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REPUBLIC OF CROATIA

Selected Issues

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Approved by the European Department

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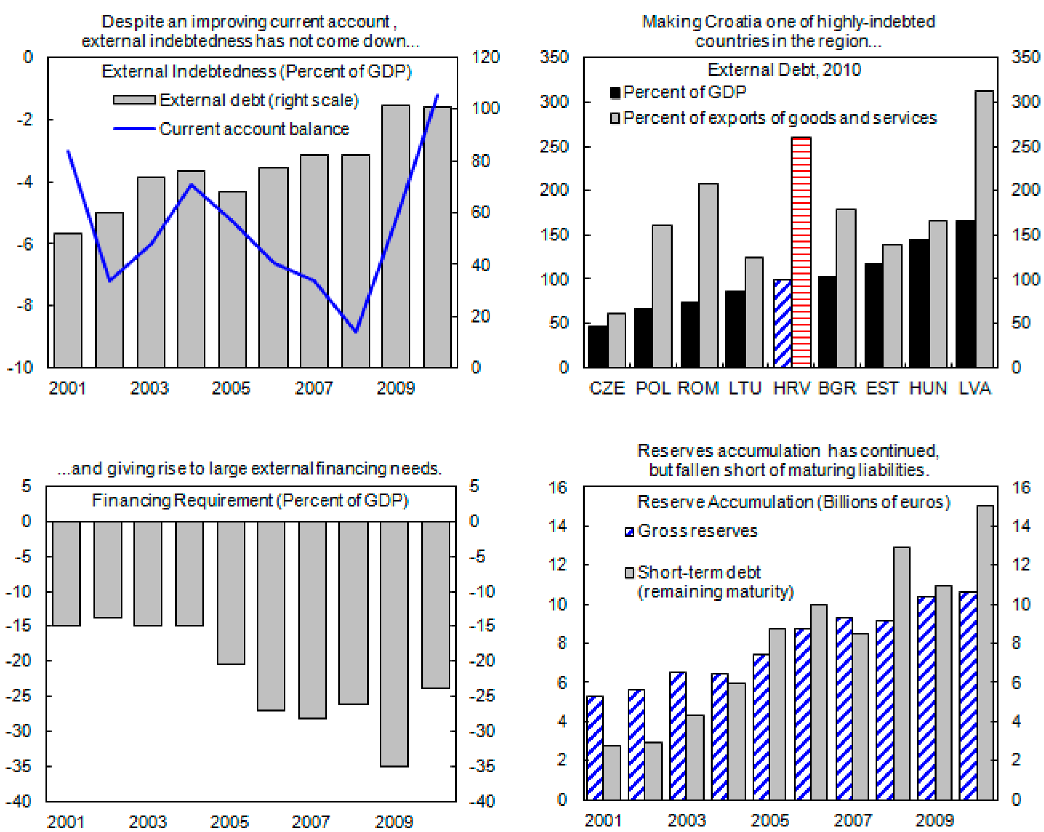
AN ASSESSMENT OF BALANCE SHEET RISKS IN CROATIA[1]

With large external and foreign currency indebtedness and limited reserves, Croatia's economy is highly vulnerable to macroeconomic and financial shocks. While most of these vulnerabilities were built up during the pre-crisis boom years, the crisis has further worsened the situation, exposing Croatian economy's weak fundamentals and a lack of policy space. A sustained recovery hinges on improving competitiveness, maintaining market confidence, and reducing vulnerabilities, which would require a multi-faceted macroeconomic and structural policy response.

I. BACKGROUND

External Debt, Financing Needs and Reserves



Sources: Croatian National Bank; IMF, *World Economic Outlook*; and IMF staff estimates and calculations.

1. **Croatia's economy is highly vulnerable**. External debt reached 100 percent of GDP in 2010. In addition to posing risks, such high indebtedness also acts as a drag on growth. Empirical research shows that over one half of defaults on external debt in emerging market countries since 1970 occurred at levels of debt 60 percent of GDP or less. Debt stock above

[1] Prepared by Jesmin Rahman.

this level also slows down a country's growth performance markedly (Reinhart and Rogoff, 2010). Against these benchmarks, Croatia's external indebtedness stands far beyond what is prudent for an emerging market country. High indebtedness has also kept Croatia's debt service payments and external financing requirements large (particularly in light of low export base), exposing Croatia to adverse developments in the international capital market. Similarly, high and rising public debt poses medium-term sustainability concerns.[2] At the same time, the level of foreign exchange reserves, has fallen behind rising short-term liabilities. These vulnerabilities, which emanate from a high external debt stock, large financing needs and limited reserves, are further accentuated by a highly-euroized domestic financial sector.

Table 1. Croatia: International Investment Position, 2001–10

(Percent of GDP)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Foreign assets	49	45	48	47	45	47	50	48	54	51
Of which:										
Currency and deposits	22	14	17	17	12	12	14	14	13	12
Reserve assets	21	20	22	20	21	22	22	20	23	23
Foreign liabilities	66	71	84	95	101	124	143	123	138	142
Of which:										
Foreign direct investment in Croatia	17	21	23	28	34	53	71	49	55	56
Public and private sector bond issuance	17	15	16	16	14	11	10	9	11	13
Loans	27	26	35	37	41	44	47	52	56	57
General government	5	6	6	7	7	7	6	3	3	4
Banks	7	7	11	13	14	14	10	10	10	9
Other sectors	14	14	16	18	20	24	31	39	42	43
Net international investment position	-17	-26	-36	-48	-56	-77	-93	-75	-84	-91
Memorandum item										
Corporate and banking sector's debt liabilities	*26*	*30*	*39*	*45*	*38*	*42*	*45*	*53*	*56*	*57*

Sources: Croatian National Bank; and IMF staff calculations.

2. **Much of these vulnerabilities were built up during the pre-crisis years of 2002-07 when Croatia experienced a credit boom largely funded by external capital inflows.** Croatia's net International Investment Position (IIP) deteriorated sharply during this period reaching -93 percent of GDP at end-2007 (Table 1). This massive deterioration was caused by a more-than-doubling of gross external liabilities relative to GDP, as gross foreign assets slightly improved. While foreign direct investment (FDI) was a major contributor, about a quarter of FDI inflows were in the form of borrowing from mother companies making debt the largest element in Croatia's external liabilities.[3] Since 2007, increased cross-border

[2] Under staff's baseline scenario, public debt is expected to rise above 50 percent of GDP (above 70 percent, including guarantees) in the medium-term and, even with successful implementation of the recently-adopted Fiscal Responsibility Law, would remain close to 50 percent (above 65 percent, including guarantees). Empirical analyses show that once the stock of public debt exceeds 50 percent of GDP in an emerging market country, ensuring debt sustainability via policy action (such as reduction in the primary deficit) becomes weak (IMF, 2003). More recent empirical analysis shows an even lower safe threshold for public debt for emerging market economies (Baldacci and others, 2011).

[3] In addition, only a quarter of the FDI has flown into the tradable sector. Financial sector, which has received the largest share, accounts for close to 40 percent of the overall stock.

borrowing by corporates has magnified the external debt further. At end-2010, Croatian economy's large negative net external financial balance is mostly due to its corporate sector (Table 2).

Table 2. Croatia: Sectoral Net Financial Positions 2000–10

(Percent of GDP)

	2000	2005	2009	2010
All domestic sectors				
Net external position 1/	-22	-39	-54	-57
Central Bank				
Net external financial position	18	24	23	24
Net foreign currency position	14	18	21	21
Net short-term foreign currency position	14	18	21	22
General Government				
Net external financial position	-26	-22	-11	-13
Net foreign currency position	-24	-26	-19	-21
Net short-term foreign currency position	0	0	0	1
Private financial sector				
Net external financial position	1	-14	-9	-11
Net foreign currency position	4	11	20	22
Net short-term foreign currency position	-2	-12	-15	-17
Private non-financial sector				
Net external financial position	-15	-27	-56	-56
Net foreign currency position	-11	-31	-62	-62
Net short-term foreign currency position	19	18	18	18

1/ External liabilities do not include equity capital and reinvested earnings.
Source: For 2000 and 2005, SM/07/39, and for 2009 and 2010, Tables 3 and 4.

3. **Using the Balance Sheet Approach (BSA), this paper analyzes Croatia's overall and sectoral vulnerabilities.**[4] We look at the disaggregated balance sheet data from the central bank, public sector, and financial and non-financial private sectors for 2009 and 2010 (Tables 3 and 4). Financial assets and liabilities are disaggregated into domestic and foreign currencies, and into short and long-term maturities. The following analysis fleshes out the key vulnerabilities in each of these four main sectors. The discussion also offers some policy recommendations.

II. The Public Sector[5]

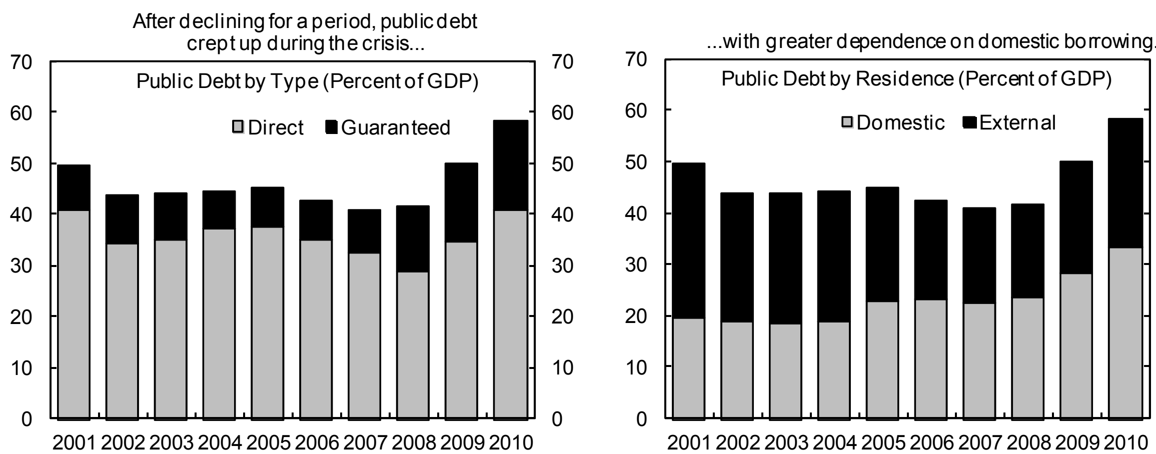
4. **Public sector debt, including debt guaranteed by the government, after declining by 10 percentage points of GDP during 2002-07, rose to 58 percent at end-2010**. Most of the debt consolidation during 2002-07 was due to lower borrowing needs of the central government, as pro-cyclical revenues from domestic demand boom helped keep the headline

[4] The balance sheet analysis in this paper builds on the work presented in Hilaire and Ilyina, 2007.

[5] Public sector includes the central government, extra-budgetary units, and the local and regional self-government units.

deficits low. The guaranteed part of the debt stock also declined as a share of GDP during this period, despite increased borrowing by the state-owned development bank HBOR, as other agencies scaled down their borrowing. Since the onset of the financial crisis, the sharp drop in revenues ratcheted up public sector's borrowing needs despite efforts to curb expenditure, exposing the vulnerabilities inherent in a pro-cyclical fiscal policy stance and lack of comprehensive expenditure reforms.

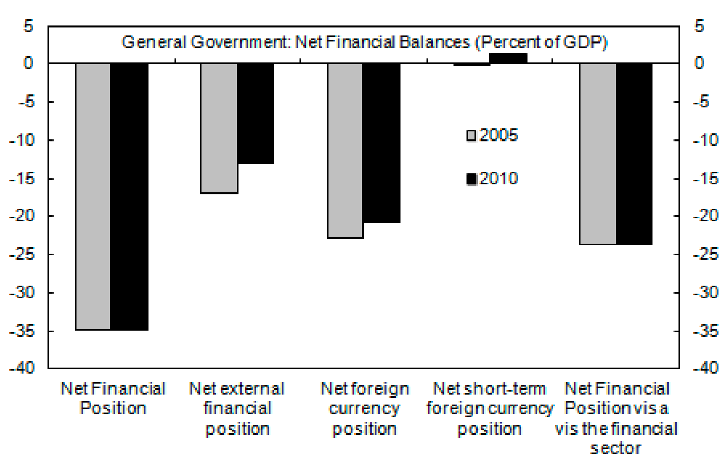
Public Debt, 2001-10



Sources: Croatian authorities; and IMF staff estimates.

5. **The composition of public debt has evolved over time with a greater dependence on domestic and fixed-rate borrowing, which has reduced risks of sudden outflow and interest rate increases.** The government's debt management strategy has favored domestic over external financing, and fixed-rate bonds over variable-rate syndicated loans. As a result, the share of external debt in total public debt declined from 63 to 43 percent between end-2001 and end-2010, and the share of fixed-rate bonds in total has increased to 80 percent. Consequently, public debt is now somewhat less vulnerable to sudden capital outflows and interest rate changes than a decade ago.

6. **However, increased dependence on domestic finance has kept some other risks elevated.** Reliance on the domestic market for financing has increased the share of short-term debt from 7 percent at end-2001 to 17 percent at end-2010. Roll-over risks are somewhat muted at this time given that all short-term debt is held domestically. Greater dependence on the domestic market



Sources: Croatian authorities; and IMF staff estimates.

has however failed to substantially reduce currency risks as close to 60 percent of domestic public debt is denominated in or linked to foreign currency (mostly in euros). [6] Public sector's net foreign currency indebtedness is larger than its net external indebtedness, and at 19 percent of GDP, it is sizable and makes public sector's balance sheet vulnerable to exchange rate pressures. Public sector's substantive and increasing net negative exposures to the domestic banking sector also raises potential crowding out concerns. The share of credit to the government, at 20 percent of total banks' outstanding credit, is non-negligible and warrants monitoring, particularly if fiscal deficits are increasingly financed through the domestic banking sector.

7. **A rising guaranteed debt stock creates another source of vulnerability.** About 60 percent of the guaranteed debt is owed to external creditors, mostly by the state-owned development bank HBOR. As experience from the recent restructuring of the shipyards shows, there is a risk that some of the guarantees may become actual liabilities due to privatization or financial difficulties in enterprises receiving these guarantees. Given that Croatia's public debt management strategy does not cover guarantees and aims to stabilize only the direct debt, there is currently no mechanism to prevent a continued rise in the guaranteed stock, which are mostly in foreign currency, and associated vulnerabilities.

8. **Going forward, an expenditure-based fiscal consolidation and a sound debt management strategy remain crucial to reducing vulnerabilities in the public sector.** The recently-adopted Fiscal Responsibility Law (FRL), which intends to reduce expenditure by one percent of GDP annually until a primary balance is reached, is a move in the right direction. However, to ensure debt sustainability, fiscal consolidation should aim to achieve a cyclically-adjusted balanced budget in the medium term. The authorities' current debt management strategy, which aims to reduce the share of external and flexible rate debt, remains appropriate but should be strengthened to take account of the guaranteed debt. In addition, policies to increase domestic currency finance of public debt would be important to reduce exchange rate related risks.[7]

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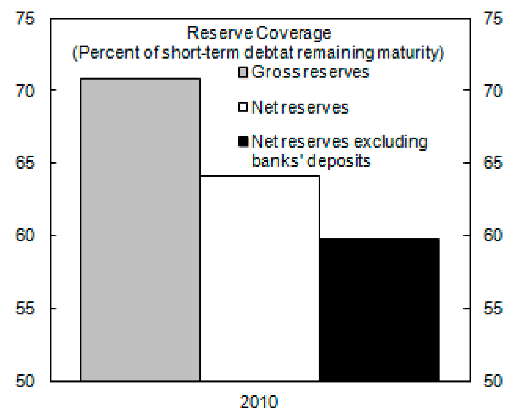
[6] There are currently four outstanding domestic currency bonds with maturities between 7-10 years representing 40 percent of total domestic medium- and long-term debt.

[7] Experience in Latin American countries, that have successfully increased the share of domestic currency component of public debt, shows that replacing foreign-currency denominated and linked public bonds with inflation indexed bonds helped establish credibility in the interim for an eventual move to domestic currency financing of public sector.

III. The Central Bank

9. **Reserves accumulation continued during the crisis, but has not kept pace with maturing liabilities.** Facilitated by public sector borrowing and tourism receipts, accumulation of foreign exchange reserves continued during the financial crisis despite prudential easing to release a portion of banks' foreign exchange reserves built up during the boom years. While reserve coverage with respect to imports and broad money remains adequate, the coverage of short-term liabilities, which carry a greater weight for economies with an open capital account like Croatia, is relatively limited. As of end-2010, gross and net reserves cover less than 75 and 65 percent of short-term liabilities (at remaining maturity), respectively. Also, a portion (6 percent) of the foreign exchange reserves correspond to commercial banks' deposits at the CNB, which may not be fully available for use as buffers at all times. If we exclude these deposits from the net international reserves, the coverage of short-term debt (at remaining maturity) further reduces to below 60 percent. On the other hand, lower reserves coverage is somewhat mitigated by the fact that half of all short-term maturing liabilities are due to FDI-related inter-company debt and banks' debt to parent institutions, which carry lower roll-over risks.[8]



Sources: Croatian National Bank; and IMF staff calculations.

10. **In light of the authorities' preference for a stable exchange rate policy, maintaining adequate level of reserves is critical to ensure financial stability and increase shock absorption capacity.**[9] This will need to depend on a combination of continued reserve accumulation, but more importantly on the reduction of stock vulnerabilities. Given that capital inflows are likely to settle at levels much lower than their pre-crisis levels, going forward reserve accumulation will have to depend more on exports proceeds than in the past. Achieving higher exports will require a sleuth of policy actions to enhance the performance of the tradable sector. A combination of structural reforms that

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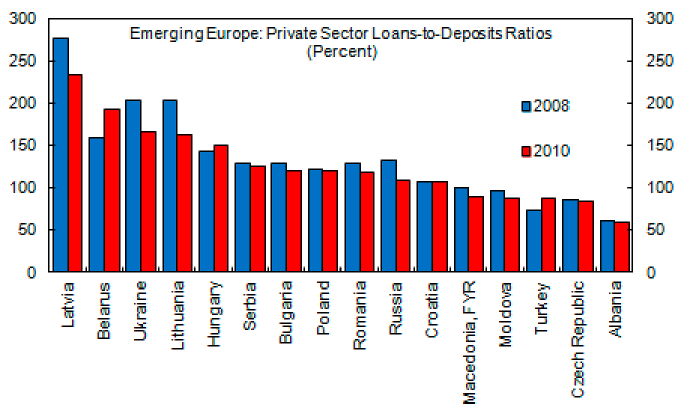
[8] Croatia's reserves also fall short of a composite metric consisting of a weighted sum of exports, broad money, short-term debt and medium- and long-term non-FDI liabilities. According to this metric, which captures all possible sources of foreign currency pressures, Croatia's reserves at end-2010 are about 20 percent below the recommended minimum. See IMF, 2011 for details on the rationale for and the construction of the reserve metric.

[9] Large balance sheet exposures to foreign currency risks reinforce authorities' preference for exchange rate stability. For example, 10 percent depreciation would increase net indebtedness of the public and non-financial private sector by 8 percent of GDP, with substantial negative impact on the banking sector both through rising non-performing loans (NPLs) and possible currency shifts or withdrawal of deposits.

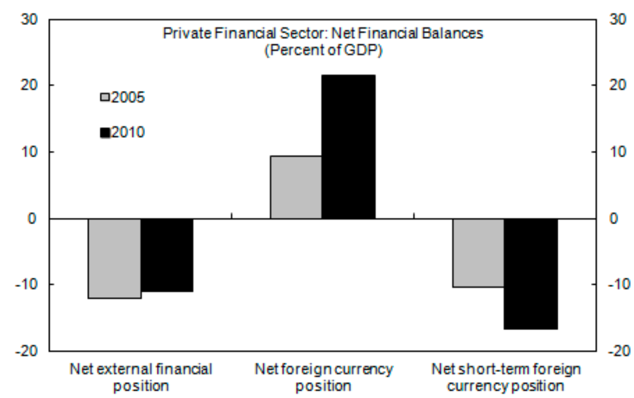
enhance the business environment and labor force participation, and a competitive wage policy is likely to bring more FDI into tradable sectors, lower Croatia's dependence on debt financing, and facilitate reserves accumulation through higher exports.

IV. The Financial Sector[10]

11. **Croatia's financial sector balance sheet is exposed to liquidity, contagion, and currency risks.** While the loan-to-deposit ratio at 107 percent is low relative to the region, liquidity risks arise from dependence on foreign banks for funding. As domestic lending exceeds domestic deposits, the gap is filled by banks' borrowing from abroad. The financial sector's net external debt stood at 10 percent of GDP at end-2010, mostly owed to foreign parent banks. Given that parent banks had kept their exposure throughout the crisis, the liquidity risks are somewhat mitigated. However, the level and degree of support from parent banks would depend on general market conditions and the health of parent banks themselves, exposing Croatia to contagion risks. Potential problems in a parent bank or a fundamental reassessment of Croatia's growth potential could translate into reduced support or higher financing costs. While the banking sector's net foreign currency position remains positive and has strengthened in recent years, net short-term foreign currency position, at -15 percent of GDP, exposes the sector to currency risks in the short run.

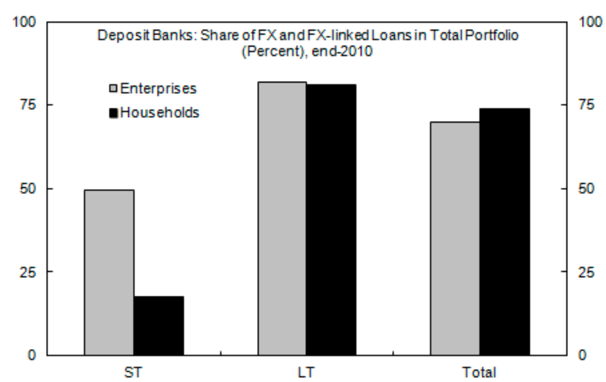


Source: IMF, *European Regional Economic Outlook*, May, 2011.
Note: Deposits data exclude nonresident deposits



Sources: Croatian authorities; and IMF staff estimates.

12. **The large degree of euroized lending to mostly un-hedged borrowers also exposes banks to risks of rising NPLs from depreciation.** The share of foreign-currency linked or denominated loans at close to 75 percent, for both corporates and households, is very high. Exchange rate related



Sources: Croatian authorities; and IMF staff estimates.

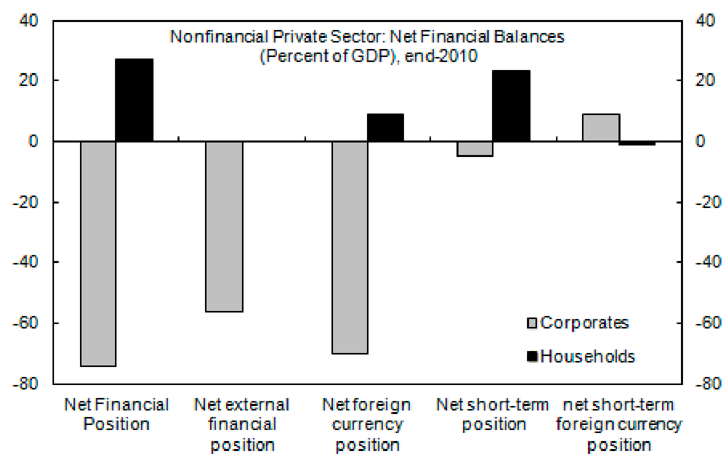
[10] Financial sector includes deposit banks and non-bank financial institutions.

shocks are relevant for both the corporate sector, where half of short-term loans are denominated in or linked to foreign currency, and households which rely on kuna income. Recent estimates by the CNB show that one percent depreciation in the exchange rate could result in a 7 percent increase in NPLs (CNB, 2010b). The banking sector's current level of capitalization and profitability however suggests that recapitalization needs from a moderate downward movement in the exchange rate would be manageable without the need to raise additional capital.

13. **CNB's pro-active prudential policies have contributed to the stability of the financial system.** The CNB adopted a number of measures during the boom years to reduce banks' borrowing abroad and build capital and liquidity buffers which were useful during the crisis.[11] In the current environment, the risks of a capital-inflow-driven credit boom remain low. Nevertheless, maintaining strong buffers in the financial system is important to counter risks from a high degree of euroization.

V. Non-Financial Private Sector

14. **Croatia's private corporate sector is highly leveraged.** Overall net indebtedness has continued to increase during the crisis and reached over 70 percent of GDP by end-2010. While roll-over pressures remain low given the mostly long-term nature of the debt, the high level of net foreign currency indebtedness exposes this sector to exchange rate risks. Corporate exposure to currency risk has grown in recent times as new currency-indexed loans have largely been granted to corporates in the non-tradable sector. Certain sectors (real estate and construction, transport, communication, hotel and restaurants), where the share of foreign currency denominated or linked debt is as high as 90 percent, currency risks are particularly high. In addition, around 95 percent of total lending to corporates carries an interest rate that is variable within a year posing risks from interest rate fluctuations.



Sources: Croatian authorities; and IMF staff estimates.

15. **While households on aggregate have a net positive financial position on account of large deposits, gross household indebtedness is one of the highest in the region**

[11] These measures included marginal reserve requirements, special reserve requirements, credit ceilings, and FX liquidity requirements. For an analysis of their usefulness during the crisis, see Galac (2010).

(CNB, 2010a). At 41 percent of GDP and 85 percent of disposable income, household gross indebtedness (mostly to domestic banks) is comparable to that of some core EU economies. Households spend nearly 7 percent of their disposable income on interest payments. High indebtedness and the ensuing deleveraging, together with the sluggish labor market conditions, poses a drag on consumption, and economic recovery. Large foreign-currency debt (about 70 percent of household debt) and variable interest rate structure of loans (96 percent of all household loans are issued with interest rate variable within a year) make households also vulnerable to exchange rate and interest rate risks.

VI. Conclusion

16. **Large balance sheet vulnerabilities across sectors compromise Croatia's ability to counter macroeconomic shocks, and have weighed down its growth prospects**. While Croatia has weathered the most recent crisis, thanks to the strong pre-crisis prudential policies and parent banks' willingness to keep or even increase exposures, the economy's capacity to tackle another major macroeconomic or financial shock is limited. Large balance sheet vulnerabilities constrain exchange rate policy options, and, together with pervasive structural rigidities and a lack of fiscal policy space, diminish the economy's ability to withstand shocks. While the worst of the recession is behind, resuming sustainable growth in the medium term remains a challenge. A small export sector is not providing the needed pull for growth. Households are still deleveraging and any downturn in investor sentiment could trigger corporate sector deleveraging, which would only prolong the recovery.

17. **Orderly unwinding of vulnerabilities and a reversal of Croatia's brittle fundamentals requires a multi-faceted policy response**. Given the stable exchange rate policy, a consistent set of structural, fiscal, monetary and prudential policies are needed for sustained growth and reduced vulnerabilities.

- Reducing external indebtedness of the economy requires policies that enhance competitiveness and growth potential, and lower reliance on debt-financed and domestic absorption-driven growth. This, in turn, requires corrective wage and structural policies that would increase tradable sector's contribution to growth, enhance economy-wide productivity, and allow financing of external current account deficits through higher non-debt creating flows (FDI).

- Reducing public sector indebtedness requires reduction of public expenditures to achieve a cyclically-adjusted balanced budget in the medium term. Care should be given to potential crowding out concerns and currency risks as authorities pursue greater reliance on domestic financing. Pursuit of policies to increase the share of domestic currency finance would be appropriate.

- Croatia should also continue to build up reserves to enhance its ability to absorb shocks. Large prudential foreign currency buffers should be maintained to safeguard the stability of the highly-euroized financial sector.

Table 3. Croatia: Net Intersectoral Asset and Liability Positions, December, 2009

(Millions of Croatian kuna)

Issuer of liability (debtor):	Public Sector											
Holder of liability (creditor):	Central Bank			Central Government			State and Local Government			Public Nonfinancial Corporations		
	Claims	Liabilities	Net position	Claims	Liabilities	Net position	Claims	Liabilities	Net position	Claims	Liabilities	Net position
Central bank				4,218	3	4,215	0	0	0	0	0	0
Domestic currency				1,885	3	1,883	0	0	0	0	0	0
Short-term				1,885	3	1,883	0	0	0	0	0	0
Long-term				0	0	0	0	0	0	0	0	0
Foreign currency				2,332	0	2,332	0	0	0	0	0	0
Short-term				2,332	0	2,332	0	0	0	0	0	0
Long-term				0	0	0	0	0	0	0	0	0
Central government	3	4,218	-4,215				...	...	...	...	...	...
Domestic currency	3	1,885	-1,883				...	...	...	...	...	...
Short-term	3	1,885	-1,883				...	...	...	...	...	...
Long-term	0	0	0				...	...	...	...	...	...
Foreign currency	0	2,332	-2,332				...	...	...	...	...	...
Short-term	0	2,332	-2,332				...	...	...	...	...	...
Long-term	0	0	0				...	...	...	...	...	...
State and local government	0	0	0	...	...	...				...	...	...
Domestic currency	0	0	0	...	...	...				...	...	...
Short-term	0	0	0	...	...	...				...	...	...
Long-term	0	0	0	...	...	...				...	...	...
Foreign currency	0	0	0	...	...	...				...	...	...
Short-term	0	0	0	...	...	...				...	...	...
Long-term	0	0	0	...	...	...				...	...	...
Public nonfinancial corporations	0	0	0	...	...	...	...	...	...			
Domestic currency	0	0	0	...	...	...	...	...	...			
Short-term	0	0	0	...	...	...	...	...	...			
Long-term	0	0	0	...	...	...	...	...	...			
Foreign currency	0	0	0	...	...	...	...	...	...			
Short-term	0	0	0	...	...	...	...	...	...			
Long-term	0	0	0	...	...	...	...	...	...			
Other depository corporations	14	42,261	-42,248	18,273	44,716	-26,444	1,917	2,101	-184	2,007	9,147	-7,141
Domestic currency	14	37,220	-37,206	15,173	19,192	-4,019	1,595	880	714	526	2,700	-2,174
Short-term	14	37,220	-37,206	4	19,100	-19,095	570	61	509	262	804	-542
Long-term	0	0	0	15,169	92	15,076	1,025	819	206	264	1,896	-1,631
Foreign currency	0	5,042	-5,042	3,100	25,524	-22,424	322	1,221	-898	1,481	6,448	-4,967
Short-term	0	5,042	-5,042	0	1,280	-1,280	628	282	346	1,322	1,841	-519
Long-term	0	0	0	3,100	24,244	-21,144	-306	939	-1,245	159	4,607	-4,448
Other financial corporations	1	0	1	0	29,656	-29,656	0	0	0	0	0	0
Domestic currency	1	0	1	0	5,931	-5,931	0	0	0	0	0	0
Short-term	1	0	1	...	5,931	-5,931	...	...	...	...	...	...
Long-term	0	0	0	...	0	0	...	...	...	...	...	...
Foreign currency	0	0	0	0	23,725	-23,725	0	0	0	0	0	0
Short-term	0	0	0	...	0	0	...	...	...	...	...	...
Long-term	0	0	0	...	23,725	-23,725	...	...	...	...	...	...
Nonfinancial corporations	18	0	18	...	...	...	...	...	...	...	...	...
Domestic currency	18	0	18	...	...	...	...	...	...	...	...	...
Short-term	0	0	0	...	...	...	...	...	...	...	...	...
Long-term	18	0	18	...	...	...	...	...	...	...	...	...
Foreign currency	0	0	0	...	...	...	...	...	...	...	...	...
Short-term	0	0	0	...	...	...	...	...	...	...	...	...
Long-term	0	0	0	...	...	...	...	...	...	...	...	...
Other resident sectors	10	0	10	...	...	...	...	...	...	...	...	...
Domestic currency	10	0	10	...	...	...	...	...	...	...	...	...
Short-term	0	0	0	...	...	...	...	...	...	...	...	...
Long-term	10	0	10	...	...	...	...	...	...	...	...	...
Foreign currency	0	0	0	...	...	...	...	...	...	...	...	...
Short-term	0	0	0	...	...	...	...	...	...	...	...	...
Long-term	0	0	0	...	...	...	...	...	...	...	...	...
Nonresidents	75,848	8	75,840	138	37,738	-37,600	...	...	...	...	...	...
Domestic currency	0	1	-1	...	...	...	...	...	...	...	...	...
Short-term	0	1	-1	...	...	...	...	...	...	...	...	...
Long-term	0	0	0	...	...	...	...	...	...	...	...	...
Foreign currency	75,848	8	75,841	138	37,738	-37,600	...	...	...	...	...	...
Short-term	73,389	8	73,381	138	0	138	...	...	...	...	...	...
Long-term	2,459	0	2,459	0	37,738	-37,738	...	...	...	...	...	...

Table 3. Croatia: Net Intersectoral Asset and Liability Positions, December, 2009 (continued)

(Millions of Croatian kuna)

	Financial Sector						Nonfinancial Private Sector						Rest of the World		
	Other Depository Corporations			Other Financial Corporations			Nonfinancial Corporations			Other Resident Sectors			Nonresidents		
	Claims	Liabilities	Net position	Claims	Liabilities	Net position	Claims	Liabilities	Net position	Claims	Liabilities	Net position	Claims	Liabilities	Net position
Central bank	42,261	14	42,248	0	1	-1	0	18	-18	0	10	-10	8	75,848	-75,840
Domestic currency	37,220	14	37,206	0	1	-1	0	18	-18	0	10	-10	1	0	1
Short-term	37,220	14	37,206	0	1	-1	0	18	-18	0	0	0	1	0	1
Long-term	0	0	0	0	0	0	0	0	0	0	10	-10	0	0	0
Foreign currency	5,042	0	5,042	0	0	0	0	0	0	0	0	0	8	75,848	-75,841
Short-term	5,042	0	5,042	0	0	0	0	0	0	0	0	0	8	75,848	-75,841
Long-term	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Central government	44,716	18,273	26,444	29,656	0	29,656	...	...	...	...	...	...	37,738	138	37,600
Domestic currency	19,192	15,173	4,019	5,931	0	5,931	...	...	...	...	...	...	...	...	...
Short-term	19,100	-18,818	37,917	5,931	...	5,931	...	...	...	...	...	...	...	...	...
Long-term	92	33,991	-33,898	0	...	0	...	...	...	...	...	...	...	...	...
Foreign currency	25,524	3,100	22,424	23,725	0	23,725	...	...	...	...	...	...	37,738	138	37,600
Short-term	1,280	0	1,280	0	...	0	...	...	...	...	...	...	0	138	-138
Long-term	24,244	3,100	21,144	23,725	...	23,725	...	...	...	...	...	...	37,738	0	37,738
State and local government	2,101	1,917	184	0	0	0	...	...	...	...	...	...	...	...	...
Domestic currency	880	1,595	-714	0	0	0	...	...	...	...	...	...	...	...	...
Short-term	61	570	-509	...	...	...	...	...	...	...	...	...	...	...	...
Long-term	819	1,025	-206	...	...	...	...	...	...	...	...	...	...	...	...
Foreign currency	1,221	322	898	0	0	0	...	...	...	...	...	...	...	...	...
Short-term	282	628	-346	...	...	...	...	...	...	...	...	...	...	...	...
Long-term	939	-306	1,245	...	...	...	...	...	...	...	...	...	...	...	...
Public nonfinancial corporations	9,147	2,007	7,141	0	0	0	...	...	...	...	...	...	...	...	...
Domestic currency	2,700	526	2,174	0	0	0	...	...	...	...	...	...	...	...	...
Short-term	804	262	542	...	...	...	...	...	...	...	...	...	...	...	...
Long-term	1,896	264	1,000	...	...	...	...	...	...	...	...	...	...	...	...
Foreign currency	6,448	1,481	4,967	0	0	0	...	...	...	...	...	...	...	...	...
Short-term	1,841	1,322	519	...	...	...	...	...	...	...	...	...	...	...	...
Long-term	4,607	159	4,448	...	...	...	...	...	...	...	...	...	...	...	...
Other depository corporations				16,803	1,818	14,985	45,860	96,978	-51,118	146,412	78,970	67,442	81,225	49,770	31,455
Domestic currency				9,916	1,220	8,696	26,407	31,726	-5,319	31,900	-7,506	39,406	19,228	17	19,211
Short-term				6,841	654	6,187	7,887	14,219	-6,332	11,809	11,154	655	3,400	195	3,205
Long-term				3,076	566	2,509	18,519	17,506	1,013	20,091	-18,660	38,751	15,828	-178	16,006
Foreign currency				6,887	598	6,289	19,453	65,252	-45,799	114,512	86,476	28,036	61,997	49,753	12,244
Short-term				6,488	598	5,890	11,240	18,545	-7,306	63,762	2,010	61,752	17,864	17,320	544
Long-term				399	0	399	8,214	46,707	-38,494	50,751	84,466	-33,716	44,133	32,433	11,700
Other financial corporations	1,818	16,803	-14,985				0	0	0	53,466	0	53,466	0	0	0
Domestic currency	1,220	9,916	-8,696				0	0	0	53,466	0	53,466	0	0	0
Short-term	654	6,841	-6,187				...	...	...	10,693	0	10,693	...	...	...
Long-term	566	3,076	-2,509				...	...	...	42,773	0	42,773	...	...	...
Foreign currency	598	6,887	-6,289				0	0	0	0	0	0	0	0	0
Short-term	598	6,488	-5,890				...	...	...	...	...	...	0	0	0
Long-term	0	399	-399				...	...	...	...	...	...	0	0	0
Nonfinancial corporations	96,978	45,860	51,118	0	0	0				...	...	...	208,704	20,657	188,047
Domestic currency	31,726	26,407	5,319	0	0	0				...	...	...	...	...	...
Short-term	14,219	7,887	6,332	...	...	...				...	...	...	...	...	...
Long-term	17,506	18,519	-1,013	...	...	...				...	...	...	...	...	...
Foreign currency	65,252	19,453	45,799	0	0	0				...	...	...	208,704	20,657	188,047
Short-term	18,545	11,240	7,306	...	...	...				...	...	...	5,545	9,432	-3,887
Long-term	46,707	8,214	38,494	...	...	...				...	...	...	203,159	11,225	191,934
Other resident sectors	78,970	146,412	-67,442	0	53,466	-53,466	...	...	...				...	...	...
Domestic currency	-7,506	31,900	-39,406	0	53,466	-53,466	...	...	...				...	...	...
Short-term	11,154	11,809	-655	0	10,693	-10,693	...	...	...				...	...	...
Long-term	-18,660	20,091	-38,751	0	42,773	-42,773	...	...	...				...	...	...
Foreign currency	86,476	114,512	-28,036	0	0	0	...	...	...				...	...	...
Short-term	2,010	63,762	-61,752	...	...	...	...	...	...				...	...	...
Long-term	84,466	50,751	33,716	...	...	...	...	...	...				...	...	...
Nonresidents	49,770	81,225	-31,455	0	0	0	20,657	208,704	-188,047	...	...	...			
Domestic currency	17	19,228	-19,211	0	0	0	...	...	...	...	...	...			
Short-term	195	3,400	-3,205	...	...	...	...	...	...	...	...	...			
Long-term	-178	15,828	-16,006	...	...	...	...	...	...	...	...	...			
Foreign currency	49,753	61,997	-12,244	0	0	0	20,657	208,704	-188,047	...	...	...			
Short-term	17,320	17,864	-544	...	...	...	9,432	5,545	3,887	...	...	...			
Long-term	32,433	44,133	-11,700	...	...	...	11,225	203,159	-191,934	...	...	...			

Sources: Croatian National Bank; Ministry of Finance; and IMF staff estimates.

1/ Includes trade credit/advances, settlement accounts, new equity of households in life insurance and pension funds (if applicable).

2/ Claims of ODCs do not include 2.2 billion kuna of currency holdings and 5.4 billion kuna of non-financial assets; Liabilities of ODCs do not include 23.8 billion kuna of equity contributions by owners and 8.8 billion kuna of loss provisions.

Table 4. Croatia: Net Intersectoral Asset and Liability Positions, December, 2010

(Millions of Croatian kuna)

Issuer of liability (debtor):	Public Sector											
Holder of liability (creditor):	Central Bank			Central Government			State and Local Government			Public Nonfinancial Corporations		
	Claims	Liabilities	Net position	Claims	Liabilities	Net position	Claims	Liabilities	Net position	Claims	Liabilities	Net position
Central bank				5,414	0	5,414	0	0	0	0	0	0
Domestic currency				2,687	0	2,687	0	0	0	0	0	0
Short-term				2,687	0	2,687	0	0	0	0	0	0
Long-term				0	0	0	0	0	0	0	0	0
Foreign currency				2,726	0	2,726	0	0	0	0	0	0
Short-term				2,726	0	2,726	0	0	0	0	0	0
Long-term				0	0	0	0	0	0	0	0	0
Central government	0	5,414	-5,414				...	...	...	...	...	...
Domestic currency	0	2,687	-2,687				...	...	...	...	...	...
Short-term	0	2,687	-2,687				...	...	...	...	...	...
Long-term	0	0	0				...	...	...	...	...	...
Foreign currency	0	2,726	-2,726				...	...	...	...	...	...
Short-term	0	2,726	-2,726				...	...	...	...	...	...
Long-term	0	0	0				...	...	...	...	...	...
State and local government	0	0	0	...	...	...				...	...	...
Domestic currency	0	0	0	...	...	...				...	...	...
Short-term	0	0	0	...	...	...				...	...	...
Long-term	0	0	0	...	...	...				...	...	...
Foreign currency	0	0	0	...	...	...				...	...	...
Short-term	0	0	0	...	...	...				...	...	...
Long-term	0	0	0	...	...	...				...	...	...
Public nonfinancial corporations	0	0	0	...	...	...	...	...	...			
Domestic currency	0	0	0	...	...	...	...	...	...			
Short-term	0	0	0	...	...	...	...	...	...			
Long-term	0	0	0	...	...	...	...	...	...			
Foreign currency	0	0	0	...	...	...	...	...	...			
Short-term	0	0	0	...	...	...	...	...	...			
Long-term	0	0	0	...	...	...	...	...	...			
Other depository corporations	13	41,730	-41,717	19,930	50,778	-30,849	1,683	2,446	-762	3,004	9,147	-6,143
Domestic currency	13	36,956	-36,944	16,144	23,217	-7,074	1,480	1,322	158	751	2,699	-1,948
Short-term	13	36,956	-36,944	31	21,584	-21,553	712	247	465	407	916	-509
Long-term	0	0	0	16,113	1,634	14,479	769	1,075	-307	344	1,783	-1,439
Foreign currency	0	4,773	-4,773	3,786	27,561	-23,775	203	1,124	-921	2,253	6,449	-4,195
Short-term	0	4,773	-4,773	0	246	-246	1,328	50	1,278	1,907	1,644	262
Long-term	0	0	0	3,786	27,316	-23,529	-1,125	1,074	-2,199	347	4,804	-4,458
Other financial corporations	1	0	1	0	41,307	-41,307	0	0	0	0	0	0
Domestic currency	1	0	1	0	8,261	-8,261	0	0	0	0	0	0
Short-term	1	0	1	...	8,261	-8,261	...	...	...	...	...	...
Long-term	0	0	0	...	0	0	...	...	...	...	...	...
Foreign currency	0	0	0	0	33,046	-33,046	0	0	0	0	0	0
Short-term	0	0	0	...	0	0	...	...	...	...	...	...
Long-term	0	0	0	...	33,046	-33,046	...	...	...	...	...	...
Nonfinancial corporations	19	0	19	...	...	...	...	...	...	...	...	...
Domestic currency	19	0	19	...	...	...	...	...	...	...	...	...
Short-term	0	0	0	...	...	...	...	...	...	...	...	...
Long-term	19	0	19	...	...	...	...	...	...	...	...	...
Foreign currency	0	0	0	...	...	...	...	...	...	...	...	...
Short-term	0	0	0	...	...	...	...	...	...	...	...	...
Long-term	0	0	0	...	...	...	...	...	...	...	...	...
Other resident sectors	10	0	10	...	...	...	...	...	...	...	...	...
Domestic currency	10	0	10	...	...	...	...	...	...	...	...	...
Short-term	0	0	0	...	...	...	...	...	...	...	...	...
Long-term	10	0	10	...	...	...	...	...	...	...	...	...
Foreign currency	0	0	0	...	...	...	...	...	...	...	...	...
Short-term	0	0	0	...	...	...	...	...	...	...	...	...
Long-term	0	0	0	...	...	...	...	...	...	...	...	...
Nonresidents	78,772	9	78,764	195	43,479	-43,284	...	...	...	...	...	...
Domestic currency	0	0	0	...	...	...	...	...	...	...	...	...
Short-term	0	0	0	...	...	...	...	...	...	...	...	...
Long-term	0	0	0	...	...	...	...	...	...	...	...	...
Foreign currency	78,772	8	78,764	195	43,479	-43,284	...	...	...	...	...	...
Short-term	76,099	8	76,091	195	0	195	...	...	...	...	...	...
Long-term	2,673	0	2,673	0	43,479	-43,479	...	...	...	...	...	...

Table 4. Croatia: Net Intersectoral Asset and Liability Positions, December, 2010 (continued)

(Millions of Croatian kuna)

Issuer of liability (debtor):	Financial Sector						Nonfinancial Private Sector						Rest of the World		
Holder of liability (creditor):	Other Depository Corporations			Other Financial Corporations			Nonfinancial Corporations			Other Resident Sectors			Nonresidents		
	Claims	Liabilities	Net position	Claims	Liabilities	Net position	Claims	Liabilities	Net position	Claims	Liabilities	Net position	Claims	Liabilities	Net position
Central bank	41,730	13	41,717	0	1	-1	0	19	-19	0	10	-10	9	78,772	-78,764
Domestic currency	36,956	13	36,944	0	1	-1	0	19	-19	0	10	-10	0	0	0
Short-term	36,956	13	36,944	0	1	-1	0	19	-19	0	0	0	0	0	0
Long-term	0	0	0	0	0	0	0	0	0	0	10	-10	0	0	0
Foreign currency	4,773	0	4,773	0	0	0	0	0	0	0	0	0	8	78,772	-78,764
Short-term	4,773	0	4,773	0	0	0	0	0	0	0	0	0	8	78,772	-78,764
Long-term	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Central government	50,778	19,930	30,849	41,307	0	41,307	...	...	...	...	...	...	43,479	195	43,284
Domestic currency	23,217	16,144	7,074	8,261	0	8,261	...	...	...	...	...	...	...	...	...
Short-term	21,584	-20,335	41,919	8,261	...	8,261	...	...	...	...	...	...	...	...	...
Long-term	1,634	36,479	-34,845	0	...	0	...	...	...	...	...	...	...	...	...
Foreign currency	27,561	3,786	23,775	33,046	0	33,046	...	...	...	...	...	...	43,479	195	43,284
Short-term	246	0	246	0	...	0	...	...	...	...	...	...	0	195	-195
Long-term	27,316	3,786	23,529	33,046	...	33,046	...	...	...	...	...	...	43,479	0	43,479
State and local government	2,446	1,683	762	0	0	0	...	...	...	...	...	...	...	...	...
Domestic currency	1,322	1,480	-158	0	0	0	...	...	...	...	...	...	...	...	...
Short-term	247	712	-465	...	...	...	...	...	...	...	...	...	...	...	...
Long-term	1,075	769	307	...	...	...	...	...	...	...	...	...	...	...	...
Foreign currency	1,124	203	921	0	0	0	...	...	...	...	...	...	...	...	...
Short-term	50	1,328	-1,278	...	...	...	...	...	...	...	...	...	...	...	...
Long-term	1,074	-1,125	2,199	...	...	...	...	...	...	...	...	...	...	...	...
Public nonfinancial corporations	9,147	3,004	6,143	0	0	0	...	...	...	...	...	...	...	...	...
Domestic currency	2,699	751	1,948	0	0	0	...	...	...	...	...	...	...	...	...
Short-term	916	407	509	...	...	...	...	...	...	...	...	...	...	...	...
Long-term	1,783	344	856	...	...	...	...	...	...	...	...	...	...	...	...
Foreign currency	6,449	2,253	4,195	0	0	0	...	...	...	...	...	...	...	...	...
Short-term	1,644	1,907	-262	...	...	...	...	...	...	...	...	...	...	...	...
Long-term	4,804	347	4,458	...	...	...	...	...	...	...	...	...	...	...	...
Other depository corporations				14,348	3,501	10,847	45,359	106,083	-60,725	158,046	128,434	29,612	83,925	47,338	36,588
Domestic currency				7,891	2,237	5,654	24,746	35,741	-10,995	33,725	34,092	-367	22,273	-97	22,370
Short-term				5,176	1,454	3,722	6,551	18,644	-12,093	12,202	11,473	730	5,595	142	5,453
Long-term				2,715	783	1,931	18,195	17,097	1,098	21,523	22,619	-1,096	16,678	-239	16,917
Foreign currency				6,457	1,264	5,194	20,613	70,343	-49,730	124,321	94,342	29,979	61,652	47,435	14,218
Short-term				4,933	1,264	3,669	10,375	18,377	-8,002	67,975	2,464	65,511	16,882	14,829	2,053
Long-term				1,524	0	1,524	10,237	51,965	-41,728	56,346	91,878	-35,532	44,770	32,606	12,165
Other financial corporations	3,501	14,348	-10,847				0	0	0	60,859	0	60,859	0	0	0
Domestic currency	2,237	7,891	-5,654				0	0	0	60,859	0	60,859	0	0	0
Short-term	1,454	5,176	-3,722				...	...	...	12,172	0	12,172	...	...	...
Long-term	783	2,715	-1,931				...	...	...	48,687	0	48,687	...	...	...
Foreign currency	1,264	6,457	-5,194				0	0	0	0	0	0	0	0	0
Short-term	1,264	4,933	-3,669				...	...	...	...	...	...	0	0	0
Long-term	0	1,524	-1,524				...	...	...	...	...	...	0	0	0
Nonfinancial corporations	106,083	45,359	60,725	0	0	0				...	...	...	208,838	20,706	188,131
Domestic currency	35,741	24,746	10,995	0	0	0				...	...	...	...	...	...
Short-term	18,644	6,551	12,093	...	...	...				...	...	...	...	...	...
Long-term	17,097	18,195	-1,098	...	...	...				...	...	...	...	...	...
Foreign currency	70,343	20,613	49,730	0	0	0				...	...	...	208,838	20,706	188,131
Short-term	18,377	10,375	8,002	...	...	...				...	...	...	5,397	9,432	-4,035
Long-term	51,965	10,237	41,728	...	...	...				...	...	...	203,441	11,274	192,167
Other resident sectors	128,434	158,046	-29,612	0	60,859	-60,859	...	...	...				...	...	...
Domestic currency	34,092	33,725	367	0	60,859	-60,859	...	...	...				...	...	...
Short-term	11,473	12,202	-730	0	12,172	-12,172	...	...	...				...	...	...
Long-term	22,619	21,523	1,096	0	48,687	-48,687	...	...	...				...	...	...
Foreign currency	94,342	124,321	-29,979	0	0	0	...	...	...				...	...	...
Short-term	2,464	67,975	-65,511	...	...	...	...	...	...				...	...	...
Long-term	91,878	56,346	35,532	...	...	...	...	...	...				...	...	...
Nonresidents	47,338	83,925	-36,588	0	0	0	20,706	208,838	-188,131	...	...	...			
Domestic currency	-97	22,273	-22,370	0	0	0	...	...	...	...	...	...			
Short-term	142	5,595	-5,453	...	...	...	...	...	...	...	...	...			
Long-term	-239	16,678	-16,917	...	...	...	...	...	...	...	...	...			
Foreign currency	47,435	61,652	-14,218	0	0	0	20,706	208,838	-188,131	...	...	...			
Short-term	14,829	16,882	-2,053	...	...	...	9,432	5,397	4,035	...	...	...			
Long-term	32,606	44,770	-12,165	...	...	...	11,274	203,441	-192,167	...	...	...			

Sources: Croatian National Bank; Ministry of Finance; and IMF staff estimates.

1/ Includes trade credit/advances, settlement accounts, new equity of households in life insurance and pension funds (if applicable).

2/ Claims of ODCs do not include 2.2 billion kuna of currency holdings and 5.4 billion kuna of non-financial assets; Liabilities of ODCs do not include 23.8 billion kuna of equity contributions by owners and 8.8 billion kuna of loss provisions.

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