



# Semi-annual Information

**Semi-annual Information on the Financial Condition, the Degree of Price Stability Achieved and the Implementation of Monetary Policy in the First Half of 2024**

Zagreb, November 2024





HNB

EUROSYSTEM

# Semi-annual information 2024

Semi-annual Information on the Financial Condition, the Degree of Price Stability  
Achieved and the Implementation of Monetary Policy in the First Half of 2024

Zagreb, November 2024

CROATIAN NATIONAL BANK

EUROSYSTEM



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## Summary

**Following the strongest tightening of monetary policy since the introduction of the euro, the Governing Council of the European Central Bank began easing the restrictiveness of financial conditions in mid-2024, lowering key interest rates in response to a notable abating of inflationary pressures.**

As in the euro area, industrial goods inflation slowed down the most in Croatia, while services inflation remained elevated due to robust demand and greater sensitivity of services prices to wage growth, particularly in hotels and restaurants and other tourism-related activities.

Euro area inflation, measured by the harmonised index of consumer prices (HICP), fell to 2.5% in June from 2.9% in December 2023, primarily due to food inflation slowing down sharply, mostly in the context of much lower prices of energy and food raw materials. Inflation in Croatia, measured by the national consumer price index, which does not cover consumption by foreign tourists, slowed down from 4.5% in December 2023 to 2.4% in June 2024, with the HICP standing at 3.5% in June.

In the first half of 2024, the Croatian economy continued to be marked by one of the highest economic growth rates among euro area member states. Personal consumption of households, supported by a robust labour market and growing real incomes, made a crucial contribution to economic growth. Domestic investment activity expanded steadily, supported by EU funds, while exports of goods and services, in particular in tourism, also contributed to economic growth.

In anticipation of the reduction in the key ECB interest rates, borrowing costs for corporates and households in the euro area started to decline as early as the end of 2023. Interest rates on new loans granted by Croatian banks started to fall, particularly for corporate financing, while household financing costs also started to decrease, albeit at a slower pace. By contrast, interest rates on time deposits remained relatively stable, but inflows of new deposits decelerated considerably.

The Croatian banking system was stable in the first half of 2024. Credit institutions were able to intensify their lending activity, thanks to asset restructuring, while maintaining high levels of liquidity. The quality of loans did not change significantly in the portfolio of non-performing loans, while improvements were seen in the segment of performing loans. As regards financing sources, the maturity transformation of deposits continued with growth in the share of deposits with agreed maturities. The profit of credit institutions was larger than in the same period last year, mostly due to the growth in interest income generated in all sectors. The Croatian banking system remains highly capitalised.

As at 30 June 2024, financial assets of the CNB stood at EUR 24,283.3m, of which euro assets amounted to EUR 21,483.4m (88.5%) and foreign currency assets amounted to EUR 2,799.9m (11.5%). Total earnings from the management of financial assets amounted to EUR 332m. In that period, the annual rate of return on the entire euro portfolio of financial assets was 2.59%, while the annual rate of return on the US dollar portfolio totalled 4.43%.





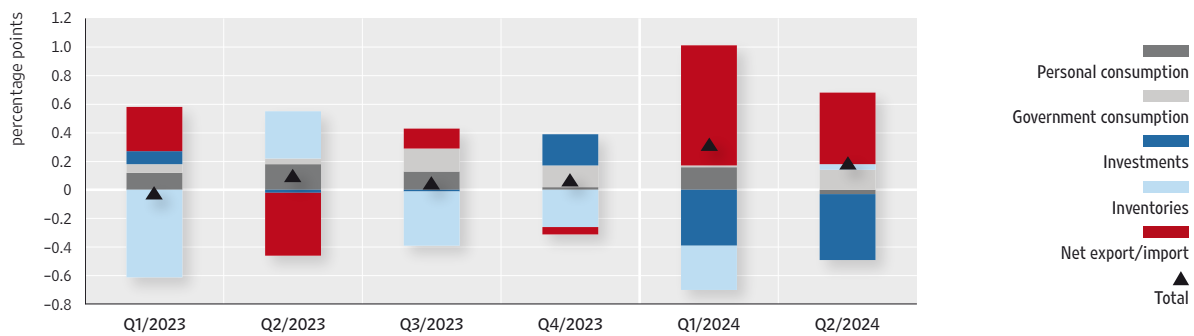
# 1 Euro area

## 1.1 Real developments

**After stagnating in 2023, euro area economic activity recovered perceptibly in the first half of 2024.** The quarterly growth rates of 0.3% and 0.2% in the first and second quarter, respectively, were solely the result of the increase in net exports of goods and services supported by global trade recovery. At the same time, the contribution of personal consumption was relatively modest as the rise in disposable income partly spilled over to a higher savings rate amid falling inflation and favourable labour market developments. By contrast, investments contracted perceptibly against the backdrop of weak consumer and business confidence, higher energy costs and the still unfavourable financing conditions, reflecting the lingering uncertainty about the outlook for the euro area economy.

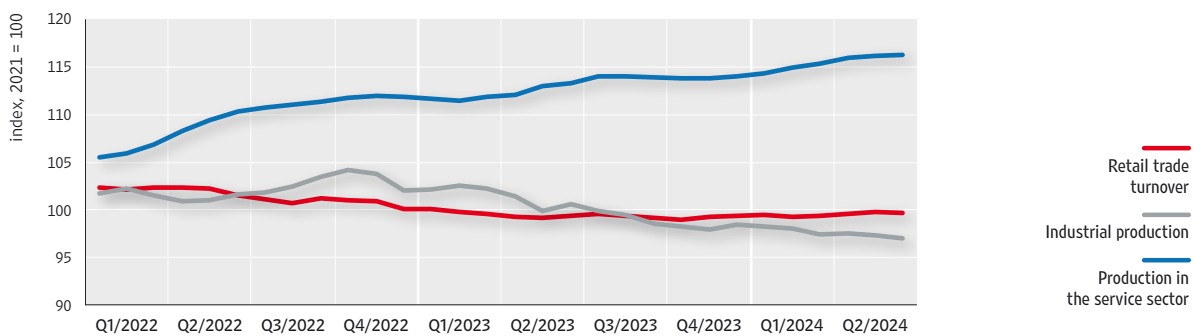
In terms of sectoral structure, the services sector was the main generator of economic growth, while industry continued to contract in the first half of 2024. This particularly refers to Spain and France, where the services sector saw a sharp increase, whereas unfavourable developments in industry were especially strong in Germany as energy-intensive industry was hit hard by disruptions in energy markets and prices higher than the historical average. However, recent developments in the manufacturing sector are likely to be largely linked to structural deficiencies of the euro area economy that adversely affect its competitiveness.

**Figure 1.1.1 Quarterly growth rates of real GDP in the euro area, contributions of components**



SOURCE: EUROSTAT.

**Figure 1.1.2 Indicators of economic activity in the euro area**

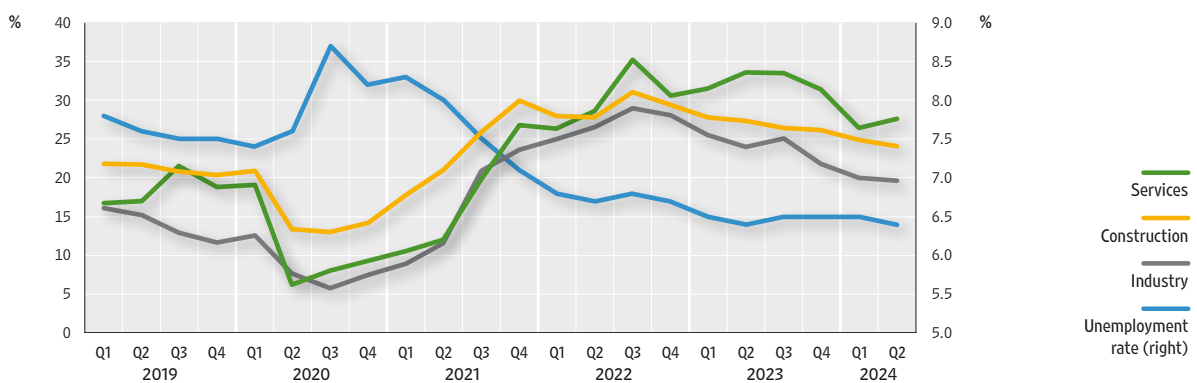


Note: Data are three-month moving averages.

SOURCE: EUROSTAT.

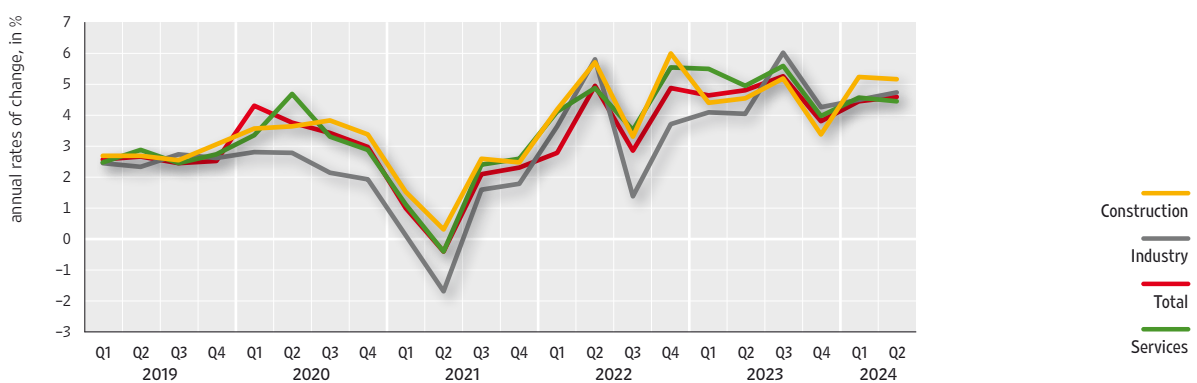
Trends seen on the labour market in 2023, i.e. a low unemployment rate and a noticeable nominal wage growth, continued. The euro area unemployment rate dropped to 6.4% of the labour force in June 2024. While firms still report significant shortages of skilled labour, the relevant indicators declined visibly in the first half of 2024, particularly in the industrial and construction sectors. Concurrently, employee compensation continued to grow relatively strongly in most activities, particularly in construction. More specifically, while in late 2023 there were signs of slower growth in employee compensation, it accelerated slightly again in the first half of 2024, remaining above the historical average.

**Figure 1.1.3 Labor shortage and unemployment rate in the euro area**



Note: Labour shortage is measured by a quarterly survey and indicates the percentage of firms reporting a labour shortage as the main obstacle to business activity.  
SOURCE: EUROSTAT.

**Figure 1.1.4 Employee compensation by individual activities in the euro area**



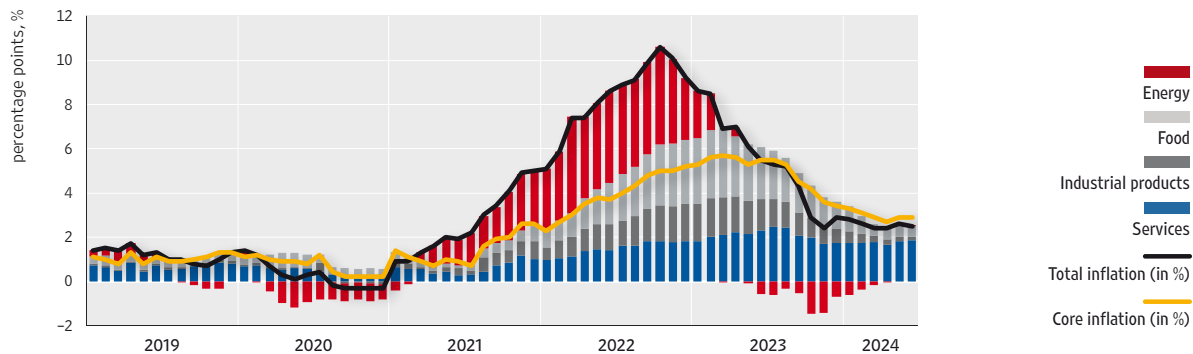
SOURCE: EUROSTAT.

## 1.2 Price developments

The slowdown in euro area inflation that began towards the end of 2022 continued in the first half of 2024, albeit at a somewhat weaker pace than in the previous year. Inflation, measured by the harmonised index of consumer prices, fell to 2.5% in June from 2.9% in December 2023, primarily due to food inflation slowing down sharply to 2.4% in June from 6.1% in December (Figure 1.2.1) as a result of energy and food raw material prices dropping markedly from their

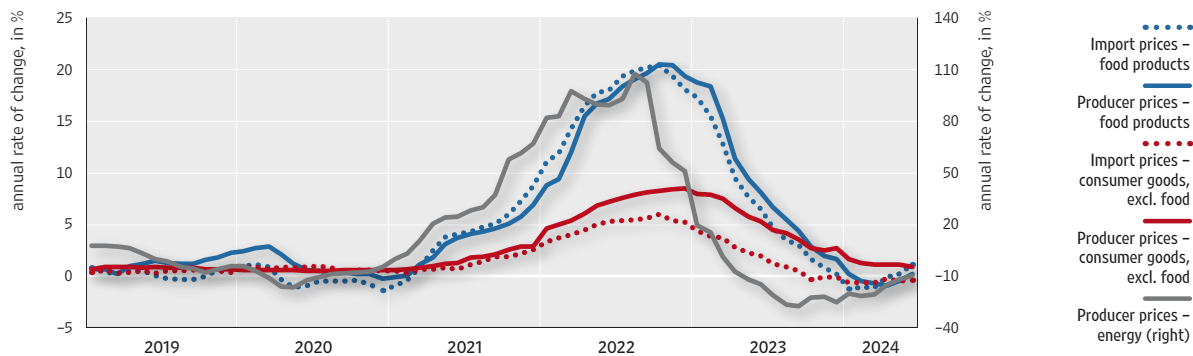
peak levels in 2022. Energy inflation, on the other hand, went up to 0.2% from -6.7% in December, which reflects unfavourable base effects (the considerable monthly decreases in energy prices in the period from February to June 2023 no longer affect the calculation of the annual rate of change in these prices), the growth of global crude oil prices and the partial withdrawal of fiscal support to households aimed at mitigating the effects of the previous price rises in energy products.

**Figure 1.2.1 Euro area inflation indicators**



Note: Core inflation is measured by the harmonised index of consumer prices, which excludes energy, food, alcoholic beverages and tobacco prices.  
SOURCES: EUROSTAT AND CNB CALCULATIONS.

**Figure 1.2.2 Indicators of price pressures along the pricing chain in the euro area**



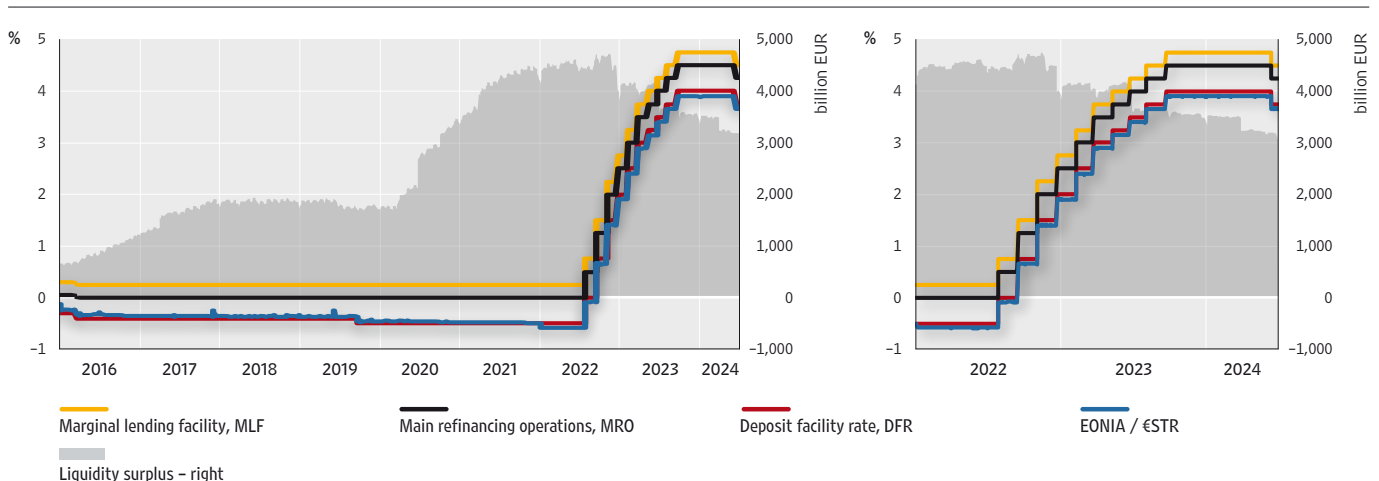
Notes: Producer prices refer to the domestic market. Food prices include alcoholic beverages and tobacco.  
SOURCE: EUROSTAT.

Euro area core inflation (which excludes energy and food prices) decelerated in the first six months of 2024, largely due to the past monetary policy tightening gradually feeding through to consumer prices. Divergent movements in the prices of the main components of core inflation were observed, with industrial goods inflation receding from 2.5% in December to 0.7%, while services price inflation increased slightly to 4.1% from 4.0% in December. Although decelerating annually, euro area wage growth has remained relatively high, contributing strongly to the persistence of services inflation. Industrial goods inflation in the euro area has been slowing down mostly due to lower prices of energy and other raw materials on the global market and the easing of inflationary pressures arising in the earlier stages of the price chain, which reflects the fall in import prices and the low annual growth rate of the producer prices of consumer goods in the domestic market (Figure 1.2.2).

### 1.3 Monetary policy

The ECB's Governing Council lowered key interest rates by 25 basis points at the meeting on 6 June 2024, after holding them steady at a very restrictive level since September 2023; this was the first time the rates were lowered since September 2019 when the deposit facility rate was cut. The Governing Council thus decided in June to moderate the degree of monetary policy restriction, following the most rigorous cycle of tightening since the introduction of the euro, during which cycle key interest rates rose by 450 basis points from July 2022 to September 2023. The Governing Council lowered the deposit facility rate (DFR) (which, in current conditions of high liquidity surpluses is a relevant indicator of the monetary policy of the ECB) from 4.00% to 3.75%, the main refinancing operations (MRO) rate from 4.50% to 4.25% and the marginal lending facility (MLF) rate from 4.75% to 4.50%. Since the Governing Council meeting in September 2023, when key interest rates were last raised, inflation has fallen by more than 2.5 percentage points and the likelihood that inflation will reach the target level has improved. Core inflation has also eased, reinforcing signs that price pressures have weakened, and inflation expectations have declined. At its June meeting, the Governing Council noted that it would keep ECB key interest rates sufficiently restrictive for as long as necessary for inflation to return to the target level in a timely manner, and it would continue to base its decisions on a data-dependent approach. The Governing Council is not pre-committing to a particular rate path.

Figure 1.3.1 Key ECB interest rates

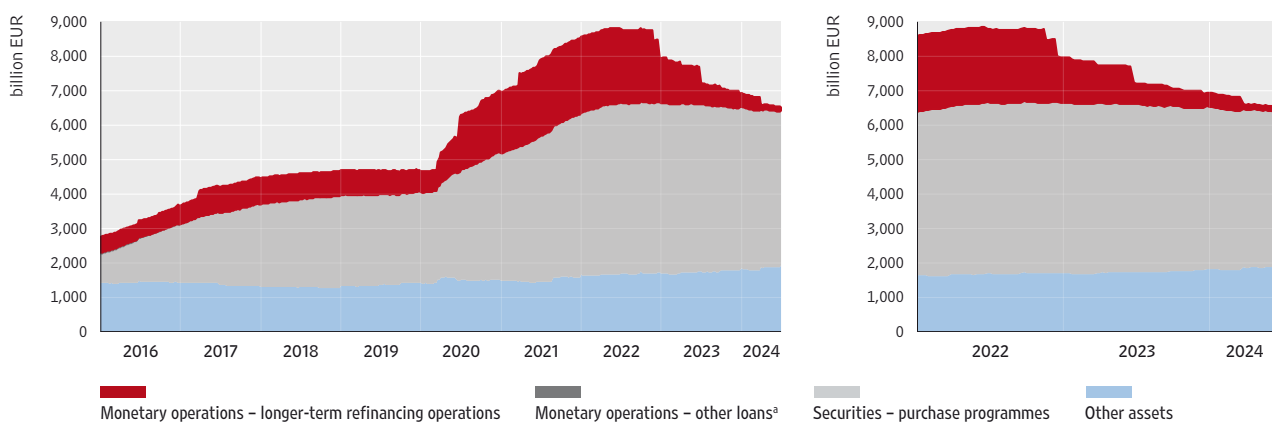


Note: The EONIA was replaced by €STR in early 2022.  
SOURCE: ECB.

The Eurosystem balance sheet continued to decrease gradually. Banks are still repaying amounts borrowed under the targeted longer-term refinancing operations, whereas the portfolio of securities purchased within the asset purchase programme (APP) is declining steadily at a measured and predictable pace, given that from July 2023 the Eurosystem no longer reinvests the principal payments from maturing securities. As for the pandemic emergency purchase programme (PEPP), the ECB's Governing Council at its June meeting confirmed that it would reduce the PEPP portfolio by EUR 7.5bn per month on average in the second half of the year and discontinue reinvestments under the PEPP at the end of 2024. Until the end of 2024, the Governing Council

will continue applying flexibility in reinvesting redemptions coming due in the PEPP portfolio, with a view to countering risks to the monetary policy transmission mechanism related to the pandemic.

**Figure 1.3.2 Eurosystem balance sheet**



<sup>a</sup> Other loans include main refinancing operations, fine-tuning reverse operations, structural reverse operations, marginal lending facility and credits related to margin calls. Note: Eurosystem monetary balance sheet asset items are shown in grey and red and non-monetary in blue. SOURCE: ECB.

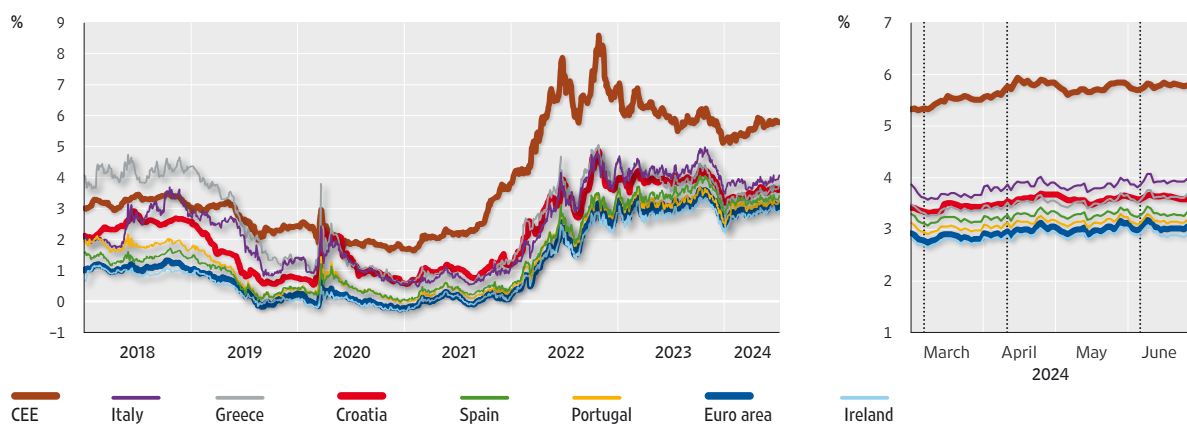
## 1.4 Financial markets

There were no major changes in the euro money market for most of the first half 2024, but changes, in the shape of declining rates, occurred after the Governing Council of the ECB cut key interest rates by 25 basis points at its June meeting. Reflecting the new conditions, the overnight interest rate on the European money market, €STR, decreased approximately by the amount of the cut in key interest rates, to 3.7%, and remained at that level until the end of June. Until then the €STR hovered around 3.9%, the level maintained since the last increase in key interest rates in September 2023. The reduction in key ECB interest rates spilled over quickly to the Croatian money market. Thus the overnight interest rate on banks' demand deposits trading fell by 21 basis points in June, to 3.5%. The three-month EURIBOR also declined in the first half of the year, from 3.9% to 3.7% at the end of June. As regards short-term government financing costs, the Ministry of Finance issued T-bills on two occasions, in February and in June. A total of over EUR 2bn of T-bills were issued, the largest share being intended for members of the public. Yields on bills for individual investors remained unchanged in June from February, while yields on bills for institutional investors decreased slightly. At the June auction, yield at issue of 91-day T-bills stood at 3.75% for individual investors and at 3.65% for institutional investors, while yield at issue of 364-day T-bills stood at 3.65% and 3.44% for individual and institutional investors, respectively.

After having fallen sharply towards the end of last year, yields on long-term government bonds were mostly on an upward trajectory in the first half of 2024 as a growing number of market participants were convinced that the world's largest economies would avoid recession. Inflation in the euro area continued to slow down, reinforcing expectations that the ECB would cut key

interest rates in June. By contrast, the indicators of inflation and employment and wage growth in the US mostly surpassed the projections, augmenting concerns about the heightening of new inflationary pressures. Geopolitical tensions, in addition to driving oil prices up, further exacerbated these concerns and shifted market expectations towards a later beginning of the process of the lowering of key interest rates in the US. Thus, the yield on long-term US government bonds mostly rose from the beginning of the year, particularly in April and May. Yields on long-term government bonds of euro area members also rose in such circumstances, reaching in mid-June their highest levels since the beginning of the year (Figure 1.4.1). The sharp fall in long-term yields seen in June was halted by the rising political uncertainty in France. The announcement of early parliamentary elections in France on 9 June increased uncertainty about the course of economic and fiscal policy in France. On the first following working day this almost immediately raised the yields on ten-year French government bonds, by 13 basis points, while the risk premium relative to German bonds reached the highest level since 2017. The yields on bonds of most other euro area countries also increased, albeit to a lesser degree. The euro area GDP-weighted average of long-term government bond yields stood at 3.1% at the end of June, slightly more than before the political turmoil in France began. The yield on ten-year French bonds remained elevated at end-June, at 3.3%, up from 3.1% before the turmoil, whereas the yield on Croatian long-term bonds grew less than the euro area average, standing at 3.6% at end-June.

Figure 1.4.1 Yields on long-term government bonds with the remaining maturity of approximately 10 years



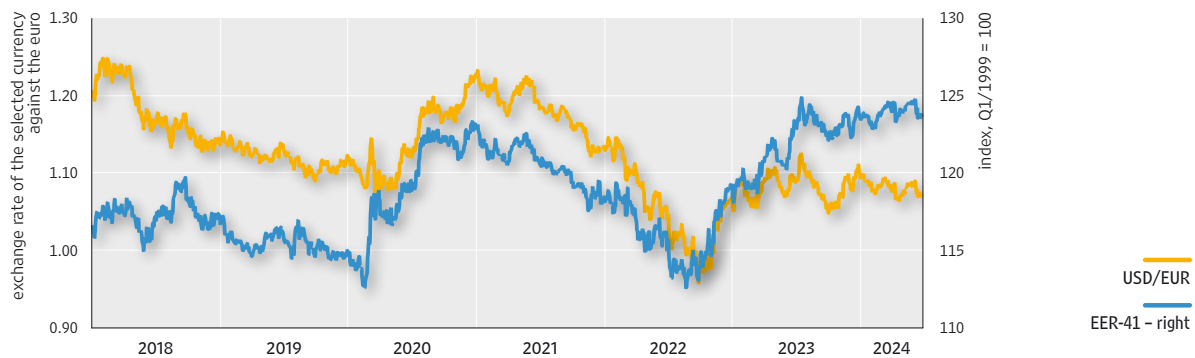
Notes: CEE – countries of Central and Eastern Europe (the Czech Republic, Hungary, Poland and Romania); yields for the euro area and CEE have been weighted by the share of GDP of the countries included. Data from the euro area do not include those from Estonia, Latvia, Luxembourg and Malta. The red dotted lines denote ECB's Governing Council meetings in March, May and June.

SOURCES: BLOOMBERG, EUROSTAT AND CNB CALCULATIONS.

On the global foreign exchange market, the euro mostly weakened against the US dollar from the beginning of the year, however, the nominal exchange rate of the euro was relatively stable in effective terms. The exchange rate of the euro for the US dollar hovered around USD/EUR 1.07 at end-June, having depreciated around 3.1% from the end of last year. Over the same period, the nominal effective exchange rate of the euro against a basket of currencies of the euro area's main trading partners depreciated by around 0.1% (Figure 1.4.2). The weakening of the euro against the US dollar was offset by the strengthening of the euro against other major currencies, including the Japanese yen and the Swiss franc. The US dollar was supported in the first half of the year by

favourable economic developments in the US and a slower than expected fall in inflation, forcing markets to push back their expectations of when cuts in key interest rates would begin. At the same time, the stabilisation of inflationary pressures and continued relatively poor economic growth in the euro area reinforced market expectations that the ECB might lower key interest rates at the June meeting; this created additional downward pressures on the euro-US dollar exchange rate. The euro further depreciated against the US dollar after the June meeting of the ECB's Governing Council, when the key interest rates were indeed cut by 25 basis points.

**Figure 1.4.2 Exchange rates of selected currencies against the euro and the nominal effective exchange rate of the euro**



Notes: EER-41 is the nominal effective exchange rate index of the euro against 41 major trading partners of the euro area. Exchange rate increase indicates euro appreciation. The most recent data available refers to 15 May 2024.

SOURCE: ECB.

Borrowing costs for corporates and households in the euro area continued to decrease gradually, reflecting expectations of an upcoming reduction in the ECB's monetary policy restrictiveness, while credit activity remained subdued. At euro area level, the average interest rate on pure new loans granted to non-financial corporations was 5.0% in June, down by 18 basis points from December 2023. As regards households, the average interest rate on pure new housing loans granted to households in June was 3.8%, down by 32 basis points from the end of the preceding year. Corporate and household lending remained subdued. Quarterly annualised rates of growth in loans to non-financial corporations and housing loans were slightly above zero or negative in the first half of 2024. In most major countries of the euro area, they fell additionally in loans to non-financial corporations and rose slightly in housing loans from their levels at the end of last year.



## BOX 1

### New framework for the implementation of ECB monetary policy

**The operational framework for implementing the ECB's monetary policy comprises a set of principles, procedures and instruments. In March 2024, the ECB's Governing Council approved changes to the operational framework in order to bring it in line with the conditions of the Eurosystem balance sheet normalisation, that is, a gradual reduction of excess liquidity from very high levels. The deposit facility rate remains the main monetary policy instrument because short-term money market rates are expected to steer close to that rate. The Eurosystem will provide liquidity through a broad mix of instruments, including short-term credit operations – the main refinancing operations – and three-month longer-term refinancing operations as well as, at a later stage, structural longer-term credit operations and a structural portfolio of securities. The main refinancing operations are intended to play a central role in meeting banks' liquidity needs in the years to follow. On the basis of the experience gained, the Governing Council will review the key parameters of the operational framework in 2026 and stands prepared to adjust the design and parameters of the framework earlier, if necessary, to ensure that the implementation of monetary policy remains in line with the established principles.**

The excess liquidity of the euro area has been in decline since November 2022 against the backdrop of the monetary policy tightening aimed at bringing inflation down to the target. Excess liquidity comprises banks' holdings in their accounts with the central bank in excess of the minimum reserve requirements. This excess is generated by central banks through monetary operations. Central banks thereby enable banks to meet their short-term liabilities, primarily those related to payments and deposit withdrawals from clients' accounts, as well as to meet monetary policy objectives. It should be noted that banks' needs for central bank liquidity grew considerably in the years following the global financial crisis due to a number of reasons, including increased risk aversion of banks, segmentation of the money market, development of payment systems and evolution of prudential regulations. The current excess liquidity in the euro area considerably exceeds banks' needs, which is related to the conduct of monetary policy during periods in which inflation was too low. Measures adopted by the Governing Council during the cycle of monetary policy tightening will gradually reduce excess liquidity, although it could remain abundant for a few more years. As excess liquidity decreases, there is a risk that this decline will at some point start to affect the elevated volatility of overnight money market interest rates, which could have an undesirable impact on the monetary policy stance in the form of an increase in short-term and long-term market interest rates due to a rise in the risk premium.

In late 2022, the ECB started a review of the operational framework for implementing monetary policy precisely in order to alleviate the risk that the gradual reduction of the balance sheet may at some point of time produce undesired effects on the monetary policy stance. The review examined the experience gained in various liquidity regimes and options that could ensure a smooth implementation of monetary policy under conditions of reduced liquidity. In mid-March 2024, the Governing Council defined changes to the operational framework to steer short-term euro



area money market rates in line with the Governing Council's monetary policy decisions. The Council agreed on a set of principles, parameters and features for implementing monetary policy and ensuring central bank liquidity in the conditions of a gradual decrease in excess liquidity.

Monetary policy implementation will continue to be guided by a number of key principles, such as effectiveness, robustness, flexibility, efficiency, consistency with an open market economy and the possibility of facilitating the ECB's secondary objective of supporting the general economic policies of the European Union. The main objective of the operational framework is to ensure **the effective implementation of monetary policy** in line with the provisions of the EU Treaty, which is best achieved by steering short-term money market rates. Some volatility in money market rates can be tolerated as long as it does not blur the signal about the intended monetary policy stance. The operational framework needs to be **robust** to different monetary policy configurations as well as different financial and liquidity environments, and consistent with the use of the monetary policy instruments set out in the ECB's monetary policy strategy. The Eurosystem intends to use a broad mix of instruments in order to offer an effective, flexible and stable source of liquidity to the banking system, thereby also supporting financial stability. The euro area banking sector is large and diverse in terms of the size, business models and geographical locations of the banks, an elastic supply of central bank reserves based on banks' needs thus being best suited to effectively channel liquidity across the entire banking system throughout the euro area and to contribute to the flexible absorption of liquidity shocks.

The principle of the **efficiency** of the operational framework implies that it enables the implementation of the desired monetary policy stance and does not interfere with it, respecting the proportionality principle and taking into account a minimum of net side effects, including financial stability risks. Moreover, the framework should preserve a financially sound balance sheet that supports central bank independence and allows for the unhindered conduct of monetary policy. The operational framework should be consistent with **the smooth and orderly functioning of markets** – including money markets, which are more closely linked to the implementation of monetary policy. This favours the efficient allocation of resources, an effective price discovery mechanism and the smooth transmission of monetary policy. To the extent that different configurations of the operational framework are equally conducive to ensuring the effective implementation of the monetary policy stance, the operational framework should facilitate the ECB's pursuit of its **secondary objective of supporting general economic policies in the European Union**, in particular the transition to a green economy, without prejudice to the ECB's primary objective of price stability. In this context, the design of the operational framework will aim to incorporate climate change-related considerations into the structural monetary policy operations.

In line with these principles, the Governing Council agreed on a set of key parameters and features for the operational framework. The monetary policy stance will continue to be steered through the deposit facility rate. Short-term money market interest rates are expected to evolve in the vicinity of the deposit facility rate with tolerance for some volatility as long as it does not blur the signal about the intended monetary policy stance. The Eurosystem will provide liquidity through a broad mix of instruments, including short-term credit operations – the main

refinancing operations – and three-month longer-term refinancing operations as well as, at a later stage, structural longer-term credit operations and a structural portfolio of securities. The main weekly refinancing operations are intended to play a central role in meeting banks' liquidity needs. These operations will continue to be carried out as fixed rate full allotment (FRFA) auctions, which means that in any refinancing operation banks can obtain from the Eurosystem the full required amount at a single interest rate, provided that they present adequate collateral. The three-month longer term refinancing operations will also continue to be conducted through fixed-rate tender procedures with full allotment.

The spread between the rate on the main refinancing operations and the deposit facility rate was reduced on 18 September 2024 from 50 basis points to 15 basis points by adjusting the rate on the main refinancing operations. This narrower spread will incentivise banks' bidding in the weekly operations, so that short-term money market rates are likely to remain in the vicinity of the deposit facility rate, and will limit the potential scope for volatility in short-term money market rates. At the same time, it will leave room for money market activity and provide incentives for banks to seek market-based funding solutions. The rate on the marginal lending facility has also been adjusted, so that the spread between the rate on the marginal lending facility and the rate on the main refinancing operations remained unchanged at 25 basis points.

New structural longer-term refinancing operations and a structural portfolio of securities will be introduced at a later stage, once the Eurosystem balance sheet begins to grow sustainably again, taking into account the continued reduction of the portfolios acquired under the asset purchase programme (APP) and the pandemic emergency purchase programme (PEPP). These operations will make a substantial contribution to covering the banking sector's structural liquidity needs arising from autonomous factors and minimum reserve requirements. The structural refinancing operations and the structural portfolio of securities will be calibrated in accordance with the established principles and in such a way as to avoid interference with the monetary policy stance. The reserve ratio for determining banks' minimum reserve requirements remains unchanged at 1% and the remuneration of minimum reserves remains unchanged at 0%. In order for banks from various countries and with various business models to have sufficient collateral to access liquidity, a broad collateral framework of marketable and non-marketable assets will continue to be accepted.

As financial markets and institutions adapt to changes in the liquidity levels alongside the reduction of the Eurosystem balance sheet, the Governing Council will carefully monitor the evolution and distribution of excess liquidity, the formation of money market rates, the evolution of banks' demand for reserves, and the functioning of money markets and broader financial markets within the set parameters of the monetary policy implementation framework. On the basis of the experience gained, the Governing Council will review the key parameters of the operational framework in 2026 and stands ready to adjust the design and parameters of the framework earlier, if necessary, to ensure that the implementation of monetary policy remains in line with the established principles. An in-depth analysis of the design of the new longer-term refinancing operations and the new structural portfolio will also be conducted.

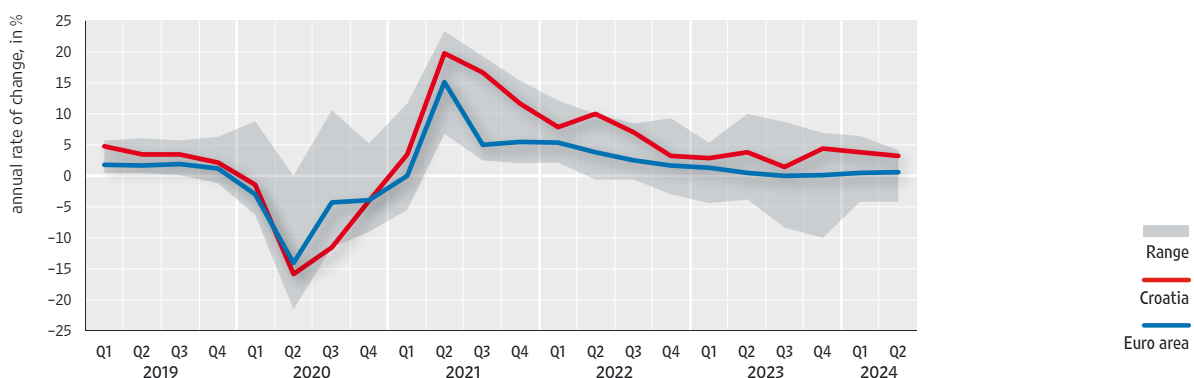
## 2 Croatian economy

### 2.1 Real developments

After three years of strong growth, favourable economic developments in Croatia continued into the first half of 2024. This is particularly relevant in the light of unfavourable developments in the external environment, weak growth in the main trading partners, geopolitical instability and the continued relatively restrictive monetary policy stance. The growth of the Croatian economy thus continues to be one of the strongest in the euro area and much more rapid than the average growth in both the euro area and the European Union, where economic activity did pick up but remained subdued in the first half of 2024.

GDP growth in the first six months of 2024 largely reflects robust personal consumption, boosted by favourable labour market trends and the strengthening of investment activity. Economic growth in the first and the second quarter was almost equal, averaging slightly less than 1% on a quarterly level. At the same time, real GDP increased on average by 3.6% annually, or 3.9% in the first quarter and 3.3% in the second quarter. The continued economic expansion was primarily driven by ongoing strong domestic demand, largely supported by robust investment activity, in particular by the private sector. The growth was also strongly supported by expansionary fiscal policy and continued favourable developments in employment and wages in most activities. Combined with a further fall in inflation, this led to an increase in real income and gave a boost to personal consumption. The steep growth in all domestic demand components was also reflected in a sharp increase in imports of goods and services. As real exports declined in the first half of the year as a result of a relatively large fall in real exports of services, the contribution of net exports to growth was negative in the first half of the year.

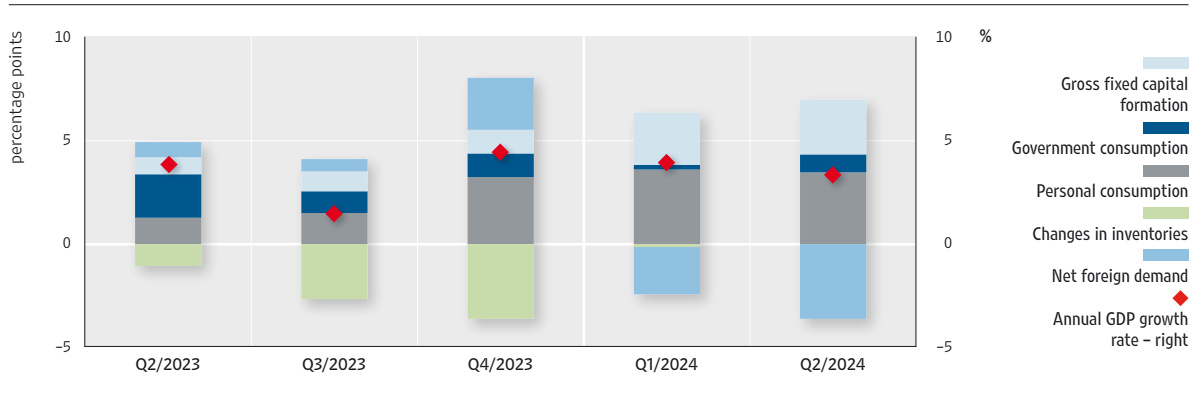
Figure 2.1.1 Trends in economic activity in Croatia and the euro area



Note: The figure shows the range of values of real GDP growth of individual euro area member states.

SOURCES: CBS AND EUROSTAT.

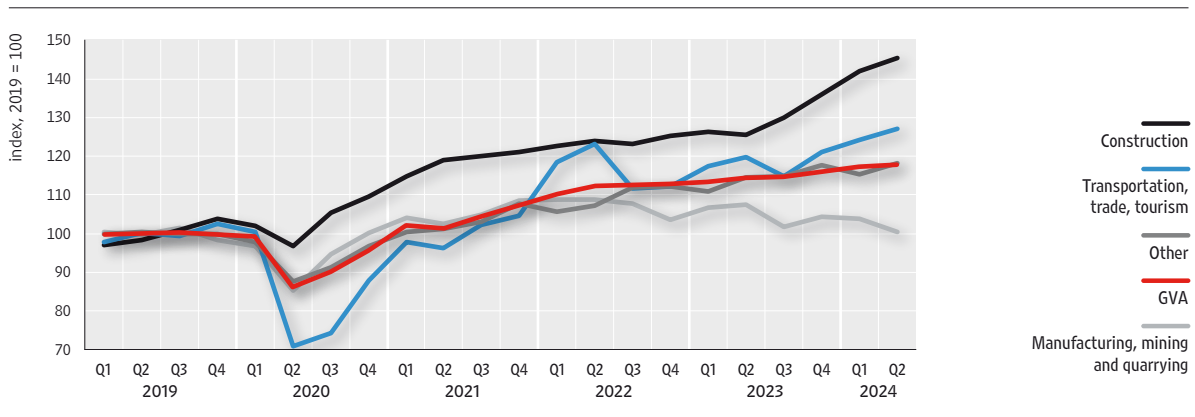
**Figure 2.1.2 Contributions to the change in real economic activity**



SOURCE: CBS.

A breakdown of economic trends according to the main activities reveals that growth was largely supported by the developments in the services sector and construction. Particularly pronounced was the growth in construction, which recorded a two-digit growth rate in the first half of the year, so that construction activity was 45% higher at the end of the second quarter of 2024 than in the pre-pandemic period. Trade and tourism-related activities also picked up perceptibly, although this appears to be largely a consequence of the growth in domestic demand given the subdued exports of services in the first half of the year. By contrast, production in agriculture and manufacturing decreased considerably, partly due to weak external demand and probably some structural problems, particularly in agriculture, in which there were pronounced negative trends in the previous three years, falling below the 2019 average in the first half of 2024.

**Figure 2.1.3 Gross value added by activity in Croatia**

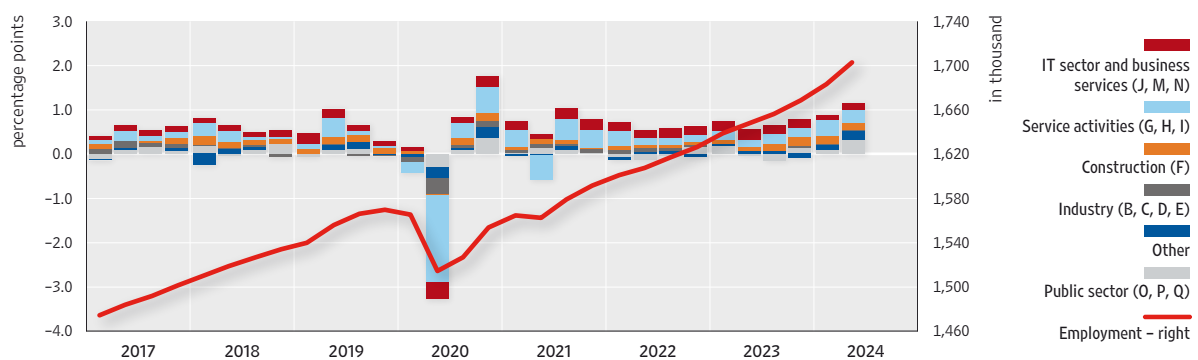


Note: "Tourism" refers to accommodation and hospitality activities.  
SOURCE: CBS.

## 2.2 Labour market

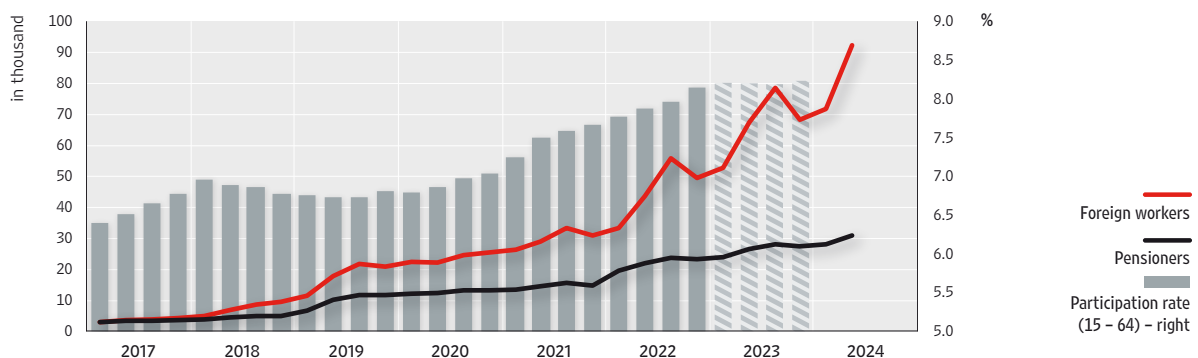
**Employment growth in Croatia picked up in the first half of 2024, supported by further growth in economic activity.** In the period from January to March 2024, employment growth accelerated from the 0.7% of the last quarter of 2023 to 0.9%. The increase in the number of employed persons was broadly based, with the largest contribution coming from service activities (trade, transport, accommodation and food service activities) and construction (**Figure 2.2.1**). The number of employed persons increased at an annual rate of 2.7% in the first quarter of 2024. Employment growth picked up further in the second quarter (1.1%) due to the intensified increase in the number of employed persons in public administration, education, health care and social welfare (i.e. in O, P and Q activities, which cover most of the public sector), while employment in the rest of the economy continued to grow slightly. Employment was 3.4% higher than in the same period of 2023. The increased demand for labour continues to be met by the employment of third-country workers<sup>1</sup> (from non-EU countries) and of pensioners who work up to half time (**Figure 2.2.2**). The number of employees and the number of craftsmen and sole traders increased.

**Figure 2.2.1 Employment by NCA, seasonally adjusted data, contributions to the quarterly rate of change**



Note: NCA means the National Classification of Activities.  
SOURCE: CPII (SEASONALLY ADJUSTED BY THE CNB).

**Figure 2.2.2 Participation rate, employed pensioners and foreign workers**

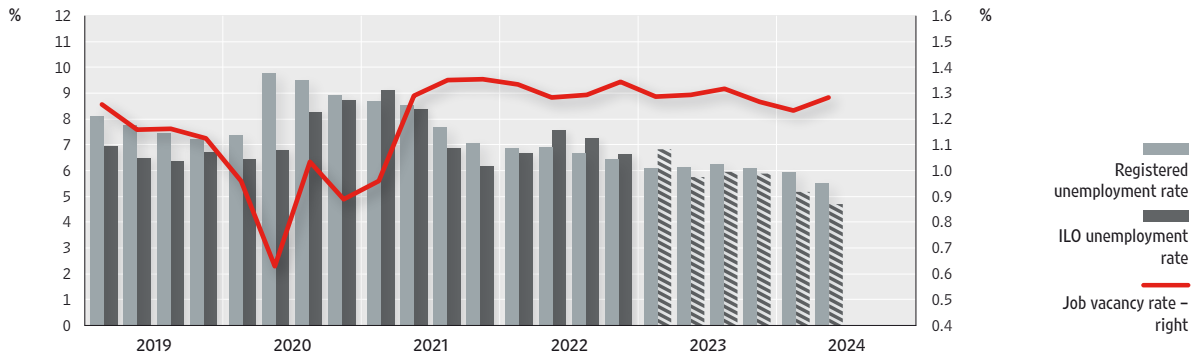


Notes: The participation rate is calculated for the population aged 15 to 64 (four-quarter moving average). As regards survey data, data from the first quarter of 2023 are not comparable with previous quarters due to the shift to Census 2021 data for the calculation of the indicators.  
SOURCES: CBS AND CPII.

<sup>1</sup> Data on foreign workers referred to in the text encompass only insured persons registered with the CPII under code 37.

**Figure 2.2.3 Unemployment and job vacancy rates**

seasonally adjusted data

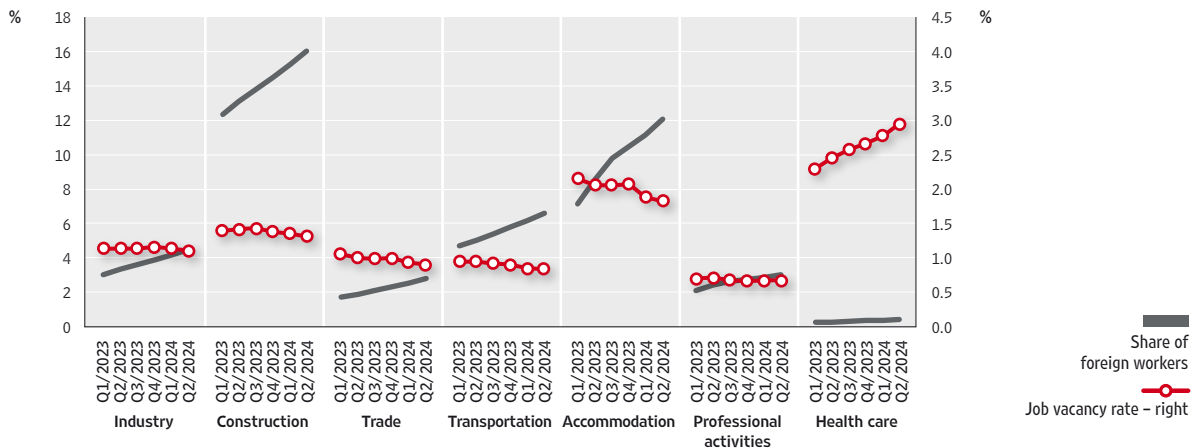


Notes: The job vacancy rate is calculated as the share of total posts that are vacant in the total demand for labour (the sum of the number of persons insured with the CPII and vacant posts). As regards the Labour Force Survey, data from the first quarter of 2023 are not comparable with previous quarters due to the shift to Census 2021 data for the calculation of the indicators.

SOURCES: CBS, CES AND CNB SEASONAL ADJUSTMENT AND CALCULATIONS.

The employment of registered unemployed persons led to a reduction in the unemployment rate. The registered unemployment rate dropped to 5.9% of the labour force in the first quarter of 2024. As the fall in the number of unemployed persons accelerated in the months that followed, the registered unemployment rate dropped to 5.5% in the second quarter. The internationally comparable ILO unemployment rate stood at 5.2% in the first quarter of 2024, while in the second quarter it fell to 4.7% (Figure 2.2.3). The job vacancy rate held steady at an elevated level of 1.3%, indicating a still relatively strong demand for labour. Most employers continued to report the lack of workers as an important production-limiting factor, which was only to some extent addressed by the hiring of foreign workers and pensioners. The largest number of foreign workers is employed in construction and accommodation and food service activities, which have very high job vacancy rates. Health care, with the highest and the only constantly growing job vacancy rate, employs a very small number of foreign workers (Figure 2.2.4).

**Figure 2.2.4 Share of foreign workers in total employment and job vacancy rate by activity, four-member moving averages**

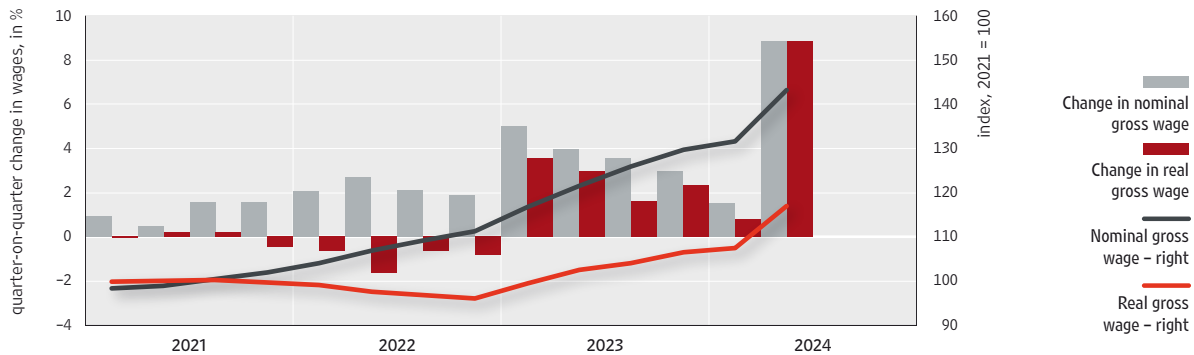


Note: The share of foreign workers and the job vacancy rate are shown as a moving average (four quarters).

SOURCES: CPII, CES AND CNB CALCULATIONS.

**Figure 2.2.5 Average nominal and real wage**

seasonally adjusted data



SOURCES: CBS AND CNB SEASONAL ADJUSTMENT AND CALCULATIONS.

Having increased moderately in early 2024, nominal and real wages grew sharply in April, holding steady at the same, higher levels in May and June. The wage growth in 2023 was supported by strong real economic activity, the compensation for the previously accumulated losses of purchasing power and substantial worker shortages. The growth of nominal gross wages decelerated further in the first quarter of 2024 despite the increase of 20% in the minimum gross wage on 1 January. The quarterly growth of real gross wages also decelerated in the same period (Figure 2.2.5). On the other hand, changes in the income tax system as of January 2024 (the increase in personal tax exemption and the reduction of the tax burden in local self-government units) had an impact on nominal net wages, which grew substantially.<sup>2</sup> The average nominal gross wage jumped sharply in April 2024, by 7.2% (or 17.9% from April 2023), primarily as a result of comprehensive wage system reforms in the government and public sectors. The wage growth in the rest of the economy also accelerated, but at a markedly slower pace. Wages in activities that cover most of the public sector (O, P and Q) grew at a monthly rate of 17.1% (or 36.5% from April 2023), whereas wages in the rest of the economy rose by 2.6% (or 11.5% from April 2023). Nominal gross wages held steady at the same, higher levels in May and June. On average, the nominal gross wage was 8.9% higher in the second quarter than in the previous quarter, and 17.8% up from the same period of the previous year.

<sup>2</sup> Amendments to the Income Tax Act (OG 114/2023) of 1 January 2024 increased the basic personal deduction from EUR 530 to EUR 560 and the deduction for dependent members, despite a decrease in coefficients. Surtaxes are abolished, but local authorities can increase the income tax rate and in this way compensate for the loss of surtax revenues, but without exceeding the previous tax burden.

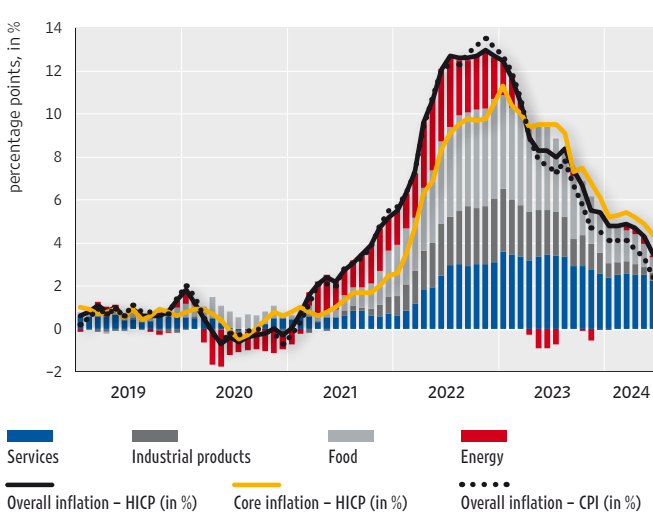


## 2.3 Price developments

After having slowed down noticeably in 2023, consumer price inflation in Croatia eased further in the first six months of 2024. However, the intensity of the slowdown in inflation in the first half of 2024 was lower than in the previous year. Overall inflation measured by the harmonised index of consumer prices (HICP) stood at 3.5% in June 2024, down from 5.4% in December 2023 (Figure 2.3.1). Inflation measured by the national consumer price index, which does not cover consumption by foreign tourists and institutional households (such as educational, health and religious institutions, etc.) slowed down from 4.5% in December 2023 to 2.4% in June 2024. The decline in inflation reflects the lagged effects of the restrictive monetary policy stance on inflation in Croatia and its main trading partners, the spillover of lower prices of energy and other raw materials in the global market to domestic producer and consumer prices, as well as favourable statistical effects (base effects). The slowdown in overall inflation (HICP) in Croatia was mostly due to food prices (including alcohol and tobacco) and prices of industrial products. By contrast, the inflation of energy prices accelerated as a result of the higher prices of refined petroleum products.

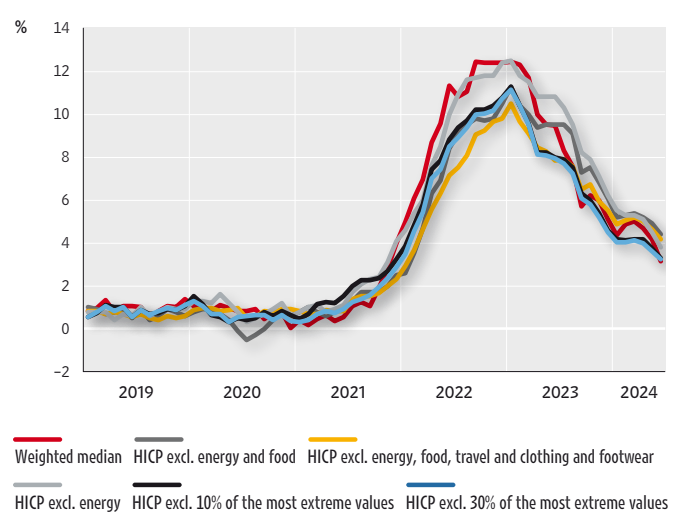
The slowdown in core inflation was mostly driven by the prices of industrial products, while the inflation of service prices slowed down only slightly and remains elevated. Core inflation, which excludes food and energy prices, slowed down from 6.1% in December 2023 to 4.4% in June 2024. The inflation of the prices of industrial products mainly slowed down continuously from the beginning of 2023 and was approximately ten percentage points lower in June 2024 than the peak reached in late 2022. The slowdown in the inflation of service prices was less prominent due to the continuing presence of current pressures, which partly offset the favourable base effects associated with the step monthly price increase in the same period of the year before.

Figure 2.3.1 Inflation indicators in Croatia



Note: Core inflation is measured by the harmonised index of consumer prices, which excludes energy, food, alcoholic beverages and tobacco prices.  
SOURCES: EUROSTAT, CBS AND CNB CALCULATIONS.

Figure 2.3.2 Core inflation indicators in Croatia



Notes: Trimmed mean eliminates 5% (15%) of components (out of a total of 87 components) with maximum and minimum annual rates of change. The weighted median excludes all values but the weighted median of the distribution of price change.  
SOURCES: EUROSTAT AND CNB CALCULATIONS.



The importance of services for the overall inflation path grew further. Services remain the main component with the largest individual contribution to overall inflation and are responsible for almost two thirds of overall inflation. The persistence of the inflation of service prices is the result of their higher sensitivity to wage growth than other inflation components amid strong domestic and foreign demand for hotel and restaurant and accommodation services. Alternative indicators of core inflation, which exclude certain volatile components, also fell further, but remained elevated nevertheless (Figure 2.3.2).

Short-term indicators of overall and core inflation reflecting current developments rose in the first six months of 2024, particularly those of services inflation. From September to December 2023, short-term indicators of inflation (so-called momentums or quarterly rates of change calculated from seasonally adjusted data and expressed on an annual level) slowed down considerably, owing to a slower momentum of the inflation of prices of all major components (food, energy, industrial products and services). By contrast, the momentums of overall and core inflation accelerated in 2024 (Figure 2.3.3), reflecting in particular the increasingly higher current inflation of services prices. Nevertheless, the momentum of services price inflation, despite growing noticeably in the first half of 2024, remains low relative to its peaks in the last two years (Figure 2.3.4). At the same time, the momentums of the inflation of food prices and prices of industrial products fluctuated around their long-term averages, while the momentum of the inflation of energy prices remained in negative territory, which suggests that inflationary pressures for these inflation components have stabilised at low levels.

Figure 2.3.3 Momentums of overall and core inflation

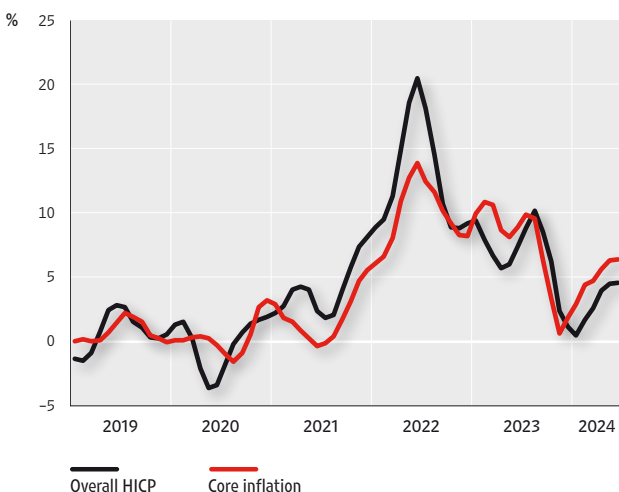
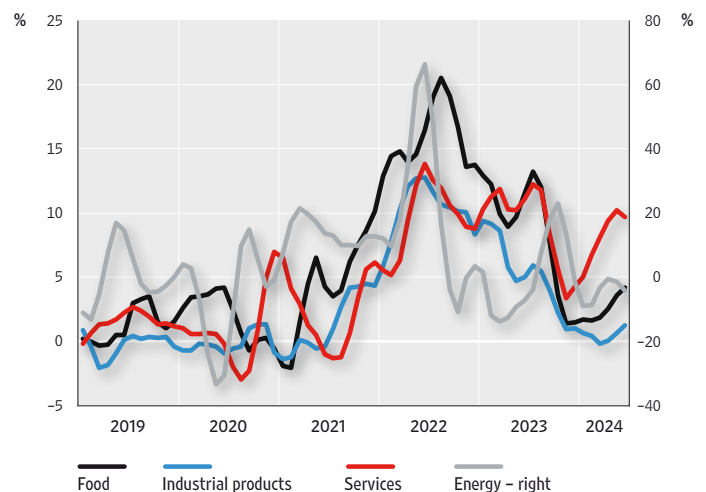


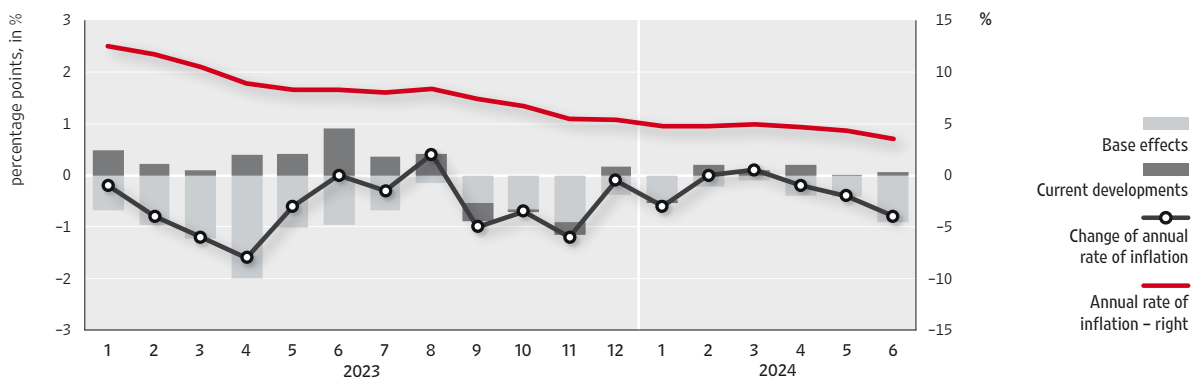
Figure 2.3.4 Momentums of the main inflation components



Note: The quarterly rate of change on an annual level is calculated from the quarterly moving average of seasonally adjusted harmonised consumer price indices.  
SOURCES: EUROSTAT AND CNB CALCULATIONS.

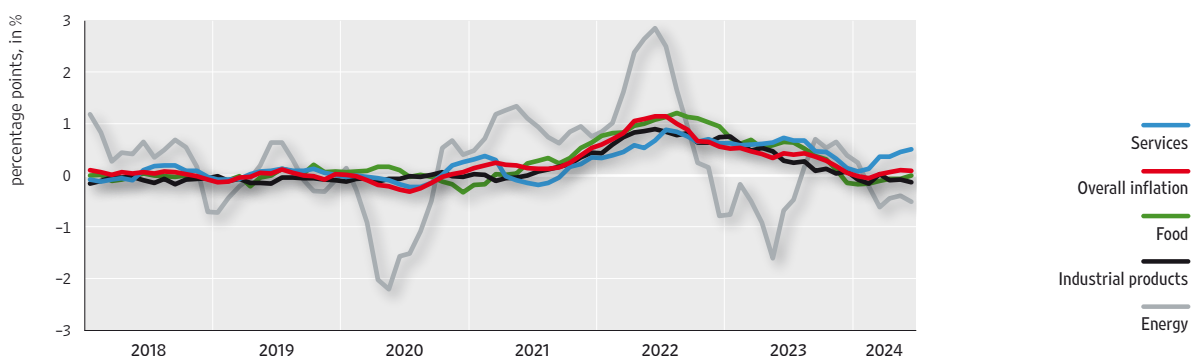
Against the backdrop of a moderately elevated current inflation, and that only in the services segment, the slowdown in the annual rate of inflation is driven by favourable base effects. The change in the annual rate of inflation month-on-month depends on the change in retail prices from the month before (the so-called current inflation) and the monthly rate of change in prices in the same month of the year before (the so-called base effects).<sup>3</sup> The slowdown in the annual rate of overall inflation in the first six months of 2024 thus reflects the favourable base effect (Figure 2.3.5) due to a high monthly price increase in the same period of the year before. At the same time, current inflation has held steady at relatively low levels for all components except services, whose monthly inflation remained considerably above its usual historical value (Figure 2.3.6).

Figure 2.3.5 Contribution of base effects and current developments to a change in annual inflation



Note: The base effects and current developments were adjusted for the usual developments that are relatively stable and do not affect annual inflation considerably.  
SOURCES: EUROSTAT AND CNB CALCULATIONS.

Figure 2.3.6 Deviations of the monthly rate of change of inflation from the usual developments

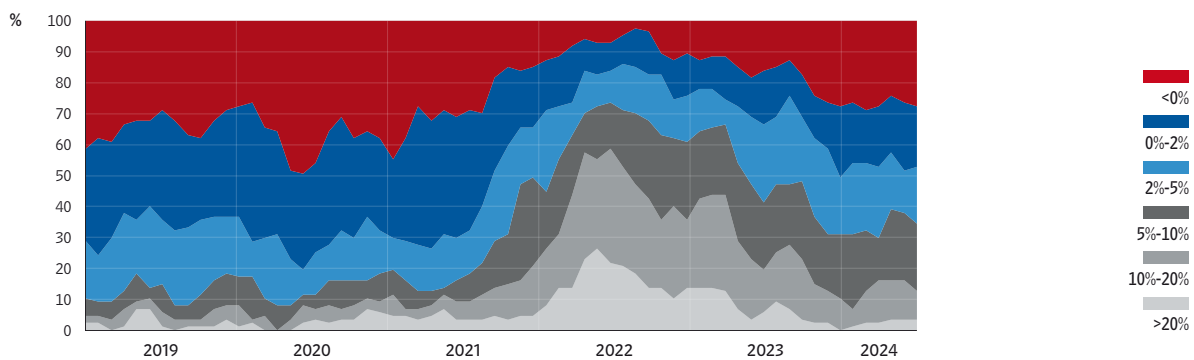


Note: Data refer to six-month averages of the contributions of the unusual developments to the monthly rate of change.  
SOURCES: EUROSTAT AND CNB CALCULATIONS.

3 For more details, see HNBlog D. Kunovac and M. Luketina, *On the way down – the role of base effects in the slowdown of consumer inflation*.

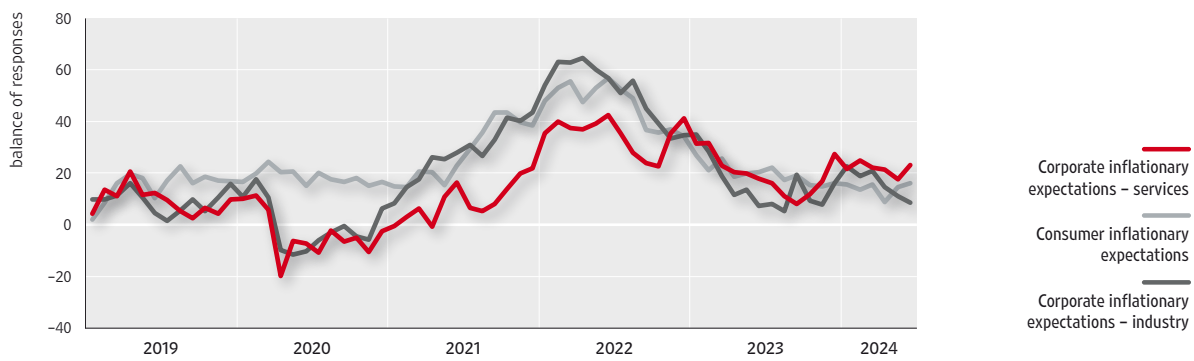
The easing of inflationary pressures is also seen in a further reduction of inflation diffusion (Figure 2.3.7), with the share of subcomponents in the consumer price index whose annual growth is above 2% standing at around 54% in the first six months of 2024, a significant fall from the 85% recorded in the third quarter of 2022 but still above the pre-pandemic level. In addition, short-term inflationary expectations of consumers and corporates were also perceptibly lower than the peaks seen in 2022. In the first half of 2024, consumer inflationary expectations hovered around pre-pandemic levels, while corporate inflationary expectations remained elevated relative to the pre-pandemic period, particularly in the service sector (Figure 2.3.8).

Figure 2.3.7 Diffusion of consumer price inflation



Note: The figure shows the share of the number of products whose prices changed within a defined range in the total number of products according to quarterly moving averages of the annual rates of change of seasonally adjusted price indices of 87 components of the harmonised consumer price index. SOURCES: EUROSTAT AND CNB CALCULATIONS.

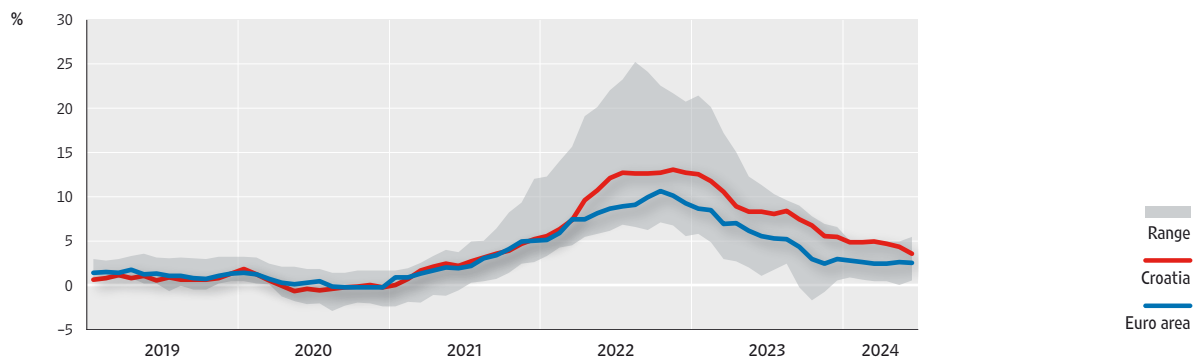
Figure 2.3.8 Short-term inflationary expectations of consumers and corporates



Note: Consumer expectations refer to a twelve-month period ahead and corporate expectations refer to a three-month period ahead. SOURCE: IPSOS.

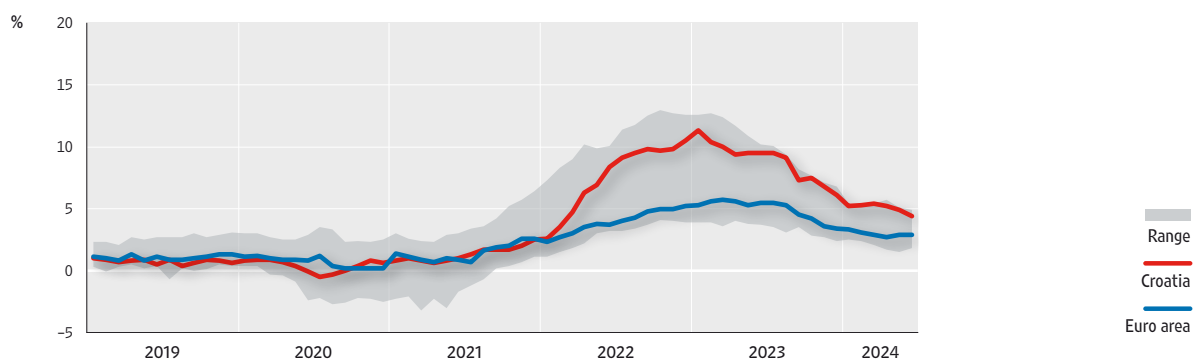
In the first six months of 2024, inflation in Croatia fell more than inflation in the euro area as a whole, which led to a fall in the inflation differential. In June 2024, overall inflation in Croatia was 1.0 percentage point higher than the average in the euro area (Figure 2.3.9) and core inflation was 1.5 percentage points higher than that in the euro area (Figure 2.3.10), down 1.5 and 1.2 percentage points, respectively, from December 2023. The fall in the inflation differential was the result of a smaller difference in contributions of all major components of inflation. Higher inflation in Croatia than the euro area is driven by, among other factors, robust tourist demand by non-residents accompanied by an increase in economic activity and personal consumption, faster growth of labour costs, differences in the structure of the consumer basket with food accounting for a larger share and a continuation of the process of price level convergence with the euro area average.

**Figure 2.3.9 Synchronisation of overall inflation in Croatia and the euro area**



Note: Gray areas show the range of values of individual member states of the euro area.  
SOURCE: EUROSTAT.

**Figure 2.3.10 Synchronisation of core inflation in Croatia and the euro area**



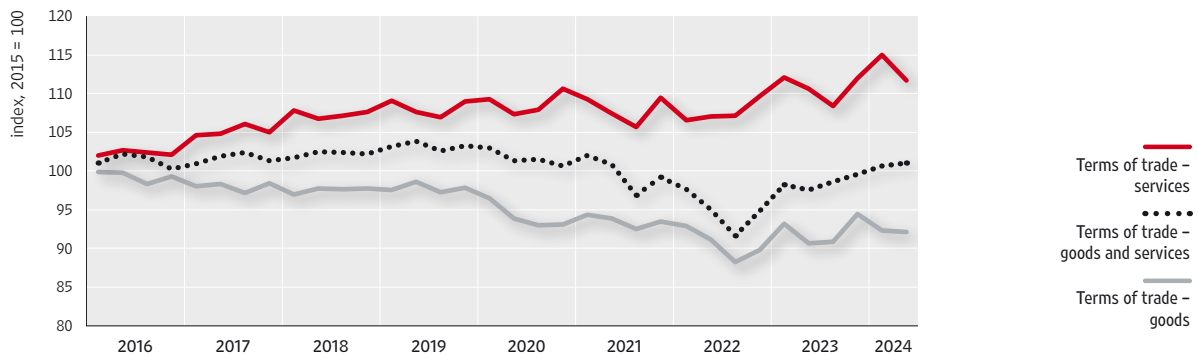
Note: Gray areas show the range of values of individual member states of the euro area.  
SOURCE: EUROSTAT.

## 2.4 Economic relations with foreign countries

The improvement in the terms of foreign trade of Croatia seen in 2023 continued into the first half of 2024. This improvement primarily related to international trade in services, while the improvement in trade in goods was less pronounced. Namely, a decrease in import prices for

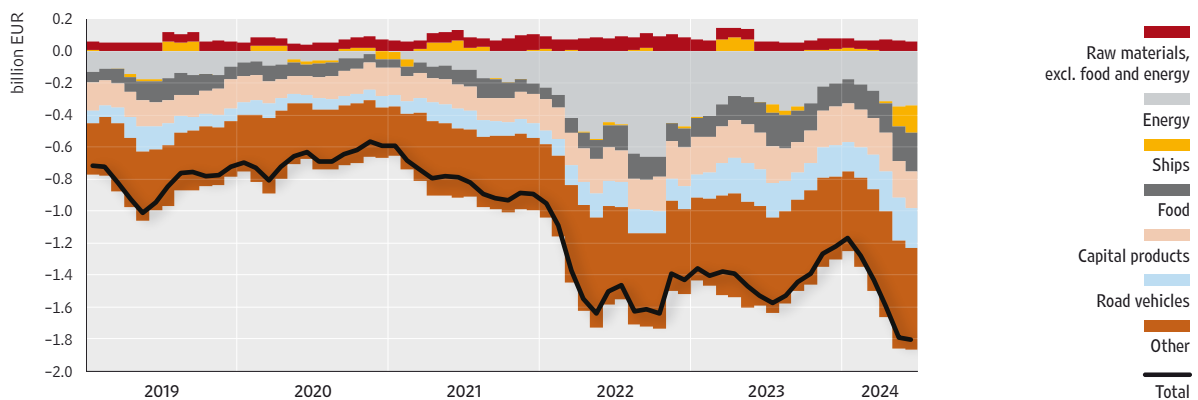
goods compared to 2023 was largely offset by a simultaneous decrease in export prices, so that the terms of trade in goods improved only slightly. On the other hand, the improvement of the terms of trade in services was mostly a result of the steady increase in the prices of tourism-related services against the background of buoyant foreign demand (**Figure 2.4.1**).

**Figure 2.4.1 Terms of trade**



Note: Terms of trade represent the ratio of export prices to import prices.  
SOURCES: EUROSTAT AND CNB CALCULATIONS.

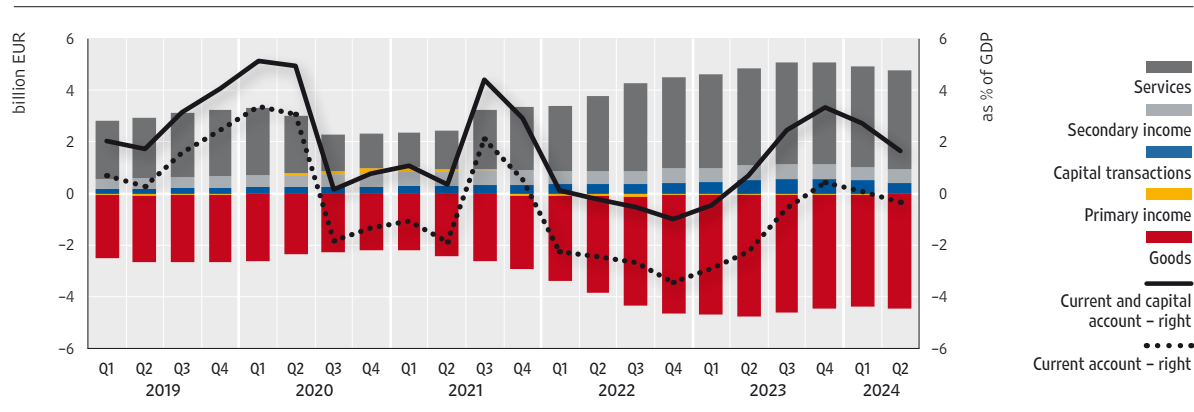
**Figure 2.4.2 Foreign trade balance**



Notes: Series are shown as three-element moving averages of monthly data. Data up to June 2024.  
SOURCE: CBS.

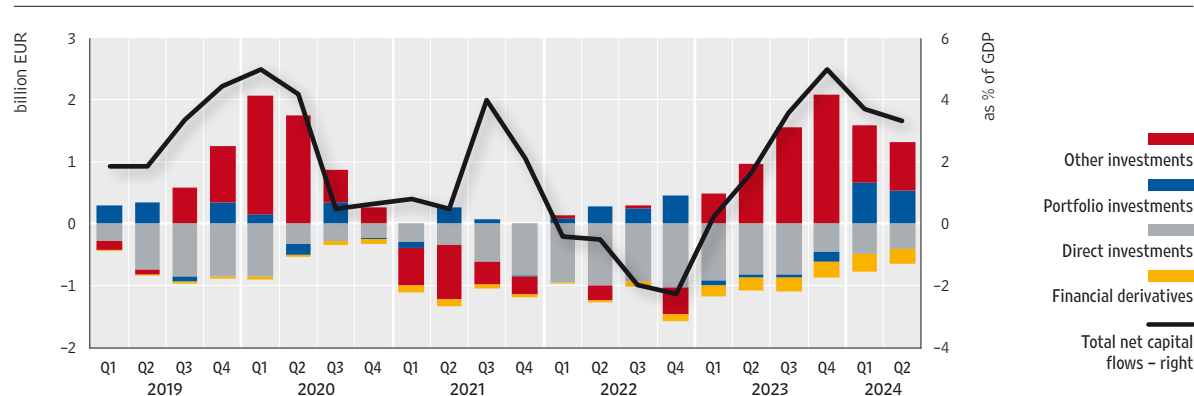
Strong annual growth in imports in the first half of 2024, paired with stagnant exports, contributed to a significant widening of the foreign trade deficit. In the first six months of 2024, exports fell by a negligible 0.1% from the same period of the previous year, while imports increased by 4.7% on an annual level. Coupled with a noticeably larger imports base, the goods deficit increased by 11.1% (**Figure 2.4.2**). If developments in foreign trade in goods excluding energy are observed, goods exports continued to stagnate (0.3%), while goods imports grew even more (by 7.1% year-on-year). To a large extent, divergent movements in exports and imports can be attributed to stronger domestic than foreign demand growth. Broken down by products, imports growth was mostly driven by a marked increase in imports of road vehicles and other transport equipment, as well as of food products. On the exports side, the decrease in the exports of other transport equipment was considerably offset by a noticeable increase in exports of capital goods and chemical products.

Figure 2.4.3 Current and capital accounts of the balance of payments



Note: Data show a four-quarter moving average.  
SOURCE: CNB.

Figure 2.4.4 Financial account of the balance of payments



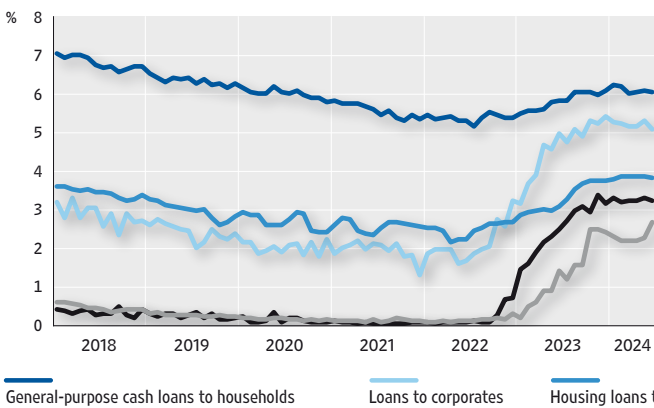
Notes: Data show a four-quarter moving average. A positive value denotes net capital outflow abroad and a negative value denotes net capital inflow from abroad.  
SOURCE: CNB.

The widening of the foreign trade deficit led to a deterioration in the overall current and capital account balance in the first half of 2024. The overall deficit amounted to EUR 3.7bn in the first six months of the current year, up by EUR 1.2bn from the same period of the previous year (Figure 2.4.3). As well as to the mentioned widening of the goods deficit, unfavourable developments were mostly due to a cyclical decline in the use of EU funds compared to the record high of 2023, which was the last year for the use of the funds allocated under the previous financial envelope (for the period from 2014 to 2020) and the EU Solidarity Fund. In addition, net exports of services also declined, but exclusively as a result of the base effect associated with trade in manufacturing services on physical inputs, due to a strong one-off increase in exports of these services in the same period of 2023. By contrast, exports of other services increased, with exports of tourist services up at the highest rate. In line with the current and capital account deficit, the financial account of the balance of payments saw a significant net capital inflow, of EUR 2.2bn, in the first half of 2024, up by EUR 1.2bn from the same period of the previous year (Figure 2.4.4). The bulk of total inflows was accounted for by inflows of debt capital with foreign direct investment forming only a smaller portion.

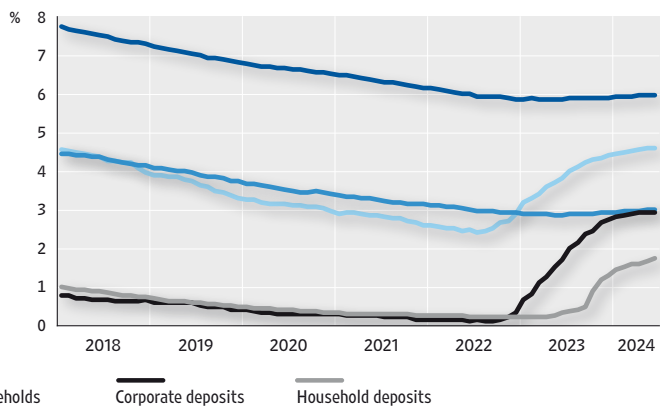
## 2.5 Banking system

After interest rates on loans during the last cycle of monetary policy tightening mostly reached the highest levels in domestic banks at the end of 2023 and at the beginning of 2024, they perceivably stabilised and gradually moderately reduced due to the anticipated lowering of key ECB interest rates. The average interest rate on pure new loans to non-financial corporations stood at 5.1% in June, down by 33 basis points from the peak level recorded in December 2023 (Figure 2.5.1). The costs of household financing decreased at a slower pace, the average interest rate on pure new general-purpose cash loans edging down by 22 basis points from the highest level in January 2024 and standing at 6.1%. With regard to housing loans to households, interest rates stabilised at an elevated level (3.8%), reached at the beginning of the year. It should be noted that, unlike in the previous few years, interest rates on housing loans were stable this year due to the ending of the government's housing loans subsidy programme. More specifically, housing loans within this programme were usually granted at interest rates slightly lower than market rates for standard housing loans, thus lowering the average interest rate, mostly in the summer months. In addition, housing loans have long maturity and are currently granted at fixed interest rates, which makes them less sensitive to changes in market conditions with respect to short-term interest rates.

**Figure 2.5.1 Interest rates on pure new loans and time deposits of corporates and households**



**Figure 2.5.2 Interest rates on existing loans and time deposits of corporates and households**



Notes: Data up to December 2022 refer to loans and deposits in kuna, in kuna with a currency clause in euro and in euro, and from January 2023 to loans and deposits in euro. Data refer to pure new loans and deposits. Deposits with a maturity of up to one month have been excluded.

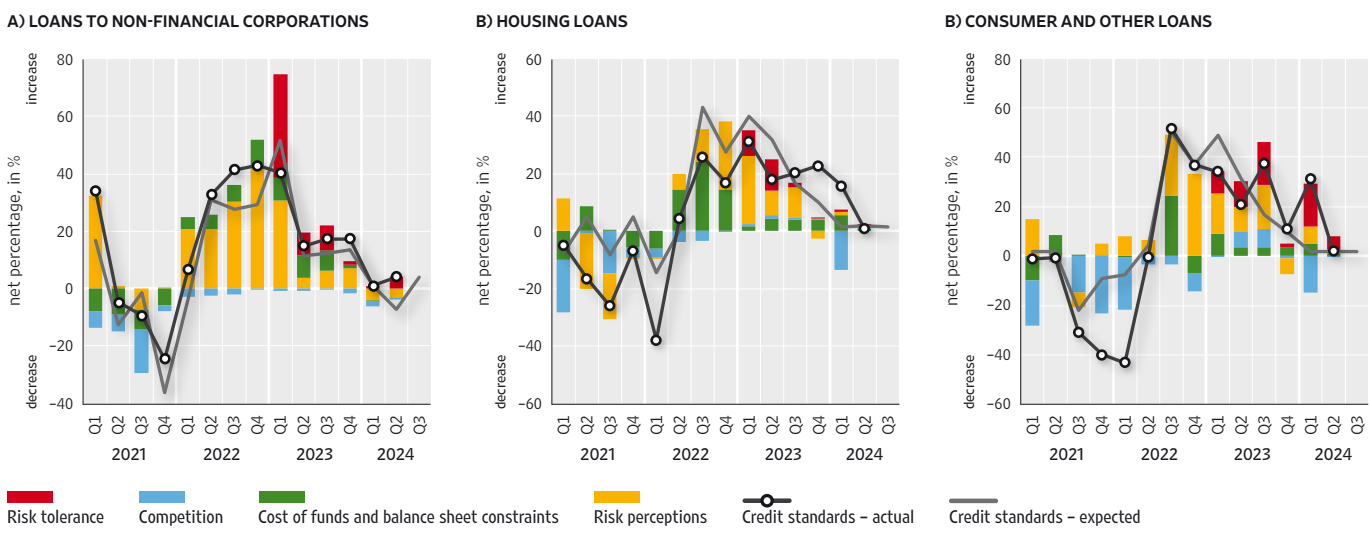
SOURCE: CNB.

Interest rates on time deposits peaked at the beginning of the first half of the year. Following a considerable increase in the average interest rate on household time deposits in late 2023, some banks additionally raised these rates in June this year. Coupled with larger amounts of time deposits placed with these banks, partly also affected by the inflow of funds from other banks, this pushed the average interest rate up to the highest level during the past monetary tightening cycle (2.7%), up 23 basis points from the end of 2023, or 111 basis points more than in September 2023 (Figure 2.5.1). The interest rate on pure new corporate time deposits peaked at 3.3% in May, growing by 15 basis points from the end of 2023.



In contrast with interest rates on new deposits and loans, which stabilised at their highest levels or started to decrease gradually, interest rates on existing deposits and loans continued to rise. Interest rates on existing loans remained below the levels of interest rates on new business, with a gradual upward trend. The average interest rate on existing corporate loans stood at 4.6% in June 2024, up by 19 basis points from December 2023. The increase reflects the gradual maturing of existing loans that have been granted at lower interest rates and the increasing importance of newly-granted loans on the total average. Interest rates on existing housing and general-purpose cash loans rose less in the same period, by 8 and 6 basis points respectively, reaching 3% and 6%, respectively, in mid-year. The very gradual growth in interest rates on existing household loans reflects the longer average maturity of loans, the considerable share of fixed interest rates and legal restrictions on the level of interest rates on variable interest rate loans. In addition, the national reference rate (NRR) is dominant among the reference parameters in existing household loans granted at variable rates. The NRR began its upward trajectory at the end of the previous year, so that, because most banks change interest rates every six months, its growth in mid-2024 was not yet reflected in interest rates on existing housing loans. However, as interest rates on existing total household deposits rose by 16 basis points in the first half of the year, to 0.5% in June, this will spill over to interest rates on existing housing loans indexed to the NRR with a time lag. Interest rates on total corporate deposits grew by 19 basis points in the same period, reaching 1% in June (Figure 2.5.2).

**Figure 2.5.3 Bank lending survey**  
lending standards and factor contributions



Notes: "Risk tolerance" is a term introduced in the first quarter of 2023 and reflects a bank's tolerance to risk in its lending policy, which can change depending on changes in the bank's general business strategy. "Cost of funds and balance sheet constraints" are the unweighted average of the "Impact of capital position", "Impact of ability to access market financing" and "Impact of liquidity". "Competition" is the unweighted average of "Impact of bank competition", "Impact of non-bank competition" and "Impact of market financing competition". "Risk perceptions" are the unweighted average of "Impact of general economic activity", "Impact of industry or firm specific situation" and "Impact of risk on the collateral demanded".

SOURCE: CNB.

Notes: "Risk tolerance" is a term introduced in the first quarter of 2023 and reflects a bank's tolerance to risk in its lending policy, which can change depending on changes in the bank's general business strategy. "Cost of funds and balance sheet constraints" are the unweighted average of the "Impact of capital position", "Impact of ability to access market financing" and "Impact of liquidity". "Competition" is the unweighted average of "Impact of bank competition" and "Impact of non-bank competition". "Risk perceptions" are the unweighted average of "Impact of general economic activity", "Housing market prospects" and "Borrowers' creditworthiness".

SOURCE: CNB.

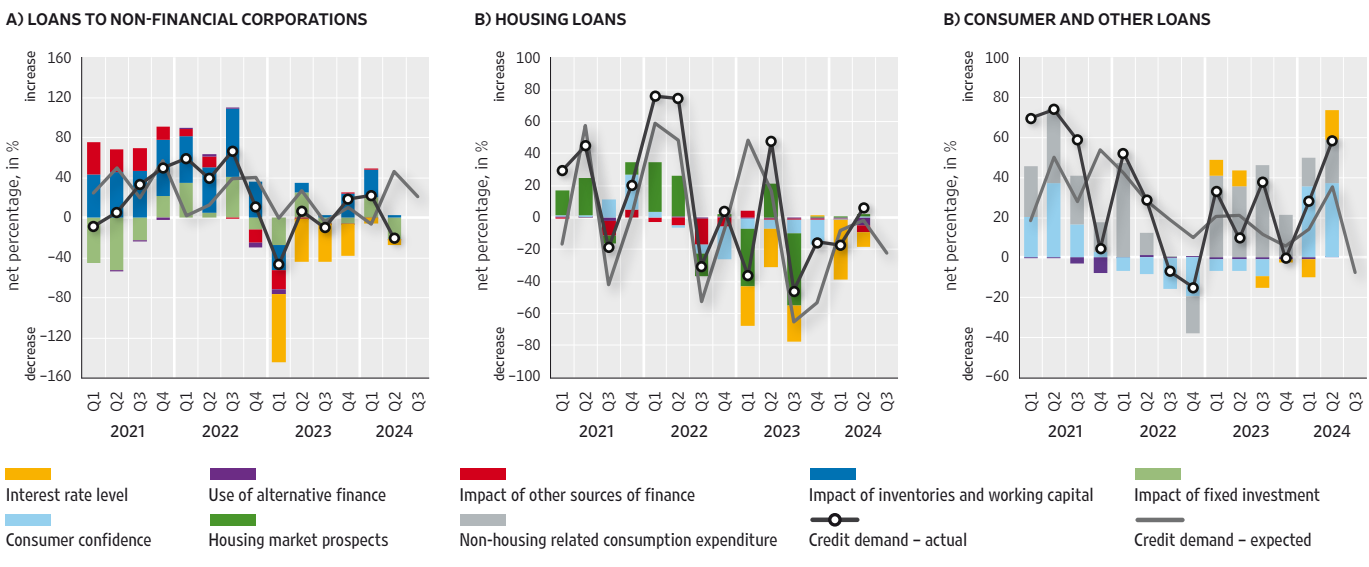
Notes: "Risk tolerance" is a term introduced in the first quarter of 2023 and reflects a bank's tolerance to risk in its lending policy, which can change depending on changes in the bank's general business strategy. "Cost of funds and balance sheet constraints" are the unweighted average of the "Impact of capital position", "Impact of ability to access market financing" and "Impact of liquidity". "Competition" is the unweighted average of "Impact of bank competition" and "Impact of non-bank competition". "Risk perceptions" are the unweighted average of "Impact of general economic activity", "Borrowers' creditworthiness" and "Impact of risk on the collateral demanded".

SOURCE: CNB.



Bank lending survey results also suggest that the tightening of corporate and household financing conditions came to an end. The tightening of credit standards for corporates was much more moderate in the first half of 2024 than in 2023 (Figure 2.5.3), to a very large extent owing to the more favourable risk perception and tolerance of the banks. With respect to households, the tightening of credit standards for housing and consumer loans was also less pronounced, largely due to the competition among banks. On the other hand, the impact of increased competition on the easing of credit standards for housing loans was partly offset by higher costs of funding sources and balance sheet constraints, while lower risk tolerance by banks had the same effect on consumer loans. Banks expect a further slight tightening of corporate credit standards and broadly unchanged credit standards for household loans in the third quarter of 2024.

**Figure 2.5.4 Bank lending survey**  
demand change and factor contributions



Notes: "Interest rate level" is a term introduced in the first quarter of 2023. "Impact of other sources of finance" is the unweighted average of "Debt restructuring and refinancing" and "Impact of mergers and acquisitions and corporate restructuring". "Use of alternative finance" is the unweighted average of "Impact of internal financing", "Impact of loans from other banks", "Impact of loans from non-banks", "Impact of debt securities issuance" and "Impact of equity issuance".  
**SOURCE: CNB.**

Notes: "Interest rate level" is a term introduced in the first quarter of 2023. "Impact of other sources of finance" is the unweighted average of "Debt restructuring and refinancing" and "Regulatory and fiscal framework of the real estate market". "Use of alternative finance" is the unweighted average of "Household savings", "Loans from other banks" and "Impact of other sources of finance".  
**SOURCE: CNB**

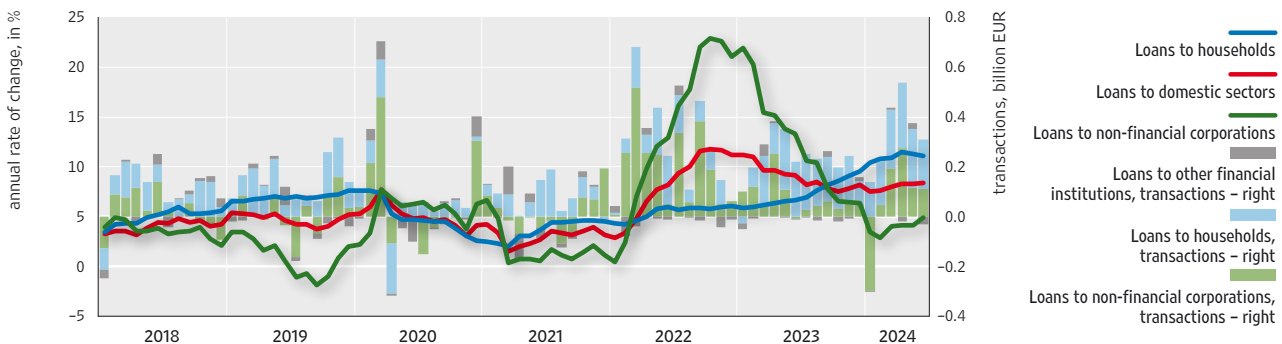
Notes: "Interest rate level" is a term introduced in the first quarter of 2023. "Use of alternative finance" is the unweighted average of "Household savings", "Loans from other banks" and "Impact of other sources of finance".  
**SOURCE: CNB.**

Corporate demand for loans weakened slightly, while household demand for consumer and other loans rose, with signs of recovery in demand for housing loans. According to the bank lending survey, following an increase in demand in the first quarter, banks reported a slump in corporate demand for loans in the second quarter of 2024. The fall in demand was mostly due to diminished demand of corporates for investment financing and an increased level of interest rates, although the unfavourable impact of high interest rates on demand in 2024 was much smaller than in the previous year, when the strong cycle of interest rate hikes led to significantly reduced demand (Figure 2.5.4). Having decreased from the middle of last year, household demand for home loans shows signs of a mild recovery, driven by higher consumer confidence and a favourable real estate market outlook. Elevated interest rates and the use of other sources of finance continued

to dampen demand. Demand for consumer loans rose steadily due to the growth in consumer confidence, financing of the purchase of durable consumer goods and favourable interest rates on consumer and other loans. In the third quarter of 2024, banks expect demand for corporate loans to increase while household demand for both types of loans is expected to decrease.

**Figure 2.5.5 Loans**

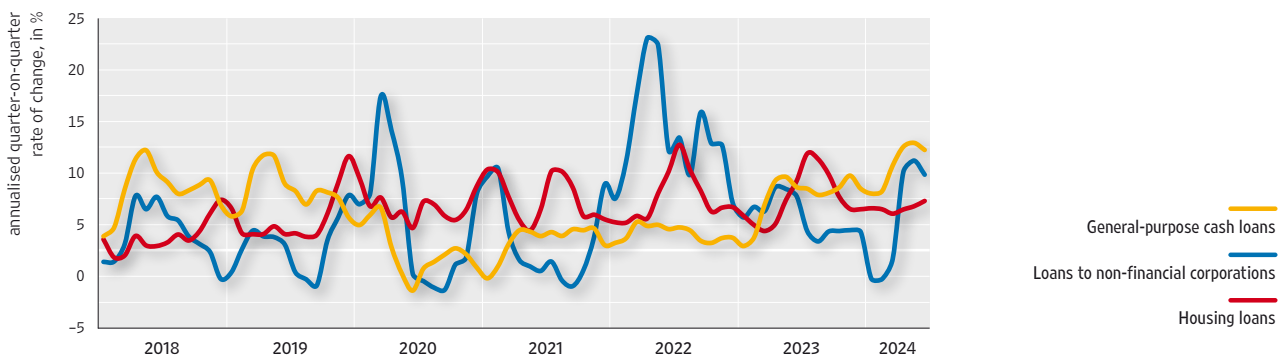
transactions and annual rates of change, transaction-based



Note: Loans to domestic sectors exclude loans to the general government.

SOURCE: CNB.

**Figure 2.5.6 Lending momentum, corporates and households (transaction-based)**



SOURCES: CNB AND CNB CALCULATIONS.

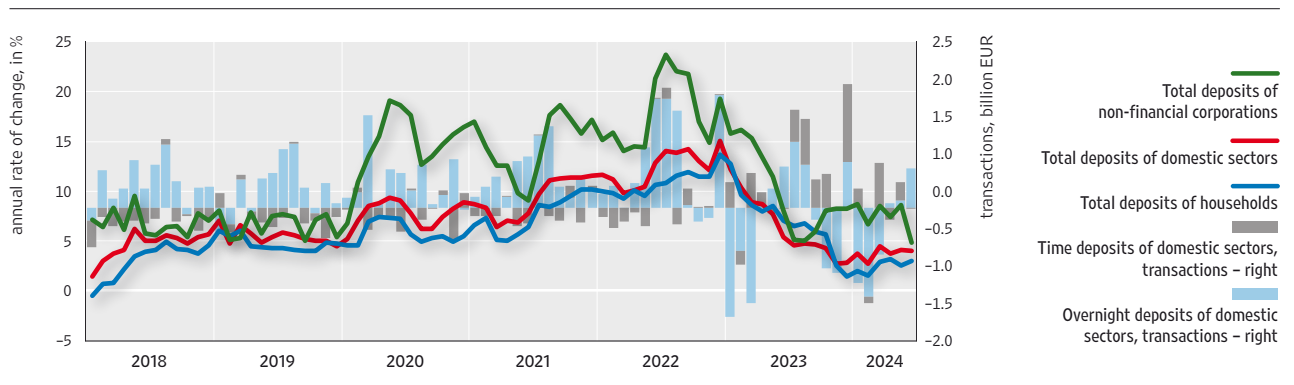
The relatively stable demand and the stabilisation of financing conditions resulted in a moderate acceleration of the growth of corporate lending, while household loans continued to grow relatively strongly. Corporate loans grew by EUR 0.4bn in the first six months of 2024 (Figure 2.5.5). However, if the effect of the repayment of a syndicated loan of a large corporation from the energy sector in January is excluded, corporate loans increased by EUR 0.7bn, which is slightly more than the previous year's subdued growth during those months. Broken down by activity, corporate loans in trade, service activities and construction grew the most, while with regard to loan purpose, the largest growth was seen in working-capital loans. This is in contrast with 2023, when investment loans were the main driver of growth. Following a steady slowdown from February 2023 to February 2024, the annual growth in corporate loans accelerated and reached 4.9% at end-June. In parallel, loans to households increased by EUR 1.2bn. General-purpose cash loans (EUR 0.7bn) accounted for slightly more than a half of the growth, almost twice as large as the

amount in the same period of 2023. The growth of housing loans was also relatively strong, EUR 0.4bn, slightly more than in the first six months of the previous year when the growth was partly driven by the implementation of the government’s housing loans subsidy programme (APN), which ceased this year. The annual growth in household loans picked up further (from 9.5% in December 2023 to 11.1% in June 2024), owing to the strong acceleration in the growth of general-purpose cash loans (to 14.7%), while the growth of housing loans decelerated marginally (to 9.8%), largely due to the base effects associated with last year’s APN implementation. The strengthening of lending in the segment of corporate loans and general-purpose cash loans is also indicated by the momentum, while in housing loans it stabilised at a slightly elevated level (Figure 2.5.6).

Higher interest rates on time deposits continued to encourage corporations and households to time-deposit funds with banks, though these inflows lost momentum over time. Time deposits of households grew from January to June 2024 by EUR 0.8bn with a parallel decrease in overnight deposits, of EUR 1.0bn. Corporations also increased time deposits, by EUR 0.4bn, and decreased overnight deposits, by EUR 1.4bn (Figure 2.5.7). Therefore, the balance of total time deposits continued to rise, but the share of time deposits in total deposits stabilised at just below 30% (Figure 2.5.8).

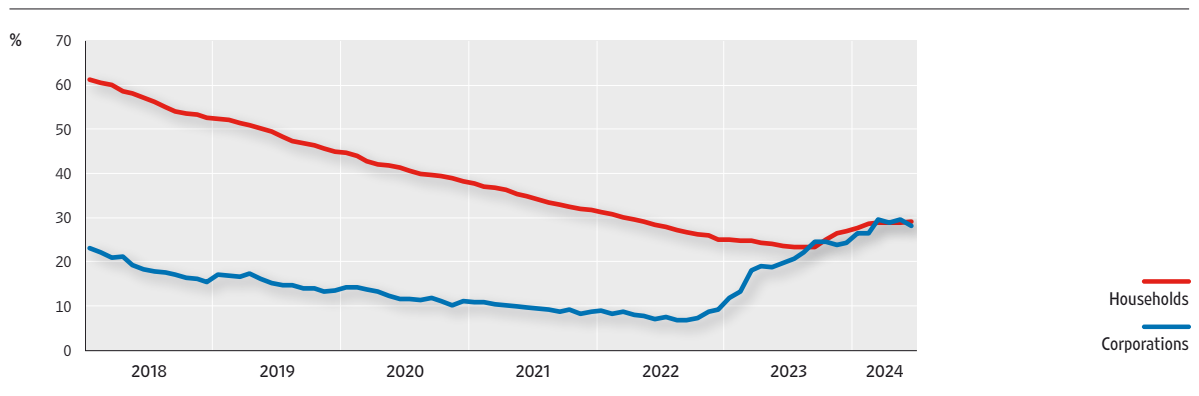
**Figure 2.5.7 Deposits**

transactions and annual rates of change, transaction-based



Note: Deposits of domestic sectors exclude deposits of the general government.  
SOURCE: CNB.

**Figure 2.5.8 Share of time deposits in total deposits**



Note: Total deposits include overnight and time deposits, deposits redeemable at notice and repurchase agreements.  
SOURCE: CNB.

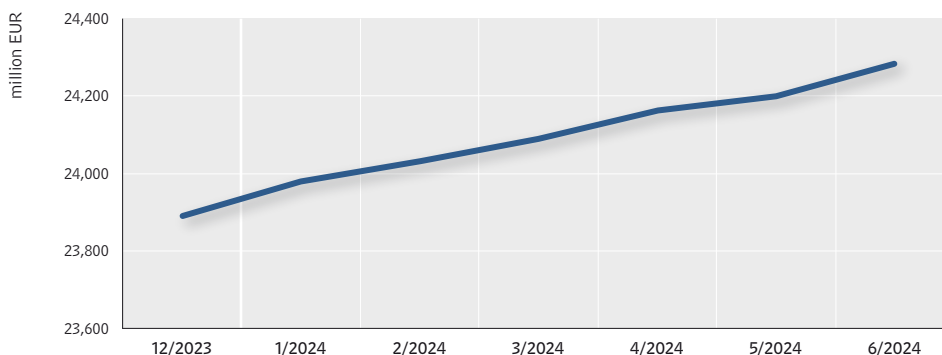
### 3 Financial asset management

Pursuant to the Act on the Croatian National Bank (Article 100), the Croatian National Bank (CNB) manages the foreign reserves of the Republic of Croatia that have not been transferred to the ECB, as well as other financial assets in the CNB balance sheet as at the date of the introduction of the euro as the official currency in the Republic of Croatia. Without interfering with the common monetary policy of the Eurosystem, in managing financial assets, the CNB supports financial stability and confidence in the financial system and is governed primarily by the principles of liquidity and safety of investment. Financial assets consist of the foreign currency assets that have not been transferred to the European Central Bank in accordance with Articles 30.1 and 48.1 of the Statute of the European System of Central Banks (ESCB) and of the European Central Bank (ECB) and euro-denominated domestic assets not related to monetary policy.

As at 30 June 2024, financial assets stood at EUR 24,283.3m, of which euro-denominated assets amounted to EUR 21,483.4m (88.5%), while assets in US dollars and other currencies amounted to EUR 2,799.9m (11.5%).

**Figure 3.1 Monthly changes in CNB financial assets**

end of period

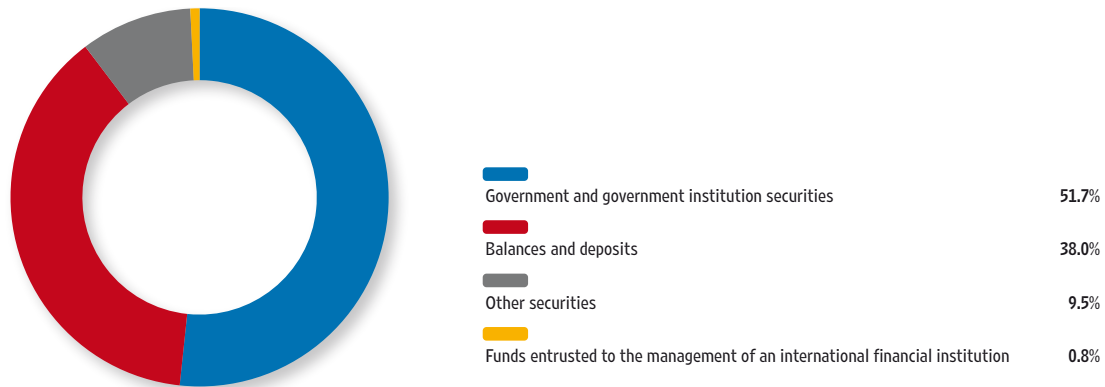


SOURCE: CNB.

In the first half of 2024, financial assets increased by EUR 392.6m or 1.6%, mostly due to generated earnings. Management of financial assets took place amid highly volatile conditions in the financial markets, and investment decisions were taken with the aim of increasing yields over the medium term, taking into account the Eurosystem's overall financial asset management framework, where some rules, obligations and guidelines impact the possibility and profitability of each investment.

Securities of governments and government institutions accounted for the largest share in the structure of financial assets investment at the end of the first half of 2024, followed by investments in deposits and funds in the account and other securities (of international financial institutions, development banks of German federal states and covered bonds). A portion of financial assets invested in ESG<sup>4</sup> investment stood at 6.8% at the end of June 2024, unchanged from the end of 2023.

<sup>4</sup> Environment, social, governance. ESG investment refers to green, social and sustainable bonds.

**Figure 3.2 Structure of financial assets investment as at 30 June 2024**

SOURCE: CNB.

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

At the end of the first half of 2024, approximately 68% of financial assets were invested in instruments within the two highest credit rating categories, funds in the account and BIS instruments.

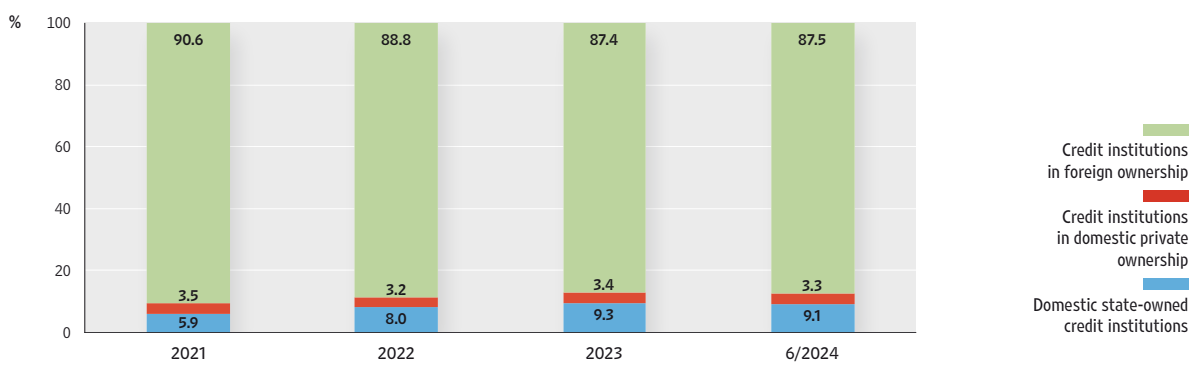
Total earnings from the management of financial assets amounted to EUR 332m in the first half of 2024. The annual rate of return on the entire euro portfolio of financial assets was 2.59%, while the annual rate of return on the US dollar portfolio totalled 4.43% in the first half of 2024.

## 4 Business operations of credit institutions

The structure of the banking system in the Republic of Croatia was stable in the first half of 2024. The number of credit institutions remained the same from the end of 2023 – 19 banks and one housing savings bank. In addition, there was one branch of an EU credit institution, while more than 250 institutions from the EU and the EEA enjoyed the benefits provided by the application of the single passport, notifying the CNB of their intentions regarding the direct provision of mutually recognised services.<sup>5</sup>

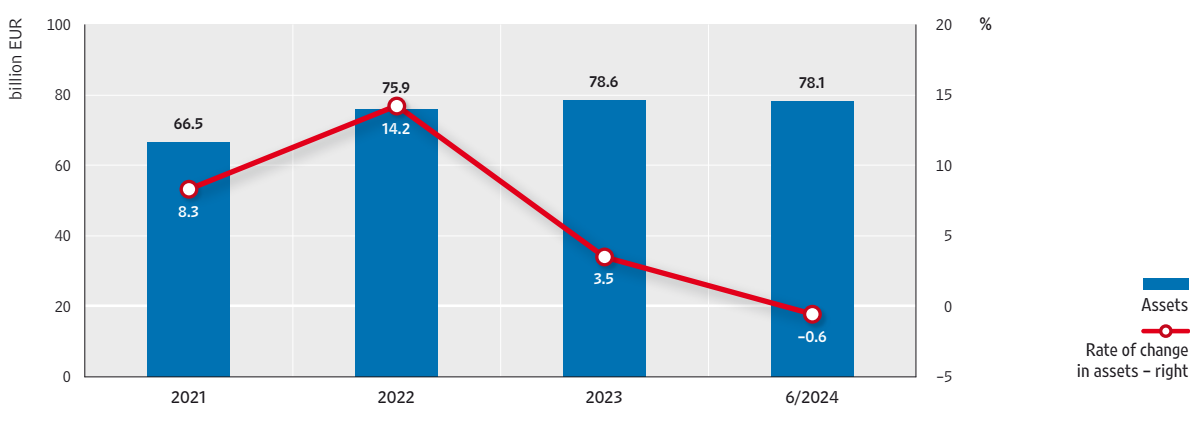
The number of credit institutions in the majority ownership of foreign shareholders stayed at 11, while their assets accounted for 87.5% of total assets of the banking system. Most credit institutions in majority foreign ownership are owned by shareholders from the European Union.

Figure 4.1 Ownership structure of credit institutions and shares in total assets of credit institutions



SOURCE: CNB.

Figure 4.2 Assets of credit institutions



SOURCE: CNB.

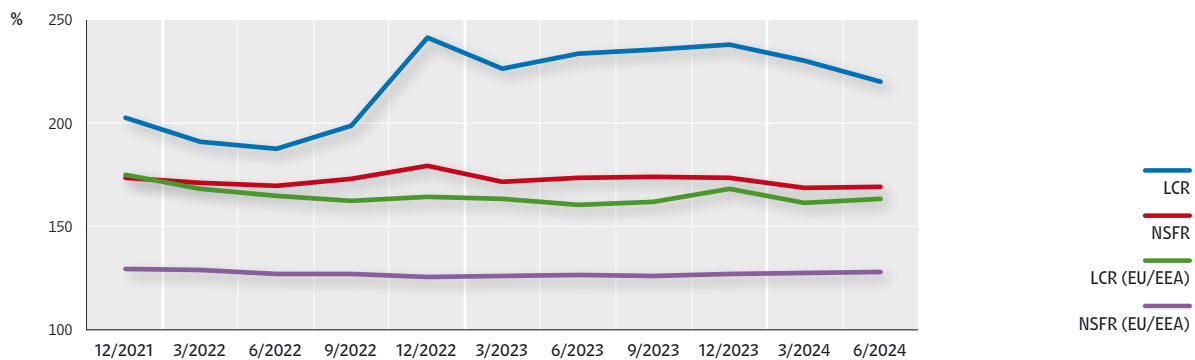
The assets of credit institutions, which decreased by EUR 0.4bn (0.6%) in the first half of 2024, amounted to EUR 78.1bn. The slight decrease in assets was mostly due to dividend payments and a decline in received deposits. However, the fall in assets would have been greater if the bulk of

<sup>5</sup> Updated information on credit institutions operating in the territory of the Republic of Croatia may be found [here](#).

these effects had not been offset by other sources, mostly the profit generated in the current year and new issues of securities of credit institutions. Received deposits dropped by EUR 0.7bn (1%) as their balance in current accounts decreased steadily, partly as a result of the purchase of government securities. By contrast, deposits with agreed maturities continued to grow, with one of the factors behind this trend being the growth of interest rates on these deposits. These changes were also reflected in the further mild maturity transformation of deposits, with the share of deposits with agreed maturities rising to one third of total deposits.

Credit institutions were able to intensify their lending activity thanks to asset restructuring, primarily by decreasing their overnight deposits with the CNB. Overnight deposits were reduced by EUR 4.6bn from the end of 2023. However, these deposits still play a major role in the business operations of credit institutions, as indicated by their large share in total assets (16%). To meet their short-term liabilities, credit institutions continued to have available highly liquid asset amounts that were more than two times larger than the prescribed minimum of 100%. The average value of the liquidity coverage ratio (LCR) stood at 220.2%, with all credit institutions meeting the prescribed minimum liquidity requirements. Long-term liquidity and the requirements for stable funding sources continued to be supported by available sources of finance, predominantly household deposits. The value of the net stable funding ratio (NSFR) stood at 169.2%, also much above the prescribed minimum of 100%.

**Figure 4.3 Liquidity indicators of credit institutions**



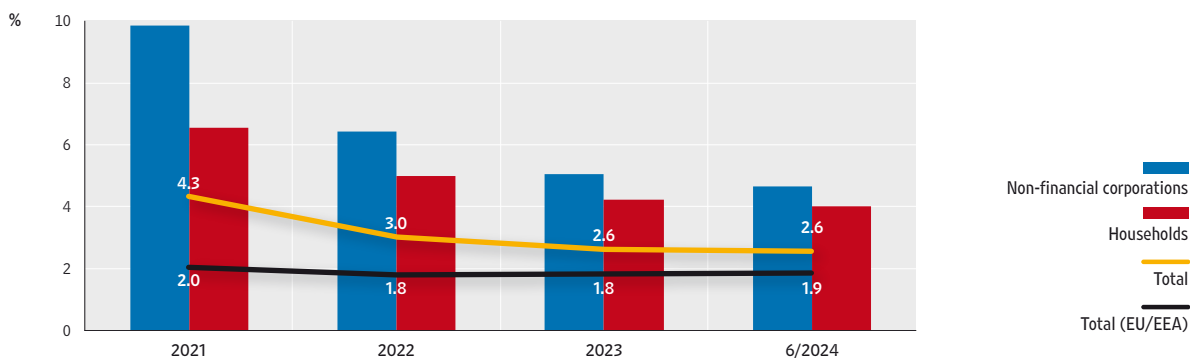
Notes: The liquidity coverage ratio (LCR) is the ratio of the liquidity buffer (liquid assets) to net liquidity outflow (difference between outflow and inflow). As of 2018, LCR must be at least 100%. The net stable funding ratio (NSFR) is an indicator of net stable sources of financing.  
SOURCES: CNB AND EBA.

Loans and advances (net) rose by EUR 4.6bn (10%). The bulk of this increase was channelled to the financial sector in the form of reverse repo loans and deposits made. Household loans also continued to grow (by EUR 1.3bn or 6%), with general-purpose cash loans again rising most prominently (by EUR 0.7bn or 9%), while housing loans grew more moderately (by EUR 0.5bn or 4%). Loans to most activities in the non-financial corporations sector also grew (by EUR 0.6bn or 4%).

As a result of the described changes in cash and lending activity, overall credit exposure grew only marginally (0.1%). Against this backdrop, notwithstanding their continued decline (2%), the

share of non-performing loans (NPLs) in total loans held steady at the previous year's level (2.6%). The quality of loans in the banking system of Croatia remained below the EU average (1.9%),<sup>6</sup> with some credit institutions still facing high NPL ratios.

**Figure 4.4 Share of non-performing loans in total credit institution loans**

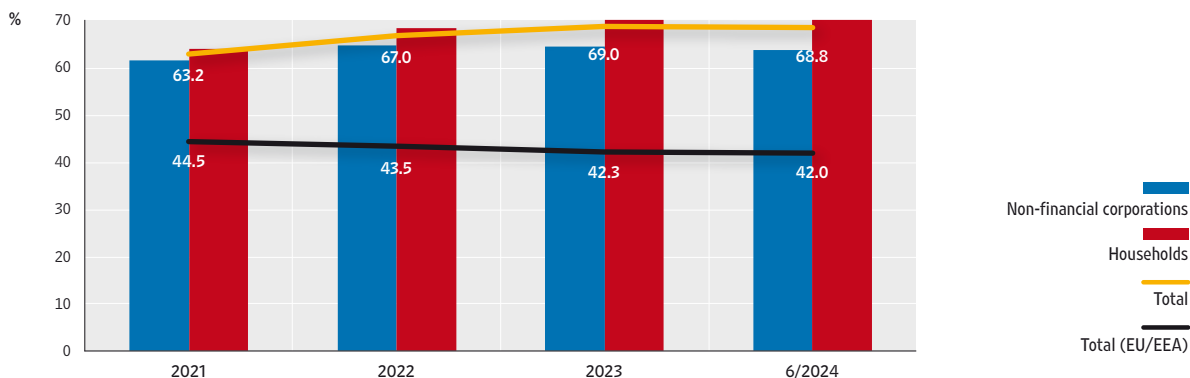


SOURCES: CNB AND EBA.

The quality of total loans continued to improve, primarily due to repayments and reclassifications to performing status, while the sale of NPLs played a negligible role. The overall change was mostly due to a fall in the amount of NPLs in the portfolio of loans to non-financial corporations. The share of NPLs in that sector dropped from 5.1% to 4.7%. The share of NPLs in the household sector fell from 4.2% to 4.0%, due entirely to new credit activity. Specifically, the amount of NPLs in this sector increased slightly after three previous years, mostly due to the increased risk associated with general-purpose cash loans. Household loans are the largest source of total NPLs in the banking system, accounting for 56%.

The coverage of NPLs by impairment is very high (68.8%) and much above the average NPL coverage within the EU banking system (42.0%).

**Figure 4.5 Coverage of non-performing loans by impairment**



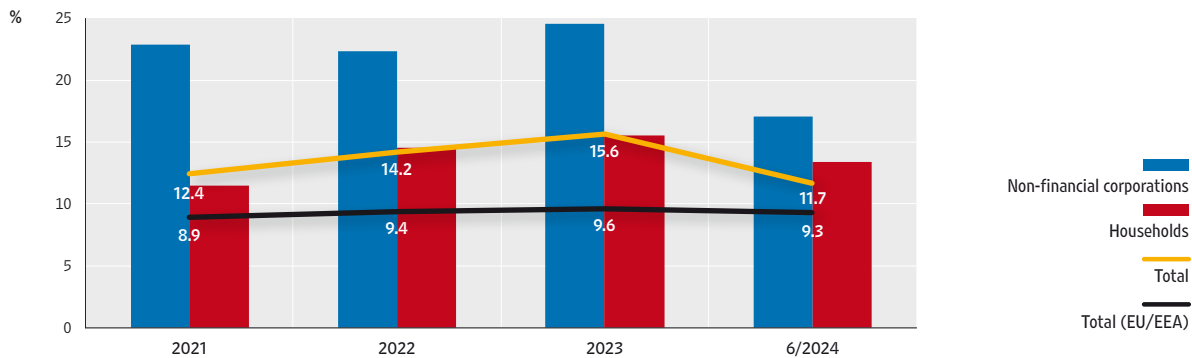
SOURCES: CNB AND EBA.

<sup>6</sup> Data on the values of key performance indicators of the EU banking system may be found [here](#).



The level of credit risk associated with performing loans is still higher than in the pre-pandemic period and the beginning of geopolitical tensions. However, the improved quality of this part of the portfolio can be seen in the decrease in the share of loans in value impairment stage 2, from 15.6% to 11.7% of total loans.<sup>7</sup>

**Figure 4.6 Share of loans in value impairment stage 2 in total credit institution loans**



Note: Stage 2 implies a significant increase in credit risk, but the loan is not yet in default.  
SOURCES: CNB AND EBA.

In the first half of 2024, credit institutions operated at a profit that totalled EUR 0.8bn. This profit was 15% larger than in the same period last year, mostly due to the growth in interest income. As a result, the last year's record values of profitability indicators were exceeded – return on assets (ROA) increased to 2.1% and return on equity (ROE) rose to 18.2%.

All sectors saw an increase in interest income (EUR 364m or 30%). However, in contrast to the dominance of the financial sector in the previous year, non-financial sectors made a somewhat bigger contribution to growth in the observed half of the year. The largest contribution came from the rise in interest income from non-financial corporations (36%), owing to the continuation of lending activity accompanied by an increase in interest rates. The same factors led to an increase in interest income from households (13%), while the rise in income from the general government sector (37%) was mainly associated with investment in government securities. The CNB continues to be a very important source of interest income, with this type of income rising by 44%, almost entirely based on overnight deposits.<sup>8</sup> Higher interest income also arose from operations with other credit institutions (41%), mainly based on liquidity- and interest-rate risk management instruments. These developments were ultimately reflected in the structure of total interest income by sectors, where the share of all sectors except households continued to grow.

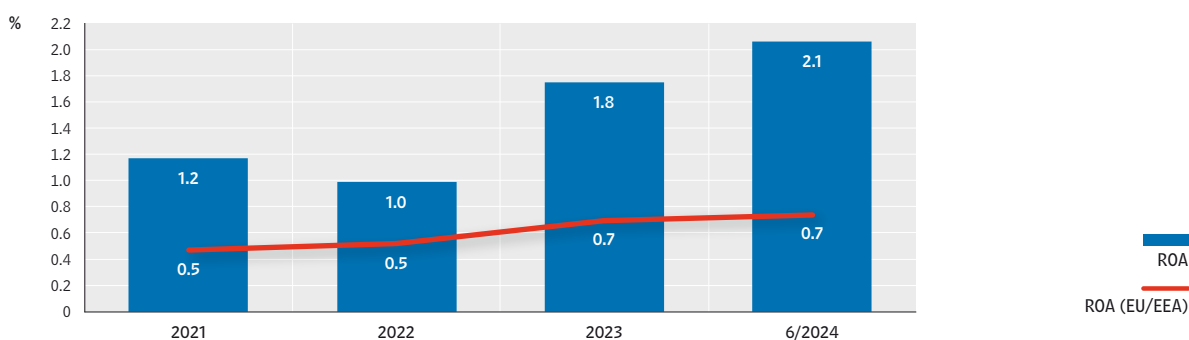
<sup>7</sup> Each instrument that is subject to the calculation of expected credit loss, which includes all debt instruments measured at amortised cost and at fair value through other comprehensive income, is classified in one of the three stages of value impairment. An instrument is classified in stage 2 if there is a significant increase in credit risk (although it is still not in default), where the expected loss is calculated for the entire lifetime of the instrument.

<sup>8</sup> Overnight deposit is a category of standing facility offered within the scope of the Eurosystem's monetary policy operations, access to it being enabled by the CNB in line with the objectives and the general stance of the ECB's monetary policy. Overnight deposit is subject to a previously set interest rate regularly determined by the Governing Council of the ECB. The interest rate applicable at the end of the first half of 2024 was 3.75% (source: ECB).

Interest expenses grew more than double (EUR 211m or 103%), with around two thirds of the increase equally accounted for by non-financial corporations and households. This is the expected consequence of an increase in the volume of these sectors' deposits with agreed maturities and an increase in the corresponding interest rates.<sup>9</sup> Nevertheless, as the increase in the level of interest expenses was smaller than the increase in interest income, the level of net interest margin rose and reached 3.0%.

The increase in interest income is almost the only source of growth in total net operating income (13%). Compared with this, the increase in general operating expenses was low (6%), and cost efficiency improved in such circumstances. The cost-to-income ratio (CIR) of credit institutions was 39.5%.

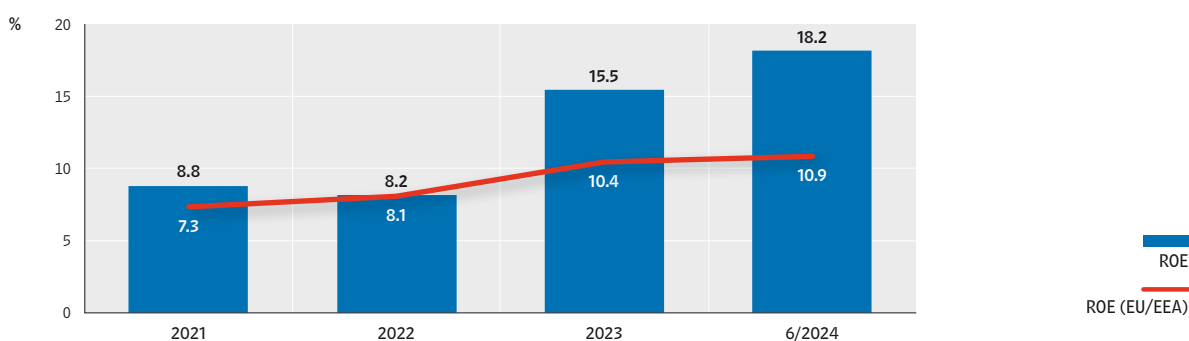
**Figure 4.7 Return on assets (ROA) of credit institutions**



Note: Return on assets (ROA) is the ratio of profit or loss for the current year to the average assets of credit institutions, calculated as the arithmetic mean of the balance in assets at the end of the reporting period and the balance in assets at the end of the previous year.

SOURCES: CNB AND EBA.

**Figure 4.8 Return on equity (ROE) of credit institutions**



Note: Return on equity (ROE) is the ratio of profit or loss for the current year to the average equity of credit institutions, calculated as the arithmetic mean of the balance in equity at the end of the reporting period and the balance in equity at the end of the previous year.

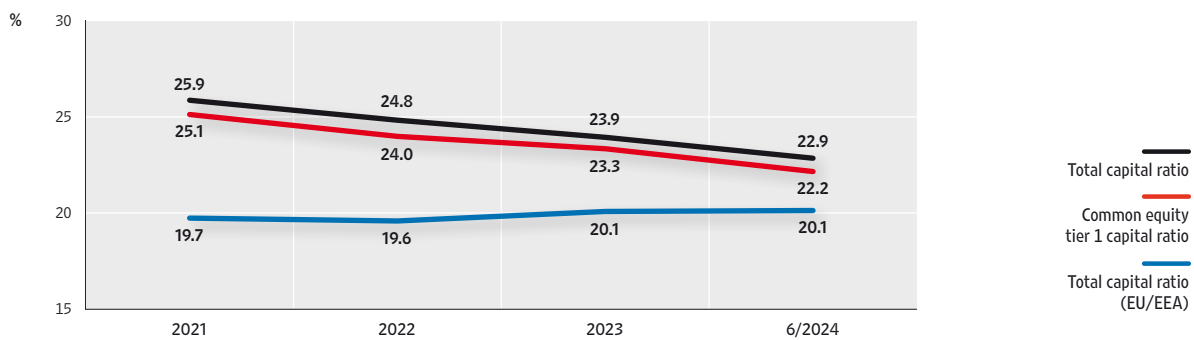
SOURCES: CNB AND EBA.

The values of key indicators of banking system capitalisation had decreased marginally by the end of the first half of 2024, but remained high. The total capital ratio dropped from 23.9% at the end of 2023 to 22.9% at the end of the first half of 2024, notwithstanding a mild

<sup>9</sup> Data on the level of interest rates may be found [here](#).

increase in own funds (1%). The increase in own funds occurred in the part of tier 2 capital, whereas tier 1 capital virtually held steady. This means that the reduction in the capital ratio is attributable to an increase in total risk exposure (5.0%), predominantly the credit risk associated with the described lending activity. Despite this and the mentioned decrease in cash, the structure of credit risk exposure (measured by the standardised approach) continues to be dominated by items that are assigned a risk weight of 0%, accounting for almost half of the exposures measured by this approach. As exposure to other risks did not change much, credit risk continued to predominate in the structure of total risk exposure, with a 90% share.

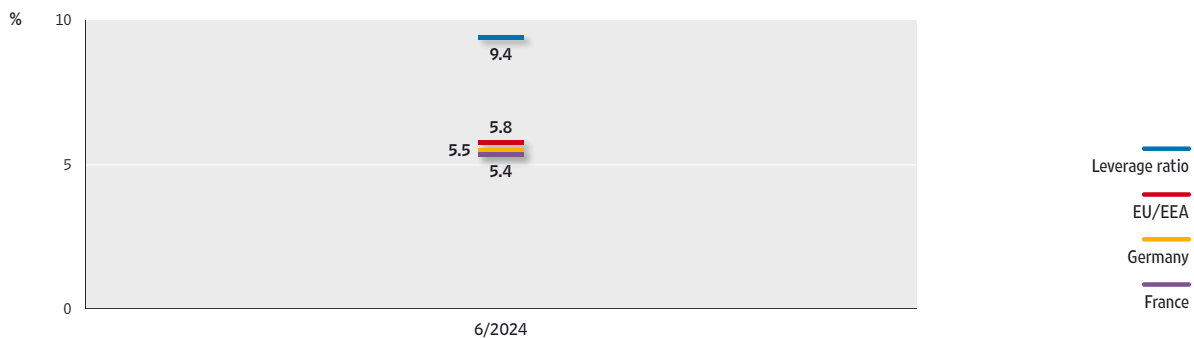
**Figure 4.9 Key indicators of credit institution capitalisation**



Notes: The common equity tier 1 capital ratio is the ratio of common equity tier 1 capital to total risk exposure and it must be at least 4.5% at all times. The total capital ratio is the ratio of own funds to total risk exposure and it must be at least 8% at all times.  
 SOURCES: CNB AND EBA.

All credit institutions reported a total capital ratio above the prescribed minimum of 8%, while ten of them, accounting for almost 80% of the total system assets, boasted a total capital ratio of above 20%. Despite a significant decrease in the past three years, the average total capital ratio in the Croatian banking system is still above the EU average (20.1%). The high level of capitalisation of the Croatian banking system, sufficient to cover unexpected losses, is also reflected in the leverage ratio. This ratio stood at 9.4% at the end of the first half of 2024, which is much above the EU average and more than three times above the regulatory minimum (3%).

**Figure 4.10 Leverage ratio of credit institutions**



Note: The leverage ratio is the ratio of tier 1 capital to the total exposure measure.  
 SOURCES: CNB AND EBA.

## Abbreviations and symbols

### ABBREVIATIONS

ANFA	Agreement on Net Financial Assets
APP	asset purchase programme
BLS	Bank lending survey
bn	billion
CBRD	Croatian Bank for Reconstruction and Development
CBS	Central Bureau of Statistics
CEE	countries of Central and Eastern Europe (Czech Republic, Hungary, Poland and Romania)
CES	Croatian Employment Service
CHF	Swiss franc
CHIF	Croatian Health Insurance Fund
CIR	cost-to-income ratio
CPI	consumer price index
CPII	Croatian Pension Insurance Institute
CNB	Croatian National Bank
DFR	deposit facility rate
EBA	European Banking Authority
ECB	European Central Bank
EEA	European Economic Area
EER	effective exchange rate
EONIA	euro overnight index average
ESG	environment, social, governance
ESM	European Stability Mechanism
EU	European Union
EUR	euro
EURIBOR	euro interbank offered rate
€STR	euro short-term rate
Fed	Federal Reserve System
FRFA	fixed rate full allotment
GDP	gross domestic product
GVA	gross value added
HANFA	Croatian Financial Services Supervisory Agency
HICP	harmonised index of consumer prices
JPY	Japanese yen
LCR	liquidity coverage ratio
m	million
MLF	marginal lending facility
MRO	main refinancing operations
NCA	National Classification of Activities
NPL	non-performing loans

<b>NRR</b>	national reference rate
<b>NSFR</b>	net stable funding ratio
<b>OG</b>	Official Gazette
<b>OMT</b>	outright monetary transactions
<b>PEPP</b>	pandemic emergency purchase programme
<b>RC</b>	Republic of Croatia
<b>ROA</b>	return on assets
<b>ROE</b>	return on equity
<b>Q</b>	quarter
<b>SDR</b>	special drawing rights
<b>SITC</b>	Standard International Trade Classification
<b>TLTRO</b>	targeted longer-term refinancing operations
<b>TPI</b>	transmission protection instrument
<b>US</b>	United States
<b>USD</b>	US dollar

## **SYMBOLS**

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

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