETS													
1 Foreign assets	**75,807.8**	**76,012.6**	**73,298.2**	**72,652.2**	**72,577.2**	**73,913.5**	**74,129.8**	**82,089.7**	**83,141.5**	**81,346.1**	**81,296.5**	**81,951.7**	**78,728.2**
1.1 Gold	–	–	–	–	–	–	–	–	–	–	–	–	–
1.2 Holdings of SDRs	2,423.7	2,463.3	2,510.1	2,486.2	2,512.7	2,652.9	2,649.1	2,557.6	2,621.0	2,534.0	2,534.2	2,605.7	2,634.5
1.3 Reserve position in the IMF	1.3	1.3	1.3	1.3	1.3	1.4	1.4	1.3	1.4	1.3	1.3	1.4	1.4
1.4 Currency and demand deposits with foreign banks	1,763.8	1,772.9	1,754.2	1,815.5	1,748.3	1,844.0	1,750.3	1,745.9	1,481.4	1,499.7	1,474.1	1,496.8	1,483.0
1.5 Time deposits with foreign banks	17,534.5	17,592.5	18,328.0	17,910.6	17,992.3	20,063.7	20,625.8	28,408.5	27,486.3	25,015.5	25,744.9	25,633.0	22,702.9
1.6 Securities in f/c	54,084.5	54,182.6	50,704.5	50,438.7	50,322.6	49,351.5	49,103.3	49,376.3	51,551.4	52,295.4	51,541.8	52,214.9	51,906.5
1.7 Non-convertible foreign exchange	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2 Claims on central government and funds	**2.9**	**2.5**	**–**	**–**	**0.1**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**0.3**
2.1 Claims in kuna	2.9	2.5	–	–	0.1	–	–	–	–	–	–	–	0.3
2.2 Claims in f/c	–	–	–	–	–	–	–	–	–	–	–	–	–
3 Claims on other domestic sectors	**4.2**	**4.1**	**4.1**	**4.0**	**4.0**	**4.0**	**4.0**	**3.9**	**3.9**	**3.9**	**3.9**	**3.8**	**3.8**
4 Claims on banks	**13.5**	**13.5**	**13.4**	**13.2**	**13.2**	**13.1**	**13.0**	**12.9**	**13.0**	**12.8**	**12.9**	**13.0**	**12.9**
4.1 Credits to banks	13.5	13.5	13.4	13.2	13.2	13.1	13.0	12.9	13.0	12.8	12.9	13.0	12.9
Lombard credits	–	–	–	–	–	–	–	–	–	–	–	–	–
Short-term liquidity credits	–	–	–	–	–	–	–	–	–	–	–	–	–
Other credits	13.5	13.5	13.4	13.2	13.2	13.1	13.0	12.9	13.0	12.8	12.9	13.0	12.9
Reverse repo transactions	–	–	–	–	–	–	–	–	–	–	–	–	–
4.2 Overdue claims	–	–	–	–	–	–	–	–	–	–	–	–	–
5 Claims on other banking institutions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total (1+2+3+4+5)	**75,828.3**	**76,032.8**	**73,315.6**	**72,669.5**	**72,594.5**	**73,930.7**	**74,146.7**	**82,106.6**	**83,158.4**	**81,362.8**	**81,313.2**	**81,968.6**	**78,745.2**
LIABILITIES													
1 Reserve money	**56,141.9**	**57,770.5**	**57,234.3**	**54,694.4**	**54,076.0**	**54,796.4**	**55,858.3**	**54,794.4**	**54,707.7**	**55,881.8**	**56,243.4**	**54,710.8**	**56,249.1**
1.1 Currency outside banks	15,282.1	14,778.3	14,802.3	14,774.8	15,139.0	15,447.3	16,048.3	16,949.7	16,675.1	16,000.8	15,701.7	14,955.8	15,262.7
1.2 Banks' cash in vaults	3,659.6	3,194.5	2,953.3	3,100.1	3,429.3	4,067.2	4,569.6	4,543.0	4,710.9	4,233.5	3,952.3	4,025.8	4,048.7
1.3 Banks' deposits	37,200.1	39,797.7	39,478.7	36,819.1	35,507.7	35,281.4	35,240.3	33,301.6	33,321.7	35,647.5	36,589.4	35,729.2	36,937.6
Settlement accounts	12,024.6	8,756.8	8,757.3	10,630.1	9,837.4	9,700.1	9,881.5	9,602.0	8,698.8	8,982.1	8,924.2	7,989.7	10,246.1
Statutory reserves	23,600.6	23,545.8	21,962.9	22,054.5	21,876.8	21,982.4	22,089.1	22,199.6	22,354.3	22,407.0	22,552.0	22,515.7	22,705.1
CNB bills on obligatory basis	–	–	–	–	–	–	–	–	–	–	–	–	–
Overnight deposits	1,575.0	7,495.0	8,758.6	4,134.5	3,793.5	3,598.9	3,269.7	1,500.0	2,268.6	4,258.4	5,113.2	5,223.7	3,986.4
1.4 Deposits of other banking institutions	–	–	–	–	–	–	–	–	–	–	–	–	–
1.5 Deposits of other domestic sectors	–	–	–	0.3	–	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2 Restricted and blocked deposits	**5,091.6**	**5,145.5**	**4,701.9**	**4,766.4**	**4,781.7**	**4,782.2**	**4,702.1**	**4,743.6**	**4,886.8**	**4,672.5**	**4,806.1**	**4,921.0**	**4,833.9**
2.1 Statutory reserve in f/c	5,041.7	5,091.0	4,647.1	4,710.7	4,723.3	4,728.9	4,647.8	4,674.8	4,835.2	4,617.6	4,746.4	4,868.7	4,773.2
2.2 Restricted deposits	49.9	54.5	54.8	55.8	58.4	53.3	54.3	68.8	51.6	54.9	59.7	52.4	60.7
2.3 Escrow deposits	–	–	–	–	–	–	–	–	–	–	–	–	–
3 Foreign liabilities	**8.1**	**8.3**	**8.5**	**8.5**	**8.6**	**9.2**	**9.3**	**8.7**	**8.9**	**8.4**	**8.3**	**8.8**	**8.7**
3.1 Use of IMF credit	–	–	–	–	–	–	–	–	–	–	–	–	–
3.2 Liabilities to international organisations	8.1	8.3	8.5	8.5	8.6	9.2	9.3	8.7	8.9	8.4	8.3	8.8	8.7
3.3 Liabilities to foreign banks	–	–	–	0.0	–	0.0	–	–	–	–	–	–	–
4 Central government and funds' deposits	**4,171.4**	**2,135.2**	**348.6**	**2,188.1**	**2,879.2**	**2,291.7**	**1,977.6**	**11,332.1**	**11,692.1**	**9,756.5**	**9,040.4**	**9,666.1**	**5,356.3**
4.1 Demand deposits	1,839.2	248.9	344.1	2,155.3	2,870.4	2,196.2	1,958.1	4,760.8	4,922.4	3,822.6	3,518.1	4,243.2	2,629.9
Central government demand deposits	1,772.9	190.0	194.2	140.4	860.4	146.6	136.4	3,108.9	3,297.5	2,389.5	2,168.4	2,753.0	1,379.8
Central government funds' demand deposits	66.2	59.0	149.9	2,014.9	2,010.0	2,049.6	1,821.7	1,651.9	1,624.9	1,433.1	1,349.8	1,490.2	1,250.1
4.2 Central government f/c deposits	2,332.2	1,886.3	4.6	32.8	8.8	95.5	19.5	6,571.3	6,769.7	5,933.9	5,522.3	5,422.9	2,726.4

	2009	2010											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
4.3 CNB bills	–	–	–	–	–	–	–	–	–	–	–	–	–
5 CNB bills	–	–	–	–	–	–	–	–	–	–	–	–	–
5.1 CNB bills in kuna	–	–	–	–	–	–	–	–	–	–	–	–	–
5.2 CNB bills in f/c	–	–	–	–	–	–	–	–	–	–	–	–	–
6 Capital accounts	11,151.3	11,710.7	11,760.2	11,749.0	11,585.3	12,786.0	12,343.9	12,008.5	12,660.8	11,836.0	12,023.6	13,471.9	13,090.1
7 Other items (net)	–735.9	–737.5	–737.9	–736.9	–736.2	–734.8	–744.5	–780.7	–798.0	–792.4	–808.6	–809.9	–792.9
Total (1+2+3+4+5+6+7)	75,828.3	76,032.8	73,315.6	72,669.5	72,594.5	73,930.7	74,146.7	82,106.6	83,158.4	81,362.8	81,313.2	81,968.6	78,745.2

Table C1 Monetary authorities accounts • The table reports data on claims and liabilities by monetary authorities.

Foreign assets include the following forms of foreign currency and kuna claims on foreign legal and natural persons: monetary gold, holdings of special drawing rights, foreign cash in vault, reserve position in the International Monetary Fund, current account balances with foreign banks, time deposits with foreign banks and accrued interest, foreign currency security investments and other claims.

Claims on central government and funds are loans and overdue claims on the budget of the Republic of Croatia. In accordance with the Croatian National Bank Act that entered into force in April 2001, the Croatian National Bank may not extend credit to the Republic of Croatia. Hence, this item comprises only overdue claims on the budget of the Republic of Croatia based on the payment system operations and the liabilities to the IMF and foreign banks. Until April 2001, Claims in kuna were short-term loans granted for the purpose of overcoming timing differences between incoming revenues and execution of budgetary expenditures, long-term loans granted by special regulations by the government of the Republic of Croatia, and overdue claims on the budgetary central government, while Claims in foreign currency was a counter-entry to the liability to the IMF based on the succession of membership in that institution.

Claims on other domestic sectors are loans and overdue claims on other domestic sectors, including banks in bankruptcy proceedings.

Claims on banks are credits to banks and overdue claims on banks. Credits to banks comprise Lombard credits, short-term liquidity credits, other credits and reverse repo transactions. Item Lombard credits comprises credits to banks for regular maintaining of the day-to-day liquidity, which were replaced by Lombard credits in December 1994. Short-term liquidity credits, which have been granted since the beginning of 1999, also serve to bridge liquidity problems. Other credits include intervention credits, special credits for bridging liquidity problems granted in the past (initial credits, prerehabilitation credits), due but unpaid credits and deposits of the CNB with banks. From April 2005 on, reverse repo transactions are conducted on a weekly basis. Overdue claims on banks comprise settlement account overdrafts (until mid-1994) and banks' failure to correctly and promptly allocate and maintain statutory reserve requirements.

Since May 1999, Claims on other domestic sectors include overdue claims on banks against which bankruptcy proceedings have been initiated. Due to the reclassification of savings banks from the subsector other banking institutions to the subsector banks, data for Claims on banks and Claims on other banking institutions have been revised.

Reserve money consists of currency outside banks, cash in banks' vaults, banks' deposits with the CNB, other banking institutions' deposits and other domestic sectors' deposits with the CNB. Banks' deposits are: settlement account balances, statutory reserves deposited on a special account with the CNB (including, from March 2006, special reserve requirement on liabilities arising from issued securities), CNB bills on an obligatory basis and overnight deposits. Deposits by other banking institutions included, until September 2003, settlement account balances of housing savings banks. Deposits by other domestic sectors are other domestic sectors' giro account balances which are deposited with the Croatian National Bank in accordance with law or other regulation.

Restricted and blocked deposits include required foreign currency reserves and accrued interest, restricted deposits and blocked foreign currency deposits. Banks are required to set aside the reserve requirements against certain foreign currency sources of funds and the marginal reserve requirements (from August 2004 to October 2008) in special accounts at the Croatian National Bank. Restricted deposits are kuna funds set aside on the basis of a court order or regulations, kuna funds set aside in the period between May 1999 and April 2002 and deposits of banks against which bankruptcy proceedings have been initiated. Blocked foreign currency deposits are funds that were set aside in special accounts at the Croatian National Bank for repaying unpaid amounts due to foreign creditors.

Foreign liabilities include use of IMF credits, liabilities to international financial institutions and foreign banks and accrued interest.

Central government and funds' deposits are demand deposits and foreign currency deposits of the Republic of Croatia and central government funds with the CNB, and CNB bills purchased by central government institutions.

CNB bills are kuna and f/c CNB bills on a voluntary basis, excluding CNB bills voluntarily purchased by central government institutions.

Capital accounts include reserves, provisions and the income and cost accounts.

Other items (net) are unclassified liabilities decreased by unclassified assets of the Monetary authorities accounts.

Due to the reclassification of savings banks from the subsector other banking institutions to the subsector banks, data for Currency outside banks, Banks' cash in vaults, Banks' deposits and Deposits of other banking institutions were revised.

D Banks

Table D1 Banks' accounts

end of period, in million HRK

	2009	2010											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
ASSETS													
1 Reserves with the CNB	45,902.1	48,086.9	47,082.8	44,631.9	43,661.3	44,077.8	44,457.7	42,519.4	42,862.5	44,498.8	45,281.0	44,633.2	45,759.6
1.1 In kuna	40,860.4	42,995.9	42,435.7	39,921.3	38,938.0	39,348.9	39,809.8	37,844.6	38,027.2	39,881.2	40,534.5	39,764.5	40,986.4
1.2 In f/c	5,041.7	5,091.0	4,647.1	4,710.7	4,723.3	4,728.9	4,647.8	4,674.8	4,835.2	4,617.6	4,746.4	4,868.7	4,773.2
2 Foreign assets	49,577.0	42,798.2	42,358.5	44,828.0	42,875.8	42,839.1	45,322.3	45,036.2	47,045.1	48,887.7	46,036.7	45,053.7	47,245.4
3 Claims on central government and funds	44,249.5	44,532.5	46,063.5	47,952.1	48,266.0	48,967.4	49,202.8	49,171.2	48,754.8	48,445.6	48,097.7	48,415.5	50,307.6
4 Claims on other domestic sectors	229,866.1	231,072.1	230,598.6	231,974.9	232,448.7	233,889.8	235,914.7	236,775.4	238,567.3	238,023.5	238,241.1	242,203.4	244,035.4
4.1 Claims on local government	2,074.2	2,100.2	2,123.7	2,123.4	2,221.1	2,202.5	2,213.5	2,273.8	2,275.4	2,219.1	2,216.6	2,194.7	2,412.8
4.2 Claims on enterprises	104,898.1	105,968.8	106,176.0	107,130.0	107,787.5	108,858.6	109,605.5	110,544.1	111,139.9	110,972.6	111,368.9	113,511.7	114,089.7
4.3 Claims on households	122,893.7	123,003.1	122,298.9	122,721.5	122,440.0	122,828.7	124,095.7	123,957.6	125,151.9	124,831.7	124,655.7	126,497.0	127,532.9
5 Claims on other banking institutions	681.7	844.2	934.7	733.1	1,062.7	883.2	795.1	1,175.2	1,040.5	976.3	1,074.1	1,518.6	890.9
6 Claims on non-banking financial instituions	1,109.9	1,127.3	1,194.2	1,200.8	1,248.2	1,260.2	1,357.0	1,530.5	1,379.5	1,936.4	1,970.7	2,514.1	2,590.0
Total (1+2+3+4+5+6)	**371,386.3**	**368,461.3**	**368,232.3**	**371,320.8**	**369,562.7**	**371,917.4**	**377,049.6**	**376,207.9**	**379,649.7**	**382,768.4**	**380,701.3**	**384,338.5**	**390,829.0**
LIABILITIES													
1 Demand deposits	31,899.6	33,305.9	33,899.0	32,951.0	33,843.2	32,539.2	33,667.4	33,799.8	34,559.5	35,733.7	34,994.1	33,387.2	33,888.9
2 Savings and time deposits	39,139.4	37,566.6	36,290.8	35,504.6	35,143.5	35,362.4	36,896.0	35,808.1	36,435.7	35,946.0	35,412.0	35,433.1	34,823.4
3 Foreign currency deposits	135,410.6	136,377.7	136,988.6	137,324.5	136,478.0	137,718.3	136,457.8	139,140.6	142,524.4	143,793.2	145,166.4	147,488.9	147,557.1
4 Bonds and money market instruments	1,362.8	1,458.3	1,366.3	1,487.7	1,451.3	1,501.4	1,511.8	1,254.3	1,390.5	1,209.3	1,166.4	1,202.4	1,337.4
5 Foreign liabilities	80,365.3	76,956.0	76,380.2	79,719.4	77,718.2	79,566.1	82,457.8	78,076.5	75,734.0	76,137.6	73,734.8	77,446.4	81,940.4
6 Central government and funds' deposits	18,219.3	16,774.8	16,978.2	17,384.2	17,609.3	17,666.7	17,432.5	19,463.0	19,470.9	19,756.7	19,638.4	19,480.1	19,870.3
7 Credit from central bank	13.5	13.5	13.3	13.2	13.1	13.1	13.0	12.9	13.0	12.8	12.9	13.0	12.9
8 Restricted and blocked deposits	2,548.4	2,530.7	2,604.9	2,395.6	2,418.6	2,697.7	2,720.7	2,559.8	2,387.7	2,529.6	2,711.8	2,345.8	2,328.3
9 Capital accounts	66,306.4	66,809.4	67,193.1	67,930.9	67,930.6	68,531.2	68,730.3	69,502.4	70,098.3	70,548.9	69,872.5	70,523.4	71,826.9
10 Other items (net)	–3,879.1	–3,331.7	–3,482.1	–3,390.4	–3,043.2	–3,678.6	–2,837.6	–3,409.6	–2,964.3	–2,899.3	–2,008.0	–2,981.7	–2,756.6
Total (1+2+3+4+5+6+7+8+9+10)	**371,386.3**	**368,461.3**	**368,232.3**	**371,320.8**	**369,562.7**	**371,917.4**	**377,049.6**	**376,207.9**	**379,649.7**	**382,768.4**	**380,701.3**	**384,338.5**	**390,829.0**

Table D1 Banks' accounts • Banks' accounts include data on banks' claims and liabilities. Banks' mutual claims and liabilities are consolidated.

Required reserves held at the central bank include kuna and foreign currency reserves. Kuna reserves include vault cash and kuna funds held in accounts at the central bank. Foreign currency reserves include foreign currency held in the CNB's foreign currency accounts.

Foreign assets are the following forms of kuna and foreign currency claims on foreign legal and natural persons: foreign cash in vaults, current account balances with foreign banks and time deposits with foreign banks (including loro letters of credit and other forms of collateral), securities, loans, and equities.

Claims on central government and funds are the following forms of claims in kuna and foreign currency: securities and loans.

Claims on other domestic sectors include the following claims in kuna and foreign currency: money market instruments, bonds, loans (including acceptances), and equities.

The same forms of kuna and foreign currency claims are included in claims on other banking institutions and non-banking financial institutions, with one difference: Claims on other banking institutions also include deposits with those institutions.

Items Demand deposits, Savings and time deposits, Foreign currency deposits as well as Bonds and money market instruments comprise banks' liabilities to other domestic sectors, other banking institutions and non-banking financial institutions.

Demand deposits include giro and current accounts balances and banks' obligations arising from kuna payment instruments issued, minus currency in the payment system, i.e. checks in banks' vaults and checks in collection.

Savings and time deposits are kuna sight deposits as well as kuna time and notice deposits.

Foreign currency deposits are foreign currency sight deposits as well as foreign currency time and notice deposits.

Bonds and money market instruments are banks' liabilities for securities issued (net) and loans received. Issued subordinated and hybrid instruments, purchased by foreign investors, are excluded from this item.

Foreign liabilities comprise the following forms of kuna and foreign currency liabilities to foreign legal and natural persons: giro and current accounts, savings deposits (including loro letters of credit and other forms of collateral), time deposits, loans received and liabilities due. Issued subordinate and hybrid instruments, purchased by foreign investors, are also included in loans received.

Central government and funds' deposits are all forms of banks' kuna and foreign currency liabilities (except restricted and blocked deposits) to the central government and funds.

Credit from central bank comprises loans received from the CNB and deposits by the CNB with banks. Repurchase of securities is also considered and treated as a loan.

Restricted and blocked deposits comprise the following banks' liabilities: kuna and foreign currency restricted deposits by other domestic sectors, other banking institutions, non-banking financial institutions, central government and funds as well as foreign legal and natural persons, and households' blocked foreign currency deposits, regulated by the Act on Converting Households' Foreign Currency Deposits into the Public Debt of the Republic of Croatia.

Capital accounts are share capital, profit or loss for the previous and current year, retained earnings (loss), legal reserves, reserves provided for by the articles of association and other capital reserves, hedging reserves, unrealised gains (losses) from financial assets classified as available-for-sale assets, value adjustments and collectively assessed impairment provisions.

Other items (net) are unclassified liabilities decreased by unclassified assets, including the fair value of derivative financial instruments.

Tables D2 – D12 • This group of tables (with the exception of Table D5) provides a detailed analysis of the relevant asset and liability items from Table D1 (Banks' accounts).

Table D2 Banks' foreign assets

end of period, in million HRK

	2009	2010											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Foreign assets in f/c	49,230.3	42,429.9	42,025.6	44,511.3	42,561.7	42,478.7	44,729.9	44,602.6	46,287.6	48,396.6	45,487.4	44,573.8	46,920.2
1.1 Claims on foreign financial institutions	34,186.6	29,040.1	29,518.6	30,564.2	29,731.5	30,183.5	31,315.6	31,667.4	31,972.5	34,136.4	32,827.3	31,510.2	32,069.1
Foreign currencies	1,772.6	1,525.0	1,397.6	1,599.7	1,634.7	1,785.2	2,049.3	2,365.2	2,070.6	1,804.9	1,594.7	1,417.5	1,628.4
Demand deposits	1,338.7	1,219.4	1,344.0	1,368.0	1,358.8	2,426.8	1,486.0	1,352.8	1,588.1	1,569.1	1,386.5	1,810.2	1,584.7
Time and notice deposits	29,254.5	24,447.6	24,791.1	25,651.5	24,995.6	24,368.4	26,175.1	26,360.6	26,742.2	29,168.7	27,905.6	26,215.1	26,728.1
Securities	1,629.0	1,664.5	1,800.7	1,720.6	1,593.2	1,449.1	1,423.0	1,411.6	1,383.5	1,411.0	1,770.2	1,894.9	1,896.5
Loans and advances	117.6	121.1	122.5	188.5	113.0	118.7	113.5	114.0	119.4	114.9	101.9	105.2	170.1
Shares and participations	74.2	62.6	62.8	35.9	36.3	35.3	68.7	63.3	68.6	67.9	68.5	67.3	61.3
1.2 Claims on foreign non-banks	15,043.7	13,389.8	12,507.0	13,947.1	12,830.2	12,295.2	13,414.4	12,935.2	14,315.2	14,260.2	12,660.1	13,063.6	14,851.2
Claims on foreign overnments	13,477.2	11,836.4	10,959.3	12,361.2	11,198.5	10,695.1	11,846.2	11,407.2	12,831.5	12,675.0	11,067.1	11,061.4	13,047.3
Claims on other non-residents	1,534.5	1,536.6	1,529.2	1,564.0	1,605.8	1,560.8	1,527.7	1,506.3	1,461.8	1,561.8	1,569.9	1,983.0	1,785.9
Securities	205.4	202.9	200.3	230.0	235.6	217.0	207.4	178.7	154.5	154.7	155.6	154.0	131.0
Loans and advances	1,329.1	1,333.7	1,328.9	1,334.0	1,370.2	1,343.8	1,320.3	1,327.6	1,307.3	1,407.1	1,414.3	1,829.0	1,654.9
Shares and participations	32.0	16.8	18.4	21.9	25.8	39.3	40.5	21.6	21.9	23.4	23.0	19.2	17.9
2 Foreign assets in kuna	346.7	368.4	332.9	316.7	314.1	360.4	592.4	433.6	757.5	491.1	549.3	479.9	325.2
2.1 Claims on foreign financial institutions	86.3	108.5	88.6	83.5	78.1	124.7	351.2	197.8	517.8	246.7	305.9	232.2	72.4
2.2 Claims on foreign non-banks	260.3	259.9	244.4	233.3	236.0	235.8	241.2	235.8	239.7	244.3	243.4	247.6	252.8
o/w: Loans and advances	260.0	259.6	244.1	233.0	235.7	235.5	240.9	235.5	239.4	244.0	243.1	247.3	252.5
Total (1+2)	49,577.0	42,798.2	42,358.5	44,828.0	42,875.8	42,839.1	45,322.3	45,036.2	47,045.1	48,887.7	46,036.7	45,053.7	47,245.4

Table D2 Banks' foreign assets • This table shows banks' claims on foreign legal and natural persons.

Foreign assets of banks comprise foreign assets in kuna and foreign currency.

Claims on foreign banks and Claims on foreign non-banks (total and by financial instruments) are shown separately within both foreign assets in kuna and in foreign currency.

Table D3 Banks' claims on the central government and funds

end of period, in million HRK

	2009	2010											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 In kuna	24,461.9	24,758.0	25,652.3	27,442.5	27,351.3	27,928.9	28,396.1	27,524.2	27,094.5	26,731.3	26,507.6	26,563.0	28,491.6
1.1 Claims on central government	19,230.6	19,545.9	20,500.5	20,409.9	20,406.5	20,891.3	21,434.5	20,590.5	20,159.6	19,864.7	19,589.0	19,575.9	21,461.5
Securities	16,305.4	16,283.9	17,453.2	17,456.7	17,063.5	17,148.9	17,064.4	17,308.6	16,838.0	16,509.9	16,721.0	16,714.1	17,752.1
o/w: Bonds (c'part to f/c savings deposits)	5.2	5.1	5.4	5.2	5.8	5.6	5.4	5.2	5.1	5.3	5.2	5.1	6.7
Loans and advances	2,925.1	3,262.0	3,047.3	2,953.3	3,343.0	3,742.5	4,370.1	3,281.9	3,321.6	3,354.9	2,868.0	2,861.7	3,709.4
1.2 Claims on central government funds	5,231.3	5,212.1	5,151.8	7,032.6	6,944.8	7,037.6	6,961.6	6,933.8	6,934.9	6,866.6	6,918.6	6,987.2	7,030.2
Securities	–	–	–	–	–	–	–	–	–	–	–	–	–
Loans and advances	5,231.3	5,212.1	5,151.8	7,032.6	6,944.8	7,037.6	6,961.6	6,933.8	6,934.9	6,866.6	6,918.6	6,987.2	7,030.2
2 In f/c	19,787.7	19,774.6	20,411.2	20,509.6	20,914.7	21,038.5	20,806.7	21,647.0	21,660.3	21,714.4	21,590.2	21,852.4	21,815.9
2.1 Claims on central government	14,793.1	14,804.0	14,684.8	14,650.5	14,841.3	14,952.7	14,794.5	14,911.8	14,900.5	14,938.1	14,770.9	14,958.5	14,901.3
Securities	234.7	232.6	208.4	196.3	194.5	273.1	255.7	262.6	208.0	209.7	168.7	195.0	207.7
Loans and advances	14,558.4	14,571.4	14,476.4	14,454.1	14,646.7	14,679.6	14,538.8	14,649.3	14,692.5	14,728.4	14,602.2	14,763.5	14,693.5
2.2 Claims on central government funds	4,994.6	4,970.6	5,726.4	5,859.1	6,073.5	6,085.7	6,012.2	6,735.2	6,759.8	6,776.2	6,819.2	6,893.9	6,914.7
Securities	52.0	40.1	96.4	96.7	96.7	96.3	94.3	95.3	96.1	97.0	97.5	98.4	84.7
Loans and advances	4,942.6	4,930.5	5,629.9	5,762.4	5,976.8	5,989.4	5,917.9	6,639.8	6,663.7	6,679.3	6,721.7	6,795.5	6,830.0
Total (1+2)	44,249.5	44,532.5	46,063.5	47,952.1	48,266.0	48,967.4	49,202.8	49,171.2	48,754.8	48,445.6	48,097.7	48,415.5	50,307.6

Table D3 Banks' claims on the central government and funds • The table shows banks' kuna and foreign currency claims on the central government and funds. The item Securities, shown under Claims in kuna on the Republic of Croatia, also comprises bonds arising from blocked foreign currency savings deposits issued in accordance with the Act on Converting Households' Foreign Currency Deposits into the Public Debt of the Republic of Croatia.

Table D4 Banks' claims on other domestic sectors

end of period, in million HRK

	2009	2010											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Claims in kuna	211,273.4	211,910.8	211,394.9	212,403.9	212,854.5	214,106.9	215,613.1	215,871.2	217,696.5	217,461.3	217,723.7	220,608.7	221,988.6
1.1 Money market instruments	2,040.2	1,980.9	1,984.3	1,791.7	1,752.5	1,759.5	1,757.1	1,749.7	1,745.1	1,690.2	1,874.5	1,847.8	1,873.2
1.2 Bonds	1,691.0	1,720.4	1,724.8	1,723.9	1,721.5	1,680.1	1,658.6	1,656.2	1,660.3	1,691.4	1,695.5	1,683.6	1,702.7
1.3 Loans and advances	205,279.3	205,933.2	205,407.8	206,621.5	207,085.1	208,378.9	209,918.1	210,182.1	211,784.0	211,581.0	211,651.5	214,566.7	215,923.2
1.4 Shares and participations	2,262.9	2,276.4	2,278.1	2,266.7	2,295.4	2,288.4	2,279.3	2,283.3	2,507.1	2,498.7	2,502.2	2,510.6	2,489.5
2 Claims in f/c	18,592.7	19,161.3	19,203.7	19,571.1	19,594.2	19,782.9	20,301.5	20,904.2	20,870.7	20,562.2	20,517.4	21,594.8	22,046.8
2.1 Securities	441.1	403.2	355.1	228.1	168.2	223.1	212.4	195.9	121.5	89.7	68.4	82.8	105.7
2.2 Loans and advances	18,151.7	18,758.1	18,848.6	19,343.0	19,426.0	19,559.8	20,089.1	20,708.3	20,749.2	20,472.5	20,449.0	21,511.9	21,941.1
Total (1+2)	229,866.1	231,072.1	230,598.6	231,974.9	232,448.7	233,889.8	235,914.7	236,775.4	238,567.3	238,023.5	238,241.1	242,203.4	244,035.4

Table D4 Banks' claims on other domestic sectors • The table shows banks' kuna and foreign currency claims on other domestic sectors, classified according to financial instruments: money market instruments (including factoring and forfeiting since January 2004), loans and advances (including acceptances and purchased claims), and equities.

Table D5 Distribution of banks' loans by domestic institutional sectors

end of period, in million HRK

	2009	2010											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
LOANS IN KUNA													
1 Loans to central government and funds	8,156.4	8,474.1	8,199.2	9,985.9	10,287.8	10,780.0	11,331.7	10,215.6	10,256.5	10,221.4	9,786.6	9,848.9	10,739.6
1.1 Loans to central government	2,925.1	3,262.0	3,047.3	2,953.3	3,343.0	3,742.5	4,370.1	3,281.9	3,321.6	3,354.9	2,868.0	2,861.7	3,709.4
1.2 Loans to central government funds	5,231.3	5,212.1	5,151.8	7,032.6	6,944.8	7,037.6	6,961.6	6,933.8	6,934.9	6,866.6	6,918.6	6,987.2	7,030.2
2 Loans to local government	1,795.4	1,828.1	1,851.3	1,864.0	1,964.3	1,943.5	1,959.4	2,023.3	2,022.3	1,975.7	1,970.6	1,947.1	2,168.1
3 Loans to enterprises	80,913.1	81,431.5	81,582.8	82,354.8	82,995.6	83,958.0	84,211.6	84,544.7	84,951.7	85,109.6	85,358.5	86,459.7	86,564.6
4 Loans to households	122,570.8	122,673.5	121,973.7	122,402.7	122,125.2	122,477.3	123,747.1	123,614.1	124,810.0	124,495.6	124,322.4	126,159.8	127,190.5
o/w: Housing loans	52,949.4	53,321.3	53,110.1	53,596.5	53,489.1	53,799.1	55,084.6	55,053.0	56,074.0	55,786.3	55,397.6	56,763.9	57,984.0
5 Loans to other banking institutions	236.5	137.9	168.9	196.2	245.7	281.3	237.6	520.8	371.6	355.2	366.8	772.7	293.2
6 Loans to non-banking financial institutions	689.0	741.0	837.4	825.9	839.9	854.4	797.4	967.1	814.2	1,450.5	1,472.1	2,011.6	2,063.0
A Total (1+2+3+4+5+6)	**214,361.3**	**215,286.1**	**214,613.3**	**217,629.5**	**218,458.5**	**220,294.5**	**222,284.9**	**221,885.6**	**223,226.3**	**223,608.1**	**223,277.0**	**227,199.8**	**229,018.9**
LOANS IN F/C													
1 Loans to central government and funds	19,501.0	19,501.9	20,106.4	20,216.5	20,623.5	20,669.1	20,456.7	21,289.1	21,356.2	21,407.7	21,323.9	21,559.0	21,523.5
1.1 Loans to central government	14,558.4	14,571.4	14,476.4	14,454.1	14,646.7	14,679.6	14,538.8	14,649.3	14,692.5	14,728.4	14,602.2	14,763.5	14,693.5
1.2 Loans to central government funds	4,942.6	4,930.5	5,629.9	5,762.4	5,976.8	5,989.4	5,917.9	6,639.8	6,663.7	6,679.3	6,721.7	6,795.5	6,830.0
2 Loans to local government	3.0	1.7	1.7	1.7	1.7	1.7	1.7	0.4	0.5	0.4	0.4	0.4	0.5
3 Loans to enterprises	17,825.7	18,426.8	18,521.7	19,022.5	19,109.5	19,206.8	19,738.8	20,364.4	20,406.8	20,135.9	20,115.3	21,174.3	21,598.3
4 Loans to households	323.0	329.6	325.2	318.8	314.8	351.3	348.6	343.4	341.9	336.1	333.2	337.2	342.4
5 Loans to other banking institutions	31.0	14.2	13.8	10.7	12.0	6.9	2.5	–	–	10.6	–	13.4	0.6
6 Loans to non-banking financial institutions	269.4	232.0	204.5	223.3	259.2	255.5	411.3	414.5	416.1	336.9	339.1	342.9	341.3
B Total (1+2+3+4+5+6)	**37,953.0**	**38,506.2**	**39,173.2**	**39,793.6**	**40,320.7**	**40,491.3**	**40,959.7**	**42,411.9**	**42,521.5**	**42,227.7**	**42,111.9**	**43,427.1**	**43,806.5**
TOTAL (A+B)	252,314.3	253,792.3	253,786.5	257,423.1	258,779.3	260,785.8	263,244.6	264,297.5	265,747.7	265,835.8	265,389.0	270,626.9	272,825.4

Table D5 Distribution of banks' loans by domestic institutional sectors • The table shows data on kuna and foreign currency loans granted by banks to domestic sectors, including acceptances, financial leases, payments made on the basis of guarantees and similar instruments and purchased claims.

Table D6 Demand deposits with banks

end of period, in million HRK

	2009	2010											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Local government	1,377.7	1,264.1	1,110.0	1,063.6	1,113.2	1,015.0	922.9	1,093.2	1,164.3	1,192.5	1,226.4	1,113.3	1,303.3
2 Enterprises	14,893.1	16,442.4	16,385.6	16,179.9	16,811.0	15,361.8	16,076.1	16,470.1	17,025.3	18,158.4	17,980.3	16,604.3	15,860.4
3 Households	14,218.6	14,108.7	14,249.3	14,260.4	14,359.8	14,755.7	14,940.2	15,151.6	15,255.4	15,163.1	14,863.4	14,592.1	15,581.9
4 Other banking institutions	517.1	435.7	1,127.7	443.6	580.9	447.8	524.5	241.0	375.3	327.5	176.0	217.9	347.5
5 Non-banking financial institutions	893.4	1,055.2	1,026.7	1,003.7	978.6	959.0	1,204.0	844.1	739.5	892.4	748.2	859.9	796.0
6 Less: Checks of other banks and checks in collection	–0.3	–0.3	–0.3	–0.2	–0.3	–0.3	–0.3	–0.2	–0.2	–0.2	–0.2	–0.2	–0.2
Total (1+2+3+4+5+6)	31,899.6	33,305.9	33,899.0	32,951.0	33,843.2	32,539.2	33,667.4	33,799.8	34,559.5	35,733.7	34,994.1	33,387.2	33,888.9

Table D6 Demand deposits with banks • The table shows demand deposits with banks, classified by domestic institutional sectors.

Demand deposits are the sum of other domestic sectors', other banking institutions' and non-banking financial institutions' giro and current accounts balances, minus currency in the payment system (i.e. checks in banks' vaults and checks in collection). Banks' obligations arising from kuna payment instruments issued are included in the household sector.

Table D7 Time and savings deposits with banks

end of period, in million HRK

	2009	2010											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Savings deposits	2,523.1	2,528.5	2,549.6	2,490.9	2,454.5	2,456.3	2,592.3	2,537.0	2,533.1	2,508.6	2,475.3	2,431.0	2,503.2
1.1 Local government	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
1.2 Enterprises	203.7	253.9	279.1	226.4	206.0	190.5	180.3	245.5	263.9	266.6	303.9	297.7	318.9
1.3 Households	2,268.9	2,260.8	2,259.5	2,247.6	2,235.1	2,249.1	2,400.0	2,275.9	2,252.0	2,221.1	2,162.3	2,129.1	2,167.4
1.4 Other banking institutions	5.0	5.0	5.0	8.5	3.5	3.5	–	–	–	–	–	–	–
1.5 Non-banking financial institutions	45.5	8.7	6.0	8.2	9.8	13.2	11.9	15.4	17.2	20.9	9.0	4.1	16.9
2 Time and notice deposits	36,616.3	35,038.1	33,741.2	33,013.8	32,689.0	32,906.1	34,303.7	33,271.2	33,902.5	33,437.4	32,936.7	33,002.1	32,320.2
2.1 Local government	498.8	813.3	862.2	850.4	875.2	892.9	881.7	831.7	869.2	856.4	856.6	787.6	355.2
2.2 Enterprises	11,559.0	9,057.6	8,285.6	9,328.5	8,842.6	8,530.7	8,690.8	9,458.6	10,126.7	9,449.9	9,093.3	9,454.7	8,933.3
2.3 Households	16,910.7	17,193.8	17,311.2	17,199.9	17,190.3	17,327.5	17,439.1	17,332.1	17,278.3	17,190.8	17,203.1	17,093.5	17,188.1
2.4 Other banking institutions	3,039.8	3,409.9	3,151.6	2,266.0	2,372.9	2,571.9	3,495.7	2,365.8	2,244.4	2,618.5	2,298.9	2,398.5	2,448.8
2.5 Non-banking financial institutions	4,608.1	4,563.5	4,130.6	3,369.0	3,408.0	3,583.1	3,796.4	3,283.0	3,383.9	3,321.8	3,484.9	3,267.9	3,394.8
Total (1+2)	39,139.4	37,566.6	36,290.8	35,504.6	35,143.5	35,362.4	36,896.0	35,808.1	36,435.7	35,946.0	35,412.0	35,433.1	34,823.4

Table D7 Time and savings deposits with banks • The table shows kuna savings and time deposits by other domestic sectors, other banking institutions and non-banking financial institutions with banks.

Table D8 Foreign currency deposits with banks

end of period, in million HRK

	2009	2010											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Savings deposits	20,781.0	20,660.7	21,280.4	20,942.3	20,802.5	21,254.4	21,588.6	22,272.1	23,770.5	23,768.0	23,127.4	23,888.1	22,906.1
1.1 Local government	25.5	10.0	8.9	13.1	10.9	12.6	23.7	14.4	12.8	10.6	12.7	13.5	15.8
1.2 Enterprises	5,053.6	4,758.6	5,240.1	5,299.6	5,125.5	5,100.1	5,338.0	5,479.9	6,129.6	6,112.2	5,931.3	6,770.6	5,738.5
1.3 Households	15,148.7	15,316.9	15,394.3	15,086.5	15,093.8	15,496.0	15,665.1	16,132.9	16,846.1	17,052.0	16,547.0	16,357.9	16,313.0
1.4 Other banking institutions	150.4	159.7	143.7	170.9	165.8	199.8	171.9	137.9	202.5	141.5	176.7	214.9	268.5
1.5 Non-banking financial institutions	402.9	415.5	493.4	372.2	406.6	445.8	389.9	507.0	579.4	451.7	459.7	531.3	570.2
2 Time deposits	114,629.6	115,717.0	115,708.2	116,382.2	115,675.4	116,463.9	114,869.2	116,868.5	118,753.8	120,025.2	122,039.0	123,600.8	124,651.0
2.1 Local government	2.5	6.2	6.2	6.3	9.3	8.6	12.4	11.4	13.7	13.7	11.6	7.6	2.3
2.2 Enterprises	13,516.9	13,250.9	12,867.2	13,117.6	12,471.5	12,550.4	12,010.1	13,438.6	13,187.6	14,316.9	14,698.8	13,838.1	15,097.8
2.3 Households	95,598.0	96,524.5	96,448.2	97,008.2	97,197.3	97,801.2	97,053.0	98,257.3	99,783.4	99,995.7	101,327.7	104,011.6	104,621.4
2.4 Other banking institutions	663.0	649.2	613.4	659.6	642.5	647.7	788.9	670.0	867.0	1,111.3	1,310.4	1,073.3	1,384.1
2.5 Non-banking financial institutions	4,849.1	5,286.2	5,773.1	5,590.5	5,354.9	5,456.0	5,004.8	4,491.2	4,902.0	4,587.7	4,690.5	4,670.3	3,545.4
Total (1+2)	135,410.6	136,377.7	136,988.6	137,324.5	136,478.0	137,718.3	136,457.8	139,140.6	142,524.4	143,793.2	145,166.4	147,488.9	147,557.1

Table D8 Foreign currency deposits with banks • The table shows foreign currency savings and time deposits by other domestic sectors, other banking institutions and non-banking financial institutions with banks. Foreign currency savings deposits are all foreign currency sight deposits and foreign currency payment instruments issued, while foreign currency time deposits also include foreign currency notice deposits.

Table D9 Bonds and money market instruments

end of period, in million HRK

	2009	2010											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Money market instruments (net)	0.8	0.8	–	–	–	–	–	–	–	–	–	–	–
2 Bonds (net)	765.3	766.0	777.1	988.8	988.1	989.7	998.0	983.6	992.8	997.4	998.2	1,007.0	1,016.7
3 Other domestic borrowing	596.7	691.6	589.2	499.0	463.2	511.7	513.8	270.7	397.7	211.8	168.2	195.4	320.7
3.1 Local government	–	–	–	–	–	–	–	–	–	–	–	–	–
3.2 Enterprises	4.6	4.5	4.2	4.0	2.9	3.3	3.2	2.9	2.9	2.7	2.6	2.6	2.4
3.3 Other banking institutions	551.8	669.4	574.6	495.0	460.3	508.3	510.7	267.8	394.8	199.9	165.6	192.7	318.1
3.4 Non-banking financial institutions	40.4	17.7	10.4	–	–	–	–	–	–	9.2	–	0.2	0.1
Total (1+2+3)	1,362.8	1,458.3	1,366.3	1,487.7	1,451.3	1,501.4	1,511.8	1,254.3	1,390.5	1,209.3	1,166.4	1,202.4	1,337.4

Table D9 Bonds and money market instruments • The table shows banks' liabilities for securities issued (net) and loans received from other domestic sectors, other banking institutions and non-banking financial institutions.

Money market instruments (net) comprise banks' net liabilities for CNB bills, bills of exchange (issued and accepted) and other securities issued.

Bonds (net) comprise banks' net liabilities for kuna and foreign currency bonds issued, as well as issued subordinated and hybrid instruments, excluding those purchased by foreign investors.

Other domestic borrowing comprises loans received, which are reported in the total amount and classified by institutional sectors.

Table D10 Banks' foreign liabilities

end of period, in million HRK

	2009	2010											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Foreign liabilities in f/c	60,046.7	57,947.6	57,425.1	60,080.9	57,955.8	58,578.0	61,479.8	57,926.6	56,071.0	56,236.5	53,590.1	54,968.8	58,715.8
1.1 Liabilities to foreign financial institutions	51,702.3	49,471.9	48,567.9	50,992.2	48,962.8	49,446.3	52,207.1	48,464.9	46,471.3	46,517.2	43,822.2	44,956.9	48,789.0
Demand deposits	221.0	248.5	272.3	271.2	372.1	454.2	328.9	291.4	275.0	265.6	230.1	261.9	208.3
Time and notice deposits	21,945.8	20,476.7	19,995.6	20,669.6	19,983.9	19,520.8	21,057.3	19,527.3	18,368.3	19,095.1	18,390.7	19,039.2	20,188.9
Loans and advances	29,535.4	28,746.6	28,300.0	30,051.5	28,606.7	29,471.3	30,820.9	28,646.2	27,828.0	27,156.5	25,201.4	25,655.8	28,391.9
o/w: Subordinated and hybrid instruments	2,000.7	2,007.6	1,996.7	2,001.4	1,997.2	2,003.6	2,011.2	2,018.9	2,039.5	2,028.2	2,030.6	2,066.0	2,079.8
Bonds	–	–	–	–	–	–	–	–	–	–	–	–	–
1.2 Liabilities to foreign non-banks	8,344.4	8,475.7	8,857.2	9,088.6	8,993.0	9,131.6	9,272.6	9,461.7	9,599.7	9,719.4	9,767.9	10,011.9	9,926.7
Savings and time deposits	8,336.3	8,467.6	8,838.2	9,070.2	8,975.2	9,113.7	9,254.7	9,443.7	9,581.6	9,701.8	9,750.8	9,994.5	9,909.3
Sight deposits	1,267.8	1,265.6	1,292.3	1,410.2	1,338.2	1,378.4	1,383.3	1,533.2	1,538.5	1,532.6	1,458.4	1,479.9	1,434.3
Time and notice deposits	7,068.6	7,202.0	7,545.9	7,660.0	7,637.0	7,735.3	7,871.4	7,910.4	8,043.0	8,169.2	8,292.3	8,514.6	8,475.0
Loans and advances	8.0	8.1	18.9	18.4	17.9	17.9	17.9	18.0	18.1	17.6	17.2	17.4	17.5
o/w: Subordinated and hybrid instruments	–	–	10.9	10.9	10.9	10.9	10.8	10.9	10.9	10.9	11.0	11.1	11.1
2 Foreign liabilities in kuna	20,318.6	19,008.4	18,955.1	19,638.5	19,762.4	20,988.1	20,978.0	20,149.9	19,663.0	19,901.0	20,144.7	22,477.6	23,224.6
2.1 Liabilities to foreign financial institutions	19,943.0	18,619.5	18,570.2	19,270.1	19,387.3	20,400.6	20,591.6	19,762.8	19,287.4	19,529.6	19,766.0	22,073.7	22,817.7
Demand deposits	359.1	497.6	569.6	273.7	341.1	375.7	384.6	394.6	338.5	344.1	496.6	496.5	696.3
Time and notice deposits	14,654.3	13,180.7	13,062.1	12,952.7	13,016.5	13,989.3	14,111.2	13,282.8	12,831.8	13,094.3	13,195.8	15,466.4	15,963.5
Loans and advances	4,929.6	4,941.2	4,938.5	6,043.7	6,029.8	6,035.6	6,095.8	6,085.5	6,117.1	6,091.2	6,073.6	6,110.8	6,158.0
o/w: Subordinated and hybrid instruments	749.2	760.7	758.1	773.8	770.8	776.6	836.9	826.5	858.1	832.2	814.7	851.9	899.0
2.2 Liabilities to foreign non-banks	375.7	388.9	384.9	368.4	375.1	587.5	386.4	387.1	375.6	371.5	378.8	403.9	406.8
Demand deposits	222.8	236.5	235.1	220.9	238.5	444.2	235.6	243.8	233.6	231.1	241.5	249.5	250.3
Time and notice deposits	144.4	143.9	141.3	139.0	128.1	134.8	142.2	134.7	133.5	131.9	128.8	145.8	148.0
Loans and advances	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5
o/w: Subordinated and hybrid instruments	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5
Total (1+2)	80,365.3	76,956.0	76,380.2	79,719.4	77,718.2	79,566.1	82,457.8	78,076.5	75,734.0	76,137.6	73,734.8	77,446.4	81,940.4

Table D10 Banks' foreign liabilities • The table shows banks' total foreign currency and kuna liabilities to foreign legal and natural persons, with the exception of restricted kuna and foreign currency deposits by foreign legal and natural persons.

Banks' foreign liabilities comprise foreign currency liabilities and foreign kuna liabilities.

Within foreign kuna and foreign currency liabilities, liabilities to foreign banks are reported separately from liabilities to foreign non-banks (total and by financial instruments). Loans and advances also include issued subordinated and hybrid instruments purchased by foreign investors.

Table D11 Central government and funds' deposits with banks

end of period, in million HRK

	2009	2010											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 In kuna	15,124.1	15,236.1	15,373.3	15,681.5	15,655.3	15,805.9	15,946.1	16,617.4	16,440.5	16,529.2	16,700.9	16,736.9	16,089.9
1.1 Central government deposits	356.6	493.2	401.2	449.9	640.7	723.2	539.6	939.3	585.3	757.5	824.7	861.2	806.8
Demand deposits	189.3	255.6	162.5	155.4	164.8	192.2	184.7	285.9	217.1	173.7	164.6	216.5	306.0
Savings deposits	0.6	0.6	6.6	0.5	0.7	0.7	0.6	0.6	2.6	0.6	0.5	0.5	0.5
Time and notice deposits	166.7	237.0	232.2	294.0	475.2	530.4	354.3	652.8	365.6	583.3	659.5	644.2	485.3
Loans and advances	–	–	–	–	–	–	–	–	–	–	–	–	15.0
1.2 Central government funds' deposits	14,767.5	14,742.9	14,972.0	15,231.5	15,014.6	15,082.6	15,406.5	15,678.1	15,855.2	15,771.7	15,876.3	15,875.7	15,283.1
Demand deposits	389.5	201.5	327.2	448.1	407.8	457.9	449.5	419.2	539.7	526.0	635.7	610.7	290.9
Savings deposits	0.3	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Time and notice deposits	410.8	475.0	537.8	649.4	437.8	452.7	414.8	432.0	511.3	372.8	523.4	570.6	329.0
Loans and advances	13,966.9	14,066.2	14,106.8	14,133.9	14,169.0	14,172.0	14,542.2	14,826.9	14,804.2	14,872.9	14,717.2	14,694.4	14,663.3
2 In f/c	3,095.2	1,538.8	1,604.9	1,702.8	1,954.0	1,860.8	1,486.4	2,845.6	3,030.4	3,227.5	2,937.5	2,743.2	3,780.4
2.1 Central government deposits	1,088.3	1,015.7	1,036.4	1,024.7	1,188.0	1,154.9	1,219.3	1,334.0	1,464.5	1,481.4	1,471.4	1,475.6	1,656.1
Savings deposits	716.8	337.5	410.2	459.3	495.3	374.8	514.2	841.7	836.0	851.4	828.7	836.6	993.9
Time and notice deposits	309.4	646.1	593.5	532.4	659.2	744.2	669.0	492.0	628.2	629.9	642.5	638.8	662.0
Refinanced loans and advances	62.2	32.1	32.7	33.0	33.5	35.9	36.1	0.2	0.2	0.2	0.2	0.2	0.2
2.2 Central government funds' deposits	2,006.9	523.1	568.6	678.0	766.0	706.0	267.1	1,511.6	1,566.0	1,746.0	1,466.1	1,267.6	2,124.3
Savings deposits	106.6	54.3	72.9	54.6	63.9	68.0	102.3	160.5	270.9	219.9	102.0	122.2	90.2
Time and notice deposits	256.4	212.8	241.2	260.5	303.5	238.5	92.8	1,278.6	1,199.8	1,159.1	1,070.5	848.6	601.3
Loans and advances	1,643.9	256.0	254.5	363.0	398.6	399.5	71.9	72.5	95.3	367.0	293.6	296.8	1,432.7
Total (1+2)	18,219.3	16,774.8	16,978.2	17,384.2	17,609.3	17,666.7	17,432.5	19,463.0	19,470.9	19,756.7	19,638.4	19,480.1	19,870.3

Table D11 Central government and funds' deposits with banks • The table reports total banks' kuna and foreign currency liabilities to the central government and funds, with the exception of restricted (kuna and foreign currency) deposits by the central government and funds with banks.

Kuna and foreign currency deposits by the Republic of Croatia and central government funds are shown separately. Kuna deposits comprise demand deposits, savings deposits, time and notice deposits, and loans received from the central government and funds. Foreign currency deposits comprise savings deposits, time and notice deposits, and refinanced loans and advances.

Table D12 Restricted and blocked deposits with banks

end of period, in million HRK

	2009	2010											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Restricted deposits	2,548.4	2,530.7	2,604.9	2,395.6	2,418.6	2,697.7	2,720.7	2,559.8	2,387.7	2,529.6	2,711.8	2,345.8	2,328.3
1.1 In kuna	1,366.0	1,394.1	1,433.3	1,403.2	1,334.5	1,392.1	1,398.5	1,502.3	1,375.9	1,398.2	1,408.6	1,348.0	1,428.9
1.2 In f/c	1,182.5	1,136.6	1,171.6	992.3	1,084.1	1,305.6	1,322.2	1,057.5	1,011.8	1,131.4	1,303.1	997.8	899.4
2 Blocked f/c deposits of housholds	–	–	–	–	–	–	–	–	–	–	–	–	–
Total (1+2)	2,548.4	2,530.7	2,604.9	2,395.6	2,418.6	2,697.7	2,720.7	2,559.8	2,387.7	2,529.6	2,711.8	2,345.8	2,328.3

Table D12 Restricted and blocked deposits with banks • The table shows households' restricted (kuna and foreign currency) deposits and blocked deposits.

Blocked foreign currency deposits include households' foreign currency deposits, regulated by the Act on Converting Households' Foreign Currency Deposits into the Public Debt of the Republic of Croatia.

E Housing savings banks

Table E1 Housing savings banks' accounts

end of period, in million HRK

	2009	2010											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
ASSETS													
1 Reserves with the CNB	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2 Claims on central government and funds	3,137.9	3,128.2	3,106.3	3,096.3	3,089.7	2,996.8	3,079.4	3,114.8	3,139.4	3,162.9	3,204.4	3,247.3	3,315.9
3 Claims on other domestic sectors	2,979.1	2,970.9	2,943.2	2,951.6	2,936.8	2,942.8	2,927.5	2,947.4	2,950.5	2,963.1	2,970.0	2,991.8	2,987.3
o/w: Claims on households	2,979.1	2,970.9	2,943.2	2,951.6	2,936.8	2,942.8	2,927.5	2,947.4	2,950.5	2,963.1	2,970.0	2,991.8	2,987.3
4 Claims on banks	294.8	300.1	255.5	201.8	173.6	269.1	156.8	137.7	161.4	163.7	161.6	201.1	258.5
5 Claims on other banking institutions	–	–	–	–	–	–	–	–	–	–	–	–	–
Total (1+2+3+4+5)	**6,411.7**	**6,399.2**	**6,305.1**	**6,249.7**	**6,200.1**	**6,208.7**	**6,163.7**	**6,199.9**	**6,251.3**	**6,289.7**	**6,336.1**	**6,440.1**	**6,561.8**
LIABILITIES													
1 Time deposits	5,711.8	5,716.9	5,560.6	5,485.2	5,425.1	5,403.9	5,346.3	5,385.9	5,417.4	5,454.6	5,492.6	5,564.9	5,791.5
2 Bonds and money market instruments	230.8	198.7	242.9	265.6	283.4	287.5	294.7	297.9	295.9	292.1	298.9	303.0	279.7
3 Capital accounts	478.1	486.4	492.5	498.5	500.2	502.2	500.7	495.0	500.5	502.8	506.4	510.7	512.1
4 Other items (net)	–8.9	–2.8	9.1	0.5	–8.7	15.0	21.9	21.0	37.4	40.1	38.3	61.5	–21.5
Total (1+2+3+4)	**6,411.7**	**6,399.2**	**6,305.1**	**6,249.7**	**6,200.1**	**6,208.7**	**6,163.7**	**6,199.9**	**6,251.3**	**6,289.7**	**6,336.1**	**6,440.1**	**6,561.8**

Table E1 Housing savings banks' accounts • Housing savings banks' accounts include data on claims and liabilities of the Croatian housing savings banks. All housing savings banks' claims and liabilities refer exclusively to domestic sectors.

Housing savings banks' required reserves held at the central bank include funds in vaults.

Claims on central government and funds are claims in kuna on the Republic of Croatia and central government funds.

Claims on other domestic sectors include kuna loans to local government and households.

Claims on banks include loans to banks, as well as deposits with banks, including, from October 2003 on, accounts for regular operations with banks.

Claims on other banking institutions include investments in investment funds.

Item Time deposits includes local government and households' time deposits.

Bonds and money market instruments are housing savings banks' liabilities for securities issued (net) and loans received.

Capital accounts are share capital, profit or loss for the previous and current year, retained earnings (loss), legal reserves, reserves provided for by the articles of association and other capital reserves, hedging reserves, unrealised gains (losses) from financial assets classified as available-for-sale assets, value adjustments and collectively assessed impairment provisions. Other items (net) are unclassified liabilities decreased by unclassified assets.

F Monetary policy instruments and liquidity

Table F1: Credit rates of the Croatian National Bank

in percentage, on annual basis

Year	Month	CNB discount rate	CNB repo rate[a]	Credit rates					
				On Lombard credits[b]	On intervention credits	On intra-day refinance facility[b]	On short-term liquidity credits	On inaccurately calculated statutory reserves[b]	On arrears
1	2	3	4	5	6	7	8	9	10
2001	December	5.90	–	10.00	–	–	11.00	15.00	18.00
2002	December	4.50	–	9.50	–	–	10.50	15.00	15.00
2003	December	4.50	–	9.50	–	–	10.50	15.00	15.00
2004	December	4.50	–	9.50	–	–	10.50	15.00	15.00
2005	December	4.50	3.50	7.50[c]	–	–	8.50[c]	15.00	15.00
2006	December	4.50	3.50	7.50	–	–	8.50	15.00	15.00
2007	December	9.00[d]	4.06	7.50	–	–	8.50	15.00	15.00
2008	December	9.00	6.00	9.00	–	–	10.00	15.00	15.00
2009	December	9.00	–	9.00	–	–	10.00	15.00	15.00
2010	January	9.00	–	9.00	–	–	10.00	15.00	15.00
	February	9.00	–	9.00	–	–	10.00	15.00	15.00
	March	9.00	–	9.00	–	–	10.00	15.00	15.00
	April	9.00	–	9.00	–	–	10.00	15.00	15.00
	May	9.00	–	9.00	–	–	10.00	15.00	15.00
	June	9.00	–	9.00	–	–	10.00	15.00	15.00
	July	9.00	–	9.00	–	–	10.00	15.00	15.00
	August	9.00	–	9.00	–	–	10.00	15.00	15.00
	September	9.00	–	9.00	–	–	10.00	15.00	15.00
	October	9.00	–	9.00	–	–	10.00	15.00	15.00
	November	9.00	–	9.00	–	–	10.00	15.00	15.00
	December	9.00	–	9.00	–	–	10.00	15.00	15.00

[a] Weighted averages of weighted repo rates achieved at regular reverse repo auctions of the CNB in the reporting month. [b] Breaks in the series of data are explained in notes on methodology. [c] Since 14 December 2005. [d] Since 31 December 2007.

Table F1 Credit rates of the Croatian National Bank • The table shows interest rates used by the CNB to calculate and charge interest on credits from the primary issue and on all other claims.

Credit rates of the CNB are set by decisions of the Council of the Croatian National Bank, on a yearly basis.

Time series presented in the table contain certain breaks, due to changes in the CNB's monetary policy instruments.

Data shown in column 4 refer to the weighted averages of the weighted repo rates achieved at regular reverse repo auctions of the CNB in the reporting month.

Data shown in column 8 refer to interest rates on short-term liquidity credit with a maturity over 3 months which is 1 percentage point higher than interest rate on Lombard credits. Interest rate on short-term liquidity credit up to 3 months is 0.5 percentage point higher than interest rate on Lombard credits.

Table F2 Deposit rates of the Croatian National Bank

in percentage, on annual basis

Year	Month	Interest rates on statutory reserves dep. with the CNB	Interest rates on CNB bills on an obligatory basis	Interest rates on CNB bills on a voluntary basis[a]				Interest rates on f/c CNB bills on a voluntary basis					Interest rates on overnight deposits
				Due in 7 days	Due in 35 days	Due in 70 days	Due in 105 days	Due in 35 days	Due in 63 days	Due in 91 days	Due in 182 days	Due in 364 days	
1	2	3	4	5	6	7	8	9	10	11	12	13	14
2001	December	2.00	–	–	3.36	4.26	4.85	–	2.62	3.06	–	–	–
2002	December	1.75	–	–	2.08	–	–	2.30	2.68	–	–	–	–
2003	December	1.25	0.50	–	–	–	–	1.75	1.48	–	–	–	–
2004	December	1.25	–	–	–	–	–	–	–	–	–	–	–
2005	December	0.75	–	–	–	–	–	–	–	–	–	–	0.50
2006	December	0.75	–	–	–	–	–	–	–	–	–	–	0.50
2007	December	0.75	0.75	–	–	–	–	–	–	–	–	–	0.50
2008	December	0.75	0.25	–	–	–	–	–	–	–	–	–	0.50
2009	December	0.75	0.25	–	–	–	–	–	–	–	–	–	0.50
2010	January	0.75	–	–	–	–	–	–	–	–	–	–	0.50
	February	0.75	–	–	–	–	–	–	–	–	–	–	0.50
	March	0.75	–	–	–	–	–	–	–	–	–	–	0.50
	April	0.75	–	–	–	–	–	–	–	–	–	–	0.50
	May	0.75	–	–	–	–	–	–	–	–	–	–	0.50
	June	0.75	–	–	–	–	–	–	–	–	–	–	0.50
	July	0.75	–	–	–	–	–	–	–	–	–	–	0.50
	August	0.75	–	–	–	–	–	–	–	–	–	–	0.50
	September	0.75	–	–	–	–	–	–	–	–	–	–	0.50
	October	0.75	–	–	–	–	–	–	–	–	–	–	0.50
	November	0.75	–	–	–	–	–	–	–	–	–	–	0.50
	December	0.75	–	–	–	–	–	–	–	–	–	–	0.50

[a] Breaks in the series of data are explained in notes on methodology.

Table F2 Deposit rates of the Croatian National Bank • The table shows interest rates used by the CNB to calculate and pay interest on funds deposited with the CNB and on issued securities.

Interest rates paid by the CNB for appropriated statutory reserve funds are set by a decision of the Council of the Croatian National Bank. Until April 2005, the appropriated statutory reserve funds included the calculated statutory reserve funds that were deposit in a special statutory reserve account with the CNB, or maintained (in average) in banks' settlement accounts, or deposited in a special account with the CNB for the settlement of net positions in the National Clearing System (NCS). From April 2005, they include the calculated statutory reserve funds allocated to a special statutory reserve account with the CNB (column 3).

Interest rates on CNB bills on an obligatory basis are set by a decision of the Council of the Croatian National Bank.

Interest rates on CNB bills on a voluntary basis are set at CNB bills' auction sales. Congruently, columns 5, 6 and 7 report the weighted average interest rates attained at auctions of CNB bills.

From April 1998 on, columns 9 through 13 report the weighted average interest rates on CNB bills on a voluntary basis in EUR and USD attained at CNB bills' auctions as a weighted average of subscribed amounts in those two currencies.

Column 14 reports the interest rate on overnight deposits with the CNB.

Table F3 Banks' reserve requirements • This table shows data on monthly averages of day-to-day balances of banks' kuna and foreign currency reserve requirements with the CNB. Savings banks are included beginning in July 1999.

Column 3 shows the weighted average reserve requirement ratio as a percentage of the kuna and foreign currency reserve requirements (column 4) in the reserve base.

Reserve requirement (column 4) represents the prescribed amount of funds banks are required to deposit in a special statutory reserve account with the CNB, or to maintain (in average) in their settlement accounts and in vaults, or in accounts of liquid foreign currency claims (which include foreign cash and checks in foreign currency, liquid foreign currency claims maintained in the accounts with the high-grade foreign banks and foreign currency CNB bills).

Column 5 shows the amount of kuna reserve requirements. Between January 1995 and December 2000, this amount corresponded with the statutory reserve requirement instrument, while until December 1994 it comprised two instruments: statutory reserves and liquid assets requirement – LAR (except for the part in which banks were conforming to this requirement by registering CNB bills on a voluntary basis). In December 2000, reserve requirements in kuna and in foreign currency were unified, i.e. reserve requirements rate, periods for calculating, allocating and maintaining reserve requirements were unified, as well as a minimum percentage of the total reserve requirements

Table F3 Banks' reserve requirements

daily averages and percentages, in million HRK and %

Year	Month	Weighted average res. requirement in % on res. base	Reserve requirement (RR)			Other obligatory deposits with the CNB	Statutory reserves deposited with the CNB		Weighted avg. remuneration rate on immobilised funds in kuna	Weighted avg. remuneration rate on allocated funds in f/c
			Total	In kuna	In f/c		In kuna	In f/c		
1	2	3	4=5+6	5	6	7	8	9	10	11
2001	December	19.67	21,187.1	8,691.5	12,495.5	–	6,287.8	5,950.0	1.97	2.73
2002	December	19.00	25,985.1	11,447.1	14,538.0	–	8,156.7	7,139.9	1.72	2.16
2003	December	19.00	31,009.4	18,023.8	12,985.6	109.4	12,459.8	6,850.2	1.17	1.47
2004	December	18.00	33,615.7	20,040.9	13,574.8	430.1	14,664.1	10,171.3	1.22	1.36
2005	December	18.00	37,424.5	24,997.9	12,426.6	3,940.2	17,497.7	9,271.4	0.52	0.92
2006	December	17.00	40,736.4	28,966.1	11,770.4	7,332.5	20,257.0	8,780.9	0.52	1.06
2007	December	17.00	44,465.9	31,809.1	12,656.8	6,641.1	22,266.4	9,203.5	0.53	1.29
2008	December	14.87	41,474.4	29,179.7	12,294.7	461.9	20,425.8	8,807.0	0.52	0.81
2009	December	14.00	40,423.5	33,693.7	6,729.8	30.9	23,585.6	4,898.0	0.52	–
2010	January	14.00	40,448.1	33,667.2	6,780.9	–	23,567.0	4,937.3	0.52	–
	February	13.32	38,605.2	32,102.4	6,502.8	–	22,471.7	4,747.4	0.52	–
	March	13.00	37,874.7	31,468.5	6,406.3	–	22,027.9	4,681.7	0.52	–
	April	13.00	37,779.3	31,362.6	6,416.7	–	21,953.8	4,692.1	0.52	–
	May	13.00	37,765.9	31,349.9	6,416.0	–	21,944.9	4,689.1	0.52	–
	June	13.00	37,970.3	31,515.2	6,455.1	–	22,060.6	4,712.6	0.52	–
	July	13.00	38,106.9	31,647.5	6,459.4	–	22,153.3	4,715.9	0.52	–
	August	13.00	38,335.3	31,863.5	6,471.9	–	22,304.4	4,724.1	0.52	–
	September	13.00	38,527.9	31,992.5	6,535.5	–	22,394.7	4,740.9	0.52	–
	October	13.00	38,700.5	32,137.0	6,563.5	–	22,495.9	4,737.4	0.52	–
	November	13.00	38,746.3	32,180.9	6,565.4	–	22,526.6	4,710.0	0.52	–
	December	13.00	38,990.6	32,374.8	6,615.8	–	22,662.4	4,736.7	0.52	–

deposited with the Croatian National Bank. From September 2001 on, column 5 includes also the f/c component of reserve requirements that is set aside/maintained in kuna.

Column 6 shows the amount of foreign currency reserve requirements, i.e. the prescribed amount of funds banks are required to deposit in the CNB's foreign currency accounts, or to maintain (in average) in accounts of liquid claims. Until November 2000, the calculation base consisted of the average daily balances of household foreign currency savings deposits with a remaining maturity of up to 3 months, while starting from December 2000 the base consists of foreign currency sources of funds, including: ordinary foreign currency accounts, special foreign currency accounts, foreign currency accounts and foreign currency sight deposits, received foreign currency deposits and received foreign currency loans, as well as obligations arising from securities issued in foreign currency (excluding banks' equity securities). From November 2001 on, the base includes also hybrid and subordinated instruments.

Column 7 shows the total amount of other obligatory deposits with the CNB, including CNB bills on an obligatory basis, those CNB bills on a voluntary basis used by banks to maintain the prescribed minimal liquidity (LAR), special statutory reserves until July 1995, special reserve requirement on liabilities arising from issued securities from March 2006 to February 2009, statutory reserves on f/c deposits, f/c credits from foreign banks and guarantees for such credits and marginal reserve requirement (from August 2004 to October 2008).

Column 8 shows the portion of the kuna reserve requirement which banks deposit in a statutory reserve account with the CNB (until December 1994, this amount corresponded with the statutory reserve instrument, while since January 1995 a minimum percentage of the total reserve requirement banks are required to deposit in a special statutory reserve account with the CNB has been prescribed). In April 2005, this percentage was set at 70%.

Column 9 shows the portion of the foreign currency reserve requirement which banks deposit in the CNB's foreign currency accounts. The percentage for allocating the foreign currency component of reserve requirements calculated on the basis of foreign currency funds of non-residents and foreign currency funds received from legal persons in a special relationship with a bank amounts to 100%, while the percentage for allocating the remaining portion of the foreign currency component of reserve requirements amounts to 60%.

Column 10 shows the weighted average remuneration rate on all forms of immobilised kuna funds which include reserve requirements and other obligatory deposits with the CNB.

Column 11 shows the weighted average remuneration rate on allocated funds in foreign currency, including the marginal reserve requirement funds (from August 2004 to October 2008). From November 2009 on, the CNB does not pay remuneration on the allocated foreign currency component of reserve requirements.

Table F4 Banks' liquidity indicators

daily averages and percentages, in million HRK and %

Year	Month	Free reserves		Primary liquidity ratio	Secondary liquidity sources	Kuna CNB bills	F/c CNB bills	Kuna MoF treasury bills
		In kuna	In f/c					
1	2	3	4	5	6	7	8	9
2001	December	794.4	17,247.4	3.23	2.6	2,656.2	2,630.8	3,360.9
2002	December	1,225.0	10,398.0	3.53	0.6	4,965.5	1,273.9	4,279.5
2003	December	451.6	20,561.4	0.98	501.6	–	4,316.0	3,073.2
2004	December	1,495.5	26,126.1	2.64	0.0	–	–	4,581.7
2005	December	672.5	20,493.4	0.96	0.2	–	–	4,163.3
2006	December	840.8	20,239.1	0.83	–	–	–	5,993.7
2007	December	1,161.5	30,412.6	1.03	330.4	–	–	4,449.4
2008	December	1,168.7	28,101.4	1.03	289.1	–	–	6,171.2
2009	December	880.0	24,885.6	0.91	–	–	–	4,776.6
2010	January	784.1	24,541.5	0.82	–	–	–	4,710.5
	February	519.6	23,949.6	0.55	–	–	–	5,225.8
	March	555.7	23,023.3	0.59	–	–	–	5,116.9
	April	445.3	23,604.0	0.48	–	–	–	5,533.6
	May	387.1	25,201.0	0.42	–	–	–	5,430.2
	June	469.6	25,994.3	0.50	–	–	–	5,737.2
	July	404.0	27,045.2	0.43	–	–	–	6,119.9
	August	378.8	29,727.3	0.40	–	–	–	5,748.8
	September	389.5	31,279.0	0.41	–	–	–	5,840.4
	October	374.0	31,209.0	0.39	–	–	–	6,453.4
	November	357.1	30,479.7	0.37	–	–	–	6,598.1
	December	407.1	30,511.9	0.42	–	–	–	5,705.9

Table F4 Banks' liquidity indicators • The table reports monthly averages of day-to-day balances of some indicators of banks' liquidity. Savings banks are included beginning in July 1999.

Column 3 shows free reserves in kuna, defined as a difference between the average balance in the settlement account and the average balance in the vault (until October 2008). From November 2008 on, they are defined as a difference between the average balance in the settlement account in the kuna reserve requirement maintenance period and the minimal average settlement account balance prescribed by the kuna reserve requirement calculation methodology.

Column 4 shows free reserves in foreign currency, defined as funds for the maintenance of foreign currency reserve requirements (foreign cash and checks in foreign currency, liquid foreign currency claims maintained in the accounts with the high-grade foreign banks and foreign currency CNB bills) decreased by the minimal required balance of these funds in the same period.

Column 5 shows the primary liquidity ratio as a percentage of monthly day-to-day kuna free reserves averages (column 3) in monthly day-to-day averages of deposits which constitute the reserve base.

Column 6 shows the monthly average of day-to-day balances of secondary liquidity sources used. Secondary liquidity sources comprise: Lombard credits (since December 1994), short-term liquidity credits (since February 1999) and overdue liabilities to the CNB.

Column 7 reports the monthly average of day-to-day balances of kuna CNB bills on a voluntary basis (until December 1994, this amount is decreased by the portion of voluntarily registered CNB bills used by banks to maintain the prescribed minimal liquidity).

Column 8 reports the monthly average of day-to-day balances of foreign currency CNB bills on a voluntary basis (in EUR and USD).

Column 9 reports the monthly average of day-to-day balances of kuna MoF treasury bills. Until September 2002, it shows the discounted value of treasury bills, while starting from October 2002, it shows their nominal value.

G Financial markets

Table G1 Banks' interest rates on kuna credits not indexed to foreign currency

weighted averages of monthly interest rates, in % on annual basis

Year	Month	Interest rates on interbank demand deposit trading		Interest rates on kuna credits not indexed to foreign currency								
				Total average	On short-term credits					On long-term credits		
		On overnight credits	On other credits		Total average	Enterprises	Households			Total average	Enterprises	Households
							Total average	Credit lines	Other			
1	2	3	4	5	6	7	8	9	10	11	12	13
2001	December	2.49	2.18	9.51	9.49	5.43	18.81	18.85	14.88	11.42	10.06	13.14
2002	December	1.03	1.59	10.91	11.24	7.44	15.16	15.28	9.84	7.32	6.48	7.88
2003	December	6.54	6.36	11.45	11.80	8.02	14.89	15.01	12.38	8.51	6.14	10.69
2004	December	4.87	4.74	11.44	11.71	8.33	14.19	14.27	12.29	9.31	6.90	11.16
2005	December	3.08	3.91	9.91	9.99	7.71	11.26	13.18	5.35	8.75	6.48	10.35
2006	December	3.14	2.52	9.07	9.37	6.75	11.84	13.21	4.67	7.53	5.86	9.44
2007	December	6.23	7.33	9.32	9.74	7.39	12.34	13.19	4.95	7.50	6.66	8.01
2008	December	5.77	6.77	10.71	10.89	8.98	12.33	12.97	4.96	9.05	8.10	10.35
2009	December	1.20	1.50	11.12	11.22	9.29	12.68	13.24	4.89	9.77	8.27	11.33
2010	January	0.62	1.08	10.97	10.99	8.31	12.69	13.20	4.11	10.56	7.55	11.38
	February	0.55	0.88	10.86	10.96	8.32	12.70	13.19	4.26	9.32	6.36	11.28
	March	0.77	1.02	10.20	10.27	7.24	12.60	13.16	4.02	9.37	7.10	11.03
	April	0.77	1.41	10.28	10.31	7.24	12.64	13.16	4.00	9.87	7.19	10.79
	May	0.85	1.42	10.59	10.74	7.76	12.64	13.17	4.50	9.03	6.41	10.72
	June	0.94	1.40	10.35	10.52	7.57	12.65	13.15	3.92	8.51	6.03	10.77
	July	1.45	2.20	10.31	10.50	7.29	12.65	13.19	4.44	8.54	6.31	10.98
	August	1.31	1.71	10.36	10.47	7.17	12.73	13.19	3.83	8.89	6.34	11.35
	September	0.79	1.30	10.19	10.29	7.05	12.66	13.17	4.78	8.93	6.59	11.09
	October	0.71	1.16	10.23	10.29	6.78	12.51	13.03	4.25	9.43	6.44	11.26
	November	0.68	1.21	10.28	10.29	6.99	12.70	13.18	4.28	10.13	6.36	11.24
	December	1.28	1.70	9.90	10.05	6.98	12.64	13.17	4.66	8.38	6.45	11.29
Relative significance[a]		**–**	**–**	**65.58**	**59.53**	**27.18**	**32.36**	**30.34**	**2.02**	**6.05**	**3.64**	**2.41**

[a] Relative significance is calculated as a percentage of corresponding credit category in total credits disbursed in the reporting month (according to data for the last period included in the table).

Note: A break in the time series occurred due to changes in the methodology used in interest rate statistics as of 1 January 2001. This especially refers to interest rates shown in columns 5, 6 and 7. Interbank credits, which bear relatively low interest rates, were, among others, excluded from short-term credits to enterprises. The increase in interest rates was also caused by the weighting method: all categories are weighted by the amounts of newly-granted credits, except credit lines whose relative share grew in the new coverage, which are weighted by book balances.

Table G1 Banks' interest rates on kuna credits not indexed to foreign currency • The table contains the weighted averages of banks' monthly interest rates on kuna credits not indexed to f/c, reported on a yearly basis.

Up to December 2001, data refer to the weighted averages of banks' monthly interest rates on kuna credits not indexed to f/c granted to legal persons (which included enterprises, the public sector, financial institutions, non-profit institutions and non-residents) and households, reported on a yearly basis. Savings banks are not covered.

From January 2002 on, data refer to the weighted averages of banks' monthly interest rates on kuna credits not indexed to f/c granted only to enterprises (public and other) and households, reported on a yearly basis.

Up to February 1996, columns 3 and 4 show interest rates on the interbank money market, according to information published by the Zagreb Money Market (ZMM). From March 1996 to August 2002, interest rates on the money market were calculated as the weighted monthly averages of the weighted daily interest rates and shown separately for trading in overnight credits and trading in other credits on the ZMM. In the period between May 1998 and January 2001, the repayment of credits granted on the interbank overnight market was guaranteed by banks' required reserves with the CNB.

As from Bulletin No. 157 columns 3 and 4 contain the revised data for the period from September 2002 onward. From September 2002 on, interest rates on overnight credits and other credits are calculated as the weighted monthly averages of the weighted daily interest rates on interbank demand deposit trading.

Columns 5 through 13 show the weighted averages of banks' monthly interest rates classified by maturity and sectors. Interest rates on short-term credits to enterprises also include interest rates on callable loans.

Data on banks' interest rates on kuna credits not indexed to f/c are based on banks' periodic reports. The basis for the calculation of the weighted averages are amounts of credits bearing corresponding interest rates, which were disbursed during the reporting month, with the exception of interest rates on giro and current account credit lines, for which the weighted averages were calculated based on the balance of these loans at the end of the reporting month.

Table G2 Banks' interest rates on kuna credits indexed to foreign currency and on credits in euros

weighted averages of monthly interest rates, in % on annual basis

Year	Month	Interest rates on kuna credits indexed to foreign currency									Interest rates on credits in euros		
		Total average	On short-term credits			On long-term credits							
			Total average	Enterprises	Housholds	Total average	Enterprises	Households			Total average	On short-term credits	On long-term credits
								Total average	Housing credits	Other			
1	2	3	4	5	6	7	8	9	10	11	12	13	14
2001	December	9.29	9.45	9.45	11.30	9.20	7.52	10.79	,,,,	,,,,	5.94	5.70	7.27
2002	December	8.25	9.34	8.72	11.37	7.98	6.37	9.50	7.42	10.11	5.91	6.66	5.44
2003	December	7.07	7.21	7.00	8.66	7.03	5.76	8.04	6.02	9.70	5.62	6.22	5.18
2004	December	6.89	7.25	7.09	8.47	6.77	5.55	7.73	5.71	8.79	5.34	5.92	4.83
2005	December	6.18	6.52	6.34	7.91	6.07	5.18	6.98	4.95	8.10	5.29	5.28	5.30
2006	December	6.30	6.56	6.29	8.33	6.22	6.21	6.22	4.75	7.57	5.65	6.19	5.34
2007	December	6.73	6.86	6.86	6.84	6.66	6.51	6.80	5.12	8.24	6.79	6.59	7.10
2008	December	7.73	8.20	8.18	8.65	7.43	6.92	7.89	6.08	9.02	7.08	7.17	6.83
2009	December	8.28	8.48	8.41	10.23	8.11	7.31	9.02	6.45	9.96	6.98	7.35	6.49
2010	January	8.36	8.25	8.19	9.71	8.46	7.68	8.96	6.41	10.03	6.72	7.37	6.40
	February	8.24	8.26	8.15	9.75	8.23	7.49	8.96	6.39	9.89	6.94	7.33	6.55
	March	8.45	8.72	8.68	9.32	8.28	7.67	8.82	6.41	9.77	6.95	7.42	6.50
	April	8.17	8.29	8.09	10.02	8.09	7.07	8.87	6.37	9.85	6.23	6.87	5.68
	May	7.91	7.85	7.77	8.93	7.95	7.05	8.73	6.43	9.84	6.81	7.15	6.43
	June	7.93	8.45	8.53	7.77	7.65	6.82	8.65	6.46	9.66	5.77	6.97	5.62
	July	8.01	8.13	7.94	9.65	7.97	7.28	8.53	6.38	9.42	6.70	6.81	6.57
	August	7.94	8.08	8.14	7.67	7.87	7.03	8.45	6.30	9.28	7.22	7.63	6.80
	September	8.14	8.60	8.56	9.23	7.94	7.02	8.45	6.33	9.05	6.86	7.93	6.12
	October	8.05	8.05	7.90	9.82	8.04	7.14	8.45	6.15	9.09	6.78	6.69	6.90
	November	8.07	8.07	7.99	8.93	8.07	7.49	8.37	6.16	9.05	6.93	6.48	7.28
	December	7.78	7.95	7.91	8.86	7.67	7.19	8.16	6.02	8.94	6.38	7.12	6.06
Relative significance[a]		**25.79**	**10.27**	**9.78**	**0.49**	**15.52**	**7.82**	**7.70**	**2.06**	**5.64**	**8.63**	**2.59**	**6.04**

[a] Relative significance is calculated as a percentage of corresponding credit category in total credits disbursed in the reporting month (according to data for the last period included in the table).

Table G2 Banks' interest rates on kuna credits indexed to foreign currency and on credits in euros • The table contains the weighted averages of banks' monthly interest rates on kuna credits indexed to f/c and on credits in euros, reported on a yearly basis.

Up to December 2001, data refer to the weighted averages of banks' monthly interest rates on kuna credits indexed to f/c and on credits in euros (or German marks) granted to legal persons (which included enterprises, the public sector, financial institutions, non-profit institutions and non-residents) and households, reported on a yearly basis. Savings banks are not covered.

From January 2002 on, data refer to the weighted averages of banks' monthly interest rates on kuna credits indexed to f/c and on credits in euros granted only to enterprises (public and other) and households, reported on a yearly basis.

Data on banks' interest rates on kuna credits indexed to f/c and on credits in euros are based on banks' periodic reports. The basis for the calculation of the weighted averages are amounts of credits bearing corresponding interest rates, which were disbursed during the reporting month.

Columns 3 through 11 show the weighted averages of banks' monthly interest rates classified by maturity and sectors. Interest rates on short-term credits to enterprises also include interest rates on callable loans.

Up to December 2001, interest rates on credits in euros (columns 12, 13 and 14) refer to credits released in German marks in the reporting month, and starting from January 2002, they refer to credits released in euros, while the weighted averages are calculated based on their kuna equivalent using the current exchange rate. Credits released in other currencies are not included in this table.

Table G3 Banks' interest rates on kuna deposits not indexed to foreign currency

weighted averages of monthly interest rates, in % on annual basis

Year	Month	Interest rates on kuna deposits not indexed to foreign currency								
		Total average	In giro and current accounts	On time deposits						
				Total average	On short-term deposits			On long-term deposits		
					Total average	Households	Enterprises	Total average	Households	Enterprises
1	2	3	4	5	6	7	8	9	10	11
2001	December	2.76	1.40	5.68	5.60	6.35	5.38	7.35	7.93	6.70
2002	December	1.55	0.94	3.64	3.53	4.39	2.86	6.05	7.24	3.23
2003	December	1.66	0.75	4.46	4.46	3.62	4.69	4.58	4.90	2.82
2004	December	1.83	0.74	4.11	4.11	3.93	4.13	4.10	4.65	3.30
2005	December	1.58	0.61	3.36	3.34	3.89	3.23	4.12	5.04	3.49
2006	December	1.91	0.56	2.98	2.94	4.10	2.69	4.32	4.98	3.11
2007	December	2.67	0.49	5.42	5.34	4.47	5.48	6.28	5.45	6.45
2008	December	2.92	0.43	5.65	5.60	5.34	5.64	6.58	5.88	6.85
2009	December	2.22	0.43	2.52	2.49	4.89	2.04	2.76	6.12	2.07
2010	January	2.17	0.43	2.70	2.70	4.95	1.95	2.64	6.23	1.99
	February	1.91	0.40	2.64	2.95	4.65	1.74	1.79	5.63	1.27
	March	1.80	0.40	2.07	2.10	4.44	1.18	1.95	5.42	1.37
	April	1.76	0.36	2.15	2.25	4.35	1.44	1.81	5.52	1.34
	May	1.78	0.36	2.19	2.25	4.22	1.37	2.00	5.38	1.53
	June	1.72	0.35	1.94	1.91	4.12	1.22	2.07	5.34	1.59
	July	1.73	0.36	2.04	1.93	4.06	1.31	2.44	5.19	2.05
	August	1.68	0.36	1.79	1.71	3.93	1.32	2.20	5.10	1.91
	September	1.64	0.37	1.76	1.72	3.92	1.23	1.92	4.90	1.60
	October	1.64	0.40	1.95	1.94	3.85	1.30	1.96	4.81	1.54
	November	1.65	0.38	1.91	1.87	3.75	1.16	2.04	4.66	1.68
	December	1.61	0.34	1.93	1.85	3.66	1.41	4.26	4.76	3.03
Relative significance[a]		**46.61**	**30.98**	**13.08**	**12.63**	**2.48**	**10.16**	**0.44**	**0.32**	**0.13**

[a] Relative significance is calculated as a percentage of corresponding deposit category in total deposits received in the reporting month (according to data for the last period included in the table).

Table G3 Banks' interest rates on kuna deposits not indexed to foreign currency • The table contains the weighted averages of banks' monthly interest rates on kuna deposits not indexed to f/c, reported on a yearly basis.

Up to December 2001, data refer to the weighted averages of banks' monthly interest rates on kuna deposits not indexed to f/c received from legal persons (which included enterprises, the public sector, financial institutions, non-profit institutions and non-residents) and households, reported on a yearly basis. Savings banks are not covered.

From January 2002 on, data refer to the weighted averages of banks' monthly interest rates on kuna deposits not indexed to f/c received from enterprises (public and other) and households, reported on a yearly basis.

Data on banks' interest rates on kuna deposits not indexed to f/c are based on banks' periodic reports.

Column 3 reports the weighted averages of monthly interest rates on total kuna deposits (giro and current accounts, household savings deposits and time deposits) not indexed to f/c.

Column 4 shows the weighted averages of monthly interest rates on deposits in giro and current accounts not indexed to f/c received from enterprises (until December 2001, all legal persons) and households, and column 5 shows the weighted averages of monthly interest rates on total time deposits not indexed to f/c.

The basis for the calculation of the weighted averages for kuna time deposits not indexed to f/c are the amounts of those deposits received during the reporting month. The basis for the calculation of the weighted averages for deposits in giro and current accounts are the end-of-month book balances of those deposits. The averages of interest rates on total kuna deposits not indexed to f/c (column 3) are weighted by the end-of-month balances of all categories included in the calculation.

Kuna and foreign currency deposits used as collateral for credit are included, while restricted deposits (deposits used for payment of imports and other restricted deposits) are not included into the calculation of the weighted averages.

Table G4a Banks' interest rates on kuna deposits indexed to foreign currency and on foreign currency deposits

weighted averages of monthly interest rates, in % on annual basis

Year	Month	Interest rates on savings and time deposits indexed to f/c			Interest rates on foreign currency deposits					
		Total average	On short-term deposits	On long-term deposits	Total average	Savings deposits				
						Total average	Households		Enterprises	
							EUR	USD	EUR	USD
1	2	3	4	5	6	7	8	9	10	11
2001	December	4.58	4.92	2.56	2.60	0.71	0.71	0.81	0.82	0.40
2002	December	2.92	3.45	1.48	2.55	0.50	0.52	0.41	0.52	0.38
2003	December	3.48	3.74	5.55	2.22	0.31	0.35	0.23	0.23	0.15
2004	December	4.17	3.61	5.19	2.65	0.31	0.34	0.22	0.22	0.21
2005	December	3.99	3.63	4.77	2.61	0.27	0.27	0.17	0.27	0.76
2006	December	3.67	3.30	4.07	2.94	0.25	0.23	0.17	0.32	0.44
2007	December	3.98	3.76	4.35	3.44	0.25	0.22	0.15	0.36	0.43
2008	December	4.09	4.05	4.42	3.97	0.21	0.20	0.15	0.26	0.13
2009	December	3.01	3.12	3.31	3.98	0.18	0.22	0.16	0.10	0.07
2010	January	3.50	3.07	3.33	3.88	0.19	0.22	0.16	0.11	0.07
	February	3.40	2.78	4.39	3.71	0.18	0.22	0.16	0.10	0.07
	March	3.52	2.73	2.63	3.57	0.18	0.21	0.16	0.09	0.07
	April	3.63	2.99	5.46	3.51	0.17	0.20	0.16	0.09	0.09
	May	3.21	2.78	2.54	3.37	0.17	0.20	0.16	0.09	0.07
	June	3.32	2.79	3.82	3.26	0.18	0.22	0.16	0.10	0.08
	July	3.57	3.02	4.06	3.26	0.19	0.21	0.16	0.11	0.08
	August	2.68	2.84	3.85	3.20	0.20	0.21	0.17	0.23	0.06
	September	3.38	2.57	3.89	3.13	0.20	0.19	0.17	0.27	0.06
	October	2.66	2.47	3.19	3.13	0.23	0.24	0.17	0.25	0.07
	November	3.01	2.57	4.36	3.08	0.23	0.24	0.17	0.22	0.07
	December	2.91[b]	2.75	3.46	3.09	0.19	0.21	0.14	0.18	0.07
Relative significance[b]		**0.39**	**0.26**	**0.13**	**53.00**	**20.76**	**13.85**	**1.76**	**4.72**	**0.42**

[a] Of the total amount of deposits to which this interest rate refers, 42.07% refers to enterprises. [b] Relative significance is calculated as a percentage of corresponding deposit category in total deposits received in the reporting month (according to data for the last period included in the table).

Tables G4a – G4b Banks' interest rates on kuna deposits indexed to foreign currency and on foreign currency deposits • The table contains the weighted averages of banks' monthly interest rates on kuna deposits indexed to f/c and on foreign currency deposits, reported on a yearly basis.

Up to December 2001, data refer to the weighted averages of banks' monthly interest rates on kuna deposits indexed to f/c and on foreign currency deposits received from legal persons (which included enterprises, the public sector, financial institutions, non-profit institutions and non-residents) and households, reported on a yearly basis. Savings banks are not covered.

From January 2002 on, data refer to the weighted averages of banks' monthly interest rates on kuna deposits indexed to f/c and on foreign currency deposits received from enterprises (public and other) and households, reported on a yearly basis.

Data on banks' interest rates on kuna deposits indexed to f/c and on foreign currency deposits are based on banks' periodic reports.

Column 3 reports the weighted averages of monthly interest rates on total kuna savings and time deposits indexed to f/c received from enterprises (until December 2001, all legal persons) and households, whereas the weighted averages of monthly interest rates on time deposits are shown in column 4 (short-term deposits) and column 5 (long-term deposits) respectively.

Up to December 2001, interest rates on foreign currency deposits refer to deposits received in German marks or US dollars, and starting from January 2002, they refer to deposits received in euros and US dollars, while the weighted averages are calculated based on their kuna equivalent using the current exchange rate. Deposits received in other currencies are not included in this table.

The basis for the calculation of the weighted averages for kuna time deposits indexed to f/c and foreign currency time deposits are the amounts of those deposits received during the reporting month. The basis for the calculation of the weighted averages for savings deposits indexed to f/c are the end-of-month book balances of those deposits. From January 2002 on, the averages of interest rates on total kuna deposits indexed to f/c (column 3) are weighted by the end-of-month balances of all categories included in the calculation.

The average interest rate on total foreign currency deposits (column 6) refers to the weighted average of monthly interest rates on savings and foreign currency time deposits, which are weighted by the end-of-month balances of all categories included in the calculation.

The basis for the calculation of the weighted averages of

Table G4b Banks' interest rates on kuna deposits indexed to foreign currency and on foreign currency deposits

weighted averages of monthly interest rates, in % on annual basis

Year	Month	Interest rates on foreign currency deposits										
		On time deposits										
		Total average	On short-term deposits					On long-term deposits				
			Total average	Households		Enterprises		Total average	Households		Enterprises	
				EUR	USD	EUR	USD		EUR	USD	EUR	USD
1	2	12	13	14	15	16	17	18	19	20	21	22
2001	December	3.54	3.35	3.42	3.23	3.60	2.44	4.59	4.72	4.42	4.58	0.23
2002	December	3.13	2.96	3.27	2.21	2.89	1.43	4.59	4.69	3.84	3.46	2.30
2003	December	2.64	2.46	2.83	1.65	2.29	1.08	3.69	4.71	3.13	2.85	1.64
2004	December	2.85	2.65	3.01	1.69	2.46	2.28	4.20	4.85	3.13	3.61	2.65
2005	December	3.07	2.94	2.99	1.76	2.63	4.34	3.69	4.25	0.48	4.39	–
2006	December	3.82	3.76	3.16	2.05	4.24	5.84	4.25	4.47	2.26	4.79	4.61
2007	December	4.32	4.25	3.47	2.60	5.10	5.33	4.80	4.83	3.84	5.13	2.19
2008	December	4.15	3.95	4.33	2.69	4.13	1.84	5.51	5.57	3.58	5.52	2.38
2009	December	3.58	3.40	4.33	2.73	2.64	1.77	5.13	5.43	3.86	2.85	0.13
2010	January	3.65	3.47	4.22	2.68	2.78	1.47	5.30	5.39	3.78	4.75	0.79
	February	3.31	3.10	4.04	2.75	2.36	1.28	5.14	5.25	3.73	3.90	2.76
	March	3.17	2.91	3.78	2.72	2.42	0.97	5.12	5.20	3.71	4.47	2.00
	April	3.17	2.92	3.73	2.75	2.26	1.55	5.01	5.07	3.93	3.48	1.10
	May	3.03	2.84	3.63	2.73	2.07	1.45	4.62	4.73	3.82	2.18	3.00
	June	3.00	2.83	3.48	2.75	2.33	1.57	4.61	4.68	3.65	3.30	–
	July	2.98	2.75	3.50	2.64	2.11	1.32	4.65	4.74	3.78	2.71	1.22
	August	2.94	2.68	3.48	2.62	1.96	1.35	4.59	4.69	3.74	1.11	–
	September	2.82	2.62	3.47	2.64	1.94	1.08	4.40	4.46	3.61	2.70	2.45
	October	2.33	2.14	3.36	2.55	1.47	1.13	4.16	4.23	3.62	3.68	3.42
	November	2.20	1.99	3.24	2.49	1.28	0.77	4.24	4.29	3.43	3.92	4.00
	December	2.69	2.15	3.13	2.45	1.63	0.76	5.36	4.28	3.20	6.91	3.80
Relative significance[a]		**32.24**	**26.83**	**10.35**	**0.66**	**13.34**	**2.48**	**5.41**	**3.01**	**0.13**	**2.27**	**0.00**

[a] Relative significance is calculated as a percentage of corresponding deposit category in total deposits received in the reporting month (according to data for the last period included in the table).

monthly interest rates on total foreign currency savings deposits (column 7) are the end-of-month balances of those deposits.

The basis for the calculation of the weighted averages of monthly interest rates on total foreign currency time deposits (column 12) are the amounts of those deposits received during the reporting month. The same basis is applied in calculating the weighted averages of monthly interest rates on total short-term foreign currency deposits (column 13) and on total long-term foreign currency deposits (column 18).

Table G5 Banks' trade with foreign exchange

in million EUR, current exchange rate

	2009	2010											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
A Purchase of foreign exchange													
1 Legal persons	3,422.9	1,707.5	1,377.2	1,571.5	1,483.2	1,439.7	1,369.4	2,079.3	2,194.6	2,088.6	1,952.4	1,878.8	2,311.6
2 Natural persons	369.6	263.7	304.4	382.7	389.6	447.9	436.4	562.0	548.4	441.6	393.6	340.1	367.7
2.1 Residents	342.3	240.2	278.1	346.6	342.8	391.1	364.2	454.0	417.6	374.0	345.2	335.3	362.4
2.2 Non-residents	27.4	23.5	26.3	36.1	46.8	56.8	72.2	108.0	130.8	67.6	48.4	4.8	5.3
3 Domestic banks	950.2	767.9	580.5	807.0	734.3	909.0	962.9	1,221.9	936.9	846.2	1,056.5	1,174.2	1,174.1
4 Foreign banks	454.2	365.7	303.6	389.2	371.6	433.1	565.8	542.5	480.9	444.2	464.1	482.6	705.2
5 Croatian National Bank	–	–	–	–	–	–	–	–	–	–	–	116.4	233.7
Total (1+2+3+4)	**5,196.9**	**3,104.8**	**2,565.7**	**3,150.4**	**2,978.7**	**3,229.6**	**3,334.5**	**4,405.7**	**4,160.7**	**3,820.6**	**3,866.6**	**3,992.1**	**4,792.2**
B Sale of foreign exchange													
1 Legal persons	3,169.4	1,657.0	1,344.5	1,528.0	1,267.3	1,429.6	1,519.4	2,049.1	2,494.5	2,239.1	1,930.0	1,789.2	2,682.9
2 Natural persons	197.2	123.5	110.7	160.1	123.2	142.8	108.6	193.2	167.7	136.3	119.5	206.1	224.2
2.1 Residents	196.0	122.8	108.5	159.3	122.0	141.6	107.3	191.4	165.7	134.7	118.5	205.2	223.6
2.2 Non-residents	1.2	0.8	2.2	0.8	1.2	1.2	1.3	1.8	1.9	1.6	1.0	0.8	0.7
3 Domestic banks	950.2	767.9	580.5	807.0	734.3	909.0	962.9	1,221.9	936.9	846.2	1,056.5	1,174.2	1,174.1
4 Foreign banks	353.1	393.5	266.3	346.9	606.8	361.6	410.3	468.7	397.8	424.7	410.5	605.5	762.3
5 Croatian National Bank	271.3	–	–	–	–	–	125.6	238.1	–	–	–	–	–
Total (1+2+3+4)	**4,941.2**	**2,941.9**	**2,302.1**	**2,842.1**	**2,731.7**	**2,843.1**	**3,126.7**	**4,170.9**	**3,996.8**	**3,646.2**	**3,516.5**	**3,775.0**	**4,843.5**
C Net purchase (A-B)													
1 Legal persons	253.4	50.5	32.7	43.5	215.9	10.0	–149.9	30.2	–300.0	–150.5	22.4	89.5	–371.3
2 Natural persons	172.4	140.2	193.6	222.6	266.4	305.0	327.8	368.8	380.7	305.3	274.1	134.0	143.5
2.1 Residents	146.3	117.5	169.6	187.3	220.9	249.5	256.9	262.6	251.8	239.3	226.7	130.0	138.8
2.2 Non-residents	26.1	22.8	24.1	35.3	45.5	55.6	70.9	106.2	128.9	66.0	47.4	4.0	4.6
3 Foreign banks	101.1	–27.8	37.2	42.3	–235.3	71.5	155.6	73.8	83.1	19.6	53.6	–122.9	–57.1
4 Croatian National Bank	–271.3	–	–	–	–	–	–125.6	–238.1	–	–	–	116.4	233.7
Total (1+2+3)	**255.7**	**162.9**	**263.5**	**308.4**	**247.0**	**386.5**	**207.9**	**234.8**	**163.9**	**174.4**	**350.1**	**217.1**	**–51.3**
Memo items: Other Croatian National Bank transactions													
Purchase of foreign exchange	119.1	0.1	1.4	2.4	2.8	0.3	1.7	2.4	0.2	5.7	2.7	0.3	218.5
Sale of foreign exchange	11.6	0.0	66.6	108.0	38.8	0.0	19.6	–	–	–	–	–	–

Table G5 Banks' trade with foreign exchange • Data on trade with foreign exchange between banks comprise the spot purchase and sale of foreign exchange in domestic foreign exchange market. Spot transactions are contracted obligations to buy/sell foreign currency within maximally 48 hours.

The transactions are classified by category of participants (legal and natural persons, domestic and foreign banks and the CNB). Sources of data are banks' reports on trading with foreign exchange, including data on exchange transactions with natural persons conducted by authorised currency exchange offices.

Other Croatian National Bank transactions include foreign exchange sales and purchases on behalf of the Ministry of Finance.

H International economic relations

Table H1 Balance of payments – summary[a,b]

in million EUR

	2006	2007	2008	2009	2010[c]	2010			
						Q1	Q2	Q3	Q4[c]
A CURRENT ACCOUNT (1+6)	–2,635.7	–3,118.8	–4,216.5	–2,407.7	–582.1	–1,340.2	–100.6	1,888.2	–1,029.5
1 Goods, services, and income (2+5)	–3,743.1	–4,161.8	–5,287.0	–3,444.0	–1,661.4	–1,592.9	–387.8	1,628.7	–1,309.4
1.1 Credit	17,917.5	19,658.1	21,303.8	16,964.9	18,509.5	3,023.6	4,656.6	7,024.1	3,805.2
1.2 Debit	–21,660.6	–23,819.8	–26,590.8	–20,408.9	–20,170.9	–4,616.5	–5,044.4	–5,395.4	–5,114.6
2 Goods and services (3+4)	–2,568.0	–3,067.4	–3,719.2	–1,617.0	–51.9	–1,139.3	–60.1	2,142.0	–994.6
2.1 Credit	16,990.4	18,307.2	19,904.6	16,157.1	17,595.8	2,821.2	4,385.2	6,791.4	3,598.1
2.2 Debit	–19,558.4	–21,374.6	–23,623.8	–17,774.1	–17,647.7	–3,960.4	–4,445.3	–4,649.4	–4,592.7
3 Goods	–8,344.2	–9,434.0	–10,793.8	–7,386.9	–5,945.3	–1,283.3	–1,496.9	–1,716.8	–1,448.3
3.1 Credit	8,463.6	9,192.5	9,814.0	7,703.2	9,099.5	2,033.3	2,325.2	2,243.0	2,498.0
3.2 Debit	–16,807.8	–18,626.5	–20,607.8	–15,090.1	–15,044.8	–3,316.6	–3,822.1	–3,959.8	–3,946.3
4 Services	5,776.2	6,366.6	7,074.6	5,769.9	5,893.4	144.0	1,436.8	3,858.8	453.8
4.1 Credit	8,526.8	9,114.7	10,090.6	8,453.9	8,496.3	787.9	2,060.0	4,548.4	1,100.1
4.2 Debit	–2,750.6	–2,748.1	–3,016.0	–2,684.1	–2,602.9	–643.9	–623.2	–689.6	–646.3
5 Income	–1,175.1	–1,094.4	–1,567.9	–1,826.9	–1,609.5	–453.7	–327.7	–513.3	–314.8
5.1 Credit	927.1	1,350.9	1,399.1	807.9	913.7	202.4	271.4	232.8	207.1
5.2 Debit	–2,102.2	–2,445.3	–2,967.0	–2,634.8	–2,523.1	–656.1	–599.1	–746.1	–521.9
6 Current transfers	1,107.4	1,043.0	1,070.5	1,036.3	1,079.3	252.7	287.2	259.5	279.9
6.1 Credit	1,639.5	1,576.1	1,684.4	1,607.8	1,674.8	394.6	450.3	392.0	437.9
6.2 Debit	–532.1	–533.1	–613.9	–571.5	–595.5	–141.9	–163.1	–132.5	–158.0
B CAPITAL AND FINANCIAL ACCOUNT	4,031.4	4,525.4	5,800.9	3,513.8	1,467.9	828.2	183.0	–368.6	825.2
B1 Capital account	**–134.9**	**28.5**	**14.9**	**42.7**	**36.0**	**12.6**	**13.3**	**12.8**	**–2.6**
B2 Financial account, excl. reserves	**5,578.5**	**5,218.6**	**5,455.6**	**4,367.6**	**1,515.7**	**298.1**	**291.3**	**639.0**	**287.3**
1 Direct investment	2,561.5	3,467.8	3,245.8	1,206.9	593.3	529.2	–88.7	315.6	–162.7
1.1 Abroad	–206.8	–211.2	–972.6	–888.8	153.4	–62.0	–154.0	–75.5	445.0
1.2 In Croatia	2,768.3	3,679.0	4,218.4	2,095.6	439.9	591.2	65.3	391.1	–607.7
2 Portfolio investment	–197.3	391.1	–782.1	398.3	399.3	–726.8	236.2	1,160.1	–270.3
2.1 Assets	–459.8	–404.7	–277.9	–584.3	–351.5	–112.2	30.9	–80.5	–189.7
2.2 Liabilities	262.5	795.8	–504.3	982.6	750.8	–614.6	205.3	1,240.6	–80.6
3 Financial derivatives	0.0	0.0	0.0	0.0	–252.7	–61.1	–72.4	–74.4	–44.8
4 Other investment	3,214.3	1,359.7	2,991.9	2,762.4	775.8	556.7	216.2	–762.3	765.2
4.1 Assets	–692.3	–1,653.3	–1,620.9	759.9	639.6	679.0	–42.4	–382.9	386.0
4.2 Liabilities	3,906.6	3,012.9	4,612.8	2,002.6	136.2	–122.3	258.6	–379.4	379.2
B3 Reserve assets	**–1,412.2**	**–721.6**	**330.4**	**–896.4**	**–83.8**	**517.5**	**–121.5**	**–1,020.4**	**540.5**
C NET ERRORS AND OMISSIONS	–1,395.7	–1,406.6	–1,584.3	–1,106.1	–885.8	512.0	–82.4	–1,519.6	204.3

[a] The CBRD is reclassified from the subsector central government funds to the subsector non-banking financial institutions. The reclassification covers the entire statistical series (from January 1999 onwards). Moreover, CM is reclassified from the subsector central government funds to the subsector public enterprises. The reclassification covers the statistical series from January 2008 onwards. [b] Data also include the round tripping which increases direct investment in Croatia and direct investment abroad by the same amount. This type of direct investment was recorded in December 2008 (EUR 825.7m) and August 2009 (EUR 666.5m). [c] Preliminary data.
Note: The item net errors and omissions also comprises the counter-entry of a part of revenues from travel services which relates to such revenues not stated in the banks' records.

Tables H1 – H6 Balance of payments • The balance of payments of the Republic of Croatia represents a systematic overview of the value of economic transactions performed by the Croatian residents with foreign countries within a particular period. It is compiled in accordance with the recommendations of the International Monetary Fund (Balance of Payments Manual, Fifth Edition, 1993). Data sources include: 1) reports of the government institutions (Central Bureau of Statistics and Croatian Institute for Health Insurance), 2) special reports of the Croatian National Bank (International Transaction Reporting System (ITRS), external debt relations, monetary statistics and reserve assets) and 3) estimates and statistical research carried out by the Croatian National Bank.

Balance of payments of the Republic of Croatia data are reported in three currencies: in euros (EUR), US dollars (USD) and domestic currency (HRK). In all cases, the same data sources are used and the same principles regarding the scope of transactions and the procedures for compiling particular items are applied. Since the original data are reported in different currencies, the transaction values are converted from the original currency into the reporting currency by applying the exchange rate from the CNB exchange rate list in one of the following manners:

- by applying the midpoint exchange rate on the date of the transaction;

Table H2 Balance of payments – goods and services

in million EUR

	2006	2007	2008	2009	2010[a]	2010			
						Q1	Q2	Q3	Q4[a]
Goods	–8,344.2	–9,434.0	–10,793.8	–7,386.9	–5,945.3	–1,283.3	–1,496.9	–1,716.8	–1,448.3
1 Credit	8,463.6	9,192.5	9,814.0	7,703.2	9,099.5	2,033.3	2,325.2	2,243.0	2,498.0
1.1 Exports (f.o.b.) in trade statistics	8,251.6	9,001.6	9,585.1	7,529.4	8,902.4	2,000.2	2,279.5	2,170.4	2,452.3
1.2 Adjustments for coverage	212.0	191.0	228.9	173.8	197.1	33.1	45.7	72.6	45.7
2 Debit	–16,807.8	–18,626.5	–20,607.8	–15,090.1	–15,044.8	–3,316.6	–3,822.1	–3,959.8	–3,946.3
2.1 Imports (c.i.f.) in trade statistics	–17,104.7	–18,826.6	–20,817.1	–15,220.1	–15,127.2	–3,338.0	–3,849.5	–3,967.8	–3,971.9
2.2 Adjustments for coverage	–341.1	–370.4	–421.4	–331.1	–376.0	–79.8	–89.2	–112.2	–94.8
2.3 Adjustments for classification	638.0	570.4	630.8	461.2	458.4	101.1	116.6	120.2	120.3
Services	5,776.2	6,366.6	7,074.6	5,769.9	5,893.4	144.0	1,436.8	3,858.8	453.8
1 Transportation	547.8	641.3	625.3	349.2	399.7	57.5	110.1	148.6	83.5
1.1 Credit	1,037.5	1,165.4	1,209.4	752.0	813.3	145.8	219.3	262.0	186.2
1.2 Debit	–489.7	–524.0	–584.1	–402.8	–413.6	–88.3	–109.2	–113.4	–102.7
2 Travel	5,708.7	6,035.2	6,694.0	5,655.8	5,607.6	188.1	1,317.3	3,690.5	411.7
2.1 Credit	6,293.3	6,752.6	7,459.4	6,379.7	6,236.8	324.7	1,476.3	3,867.8	568.0
2.1.1 Business	388.4	389.2	386.4	255.7	237.0	39.0	80.9	72.8	44.2
2.1.2 Personal	5,904.9	6,363.4	7,073.1	6,124.0	5,999.8	285.7	1,395.4	3,795.0	523.7
2.2 Debit	–584.6	–717.3	–765.5	–724.0	–629.2	–136.6	–159.0	–177.3	–156.3
2.2.1 Business	–229.5	–266.9	–261.3	–240.8	–180.6	–39.1	–55.4	–40.0	–46.1
2.2.2 Personal	–355.1	–450.4	–504.2	–483.1	–448.6	–97.6	–103.6	–137.3	–110.2
2.3 Other services	–480.3	–310.0	–244.6	–235.1	–113.9	–101.5	9.4	19.6	–41.4
2.3.1 Credit	1,196.0	1,196.8	1,421.8	1,322.2	1,446.3	317.4	364.4	418.5	346.0
2.3.2 Debit	–1,676.3	–1,506.7	–1,666.4	–1,557.3	–1,560.1	–419.0	–355.0	–398.9	–387.3

[a] Preliminary data.

- by applying the average monthly or quarterly midpoint exchange rate in the case the transaction date is not available;
- by applying the end-of-period exchange rate for the calculation of a change in the transaction value between the two periods; the end-of-period balances reported in the original currency serve as a basis for calculating the change in the original currency value, which is converted, by applying the average midpoint exchange rate in the observed period, into the value of change in the reporting currency.

The Report of the Central Bureau of Statistics on foreign trade in goods of the Republic of Croatia represents the basic data source for the balance of payments items related to exports and imports. These data are adjusted, in accordance with the recommended compilation method, for coverage and classification. Accordingly, goods exports and imports in the balance of payments are reported at f.o.b. parity. The value of exports at this parity is already contained in the previously mentioned CBS Report, whereas the value of imports f.o.b. is estimated on the basis of research studies of the CNB on the stratified sample of importers. The resulting value serves as a basis for the estimate of the share of transportation and insurance services by which the original value of imports c.i.f., stated in the CBS Report, is reduced. In the 1993-2001 period, this share stood at 7.10% (estimated only on the basis of the largest and large importers), while from 2002 on it has amounted to 3.73%. The same research study, conducted by the CNB at the end of 2006 (comprising the imports in the previous year), showed that the share of transportation and insurance costs, after continuing to decrease, has reached 3.03%. This share was first applied in the calculations for the first quarter of 2007. In the period from 1993 to 1996, the value of imports was modified by estimates of imports in duty free zones, which have been included in the merchandise trade statistics since 1997. From 1996 on, goods exports and imports are modified by the data on repairs on goods and goods procured in ports by carriers. In addition, since 1999, based on the Survey on Consumption of Foreign Travellers in Croatia and Domestic Travellers Abroad, the item of goods exports has been modified by the estimated value of goods sold to foreign travellers and tourists and taken out of the Republic of Croatia. The item of goods imports is adjusted for the estimated value of goods imported personally by the Croatian citizens from the neighbouring countries (shopping expenditures).

Transportation, travel and other services are reported separately under service account. Revenues and expenditures on the basis of transportation, in the 1993-1998 period, were adopted from the ITRS. From 1999 on, revenues and expenditures arising from transportation of goods and passengers, as well as the value of accompanying services, which together constitute the total value of these services, are compiled on the basis of the results of the Research on transactions related to international transportation services, carried out by the CNB. Owing to an exceptionally large population of road carriers, revenues and expenditures on the basis of road transportation are not adopted from this research. They are compiled by using ITRS data. As regards transportation of goods, expenditures are supplemented

Table H3 Balance of payments – income and current transfers

in million EUR

	2006	2007	2008	2009	2010[a]	2010			
						Q1	Q2	Q3	Q4[a]
Income	–1,175.1	–1,094.4	–1,567.9	–1,826.9	–1,609.5	–453.7	–327.7	–513.3	–314.8
1 Compensation of employees	373.2	494.2	564.1	586.5	620.8	142.7	155.1	158.4	164.5
1.1 Credit	404.3	527.8	599.7	624.2	657.1	151.0	164.4	167.8	173.9
1.2 Debit	–31.1	–33.6	–35.5	–37.6	–36.3	–8.3	–9.3	–9.4	–9.3
2 Direct investment income	–1,011.1	–921.6	–1,137.1	–1,178.6	–1,116.3	–333.4	–206.3	–391.1	–185.6
2.1 Credit	80.2	174.5	194.6	–64.1	79.2	6.2	64.8	19.2	–10.9
o/w: Reinvested earnings	63.5	123.3	118.6	–114.9	0.9	–2.6	18.5	6.3	–21.3
2.2 Debit	–1,091.3	–1,096.1	–1,331.7	–1,114.4	–1,195.6	–339.5	–271.0	–410.3	–174.7
o/w: Reinvested earnings	–721.0	–483.3	–508.5	–343.1	–540.5	–141.5	53.5	–342.7	–109.7
3 Portfolio investment income	–185.5	–179.7	–177.9	–170.6	–299.1	–69.2	–70.4	–78.3	–81.2
3.1 Credit	65.7	97.5	87.5	83.6	63.0	14.0	15.9	16.7	16.4
3.2 Debit	–251.2	–277.2	–265.4	–254.2	–362.1	–83.2	–86.3	–95.0	–97.6
4 Other investment income	–351.6	–487.3	–817.0	–1,064.3	–814.9	–193.9	–206.2	–202.3	–212.6
4.1 Credit	377.0	551.0	517.4	164.2	114.3	31.2	26.3	29.1	27.7
4.2 Debit	–728.6	–1,038.4	–1,334.3	–1,228.5	–929.2	–225.0	–232.5	–231.4	–240.3
Current transfers	1,107.4	1,043.0	1,070.5	1,036.3	1,079.3	252.7	287.2	259.5	279.9
1 General government	–8.6	–16.7	–20.0	–30.0	–41.9	–19.5	–9.8	–22.0	9.5
1.1 Credit	255.7	260.2	342.6	309.0	303.8	63.0	93.1	55.8	91.9
1.2 Debit	–264.4	–276.8	–362.7	–339.0	–345.6	–82.5	–102.9	–77.8	–82.3
2 Other sectors	1,116.0	1,059.6	1,090.5	1,066.3	1,121.2	272.3	297.0	281.5	270.4
2.1 Credit	1,383.8	1,316.0	1,341.7	1,298.8	1,371.1	331.6	357.1	336.2	346.1
2.2 Debit	–267.7	–256.3	–251.2	–232.5	–249.9	–59.4	–60.1	–54.7	–75.7

[a] Preliminary data.

by a portion of transportation and insurance costs related to imports of goods which belongs to non-residents and which is estimated by adjusting the value of imports at c.i.f. parity to the value of imports f.o.b.

Revenues from services rendered to foreign travellers and tourists, as well as expenditures incurred by domestic travellers and tourists abroad are shown under the position Travel. In the 1993-1998 period, this position was assessed by using various data sources which did not provide for a full coverage in accordance with the recommended methodology. Accordingly, in the second half of 1998, the Croatian National Bank started to carry out the Survey on Consumption of Foreign Travellers in Croatia and Domestic Travellers Abroad and use its results for compiling the Travel position. Since early 1999, the results of this Survey, based on carrying out a survey of travellers (stratified sample) at border crossings, have been combined with the Ministry of the Interior and Central Bureau of Statistics data on the number of foreign and domestic travellers, along with the data on distribution of foreign travellers by countries contained in the CBS Report on tourism, in order to assess the corresponding balance of payment items.

Other services position is complied by using different data sources: apart from revenues and expenditures related to insurance and communication services, which have been determined by the CNB special statistical research since 2001, the values of all other services are adopted from the ITRS.

Transactions in the income account are classified into four main groups. Compensation of employees item is compiled on the basis of the ITRS. Income from direct investment, portfolio investment and other investment are reported separately. Data on reinvested earnings are reported separately, under direct investment income, calculated on the basis of the CNB Research on direct and other equity investment. In contrast to data on dividends, these data are not available for the 1993-1996 period, since at that time they were not reported separately. From the first quarter of 2009 on, international standards are applied in the statistical monitoring of reinvested earnings, meaning that reinvested earnings are reported on a quarterly basis, i.e. in the period in which the profit is actually earned. Previously, reinvested earnings were reported in the month in which the decision on the distribution of the previous year's profit was adopted, meaning that they were based on the profit earned in the preceding year. On the basis of statistical data on external debt relations, starting from 1997, income from direct investment includes data on interest arising from credit relations between residents and non-residents directly related through ownership. Income from equity portfolio investment is compiled on the basis of the same research, whereas data on debt portfolio investment income have been compiled since 1999, based on statistics on foreign credit relations, which also encompass income related to debt securities owned by non-residents. Income from other investments includes the calculation of interest in accordance with the foreign credit relations statistics. The methodology for compiling the statistics on debt investment income has been changed in 2007 to include the reporting of income on an accrual basis. This basically means that income from debt investment and interest are reported at the point in time when they accrue and not at the point in time when they mature or

Table H4 Balance of payments – direct and portfolio investments[a,b]

in million EUR

	2006	2007	2008	2009	2010[c]	2010			
						Q1	Q2	Q3	Q4[c]
Direct investment	2,561.5	3,467.8	3,245.8	1,206.9	593.3	529.2	–88.7	315.6	–162.7
1 Abroad	**–206.8**	**–211.2**	**–972.6**	**–888.8**	**153.4**	**–62.0**	**–154.0**	**–75.5**	**445.0**
1.1 Equity capital and reinvested earnings	–210.5	–265.3	–1,078.3	–895.2	268.0	–56.4	–112.7	–86.4	523.5
1.1.1 Claims	–210.5	–268.4	–1,078.3	–1,010.1	244.0	–59.0	–112.7	–86.4	502.2
1.1.2 Liabilities	0.0	3.1	0.0	114.9	24.0	2.6	0.0	0.0	21.3
1.2 Other capital	3.7	54.1	105.7	6.4	–114.6	–5.6	–41.3	10.9	–78.6
1.2.1 Claims	–13.9	20.3	106.8	–29.9	–345.2	–24.9	–43.4	5.2	–282.2
1.2.2 Liabilities	17.6	33.9	–1.1	36.3	230.6	19.3	2.1	5.7	203.6
2 In Croatia	**2,768.3**	**3,679.0**	**4,218.4**	**2,095.6**	**439.9**	**591.2**	**65.3**	**391.1**	**–607.7**
2.1 Equity capital and reinvested earnings	2,468.6	2,671.6	2,707.7	1,039.9	1,061.5	435.3	469.1	473.2	–316.2
2.1.1 Claims	–0.1	0.0	–6.9	–94.7	–53.5	0.0	–53.5	0.0	0.0
2.1.2 Liabilities	2,468.7	2,671.6	2,714.6	1,134.6	1,115.0	435.3	522.6	473.2	–316.2
2.2 Other capital	299.7	1,007.4	1,510.7	1,055.7	–621.6	155.9	–403.9	–82.1	–291.5
2.2.1 Claims	12.4	20.3	–26.4	–27.9	–17.2	–12.8	–27.7	13.8	9.6
2.2.2 Liabilities	287.3	987.2	1,537.0	1,083.6	–604.4	168.7	–376.1	–95.9	–301.1
Portfolio investment	–197.3	391.1	–782.1	398.3	399.3	–726.8	236.2	1,160.1	–270.3
1 Assets	**–459.8**	**–404.7**	**–277.9**	**–584.3**	**–351.5**	**–112.2**	**30.9**	**–80.5**	**–189.7**
1.1 Equity securities	–320.5	–844.2	148.9	–111.4	–474.3	–245.4	–149.9	14.0	–92.9
1.1.1 General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.1.2 Banks	2.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.1.3 Other sectors	–323.1	–844.2	148.9	–111.4	–474.3	–245.4	–149.9	14.0	–92.9
1.2 Debt securities	–139.3	439.4	–426.8	–472.8	122.8	133.2	180.8	–94.5	–96.7
1.2.1 Bonds	118.2	329.7	–326.0	–131.4	243.0	224.0	8.1	93.8	–82.8
1.2.1.1 General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.2.1.2 Banks	161.9	267.8	–226.5	–53.4	163.5	220.6	–75.9	103.5	–84.7
1.2.1.3 Other sectors	–43.7	61.9	–99.5	–78.9	71.5	–4.6	86.9	–17.9	7.1
1.2.2 Money market instruments	–257.4	109.7	–100.8	–341.4	–120.2	–90.8	172.7	–188.3	–13.9
1.2.2.1 General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.2.2.2 Banks	–257.4	109.7	–100.9	–337.0	–123.5	–92.9	171.1	–191.0	–10.8
1.2.2.3 Other sectors	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
2 Liabilities	**262.5**	**795.8**	**–504.3**	**982.6**	**750.8**	**–614.6**	**205.3**	**1,240.6**	**–80.6**
2.1 Equity securities	325.7	315.9	–85.1	16.4	92.1	–7.2	–7.2	88.6	17.9
2.1.1 Banks	28.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.1.2 Other sectors	297.7	315.9	–85.1	16.4	92.1	–7.2	–7.2	88.6	17.9
2.2 Debt securities	–63.3	480.0	–419.2	966.2	658.7	–607.4	212.6	1,152.0	–98.5
2.2.1 Bonds	–63.3	480.0	–419.2	820.8	372.0	–694.6	–20.6	1,073.7	13.5
2.2.1.1 General government	–463.7	–276.4	–208.0	866.3	380.2	–686.6	–10.5	1,066.1	11.2
2.2.1.2 Banks	1.2	1.0	–1.6	–447.2	–0.2	0.0	0.3	–0.3	–0.1
2.2.1.3 Other sectors	399.3	755.4	–209.6	401.7	–8.1	–8.0	–10.4	7.9	2.4
2.2.2 Money market instruments	0.0	0.0	0.0	145.3	286.6	87.1	233.2	78.3	–112.0
2.2.2.1 General government	0.0	0.0	0.0	145.4	286.6	87.1	233.2	78.3	–112.0
2.2.2.2 Banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.2.3 Other sectors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

[a] The CBRD is reclassified from the subsector central government funds to the subsector non-banking financial institutions. The reclassification covers the entire statistical series (from January 1999 onwards). Moreover, CM is reclassified from the subsector central government funds to the subsector public enterprises. The reclassification covers the statistical series from January 2008 onwards. [b] Data also include the round tripping which increases direct investment in Croatia and direct investment abroad by the same amount. This type of direct investment was recorded in December 2008 (EUR 825.7m) and August 2009 (EUR 666.5m). [c] Preliminary data.

when they are paid. As a result, the historical data for the 1999-2006 period have been revised.

Current transfers are reported separately for the general government sector and other sectors. The ITRS is used as the main data source on current transfers for both sectors. In addition to taxes and excise duties, pensions, monetary support and donations, which are included in current transfers of both sectors, the government sector also encompasses data on multilateral cooperation, whereas other sectors include data on workers' remittances. Current transfers of the general government sector also include data on exports and imports of goods without a payment obligation, provided by the CBS. In the 1993-1998 period, current transfers of other sectors also encompassed an estimate of unregistered foreign currency

Table H5 Balance of payments – other investment[a]

in million EUR

	2006	2007	2008	2009	2010[b]	2010			
						Q1	Q2	Q3	Q4[b]
Other investment (net)	3,214.3	1,359.7	2,991.9	2,762.4	775.8	556.7	216.2	–762.3	765.2
1 Assets	**–692.3**	**–1,653.3**	**–1,620.9**	**759.9**	**639.6**	**679.0**	**–42.4**	**–382.9**	**386.0**
1.1 Trade credits	–33.3	–99.4	–126.5	150.4	85.5	46.3	17.0	82.2	–60.0
1.1.1 General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.1.1.1 Long-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.1.1.2 Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.1.2 Other sectors	–33.3	–99.4	–126.5	150.4	85.5	46.3	17.0	82.2	–60.0
1.1.2.1 Long-term	–4.9	–63.5	26.7	58.0	26.4	7.6	7.3	8.1	3.5
1.1.2.2 Short-term	–28.4	–35.9	–153.2	92.4	59.1	38.7	9.7	74.1	–63.4
1.2 Loans	–153.1	–4.5	–107.5	41.5	–70.4	–7.5	–18.0	–17.4	–27.6
1.2.1 General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.2.1.1 Long-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.2.1.2 Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.2.2 Banks	–80.4	–32.6	–66.7	20.5	–55.4	0.8	–9.6	–11.4	–35.1
1.2.2.1 Long-term	–58.9	–25.4	–26.8	–28.7	–46.9	5.0	–8.5	–3.9	–39.4
1.2.2.2 Short-term	–21.5	–7.3	–39.9	49.2	–8.5	–4.2	–1.1	–7.5	4.3
1.2.3 Other sectors	–72.7	28.1	–40.8	21.0	–15.1	–8.3	–8.4	–6.0	7.6
1.2.3.1 Long-term	–73.0	28.1	–37.6	20.9	17.8	–6.5	2.5	9.3	12.5
1.2.3.2 Short-term	0.3	0.0	–3.2	0.1	–32.9	–1.8	–10.9	–15.3	–4.9
1.3 Currency and deposits	–505.9	–1,549.4	–1,386.8	567.9	624.6	640.2	–41.4	–447.7	473.5
1.3.1 General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.3.2 Banks	–462.1	–1,317.1	–136.4	426.5	417.5	521.1	–127.4	–431.4	455.2
1.3.3 Other sectors	–43.8	–232.3	–1,250.5	141.4	207.0	119.0	86.0	–16.3	18.3
1.4 Other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2 Liabilities	**3,906.6**	**3,012.9**	**4,612.8**	**2,002.6**	**136.2**	**–122.3**	**258.6**	**–379.4**	**379.2**
2.1 Trade credits	18.5	313.5	32.0	–143.7	60.4	–212.5	153.9	325.1	–206.1
2.1.1 General government	–0.7	–0.6	–0.5	0.0	0.0	0.0	0.0	0.0	0.0
2.1.1.1 Long-term	–0.7	–0.6	–0.5	0.0	0.0	0.0	0.0	0.0	0.0
2.1.1.2 Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.1.2 Other sectors	19.2	314.2	32.5	–143.7	60.4	–212.5	153.9	325.1	–206.1
2.1.2.1 Long-term	–3.7	165.0	34.9	–58.0	–25.4	0.3	–19.2	47.8	–54.2
2.1.2.2 Short-term	22.9	149.2	–2.4	–85.7	85.8	–212.8	173.1	277.4	–151.9
2.2 Loans	3,059.2	2,890.3	3,703.9	969.3	93.7	411.9	–117.9	–285.0	84.7
2.2.1 Croatian National Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.1.1 o/w: IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.1.1.1 Drawings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.1.1.2 Repayments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.1.2 Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.2 General government	165.0	161.0	96.7	–7.4	134.4	198.0	–32.9	19.7	–50.4
2.2.2.1 Long-term	165.0	161.0	65.0	24.3	134.4	198.0	–32.9	19.7	–50.4
2.2.2.1.1 Drawings	477.8	523.5	330.1	306.0	368.9	232.8	40.8	64.4	30.9
2.2.2.1.2 Repayments	–312.8	–362.5	–265.2	–281.7	–234.5	–34.8	–73.7	–44.7	–81.4
2.2.2.2 Short-term	0.0	0.0	31.7	–31.7	0.0	0.0	0.0	0.0	0.0
2.2.3 Banks	541.2	–1,065.0	115.2	–166.5	–192.7	218.8	63.1	–545.6	71.1
2.2.3.1 Long-term	419.5	–630.8	–276.1	158.1	–322.9	–59.6	99.9	–339.9	–23.3
2.2.3.1.1 Drawings	2,833.6	1,216.2	609.4	1,219.2	849.3	73.8	264.2	120.0	391.3
2.2.3.1.2 Repayments	–2,414.1	–1,847.0	–885.4	–1,061.1	–1,172.2	–133.4	–164.3	–459.9	–414.7
2.2.3.2 Short-term	121.7	–434.2	391.3	–324.6	130.2	278.4	–36.8	–205.8	94.4
2.2.4 Other sectors	2,353.0	3,794.4	3,492.0	1,143.2	152.0	–4.9	–148.1	240.9	64.1
2.2.4.1 Long-term	2,264.1	3,184.9	3,175.7	866.9	–39.3	–23.2	–162.8	188.5	–41.8
2.2.4.1.1 Drawings	4,266.4	5,960.8	6,700.9	4,804.5	4,431.7	959.2	1,076.1	1,094.4	1,302.0
2.2.4.1.2 Repayments	–2,002.3	–2,775.9	–3,525.2	–3,937.5	–4,470.9	–982.4	–1,238.8	–905.9	–1,343.9
2.2.4.2 Short-term	88.9	609.5	316.2	276.2	191.2	18.3	14.6	52.4	105.9
2.3 Currency and deposits	826.2	–193.6	875.7	1,175.0	–19.0	–321.9	222.4	–419.8	500.3
2.3.1 General government	0.1	–0.1	–0.1	–1.2	0.0	0.0	0.0	0.0	0.0

	2006	2007	2008	2009	2010[b]	2010 Q1	Q2	Q3	Q4[b]
2.3.2 Banks	826.0	–193.6	867.1	1,197.2	–19.0	–321.9	222.4	–419.8	500.3
2.3.3 Other sectors	0.1	0.1	8.7	–21.1	0.0	0.0	0.0	0.0	0.0
2.4 Other liabilities	2.7	2.7	1.3	2.0	1.1	0.3	0.3	0.3	0.3

[a] The CBRD is reclassified from the subsector central government funds to the subsector non-banking financial institutions. The reclassification covers the entire statistical series (from January 1999 onwards). Moreover, CM is reclassified from the subsector central government funds to the subsector public enterprises. The reclassification covers the statistical series from January 2008 onwards. [b] Preliminary data.

remittances, which accounted for 15% of the positive difference between unclassified inflows and outflows of the household sector. From 1993 to the second quarter of 1996, the CNB also assessed a portion of the outflow based on current transfers. From 2002 on, inflows and outflows based on current transfers of other sectors are supplemented by the data of the CNB special statistical research on international transactions related to insurance services.

Capital account is compiled on the basis of the ITRS, particularly on their part related to transfers of migrants. In addition, capital account includes transfers that cannot be classified into current transfers, such as allocation of gold of the former

Table H6 Balance of payments – summary[a]

in million HRK

	2006	2007	2008	2009	2010[b]	2010 Q1	Q2	Q3	Q4[b]
A CURRENT ACCOUNT (1+6)	–19,468.3	–23,014.4	–30,812.0	–17,782.9	–4,420.4	–9,766.4	–743.0	13,677.7	–7,588.8
1 Goods, services, and income (2+5)	–27,577.4	–30,665.3	–38,287.8	–25,387.8	–12,271.9	–11,606.9	–2,819.1	11,799.3	–9,645.2
1.1 Credit	131,008.7	144,064.9	153,759.8	124,433.7	134,649.8	22,015.7	33,742.1	50,886.8	28,005.2
1.2 Debit	–158,586.1	–174,730.2	–192,047.6	–149,821.5	–146,921.7	–33,622.6	–36,561.2	–39,087.5	–37,650.4
2 Goods and services (3+4)	–18,996.5	–22,614.7	–26,928.9	–11,960.4	–556.1	–8,296.6	–436.4	15,506.6	–7,329.7
2.1 Credit	124,216.9	134,156.6	143,655.7	118,500.3	127,998.1	20,545.2	31,776.4	49,195.5	26,481.0
2.2 Debit	–143,213.4	–156,771.3	–170,584.7	–130,460.7	–128,554.2	–28,841.8	–32,212.8	–33,688.8	–33,810.7
3 Goods	–61,083.9	–69,218.6	–77,984.3	–54,248.2	–43,317.5	–9,351.9	–10,852.3	–12,440.7	–10,672.6
3.1 Credit	61,988.6	67,424.8	70,856.8	56,546.0	66,305.1	14,806.7	16,851.7	16,259.3	18,387.4
3.2 Debit	–123,072.5	–136,643.4	–148,841.1	–110,794.2	–109,622.6	–24,158.6	–27,704.0	–28,700.0	–29,060.0
4 Services	42,087.4	46,603.9	51,055.4	42,287.8	42,761.4	1,055.2	10,415.9	27,947.4	3,342.9
4.1 Credit	62,228.3	66,731.8	72,798.9	61,954.3	61,693.0	5,738.5	14,924.6	32,936.2	8,093.7
4.2 Debit	–20,140.9	–20,127.8	–21,743.5	–19,666.5	–18,931.6	–4,683.2	–4,508.8	–4,988.8	–4,750.7
5 Income	–8,580.9	–8,050.6	–11,358.8	–13,427.4	–11,715.8	–3,310.3	–2,382.7	–3,707.3	–2,315.5
5.1 Credit	6,791.8	9,908.3	10,104.1	5,933.4	6,651.7	1,470.5	1,965.7	1,691.3	1,524.2
5.2 Debit	–15,372.7	–17,958.9	–21,462.9	–19,360.8	–18,367.5	–4,780.8	–4,348.4	–5,398.6	–3,839.7
6 Current transfers	8,109.0	7,650.9	7,475.7	7,604.9	7,851.5	1,840.5	2,076.1	1,878.4	2,056.4
6.1 Credit	12,005.6	11,562.1	12,159.5	11,797.8	12,191.9	2,874.0	3,258.6	2,838.6	3,220.7
6.2 Debit	–3,896.5	–3,911.1	–4,683.7	–4,192.9	–4,340.4	–1,033.4	–1,182.5	–960.1	–1,164.3
B CAPITAL AND FINANCIAL ACCOUNT	29,574.3	33,111.6	41,590.7	25,912.5	10,796.8	6,016.3	1,391.5	–2,704.3	6,093.4
B1 Capital account	**–981.8**	**209.1**	**108.2**	**314.1**	**263.1**	**92.0**	**96.0**	**92.3**	**–17.2**
B2 Financial account, excl. reserves	**40,869.5**	**38,217.5**	**39,174.3**	**32,109.6**	**10,995.7**	**2,148.4**	**2,174.6**	**4,552.0**	**2,120.7**
1 Direct investment	18,762.5	25,485.8	23,036.0	8,890.6	4,305.9	3,859.7	–645.8	2,289.2	–1,197.2
1.1 Abroad	–1,515.1	–1,552.6	–6,998.8	–6,510.0	1,177.7	–450.8	–1,116.2	–548.9	3,293.6
1.2 In Croatia	20,277.5	27,038.4	30,034.8	15,400.6	3,128.2	4,310.5	470.4	2,838.1	–4,490.8
2 Portfolio investment	–1,478.0	2,884.0	–5,525.5	2,829.8	2,785.0	–5,294.6	1,717.4	8,369.5	–2,007.3
2.1 Assets	–3,391.6	–2,984.9	–1,944.9	–4,233.7	–2,576.1	–807.5	229.5	–585.5	–1,412.7
2.2 Liabilities	1,913.5	5,868.9	–3,580.5	7,063.4	5,361.1	–4,487.1	1,487.9	8,955.0	–594.7
3 Financial derivatives	0.0	0.0	0.0	0.0	–1,838.9	–445.5	–524.5	–538.8	–330.1
4 Other investment	23,585.1	9,847.7	21,663.7	20,389.2	5,743.7	4,028.8	1,627.5	–5,567.8	5,655.3
4.1 Assets	–5,121.6	–12,078.3	–11,587.5	5,681.4	4,701.5	4,949.6	–302.7	–2,784.6	2,839.2
4.2 Liabilities	28,706.7	21,926.0	33,251.1	14,707.8	1,042.3	–920.7	1,930.1	–2,783.2	2,816.1
B3 Reserve assets (CNB)	**–10,313.4**	**–5,315.0**	**2,308.3**	**–6,511.2**	**–462.0**	**3,775.9**	**–879.1**	**–7,348.6**	**3,989.9**
C NET ERRORS AND OMISSIONS	–10,106.0	–10,097.2	–10,778.7	–8,129.6	–6,376.5	3,750.0	–648.4	–10,973.5	1,495.4

[a] The CBRD is reclassified from the subsector central government funds to the subsector non-banking financial institutions. The reclassification covers the entire statistical series (from January 1999 onwards). Moreover, CM is reclassified from the subsector central government funds to the subsector public enterprises. The reclassification covers the statistical series from January 2008 onwards. [b] Preliminary data.
Note: The item net errors and omissions also comprises the counter-entry of a part of revenues from travel services which relates to such revenues not stated in the banks' records.

SFRY or investments in patents and rights.

Foreign direct investments include equity capital, reinvested earnings and debt relations between ownership-related residents and non-residents. Direct investments are investments whereby a foreign owner acquires a minimum of 10% interest in equity capital of a company, regardless of whether a resident invests abroad or a non-resident invests in Croatian residents. The CNB Research on foreign direct investments started in 1997 when companies included in the survey also delivered data on direct investments for the 1993-1996 period. For the same period, no data are available on reinvested earnings and other capital under direct investment position, where all debt relations between related residents and non-residents are classified (excluding the banking sector). Such data actually became available only after the stated research has been launched. Since 1999, data on debt relations within direct investments have been collected on the basis of external debt relations statistics. From 2007 on, the CNB Statistics Department conducts the research on the purchase and sale of the real estate by non-residents on the territory of the Republic of Croatia. Persons obliged to submit reports are the public notaries who learn about these transactions in the course of their business. Data on the purchase and sale of the real estate by Croatian residents abroad are compiled on the basis of the ITRS. These purchase and sale transactions are also a constituent part of direct investments.

Data on equity portfolio investments are collected from the same data source as the data on direct investments. Debt portfolio investments include all investments in short-term and long-term debt securities that cannot be classified under direct investments. In the 1997-1998 period, these data were collected through the CNB Research on direct and portfolio investments, and since 1999 data on external debt relations and monetary statistics data for bank investment have been used. Starting from 2002 and 2004, this position has also been compiled for investment funds and pension funds, respectively. Since 2009, these positions have been modified by the statistics on trade in equity and debt securities submitted by the Central Depository and Clearing Company and commercial banks providing securities custody services. Portfolio investments are modified by these data in the parts not fully covered by existing research. Data for the 2006-2009 period have also been revised.

Other investment encompasses all other debt investments that have not been mentioned, apart from investment constituting reserve assets. Other investments are classified by instruments, maturity and sectors. Trade credits, in the 1996–2002 period, included the CNB estimates of advance payment and deferred payments, made on the basis of the sample of the largest and large importers and exporters. Data on advance payments have been estimated since 1996, while data on short-term deferred payments (first up to 90 days, then up to 150 days, and today from 8 days to 1 year) have been collected since 1999. In 2003, this research was replaced by a new one, where the selected companies, regardless of their size (stratified sample), are obliged to submit data. Data on deferred payments with the original maturity of more than one year are adopted from the CNB foreign credit relations statistics. Credits granted by residents to non-residents, i.e. foreign loans utilised by residents and granted by non-residents, which cannot be classified into direct investments or trade credits, are classified by the institutional sector and maturity under the corresponding positions of other investment. The CNB foreign credit relations statistics represent the data source for these positions. Currency and deposit position shows residents' claims on foreign countries for foreign cash and deposits with foreign banks, as well as obligations of the Croatian banks for deposits owned by non-residents. Monetary statistics represent a data source for the general government sector and banks sector. Data on balance and currency structure of foreign assets and liabilities, contained in monetary statistics, are used to assess transactions from which the exchange rate effect was eliminated. In the 1993-1998 period, data on other sectors' claims under this position were compiled on the basis of the CNB estimate of a portion of net foreign currency inflows of the household sector which is not classified under current transfers. SSince 1999, this position has included only the data based on the Bank for International Settlement quarterly data, while data in the fourth quarter of 2001 and in the first two quarters of 2002 also relate to the effect of the EMU countries' currencies changeover to the euro. Data for the fourth quarter of 2008 were modified by estimates of currency and deposit withdrawals from the financial system driven by fears of the effects of the global financial crisis.

In the period from 1993 to 1998, the estimate of reserve assets transactions was made by converting the changes in the original currencies into the US dollars by applying the average monthly exchange rate of the currencies contained in the reserves. Since 1999, the changes in reserve assets balance have been calculated on the basis of the CNB accounting data.

Table H7 International reserves and banks' foreign currency reserves[a]

end of period, in million EUR

Year	Month	International reserves of the Croatian National Bank							Banks' foreign currency reserves
		Total	Special drawing rights	Reserve position in the Fund	Gold	Foreign currency			
						Total	Currency and deposits	Bonds and notes	
2001	December	5,333.6	122.9	0.2	–	5,210.5	3,469.7	1,740.7	4,056.0
2002	December	5,651.3	2.3	0.2	–	5,648.8	3,787.8	1,861.0	2,581.6
2003	December	6,554.1	0.7	0.2	–	6,553.2	3,346.0	3,207.2	3,927.1
2004	December	6,436.2	0.6	0.2	–	6,435.4	3,173.3	3,262.0	4,220.1
2005	December	7,438.4	0.9	0.2	–	7,437.3	3,834.5	3,602.8	2,938.4
2006	December	8,725.3	0.7	0.2	–	8,724.4	4,526.9	4,197.5	3,315.0
2007	December	9,307.4	0.8	0.2	–	9,306.5	4,533.9	4,772.5	4,388.9
2008	December	9,120.9	0.7	0.2	–	9,120.0	2,001.8	7,118.2	4,644.5
2009	December	10,375.8	331.7	0.2	–	10,043.9	2,641.4	7,402.6	4,293.9
2010	January	10,394.0	336.8	0.2	–	10,057.0	2,648.0	7,409.0	3,597.4
	February	10,081.5	345.2	0.2	–	9,736.1	2,762.1	6,974.0	3,649.9
	March	10,008.1	342.5	0.2	–	9,665.5	2,717.3	6,948.1	3,801.9
	April	10,015.0	346.7	0.2	–	9,668.1	2,724.0	6,944.0	3,709.9
	May	10,176.6	365.3	0.2	–	9,811.1	3,016.3	6,794.8	3,807.3
	June	10,305.2	368.3	0.2	–	9,936.7	3,110.6	6,826.1	3,977.6
	July	11,325.0	352.8	0.2	–	10,972.0	4,160.1	6,811.9	4,008.5
	August	11,428.4	360.3	0.2	–	11,068.0	3,981.8	7,086.1	4,015.6
	September	11,154.4	347.5	0.2	–	10,806.7	3,635.8	7,170.9	4,271.6
	October	11,076.9	345.3	0.2	–	10,731.4	3,708.7	7,022.7	3,978.5
	November	11,044.2	351.2	0.2	–	10,692.9	3,656.1	7,036.7	3,790.3
	December	10,660.3	356.7	0.2	–	10,303.4	3,274.9	7,028.5	3,828.9

[a] International reserves of the Republic of Croatia consist only of the Croatian National Bank's foreign currency reserves.

Table H7 International reserves and banks' foreign currency reserves • Data on the international reserves of the Croatian National Bank are compiled in accordance with the methodology set out in the Balance of Payments Manual (International Monetary Fund, 1993), and include those foreign claims of the Croatian National Bank that can be used to bridge imbalances in international payments. International reserves include special drawing rights, reserve position in the Fund, gold, foreign currency and deposits with foreign banks, as well as bonds and debt instruments.

The foreign currency reserves of banks include foreign currency and deposits of domestic banks with foreign banks. These foreign currency reserves represent an additional source of liquidity for bridging imbalances in international payments.

Table H8 International reserves and foreign currency liquidity

end of period, in million EUR

		2009	2010											
		Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
I Official reserve assets and other f/c assets (approximate market value)														
A Official reserve assets		**10,375.8**	**10,394.0**	**10,081.5**	**10,008.1**	**10,015.0**	**10,176.6**	**10,305.2**	**11,325.0**	**11,428.4**	**11,154.4**	**11,076.9**	**11,044.2**	**10,660.3**
(1) Foreign currency reserves (in convertible f/c)		9,243.3	9,079.3	8,469.7	8,283.0	8,397.2	9,166.1	8,798.5	9,796.8	9,676.1	10,041.7	9,531.4	9,208.2	8,794.8
(a) Securities		7,402.6	7,409.0	6,974.0	6,948.1	6,944.0	6,794.8	6,826.1	6,811.9	7,086.1	7,170.9	7,022.7	7,036.7	7,028.5
o/w: Issuer headquartered in reporting country but located abroad		–	–	–	–	–	–	–	–	–	–	–	–	–
(b) Total currency and deposits with:		1,840.8	1,670.3	1,495.7	1,334.9	1,453.1	2,371.3	1,972.4	2,984.9	2,590.0	2,870.8	2,508.7	2,171.4	1,766.3
(i) Other national central banks, BIS and IMF		1,698.9	1,594.7	1,403.7	1,241.0	1,376.3	2,193.3	1,907.5	2,930.3	2,458.8	2,781.8	2,412.9	2,057.6	1,576.4
(ii) Banks headquartered in the reporting country		–	–	–	–	–	–	–	–	–	–	–	–	–
o/w: Located abroad		–	–	–	–	–	–	–	–	–	–	–	–	–
(iii) Banks headquartered outside the reporting country		141.8	75.6	92.0	93.9	76.9	178.0	64.9	54.6	131.2	89.1	95.8	113.8	189.9
o/w: Located in the reporting country		–	–	–	–	–	–	–	–	–	–	–	–	–
(2) IMF reserve position		0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
(3) SDRs		331.7	336.8	345.2	342.5	346.7	365.3	368.3	352.8	360.3	347.5	345.3	351.2	356.7
(4) Gold		–	–	–	–	–	–	–	–	–	–	–	–	–
(5) Other reserve assets		800.6	977.8	1,266.4	1,382.4	1,270.9	645.0	1,138.2	1,175.2	1,391.9	765.0	1,200.0	1,484.7	1,508.6
– Reverse repo		800.6	977.8	1,266.4	1,382.4	1,270.9	645.0	1,138.2	1,175.2	1,391.9	765.0	1,200.0	1,484.7	1,508.6
B Other foreign currency assets (specify)		–	–	–	–	–	–	–	–	–	–	–	–	–
– Time deposits		–	–	–	–	–	–	–	–	–	–	–	–	–
C Total (A+B)		**10,375.8**	**10,394.0**	**10,081.5**	**10,008.1**	**10,015.0**	**10,176.6**	**10,305.2**	**11,325.0**	**11,428.4**	**11,154.4**	**11,076.9**	**11,044.2**	**10,660.3**
II Predetermined short-term net drains on f/c assets (nominal value)														
1 F/c loans, securities, and deposits (total net drains up to one year)		**–989.3**	**–974.6**	**–477.0**	**–1,181.2**	**–1,249.0**	**–1,212.1**	**–1,215.3**	**–1,235.3**	**–1,249.6**	**–1,222.1**	**–1,258.8**	**–1,241.6**	**–1,234.9**
(a) Croatian National Bank		–	–	–	–	–	–	–	–	–	–	–	–	–
Up to 1 month	Principal	–	–	–	–	–	–	–	–	–	–	–	–	–
	Interest	–	–	–	–	–	–	–	–	–	–	–	–	–
More than 1 and up to 3 months	Principal	–	–	–	–	–	–	–	–	–	–	–	–	–
	Interest	–	–	–	–	–	–	–	–	–	–	–	–	–
More than 3 months and up to 1 year	Principal	–	–	–	–	–	–	–	–	–	–	–	–	–
	Interest	–	–	–	–	–	–	–	–	–	–	–	–	–
(b) Central government (excl. central government funds)		–989.3	–974.6	–477.0	–1,181.2	–1,249.0	–1,212.1	–1,215.3	–1,235.3	–1,249.6	–1,222.1	–1,258.8	–1,241.6	–1,234.9
Up to 1 month	Principal	–39.9	–494.0	–5.1	–13.5	–6.0	–35.3	–47.5	–7.7	–49.2	–13.8	–11.7	–41.3	–16.4
	Interest	–	–	–	–8.2	–0.4	–0.8	–0.2	–0.2	–0.9	–7.1	–0.3	–0.9	–8.1
More than 1 and up to 3 months	Principal	–625.3	–122.0	–140.0	–101.5	–154.5	–88.4	–107.8	–130.4	–118.1	–166.1	–190.1	–134.9	–882.2
	Interest	–	–6.8	–12.4	–3.1	–2.1	–0.9	–3.0	–23.1	–15.8	–3.6	–27.6	–18.0	–15.1
More than 3 months and up to 1 year	Principal	–207.1	–202.1	–203.1	–910.3	–884.1	–893.0	–879.6	–876.3	–883.2	–863.5	–861.4	–876.7	–170.5
	Interest	–117.0	–149.6	–116.5	–144.6	–201.9	–193.7	–177.2	–197.7	–182.4	–167.9	–167.8	–169.8	–142.5
2 Aggregate short and long positions in forwards and futures in f/c vis-a-vis the domestic currency (including the forward leg of currency swaps)		–	–	–	–	–	–	–	–	–	–	–	–	–
(a) Short positions (–)		–	–	–	–	–	–	–	–	–	–	–	–	–
Up to 1 month		–	–	–	–	–	–	–	–	–	–	–	–	–
More than 1 and up to 3 months		–	–	–	–	–	–	–	–	–	–	–	–	–
More than 3 months and up to 1 year		–	–	–	–	–	–	–	–	–	–	–	–	–
(b) Long positions (+)		–	–	–	–	–	–	–	–	–	–	–	–	–
Up to 1 month		–	–	–	–	–	–	–	–	–	–	–	–	–
More than 1 and up to 3 months		–	–	–	–	–	–	–	–	–	–	–	–	–
More than 3 months and up to 1 year		–	–	–	–	–	–	–	–	–	–	–	–	–
3 Other		–	–	–	–	–	–	–	–	–	–	–	–	–
– Outflows related to repos (–)		–	–	–	–	–	–	–	–	–	–	–	–	–
Up to 1 month	Principal	–	–	–	–	–	–	–	–	–	–	–	–	–
	Interest	–	–	–	–	–	–	–	–	–	–	–	–	–
More than 1 and up to 3 months	Principal	–	–	–	–	–	–	–	–	–	–	–	–	–
	Interest	–	–	–	–	–	–	–	–	–	–	–	–	–

		2009	2010											
		Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
More than 3 months and up to 1 year	Principal	–	–	–	–	–	–	–	–	–	–	–	–	–
	Interest	–	–	–	–	–	–	–	–	–	–	–	–	–
4 Total predetermined short-term net drains on f/c assets (1+2+3)		**−989.3**	**−974.6**	**−477.0**	**−1,181.2**	**−1,249.0**	**−1,212.1**	**−1,215.3**	**−1,235.3**	**−1,249.6**	**−1,222.1**	**−1,258.8**	**−1,241.6**	**−1,234.9**
III Contingent short-term net drains on f/c assets (nominal value)														
1 Contingent liabilities in foreign currency		**−1,351.6**	**−1,311.8**	**−1,551.0**	**−1,467.1**	**−1,525.1**	**−1,485.2**	**−1,474.5**	**−1,507.2**	**−1,522.4**	**−1,477.0**	**−1,491.5**	**−1,648.9**	**−1,734.2**
(a) Collateral guarantees on debt falling due within 1 year		−661.5	−615.6	−911.8	−818.2	−873.3	−834.2	−828.4	−862.3	−857.7	−843.8	−844.8	−992.8	−1,087.9
– Croatian National Bank		–	–	–	–	–	–	–	–	–	–	–	–	–
– Central government (excl. central government funds)		−661.5	−615.6	−911.8	−818.2	−873.3	−834.2	−828.4	−862.3	−857.7	−843.8	−844.8	−992.8	−1,087.9
Up to 1 month		−30.3	−2.2	−54.0	−59.0	−31.9	−54.7	−1.6	−2.2	−10.6	−23.4	−28.8	−98.2	−0.2
More than 1 and up to 3 months		−101.3	−135.3	−122.8	−202.5	−166.2	−80.6	−53.5	−87.4	−116.4	−173.2	−153.1	−361.3	−438.5
More than 3 months and up to 1 year		−529.8	−478.1	−735.0	−556.6	−675.3	−698.9	−773.3	−772.7	−730.7	−647.2	−662.8	−533.3	−649.2
(b) Other contingent liabilities		−690.1	−696.1	−639.2	−648.9	−651.8	−651.1	−646.1	−644.9	−664.6	−633.2	−646.7	−656.1	−646.3
– Croatian National Bank		−690.1	−696.1	−639.2	−648.9	−651.8	−651.1	−646.1	−644.9	−664.6	−633.2	−646.7	−656.1	−646.3
Up to 1 month		–	–	–	–	–	–	–	–	–	–	–	–	–
More than 1 and up to 3 months		−690.1	−696.1	−639.2	−648.9	−651.8	−651.1	−646.1	−644.9	−664.6	−633.2	−646.7	−656.1	−646.3
More than 3 months and up to 1 year		–	–	–	–	–	–	–	–	–	–	–	–	–
– Central government (excl. central government funds)		–	–	–	–	–	–	–	–	–	–	–	–	–
2 Foreign currency securities issued with embedded options (puttable bonds)		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
3 Undrawn, unconditional credit lines provided by:		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– BIS (+)		–	–	–	–	–	–	–	–	–	–	–	–	–
– IMF (+)		–	–	–	–	–	–	–	–	–	–	–	–	–
4 Aggregate short and long positions of options in f/c vis-a-vis the domestic currency		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
5 Total contingent short-term net drains on f/c assets (1+2+3+4)		**−1,351.6**	**−1,311.8**	**−1,551.0**	**−1,467.1**	**−1,525.1**	**−1,485.2**	**−1,474.5**	**−1,507.2**	**−1,522.4**	**−1,477.0**	**−1,491.5**	**−1,648.9**	**−1,734.2**
IV Memo items														
(a) Short-term domestic currency debt indexed to the exchange rate		–	–	–	–	–	–	–	–	–	–	–	–	–
o/w: Central government (excl. central government funds)		–	–	–	–	–	–	–	–	–	–	–	–	–
(b) Financial instruments denominated in foreign currency and settled by other means (e.g., in domestic currency)		–	–	–	–	–	–	–	–	–	–	–	–	–
(c) Pledged assets		–	–	–	–	–	–	–	–	–	–	–	–	–
(d) Securities lent and on repo		–	–	–	–	–	–	–	–	–	–	–	–	–
– Lent or repoed and included in Section I		–	−1.8	−2.6	−4.2	–	−7.7	−1.0	−0.6	−9.1	–	–	–	–
– Lent or repoed but not included in Section I		–	–	–	–	–	–	–	–	–	–	–	–	–
– Borrowed or acquired and included in Section I														
– Borrowed or acquired but not included in Section I		766.5	940.1	1,194.9	1,311.6	1,224.5	610.2	1,040.4	1,099.5	1,286.9	734.8	1,133.6	1,401.9	1,458.5
(e) Financial derivative assets (net, marked to market)		–	–	–	–	–	–	–	–	–	–	–	–	–
(f) Currency composition of official reserves assets														
– Currencies in SDR basket		10,375.7	10,393.9	10,081.4	10,008.0	10,014.8	10,176.4	10,305.0	11,324.8	11,428.1	11,154.1	11,076.6	11,043.9	10,660.0
– Currencies not in SDR basket		0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3
– By individual currencies	USD	2,461.8	2,426.6	2,140.3	1,963.1	1,964.7	2,001.3	1,923.7	2,809.7	2,913.8	2,718.9	2,711.3	2,799.8	2,451.0
	EUR	7,581.5	7,629.7	7,595.1	7,702.1	7,703.0	7,809.5	8,012.6	8,161.9	8,153.7	8,087.4	8,019.7	7,892.6	7,851.8
	Other	332.5	337.7	346.1	342.9	347.2	365.8	368.8	353.5	360.9	348.1	345.9	351.8	357.5

Table H8 International reserves and foreign currency liquidity • International reserves and foreign currency liquidity are shown in accordance with a Template on international reserves and foreign currency liquidity, drawn up by the IMF. A detailed explanation of the Template is given in "International Reserves and Foreign Currency Liquidity – Guidelines for a Data Template, 2001".

The first part of the Template shows total assets of the Croatian National Bank in convertible foreign currency. Official reserve assets (IA) show those types of assets that are readily available to the CNB at any moment for bridging imbalances in international payments. Official international reserves include: short-term foreign negotiable debt securities, foreign cash, foreign currency sight deposits, foreign currency time deposits which can be withdrawn before maturity, foreign currency time deposits with a remaining maturity of up to 1 year, reserve position with the IMF, special drawing rights, gold, and reverse repos with foreign negotiable debt securities.

The second part of the Template shows fixed predetermined foreign currency net liabilities of the Croatian National Bank and the central government (excluding central government funds) that fall due in the next 12 months. Foreign currency loans, securities and deposits (II1) include future interest payments on banks' foreign currency reserve requirements with the CNB (only interest payments for the next month are included), payments of future maturities of foreign currency CNB bills, future principal and interest payments on loans from the IMF, and future principal and interest payments on the central government's foreign currency debts (excluding central government funds). Aggregate short and long positions in forwards and futures in foreign currencies (II2) include future collections (+) or payments (–) arising from currency swaps between the CNB and domestic banks (temporary sale or purchase of foreign currency). Item Other (II3) includes future payments arising from repo transactions with foreign negotiable debt securities.

The third part of the Template shows predetermined contingent foreign currency net liabilities of the Croatian National Bank and the central government (excluding central government funds), which fall due in the following 12 months. Contingent liabilities in foreign currency (III1) include future principal and interest payments on foreign loans guaranteed by the central government, and banks' foreign currency reserve requirements with the CNB. (The inclusion of reserve requirements in foreign currency is based on the assumption that there will be no changes in ratios or in the base of foreign currency reserve requirements, which comprises foreign currency sources of funds, including ordinary foreign currency accounts, special foreign currency accounts, foreign currency accounts and foreign currency sight deposits, received foreign currency deposits and received foreign currency loans, as well as obligations arising from securities issued in foreign currency (excluding banks' equity securities) and hybrid and subordinated instruments). Undrawn credit lines show potential inflows (+) or outflows (–) which would arise from drawdowns under these credits.

The fourth part of the Template lists memo items. Short-term, domestic currency debt indexed to foreign currency (IV(a)) shows obligations arising from the Act on Converting Households' Foreign Currency Deposits into the Public Debt of the Republic of Croatia, which fall due in the next 12 months. Pledged assets (IV(c)) show time deposits in foreign currency with a maturity over 3 months listed in item IB which are also used as collateral. Repo transactions with securities show the value of collateral that is subject to repo and reverse repo transactions with securities as well as how these transactions are registered in the Template.

Table H9 Midpoint exchange rates of the Croatian National Bank (period average)

Year	Month	HRK/EUR	HRK/ATS	HRK/FRF	HRK/100 ITL	HRK/CHF	HRK/GBP	HRK/USD	HRK/DEM
2001		7.471006	0.542939	1.138947	0.385845	4.946810	12.010936	8.339153	3.819865
2002		7.406976				5.049125	11.793108	7.872490	
2003		7.564248				4.978864	10.943126	6.704449	
2004		7.495680				4.854986	11.048755	6.031216	
2005		7.400047				4.780586	10.821781	5.949959	
2006		7.322849				4.656710	10.740292	5.839170	
2007		7.336019				4.468302	10.731537	5.365993	
2008		7.223178				4.553618	9.101622	4.934417	
2009		7.339554				4.861337	8.233112	5.280370	
2010		7.286230				5.285859	8.494572	5.500015	
2010	January	7.290819				4.936781	8.253859	5.098490	
	February	7.304744				4.978585	8.346769	5.327413	
	March	7.260644				5.009436	8.050570	5.346701	
	April	7.258114				5.063618	8.280297	5.405008	
	May	7.257505				5.112983	8.456556	5.752744	
	June	7.229388				5.229912	8.716015	5.921915	
	July	7.211539				5.361420	8.642265	5.667137	
	August	7.246101				5.397058	8.789254	5.613821	
	September	7.282934				5.570093	8.694234	5.593489	
	October	7.320596				5.447765	8.357430	5.270324	
	November	7.373159				5.479414	8.605358	5.384240	
	December	7.392766				5.761629	8.730161	5.594845	

Table H9 Midpoint exchange rates of the Croatian National Bank (period average) • The annual averages of CNB midpoint exchange rates are calculated based on the midpoint exchange rates effective on the working days in a year, using CNB exchange rate lists whose application dates pertain to the calculation period.

The monthly averages of CNB midpoint exchange rates are calculated based on the midpoint exchange rates effective on the working days in a month, using CNB exchange rate lists whose application dates pertain to the calculation period.

Table H10 Midpoint exchange rates of the Croatian National Bank (end of period)

Year	Month	HRK/EUR	HRK/ATS	HRK/FRF	HRK/100 ITL	HRK/CHF	HRK/GBP	HRK/USD	HRK/DEM
2001		7.370030	0.535601	1.123554	0.380630	4.977396	12.101856	8.356043	3.768237
2002		7.442292				5.120256	11.451442	7.145744	
2003		7.646909				4.901551	10.860544	6.118506	
2004		7.671234				4.971314	10.824374	5.636883	
2005		7.375626				4.744388	10.753209	6.233626	
2006		7.345081				4.571248	10.943208	5.578401	
2007		7.325131				4.412464	9.963453	4.985456	
2008		7.324425				4.911107	7.484595	5.155504	
2009		7.306199				4.909420	8.074040	5.089300	
2010		7.385173				5.929961	8.608431	5.568252	
2010	January	7.313102				4.985753	8.453476	5.236361	
	February	7.270536				4.968249	8.151739	5.342054	
	March	7.259334				5.071847	8.126423	5.392463	
	April	7.246875				5.052200	8.339327	5.473884	
	May	7.263120				5.090496	8.526790	5.852635	
	June	7.193455				5.422066	8.870952	5.897241	
	July	7.248517				5.353805	8.705882	5.576640	
	August	7.274976				5.562334	8.904499	5.719321	
	September	7.292743				5.490283	8.481906	5.361523	
	October	7.339273				5.374394	8.443710	5.311386	
	November	7.420325				5.618904	8.761749	5.623588	
	December	7.385173				5.929961	8.608431	5.568252	

Table H10 Midpoint exchange rates of the Croatian National Bank (end of period) • The table shows CNB midpoint exchange rates applied on the last day of the observed period.

Table H11 Indices of the effective exchange rate of the kuna

indices 2005 = 100

Year	Month	Nominal effective exchange rate of the kuna	Real effective exchange rate of the kuna; deflator		Real effective exchange rate of the kuna[a]; deflator	
			Consumer price index	Producer price index	Unit labour costs in industry	Unit labour costs in the total economy
2001	December	104.41	103.85	103.86	111.73	107.57
2002	December	102.98	102.93	101.67	112.12	105.88
2003	December	103.17	103.24	102.21	105.39	105.17
2004	December	101.23	102.21	99.97	102.75	101.71
2005	December	100.26	99.82	100.99	100.32	100.43
2006	December	98.76	98.10	101.09	91.54	94.32
2007	December	97.20	94.63	98.64	87.43	89.76
2008	December	96.12	92.53	94.82	89.31	85.88
2009	December	96.36	92.36	92.00	88.94	87.63
2010	January	96.75	91.83	91.89		
	February	97.58	92.75	92.84		
	March	97.23	92.74	92.20	91.69	88.94
	April	97.39	92.81	92.57		
	May	97.99	93.26	93.15		
	June	98.15	93.32	93.15	89.71	90.16
	July	97.65	92.65	92.86		
	August	98.28	93.50	93.31		
	September	98.78	93.83	93.60	90.96	91.31
	October	98.53	93.79	93.36		
	November	99.43	94.49	94.61		
	December	100.14	95.60	95.16	90.21[b]	92.64[b]

[a] The values shown are quaterly data. [b] Preliminary data

Table H11 Indices of the effective exchange rate of the kuna • The index of the nominal effective exchange rate of the kuna is a weighted geometric average of the index of bilateral nominal exchange rates of the kuna against the selected currencies of the main trading partners. The currencies of the main trading partners and their weights are determined based on the structure of imports and exports of manufactured goods, where the weights used reflect direct import competition, direct export competition and export competition in third markets (see Box 2 in CNB Bulletin No. 165, 2011). The group of countries included in the formation of the index of the effective exchange rate of the kuna comprises the following 16 partner countries: a) eight eurozone countries: Austria (a 6.9% weight), Belgium (2.8%), France (6.4%), Germany (22.5%), Italy (21.4%), the Netherlands (3.2%), Slovenia (6.5%) and Spain (2.6%); b) five EU countries outside the eurozone: the Czech Republic (2.8%), Hungary (2.6%), Poland (2.8%), Sweden (1.9%) and the United Kingdom (3.9%); and c) three non-EU countries: the United States (7.6%), Japan (4.0%) and Switzerland (2.2%). The reference period for the calculation of the weights is the average for the 2007-2009 period. The time series of basic indices were recalculated on the basis of 2005.

The index of the nominal effective exchange rate is an aggregate indicator of the average value of the domestic currency against a basket of currencies. An increase in the index of the nominal effective exchange rate of the kuna in a certain period indicates that the kuna has depreciated against the basket of currencies and vice versa. The index of the real effective exchange rate is a weighted geometric average of the index of bilateral exchange rates of the kuna adjusted for the corresponding indices of relative prices or costs (the ratio of price indices or costs in partner countries to domestic prices or costs). Producer price indices, consumer price indices and the harmonised consumer price indices for EU member states, unit labour costs in the total economy and in industry are used as deflators. The time series for consumer prices in Croatia is constructed in the

Table H12 Gross external debt by domestic sectors[a]

in million EUR

	2009	2010											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Government	5,739.4	5,757.2	5,556.7	5,354.4	5,391.3	5,522.4	5,690.5	6,634.1	6,726.6	6,650.1	6,632.5	6,668.5	6,565.1
Short-term	**170.4**	**163.1**	**215.1**	**257.2**	**292.2**	**338.7**	**494.8**	**541.8**	**545.1**	**574.4**	**569.9**	**542.0**	**469.2**
Money market instruments	170.3	163.0	215.1	257.1	292.1	338.7	494.8	541.8	545.1	574.4	569.9	542.0	468.3
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.9
Principal arrears	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.8
Interest arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	**5,569.0**	**5,594.1**	**5,341.6**	**5,097.2**	**5,099.1**	**5,183.7**	**5,195.6**	**6,092.3**	**6,181.4**	**6,075.6**	**6,062.6**	**6,126.5**	**6,095.9**
Bonds	3,976.4	3,965.9	3,502.4	3,251.4	3,263.0	3,314.7	3,357.9	4,260.3	4,333.5	4,241.4	4,240.9	4,308.2	4,307.4
Credits	1,592.6	1,628.2	1,839.2	1,845.8	1,836.1	1,869.0	1,837.7	1,832.0	1,848.0	1,834.2	1,821.7	1,818.3	1,788.5
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2 Croatian National Bank	1.1	1.1	1.2	1.2	1.2	1.3	1.3	1.2	1.2	1.1	1.1	1.2	1.2
Short-term	**1.1**	**1.1**	**1.2**	**1.2**	**1.2**	**1.3**	**1.3**	**1.2**	**1.2**	**1.1**	**1.1**	**1.2**	**1.2**
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	1.1	1.1	1.2	1.2	1.2	1.3	1.3	1.2	1.2	1.1	1.1	1.2	1.2
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3 Banks	10,688.7	10,208.0	10,194.0	10,671.0	10,412.3	10,647.9	11,140.4	10,431.7	10,067.6	10,111.4	9,727.8	10,129.6	10,768.8
Short-term	**3,091.8**	**2,815.3**	**2,839.3**	**2,909.4**	**2,698.4**	**2,608.1**	**3,132.9**	**2,700.4**	**2,465.8**	**2,493.6**	**2,045.9**	**2,153.0**	**3,008.6**
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	806.8	663.3	680.3	1,085.7	893.0	765.3	1,051.1	740.3	581.4	842.0	420.2	422.8	935.1
Currency and deposits	2,283.9	2,151.8	2,158.6	1,823.3	1,805.2	1,842.6	2,081.3	1,959.8	1,884.1	1,651.1	1,625.3	1,729.8	2,073.0
Other debt liabilities	1.2	0.2	0.4	0.4	0.3	0.3	0.4	0.3	0.3	0.5	0.4	0.4	0.6
Principal arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	1.2	0.2	0.4	0.4	0.3	0.3	0.4	0.3	0.3	0.5	0.4	0.4	0.6
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	**7,596.9**	**7,392.6**	**7,354.8**	**7,761.6**	**7,713.9**	**8,039.8**	**8,007.5**	**7,731.3**	**7,601.8**	**7,617.8**	**7,681.9**	**7,976.6**	**7,760.2**
Bonds	9.0	9.0	8.9	8.9	9.0	9.0	9.1	9.1	8.9	8.9	8.9	8.8	8.9

	2009	2010											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
Credits	3,545.3	3,574.8	3,525.1	3,518.6	3,512.9	3,751.9	3,695.3	3,670.3	3,697.6	3,342.0	3,472.9	3,497.5	3,366.4
Currency and deposits	4,042.7	3,808.9	3,820.8	4,234.1	4,192.0	4,278.9	4,303.1	4,052.0	3,895.3	4,266.9	4,200.2	4,470.3	4,384.9
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4 Other sectors	21,374.8	21,192.4	21,378.9	21,443.1	21,545.0	21,695.3	21,475.0	21,675.2	21,768.3	21,581.6	21,623.4	21,733.1	21,663.8
Short-term	**1,346.7**	**1,384.4**	**1,452.3**	**1,474.1**	**1,531.8**	**1,576.0**	**1,459.2**	**1,523.4**	**1,484.4**	**1,505.2**	**1,498.3**	**1,512.5**	**1,623.1**
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	677.7	656.8	693.5	655.8	694.7	716.2	535.5	579.4	546.9	516.5	516.2	496.2	546.2
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	28.2	29.7	31.9	37.6	41.3	40.7	40.5	45.1	41.3	39.9	36.4	33.9	26.6
Other debt liabilities	640.9	697.9	726.9	780.6	795.8	819.1	883.1	898.9	896.1	948.8	945.7	982.4	1,050.3
Principal arrears	523.6	575.8	599.9	647.6	658.1	681.8	735.9	751.0	751.7	799.7	794.5	827.7	883.2
Interest arrears	117.2	122.0	127.1	133.0	137.8	137.3	147.2	147.8	144.4	149.1	151.2	154.7	167.1
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	**20,028.1**	**19,808.0**	**19,926.6**	**19,969.0**	**20,013.1**	**20,119.2**	**20,015.8**	**20,151.8**	**20,283.9**	**20,076.3**	**20,125.1**	**20,220.6**	**20,040.7**
Bonds	1,665.8	1,681.5	1,675.4	1,589.9	1,603.4	1,603.3	1,576.8	1,574.0	1,589.8	1,581.7	1,596.0	1,604.8	1,574.1
Credits	18,069.6	17,852.8	17,963.2	18,082.7	18,086.0	18,222.2	18,152.8	18,278.8	18,385.8	18,196.0	18,287.8	18,367.3	18,220.2
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	292.6	273.7	288.0	296.4	323.7	293.8	286.2	298.9	308.3	298.6	241.3	248.5	246.4
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5 Direct investment	7,440.3	7,529.6	7,581.3	7,569.7	7,247.4	7,247.4	7,394.6	7,279.5	7,308.9	7,264.9	7,190.3	7,216.3	7,399.8
Short-term	**446.8**	**465.4**	**509.7**	**503.9**	**551.7**	**541.9**	**573.0**	**574.9**	**638.4**	**621.4**	**598.6**	**612.6**	**914.3**
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	343.2	357.0	385.9	375.2	417.0	412.2	422.9	425.0	485.0	467.2	444.1	455.9	741.8
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	103.6	108.4	123.8	128.7	134.6	129.7	150.1	149.9	153.4	154.2	154.5	156.7	172.5
Principal arrears	73.5	78.7	93.0	97.6	103.2	98.6	116.3	115.7	119.9	120.0	120.4	120.3	133.2
Interest arrears	30.1	29.6	30.8	31.1	31.4	31.1	33.8	34.2	33.5	34.2	34.1	36.3	39.2
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	**6,993.4**	**7,064.3**	**7,071.6**	**7,065.9**	**6,695.7**	**6,705.5**	**6,821.6**	**6,704.7**	**6,670.5**	**6,643.5**	**6,591.8**	**6,603.7**	**6,485.5**
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	6,992.4	7,063.2	7,070.6	7,065.1	6,693.2	6,703.0	6,819.1	6,702.8	6,668.6	6,641.7	6,589.9	6,601.8	6,482.5
Trade credits	1.0	1.0	1.0	0.7	2.5	2.5	2.5	1.9	1.9	1.9	1.9	1.9	3.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total (1+2+3+4+5)	45,244.3	44,688.3	44,712.1	45,039.4	44,597.2	45,114.3	45,701.7	46,021.7	45,872.7	45,609.1	45,175.1	45,748.8	46,398.7
o/w: Round tripping[a]	1,499.0	1,524.2	1,548.4	1,560.1	1,208.2	1,270.1	1,288.4	1,229.5	1,251.2	1,190.9	1,178.6	1,253.5	0.0

[a] The rise in the external debt of the Republic of Croatia is attributed to the direct investment-related debt which comprises round-tripping transactions. A significant transaction, contributing to the removal of a round tripping component of direct investment, was recorded in December 2010. Nevertheless, the debt is presented in this table under heading 5 Direct investment.

following manner: retail price indices are used for the period until and including December 1997 and consumer price indices for the period as of January 1998. Unit labour costs in Croatia are calculated as the ratio of compensation per employee at current prices to labour productivity at constant prices (for more details on the calculation of unit labour costs, see Box 1 in CNB Bulletin No. 141, 2008). Data on the real effective exchange rate for the last month are preliminary. The historical data may be corrected for the subsequent changes in the data on deflators used in the calculation of the index of the real effective exchange rate of the kuna.

Table H12 Gross external debt by domestic sectors • External debt is defined as the external debt liabilities of residents on the basis of debt securities issued in the foreign markets (at face value), credits (repo agreements included) regardless of their contractual maturity, deposits of non-residents, and trade credits granted by non-residents with contractual maturity of more than 180 days (90 days up to 11 July 2001 and 150 days up to 31 December 2002), and, from December 2005 on, non-resident investment in debt securities issued in the domestic market.

External debt by domestic sectors is shown in the same manner as in the capital and financial account of the BOP. Item Government shows the external debt of the general government, comprising the Republic of Croatia, central government funds (including the State Agency for Deposit Insurance and Bank Rehabilitation, the Croatian Roads and, until 31 December 2007, the Croatian Motorways; from this date on, the Croatian Motorways is shown within the subsector public enterprises under item Other sectors), and local government. Item Croatian National Bank shows the debt of the central bank. Item Banks shows the debt of banks. Item Other sectors shows the debt of other banking institutions, non-banking financial institutions (including the Croatian Bank for Reconstruction and Development), enterprises, non-profit institutions and households, including craftsmen. Item Direct investment shows borrower

Table H13 Public sector gross external debt, and publicly guaranteed and non-publicly guaranteed private sector gross external debt[a]

in million EUR

	2009	2010											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Public sector	12,820.6	12,772.0	12,683.9	12,534.3	12,690.2	12,949.6	13,085.5	14,294.3	14,422.3	14,431.5	14,352.7	14,372.9	14,247.5
Short-term	**429.9**	**398.4**	**463.5**	**365.6**	**438.8**	**489.9**	**648.2**	**798.7**	**804.4**	**828.0**	**822.7**	**799.4**	**651.3**
Money market instruments	170.3	163.0	215.1	257.1	292.1	338.7	494.8	541.8	545.1	574.4	569.9	542.0	468.3
Credits	215.6	186.6	199.1	62.1	99.3	102.9	104.2	183.7	185.7	181.4	180.2	183.9	108.6
Currency and deposits	1.1	1.1	1.2	1.2	1.2	1.3	1.3	1.2	1.2	1.1	1.1	1.2	1.2
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	42.9	47.7	48.2	45.2	46.2	47.0	47.9	72.0	72.5	71.1	71.5	72.4	73.3
Principal arrears	39.4	43.9	44.4	41.3	42.3	43.5	43.9	68.4	68.9	67.5	67.8	68.7	69.3
Interest arrears	3.6	3.8	3.8	3.9	3.9	3.5	4.1	3.6	3.6	3.6	3.7	3.7	3.9
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	**12,207.3**	**12,187.2**	**12,031.1**	**11,954.2**	**12,034.8**	**12,236.0**	**12,211.1**	**13,289.6**	**13,422.4**	**13,414.4**	**13,367.8**	**13,474.7**	**13,431.3**
Bonds	5,326.8	5,323.8	4,841.8	4,532.4	4,547.0	4,604.3	4,635.6	5,531.9	5,610.7	5,509.0	5,516.0	5,589.0	5,570.3
Credits	6,608.2	6,609.7	6,921.3	7,145.1	7,183.0	7,356.8	7,308.8	7,477.9	7,522.4	7,625.4	7,629.6	7,656.5	7,631.1
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	272.3	253.7	268.1	276.8	304.8	274.8	266.8	279.9	289.3	280.0	222.2	229.2	229.9
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Direct investment	**183.4**	**186.4**	**189.3**	**214.5**	**216.7**	**223.8**	**226.2**	**206.0**	**195.5**	**189.1**	**162.3**	**98.7**	**165.0**
2 Publicly guaranteed private sector	9.2	8.4	8.4	7.2	7.2	10.0	10.2	9.4	9.5	5.4	5.4	5.5	5.5
Short-term	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	**9.2**	**8.4**	**8.4**	**7.2**	**7.2**	**10.0**	**10.2**	**9.4**	**9.5**	**5.4**	**5.4**	**5.5**	**5.5**
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	9.2	8.4	8.4	7.2	7.2	10.0	10.2	9.4	9.5	5.4	5.4	5.5	5.5
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Direct investment	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
3 Non-publicly guaranteed private sector	32,414.6	31,908.0	32,019.7	32,497.9	31,899.7	32,154.6	32,606.0	31,718.0	31,440.8	31,172.2	30,816.9	31,370.5	32,145.7
Short-term	**4,180.2**	**3,965.6**	**4,044.4**	**4,276.3**	**4,084.8**	**4,034.3**	**4,440.0**	**3,968.2**	**3,692.1**	**3,746.5**	**3,292.5**	**3,409.4**	**4,450.8**
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	1,268.9	1,133.5	1,174.6	1,679.5	1,488.4	1,378.6	1,482.4	1,136.0	942.7	1,177.1	756.2	735.2	1,372.7
Currency and deposits	2,283.9	2,151.8	2,158.6	1,823.3	1,805.2	1,842.6	2,081.3	1,959.8	1,884.1	1,651.1	1,625.3	1,729.8	2,073.0
Trade credits	28.2	29.7	31.9	37.6	41.3	40.7	40.5	45.1	41.3	39.9	36.4	33.9	26.6
Other debt liabilities	599.2	650.5	679.2	735.9	750.0	772.4	835.7	827.2	824.0	878.3	874.6	910.4	978.4
Principal arrears	484.4	532.0	555.5	606.4	615.9	638.3	692.1	682.7	682.9	732.3	726.8	759.1	814.6
Interest arrears	114.9	118.5	123.7	129.6	134.1	134.1	143.6	144.5	141.1	146.0	147.9	151.3	163.8
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	**20,977.5**	**20,599.1**	**20,583.4**	**20,866.3**	**20,784.2**	**21,096.8**	**20,997.7**	**20,676.3**	**20,635.2**	**20,349.9**	**20,496.4**	**20,843.5**	**20,460.1**
Bonds	324.4	332.5	344.9	317.9	328.4	322.7	308.2	311.5	321.5	323.1	329.7	332.7	320.1
Credits	16,590.1	16,437.7	16,397.7	16,294.8	16,244.8	16,469.0	16,359.6	16,286.6	16,392.2	15,734.1	15,940.1	16,013.9	15,731.3
Currency and deposits	4,042.7	3,808.9	3,820.8	4,234.1	4,192.0	4,278.9	4,303.1	4,052.0	3,895.3	4,266.9	4,200.2	4,470.3	4,384.9
Trade credits	20.3	20.0	19.9	19.6	18.9	26.1	26.7	26.3	26.2	25.9	26.4	26.5	23.8
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Direct investment	**7,256.9**	**7,343.3**	**7,392.0**	**7,355.2**	**7,030.7**	**7,023.6**	**7,168.4**	**7,073.6**	**7,113.4**	**7,075.8**	**7,028.0**	**7,117.5**	**7,234.9**
Total (1+2+3)	45,244.3	44,688.4	44,712.1	45,039.4	44,597.2	45,114.3	45,701.7	46,021.7	45,872.7	45,609.1	45,175.1	45,748.8	46,398.7
o/w: Round tripping[a]	1,499.0	1,524.2	1,548.4	1,560.1	1,208.2	1,270.1	1,288.4	1,229.5	1,251.2	1,190.9	1,178.6	1,253.5	0.0

[a] The rise in the external debt of the Republic of Croatia is attributed to the direct investment-related debt which comprises round-tripping transactions. A significant transaction, contributing to the removal of a round tripping component of direct investment, was recorded in December 2010. Nevertheless, the debt is presented in this table under heading 5 Direct investment.

– lender transactions of other sectors that are interrelated by ownership (borrower or lender owns more than 10% of the other).

Each sector data are further shown by contractual (short-term or long-term) maturity and by debt instrument. From the beginning of 2004, instruments included in item Currency and deposits (3 Banks) are reported in accordance with their maturity. Data for the previous periods are reported only on a long-term basis.

Outstanding gross external debt includes principal and interest arrears, as well as accrued interest and future principal payments.

Outstanding debt data are shown at the CNB's midpoint exchange rate at the end of the period.

Data are considered preliminary until after publication of the final BOP data for the reporting quarter.

Table H13 Public sector gross external debt, and publicly guaranteed and non-publicly guaranteed private sector gross external debt • The gross external debt position presented in this table highlights the role of the public sector.

Table H14 Gross external debt by domestic sectors and projected future payments

in million EUR

	Gross external debt 31/12/2010	Immediate	Projected future principal payments												
			Q1/2011	Q2/2011	Q3/2011	Q4/2011	2011	2012	2013	2014	2015	2016	2017	2018	Other
1 Government	6,565.1	0.9	896.2	320.8	156.7	134.0	1,507.6	175.4	291.1	642.1	1,023.2	116.7	121.3	68.1	2,618.8
Short-term	**469.2**	**0.9**	**40.2**	**254.8**	**103.6**	**69.7**	**468.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Money market instruments	468.3	0.0	40.2	254.8	103.6	69.7	468.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.9	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal arrears	0.8	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	**6,095.9**	**0.0**	**856.0**	**65.9**	**53.1**	**64.3**	**1,039.3**	**175.4**	**291.1**	**642.1**	**1,023.2**	**116.7**	**121.3**	**68.1**	**2,618.8**
Bonds	4,307.4	0.0	823.2	0.0	4.7	0.0	828.0	14.1	120.7	479.5	749.4	1.9	38.0	0.2	2,075.6
Credits	1,788.5	0.0	32.8	65.9	48.4	64.3	211.4	161.2	170.5	162.6	273.8	114.8	83.3	67.8	543.2
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2 Croatian National Bank	1.2	0.0	1.2	0.0	0.0	0.0	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term	**1.2**	**0.0**	**1.2**	**0.0**	**0.0**	**0.0**	**1.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	1.2	0.0	1.2	0.0	0.0	0.0	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3 Banks	10,768.8	0.6	2,645.2	835.1	567.2	987.7	5,035.2	2,101.5	716.0	785.6	556.8	395.9	908.3	196.3	72.6
Short-term	**3,008.6**	**0.6**	**2,290.2**	**283.2**	**219.3**	**215.4**	**3,008.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	935.1	0.0	866.2	63.9	0.0	5.0	935.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	2,073.0	0.0	1,424.0	219.3	219.3	210.4	2,073.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.6	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	0.6	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	**7,760.2**	**0.0**	**355.1**	**551.9**	**347.8**	**772.3**	**2,027.1**	**2,101.5**	**716.0**	**785.6**	**556.8**	**395.9**	**908.3**	**196.3**	**72.6**
Bonds	8.9	0.0	8.9	0.0	0.0	0.0	8.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	3,366.4	0.0	53.3	253.7	49.6	520.7	877.2	596.3	481.9	539.2	105.6	335.3	365.1	5.1	60.7

	Gross external debt 31/12/2010	Immediate	Projected future principal payments												
			Q1/2011	Q2/2011	Q3/2011	Q4/2011	2011	2012	2013	2014	2015	2016	2017	2018	Other
Currency and deposits	4,384.9	0.0	292.9	298.2	298.2	251.7	1,141.0	1,505.2	234.1	246.5	451.2	60.5	543.3	191.2	11.9
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4 Other sectors	21,663.8	1,050.3	1,516.0	1,213.0	1,030.7	1,744.2	5,503.9	2,862.3	2,490.8	1,425.4	1,243.1	1,221.5	1,456.9	570.1	3,839.6
Short-term	**1,623.1**	**1,050.3**	**184.1**	**126.8**	**90.7**	**171.3**	**572.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	546.2	0.0	184.1	126.7	64.0	171.3	546.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	26.6	0.0	0.0	0.0	26.6	0.0	26.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	1,050.3	1,050.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal arrears	883.2	883.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	167.1	167.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	**20,040.7**	**0.0**	**1,331.9**	**1,086.2**	**940.0**	**1,572.9**	**4,931.0**	**2,862.3**	**2,490.8**	**1,425.4**	**1,243.1**	**1,221.5**	**1,456.9**	**570.1**	**3,839.6**
Bonds	1,574.1	0.0	323.6	18.0	0.0	17.0	358.6	270.4	40.0	28.6	28.6	306.2	537.9	0.0	3.8
Credits	18,220.2	0.0	850.6	1,009.7	937.3	1,549.0	4,346.6	2,576.5	2,447.7	1,396.2	1,214.0	914.7	918.6	570.1	3,835.7
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	246.4	0.0	157.7	58.4	2.7	6.9	225.8	15.4	3.0	0.6	0.6	0.6	0.5	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5 Direct investment	7,399.8	172.5	991.2	607.6	216.9	1,681.5	3,497.2	760.7	416.2	317.6	210.1	292.6	163.7	93.0	1,476.4
Short-term	**914.3**	**172.5**	**200.2**	**170.5**	**24.5**	**346.7**	**741.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	741.8	0.0	200.2	170.5	24.5	346.7	741.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	172.5	172.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal arrears	133.2	133.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	39.2	39.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	**6,485.5**	**0.0**	**791.0**	**437.1**	**192.4**	**1,334.7**	**2,755.3**	**760.7**	**416.2**	**317.6**	**210.1**	**292.6**	**163.7**	**93.0**	**1,476.4**
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	6,482.5	0.0	790.9	437.1	191.9	1,334.5	2,754.4	758.9	416.0	317.6	210.1	292.6	163.7	93.0	1,476.4
Trade credits	3.0	0.0	0.1	0.0	0.6	0.2	0.9	1.8	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total (1+2+3+4+5)	46,398.7	1,224.2	6,049.9	2,976.4	1,971.4	4,547.3	15,545.0	5,899.9	3,914.2	3,170.8	3,033.1	2,026.6	2,650.3	927.4	8,007.2
Supplement: Projected interest payments			183.8	279.4	264.7	332.1	1,060.1	974.0	860.9	714.6	629.2	510.4	450.4	339.5	1,848.3

Public sector includes the general government (comprising the Republic of Croatia, central government funds and local government), the central bank, public enterprises, mixed enterprises and the CBRD. Public enterprises are defined as enterprises in 100% ownership of business entities from the public sector. Mixed enterprises are defined as enterprises in which business entities from the public sector have a share larger than 50%.

Publicly guaranteed private sector gross external debt is defined as the external debt liabilities of business entities not covered by the definition of the public sector, the servicing of which is guaranteed by a business entity from the public sector.

Non-publicly guaranteed private sector gross external debt is defined as the external debt liabilities of business entities not covered by the definition of the public sector, the servicing of which is not guaranteed by the public sector.

Items are valued in the same manner as in Table H12.

Table H14 Gross external debt by domestic sectors and projected future payments • The table shows outstanding gross external debt, projected principal payments and estimated interest payments according to the CNB's midpoint exchange rate at the end of the period. Projected principal payments and estimated interest payments on currency and deposits of non-residents under item Banks are reported in accordance with the available monetary statistics data on original and remaining maturity.

Estimated interest payments do not include interest on repo transactions and hybrid and subordinated instruments, as well as late interest on these instruments (up to March 2010, estimated interest payments did not also include interest on currency and deposits). Future interest payments of banks are estimated on the basis of contractual interest rates and do not reflect changes of variable interest rates. Future interest payments of other sectors are estimated on the basis of the benchmark interest rate applicable on the reporting date. Projected payments of accrued interest, which are an integral part of the gross external debt, increase the projected principal payments in the first quarter period and, consequently, decrease the interest payments estimated for the same period.

Table H15 Gross external debt by other sectors

in million EUR

	2009	2010											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Other sectors	21,374.8	21,192.4	21,378.9	21,443.1	21,545.0	21,695.3	21,475.0	21,675.2	21,768.3	21,581.6	21,623.4	21,733.1	21,663.8
Short-term	1,346.7	1,384.4	1,452.3	1,474.1	1,531.8	1,576.0	1,459.2	1,523.4	1,484.4	1,505.2	1,498.3	1,512.5	1,623.1
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	677.7	656.8	693.5	655.8	694.7	716.2	535.5	579.4	546.9	516.5	516.2	496.2	546.2
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	28.2	29.7	31.9	37.6	41.3	40.7	40.5	45.1	41.3	39.9	36.4	33.9	26.6
Other debt liabilities	640.9	697.9	726.9	780.6	795.8	819.1	883.1	898.9	896.1	948.8	945.7	982.4	1,050.3
Principal arrears	523.6	575.8	599.9	647.6	658.1	681.8	735.9	751.0	751.7	799.7	794.5	827.7	883.2
Interest arrears	117.2	122.0	127.1	133.0	137.8	137.3	147.2	147.8	144.4	149.1	151.2	154.7	167.1
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	20,028.1	19,808.0	19,926.6	19,969.0	20,013.1	20,119.2	20,015.8	20,151.8	20,283.9	20,076.3	20,125.1	20,220.6	20,040.7
Bonds	1,665.8	1,681.5	1,675.4	1,589.9	1,603.4	1,603.3	1,576.8	1,574.0	1,589.8	1,581.7	1,596.0	1,604.8	1,574.1
Credits	18,069.6	17,852.8	17,963.2	18,082.7	18,086.0	18,222.2	18,152.8	18,278.8	18,385.8	18,196.0	18,287.8	18,367.3	18,220.2
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	292.6	273.7	288.0	296.4	323.7	293.8	286.2	298.9	308.3	298.6	241.3	248.5	246.4
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.1 Other banking institutions	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.2 Non-banking financial institutions	**5,396.1**	**5,253.9**	**5,259.4**	**5,067.6**	**5,040.2**	**4,996.1**	**4,910.4**	**4,906.1**	**4,959.1**	**4,705.0**	**4,685.3**	**4,685.2**	**4,628.9**
Short-term	436.3	405.9	407.1	336.9	322.4	338.2	198.3	171.9	172.9	152.7	153.7	152.8	136.5
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	431.8	400.8	402.2	332.2	317.1	333.3	192.6	166.4	167.7	147.6	148.4	147.3	121.4
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	4.5	5.1	4.9	4.7	5.2	4.9	5.7	5.6	5.2	5.2	5.3	5.4	15.1
Principal arrears	1.3	1.5	1.5	1.4	1.7	1.5	1.6	1.9	1.8	1.8	1.9	2.0	11.6
Interest arrears	3.2	3.6	3.4	3.3	3.5	3.4	4.1	3.6	3.4	3.4	3.4	3.5	3.5
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	4,959.8	4,848.0	4,852.3	4,730.8	4,717.9	4,657.9	4,712.1	4,734.2	4,786.2	4,552.2	4,531.5	4,532.4	4,492.5
Bonds	1,014.7	1,020.8	1,002.4	943.7	945.0	949.3	936.2	945.1	949.4	939.6	946.0	950.8	933.0
Credits	3,945.1	3,827.2	3,849.9	3,787.0	3,772.9	3,708.5	3,775.9	3,789.1	3,836.8	3,612.6	3,585.5	3,581.7	3,559.5
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.3 Public enterprises	**5,214.0**	**5,167.5**	**5,266.0**	**5,489.6**	**5,572.1**	**5,700.7**	**5,679.9**	**5,934.6**	**5,977.9**	**6,044.7**	**6,005.3**	**6,046.2**	**5,961.4**
Short-term	77.7	83.4	95.9	107.2	145.4	149.9	151.5	255.7	258.1	252.4	251.6	256.2	180.8
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	34.8	35.8	47.8	62.1	99.3	102.9	104.2	183.7	185.7	181.4	180.2	183.9	108.6
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	42.8	47.6	48.1	45.1	46.1	47.0	47.3	71.9	72.4	71.0	71.4	72.4	72.2
Principal arrears	39.3	43.8	44.3	41.2	42.2	43.5	43.8	68.4	68.8	67.4	67.7	68.7	68.6
Interest arrears	3.6	3.8	3.8	3.9	3.9	3.5	3.5	3.6	3.6	3.6	3.7	3.7	3.7
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

	2009	2010											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
Long-term	5,136.4	5,084.2	5,170.1	5,382.5	5,426.7	5,550.9	5,528.4	5,679.0	5,719.9	5,792.4	5,753.6	5,790.0	5,780.6
Bonds	335.6	337.2	337.0	337.3	339.0	340.2	341.5	326.5	327.8	327.9	329.1	330.1	329.9
Credits	4,528.5	4,493.3	4,565.0	4,768.4	4,782.9	4,935.8	4,920.1	5,072.6	5,102.8	5,184.5	5,202.3	5,230.7	5,220.8
Trade credits	272.3	253.7	268.1	276.8	304.8	274.8	266.8	279.9	289.3	280.0	222.2	229.2	229.9
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.4 Mixed enterprises	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.5 Other enterprises	**10,484.8**	**10,495.9**	**10,579.2**	**10,617.2**	**10,659.4**	**10,722.2**	**10,629.4**	**10,594.7**	**10,601.1**	**10,607.3**	**10,714.6**	**10,781.9**	**10,860.8**
Short-term	800.4	862.2	916.1	995.3	1,029.2	1,052.0	1,092.7	1,079.1	1,046.7	1,094.1	1,086.1	1,096.7	1,298.9
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	178.7	187.2	210.2	226.9	243.4	244.0	222.0	212.6	186.8	181.6	180.7	158.2	309.3
Trade credits	28.2	29.7	31.9	37.6	41.3	40.7	40.5	45.1	41.3	39.9	36.4	33.9	26.6
Other debt liabilities	593.5	645.2	673.9	730.8	744.5	767.2	830.1	821.4	818.5	872.6	868.9	904.6	962.9
Principal arrears	483.0	530.5	554.0	605.0	614.2	636.8	690.5	680.8	681.2	730.6	724.9	757.1	803.0
Interest arrears	110.5	114.7	119.9	125.9	130.3	130.4	139.6	140.6	137.4	142.0	144.1	147.5	159.9
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	9,684.4	9,633.7	9,663.1	9,621.9	9,630.2	9,670.3	9,536.7	9,515.6	9,554.4	9,513.2	9,628.5	9,685.2	9,561.9
Bonds	315.5	323.5	336.0	308.9	319.4	313.8	299.1	302.4	312.6	314.2	320.9	323.9	311.2
Credits	9,349.0	9,290.3	9,307.3	9,293.6	9,292.1	9,337.8	9,218.3	9,194.2	9,222.9	9,180.4	9,288.6	9,342.1	9,234.3
Trade credits	20.0	19.8	19.7	19.4	18.7	18.7	19.2	18.9	18.9	18.6	19.0	19.2	16.4
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.6 Non-profit institutions	**3.6**	**3.6**	**3.6**	**3.0**	**3.0**	**2.9**	**2.8**	**2.7**	**2.7**	**2.7**	**2.7**	**2.6**	**2.6**
1.7 Craftsmen and sole traders	**11.5**	**11.1**	**10.6**	**10.2**	**9.9**	**9.8**	**9.5**	**9.1**	**8.9**	**7.9**	**7.7**	**7.5**	**7.2**
1.8 Households	**264.8**	**260.5**	**260.2**	**255.4**	**260.3**	**263.5**	**243.0**	**228.0**	**218.7**	**214.0**	**207.9**	**209.7**	**202.9**

Table H16 International investment position • This table is made in accordance with the recommendations of the IMF (Balance of Payments Manual, Fifth Edition, 1993). Data sources include: reports from banks, enterprises, the Croatian National Bank, and the Zagreb Stock Exchange (ZSE).

Data on international investments of the Republic of Croatia and international investments into the Republic of Croatia are recorded in euros (EUR) and US dollars (USD). Depending on the sources of data available, the conversion of values from the original currencies into the reporting currencies is performed:

Table H16 International investment position – summary[a,b]

in million EUR

	2006	2007	2008	2009	2010[c]	2010			
						Q1	Q2	Q3	Q4[c]
1 International investment position (net)	–30,036.1	–39,487.2	–34,421.0	–38,838.5	–42,671.2	–40,098.8	–39,914.3	–38,896.5	–42,671.2
2 Assets	18,154.1	21,642.8	22,498.0	24,633.3	23,178.2	23,887.9	24,533.0	25,574.1	23,178.2
2.1 Direct investment abroad	1,833.3	2,580.3	3,750.4	4,556.6	3,107.3	4,748.6	4,884.1	4,846.2	3,107.3
2.2 Portfolio investment	2,486.9	3,250.9	2,641.2	3,416.4	3,582.1	3,536.3	3,306.3	3,334.9	3,582.1
2.2.1 Equity securities	559.3	1,745.5	656.7	800.3	1,255.6	1,077.4	1,151.2	1,079.3	1,255.6
2.2.2 Debt securities	1,927.6	1,505.4	1,984.6	2,616.1	2,326.5	2,458.9	2,155.1	2,255.6	2,326.5
Bonds	1,536.2	1,225.0	1,602.2	1,907.5	1,493.6	1,659.1	1,526.1	1,436.8	1,493.6
Money market instruments	391.4	280.4	382.4	708.6	832.9	799.8	628.9	818.8	832.9
2.3 Financial derivatives	0.0	0.0	0.0	24.1	16.5	20.7	28.9	31.6	16.5
2.4 Other investment	5,108.5	6,504.2	6,985.5	6,260.4	5,812.1	5,733.2	6,008.5	6,207.0	5,812.1
2.4.1 Trade credits	230.5	248.9	224.7	123.3	80.5	113.6	106.6	84.5	80.5
2.4.2 Loans	239.5	296.4	435.9	384.5	463.3	393.5	421.3	432.3	463.3
2.4.3 Currency and deposits	4,638.3	5,958.9	6,324.9	5,752.5	5,268.3	5,226.1	5,480.5	5,690.2	5,268.3
2.4.4 Other assets	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.5 Reserve assets (CNB)	8,725.3	9,307.4	9,120.9	10,375.8	10,660.2	9,849.0	10,305.2	11,154.4	10,660.2
3 Liabilities	48,190.2	61,130.1	56,919.1	63,471.9	65,849.4	63,986.7	64,447.3	64,470.6	65,849.4
3.1 Direct investment in Croatia	20,782.0	30,611.5	22,190.9	24,958.1	25,718.4	25,571.1	25,158.8	25,140.8	25,718.4
3.2 Portfolio investment	5,417.6	5,946.5	4,879.0	6,479.1	7,273.7	5,981.1	6,238.1	7,242.9	7,273.7
3.2.1 Equity securities	1,012.8	1,522.3	613.8	657.6	738.0	697.9	617.5	664.5	738.0
3.2.2 Debt securities	4,404.8	4,424.2	4,265.2	5,821.5	6,535.7	5,283.2	5,620.6	6,578.3	6,535.7
Bonds	4,404.8	4,424.2	4,265.2	5,651.2	6,067.3	5,026.0	5,125.8	6,003.9	6,067.3
Money market instruments	0.0	0.0	0.0	170.3	468.3	257.2	494.8	574.4	468.3
3.3 Financial derivatives	–	–	–	–	197.5	72.3	181.9	149.3	197.5
3.4 Other investment	21,990.6	24,572.1	29,849.2	31,982.6	32,659.9	32,362.2	32,868.5	31,937.6	32,659.9
3.4.1 Trade credits	244.9	337.8	367.5	344.4	346.3	359.2	354.0	388.9	346.3
3.4.2 Loans	17,347.4	20,088.8	24,343.4	25,310.1	25,854.1	25,944.1	26,128.3	25,629.2	25,854.1
3.4.3 Currency and deposits	4,398.4	4,145.5	5,138.3	6,328.1	6,459.5	6,058.9	6,386.1	5,919.5	6,459.5
3.4.4 Other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

[a] The CBRD is reclassified from the subsector central government funds to the subsector non-banking financial institutions. The reclassification covers the entire statistical series (from December 1998 onwards). Moreover, CM is reclassified from the subsector central government funds to the subsector public enterprises. The reclassification covers the statistical series from January 2008 onwards. [b] Data also include the round tripping which increases direct investment in Croatia and direct investment abroad by the same amount. This type of direct investment was recorded in December 2008 (EUR 825.7m) and August 2009 (EUR 666.5m). Accordingly, they impact the stock of direct investment in Croatia and direct investment abroad from these months onwards. [c] Preliminary data.

- by applying the current rate of exchange or the average monthly midpoint exchange rate of the Croatian National Bank to transactions;
- by applying the midpoint exchange rate of the Croatian National Bank on the reporting date to balances.

Data on foreign direct and portfolio equity investment are compiled on the basis of market prices, whenever available. Market prices on the last day of the reporting period taken from the Zagreb Stock Exchange are used in the part related to investment in the Republic of Croatia, while in the part related to investment abroad, the reporting units participating in the research on direct and portfolio equity investments are obliged to state the value at market prices of their equity investment abroad. When this is not possible, the book value of total equity held by direct or portfolio investors is used, regardless of whether investments are made in the Republic of Croatia or abroad (the own funds at book value method).

Portfolio debt investment and other investment are classified according to the following institutional sectors: the Croatian National Bank, government, banks and other sectors. The government sector comprises the central government and funds and local government authorities. The banking sector comprises banks.

Item Portfolio debt investment – Assets and liabilities comprises data on investments of residents into debt securities issued by non-residents (assets) and investments of non-residents into debt securities issued by residents (liabilities). The source of data is the register of foreign credit relations kept by the Croatian National Bank and monetary statistics data.

Data on portfolio equity and debt investment are modified by the data submitted by the Central Depository and Clearing Company and commercial banks providing securities custody services, particularly in the part Assets of other sectors.

Item Other investment – Trade credits – Assets and liabilities comprises foreign claims and foreign liabilities of the said sectors arising from trade credits. The source of data is the register of foreign credit relations kept by the Croatian National Bank.

Item Other investment – Loans – Assets and liabilities comprises data on loans granted and received between residents and non-residents classified according to institutional sectors. The source of data is the register of foreign credit relations kept by the Croatian National Bank.

Item Other investment – Currency and deposits – Assets shows the total liquid foreign currency assets of banks authorised to do business abroad reduced by the amount of foreign currency deposited by banks with the CNB in fulfilment of a part of their reserve requirements. In addition to banks' foreign claims, foreign claims of the government sector are also shown. The sources of data are reports from the government and banks. The Bank for International Settlement quarterly data are used for other sectors.

Item Other investment – Currency and deposits – Liabilities shows the total foreign currency and kuna liabilities of the said sectors abroad arising from current accounts, time and notice deposits, sight deposits and demand deposits. The sources of data for this item are reports from banks.

Item International reserves of the CNB is compiled on the basis of the CNB Accounting Department reports which contain data on their balances and changes.

Table H17 International investment position – direct investment[a]

in million EUR

	2006	2007	2008	2009	2010[b]	2010			
						Q1	Q2	Q3	Q4[b]
Direct investment (net)	–18,948.7	–28,031.2	–18,440.6	–20,401.5	–22,611.1	–20,822.5	–20,274.6	–20,294.6	–22,611.1
1 Abroad	**1,833.3**	**2,580.3**	**3,750.4**	**4,556.6**	**3,107.3**	**4,748.6**	**4,884.1**	**4,846.2**	**3,107.3**
1.1 Equity capital and reinvested earnings	1,725.2	2,479.3	3,560.6	4,463.4	2,865.8	4,652.7	4,756.2	4,727.2	2,865.8
1.1.1 Claims	1,725.2	2,479.3	3,560.6	4,463.4	2,865.8	4,652.7	4,756.2	4,727.2	2,865.8
1.1.2 Liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.2 Other capital	108.2	101.0	189.7	93.2	241.5	95.9	128.0	119.0	241.5
1.1.1 Claims	144.8	175.4	220.2	217.0	607.0	239.7	277.9	274.0	607.0
1.2.2 Liabilities	36.6	74.4	30.5	123.8	365.5	143.8	149.9	155.0	365.5
1.3 Financial derivatives (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2 In Croatia	**20,782.0**	**30,611.5**	**22,190.9**	**24,958.1**	**25,718.4**	**25,571.1**	**25,158.8**	**25,140.8**	**25,718.4**
2.1 Equity capital and reinvested earnings	17,961.2	26,777.2	16,409.8	17,694.6	18,759.1	18,212.7	18,013.4	18,110.8	18,759.1
2.1.1 Claims	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.1.2 Liabilities	17,961.2	26,777.2	16,409.8	17,694.6	18,759.1	18,212.7	18,013.4	18,110.8	18,759.1
2.2 Other capital	2,820.7	3,834.3	5,781.1	7,263.5	6,959.3	7,358.4	7,145.4	7,030.0	6,959.3
2.2.1 Claims	21.1	24.2	24.3	52.9	68.3	67.5	99.2	79.9	68.3
2.2.2 Liabilities	2,841.8	3,858.5	5,805.4	7,316.4	7,027.6	7,425.9	7,244.6	7,109.9	7,027.6
2.3 Financial derivatives (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

[a] Data also include the round tripping which increases direct investment in Croatia and direct investment abroad by the same amount. This type of direct investment was recorded in December 2008 (EUR 825.7m) and August 2009 (EUR 666.5m). Accordingly, they impact the stock of direct investment in Croatia and direct investment abroad from these months onwards. [b] Preliminary data.

Table H18 International investment position – portfolio investment[a]

in million EUR

	2006	2007	2008	2009	2010[b]	2010			
						Q1	Q2	Q3	Q4[b]
Portfolio investment (net)	–2,930.7	–2,695.6	–2,237.7	–2,892.3	–3,223.3	–2,187.6	–2,437.1	–3,333.5	–3,223.3
1 Assets	**2,486.9**	**3,250.9**	**2,641.2**	**3,416.4**	**3,582.1**	**3,536.3**	**3,306.3**	**3,334.9**	**3,582.1**
1.1 Equity securities	559.3	1,745.5	656.7	800.3	1,255.6	1,077.4	1,151.2	1,079.3	1,255.6
1.1.1 Banks	6.7	8.3	11.6	12.8	11.1	8.1	13.2	10.7	11.1
1.1.2 Other sectors	552.6	1,737.2	645.1	787.5	1,244.5	1,069.4	1,138.0	1,068.7	1,244.5
1.2 Debt securities	1,927.6	1,505.4	1,984.6	2,616.1	2,326.5	2,458.9	2,155.1	2,255.6	2,326.5
2 Liabilities	**5,417.6**	**5,946.5**	**4,879.0**	**6,308.8**	**6,805.4**	**5,723.9**	**5,743.3**	**6,668.5**	**6,805.4**
2.1 Equity securities	1,012.8	1,522.3	613.8	657.6	738.0	697.9	617.5	664.5	738.0
2.1.1 Banks	143.2	164.7	66.5	62.4	56.8	64.2	64.0	65.1	56.8
2.1.2 Other sectors	869.5	1,357.6	547.3	595.2	681.2	633.7	553.5	599.4	681.2
2.2 Debt securities	4,404.8	4,424.2	4,265.2	5,651.2	6,067.4	5,026.1	5,125.8	6,003.9	6,067.4
2.2.1 Bonds	4,404.8	4,424.2	4,265.2	5,651.2	6,067.3	5,026.0	5,125.8	6,003.9	6,067.3
2.2.1.1 General government	3,109.1	2,756.9	2,621.9	3,976.4	4,411.3	3,362.5	3,472.0	4,349.7	4,411.3
2.2.1.2 Banks	457.9	459.0	456.8	9.0	8.9	8.9	9.1	8.9	8.9
2.2.1.3 Other sectors	837.8	1,208.3	1,186.4	1,665.8	1,647.2	1,654.6	1,644.6	1,645.3	1,647.2
2.2.2 Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.2.1 Other sectors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

[a] The CBRD is reclassified from the subsector central government funds to the subsector non-banking financial institutions. The reclassification covers the entire statistical series (from December 1998 onwards). Moreover, CM is reclassified from the subsector central government funds to the subsector public enterprises. The reclassification covers the statistical series from January 2008 onwards. [b] Preliminary data.

Table H19 International investment position – other investment[a]

in million EUR

	2006	2007	2008	2009	2010[b]	2010			
						Q1	Q2	Q3	Q4[b]
Other investment (net)	–16,882.1	–18,067.8	–22,863.7	–25,722.1	–26,830.0	–26,629.0	–26,860.0	–25,730.6	–26,830.0
1 Assets	**5,108.5**	**6,504.2**	**6,985.5**	**6,260.4**	**5,810.2**	**5,733.2**	**6,008.5**	**6,207.0**	**5,810.2**
1.1 Trade credits	230.5	248.9	224.7	123.3	80.7	113.6	106.6	84.5	80.7
1.1.1 General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.1.2 Other sectors	230.5	248.9	224.7	123.3	80.7	113.6	106.6	84.5	80.7
Long-term	177.5	228.8	202.6	96.3	61.4	90.7	86.3	64.1	61.4
Short-term	53.0	20.1	22.1	27.0	19.3	22.9	20.3	20.4	19.3
1.2 Loans	239.5	296.4	435.9	384.5	461.2	393.5	421.3	432.3	461.2
1.2.1 Croatian National Bank	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Long-term	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
1.2.2 General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.2.3 Banks	188.5	214.8	285.3	270.1	330.6	272.4	286.3	294.3	330.6
Long-term	140.0	160.0	193.6	233.7	285.1	231.1	243.1	244.6	285.1
Short-term	48.5	54.8	91.7	36.5	45.5	41.3	43.2	49.7	45.5
1.2.4 Other sectors	50.4	81.1	150.0	113.8	130.1	120.5	134.4	137.4	130.1
Long-term	50.2	81.0	146.8	113.6	92.4	118.0	119.1	109.3	92.4
Short-term	0.2	0.1	3.3	0.2	37.7	2.4	15.3	28.1	37.7
1.3 Currency and deposits	4,638.3	5,958.9	6,324.9	5,752.5	5,268.3	5,226.1	5,480.5	5,690.2	5,268.3
1.3.2 General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.3.3 Banks	3,499.9	4,715.1	4,863.6	4,442.9	4,060.1	3,952.7	4,166.9	4,493.6	4,060.1
1.3.4 Other sectors	1,138.3	1,243.8	1,461.3	1,309.6	1,208.2	1,273.4	1,313.7	1,196.6	1,208.2
1.4 Other assets	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2 Liabilities	**21,990.6**	**24,572.1**	**29,849.2**	**31,982.6**	**32,640.3**	**32,362.2**	**32,868.5**	**31,937.6**	**32,640.3**
2.1 Trade credits	244.9	337.8	367.5	344.4	323.9	359.2	354.0	388.9	323.9
2.1.1 General government	1.9	1.2	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	1.9	1.2	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.1.2 Other sectors	243.0	336.6	366.7	344.4	323.9	359.2	354.0	388.9	323.9
Long-term	207.0	305.5	327.2	316.2	297.3	321.6	313.5	349.0	297.3
Short-term	35.9	31.1	39.5	28.2	26.6	37.6	40.5	39.9	26.6
2.2 Loans	17,347.4	20,088.8	24,343.4	25,310.1	25,856.8	25,944.1	26,128.3	25,629.2	25,856.8
2.2.1 Croatian National Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w: IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.2 General government	2,559.0	2,613.7	1,574.6	1,592.7	1,789.4	1,845.9	1,837.8	1,834.2	1,789.4
Long-term	2,559.0	2,613.7	1,542.9	1,592.7	1,789.4	1,845.9	1,837.8	1,834.2	1,789.4
Short-term	0.0	0.0	31.7	0.0	0.0	0.0	0.0	0.0	0.0
2.2.3 Banks	5,368.9	4,276.8	4,496.7	4,352.8	4,301.6	4,604.3	4,746.5	4,184.1	4,301.6
Long-term	4,217.4	3,565.2	3,374.7	3,545.3	3,366.5	3,518.6	3,695.3	3,342.1	3,366.5
Short-term	1,151.6	711.7	1,122.0	807.5	935.1	1,085.7	1,051.1	842.0	935.1
2.2.4 Other sectors	9,419.4	13,198.2	18,272.0	19,364.6	19,765.8	19,493.9	19,544.1	19,610.9	19,765.8
Long-term	9,187.2	12,371.2	17,589.5	18,625.9	19,126.9	18,772.4	18,937.6	19,017.1	19,126.9
Short-term	232.2	827.1	682.5	738.7	638.9	721.5	606.5	593.7	638.9
2.3 Currency and deposits	4,398.4	4,145.5	5,138.3	6,328.1	6,459.5	6,058.9	6,386.1	5,919.5	6,459.5
2.3.1 Croatian National Bank	2.6	2.3	2.3	1.1	1.2	1.2	1.3	1.1	1.2
2.3.2 Banks	4,395.8	4,143.2	5,125.5	6,327.0	6,458.4	6,057.7	6,384.9	5,918.4	6,458.4
2.3.3 Other sectors	0.0	0.0	10.6	0.0	0.0	0.0	0.0	0.0	0.0
2.4 Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

[a] The CBRD is reclassified from the subsector central government funds to the subsector non-banking financial institutions. The reclassification covers the entire statistical series (from December 1998 onwards). Moreover, CM is reclassified from the subsector central government funds to the subsector public enterprises. The reclassification covers the statistical series from January 2008 onwards. [b] Preliminary data.

I Government finance

Table I1 Consolidated central government according to the government level[a]

in million HRK

	2009	2010										
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.
1 REVENUE (A+B)	10,997.3	7,884.4	8,697.7	9,476.6	10,173.3	8,519.1	8,659.4	9,797.3	9,645.5	9,563.3	10,048.1	8,977.8
A) Budgetary central government	10,643.9	7,726.9	8,347.1	9,216.1	9,854.6	8,262.8	8,445.0	9,452.9	9,351.7	9,298.4	9,681.2	8,747.3
B) Extrabudgetary users	353.5	157.5	350.7	260.5	318.7	256.3	214.4	344.4	293.8	264.9	366.9	230.5
1 Croatian Pension Insurance Administration	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2 Croatian Institute for Health Insurance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3 Croatian Employment Service	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4 Croatian Waters	175.7	95.6	110.7	157.9	135.6	144.8	134.1	148.5	162.7	140.7	171.0	123.3
5 Fund for Environmental Protection and Energy Efficiency	119.9	55.6	107.5	69.8	73.8	98.9	63.3	83.1	115.9	93.4	85.8	93.6
6 Croatian Motorways Ltd.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7 Croatian Roads Ltd.	24.7	2.6	26.8	12.2	3.1	3.5	2.6	3.4	5.8	6.8	4.7	3.2
8 State Agency for Deposit Insurance and Bank Rehabilitation	29.9	3.4	96.8	19.9	104.2	8.7	10.4	108.8	6.2	22.9	105.1	9.3
9 Croatian Privatisation Fund	3.3	0.2	8.9	0.7	2.0	0.5	4.0	0.6	3.2	1.1	0.4	1.1
2 EXPENSE (A+B)	11,103.4	9,628.8	10,009.4	11,130.9	10,026.2	9,742.7	9,282.5	10,433.5	9,615.1	10,390.8	9,516.5	10,286.1
A) Budgetary central government	10,934.6	9,451.4	9,792.8	10,822.8	9,715.6	9,396.1	9,009.0	9,997.1	9,268.3	10,089.7	9,096.5	9,851.7
B) Extrabudgetary users	168.8	177.5	216.6	308.1	310.6	346.6	273.6	436.4	346.8	301.1	420.0	434.4
1 Croatian Pension Insurance Administration	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2 Croatian Institute for Health Insurance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3 Croatian Employment Service	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4 Croatian Waters	151.0	21.3	21.0	59.5	165.0	147.1	152.8	131.7	130.5	96.7	240.1	275.6
5 Fund for Environmental Protection and Energy Efficiency	152.3	88.8	78.1	59.4	56.4	94.5	54.6	81.1	82.3	69.9	110.6	90.1
6 Croatian Motorways Ltd.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7 Croatian Roads Ltd.	–159.4	60.8	111.1	181.0	82.8	98.0	57.4	214.6	126.9	125.9	62.5	62.8
8 State Agency for Deposit Insurance and Bank Rehabilitation	16.9	0.9	0.9	1.2	1.0	1.1	2.9	1.2	1.3	2.4	1.5	1.3
9 Croatian Privatisation Fund	8.0	5.6	5.5	7.0	5.5	5.9	5.9	7.7	5.8	6.2	5.3	4.6
NET/GROSS OPERATING BALANCE (1–2)	–106.0	–1,744.4	–1,311.7	–1,654.3	147.0	–1,223.7	–623.1	–636.2	30.4	–827.5	531.6	–1,308.3
3 CHANGE IN NET WORTH: TRANSACTIONS (3.1+3.2-3.3)	–106.0	–1,744.4	–1,311.7	–1,654.3	147.0	–1,223.7	–623.1	–636.2	30.4	–827.5	531.6	–1,308.3
3.1 CHANGE IN NET ACQUISITION OF NON-FINANCIAL ASSETS	985.9	119.7	211.7	174.1	122.3	151.5	94.5	292.4	165.4	222.0	198.6	261.3
Acquisition	1,018.0	140.1	239.3	195.6	154.8	174.9	115.6	324.0	189.9	249.7	228.3	285.2
A) Budgetary central government	361.7	109.3	150.1	80.5	83.8	82.1	59.7	115.4	73.1	91.2	153.7	155.5
B) Extrabudgetary users	656.3	30.8	89.1	115.0	71.0	92.8	55.9	208.6	116.8	158.5	74.6	129.8
Disposals	32.1	20.4	27.6	21.4	32.5	23.4	21.1	31.6	24.5	27.7	29.7	23.9
A) Budgetary central government	31.9	20.4	27.1	21.3	26.2	23.3	21.1	31.5	24.5	27.6	29.3	23.8
B) Extrabudgetary users	0.2	0.1	0.4	0.1	6.4	0.1	0.1	0.1	0.1	0.1	0.4	0.1
NET LENDING/BORROWING (1-2–3.1)	–1,092.0	–1,864.1	–1,523.4	–1,828.4	24.8	–1,375.2	–717.6	–928.6	–134.9	–1,049.5	333.0	–1,569.6
TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES (FINANCING) (3.3–3.2)	1,092.0	1,864.1	1,523.4	1,828.4	–24.8	1,375.2	717.6	928.6	134.9	1,049.5	–333.0	1,569.6
3.2 CHANGE IN NET ACQUISITION OF FINANCIAL ASSETS	–112.5	–2,034.2	–2,194.7	684.0	974.4	–544.2	–12.0	11,069.3	–99.9	–1,103.9	–348.3	141.1
3.2.1 Domestic	–114.0	–2,034.2	–2,194.7	684.0	974.4	–544.2	–12.8	11,069.3	–99.9	–1,104.3	–349.3	141.1
A) Budgetary central government	–114.8	–2,020.7	–2,421.6	523.3	928.5	–550.6	–2.7	10,342.8	–96.1	–1,069.8	–421.6	271.1
B) Extrabudgetary users	0.8	–13.5	226.8	160.7	45.9	6.4	–10.1	726.5	–3.8	–34.5	72.3	–130.0
3.2.2 Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
A) Budgetary central government	1.5	0.0	0.0	0.0	0.0	0.0	0.8	0.0	0.0	0.4	1.0	0.0
B) Extrabudgetary users	1.5	0.0	0.0	0.0	0.0	0.0	0.8	0.0	0.0	0.4	1.0	0.0
3.2.3 Monetary gold and SDRs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

	2009	2010										
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.
3.3 CHANGE IN NET INCURRENCE OF LIABILITIES	**979.4**	**–170.2**	**–671.3**	**2,512.4**	**949.6**	**831.0**	**705.6**	**11,997.9**	**35.0**	**–54.4**	**–681.2**	**1,710.7**
3.3.1 Domestic	1,228.8	52.2	1,516.8	2,465.6	1,041.3	697.6	968.8	5,098.9	–65.2	–77.8	–619.3	1,789.8
A) Budgetary central government	1,276.3	68.7	1,526.8	2,376.3	1,075.6	697.6	969.4	4,266.9	–58.5	–39.4	–651.1	1,746.9
B) Extrabudgetary users	–47.5	–16.5	–10.0	89.3	–34.3	0.0	–0.6	832.0	–6.7	–38.3	31.8	42.9
3.3.2 Foreign	–249.4	–222.3	–2,188.1	46.9	–91.7	133.4	–263.2	6,899.1	100.2	23.3	–62.0	–79.1
A) Budgetary central government	–263.0	–217.2	–2,204.6	52.5	–87.9	133.7	–230.5	6,908.5	100.5	33.1	–62.7	–78.9
B) Extrabudgetary users	13.6	–5.1	16.5	–5.7	–3.8	–0.3	–32.7	–9.5	–0.3	–9.7	0.7	–0.3

[a] CM is reclassified from the subsector central government funds to the subsector public enterprises. The reclassification covers the statistical series from January 2008 onwards.
Note: On a cash basis.
The Notes on Methodology can be found in the Ministry of Finance Monthly Statistical Review.
Source: MoF.

Table I2 Budgetary central government operations[a]

in million HRK

	2009	2010										
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.
1 REVENUE	10,645.7	7,726.9	8,348.3	9,216.1	9,854.6	8,262.8	8,445.5	9,452.9	9,356.6	9,298.4	9,681.2	8,747.3
1.1 Taxes	6,536.3	4,305.8	4,784.3	5,551.9	5,910.2	4,625.6	4,889.3	5,536.7	5,654.7	5,632.1	6,003.3	5,082.7
1.2 Social contributions	3,468.7	3,065.5	3,101.7	3,185.5	3,206.4	3,185.3	3,172.5	3,334.7	3,259.3	3,269.5	3,224.2	3,227.6
1.3 Grants	130.4	28.4	18.8	54.1	43.8	30.4	32.2	77.6	24.8	16.4	28.0	43.3
1.4 Other revenue	510.4	327.3	443.4	424.5	694.1	421.4	351.5	504.0	417.8	380.4	425.6	393.8
2 EXPENSE	11,442.5	9,510.2	9,964.3	11,043.2	9,856.8	9,586.4	9,146.6	10,198.6	9,435.2	10,290.5	9,248.5	10,009.0
2.1 Compensation of employees	2,702.0	2,552.0	2,552.2	2,613.4	2,531.5	2,543.0	2,554.1	2,801.7	2,510.8	2,632.5	2,569.3	2,560.5
2.2 Use of goods and services	802.8	543.2	667.0	675.2	652.1	469.9	517.4	730.0	549.5	539.6	549.3	636.6
2.3 Consumption of fixed capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.4 Interest	637.4	430.4	517.3	967.9	303.1	579.4	355.6	310.4	351.2	942.1	98.4	948.1
2.5 Subsidies	428.3	413.6	585.0	881.7	747.4	424.1	418.4	656.4	432.3	500.9	510.0	367.3
2.6 Grants	712.1	583.3	541.5	494.9	444.2	401.4	349.5	526.9	445.3	491.3	441.4	309.5
2.7 Social benefits	5,269.9	4,473.3	4,610.6	4,843.2	4,707.3	4,706.5	4,638.9	4,625.8	4,658.1	4,774.3	4,695.2	4,777.3
2.8 Other expense	890.1	514.3	490.7	567.0	471.3	461.9	312.6	547.5	488.0	409.7	384.8	409.7
3 CHANGE IN NET WORTH: TRANSACTIONS	–796.8	–1,783.2	–1,616.0	–1,827.1	–2.2	–1,323.6	–701.1	–745.7	–78.6	–992.1	432.7	–1,261.7
3.1 Change in net acquisition of non-financial assets	329.8	89.0	123.0	59.2	57.6	58.8	38.6	83.9	48.7	63.7	124.5	131.7
3.1.1 Fixed assets	323.1	88.0	112.8	56.6	40.4	55.2	37.5	84.8	50.6	65.2	125.9	132.4
3.1.2 Inventories	–0.1	0.0	0.0	–0.1	13.7	0.0	–0.5	–2.2	–0.7	–0.8	–0.6	–0.5
3.1.3 Valuables	0.0	0.0	0.8	0.9	1.7	0.0	0.0	0.5	0.0	0.5	0.4	0.4
3.1.4 Non-produced assets	6.8	1.0	9.4	1.7	1.8	3.7	1.6	0.7	–1.3	–1.3	–1.2	–0.8
3.2 Change in net acquisition of financial assets	–113.3	–2,020.7	–2,416.8	542.6	927.8	–551.1	–0.8	10,345.9	–85.3	–1,062.1	–405.5	274.7
3.2.1 Domestic	–114.8	–2,020.7	–2,416.8	542.6	927.8	–551.1	–1.6	10,345.9	–85.3	–1,062.5	–406.5	274.7
3.2.2 Foreign	1.5	0.0	0.0	0.0	0.0	0.0	0.8	0.0	0.0	0.4	1.0	0.0
3.2.3 Monetary gold and SDRs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.3 Change in net incurrence of liabilities	1,013.3	–148.5	–677.8	2,428.8	987.7	831.3	738.9	11,175.4	41.9	–6.3	–713.8	1,668.1
3.3.1 Domestic	1,276.3	68.7	1,526.8	2,376.3	1,075.6	697.6	969.4	4,266.9	–58.5	–39.4	–651.1	1,746.9
3.3.2 Foreign	–263.0	–217.2	–2,204.6	52.5	–87.9	133.7	–230.5	6,908.5	100.5	33.1	–62.7	–78.9

[a] CM is reclassified from the subsector central government funds to the subsector public enterprises. The reclassification covers the statistical series from January 2008 onwards.
Note: On a cash basis.
The Notes on Methodology can be found in the Ministry of Finance Monthly Statistical Review.
Source: MoF.

Table I3 Central government debt[a]

end of period, in million HRK

	2009	2010											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Domestic debt of central government	74,241.4	74,467.0	75,296.0	79,706.9	79,875.2	80,463.6	80,263.4	84,591.4	85,471.0	84,022.2	83,987.6	87,280.6	87,599.3
1.1 Domestic debt of the Republic of Croatia	**70,447.0**	**70,713.9**	**71,576.6**	**75,897.8**	**76,072.8**	**76,618.8**	**76,545.9**	**80,180.7**	**81,077.3**	**79,636.4**	**79,505.1**	**82,666.4**	**82,994.6**
Treasury bills	17,558.3	17,386.0	18,914.2	18,878.8	18,292.6	18,334.2	17,885.3	16,267.0	17,103.5	16,037.0	16,178.8	17,438.7	16,886.5
Money market instruments	19.3	19.3	19.3	20.3	21.3	20.7	20.7	20.7	36.8	20.5	20.5	20.5	20.5
Bonds	36,586.8	36,639.8	36,260.1	40,997.2	41,145.1	41,176.0	41,009.3	47,174.9	47,033.4	46,892.5	47,174.3	48,841.0	48,905.0
Credits from the CNB	2.9	2.5	–	–	0.1	–	–	–	–	–	–	–	0.3
Credits from banks	16,279.8	16,666.2	16,383.0	16,001.6	16,613.6	17,087.9	17,630.5	16,718.1	16,903.6	16,686.4	16,131.4	16,366.2	17,182.3
1.2 Domestic debt of central government funds	**3,794.4**	**3,753.1**	**3,719.4**	**3,809.1**	**3,802.4**	**3,844.8**	**3,717.6**	**4,410.7**	**4,393.7**	**4,385.8**	**4,482.5**	**4,614.2**	**4,604.7**
Money market instruments	–	–	–	–	–	–	–	–	–	–	–	–	–
Bonds	–	–	–	–	–	–	–	–	–	–	–	–	–
Credits from banks	3,794.4	3,753.1	3,719.4	3,809.1	3,802.4	3,844.8	3,717.6	4,410.7	4,393.7	4,385.8	4,482.5	4,614.2	4,604.7
2 External debt of central government	41,527.8	41,739.0	40,037.3	38,510.2	38,708.8	39,748.1	40,575.7	47,766.8	48,612.8	48,175.6	48,353.1	49,154.8	48,158.4
2.1 External debt of the Republic of Croatia	**39,812.5**	**40,018.8**	**38,306.2**	**36,785.6**	**36,996.9**	**38,038.9**	**38,912.5**	**45,918.0**	**46,752.1**	**46,317.4**	**46,487.2**	**47,273.5**	**46,242.0**
Money market instruments	1,244.3	1,191.9	1,563.7	1,866.7	2,117.1	2,459.9	3,559.3	3,927.0	3,965.5	4,188.9	4,182.3	4,021.7	3,458.6
Bonds	28,884.2	28,836.7	25,298.3	23,439.0	23,480.6	23,909.3	23,989.7	30,716.0	31,359.9	30,765.9	30,957.5	31,799.7	31,642.0
Credits	9,684.1	9,990.2	11,444.2	11,479.9	11,399.3	11,669.7	11,363.5	11,275.0	11,426.7	11,362.6	11,347.4	11,452.1	11,141.4
2.2 External debt of central government funds	**1,715.3**	**1,720.3**	**1,731.2**	**1,724.6**	**1,711.9**	**1,709.2**	**1,663.2**	**1,848.8**	**1,860.7**	**1,858.1**	**1,865.9**	**1,881.3**	**1,916.4**
Money market instruments	–	–	–	–	–	–	–	–	–	–	–	–	–
Bonds	–	–	–	–	–	–	–	–	–	–	–	–	–
Credits	1,715.3	1,720.3	1,731.2	1,724.6	1,711.9	1,709.2	1,663.2	1,848.8	1,860.7	1,858.1	1,865.9	1,881.3	1,916.4
3 Total (1+2)	115,769.2	116,206.0	115,333.4	118,217.1	118,584.0	120,211.7	120,839.1	132,358.1	134,083.8	132,197.8	132,340.7	136,435.4	135,757.7
Supplement: Central government guaranteed debt													
– guarantees for domestic debt	15,692.5	15,716.4	16,556.3	19,096.4	19,500.0	19,799.1	19,674.2	19,512.3	19,778.5	19,809.5	19,842.9	20,136.9	20,059.9
– guarantees for external debt	35,275.2	35,042.1	35,369.9	35,385.7	35,682.3	36,523.7	35,833.4	37,880.6	38,201.9	38,174.3	38,307.0	38,874.2	38,577.5

[a] The CBRD is reclassified from the subsector central government funds to the subsector non-banking financial institutions and CM is reclassified from the subsector central government funds to the subsector public enterprises. The debt of the CBRD, presented in this table under headings 2 External debt of central government and 1 Domestic debt of central government, is reclassified from December 1998 and June 1999 onwards respectively, and the debt of CM is reclassified from January 2008 onwards.

Table I3 Central government debt • The central government debt comprises the domestic and external debt.

The domestic debt of the central government is compiled from the MoF data on T-bills and bonds and the CNB data on money market instruments, credits from banks and credits from the CNB.

The stock of T-bills includes MoF T-bills denominated in kuna, eurobills and T-bills indexed to the euro with a maturity of up to one year. The stock of eurobills includes accrued interest. The difference between the nominal value and the issue value of T-bills denominated in kuna and of T-bills indexed to the euro is the accrued interest which is distributed over the life of instruments using the simple interest calculation method (i.e. in a linear manner) and the method of calculating the number of days where the actual number of days is divided by 360.

The stock of bonds includes central government bonds issued in the domestic market, MoF T-bills with a maturity of over one year and a share of total central government bonds issued in the foreign market which is held by resident institutional units at the end of the reporting period. Central government bonds and MoF T-bills issued in the domestic market and held by non-resident institutional units have been included in the external debt of the central government. The difference between the nominal value and the issue value of T-bills with a maturity of over one year is the accrued interest which is distributed over the life of instruments using the compound interest calculation method. The stock of central government bonds includes accrued interest.

From January 2004 onwards, the stock of credits from banks includes both outstanding principal and accrued interest.

The external debt statistics compiled by the CNB is the source of data on the central government external debt.

The supplement contains the data on the central government guaranteed debt. Bank statistical reports and statistical reports of other financial institutions are the source of data on domestic debt guarantees, while the external debt statistics compiled by the CNB is the source of data on external debt guarantees.

J Non-financial statistics

Table J1 Consumer price and producer price indices

Year	Month	Basic indices, 2005 = 100			Chain indices				Monthly year-on-year indices			
		Consumer price indices			Consumer price indices			Producer prices	Consumer price indices			Producer prices
		Total	Goods	Services	Total	Goods	Services		Total	Goods	Services	
2001	December	92.1	93.2	88.5	100.4	100.4	100.5	99.0	102.4	101.3	106.8	96.9
2002	December	93.8	94.2	92.6	100.4	100.6	99.6	99.9	101.8	101.1	104.6	102.3
2003	December	95.4	95.7	94.6	100.3	100.2	100.5	100.0	101.7	101.6	102.2	101.0
2004	December	98.0	98.0	98.0	100.7	100.9	100.2	99.3	102.7	102.5	103.6	104.8
2005	December	101.6	101.4	102.0	100.5	100.5	100.5	99.7	103.6	103.5	104.1	102.7
2006	December	103.7	102.8	106.4	100.0	100.0	100.2	100.0	102.0	101.4	104.2	101.9
2007	December	109.7	109.5	110.0	101.2	101.2	101.3	100.4	105.8	106.6	103.4	105.9
2008	December	112.8	112.2	114.7	99.4	99.1	100.5	98.7	102.9	102.4	104.3	104.3
2009	December	114.9	114.5	117.3	99.4	99.3	100.2	100.0	101.9	101.3	103.9	101.6
2010	January	115.5	115.1	117.7	100.5	100.5	100.4	101.3	101.1	100.9	102.1	103.0
	February	115.7	115.4	117.9	100.2	100.2	100.2	99.9	100.7	100.4	101.9	102.7
	March	116.2	116.0	117.7	100.4	100.6	99.8	101.0	100.9	100.7	101.9	105.0
	April	116.7	116.8	117.2	100.4	100.7	99.5	100.6	100.6	100.3	101.6	105.1
	May	117.0	117.0	117.8	100.2	100.2	100.5	100.5	100.8	100.6	101.8	104.9
	June	116.9	116.5	119.1	99.9	99.6	101.1	100.4	100.7	100.3	101.9	104.4
	July	116.4	115.5	120.7	99.6	99.2	101.3	100.0	101.1	100.7	101.9	103.8
	August	116.2	115.2	120.9	99.8	99.7	100.2	100.3	100.9	100.7	101.7	103.3
	September	116.6	116.3	118.5	100.3	100.9	98.0	100.4	101.4	101.5	101.0	104.4
	October	116.7	116.6	117.9	100.1	100.3	99.5	100.4	101.4	101.6	100.9	105.0
	November	117.0	117.0	117.8	100.3	100.3	99.9	99.9	101.2	101.4	100.6	104.7
	December	117.1	117.1	117.6	100.0	100.1	99.9	101.0	101.8	102.2	100.3	105.7

Source: CBS.

Table J1 Consumer price and producer price indices • The Central Bureau of Statistics (CBS) introduced the consumer price index (CPI) in early 2004. This indicator of price movements was compiled in accordance with the methodological principles laid down by the ILO and Eurostat. In its First Release, issued on 17 February 2004, the CBS published the data on movements in the CPI in January 2004 and the time series for the CPI as of January 2001. The CBS subsequently constructed the time series for the consumer price index encompassing the period from January 1998 to December 2000. As expected following the introduction of the new index, the CBS ceased to publish the retail price index (RPI) and the cost of living index, whose calculation methodologies have not been adequately harmonised with internationally accepted standards. The main features of the CPI are described in the CNB Bulletin No. 91 (see Box 1). The data on the average year-on-year consumer price inflation rate are shown in the Bulletin table on Economic indicators.

Table J2 Core consumer price indices

Year	Month	Basic indices, 2005 = 100[a]			Chain indices			Year-on-year indices		
		Total	Goods	Services	Total	Goods	Services	Total	Goods	Services
2001	December	93.9	94.6	89.8	99.8	99.7	100.3	101.2	100.8	103.8
2002	December	95.0	95.6	91.9	100.0	100.1	99.4	101.2	101.0	102.4
2003	December	96.2	96.4	94.7	100.2	100.1	101.0	101.2	100.9	103.0
2004	December	98.4	98.5	97.4	100.1	100.1	100.4	102.3	102.2	102.9
2005	December	101.3	101.4	101.0	100.1	100.0	100.5	103.0	102.9	103.7
2006	December	103.6	103.6	103.6	99.8	99.7	100.3	102.3	102.2	102.5
2007	December	108.8	109.1	107.2	100.8	100.8	100.4	105.0	105.3	103.5
2008	December	113.3	113.5	112.5	99.4	99.3	100.2	104.2	104.0	105.0
2009	December	113.6	113.3	115.2	98.8	98.6	100.2	100.2	99.8	102.4
2010	January	112.9	112.4	115.4	99.4	99.2	100.2	99.7	99.2	102.2
	February	112.9	112.3	115.9	100.0	99.9	100.4	99.5	99.0	102.1
	March	113.1	112.7	115.5	100.2	100.3	99.6	99.3	98.7	102.1
	April	113.7	113.5	114.7	100.5	100.8	99.3	98.6	98.0	101.8
	May	114.2	113.9	115.7	100.4	100.3	100.9	98.6	97.9	102.1

Year	Month	Basic indices, 2005 = 100[a]			Chain indices			Year-on-year indices		
		Total	Goods	Services	Total	Goods	Services	Total	Goods	Services
	June	114.2	113.5	117.7	100.0	99.7	101.7	98.3	97.6	102.0
	July	113.8	112.5	120.6	99.7	99.1	102.5	98.6	97.9	102.3
	August	113.7	112.3	121.1	99.9	99.8	100.4	98.8	98.2	102.1
	September	114.1	113.6	116.5	100.3	101.2	96.2	99.4	99.2	100.7
	October	114.3	114.1	115.4	100.2	100.4	99.1	99.3	99.1	100.7
	November	114.7	114.6	115.2	100.4	100.5	99.8	99.8	99.7	100.2
	December	113.7	113.4	114.9	99.1	99.0	99.7	100.1	100.1	99.8

[a] Since January 2007, the CPI has been calculated and published by the CBS on the new base 2005 = 100.
Source: CBS.

Table J2 Core consumer price indices • The core consumer price index is calculated by the Central Bureau of Statistics (CBS) in the manner that agricultural products prices and administrative prices (which among others include the prices of electricity and refined petroleum products) are excluded from the basket of goods and services used in the calculation of the total index. These two groups of products account for a total of 30.9% in the basket in 2010 (agricultural products 5.7 percentage points, and administrative products 25.2 percentage points) and are assigned a zero weight.

Table J3 Average monthly net wages

in current prices, in kuna

Year	Month	Nominal amount in kuna	Chain indices	Monthly year-on-year indices	Cumulative year-on-year indices
2001	December	3,582.0	96.6	102.4	106.5
2002	December	3,839.0	98.0	107.2	105.0
2003	December	4,045.0	99.8	105.4	105.9
2004	December	4,312.0	99.1	106.6	105.9
2005	December	4,473.0	97.3	103.7	104.9
2006	December	4,735.0	97.0	105.9	105.2
2007	December	4,958.0	96.6	104.7	105.2
2008	December	5,410.0	100.3	109.1	107.0
2009	December	5,362.0	99.6	99.1	102.6
2010	January	5,258.0	98.1	99.1	99.1
	February	5,157.0	98.1	98.6	98.8
	March	5,359.0	103.9	99.8	99.2
	April	5,246.0	97.9	99.1	99.2
	May	5,277.0	100.6	99.1	99.2
	June	5,415.0	102.6	100.8	99.5
	July	5,323.0	98.3	100.3	99.6
	August	5,391.0	101.3	102.3	99.9
	September	5,291.0	98.1	101.1	100.0
	October	5,351.0	101.1	101.4	100.2
	November	5,584.0	104.4	103.7	100.5
	December	5,450.0	97.6	101.7	100.6

Source: CBS

Table J4 Consumer confidence index, consumer expectations index and consumer sentiment index

index points, original data

Year	Month	Composite indices			Response indices (I)						
		Consumer confidence index	Consumer expectations index	Consumer sentiment index	I1	I2	I3	I4	I7	I8	I11
2001	October	–27.0	–11.4	–35.6	–29.6	–10.0	–35.9	–12.7	22.9	–41.3	–62.3
2002	October	–25.2	–8.3	–29.3	–22.6	–5.1	–31.2	–11.5	20.1	–34.1	–64.0
2003	October	–22.2	–4.5	–25.0	–21.5	–2.6	–26.5	–6.4	14.7	–27.1	–65.2
2004	October	–23.9	–7.9	–22.0	–19.1	–4.1	–30.5	–11.6	22.5	–16.5	–57.3
2005	December	–26.4	–13.7	–25.6	–16.4	–5.9	–34.4	–21.5	27.6	–25.9	–50.6
2006	December	–18.9	–4.7	–15.4	–10.9	1.1	–22.4	–10.5	16.9	–12.9	–49.4
2007	December	–24.7	–15.5	–24.5	–16.8	–9.8	–31.8	–21.2	12.8	–25.0	–54.8
2008	December	–42.0	–33.3	–40.9	–30.7	–25.9	–51.8	–40.6	43.4	–40.3	–57.9
2009	December	–46.8	–32.7	–47.6	–35.7	–22.6	–64.5	–42.8	63.9	–42.5	–58.0
2010	January	–48.5	–35.2	–47.9	–39.5	–26.4	–64.8	–43.9	66.4	–39.5	–57.1
	February	–45.5	–30.6	–48.1	–39.3	–23.4	–63.0	–37.7	63.4	–42.0	–57.6
	March	–49.4	–36.2	–50.9	–43.3	–26.2	–67.5	–46.2	67.5	–41.8	–57.7
	April	–44.3	–30.0	–48.0	–39.1	–21.2	–64.1	–38.8	59.5	–40.9	–57.6
	May	–40.8	–30.3	–48.4	–39.3	–22.7	–63.4	–37.8	43.9	–42.6	–58.9
	June	–40.8	–31.3	–46.7	–39.3	–24.5	–62.5	–38.1	45.4	–38.4	–55.2
	July	–41.7	–28.5	–44.5	–38.5	–21.0	–60.0	–36.0	47.2	–35.0	–62.6
	August	–43.0	–31.6	–46.3	–36.3	–21.9	–62.1	–41.3	54.2	–40.6	–54.6
	September	–42.6	–30.9	–45.3	–38.2	–21.2	–63.0	–40.5	51.7	–34.7	–56.8
	October	–44.4	–32.5	–46.0	–37.0	–21.4	–64.8	–43.6	53.5	–36.1	–58.9
	November	–44.7	–31.4	–48.9	–36.9	–21.0	–68.2	–41.8	60.8	–41.5	–55.1
	December	–42.9	–30.6	–48.7	–40.7	–21.7	–65.9	–39.4	55.7	–39.4	–54.8

Table J4 Consumer confidence index, consumer expectations index and consumer sentiment index • The CNB Consumer Confidence Survey has been carried out regularly since April 1999 in accordance with the methodology of the European Commission, the Joint Harmonised EU Programme of Business and Consumer Surveys. Until April 2005, the CNB conducted the survey once a quarter (in January, April, July and October). As of May 2005, the CNB carries out the survey in monthly frequency in cooperation with the European Commission, using its technical and financial assistance. The Croatian National Bank bears sole responsibility for the creation and conduct of the survey.

The questionnaire contains 23 questions, examining consumer perception of the changes as regards every-day economic issues. The value of the response index is determined in line with the set methodology, based on the responses to the questions from the Consumer Confidence Survey. The movements of three composite indices, consumer confidence index (CCI), consumer sentiment index (CSI) and consumer expectations index (CEI), are calculated and monitored based on the value of the response indices. Each of the said composite indices is calculated as the arithmetic average of the response indices (I), i.e. as the average of previously quantified responses to individual questions from the survey:

$$I_i = \sum_{z}^{k} r_i \cdot w_i$$

where: r is the value of the response, w is the share of respondents opting for a particular response (weight), i question from the questionnaire, z is the offered/chosen response, k is the number of offered responses to a particular question.

The value of the said indices ranges $-100 < I_i < 100$. Higher index values than those recorded over the previous period point to an increase in expectations (optimism) as regards the specific segment covered by the particular question.

The table shows the values of chosen response indices for the following questions:

I1: How has the financial situation of your household changed over the last 12 months?

I2: How do you expect the financial position of your household to change over the next 12 months?

I3: How do you think the general economic situation in Croatia has changed over the past 12 months?

I4: How do you expect the general economic situation in Croatia to develop over the next 12 months?

I7: How do you expect the number of people unemployed in Croatia to change over the next 12 months?

I8: In view of the general economic situation, do you think now is the right moment for people to make major purchases such as furniture, electrical/electronic devices, etc.?

I11: Over the next 12 months, how likely is it that you will save any money?

The components of composite indices are as follows:

CCI: I2, I4, I7×(–1), I11

CEI: I2, I4

CSI: I1, I3, I8.

Abbreviations and symbols

bn – billion
b.p. – basis points
BIS – Bank for International Settlements
c.i.f. – cost, insurance and freight
CBRD – Croatian Bank for Reconstruction and Development
CBA – Croatian Banking Association
CBS – Central Bureau of Statistics
CCE – Croatian Chamber of Economy
CEE – Central and Eastern European
CES – Croatian Employment Service
CICR – currency-induced credit risk
CIHI – Croatian Institute for Health Insurance
CLVPS – Croatian Large Value Payment System
CPI – consumer price index
CPIA – Croatian Pension Insurance Administration
CPF – Croatian Privatisation Fund
CM – Croatian Motorways
CNB – Croatian National Bank
CR – Croatian Roads
EBRD – European Bank for Reconstruction and Development
EC – European Commission
ECB – European Central Bank
EFTA – European Free Trade Association
EMU – Economic and Monetary Union
EU – European Union
excl. – excluding
f/c – foreign currency
FDI – foreign direct investment
Fed – Federal Reserve System
FINA – Financial Agency
FISIM – financial intermediation services indirectly measured
f.o.b. – free on board
GDP – gross domestic product
GFS – Government Finance Statistics
GVA – gross value added
HANFA – Croatian Financial Services Supervisory Agency
HICP – harmonised index of consumer prices
IAS – International Accounting Standards
IASB – International Accounting Standards Board
IBRD – International Bank for Reconstruction and Development
IDB – Inter-American Development Bank
IFRS – International Financial Reporting Standards
ILO – International Labour Organization
IPO – initial public offering
IMF – International Monetary Fund
incl. – including
m – million
MIGs – main industrial groupings
MoF – Ministry of Finance
MRR – marginal reserve requirement
NCEA – National Classification of Economic Activities
NCS – National Clearing System
n.e.c. – not elsewhere classified
NPSC – National Payment System Committee
NUIR – net usable international reserves
OG – Official Gazette
OECD – Organisation for Economic Co-Operation and Development
OPEC – Organization of the Petroleum Exporting Countries
o/w – of which
PPI – producer price index
R – Republic
RC – Republic of Croatia
RR – reserve requirement
ROAA – return on average assets
ROAE – return on average equity
Q – quarter
SDR – special drawing rights
SITC – Standard International Trade Classification
VAT – value added tax
ZMM – Zagreb Money Market
ZSE – Zagreb Stock Exchange

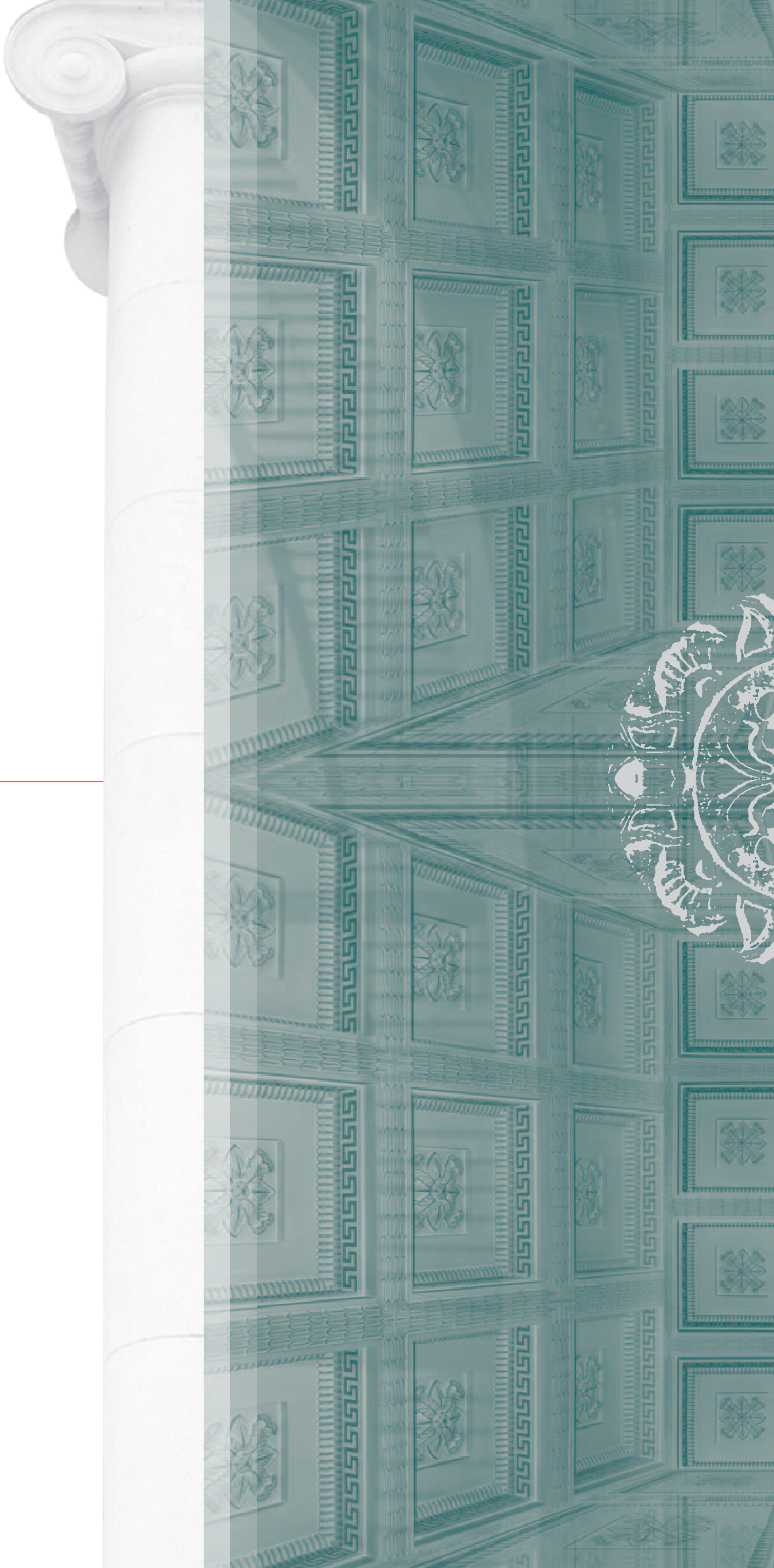
Three-letter currency codes

ATS – Austrian schilling
CHF – Swiss franc
DEM – German mark
EUR – euro
FRF – French franc
GBP – pound sterling
HRK – Croatian kuna
ITL – Italian lira
JPY – Japanese yen
USD – US dollar
XDR – Special drawing rights

Symbols

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

HNB



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