

**NATIONAL
BANK
OF CROATIA**

ANNUAL

REPORT

1994

NATIONAL BANK OF CROATIA

ANNUAL REPORT 1994

CONTENTS

FOREWORD BY THE GOVERNOR

7

I THE ECONOMY, MONEY AND NBC

1	ECONOMIC TRENDS IN 1994	13
1.1.	World Economic Outlook	13
1.2.	Money Supply, Inflation, Exchange Rate and Interest Rates in Croatia	14
1.3.	GDP, Manufacturing Production and Investment	17
1.4.	Wages and Personal Incomes	19
1.5.	Employment and Unemployment	21
1.6.	Public Revenue and Expenditures	22
2	BALANCE OF PAYMENTS OF THE REPUBLIC OF CROATIA	24
2.1.	Current Account	24
2.1.1.	Merchandise Trade	
2.1.2.	Services Balance	
2.1.3.	Investment Income and Current Transfers	
2.2.	Capital and Financial Account	25
2.3.	Reserves Account	25
3	MONETARY POLICY IN 1994	27
3.1.	Monetary Aggregates	27
3.1.1.	Changes in Monetary Aggregates	
3.1.2.	Changes in the Net Domestic Assets of the Banking System	
3.2.	Credits to Government and Transfer of the Government's Accounts to the Deposit at the National Bank of Croatia	34
3.2.1.	Credits to Government	
3.2.2.	Transfer of Government's Accounts to the Deposit at The National Bank of Croatia	
3.3.	Credits to Banks and NBC Bills Issues	36
3.3.1.	Credits to Banks	
3.3.2.	NBC Bills and Repurchase Auctions	
3.3.3.	Banks' Liquidity	
3.4.	NBC Interest Rates	42
3.5.	Interventions at the Foreign Exchange Markets and Exchange Rate Policy	42
4	RELATIONS WITH INTERNATIONAL FINANCIAL INSTITUTIONS, STAND BY / STF ARRANGEMENT AND RELATIONS TO BANKS	44
4.1.	Relations with the International Monetary Fund	44

4.2.	The World Bank Group, the European Bank for Reconstruction and Development, and Inter-American Development Bank	46
4.3.	Relations to Foreign Banks	47
4.4.	International Payments and SWIFT	47
5	BANKING SYSTEM IN THE REPUBLIC OF CROATIA	48
5.1.	Introduction	48
5.2.	Structure of Banks' Balance Sheet	48
	5.2.1. Structure of the Banks' Liabilities	
	5.2.2. Structure of Croatian Banks' Assets	
5.3.	Analysis of Banks' Capital	50
5.4.	Analysis of the Quality of Assets	50
5.5.	Analysis of Banks' Profits	52
5.6.	A Note on the Current State of the Banking System	52
6	TREASURERS' DEPARTMENT	54
6.1.	Business with the Banknote of the Croatian Dinar	54
6.2.	Business with the Banknotes and Coins of the Kuna and the Lipa	56
7	INFORMATION SYSTEM DEVELOPMENT, ORGANIZATION AND HUMAN RESOURCES	63
7.1.	Organization and Information System Development	63
7.2.	Activities of the Council of the National Bank of Croatia and Legal Affairs	65
7.3.	Publishing and Research Activity of the National Bank of Croatia	66
7.4.	Human Resources	67
	7.4.1. Scholarships	
	7.4.2. Education and Training	
	7.4.3. Salaries	
	7.4.4. Some Social and Other Characteristics	
8	FINANCIAL REPORT	69
8.1.	Financial Statement of the National Bank of Croatia for the Year of 1994	69

II	MEMBERS OF THE COUNCIL OF THE NATIONAL BANK OF CROATIA	73
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III	INTERNAL ORGANIZATION OF THE NATIONAL BANK OF CROATIA	75
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IV	LIST OF BANKS	79
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V	STATISTICAL APPENDIX	93
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FOREWORD

**FOREWORD BY THE GOVERNOR OF THE NATIONAL BANK,
MR. PERO JURKOVIĆ, TO THE ANNUAL REPORT FOR 1994,
SUBMITTED TO THE PARLIAMENT OF THE REPUBLIC OF CROATIA,
ACCORDING TO ARTICLE 8,
LAW ON THE NATIONAL BANK OF CROATIA**

Important economic results have been achieved during 1994. The results of the Stabilization Program have been consolidated, a high degree of convertibility has been achieved, additional foreign exchange reserves accumulated, the decline of overall economic activities has stopped after several years of recession and, on top of that, we have introduced a new official domestic currency - the kuna.

From the perspective of the constitutional role of the central Croatian bank, the following results are of special importance: the exchange rate and price stability, external liquidity improvements and introduction of the new Croatian currency. Achievements are completely satisfactory in all respects. The rate of inflation from December 1993 to December 1994 was -3%. The kuna appreciated in relation to the German mark by 4.5%; in the same period the balance of payments current account surplus was at US\$ 103 million, the same as the year before, and foreign exchange reserves have increased by US\$ 789 million during the year.

One might say that price stabilization is not everything, neither should it be the final goal of an economic program. But, if this is so then price stability is necessary although it is not a sufficient prerequisite for the accomplishment of other more important economic targets. Fast and stable growth based upon healthy foundations is among them.

Other experiences with economic reforms in the world, from the one in Chile to the most recent one in Brazil, have undoubtedly confirmed that there is no positive correlation between the rate of inflation (or rates of growth of monetary aggregates) and the rates of growth of GDP. The reason is due to the fact that it is impossible to motivate investors (and entrepreneurs) and to mobilize funds for financing growth out of domestic or foreign savings without price stability. It should be emphasized that we are in a position where the achieved results of stabilization are yet to become capitalized. In order to capitalize them, the following causal chain should become active: stabilization - a country's credibility - inflow of foreign capital. Of course, price stabilization has an even wider importance: there is no democracy without stabilization, and it is one of the indispensable prerequisites for international integration.

From the very beginning of the Stabilization Program, the monetary policy has played one of the key roles in the accomplishment of program targets. The monetary policy was restrictive at the moment of launching the Program (and even for some time before it was), and it cut the main link of inflationary mechanism, so-called inflationary expectations. The money supply was later adjusted to the money demand (referred to as "the non-transparent monetary policy" within profession), and the National Bank of Croatia succeeded in achieving the fine balance between two generally contradicting targets: controlling the growth of monetary aggregates and maintaining a very stable exchange rate.

This approach to the monetary policy required a permanent improvement in monetary policy instruments. Foreign exchange transactions, i.e. the National Bank of Croatia's interventions on the foreign exchange market, became the main reason for the creation of base money. More than 95% of the total assets of the National Bank of Croatia are foreign exchange reserves. We ceased lending to commercial banks based on selective credits and later

on we ceased lending based on "general quotas". The intention was to limit automatic access to the secondary sources of liquidity.

Despite the fast rate of growth in monetary aggregates, especially in M1 and base money (more than 100%), the remonetization process stopped any inflationary impact of that growth. This shows that the National Bank of Croatia did not follow any rigid monetarist rule and that it was not too restrictive. A stabilizing fiscal policy oriented towards achieving surplus during 1994 helped create a greater stabilizing efficiency of the monetary policy (the consolidated government total surplus was about 0.6% of GDP). The interdependence of the monetary and fiscal policy proved to be even stronger after the transfer of the central Government's deposits to the National Bank of Croatia.

The results achieved regarding the stabilization and growth of foreign exchange reserves enabled the new official Croatian currency - the kuna - to begin circulation on the Day of Statehood, May 30, 1994, and an agreement with the IMF about the first Stand by / STF arrangement to be reached. On the basis of this arrangement we enlarged our cooperation and have made new credit arrangements with the World Bank, the European Bank for Reconstruction and Development and other international financial institutions. Furthermore, the arrangement has enabled the accomplishment of an agreement with creditors within the Paris Club. This success reflects favourably on Croatia's overall credibility in world financial markets. Forthcoming agreements with the London Club will make a further contribution to it. The National Bank of Croatia took an active role in the preparation and accomplishment of all these arrangements.

Stand by / STF arrangement with the IMF has brought about new limits to the conduct of a monetary policy. Instead of traditional monetary aggregate targets, net domestic assets of the banking system were picked up as the main criteria. According to the first Letter of Intent, the limit was restrictive, and during the first and the second program revision the limit was slackened slightly. Up to now, the National Bank of Croatia has fulfilled the criteria with some overdoings which were later approved by the IMF's Board of Executive Directors.

Besides that it is worth making note of some predominant problems of the monetary scene. Foremost, these are: the height and structure of interest rates, and widespread illiquidity. Both problems are structural, and they occur more or less in all transitional countries as well as in Croatia.

There are several reasons for high interest rates: first, some borrowers who find themselves in difficulties then run into debt and are willing to pay any interest rate; second, bad assets, especially in former or still state-owned banks which are forced to govern a policy of high interest rate margins in order to compensate for assets' immobility; the third reason is non-commercial risk for investors, which is still high in Croatia.

The problem of illiquidity is also of the structural origin and is closely tied to the inability of some important agents, including the Government, to repay their financial obligations when they become due. Since both are structural problems, they cannot be dealt with exclusively by macroeconomic policies such as the monetary policy. The increase in money supply alone would not induce a drop in interest rates. Moreover, a positive impact upon liquidity would be offset or even outweighed by a negative impact upon incomes, prices and inflationary expectations. Therefore, restructuring needs to be done as soon as possible. Experience shows us that satisfactory growth rates can be achieved only in the transitional countries which decidedly start restructuring and suffer output decline in the early stages of transition, and vice versa.

Monetary policy conduct was not the only activity of the National Bank of Croatia. Banking supervision, improvements to the payment system, international relations, treasury activities, organization development and research and analysis, were other important fields of activity. I do not have any intention of using the introduction for repetition of facts reported in the Report.

However, one activity deserves to be mentioned separately. This is human resource management, because this department took special care of our younger colleagues' training and education. Thanks to the developed cooperation with central and other banking institutions in Europe, more than 250 candidates have attended courses abroad. Different courses have been organized in Croatia. More than 34 young colleagues have been employed by the National Bank of Croatia, and the Bank has granted scholarships to more than 20 of the best senior undergraduate students of economics at the University of Zagreb. It is in our opinion that this policy has no alternative and that this is the only way to get the appropriate things required for the successful central bank we wish to become.

July 22, 1995



Pero Jurković

I THE ECONOMY, MONEY AND NBC

1.1. WORLD ECONOMIC OUTLOOK

The four years long world recession ended in 1994 accompanied by a significant growth in international trade. The growth rate was among the highest during the last twenty years; world trade grew by 9.4% in 1994 (against 3.7% in 1993). Developed countries recorded high import growth rates: 10.5% in 1994, against 1.5% in 1993. Total world exports grew 8.6%, i.e. 7.1% more than the year before (1.5% in 1993).

Economic growth did not push inflation up in Western Europe. Even in those countries where national currencies have depreciated significantly in the last few years (Italy, UK, Sweden, Finland, Spain), growth did not induce inflation. The average yearly rate of inflation in developed countries was 2.4%, against 3% in 1993. And the rate of growth in the 15 members of the European Union was 2.8% after a 0.4% decline the year before.

The main growth characteristic of these economies is "dual expansion". It is based upon growing foreign demand for exports and growing domestic demand for imports. The latter was the main reason for a number of Central and Eastern European (CEU) countries in transition beginning an economic recovery. Exports (in US\$) have grown by 27% in these economies since 1990. Poland is at the top of the list (more than 50% growth), and Hungary at the bottom (10%). The total trade deficit in the CEU region was US\$ 5 billion, representing 7.5% of merchandise exports which is a significant improvement in comparison to 15% in 1993.

The main growth impulse for world trade in 1994 came from the renewed interest in direct foreign investment which was nevertheless the main channel for international capital flows to developing countries. Most of it came from developed nations (US\$ 60 billion from the USA and US\$ 30 billion from the UK) and put towards developing Asian countries (total of US\$ 105 billion out of which 34 billion went to China) and Latin America (US\$ 26 billion). Capital inflow occurred due to reallocation of manufacturing plants and financing imports of capital goods which provided a basis for growth in exports in these countries.

However, direct foreign investment in CEU countries declined in comparison to 1993, when US\$ 6 billion were invested, mostly in the countries of the so-called earliest transition (Hungary, Poland and Czech Republic). Joint ventures were the most common instrument, and the most important investments came from the USA, Germany and Austria. The reason for a decline in 1994 can probably be found in the still risky environment, foremost due to a blurred and changing legal infrastructure.

The most important events in the international monetary system during 1994 are related to the continuing depreciation of the US dollar against the German mark and the yen. Despite a few interventions designed in order to support the dollar and despite the rise in US interest rates, continued depreciation lasted until November 1994. FED, together with other central banks, made two strong interventions and temporarily succeeded in stopping the depreciation. However, both exchange rates depreciated at the end of 1994 in comparison to the year before (the US dollar depreciated from 111.2 to 102.2 yen per dollar). At the very end of 1994 the US dollar started to depreciate again due to the "Mexican Crisis" and due to an expected rise in interest rates outside the US.

Exchange rates in the ERM fluctuated within the narrow bands. The Italian lira (which has left ERM before) and the Spanish peseta (followed by the Portuguese escudo) were the two main European currencies that depreciated significantly during 1994 (4% and 7% respectively). French franc depreciated occasionally during the year, but all of these fluctuations were successfully kept within limit by the central banks' interventions on the European foreign exchange market.

TABLE 1
MAIN WORLD ECONOMIC INDICATORS 1994 (growth rate in percentage)

	BDP	Merchandise		Inflation	Unemploy- ment	Current acc. balance US\$ in billion
		Import	Export			
DEVELOPED COUNTRIES	3.0	10.5	8.6	2.4	8.1	-10.1
<i>European Union</i>	2.8	8.5	10.0	3.1	11.6	28.5
<i>USA</i>	4.1	15.0	11.4	2.6	6.1	-155.7
<i>Japan</i>	0.6	13.5	1.0	0.7	2.9	129.3
<i>Canada</i>	4.5	13.1	15.1	0.2	10.4	-0.6
TRANSITIONAL COUNTRIES	-9.4	295.2	...	-12.3
<i>Central and Eastern Europe</i>	-3.8	203.2	...	-9.4
DEVELOPING COUNTRIES	6.3	8.7	10.4	48.0	...	-91.0
<i>Asia</i>	8.6	13.1	13.4	13.5	...	11.2
<i>Africa</i>	2.7	-2.9	0.1	33.6	...	11.6
<i>Middle East and Europe</i>	0.7	-6.6	4.1	32.3	...	-19.2
<i>Western Hemisphere</i>	4.6	13.7	9.4	225.8	...	-47.9

Sources: WEO, May 1995., IMF; OECD, December 1994.

High unemployment in developed and transitional countries and difficulties with fiscal imbalances still remain to be solved since these are structural problems that can be tackled successfully only in the mid-term. The overall fiscal deficit in industrialized countries declined to 4% of GDP in 1994 due to increases in tax revenues on the growing tax base. However, growth in the public debt to GDP ratio, accompanied by increasing interest rates, puts more fiscal strain on the world economy. Fiscal consolidation remains the main goal of economic policies in developed countries due to growing investors' sensitivity on actual and expected moves in national politics and economies.

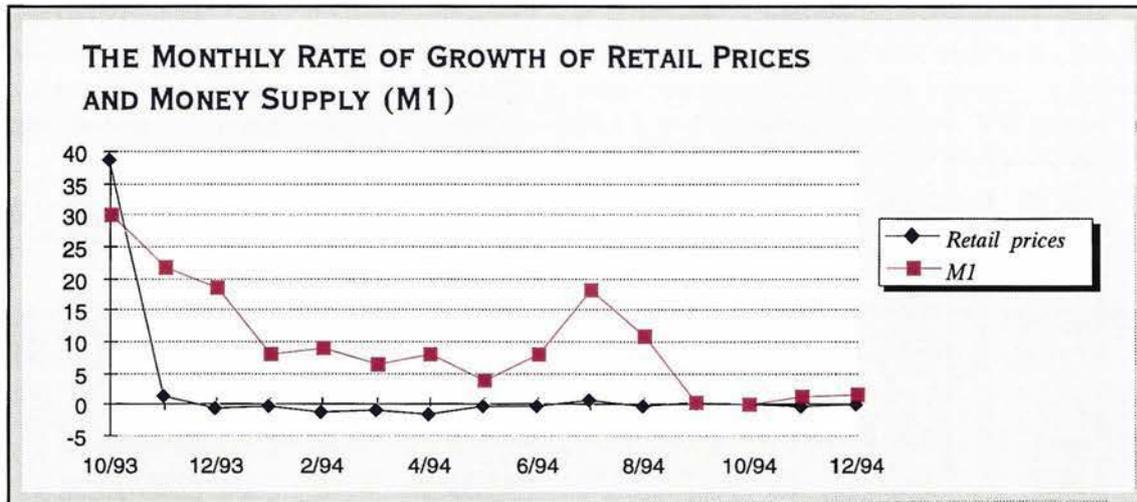
1.2. MONEY SUPPLY, INFLATION, EXCHANGE RATE AND INTEREST RATES IN CROATIA IN 1994

The year of 1994 was the year of deflation. After the monthly inflation rate of retail prices reached almost 40% in October 1993, prices slowed down and the rate of inflation became negative after the announcement of the Stabilization Program (in October 1993). Retail prices recorded 3% deflation of the December level during 1994, and recorded producers' prices declined 5.5%.

Growth rates of money supply were much higher during the entire period but it did not induce new inflation. An increase in money supply was just one answer to the growing money demand. The sudden

increase was due to a brake-up of inflationary expectations and to a sharp fall in nominal interest rates. Both factors sharply reduced opportunity costs of holding money and contributed to the sudden recovery of confidence in domestic currency. The introduction of the new Croatian currency, in May 1994, the was partly made possible because of favorable new circumstances arising.

CHART 1



However, decline in nominal interest rates was much slower than deflation. Therefore, lending and deposit rates in the banking system were extremely high at the beginning of 1994. The weighed average of short-term lending rates was 56.3% per annum in January. That was one of the reasons for NBC's decision to partly accommodate the growing money demand preventing the stabilization of banks' real interest rates at high levels. However, NBC only managed to reduce interest rates to a lower level which was determined by the high costs of financial intermediation in Croatia.

CHART 2

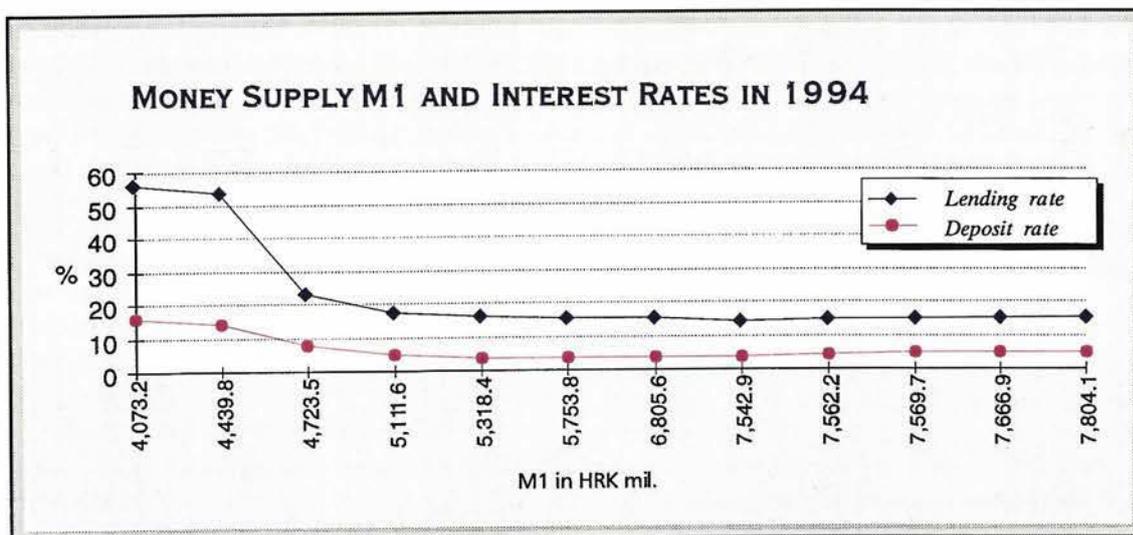
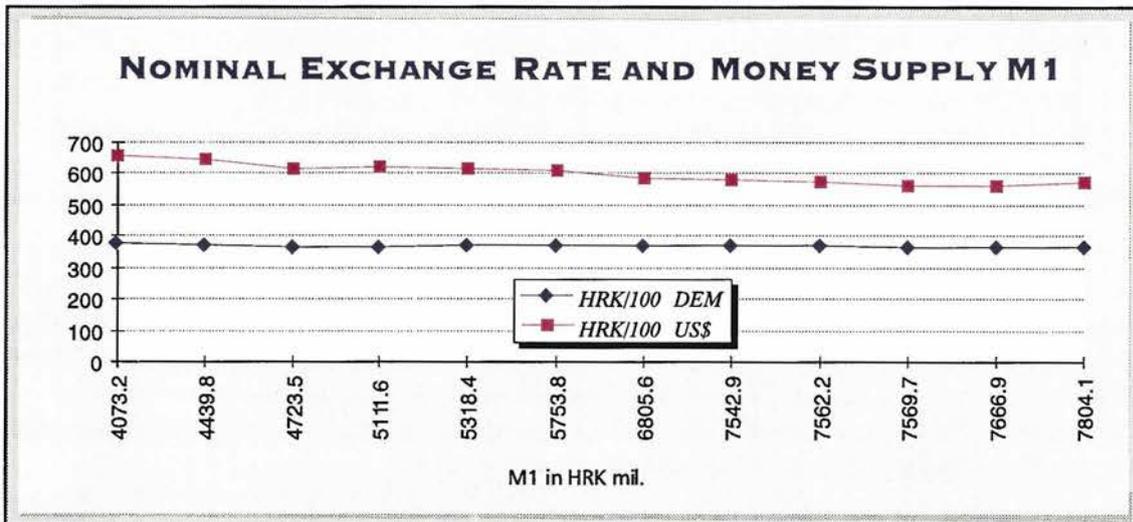


Chart 2 shows that the significant decline in interest rates lasted only until April (observation no. 4). Money supply M1 jumped over the threshold of 5 billion kuna in April (approximately 6% of GDP) although growth in the money supply did not have any significant impact upon interest rates afterwards. From the introduction of the kuna in May until the end of the year, the average lending rate stabilized between 15% and 16.5% and deposit rate between 3.8% and 5%. Therefore, the level of lending rates and interest rates differential dropped to levels where further decline can be induced only by supply side measures such as: banks' restructuring, improving competition and speeding up financial innovations.

Evidently, the growth rate has continued to rise above the point of interest rate inelasticity. NBC wanted to satisfy money demand during the seasonal peak (the summer tourist season), in order to avoid the risk of overappreciation. Fear for the exchange rate occurred because domestic currency appreciated about 11.7% in nominal terms during the last two months of 1993. That was a consequence of the renewed confidence and increase in propensity to hold money. However, the appreciation trend continued despite an increase in money supply.

CHART 3

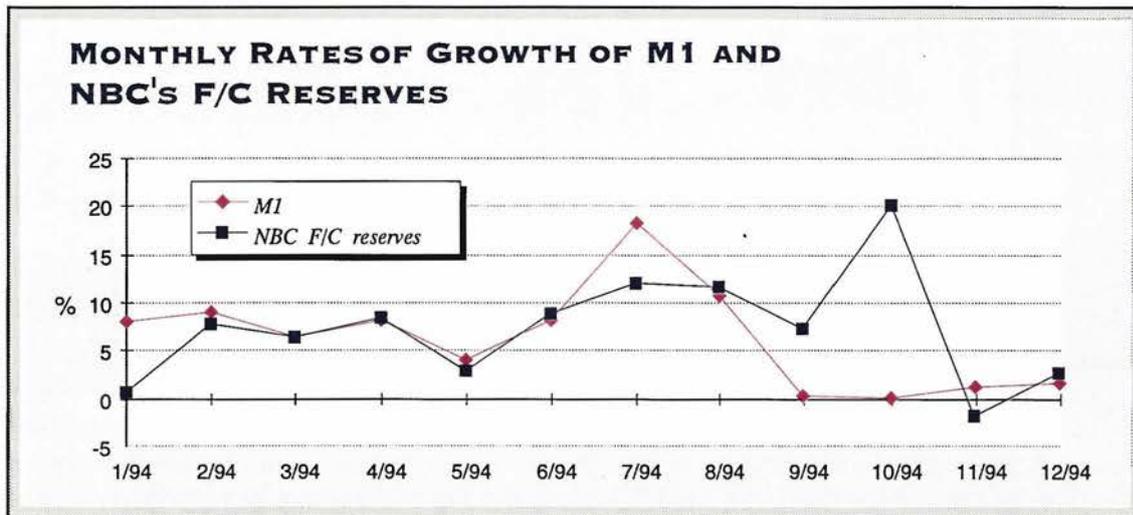


The kuna appreciated significantly in nominal terms against the US dollar (14.2%), and the appreciation against the German mark was of a smaller magnitude (4.5%). This appreciation increased the credibility of the monetary policy and contributed to the successful agreement of the Stand by / STF arrangement signed in October 1994. On the other hand, the speed of appreciation was not so strong as to prevent further accumulation of international reserves, and it did not imperil exports (which grew during 1994). All in all, the 4.5% appreciation against the German mark was accompanied by a 107% increase in money supply (M1) between the period of December 1993 to December 1994. NBC's international reserves grew by 128% in the same period.

Despite some appreciation, the monetary policy which leads to such outcomes seems more like the fixed exchange rate policy, at least since January 1994. Chart 4 supports the conclusion. It depicts the monthly growth rates of M1 and the NBC's international reserves and clearly shows their correlation until October. From October onwards, the correlation disappeared because the Stand by / STF arrangement changed the nature of the link between money and international reserves. The growth of money supply significantly slowed down and money was handled more carefully because of the M1 to GDP ratio which grew from a low hyperinflationary level of 2%-3% in October 1993 to 9% in October 1994. On the

other hand, an arrangement with the IMF opened some alternative external channels to improve credibility. Direct loans became available, and an opportunity to reschedule foreign debt under favorable conditions occurred. Both factors will favorably influence the external and internal credibility of the economic policy in the mid-term and will increase probability to maintain stability in the long run.

CHART 4



One can therefore conclude that 1994 is the year that represents a period of the consolidation of achievements during the first phase of the Stabilization Program. Some crucial assumptions for the long-term stability were put in place and the macroeconomics framework for fundamental microeconomics reforms with minimum social costs was established.

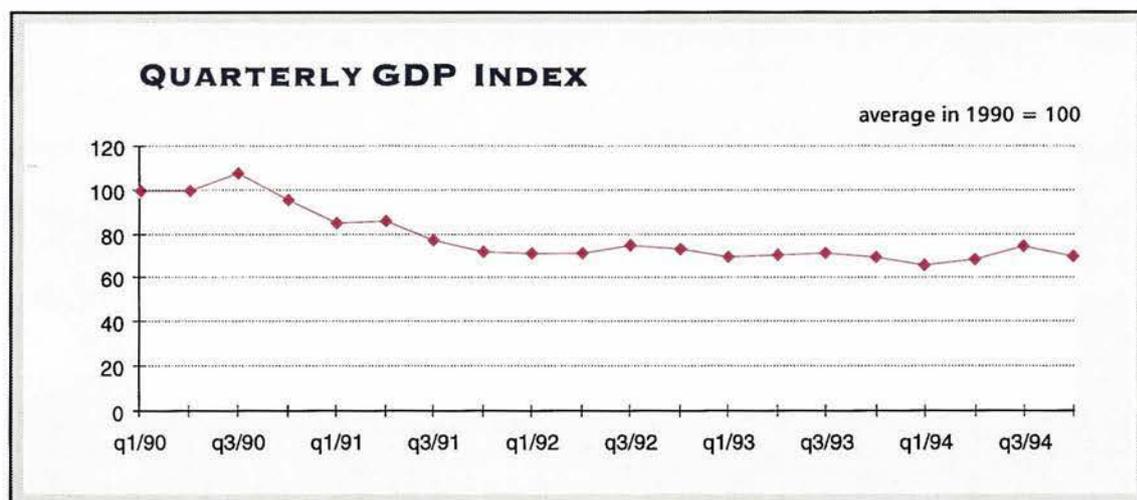
1.3. GDP, MANUFACTURING PRODUCTION AND INVESTMENT

It is not possible to achieve spectacular growth results just after the end of a hyperinflationary period. This is especially true in some sectors, because the inherited economic structure was shaped in an inflationary environment with no developed capital markets. Any attempt to induce growth by artificial monetary "growth" measures in such an economy would maybe lead to growth in the short-term, but that "growth" would be unsustainable and based upon non-competitive economic activities. In time, it would put more pressure on both the fiscal and monetary policy, and a new inflation cycle would begin.

NBC negotiated a pragmatic monetary policy with an eye on the mid and long term in order to create an environment for the recovery of competitive sectors which do business successfully faced with hard budget constraints. The result was the positive 0.8% growth rate of GDP of for the first time during the 90's. All economic indicators recorded a recovery during 1994. And it is important to note that the official measure of real value added is very conservative because it fails to record the large part of the private sector. It also underestimates real growth in trade activities due to purely statistical factors.

Moreover, an estimated quarterly GDP index, which is depicted in Chart 5, contains some elements that make it "smoother" than it really was. The decline up to 1993 was stronger as well as the recovery in 1994.

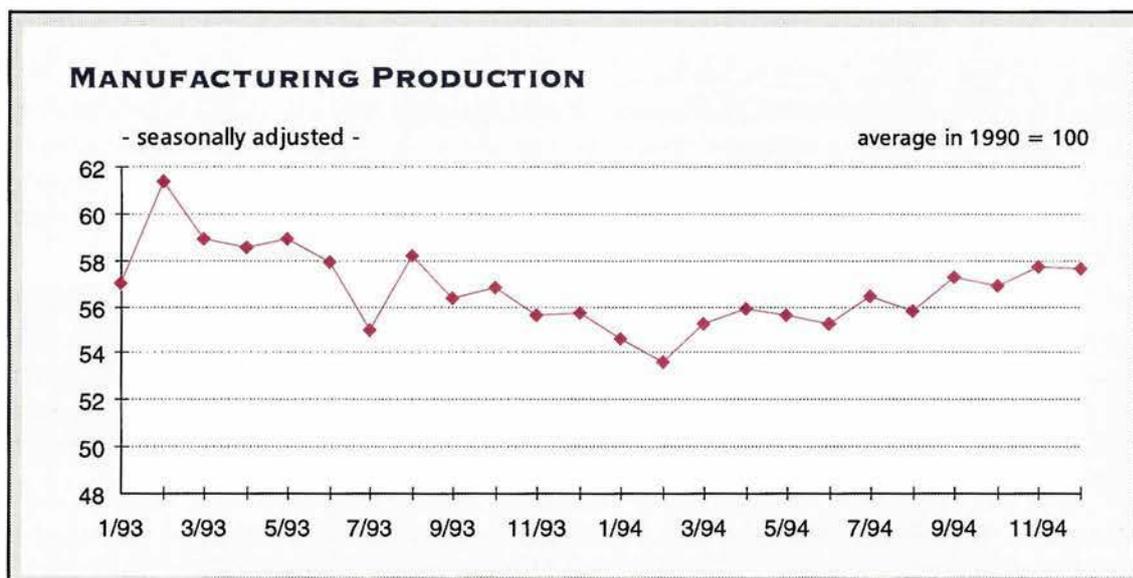
CHART 5



The data on manufacturing output is based upon primary data collected directly from enterprises. However, the sample is "old" because it encompasses larger and older units. Therefore indices of manufacturing output show the problem of restructuring, but they do not give enough information about the private sector. Despite these shortcomings, the above index clearly points to the turning-point that occurred during 1994.

Chart 6 shows that manufacturing production started to grow after February 1994. In December 1994 it was 3.4% higher than in December 1993, and 7.5% higher than in February 1994. However, the annual average shows a 3% decline from 1993 to 1994. While GDP growth is obvious at the year level, growth in manufacturing output can be detected only when a certain interval is analyzed. This difference is a consequence of some specific restructuring problems within the manufacturing sector, and especially within industries of capital goods. The difference also indicates a relatively faster recovery in other sectors, especially in services.

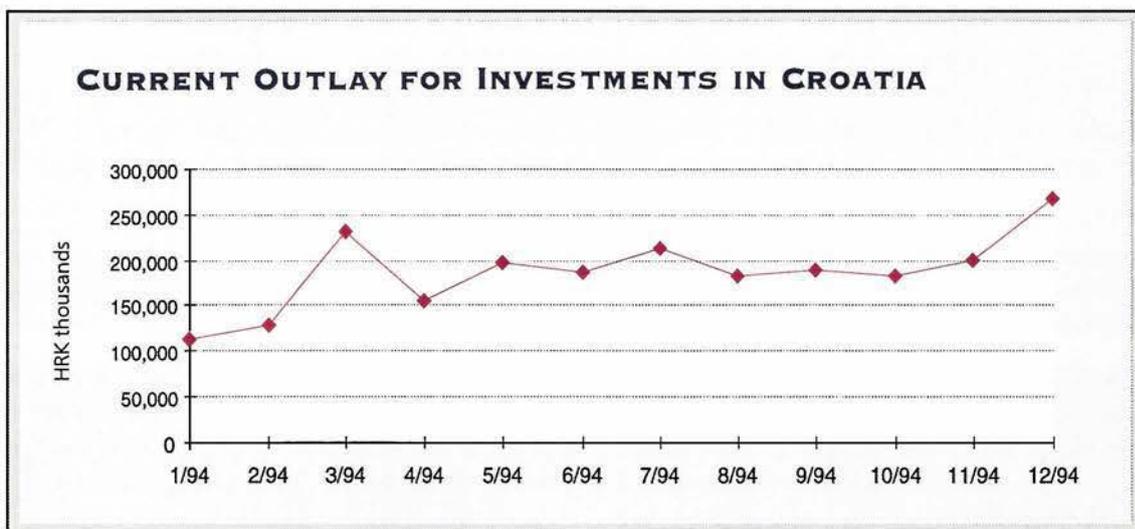
CHART 6



All of this data is about quantities. These are indicators of real activity by definition. However, most of the real indicators are derived out of financial flow data in the process of deflating nominal figures. This method carries a greater risk of errors in a country that has experienced high inflation. Any comparison of 1994 with 1993 based upon this data is extremely unreliable. Hence we show data on nominal investment outlays based only upon 1994 figures.

Chart 7 displays a nominal monthly investment outlay. Figures are comparable with each other, but there are a few facts that should be taken into the account while interpreting the data. First, deflation occurred during 1994, so the real outlay is greater than the nominal one. Second, despite all its shortcomings, the data indicates the beginning of a recovery in investment activities within the Republic of Croatia. This conclusion fits into the overall picture of economic trends in 1994. Anyway, the structure and size of any investment activity is extremely hard to estimate at this moment, but it is definitely still lower than desired.

CHART 7

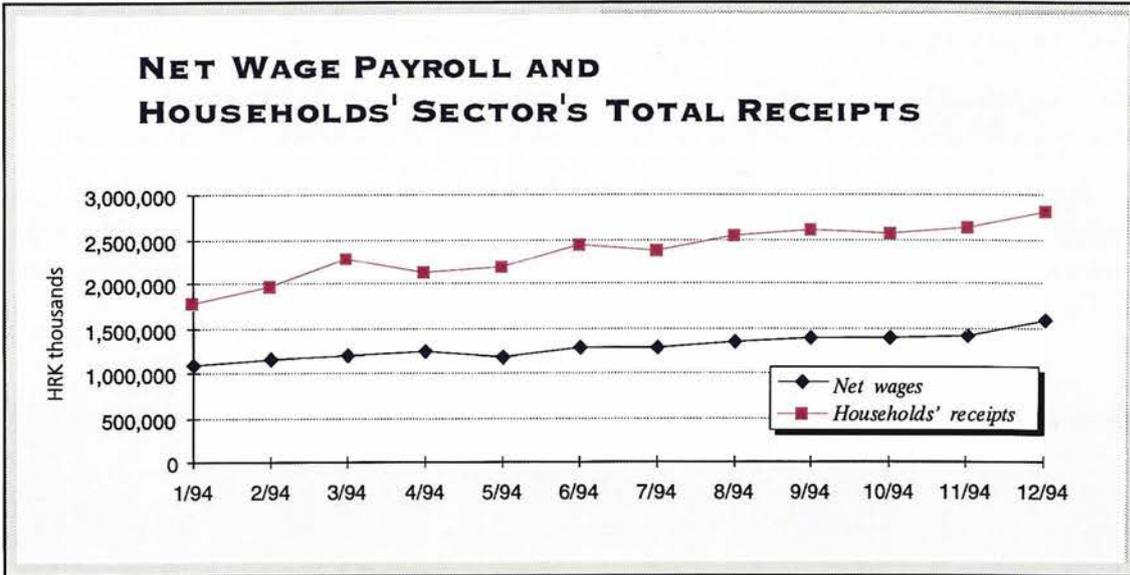


Source: Payments Institute, according to: *Economic Trends and Economic Policy*, 36: p.86.

1.4. WAGES AND PERSONAL INCOMES

Wages and personal incomes also belong to the group of indicators which are based on nominal data. Therefore, last year's values can only be shown. Chart 8 shows the monthly payments of net wages and total receipts from the households' sector. The difference between these two sources of income encompasses other workers' allowances and transfers to households. The total payment of net wages in December 1994 was 31.6% higher than in the same month of 1993. The total of the households' sector's receipts grew slightly less, by 25.5% in the same period. Both series indicate that living standards improved during 1994. This growth was probably unevenly distributed among the different groups of citizens depending upon their sources of income, but the majority of citizens had higher purchasing power than before. We are glad that the increase has been done in such a way that it has not pushed up the inflation.

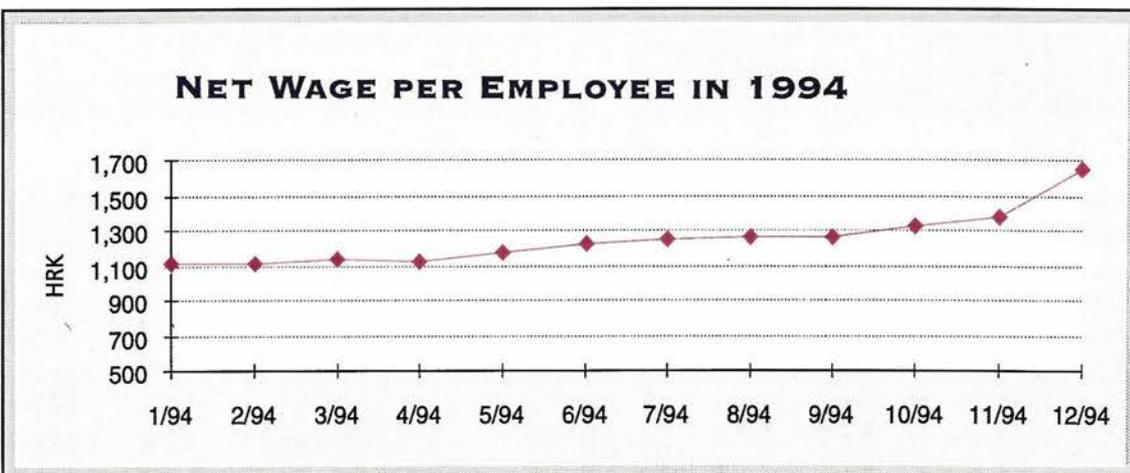
CHART 8



The income policy proved to be strong and credible. Growth of households' receipts was financed from "real" sources - out of actual growth and productivity growth, and by the cease of inflation tax on money holdings.

The average monthly net wage development during 1994 supports the last conclusion. Chart 9 shows it's growth. However, a sudden jump in December does not reflect an actual event, but is due to merger of net wages and fringe benefit of a hot meal. Therefore, better insight can be obtained if data for November 1994 is compared to November 1993. The average net wage income per worker increased by 35.6% in that period.

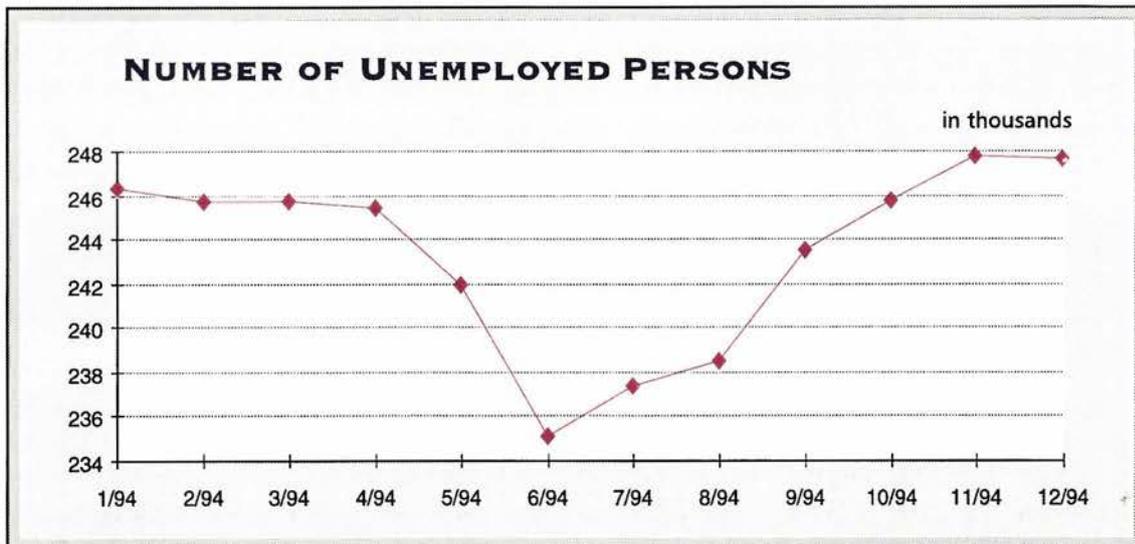
CHART 9



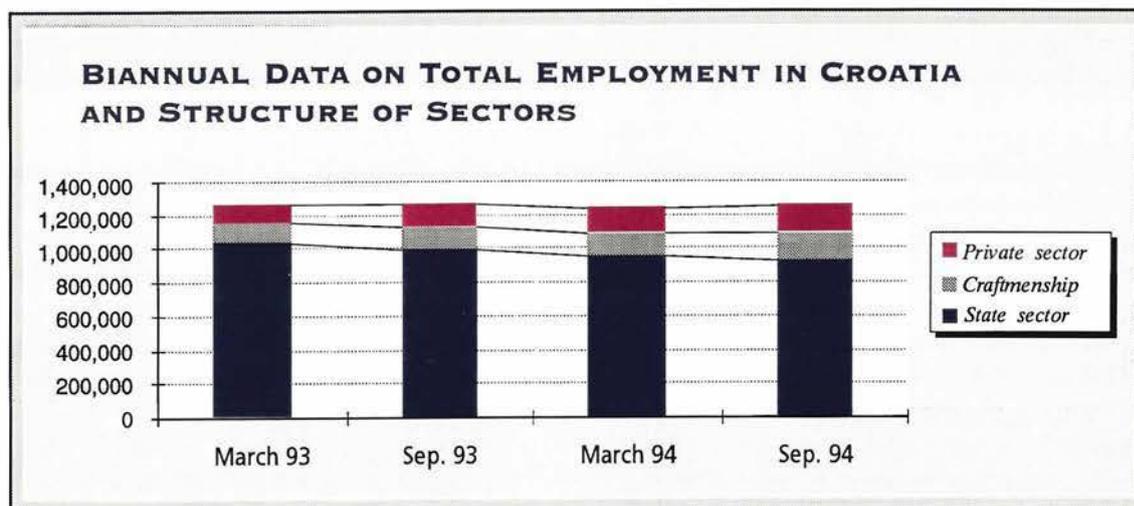
1.5. EMPLOYMENT AND UNEMPLOYMENT

We can draw some conclusions about changes in employment by looking at a net wage payroll and the net wage per worker. Payments increased by 31.6%, while the average net wage grew by 35.6% meaning that the number of employed persons must have fallen by approximately 4%. However, employment statistics show serious shortcomings in Croatia. The only official monthly source does not encompass the Ministry of Interior, the Ministry of Defense, or the newly emerging private sector. It shows that the number of employed persons fell from 1,079,000 in December 1993 to 989,000 in December 1994. It means that 90,000 jobs were lost i.e. 8.3% decline. However, this figure describes restructuring problems because old and large enterprises dominate the sample. Since the number of registered unemployed persons did not change much during the year (see chart 10), we can conclude that the workers who were laid off have been partly absorbed by the newly emerging private sector and the shadow economy.

CHART 10



The results that came out of serious research projects that combined various statistical sources, confirmed the last conclusion. Chart 11 depicts three components of the labor supply, i.e. employment. First, employment in the former social sector which has not been privatized yet. The second source is employment of the "artisans". The third source is employment in the privatized and newly emerged private sector. Data shows the end of the decline during the last year. In the period from March until September small but encouraging growth occurred for the first time. Despite normal suspicions about the data due to their unofficial sources, the result can be trusted because it fits into the general picture of economic trends.



Source: Unofficial data, Institute of Economics - Zagreb.

Data shows decline in the second half of 1993 and in the first half of 1994. After that, in the middle of the last year, the number of employed persons started to grow. The total number in March 1994 was 2.1% lower than in March 1993. From September to September the decline was only 0.1%, and in the six month period from March to September 1994, the number of employed persons increased by 1.1%. The fact that the number of active participants in the state health insurance scheme fell by only 0.3% in 1994, speaks in favor of the last conclusion.

1.6. PUBLIC REVENUE AND EXPENDITURE

The Government's budget played a major role in the consolidation of results achieved during the first phase of the Stabilization Program. Subsidizing the central budget with the monetary policy became impossible during 1994, and the general consolidation of public finances led to a fiscal surplus of 543.9 million kuna, i.e. 0.6% of the estimated GDP. However, the overall political situation still significantly influences public expenditures.

Tax revenue plays the greatest part (96.7%) in the budget. Of that, sales tax encompasses 66.7%. Other important items are: corporate and income tax (17%) and taxes on international trade (15.6%). Capital revenue makes up only 1.5% of total revenue (revenue from the sale of enterprises was 325.3 million kuna), and the percentage of non-tax revenue was 1.8%.

Current expenditures of the central budget made up 24.2% of the estimated GDP in 1994. Expenditures on goods and services made up 81.6% of the total amount. Net costs of social safety made up 1.6% of GDP, out of which the most important was the cost of displaced persons and refugees. Subsidies and current transfers encompassed 13.5% of current expenditures, or 2.1% of GDP. Subsidies to railroad company are the most important (8% of current expenditures), and subsidies to agriculture made up 1.5% of current expenditures. Interest payments encompassed 4.1% of total expenditures (or 1% of GDP). The greatest percentage was related to interest on old "frozen" foreign exchange deposits and interest on bonds for restructuring. Capital expenditures (public investment) were 1.92 billion kuna or

2.3% of GDP. A surplus of 543.9 million kuna or 0.6% of GDP was used to reduce the domestic public debt. The most important item was the reduction of debt to the National Bank of Croatia. This amount encompasses the effect of the establishment of the treasury's account i.e. transferring the Government's accounts from commercial banks to a deposit at the National Bank of Croatia. Since the amount of net seigniorage transferred to the central government was 141.5 million kuna and since interest payments were 10.7 million kuna, it is obvious that the fiscal consolidation of the central budget enabled a moderate monetary policy to be made possible during 1994.

2.1. CURRENT ACCOUNT

The current account balance was practically the same in 1994 as it was in 1993: the cumulative surplus was US\$ 103 million or 0.7% of the estimated GDP for 1994. This surplus has been achieved in three successive years. Trends in 1994 were especially important regarding targets of the Stabilization Program. Surplus in the current account shows that the Republic of Croatia, in aggregate, spent less than it produced. This fact is attributed to the sustainable, non-inflationary GDP growth. However, due to some changes in relation to the sub-accounts within the current account, surplus occurred with a generally higher volume of international trade and was recorded in the current account.

2.1.1. MERCHANDISE TRADE

The merchandise trade balance shows cumulative deficit of US\$ 969 million in 1994. In comparison to 1993, the deficit is 205 million higher (27%) because merchandise exports increased at a lower rate than merchandise imports. The structure of the international merchandise trade, according to the final consumption, shows the increase in deficit was due to a higher growth of imports than exports in intermediary and capital goods trade. A surplus was recorded in trade on final goods. The biggest part of the deficit was recorded in the last quarter of the year. Therefore, the deficit is due to growth in domestic production, i.e. due to needs of reconstruction in the period of gradual structural change.

2.1.2. SERVICES BALANCE

The services trade balance recorded a surplus of US\$ 738 million in 1994. This surplus covers, or at least mostly covers, deficit in merchandise trade. Surplus in service trade in 1994 is US\$ 106 million; (about 17%) higher than in 1993. The most important item is tourism (gross tourism revenue was US\$ 1,427 million or 62% of total revenue in service trade; on the expenditure side, tourism makes up only 35%, or US\$ 552 million). Net tourist revenue on the international markets grew by 64% in 1994 in comparison to the year before, which indicates that economic and political stabilization, together with the Government's additional incentive measures, favorably influences this component of the service account.

2.1.3. INVESTMENT INCOME AND CURRENT TRANSFERS

Investment income and current transfer balances behaved differently in 1994 in comparison to 1993, regarding both the size and magnitude of changes. The deficit of the investment income account decreased by US\$ 17 million or 12%, because the investment income decreased less than the investment outlay based on foreign investment in Croatia.

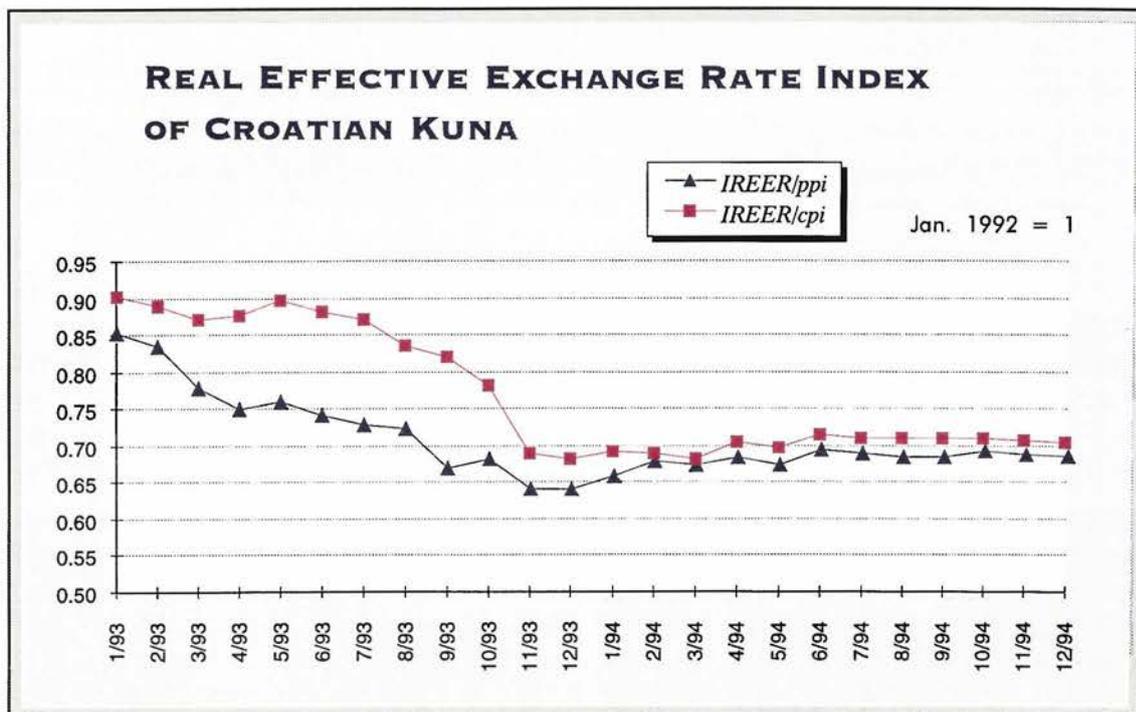
The growth of surplus was recorded in the current transfers sub-account. It is at US\$ 83 million or 22% higher than in 1993. This growth is mostly induced by an increase in the private sector's current transfers (by US\$ 41 million or 14%) and by a decrease in outlay of the same sector (by US\$ 57 million). Net changes in the public sector's current transfers negatively influenced the growth of surplus. Finally, changes in the private sector's current transfers indicate increasing confidence in the domestic banking system. Moreover, the changes in the public sector's current transfers mostly indicate stagnation in the direct unrequited transfer of help to Croatia during 1994.

2.2. CAPITAL AND FINANCIAL TRANSACTIONS

The capital and financial transactions balance shows a surplus i.e. capital inflows. The surplus is US\$ 584 million for 1994, which presents a significant growth in comparison to the year before (2.16 times more than in 1993). The balance is relatively important (compared to the current account balance) due to: (a) unpaid due debts on the basis of foreign loans, (b) growing inflow to private sector accounts.

Net foreign investment to Croatia (direct) and use of other long-term loans are higher than in 1993, but they are of a much smaller importance to the overall balance in 1994. These trends can be explained by the existing political and military crisis nearby and on Croatian territory.

CHART 12



2.3. RESERVES ACCOUNT

Based upon the aforementioned changes in the current account and capital and financial accounts, and after the correction by net errors and omissions (US\$ 101 million on the credit side), the reserves account of the National Bank of Croatia recorded fast growth in 1994. The increase in foreign exchange reserves was US\$ 789 million. The relative importance of these changes is best seen if reserves are expressed in terms of the average monthly imports of goods and services (non-factor services). Reserves at the National Bank of Croatia covered 1.27 months of average imports at the end of 1993, and 2.49 months at the end of 1994. Growth was faster in the second half of the year due to the seasonal pattern of inflow induced by the effects of tourism on the foreign exchange market. The foreign exchange reserves growth increases the National Bank's ability to make active interventions on the foreign exchange market in case a domestic economic need arises. It also provides the basis for a stable domestic currency exchange rate.

3.1. MONETARY AGGREGATES

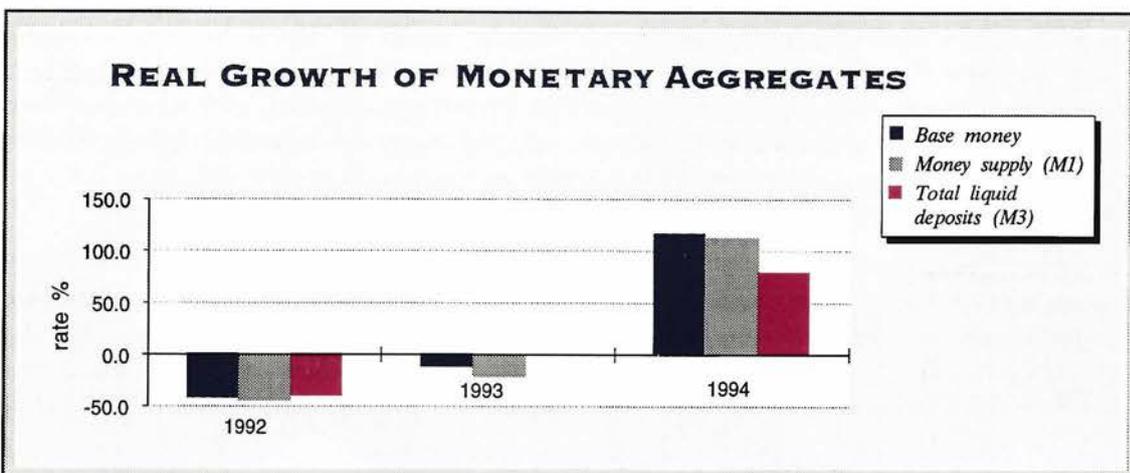
3.1.1. CHANGES IN MONETARY AGGREGATES

The trends in monetary aggregates in 1994 were marked by a remonetization process which started in the last quarter of 1993. In the period between January to April, retail prices recorded continuing deflation, and monetary aggregates were growing at average growth rates of 4.3% and 7.4% per month for M3 and M1 respectively. The growth still continued afterwards.

The end of the remonetization process occurred at the end of the third quarter, after eleven months. In the first eight months of 1994 M1 reached an average monthly growth rate of 9%. The rate slowed down to the average of 0.9% in the last four months of 1994. The actual average monthly growth of money supply in 1994 was 6.2% and it was, despite continuing remonetization, almost three and a half times slower than in inflationary 1993.

The hyperinflationary wave was stopped at the beginning of October 1993, by antiinflationary measures incorporated into the Government's Stabilization Program. The average monthly retail price inflation reached an average of 27.5% per month in the first nine months of 1993, but in the last three months the average dropped to 12%. The growth of money supply speeded up at the same time. The average monthly growth rate of money supply jumped from 19.9% in the first nine months to 24.4% in the last quarter. That was the beginning of the process of fast filling the financial channels in the entire economy by money which was brought back to health. Money was previously devaluing at such a rate that eventually it reached an all-time low. It was bypassed as a measure of value, a store of value and a means of payment. The then real value of domestic money was so low, that the process of remonetization of financial channels to the level of equality between money demand and money supply (determined in the framework of the growth of real domestic aggregate demand), took almost a year - until the end of August 1994.

CHART 13



Hence, the monetary policy which leads to the average monthly growth in M1 of 6.2%, and average monthly deflation of 0.3%, cannot be labeled as an expansive policy. This policy allowed a faster growth of monetary aggregates but it could not induce inflation; it allowed for remonetization of financial channels which "ran dry" in the previous period.

The money supply increased by 4,032 million kuna or 106.9% from December 1993 to December 1994. At the end of December it reached 7,804 million kuna. Deposit money growth was especially strong, which is understandable from the point of view of growing GDP; deposit money grew 2,642 million kuna or 113.9%, while cash in circulation grew 1,291 million kuna or 94.5%. The different growth rates of the two money supply components led to a change in the structure of the money supply. The cash to deposit ratio fell from 0.568 at the end of December 1993 to 0.517 at the end of December 1994. The percentage of cash in M1 decreased from 36.2% at the end of 1993 to 34.1% at the end of 1994.

Besides, the sectoral composition of deposit money had changed too. The governments' deposit money (both local and central government) remained as a 32% share in the total of deposit money, but the share of the local governments' deposit money in total government's deposit money grew from 17% at the end of 1993 to 32% at the end of 1994. The private sector's deposit money increased its share from 62% to 63.5%, while the deposit money of the government's enterprises and other sectors decreased their share from 6% at the end of 1993 to 4.5% at the end of 1994. The total of deposit money in the banking system was 5,146 million kuna at the end of 1994.

The central government's accounts were transferred from deposits at commercial banks to deposits at the National Bank of Croatia in October 1994. This was an operative fiscal policy measure but it had a negative impact on liquidity of some of the agents in the banking system. This impact was offset by the appropriate measures. The transferred amount was 654 million kuna or 12.7% of the total deposit money. However, the central government's deposit money was not evenly distributed among commercial banks, and therefore this outflow of deposit money could not fit within the normal daily or monthly fluctuations of deposit money accounts (which is sometimes above 13%). The central government's accounts were concentrated in only a few banks, and these banks were granted credits from the central bank (up to total of 224 million kuna) in order to stop the erosion of their daily liquidity in the critical period. Other central government's deposits - off-budgetary funds' deposits and non-monetary deposits both in kuna and foreign exchange, are still at commercial banks. They encompassed 900 million kuna at the end of 1994, which is 1.5% of the banks' total commercial liabilities.

Non-monetary deposits changed half as slower than the money supply in 1994. But they followed the dynamics of remonetization. The total of non-monetary deposits grew by 57.1% (4,642 million kuna) at an annual level. Non-monetary deposits in domestic currency grew faster than non-monetary deposits in foreign currencies (63% or 1,316 million kuna vs. 55% or 3,326 million kuna respectively). The average monthly growth of non-monetary deposits for the first eight months of 1994 was 4.6%. The rate of growth doubled in May (9.1%) when foreign exchange deposits suddenly increased due to the exchange of temporary for permanent units of currency in the Republic of Croatia. The rate speeded up once again in August (9.2%) due to seasonal factors which increased both the kuna and foreign exchange deposits. The average growth was 2.3% in the last four months and was twice as slow than in the first eight months of the year.

The sectoral and currency structure of non-monetary deposits did not change significantly during 1994, although average interest rates (both lending and on time deposits) of domestic currency declined fourfold: average time deposit interest rates came down from 38.3% in January to 9.7% in December, while average credit interest rates came down from 56% in January to 15% in December. Sight deposit interest rates on an annual level, on average, were halved from 7.7% in January to 3.6% in December.

TABLE 2

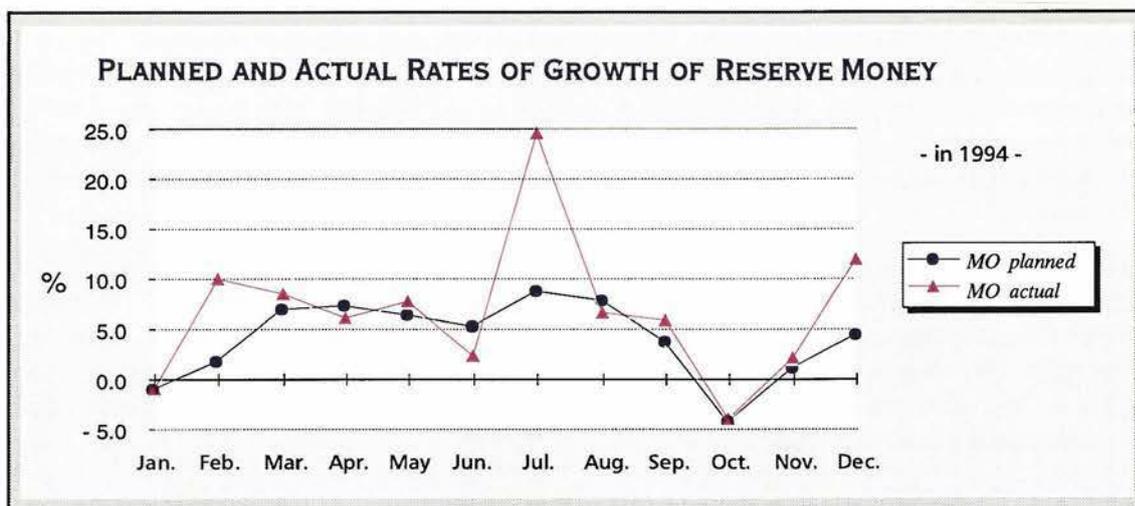
TOTAL NON-BANKING SECTORS' DEPOSITS AT MONETARY INSTITUTIONS (HRK mil.)

	Structure		Changes in 1994 December level		Average monthly rate of growth in 1994		
						Dec. 93	Dec. 94
	Dec. 93	Dec. 94	Dec. 93	Dec. 94	Amount	Rate in %	Rate in %
TOTAL LIQUID DEPOSITS	11,895	20,569	100.0	100.0	8,674	72.9	4.7
1. Money supply	3,772	7,804	31.7	37.9	4,032	106.9	6.2
1.1. Currency in circulation	1,367	2,658	11.5	12.9	1,291	94.4	5.7
1.2. Deposit money	2,405	5,146	20.2	25.0	2,741	113.9	6.5
2. Non-monetary deposits (quasy-money)	8,123	12,765	68.3	62.1	4,642	57.1	3.8
2.1. Deposits in domestic currency	2,095	3,411	17.6	16.6	1,316	62.8	4.1
2.2. F/C deposits	6,028	9,354	50.7	45.5	3,326	55.2	3.7

Pushed by remonetization and by the newly established conditions of a modest domestic money market, total liquid assets (M3) grew by 8,674 million kuna or 73%, i.e. an average of 4.7% per month. Growth was accompanied by the expected change in structure of these assets. The shares of non-monetary deposits in total liquid assets declined from 68.3% at the end of December 1993 to 62.1% at the end of December 1994. Therefore, the shares of M1 increased from 31.7% to 37.9%.

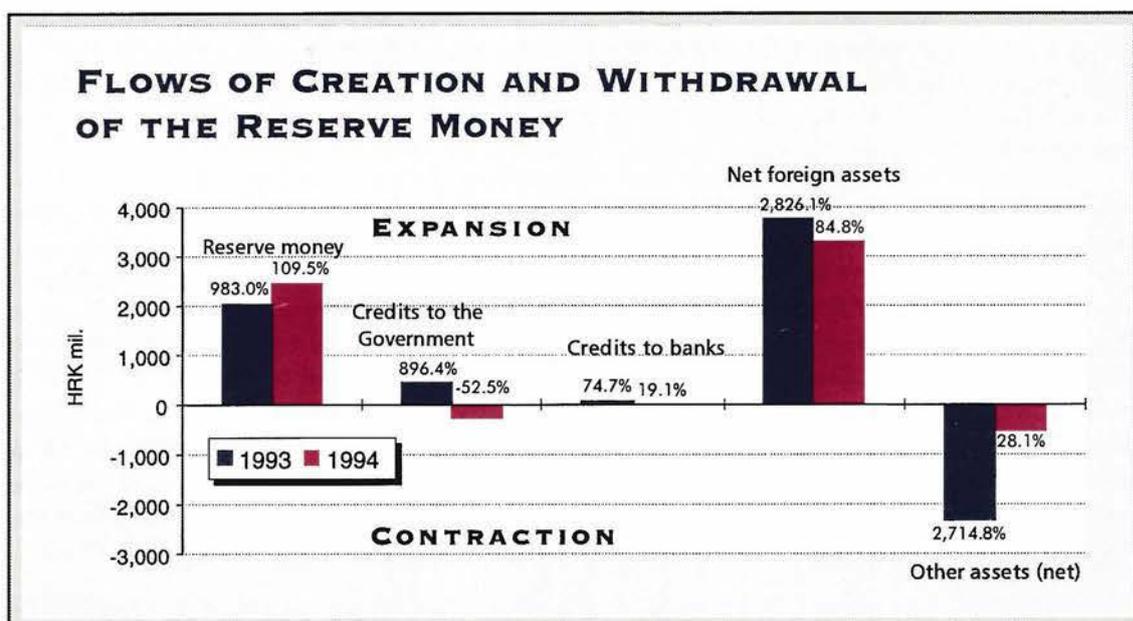
The growth of total liquid assets (M3) in 1994 was induced by uneven reserve money growth: the money multiplier M3 declined from 5.309 at the end of 1993 to 4.577 and 4.728 at the end of July and August respectively, and to 4.383 at the end of December 1994. Reserve money, a monetary aggregate under the direct control of the National Bank of Croatia (cash in circulation plus deposits of the banking system at the National Bank), recorded average monthly rates of growth of 6.4% in 1994. This is the fastest growth rate among all monetary aggregates. From December 1993 to December 1994, reserve money grew by 2,453 million kuna or by 109.5%. All monetary aggregates grew many times faster in the first eight months of the year in comparison to the last four months of the year (M3 grew four times slower in the last four months, while M1 grew ten times slower). This pattern is not so diverse regarding reserve money changes which were, on average, 3.7% a month in the last four months and 7.7% in the first eight months.

CHART 14



Depicted reserve money behavior came out as a consequence of a few important factors. We did some monetary monthly policy projections, using reserve money as an intermediary target during the first half of 1994. Projections were set according to the expected growth of wider monetary aggregates, and they were based upon the need to keep the real exchange rate constant and to keep certain level of kuna liquidity in the banking system. Very high, seasonally affected banking system liquidity in foreign exchange during the second and the third quarter of 1994, imposed a pressure on the National Bank of Croatia to create reserve money by transactions in the foreign exchange. The central bank was buying foreign exchange from domestic banks and selling kuna in order to prevent further appreciation of domestic currency. Only nine months after the first antiinflation measures were announced, and nine months after the announcement of the legendary exchange rate of 4.444 domestic currency units per DEM, the National Bank of Croatia had to undertake measures in order to stop the strengthening of the kuna and to keep its exchange rate at 3.7 units per DEM.

CHART 15



The overall reserve money creation of the National Bank of Croatia was higher than planned. The main flow of reserve money creation was connected to transactions in foreign exchange. Credits to the Government and commercial banks contributed very little to the reserve money growth (see table 3). Part of the monetary effects of the foreign exchange transactions was offset by issuing NBC Bills, short-term papers that commercial banks bought during the year, and which were kept at the average level of 300 million kuna.

The actual reserve money growth of 2,453 million of kuna or 109.5% was composed of growth in cash (1,292 million kuna or 94.5%) and of growth in the banks' deposits at the central bank (1,161 million kuna or 132.9%). The shares of the required reserves in banks' deposits at the National Bank stayed the same (at 87.7%), despite growth in the average rate of reserves requirements on sight deposits from 20.2% in 1993 to 26.4% in 1994, and despite growth in the average rate of reserve requirements on time deposits from 5.5% to 17.4%.

TABLE 3
MONETARY AUTHORITIES (HRK mil.)

	Dec. 93	Dec. 94	Structure in %		Changes in 1994	
			Dec. 93	Dec. 94	Amount	Rate in %
I. ASSETS	4,690	7,670	100.0	100.0	2,980	63.6
1. Net foreign assets	3,892	7,192	83.0	93.8	3,300	84.8
1.1. Assets	4,044	7,908	86.2	103.1	3,865	95.6
1.2. Liabilities	-152	-716	-3.2	-9.3	-564	371.8
2. Credits	798	478	17.0	6.2	-320	-40.1
2.1. Credits to the Government	528	251	11.3	3.3	-278	-52.5
2.2. Credits to banks	187	223	4.0	2.9	36	19.1
2.3. Claims due	83	5	1.8	0.1	-78	-94.1
II. LIABILITIES	4,690	7,670	100.0	100.0	2,980	63.6
1. Reserve money	2,241	4,693	47.8	61.2	2,453	109.5
1.1. Currency in circulation	1,367	2,658	29.1	34.7	1,291	94.5
1.2. Banks' deposits	874	2,035	18.6	26.5	1,161	132.9
1.2.1. DMB's cash	107	250	2.3	3.3	143	133.3
1.2.2. Statutory reserves	767	1,785	16.3	23.3	1,019	132.9
2. NBC bills	21	375	0.5	4.9	354	1,669.3
3. Government's deposits	0	761	0.0	9.9	761	0.0
4. Other deposits	0	94	0.0	1.2	94	0.0
5. Other liabilities (net)	2,428	1,747	51.8	22.8	-681	-28.1

3.1.2. CHANGES IN THE NET DOMESTIC ASSETS OF THE BANKING SYSTEM

The Council of the National Bank of Croatia adopted monthly monetary policy projections during the first half of 1994. Quantitative targets for monetary policy were established by these projections. They included monthly changes in reserve money and wider monetary aggregates, which were set within a framework of the monetary survey. In accordance to the overall economic policy course and obligations to the IMF based upon a Stand by arrangement, the monetary policy plans were based upon the net domestic assets (NDA) of the banking system according to quarterly performance criteria from July 1994 onwards.

Stand by / Systemic Transformation Facility arrangement with the IMF was signed in October 1994 and was based upon several important documents: Letter of Intent, Memorandum on Economic Policy of the Government of the Republic of Croatia, and Annex to the Memorandum. Annex to the Memorandum and the Financial Program for Croatia which was enclosed to the Stand by, determined performance criteria for selected macroeconomics and monetary variables. According to the arrangement, these variables should change in accordance to the planned quarterly changes from June 1994 to December 1995.

Performance criteria for 1994 were:

1. cumulative change in deficit of the consolidated central government cannot exceed 50 million kuna (Annex I of the Memorandum),
2. cumulative change in net claims of the banking system on the consolidated central government (total claims of banks on central government minus total liabilities) from July to December 1994 cannot exceed 84 million kuna (Annex II of the Memorandum),

3. cumulative change in net international reserves of the National Bank of Croatia has to be at least US\$ 432 million according to the HRK/US\$ exchange rate at the end of June 1994: 5.8658 kuna per dollar (Annex III of the Memorandum),
4. cumulative change of the net domestic assets of the banking system in Croatia from July to December 1994 could be at most 1,430 million kuna (Annex IV of the Memorandum),
5. cumulative change of net claims of the banking system on nineteen enterprises determined by the Government's decree, was set at a maximum of 345 million kuna from July to December 1994 (Annex V of the Memorandum),
6. cumulative change of newly arranged external debt or of new guaranties for new external debt which becomes due in period of 1-12 years, cannot exceed US\$ 200 million from July to December. For debt which becomes due in 1-5 years, the maximum is US\$ 50 million (Annex VI of the Memorandum).

As many as three of the six performance criteria are related to the central bank's activities: accumulation of net international reserves of the National Bank of Croatia, giving credits and collecting deposits of the central government according to regulations, and establishing the net domestic assets of the banking system. We define net domestic assets as the summary aggregate which shows the total banking system's claims in all domestic sectors. Relations between the banking sector and the Government are expressed net: the total claims on the Government are diminished by the total amount of the Government's deposits in the banking system.

TABLE 4
NET DOMESTIC ASSETS (HRK mil.)

	June 94	Sep. 94	Dec. 94	Changes in second half-term 1994	
				Amount	%
I NET FOREIGN ASSETS (NFA)	6,084	8,971	7,492	1,408	23.2
1. Net foreign assets of NBC	4,978	6,549	7,192	2,214	44.5
2. Banks' net foreign assets	1,106	2,422	300	-805	-72.9
2.1. Banks' foreign assets	5,762	6,856	6,693	931	16.2
2.2. Banks' foreign liabilities (-)	-4,656	-4,434	-6,393	-1,736	37.3
II NET DOMESTIC ASSETS (NDA)	8,546	9,030	11,458	2,912	34.1
1. Banks' credits	23,849	26,262	28,220	4,371	18.3
1.1. Credits (in kuna)	13,853	15,751	17,235	3,382	24.4
1.2. F/C Credits	9,997	10,511	10,986	989	9.9
2. Claims from the Government (net)	802	115	47	-755	-94.2
2.1. Claims in kuna and F/C	2,053	1,698	1,666	-387	-18.8
2.2. Deposits in kuna and F/C	-1,251	-1,583	-1,619	-368	29.4
3. Other assets (net)	-16,106	-17,347	-16,809	-704	4.4
III TOTAL LIQUID DEPOSITS (M3)	14,630	18,001	18,950	4,320	29.5
1. Money supply	5,055	6,502	6,673	1,618	32
1.1. Currency in circulation	1,666	2,158	2,658	992	59.6
1.2. Deposit money	3,389	4,344	4,015	626	18.5
2. Quasy-money	9,575	11,499	12,277	2,702	28.2
2.1. Deposits in kuna	2,488	2,986	3,103	615	24.7
2.2. F/C deposits	7,087	8,513	9,174	2,086	29.4

Note: M3 does not encompass all deposits of the central government because they are included in net claims on the Government inside NDA.

Therefore, performance criteria NDA (cumulative changes in the net domestic assets of the banking system) became an intermediary monetary target until the end of 1995. Hence, monetary policy projections have now been done in a different way since July 1994, by using net domestic assets identity. Net domestic assets of the banking system is equal to the difference between total liquid assets and net foreign assets: $NDA = M3 - NFA$. The sum of the net domestic assets of the banking system and net foreign assets on the asset side is equal to the total of liquid deposits at the liability side of the banking system.

Performance criteria for net international reserves of the National Bank of Croatia (NIR), net claims on central government and net domestic assets of the banking system, were met in 1994.

The net international reserves of the National Bank of Croatia (foreign assets minus foreign liabilities of the National Bank of Croatia) increased by US\$ 685 million or US\$ 677 million according to the exchange rate HRK/US\$ on July 30, 1994, which means that the net international reserves of the National Bank of Croatia (NIR) were 56.7% higher than the floor (US\$ 432 million) given by the performance criteria for 1994.

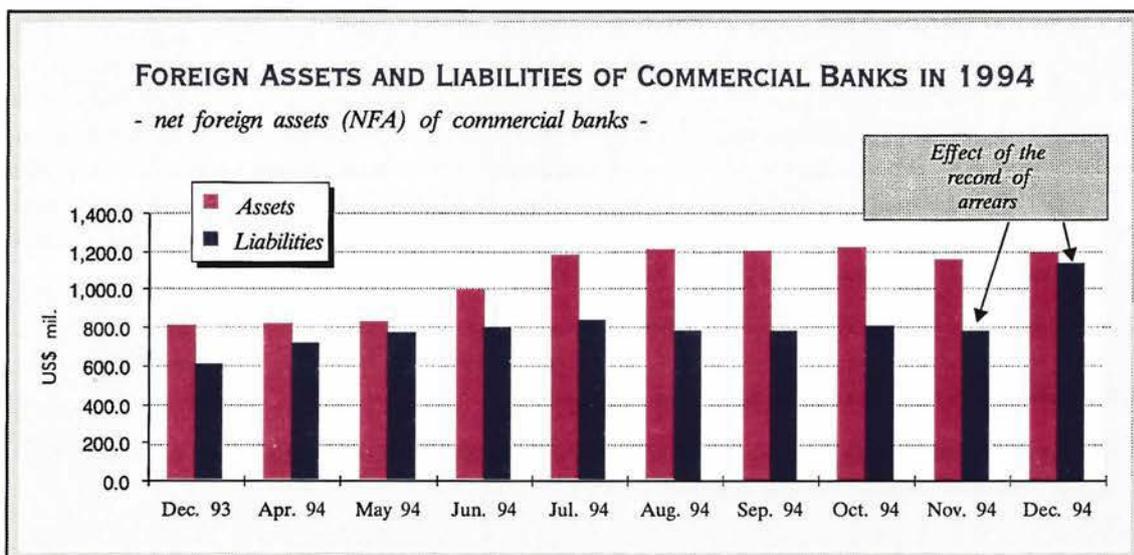
The net claims of the banking system on the central government (Republic of Croatia: budget, Parliament, state and governmental institutions and bodies, and off-budgetary funds) were 47 million kuna at the end of December 1994, and in comparison to the end of June, they declined by 755 million kuna although the performance criteria allowed for a growth of 84 million kuna.

A planned increase in the net domestic assets of the banking system of 1,430 million kuna was only partly met in the second half of the year. A methodological adjustment which enlarged the performance criteria by 1,291 million kuna was made, and the performance criteria was surpassed by 191 million kuna or 1.7%. The total amount above the initial performance criteria was 2,912 million kuna, and this was accepted by the IMF during the first Program Review.

The methodological adjustment of NDA was due to an increase in DMB's assets and the liabilities induced by the Government's Decree which forced domestic debtors to repay their obligations to foreign claimers.

Many of the off-balancing items entered the monetary survey, and the final effect of recognition of all foreign liabilities increased NDA by 1,977 million kuna.

CHART 16



The increase in NDA during the second half of 1994 was 2,912 million kuna or 34%. It was composed of: (1) a high growth of kuna credits (3,382 million or 24%), especially in securities (a 1,615 million growth i.e. 44%) and loans to enterprises (1,300 million i.e. 20%), and (2) a decline in net claims on the Government (755 million kuna) and decline in other net assets (704 million).

Other net assets are: the balance of other banks' claims and liabilities, the balance of interbank claims and liabilities, the balance of claims and liabilities between the National Bank of Croatia and other banks, balance with the former Yugoslavia, government based claims upon public debt and liabilities based upon frozen foreign exchange deposits ("old savings"), and reserve and capital accounts.

An increase in the net foreign assets of the banking system (NFA) of 1,408 million kuna or 23% in the second half of 1994 was due to an increase in the net foreign assets of the National Bank of Croatia (2,214 million kuna or 45%) and due to a decline in the net foreign assets of commercial banks (805 million kuna or 73%). The later decline was due to the effect of recognition of all foreign liabilities, therefore, purely accounting reason (see above).

The increase in net domestic claims of the banking system on other domestic sectors (NDA) and on foreign sectors (NFA) led to an increase in total deposits of the non-banking sectors (M3) at monetary institutions at an amount of 4,320 million kuna or 29.5%. The recorded growth of total liquid assets (M3) does not include the increase in the central government's deposits of 428 million kuna because this is shown as a liability (of the overall banking system) to the central government inside the net claims on government. This approach has been accepted into the new monetary statistics methodology which was used to make the tables attached in the Statistical Appendix at the end of this Report.

3.2. CREDITS TO THE GOVERNMENT AND TRANSFER OF THE GOVERNMENT'S ACCOUNTS TO THE DEPOSIT AT THE NATIONAL BANK OF CROATIA

3.2.1. CREDITS TO THE GOVERNMENT

The National Bank of Croatia granted long-term loans to the Government in previous years (15.5 million kuna in 1991 and 347.5 million kuna in 1993), although no new long-term loans were granted in 1994. The long-term claims on the Government were 363 million at the beginning of 1994, and claims on the Government at the end of the year were 180.1 million kuna. During the Spring of 1994 the Government took a short-term loan in order to bridge the time inconsistency between revenues and outlays. The Law on the National Bank of Croatia, article 58, allows for short-term financing of the Government's budget exactly because of the time inconsistency reason. Therefore the National Bank of Croatia approved three short-term loans at the end of March. The interest rates were set at the level of the discount rate and both principal and interests became due on December 31.

The first loan was entirely drawn on the March 31, while the other two loans had to be drawn in four monthly installments, starting on the April 1. The Government drew less than approved because of a better fit between revenues and outlays in the later period.

The short-term loans which amounted to 362.3 million kuna were gradually repaid over a period of time. The payments were finally repaid in September 1994.

TABLE 5
(HRK mil.)

	LONG-TERM CREDITS			SHORT-TERM CREDITS				TOTAL
	in 1991	in 1993	TOTAL	bridging loans	for repaying of the second drawing of the long-term credits		TOTAL	
					for purchase of F/C			
12/31/93	15.5	347.5	363.0	-	-	-	-	363.0
01/31/94	15.5	343.6	359.1	-	-	-	-	359.1
02/28/94	15.5	343.6	359.1	-	-	-	-	359.1
03/31/94	15.5	288.2	303.7	-	91.7	55.5	147.2	450.9
04/30/94	15.5	334.7	350.2	73.4	91.7	15.5	180.6	530.8
05/31/94	15.5	336.8	352.3	112.5	184.4	-	296.9	649.2
06/30/94	15.5	280.6	296.1	112.5	184.4	-	296.9	593.0
07/31/94	15.5	279.0	294.5	47.5	184.4	-	231.9	526.4
08/31/94	15.5	279.2	294.7	-	48.9	-	48.9	343.6
09/30/94	15.5	223.6	239.1	-	-	-	-	239.1
10/30/94	15.5	223.2	238.7	-	-	-	-	238.7
11/30/94	15.5	221.4	236.9	-	-	-	-	236.9
12/31/94	15.5	164.6	180.1	-	-	-	-	180.1

3.2.2. TRANSFER OF THE GOVERNMENT'S ACCOUNTS TO THE DEPOSIT AT THE NATIONAL BANK OF CROATIA

The decision to transfer the Government's accounts to the deposit at the National Bank of Croatia regulated an obligation to include the Government's deposit money held at the Payments Institute into the deposit at the National Bank of Croatia. These are mostly sight deposit accounts which can be used for payments and limited sight deposits to a lesser extent. The accounts which were transferred to the deposit at the National Bank of Croatia are: the giro account of the state budget and of all the budget subsidiaries and some transfer accounts for public revenue, but mostly transfer accounts for common public revenues of the central and local governments. The deposit money from these accounts was transferred to the deposit at the National Bank of Croatia on October 3, 1994 to the amount of 654 million kuna.

3.3. CREDITS TO BANKS AND NBC BILLS ISSUES

The activity of the central bank in credit relations to commercial banks was directed towards reducing credits from reserve money creation during 1994. Some significant changes in monetary policy instruments were undertaken in that period, and there have been some major changes regarding the payments system.

3.3.1. CREDITS TO BANKS

CREDITS FROM THE GENERAL QUOTA

The General Quota was the main credit arrangement between the National Bank of Croatia and commercial banks, but its importance has diminished since the beginning of the Stabilization Program.

TABLE 6
CREDITS FROM RESERVE MONEY CREATION OF THE NATIONAL BANK OF CROATIA
end of month (HRK mil.)

	1993	1994			
	Dec.	Mar.	June	Sep.	Dec.
I CREDITS TO BANKS	186.9	195.0	110.5	168.2	222.6
<i>General quota</i>	139.8	80.9	0.0	0.0	0.0
<i>Credits for day-to-day liquidity</i>	5.5	0.0	0.0	155.0	0.0
<i>Advances to exchange offices</i>	-	51.4	56.2	0.3	0.0
<i>Long-term loans</i>	0.8	0.8	0.5	0.4	0.4
<i>Other loans</i>	5.3	9.9	23.0	12.1	0.9
<i>Special loans for citizens' savings and current account deposits</i>	35.5	52.0	30.8	0.4	0.0
<i>Intervention loans</i>	-	0.0	0.0	0.0	0.0
<i>Lombard loans</i>	0.0	0.0	0.0	0.0	24.0
<i>Initial loans</i>	-	0.0	0.0	0.0	0.0
<i>NBC REPO arrangements</i>	-	0.0	0.0	0.0	197.3
II CREDITS TO MINISTRY OF FINANCE	535.4	577.4	694.3	333.6	250.6
<i>Long-term loans</i>	384.0	303.7	296.2	239.2	180.1
<i>Short-term loans</i>	-	147.2	296.9	0.0	0.0
<i>F/C loans</i>	151.4	126.5	101.2	94.4	70.5
TOTAL	715.3	772.4	804.8	501.8	473.2

The value of the General Quota at the beginning of 1994 was 139.8 million kuna, and all credits from the quota had to be repaid by May 15, 1994. In fact they were still being paid until the end of July 1994.

TABLE 7
CREDITS FROM RESERVE MONEY CREATION IN 1994
quarterly changes (HRK mil.)

	Dec. 93	CHANGES IN 1994							
		1ST QUARTER		2ND QUARTER		3RD QUARTER		4TH QUARTER	
		Amount	Index	Amount	Index	Amount	Index	Amount	Index
I CREDITS TO BANKS	186.9	8.1	104	-84.5	57	57.7	152	54.4	132
<i>General quota</i>	139.8	-58.9	58	-80.9		0.0		0.0	
<i>Credits for day-to-day liquidity</i>	5.5	-5.5	0	0.0		155.0		-155.0	
<i>Advances to exchange offices</i>	-	51.4		4.8	109	-56.0	0	-0.3	
<i>Long-term loans</i>	0.8	0.0	99	-0.3	60	-0.1	80	0.0	100
<i>Other loans</i>	5.3	4.6	188	13.1	232	-10.9	53	-11.2	7
<i>Special loans for citizens' savings and current account deposits</i>	35.5	16.5	147	-21.2	59	-30.4	1	-0.4	
<i>Intervention loans</i>	-	0.0		0.0		0.0		0.0	
<i>Lombard loans</i>	0.0	0.0		0.0		0.0		24.0	
<i>Initial loans</i>	-	0.0		0.0		0.0		0.0	
<i>NBC REPO arrangements</i>	-	0.0		0.0		0.0		197.3	
II CREDITS TO MINISTRY OF FINANCE	535.4	63.0	108	116.9	120	-360.8	48	-35.3	75
<i>F/C loans</i>	384.0	-59.3	79	-7.5	98	-57.0	81	-59.2	75
<i>Long-term loans</i>	-	147.2		149.7	202	-297.0		0.0	
<i>Short-term loans</i>	151.4	-24.9	84	-25.3	80	-6.8	93	23.9	75
TOTAL	722.3	71.1	108	32.4	104	-303.1	62	19.1	94

LOANS FOR DAY TO DAY LIQUIDITY

Banks were allowed to get loans for daily liquidity if they could use collateral such as NBC Bills (loans granted were to the full amount), or bonds and bills of exchange of the Republic of Croatia (50% of the nominal value of securities which expired in 6 months from the day of drawing the loan). Banks could use loans for liquidity for 10 days in a month if they did not have any unpaid due obligations based on some former loan for liquidity in the last 60 days. Banks were not allowed to extend their loans and other credits while using a loan for liquidity. These loans reached their maximum outstanding value at the end of September, 1994 (155 million kuna).

SPECIAL LOAN FOR CITIZENS' SAVINGS DEPOSITS AND CURRENT ACCOUNTS

The special loan for citizens' savings deposits and current accounts is a sort of insurance for continuous payoffs from savings deposits and current accounts. Since the deposit insurance problem had still not yet been resolved, banks were free to use this loan automatically. The amount of the loan was approved daily by the Liquidity Commission, and the Payments Institute carried out the transaction.

The average monthly amount of these loans during 1994 was between 8.1 to 109.9 million kuna, and it was used by a small number of banks with severe liquidity problems (Riječka banka d.d. Rijeka, Slavonska banka d.d. Osijek, Splitska banka d.d. Split, and Istarska banka d.d. Pula).

From October 1994 onwards, new legal regulations stopped the automatic use of secondary sources of liquidity as well as the special loans for citizen's savings deposits and current accounts. However, banks were allowed to offer the public the use of daily credits for their own accounts, although only during the day and then only up to 10% of the money from their savings and current accounts.

INTERVENTION LOAN

After blocking the way of automatic access to the secondary liquidity and after the introduction of the "double coverage" principle in October 1994, the central bank adjusted its assets to these changes. The biggest news was the introduction of the intervention loan.

Intervention loan was introduced on October 1. If a bank does not have enough means in its giro account after (a) clearing the money market, (b) using loans for daily liquidity (in October and November), (c) using the lombard facility (introduced in December), then the National Bank of Croatia grants an intervention loan to the commercial bank. The amount of the loan is equal to the minus in the giro account.

From that moment until the moment of repayment, the Payments Institute carries out the depositor's orders only if the bank has coverage in its giro account. This prevents further erosion of the bank's negative position as long as the bank is using the intervention loan. The only exception are daily credits which have to be paid even if it leads to the larger amount of the intervention loan.

The intervention loan has to be repaid no later than the third working day after it was approved, and the same bank can use it at most three times in a month. If a bank cannot repay the loan within three days, it is under obligation to submit a document to the National Bank of Croatia. The document has to contain a request for an extension of the intervention loan, detailed information about the liquidity position, and a plan resolving the liquidity problem.

Eleven banks used intervention loans in the last quarter of 1994. The average amount was 30 million kuna, counting only the days when loans were outstanding.

INITIAL LOAN

Initial loans were loans that preceded banks' restructuring and were directed to the most frequent users of the secondary sources of liquidity in the last quarter of 1994. Initial loans were also extended for bridging the problems that occurred after the transfer of the Government's deposits to deposits at the National Bank of Croatia at the beginning of October.

The total amount of initial loans was 99 million kuna extended to Splitska banka d.d. Split, Riječka banka d.d. Rijeka and Slavonska banka d.d. Osijek.

LOMBARD CREDITS

Commercial banks had the right to use lombard credits within the general quota until May 1994. They rarely executed this right. But after suppressing the general quota, lombard credits were suppressed too.

The decision taken on the December 1, 1994 opened up the possibility to use lombard loans again, after providing collateral for NBC Bills. The loan was extended up to 100% of the nominal value of NBC Bills

for 15 working days in a month. A lombard loan came instead of a daily loan for liquidity which was abolished the same day. The difference between these two loans was in the regulation of total credits: the increase of a bank's credits is not limited while the bank is using a lombard credit.

Lombard credits grew from 13.5 to 425.3 million kuna. The fifteen banks that held NBC Bills used these loans, and the average amount of a loan was 209.9 million kuna.

3.3.2. NBC BILLS AND REPURCHASE AUCTIONS

Within the monetary policy framework for 1994, the central bank carried out NBC Bills auctions which started at the end of 1993. At the beginning of 1994, commercial banks were allowed to buy NBC Bills at the so-called direct offer between the auctions. However, the interest rate and the maturity date were both known in advance. Some innovations were introduced during February 1994: auctions were announced a day in advance, and the interest rates offered were auctioned off regardless of the National Bank's discount rate. The central bank became very flexible regarding the interest rate on NBC Bills at the auctions during 1994 because the aim of these auctions was to sterilize excess reserves.

Other agents also had the right to subscribe for the NBC Bills during 1994, but they had to work with commercial banks as their brokers. Other agents showed no interest in the NBC Bills.

Other innovations were again introduced during July: savings banks and savings and loan associations got the right to subscribe for the NBC Bills, direct offers were abolished, the NBC Bills were sold at a discount (face value minus interest amount), a number of possible maturates was reduced from five to three (14 and 60 days maturities were abolished), and the auctions were separated according to maturity dates: 7-day NBC Bills were auctioned off on Monday, 30-day Bills on Wednesday, 90-day Bills on Friday.

The maturity structure of the NBC Bills has changed in August and September 1994 according to the changes in the monetary policy, regulations and banks' liquidity: the majority of outstanding Bills were 7-days Bills, but then the weight lifted towards 90-days Bills. Their share was 86% at the end of September.

TABLE 8
THE AVERAGE INTEREST RATES OF THE NBC BILLS AUCTIONS IN 1994
in percentage

	M A T U R I T Y D A T E S						
	7	14	30	35	60	90	91
December 1993	67.8	-	63.1	-	-	97.4	-
January 1994	26.8	52.9	66.9	-	-	66.7	-
February 1994	28.3	26.8	41.3	-	-	71.5	-
March 1994	24.8	24.8	24.8	-	-	25.0	-
April 1994	17.5	17.8	18.7	-	-	15.0	-
May 1994	17.9	18.6	19.7	-	-	-	-
June 1994	15.2	18.9	20.0	-	-	22.0	-
July 1994	13.5	19.0	16.3	-	-	17.7	-
August 1994	11.0	-	14.0	-	-	17.0	-
September 1994	11.1	-	14.1	-	-	17.0	-
October 1994	11.1	-	13.7	-	-	17.0	-
November 1994	9.0	-	11.0	11.0	-	14.0	14.0
December 1994	9.0	-	-	11.9	-	-	14.0

The amount of outstanding NBC Bills declined in October 1994 due to the transfer of the central government's deposits from commercial banks to the deposit at the National Bank of Croatia. The new expiration dates were determined at the end of November: Day 7, Day 35 and Day 91. This change allowed expiration dates to correspond to auction days. Auctions were held three times a week for all three maturities at the same time from November onwards.

TABLE 9
NBC BILLS ACCORDING TO MATURITY DATES IN 1994 MONTHLY
(HRK thousands)

	M A T U R I T Y D A T E S						
	7	14	30	35	60	90	91
December 1993	1,800	-	1,050	-	-	11,150	-
January 1994	1,300	3,200	4,000	-	-	7,500	-
February 1994	50,500	300	11,200	-	-	1,500	-
March 1994	427,250	100,300	5,200	-	-	12,500	-
April 1994	625,300	19,350	30,500	-	-	7,000	-
May 1994	829,200	16,200	40,400	-	-	-	-
June 1994	883,500	101,850	26,900	-	-	5,200	-
July 1994	259,400	13,000	129,900	-	-	20,000	-
August 1994	503,400	-	71,400	-	-	124,100	-
September 1994	211,400	-	13,000	-	-	256,600	-
October 1994	202,000	-	14,500	-	-	68,000	-
November 1994	54,500	-	35,500	13,600	-	30,500	2,000
December 1994	19,000	-	-	68,800	-	-	224,545

TABLE 10
BIDED AND SUBSCRIBED NBC BILLS IN 1994
(HRK thousands)

	TOTAL offered amount	TOTAL subscribed amount	number of accepted offers	NBC Bills at the end of the month
December 93	16,300	14,000	17	21,200
January 94	22,800	16,000	13	31,450
February 94	71,900	63,500	27	82,150
March 94	545,750	545,250	98	165,950
April 94	682,800	682,150	62	305,550
May 94	887,850	885,800	87	363,400
June 94	1,017,450	1,017,450	81	351,600
July 94	422,300	422,300	48	204,318
August 94	714,200	699,300	62	334,113
September 94	481,000	481,000	47	438,804
October 94	330,500	284,500	39	272,217
November 94	161,000	136,100	26	295,618
December 94	318,345	12,345	35	375,074

NBC BILLS REPURCHASE AGREEMENTS

The NBC Bills Repurchase Agreements (NBC sold its Bills and accepted an obligation to buy the same Bill at a predetermined date and pay the interest rate) were introduced in 1994. The interest rate on repurchase agreements was determined at auction and it changed from 16.2% to 18%. Three such auctions were held during 1994.

TABLE 11

(HRK THOUSANDS)	11/29/94	12/23/94	12/31/94
Bids, total	111,800	21,300	212,301
Accepted bids, total	70,400	21,300	212,301
Weighed interest rate	18.0%	16.2%	17.7%

3.3.3. BANKS' LIQUIDITY

The liquidity of the banking system was under numerous influences induced by, among other things, changes in legal regulations. All in all, liquidity in kuna was more than sufficient to carry out the planned growth in monetary aggregates.

A bank's liquidity is usually measured by its giro account position, balance in cash, by monitoring the use of secondary sources (money market, interbank credits and credits from reserve requirements accounts), and by monitoring the use of primary sources (loans for daily liquidity, lombard credits, intervention loans and loans for payments from citizens' savings and current accounts).

By looking at the giro account, secondary sources of liquidity and the rate of primary liquidity, we can conclude that the liquidity position of the banking system changed a lot during 1994. Liquidity was low in the first quarter. Banks used significant amounts of liquidity credits (especially in February), and loans for payments out of citizen's savings and current accounts. Special problems occurred with banks which extended loans to shipyards, and which did business in the war zones.

In the second quarter, especially in April and May, liquidity improved significantly and banks were ready for the extended purchase of the NBC Bills. After they have repaid loans from reserve money creation in July, banks' liquidity worsened. However, at that time, the National Bank of Croatia intervened on the foreign exchange market (it bought out foreign exchange from exchange offices), so liquidity was high in August and September. This was the main reason (together with the well synchronized monetary policy measures) why banks did not have greater difficulties after the transfer of the Government's deposits to the deposit at the central bank in October 1994.

REPURCHASE OF THE FOREIGN EXCHANGE

Besides the ultimate buyout of the foreign exchange, the National Bank's transactions in the foreign exchange were enriched by a new asset - the repurchase agreements of the foreign exchange. The repurchase term was set before the end of the month for all months when repurchase agreements were active in order to make a temporary spillover of foreign exchange to kuna liquidity. Therefore, the monetary effect of any transactions in foreign exchange was offset within a month. The only exceptions were July (35 million kuna) and October (184 million kuna). However, these effects were neutralized in the following months, when repurchase agreements expired.

3.4. NBC INTEREST RATES

NBC's interest rates were set on a monthly level until the end of March 1994, and from April onwards they were set on an annual level. Interest rates on credits changed according to the discount rate. An interest rates analysis in 1994 (time of the Stabilization Program) points to a continuous decline of both the discount rate and other lending and deposit rates. The National Bank's interest rates were lower than commercial banks' and money market's interest rates of the whole year.

The discount rate changed from 14% at an annual level in January to 8.5% from July until the end of the year. Changes in the lending and deposit rates of the National Bank of Croatia are displayed in table 6 in the Statistical Appendix.

3.5. INTERVENTIONS AT THE FOREIGN EXCHANGE MARKET AND EXCHANGE RATE POLICY

The Stabilization Program of the Government of the Republic of Croatia and its targets - a reduction of inflation and creation of a stable economic environment, were supported by the active exchange rate policy. It can be said that a restrictive monetary policy continued during 1994. Therefore, maintaining a stable exchange rate remained a very complicated task for the central bank. Pressures to appreciate were very strong due to a balance of payments surplus i.e. due to a constant net capital inflow. The National Bank of Croatia had to judge its priorities and achieve a fine balance between two equally important goals of economic and monetary policy when it had to intervene at the foreign exchange market during 1994; sometimes it seemed that it had to choose between defending the exchange rate from appreciation or breaking through the limits of growth of the monetary aggregates with an inevitable renewal of inflation pressures and jeopardizing the realization of the Stabilization Program.

The first pressures had already occurred in the first quarter of 1994. The exchange rate was at 3.5936 kuna per DEM in March and it was the lowest D-mark value in the domestic foreign exchange market of the whole year. The National Bank of Croatia made an intervention by an auction buyout, and the kuna/DEM exchange rate depreciated until the end of March, and by the beginning of the tourist season it was at a stable level of 3.71.

The foreign exchange inflow speeded up during the summer season, due to stronger interventions being made to defend the exchange rate. Appreciation was prevented by the active interventions of the National Bank of Croatia. The increased demand for domestic currency which could jeopardize the exchange rate stability was satisfied. From May to August US\$ 256.7 million and DEM 224.4 million (about US\$ 400 million) were bought from exchange offices. There were no regular auctions because the issue of the kuna through buyouts from exchange offices was judged as being appropriate. The exchange rate was stable - between 3.69 and 3.71 kuna per DEM, throughout the whole of the tourist season.

Appreciation pressures occurred again in October and the National Bank of Croatia intervened through the regular auction and stopped the growth in the kuna's value. These interventions were of a limited scope, because the Government's Memorandum on the economic policy which determined a narrow framework for monetary growth (i.e. for growth in net domestic assets), had already been signed. The

National Bank's interventions stopped the appreciation in the last quarter at the level of 3.63 kuna per DEM.

Appreciation trends, present throughout the whole year were obviated by the ultimate buy off interventions at the foreign exchange auctions. The total amount bought from banks at auctions was DEM 276.7 million, which means the reserve money creation in an amount of 1,012.7 billion. Besides, seasonal appreciation trends during the tourist season were prevented by ultimate buying of foreign currency in an amount of US\$ 256.7 million and DEM 224.4 million. That meant that 2,342.9 billion kuna more were in circulation. Hence, the total monetary effects of interventions aimed to stop the appreciation trend were 3,355.6 billion kuna in 1994.

On the other hand, the exchange rate volatility, which was very distinct in certain periods, did not exhibit trend movements and it required another type of intervention: selling repurchase agreements in foreign exchange at auctions, with an interest rate equal to the discount rate. The National Bank of Croatia bought off US\$ 452.1 million in this way, and that means that some additional 1,953 million kuna occurred in circulation from time to time. The issuing effect of this type of intervention was neutralized i.e. all kuna issued in this way were withdrawn within the agreed term.

The National Bank of Croatia intervened in the domestic foreign exchange market 27 times in 1994: it used ultimate interventions 11 times, and repurchase interventions 16 times.

International reserves at the National Bank's disposal increased by approximately US\$ 600 million due to interventions. An additional increase of approximately US\$ 200 million was due to interest earnings on foreign exchange reserves and dealings with the IMF. The NBC's international reserves at the end of December 1993 were US\$ 614.4 million, and US\$ 1,405 million at the end of December 1994.

4. RELATIONS WITH INTERNATIONAL FINANCIAL INSTITUTIONS, STAND BY/STF ARRANGEMENT AND RELATIONS TO BANKS

4.1. RELATIONS WITH THE INTERNATIONAL MONETARY FUND

The main task of the Republic of Croatia was to effectuate a more active role in the work of the International Monetary Fund. The main activity of the Republic of Croatia in this respect was directed towards the economic Stabilization Program and towards gaining more active support from the International Monetary Fund in order to strengthen the position in the international financial society.

Development of the Stabilization Program and a successful cooperation with the Fund's representatives resulted in Stand by arrangement approved by Executive Board of the International Monetary Fund in October 1994, after the successful completion of the 1994 Article IV consultation. It was accompanied by financial aid at an amount of SDR 65.4 million.

Stand by arrangement is agreed upon as short-term assistance aimed to alleviate payment problems which arose from the balance of payment difficulties.

Besides the Stand by arrangement, Croatia got credit for the transformation of its economic system to the amount of SDR 130.8 million. Because of the changing situation that Croatia faces in the international trade relations marked by extending multilateral trade based on market prices, credit was approved regarding the balance of payments. This situation is a consequence of the break-up of the Eastern European market as well as FSU market, where trade was conducted mostly by bilateral payments agreements and by administered prices.

Stand by agreement and Systemic Transformation Facility was approved in the total amount of SDR 196.2 million which is 75% of Croatia's quota in the Fund.

It is important to emphasize that the approval of these arrangements was preceded by the successful fulfillment of requests defined by the so-called "prior actions" (a reduction in domestic payment arrears of the central budget, the elimination automatic credit facilities of the central bank, the abolishment of subsidies for the budget etc.).

Stand by arrangement and Systematic Transformation Facility including the first disbursements were preconditions for starting negotiations with Paris Club as to regularize relations with official bilateral creditors.

As the fiscal agent and the depository institution, the National Bank of Croatia maintains the deposit accounts of the International Monetary Fund, and, in 1994, regularly settled the obligations based on succession which resulted from the Stand by signed by the former Yugoslavia. The principal of SDR 6.2 million and interest of SDR 1.2 million was paid in 1994 on the basis of that arrangement. As a member of the Special Drawing Rights Department at the International Monetary Fund, Croatia regularly settled its

obligations that arose from inherited (by succession) obligations based upon the so-called allocation of the Special Drawing Rights. The respective payment amounted to SDR 1.4 million in 1994.

However, Croatia's membership in this department was not only limited to the regular settlement of the obligations assumed by Croatia but also included "transactions by agreement" in Special Drawing Rights, foremost in order to comply with currency structure benchmark.

TABLE 12
Position on Dec. 31, 1994, in SDR million

GENERAL RESOURCES ACCOUNT		<u>Ratio to quota in %</u>
Quota	261.6	100.0
IMF holdings in kuna	348.7	133.0
SDR DEPARTMENT		<u>Ratio to allocation in %</u>
Net cumulative allocation charges	44.2	100.0
Holdings of the Republic of Croatia	3.1	7.0
REPAYMENTS IN 1994		
Principal repayment (Stand by - succession)	6.2	
Interest repayment (Stand by - succession)	1.2	
Net cumulative allocation expenses	1.4	

In order to strengthen cooperation with the International Monetary Fund, Croatia participated in elections at the Annual Meeting of the Board of Governors of the International Monetary Fund for the first time this year, and it officially became a member of *Constituence* - the group of countries whose Executive Director will represent Croatia at the Board of Executive Directors of the International Monetary Fund.

Cooperation with the IMF regarding technical assistance missions continues in the form of technical support for the structural adjustment. Technical assistance during 1994 covered the following fields:

- ◆ the monetary and foreign exchange operations (monetary operations, banking supervision, foreign exchange market, domestic payments and transfers system, the central bank's accounting);
- ◆ the fiscal sector (establishment of the treasury, the budget);
- ◆ the statistics department (monetary and banking statistics, macroeconomics accounts, balance of payments).

Significant changes have been carried out in accordance to the Fund's recommendations, especially in the field of macroeconomic statistics.

4.2. THE WORLD BANK GROUP, THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT AND THE INTER-AMERICAN DEVELOPMENT BANK

According to the Law on Membership of the Republic of Croatia in the International Monetary Fund and Other International Financial Organizations Based Upon Succession (Official Gazette, 89/92), The National Bank of Croatia plays the role of the depository institution i.e. it takes care of all deposit accounts that belong to international financial organizations. It does that in the name of the Republic of Croatia, and carries out every transaction with these organizations as the fiscal agent of the state - the Republic of Croatia. The National Bank of Croatia regularly pays in shares for which the Republic of Croatia took obligation to subscribe according to the plans determined by financial organizations (The World Bank Group - IBRD, IDA, MIGA, IFC; European Bank for Reconstruction and Development; Inter-american Development Bank, see table below).

TABLE 13

PAYMENTS FOR MEMBERSHIP OF THE REPUBLIC OF CROATIA IN INTERNATIONAL FINANCIAL ORGANIZATIONS IN 1994

IFO	currency	Paid in amount		Bills of exchange issued by the Ministry of Finance
IBRD		-	HRK	14,774,827.57 (valuation adjustment)
		-	HRK	18,683,018.90 (increase in capital)
EBRD	ECU	60,000.00	ECU	30,000.00
IFC	US\$	571,200.00		-
IDA		-	HRK	66,411.70
IDB	HRK	571,463.98 (regular capital)	US\$	48,856.00 (regular capital)
	US\$	32,250.00 (Fund for Special Operation)		

Besides its role of a depository, representatives of the National Bank of Croatia actively participated in the work of the World Bank's missions. Special attention was paid to the mission on banking supervision and restructuring since the approval of the World Bank's loan for enterprise and financial sector adjustment (EFSAL) to an amount of approximately US\$ 100 million was expected. The agreement to the use of a loan is expected sometime during 1995.

4.3 RELATIONS TO FOREIGN BANKS

During 1994 we continued to monitor banking systems in different countries and regions, economic and financial trends in these countries and regions, and we analyzed the existing level of cooperation of these countries and regions with the Republic of Croatia and especially with Croatian banks. Special attention was paid to monitoring the financial soundness of foreign commercial banks in order to build a data base for judgment of appropriate banks for taking our international reserves into the deposit.

Activities on extending the network of correspondents in the world were continued too. Because of the need to carry out the Government's Decree on paying international arrears, regular current accounts were opened in BEF, CAD, ECU, DKK, FRF, GBP, ITL, JPY, NOK, NLG, ESP, PTE and SEK besides already existing accounts in US\$, DEM, CHF, ATS and SDR. Therefore, the National Bank of Croatia has opened 23 regular current accounts in 16 countries. Hence it realized one of the operative prerequisites to extend the number of currencies for holding the international reserves, and it established a firm foundation to execute most of the international payments.

Extending the network of correspondents, continuing growth of the international reserves of the National Bank of Croatia, as well as generally improving the political and foremost economic situation, contributed to the growing number of visits of foreign banks' representatives to the National Bank of Croatia. The point in question is about mostly large world commercial bankers from Germany, USA, Austria, Belgium, Denmark, Finland, France, Italy, Switzerland, Canada, Sweden, Hungary, and other countries.

The National Bank of Croatia created and put into action "The Instruction for the Use of Numeric and Alphabetic Country and Currency Codes in External Payment Operations". These instructions were carried out according to the standard ISO 3166, ISO 4217 International Standards Organization (ISO), used also by SWIFT.

4.4. INTERNATIONAL PAYMENTS AND SWIFT

The National Bank of Croatia continued to perform payment transactions abroad on behalf of itself and on behalf of the Republic of Croatia (the Ministry of Finance and other). All payments upon confirmed documentary letters of credit issued last year for costs of printing kuna banknotes and coins were executed. New letters of credit have been issued for new deliveries. Commercial notes of assignment were also regularly executed, and the majority of operations were transfers in order to manage international reserves.

Most of these operations with foreign agents were performed by SWIFT. The number of received and sent messages grew by 50% (about 17,000) during 1994, and this fact firmly justifies the introduction of SWIFT into the National Bank of Croatia.

SWIFT regularly improves the system in order to keep the security of messages. In accordance to that, the National Bank of Croatia has started preparations for the introduction of the USE project at the end of 1994.

5 BANKING SYSTEM IN THE REPUBLIC OF CROATIA

5.1. INTRODUCTION

The area of banking supervision and control encompasses three Departments and its task is to collect and analyze data, to supervise banks and to undertake measures against banks according to the data about financial stability and solvency. Data sources are Reports that banks submit to the National Bank of Croatia, as well as data collected by direct controls in commercial banks.

The banking system in the Republic of Croatia in 1994 encompassed 52 banks which were active during the year and which worked out and submitted financial statements and other financial reports determined by law. Two banks are limited liability companies, and all others are joint stock companies.

Five new banks were active in comparison to the year before. Among them, for the first time, a bank established by the foreign bank, i.e. an Austrian bank. The increased number of banks and a foreign investment used to found a brand new bank did not change the structure of the Croatian banking system. Furthermore, we have a large number of small universal banks, the four biggest of which dispose of almost two thirds of the total assets of the banking system.

In this chapter we will show data about:

- ◆ structure of the banks' balance sheet,
- ◆ analysis of the banks' capital and capital adequacy,
- ◆ analysis of the quality of assets,
- ◆ analysis of the profit and loss account.

We emphasize that all the indicators, coefficients and analysis are worked out on the basis of the data submitted by banks in the form of preliminary data from the annual financial report.

Balance sheets and other reports with final data will be submitted to the National Bank of Croatia after auditing and approval by the banks' managing bodies.

5.2. STRUCTURE OF BANKS' BALANCE SHEET

5.2.1. STRUCTURE OF BANKS' LIABILITIES

- a) Total liabilities: 52 banks in the Republic of Croatia had liabilities of 60 billion kuna at the end of 1994. Short-term liabilities made up 37.8%, long-term liabilities 35%, equity capital 15.9%, additional capital 1%, other liabilities (obligations for interests and provisions) 5%, and special reserves for possible losses at the basis of risky assets 5.3%.

- b) Short-term liabilities: sight deposits of incorporated organizations and citizens' savings both in kuna and foreign exchange amounted to 13 billion kuna and made up 55% of the short-term liabilities at the end of 1994. The most important amounts within short-term deposits were sight households' savings in foreign exchange and other special foreign exchange accounts. Together they amounted to 6 billion kuna.

Short-term time deposits were 5 billion kuna and they made up 8.3% of the total short term liabilities. Within short term time deposits, short term time deposits in foreign exchange were the most important; they amounted to 3.4 billion kuna.

Short term loans amounted to 5 billion kuna and made up 8.4% of the total short term liabilities.

- c) Long term liabilities: kuna and foreign exchange time deposits expiring in more than one year as well as long term domestic and foreign loans used, amounted to 21 billion kuna at the end of December 1994.

The most important items in their structure are long term foreign exchange deposits which amount to 12 billion kuna and make up 56% of these liabilities. It should be emphasized that most of it is frozen "old foreign exchange savings". Another important item in the structure of long term liabilities are long term foreign exchange loans which amount to 8.3 billion kuna and make up 40% of these liabilities. Long term kuna liabilities are of minor importance within the long term liabilities. They amount to 0.9 billion kuna and the smallest item are long term securities.

- d) Capital of Croatian banks at the end of December 1994 amounts to 9.6 billion kuna. Reserves make up 40% in it's structure (3.8 billion kuna).

The additional capital of Croatian Banks is not an important item and amounts to 0.7 billion kuna. More than 90% of it are special reserves for possible losses which banks' have to build up according to the regulations. In addition, Croatian banks built up reserves for identified losses to an amount of 4.5 billion kuna. These reserves debt with profit and loss account and are built upon the estimates of the quality of risky assets. These reserves are used when bad assets have to be ultimately written off.

5.2.2. STRUCTURE OF CROATIAN BANKS' ASSETS

- a) The total assets of 52 banks in the Republic of Croatia amounted to 60.2 billion kuna at the end of 1994. Giro account, cash in vaults and required reserves in the National Bank of Croatia made up 6.1%, short term credits made up 25.9% and long term credits 61.2%. Material and non-material assets, interests, fees and other assets made up the rest of 6.8%
- b) Giro accounts, cash in vaults and reserves at deposits in the central bank amounted to 3.7 billion kuna. Statutory reserves at the central bank amounted to 1.8 billion i.e. 48.7% of the total amount at the National Bank.
- c) Short term credits (short term securities, short term loans, claims, purchased claims and rights on claims on the basis of the delivery of goods and services) amounted to 15.6 billion kuna at the end of 1994. Short term loans and current maturities of unpaid but due long term loans amounted to 14 billion kuna i.e. 89.7%.
- d) Long term credits (long term securities, stocks, shares, stakes, long term loans and other long term credits) amounted to 36.8 billion kuna at the end of 1994.

Long term securities in kuna and foreign exchange are the most important items. They amounted to 16.6 billion kuna at the end of December 1994. Long term loans and other long term credits

amounted 14.7 billion kuna. Foreign exchange denominated securities made up 69% of the total amount.

- e) Long term investment in shares, stocks and other long-lasting interests amounted to 5.5 billion kuna. These credits arose from banks' inability to collect claims on enterprises. Therefore, claims on the basis of loans and interests were transferred into shares during the process of transformation of social enterprises.

Material and non-material assets of Croatian banks amounted to 2.2 billion kuna at the end of 1994. Interests, fees and other assets amounted to 2 billion. Other assets, both in kuna and foreign exchange, make the most important part of the amount, with most of it related to tax advancements, exchange rate corrections etc. The most important item is long term physical assets which makes up 76.6% of the total position.

5.3. ANALYSIS OF THE BANKS' CAPITAL

- a) Capital of the Croatian banking system amounted to 7.7 billion kuna on December 31, 1993 and 8.9 billion on December 31, 1994.
- b) According to the Law on Banks and Savings Banks, total capital (equity capital plus reserves up to 50% of the equity capital) cannot be less than 8% of the total assets (both in and off-balancing items), corrected for the degree of risk. This indicator (capital adequacy ratio) shows the ratio of the total capital and assets which are risk-bearing.
- c) Capital adequacy ratio for the banking system as a whole was 20.9% on December 31, 1993 and 20.2% on December 31, 1994. This was much above the required minimum of 8%. Only one bank did not achieve the required ratio, for the second year running.
- d) According to the Law on Banks and Savings Banks, all banks are obliged to adjust their capital to the legally required level by December 31, 1995. Those which do not provide the minimum capital requirement will be subject to liquidation by the National Bank of Croatia. According to the information dated December 31, 1994, five banks do not satisfy the minimum capital requirement of DEM 5 million in kuna.
- e) The National Bank of Croatia decided that banks which engage in international business have to provide DEM 10 million capital in the first year of the operation, and at least DEM 15 million thereafter. One bank which has permission for international dealings does not comply with the condition, and the National Bank of Croatia is about to commence the procedure of deprivation. The National Bank of Croatia deprived permission to four banks which did not comply with the condition in the 1994.

5.4. ANALYSIS OF THE QUALITY OF ASSETS

- a) Judging the quality of assets is the most important part of the overall assessment of the banking business. According to the banking practice, items are divided as good or bad.
- b) Besides that, items are divided as risk-bearing and risk-free assets. Assessment of the quality of assets is done exclusively for risky assets. These are: short-term and long-term loans, short-term and long-

- term investments, interests and fees for financial services. Off-balancing liabilities such as guaranties and letters of credit are included into risk-bearing assets.
- c) The share of good assets was 87.7%, and the share of bad assets was 12.3% at the end of 1994. This relatively favorable ratio of good and bad assets is due to a classification of claims on the Government into good assets.
- d) Classification of the credit portfolio into categories A, B, C, D and E is shown in the following table.

TABLE 14
CATEGORIES OF CREDITS (HRK mil.)

	A	B	C	D	E	TOTAL
ASSETS						
credits, securities and banks' deposits	40,886.1	1,941.8	2,156.5	830.0	740.3	46,562.8
interest	708.1	76.3	186.2	43.0	99.1	1,112.6
fees	47.9	8.5	13.6	1.6	2.2	73.8
other risky assets	7,559.6	277.5	297.0	170.8	47.6	8,352.4
TOTAL	49,301.6	2,304.1	2,653.3	1,053.4	889.3	56,101.6
off-balancing items	10,156.0	801.7	474.2	246.8	177.6	11,856.3
SUM TOTAL	59,357.6	3,105.8	3,127.5	1,300.2	1,066.9	67,958.0

- e) Potential losses were 4,493.3 million kuna i.e. DEM 1,237.1 million on December 31, 1994.
- f) **Limits that lower the credit risk**
The National Bank of Croatia prescribed proper limits in order to diminish credit risks. The biggest danger is to allocate credits towards one client or towards a small group of mutually supporting clients. This kind of credit allocation also prevents dispersion of credit allocation to the other profit-making activities. Therefore, The National Bank of Croatia prescribed several limits.
- g) **Big credit and the biggest credit**
Big credit is considered to be an individual loan or some other form of individual claim or taken liability from one client, which exceeds 20% of the bank's capital. Nine banks approved big credits in 1994 and their total amount was 0.5 billion kuna.

The biggest credit to one client is a credit that exceeds 30% of the capital. Twelve banks approved the biggest credit and their total amount was 1.0 billion kuna.
- h) **Credits to shareholders who hold more than 10% of equity and credits to members of the Managing and Supervisory Boards**
According to the Law that was active in 1994, these credits can only be approved on the basis of a unanimous decision of the Board, after preliminary decision of the Supervisory Board. The total amount of these credits is 0.7 billion kuna, and our controls did not find any irregularity regarding the procedure. Twenty seven banks granted this kind of credit.
- i) **The total amount of all loans and other claims and contracting for liabilities of one client**
The total amount of all loans and other claims and contracting for liabilities of one client, cannot exceed 30% of the capital of a bank. The total amount of all loans and other claims and contracting for liabilities of one client greater than 30% of capital, was found in 16 banks with 27 individual

clients at the moment when regulation became effective. The total amount was 10.9 billion kuna. A high concentration of claims on one client was due to the credit policies in the former system.

j) The coefficient of investment into land, buildings, equipment and offices

Investment into land, buildings, equipment and offices cannot exceed 30% of the capital. Total investment for these purposes was 2.1 billion kuna, i.e. 23.7% of the capital.

k) The coefficient of the total investment into land, buildings, equipment, offices and shares in other banks and companies

A bank's investment into its own assets (land, buildings, equipment and offices) and into ownership of other banks and companies cannot exceed 70% of the capital. The total investment of this type was 4.8 billion kuna, i.e. 50.4% of the capital. However, these investments are much greater in some banks because the Law on Banks and Savings Banks does not oblige banks to include shares which were acquired by the debt-equity swaps for two years after the swap was accomplished into calculation.

5.5. ANALYSIS OF BANKS' PROFITS

Banks profits are linked to differentials between lending and deposit interest rates. Profit is divided for the purpose of this analysis into:

- ◆ revenue and outlay on the basis of approved and taken credits according to the subjects,
- ◆ the difference between revenue and outlay according to the type. The total revenues of banks in the Republic of Croatia in 1994 amounted to 5.8 billion kuna or DEM 1.59 billion. The total outlays were 5.6 billion kuna or DEM 1.55 billion in the same period.

A comparison of the results in two successive periods, in 1993 and 1994, shows the trend towards a positive result. The banking system made profits of 134 million kuna or DEM 37 million in 1994, while it made losses of 612 million kuna or DEM 161.1 million in 1993.

Interest rates revenue make up most of the revenue: 79.4% in 1993 and 60.4% in 1994. The share declined. At the same time, the share of fees increased from 5.9% in 1993 to 14.5% of the total revenue in 1994. Exchange rate differentials net make up 8.3% of the total revenue in 1993 and 12% in 1994. It is important to note that revenue at the basis of dividends on shares were negligible in 1993 and 1994.

Assessment of the structure of outlay showed that the most important individual item, deposit interest rates, made up 40.6% of the total outlay in 1993 and 37.4% in 1994.

Building-up reserves for possible losses made up 32% of the total outlay in 1993, and 10.4% in 1994.

5.6. A NOTE ON THE CURRENT STATE OF THE BANKING SYSTEM

The current state of the banking system is mostly the consequence of inherited problems from the former socialist system. It is well-known that banks in the socialist system served as a service for the so-called associated labor and socio-political communities, so banking business was not conducted according to commercial criteria at the market.

The main cause of the problems within the banking system prior to 1989 was the decision mechanism which was used in order to allocate credits for investment and the way of finding out the sources of these investments. Decisions on big investments and their financing were taken on the basis of the development plans of socio-political communities. Yields and profitability were not predominating criteria, but more care was taken with the so-called social effectiveness of the investment projects. Banks were simply carrying out these decisions and plans. From 1975 to 1981, banks labeled as "development banks" received uncontrolled credit from the world market in order to finance large investment projects. The allocation decisions were bad and clients were not able to repay debts, so the former state organized the first debt rescheduling agreement and then a refinancing arrangement. Our current foreign debt actually stems from that period.

In order to make the transformation into market oriented commercial banks, all of the 24 banks that were doing business in 1989 turned to joint stock companies. Although the legal system has now changed, banks still work as financial services for their founders who are also their biggest debtors. In the meantime, however, some changes have provided a good basis for a market oriented transformation.

In March 1992, the Government decided to take over the greatest loss from the banks' balance sheets. It was related to the negative exchange rate differences due to liabilities on the basis of the so-called "old foreign exchange savings" at an amount of US\$ 2.5 billion previously financed by the former National Bank of Yugoslavia.

Furthermore, in May 1991, the Croatian Government issued long-term bonds to an amount of US\$ 1 billion ("big bonds") which were then given to state enterprises in order to ease their restructuring.

These enterprises used the bonds to repay their debts to banks. Both measures helped the solvency and liquidity of the banking system at the time. On the other hand, war, destruction and direct and indirect damages, slowed down the recovery of the whole economy and the banking system.

The main characteristic of the Croatian banking system is the high share of the non-performing assets. Almost two thirds of assets consist of "old foreign exchange savings", "big bonds", long-term investments in bonds and shares, material and non-material assets, refinancing long-term credits and other long-term assets. If we take into account the deposits at the National Bank of Croatia in the form of reserve requirements, and the inability to collect claims on part of the credits, the amount of long-term non performing assets is 75.2% of total assets. In addition, big bonds, long-term investments in shares, material and non-material investment do not carry returns. The remaining part of the assets, such as long-term loans, other credits to the non-banking sector and long-term securities, brings in some interest, but it is impossible to make profits on them because these assets are reinvested at the price of the source of funds. This kind of asset structure in the banking system is determined by the ten largest banks. Asset structure in other banks is more favorable.

During 1994 the Treasurers' Department was working with the provisional currency of the Republic of Croatia, the Croatian dinar, and was engaged in preparation for distribution and introduction into circulation of the new currency of the Republic of Croatia, *the kuna*, which is divided into one hundred *lipa*.

Therefore we present the business of the Treasurers' Department in two separated segments:

- ◆ business with the banknote of the Croatian dinar,
- ◆ business with the banknote of the kuna and coins of the kuna and the lipa.

6.1. BUSINESS WITH THE BANKNOTE OF THE CROATIAN DINAR

The Treasurers' Department was engaged in preparations for printing and distribution of the Croatian dinar's banknote, in storing the banknote delivered by the producer and supplying branches of the Payments Institute with the banknote.

After the withdrawal from circulation of the Croatian dinar banknote, the Treasurers' Department was engaged in preparations for destruction of the banknote and in storing, controlling and destroying of the exchanged banknote of the Croatian dinar. The Treasurers' Department also did business with other vaults for storing or for storing the and handling of values such as fiscal stamps, bills of the exchange of the Republic of Croatia, securities and other values.

TABLE 15
THE CROATIAN DINAR CASH IN CIRCULATION IN THE FIRST FIVE MONTHS OF 1994
(Croatian dinars, mil.)

JANUARY 1, 1994	692,596
RECEIVED FROM THE MANUFACTURER	1,720,000
RECEIVED FROM THE PAYMENTS INSTITUTE AS A SURPLUS	4,183
TOTAL	2,416,779
DELIVERIES TO THE BRANCHES OF THE PAYMENTS INSTITUTE	572,077
MAY 30, 1994	1,844,702

TABLE 16
THE CROATIAN DINAR CASH IN MONTHLY CIRCULATION IN 1994
(Croatian dinars, mil.)

	NBC	PAYMENTS INSTITUTE AND POST OFFICES	BANKS	IN CIRCULATION	TOTAL
01/01/94	692,282	787,151	52,227	1,366,944	2,898,969
01/31/94	673,271	845,276	53,643	1,326,465	2,898,969
02/28/94	2,068,522	1,074,660	57,429	1,418,328	4,618,969
03/31/94	1,919,402	1,108,346	64,057	1,527,164	4,618,969
04/29/94	1,864,702	1,135,934	65,588	1,552,745	4,618,869
05/30/94	1,844,702	1,298,133	108,573	1,397,954	4,618,969

During the first five months of 1994 there were no difficulties regarding the supply of cash because the stock of cash was sufficient for circulation requirements.

The exchange of Croatian dinar banknotes for banknotes and coins of the kuna and the lipa started on May 30, 1994 on the basis of the Government's Decision on the Abrogation of the Decision on the Introduction of the Croatian dinar as the Legal Tender on the Territory of the Republic of Croatia and the Manner and Time Period of the Conversion of Croatian dinars into kuna and lipa. One thousand Croatian dinars could be exchanged for one kuna. The regular exchange lasted until December 31, 1994.

TABLE 17
THE CROATIAN DINARS CASH IN THE NATIONAL BANK OF CROATIA
FROM DECEMBER 23, 1991 UNTIL MAY 30, 1994 *(Croatian dinars, mil.)*

RECEIVED FROM THE MANUFACTURER			
<i>in 1991</i>	34,233		
<i>in 1992</i>	159,169		
<i>in 1993</i>	2,714,000		
<i>in 1994</i>	1,720,000		
		TOTAL	4,627,402
RECEIVED FROM THE PAYMENTS INSTITUTE AS SURPLUS			
<i>in 1992</i>	14,434		
<i>in 1993</i>	8,656		
<i>in 1994</i>	4,182		
		TOTAL	7,272
		SUM TOTAL	4,654,674
DELIVERIES TO THE BRANCHES OF THE PAYMENTS INSTITUTE			
<i>in 1991</i>	29,023		
<i>in 1992</i>	163,144		
<i>in 1993</i>	2,037,295		
<i>in 1994</i>	572,077		
		TOTAL	2,801,539
NUMISMATICS			
			8,433
TOTAL ON MAY 30, 1994			
			1,844,702

On the basis of the National Bank of Croatia's Decision, the exchange of dinar banknote for banknotes and coins of kuna and lipa was carried out in branches of the Payments Institute, commercial banks and the Croatian Post and Telecommunications offices. The withdrawal from circulation and destruction of the banknote was done by the National Bank of Croatia. The Central Board of Commissioners and four Executive Boards of Commissioners were established by the special Decision of the Council of the National Bank in order to control quantities and values of exchanged and withdrawn banknote and in order to control their destruction. Banknotes were destroyed by cremation at four locations that satisfied the Central Board's criteria for a safe and profound destruction: *Koksara* from Bakar, *Dalmacija* from Dugi Rat, *Šavrić* from Zagreb and *Mobilija* from Osijek. In total, 277,919,000 Croatian dinars banknotes i.e. 192.2 tons were cremated at these four locations.

Out of the total value of Croatian dinars printed, which was 4,627.4 billion, 8.4 billion were set aside for numismatic requirements i.e. out of 514.2 million printed banknotes in number, 600,000 pieces were set aside for numismatic requirements (50,000 per denomination)

TABLE 16
PRINTED, DESTROYED AND UNEXCHANGED BANKNOTES, TOTALS BY DENOMINATIONS,
Croatian dinars (CD) in billion, pieces in thousands

DENOMINATION	PRINTED		DESTROYED		IN VAULTS		UNEXCHANGED	
	PIECES	CD	PIECES	CD	PIECES	CD	PIECES	CD
100,000	19,950	1,995.0	7,646	764.6	12,282	1,228.2	21	2.2
50,000	41,950	2,097.5	28,933	1,446.7	12,881	644.1	13	6.7
10,000	19,950	199.5	18,845	188.4	585	5.9	519	5.2
5,000	44,950	224.8	43,378	216.9	585	2.9	986	4.9
2,000	19,950	39.9	18,579	37.2	386	0.8	984	1.9
1,000	35,650	35.6	32,291	32.3	690	0.7	2,668	2.7
500	42,400	21.2	38,869	19.4	574	0.3	2,956	1.5
100	31,450	3.2	15,129	1.5	1,782	0.2	14,538	1.4
25	57,450	1.4	27,603	0.7	2,845	0.1	27,001	0.7
10	49,950	0.5	13,531	0.1	4,114	0.0	32,304	0.3
5	59,950	0.3	20,089	0.1	4,675	0.0	35,185	0.2
1	89,950	0.1	13,026	0.0	2,612	0.0	74,311	0.1
TOTAL	513,550	4,619.0	277,919	2,707.9	44,015	1,883.2	191,616	27.8

The Croatian dinar banknote in its original producer's packages are kept in the National Bank's vaults for numismatic needs, while some minor amounts are still left in the Payments Institute's vaults. Eventually, they will be taken over and destroyed.

6.2. BUSINESS WITH BANKNOTES AND COINS OF KUNA AND LIPA

Preparations for making the new currency unit for the Republic of Croatia were undertaken during 1993. Tender was invited for artistic solution for the new banknotes and coins and international tender was invited for printing. Preparations for opening the mint were hastened at the same time, in the second half of 1993. The hall was adapted and the mint was equipped. The mint was organized within the Croatian Monetary Institute that took special care of:

- ◆ proposals for the denomination of the banknotes and coins;
- ◆ the final outlook of the new currency unit;
- ◆ proposals for printing and coining plans;
- ◆ evaluating tenders;
- ◆ participation in making the decision on the main characteristics of banknotes and coins,
- ◆ participation in different phases of control of the making of the banknotes and coins,
- ◆ participation in making the decision on issuing the new currency unit for the Republic of Croatia.

A department for control and taking possession of the coins was established within the Croatian Monetary Institute. The department has its own vault for storing coins.

The Treasurers' Department already started to take possession of the kuna and lipa coins in December 1993 and the process went on extensively during 1994. At the same time, coins were deposited in Depots established at the Payments Institute's branches on the basis of the supply plan provided by the Treasurers' Department. The supply plan encompassed the depositing of banknotes and coins of kuna and lipa in twenty branches and five business units of the Payments Institute. Besides which, the Payments Institute's units and branches received a Manual for taking possession of and storage of the new currency unit into Depots until the commencement of circulation.

TABLE 19

**THE KUNA BANKNOTE AND KUNA AND LIPA COINS DEPOSITED IN DEPOTS AT
BRANCHES OF THE PAYMENTS INSTITUTE UNTIL MAY 30, 1994**

DENOMINA- TIONS	PIECES	K U N A	WEIGHT (IN KG)
1.000	4,900,000	4,900,000,000.00	
500	9,980,000	4,990,000,000.00	
200	-	-	
100	22,000,000	2,200,000,000.00	
50	11,100,000	555,000,000.00	
20	5,480,000	109,600,000.00	
10	22,000,000	220,000,000.00	
5	8,800,000	44,000,000.00	
TOTAL	84,260,000	13,018,600,000.00	71,453
DENOMINA- TIONS (COINS)	PIECES	K U N A	WEIGHT (IN KG)
5 kuna	2,568,500	12,842,500.00	
2 kuna	7,597,000	15,194,000.00	
1 kuna	25,254,000	25,254,000.00	
50 lipa	20,194,000	10,097,000.00	
20 lipa	4,827,000	965,400.00	
10 lipa	25,614,000	2,561,400.00	
5 lipa	15,566,000	778,300.00	
2 lipa	5,270,000	105,400.00	
1 lipa	18,375,000	183,750.00	
TOTAL	125,265,500	67,981,750.00	421,126
SUM TOTAL		3,086,581,750.00	492,579

TREASURERS' DEPARTMENT

The first delivery of the kuna banknotes from the *Giesecke-Devrient* printing house in Munich, was received during January 1994.

The Treasurers' Department developed a plan for the taking of possession and delivery of the banknotes, ensuring a police escort and accomplishing all the necessary preparatory work for the safe delivery and storage of the contracted quantity of banknotes.

One kuna was worth one thousand Croatian dinars at the time of the introduction into circulation. That was the rate of exchange. The exchange started by using quantities deposited at Depots and it continued regularly, without shortages of banknote or coins. The Treasurers' Department continued the regular supply of cash, especially of coins which were heavily in demand.

TABLE 20
CASH AT THE CENTRAL BANK (HRK thousands)

RECEIVED FROM THE MANUFACTURER		82,733,906
banknotes	82,600,000	
coins	133,906	
RECEIVED FROM THE PAYMENTS INSTITUTE		
TOTAL		
ISSUED BY THE PAYMENTS INSTITUTE		
banknotes	14,445,950	
coins	112,595	
TRANSFERRED TO NUMISMATICS		94,250
SOLD ABROAD		824
TOTAL		14,653,619
SUM TOTAL ON DECEMBER 31, 1994		68,080,468

Besides the regular items in the review of the central bank's cash, we urge the reader to pay attention to the item related to kuna sold abroad. That was accomplished by the Department of Foreign Exchange Policy Implementation. The Treasurers' Department carried out the technical details of the delivery.

The Treasurers' Department took possession of the banknotes produced by the printing house *Giesecke-Devrient* in Munich and kuna and lipa coins coined at the Croatian Monetary Institute in Zagreb during 1994.

A review of the total stock of cash in vaults and circulation after the introduction of the kuna and lipa in 1994 is presented in table 21.

The review shows that the stock of cash in the Payments Institute is, on average 4.5 times larger than the cash in circulation. The most important are stocks in denominations of 1,000 and 500 kuna notes. They are not often used due to high nominal values and the fact that they make up about 70% of stocks at the Payments Institute.

TABLE 21
STOCK OF CASH IN 1994 (monthly, HRK mil.)

	NBC	PAYMENTS INSTITUTE AND POST OFFICES	BANKS	IN CIRCULATION	TOTAL
06/30/94	65,071	11,568	85	1,666	78,390
07/31/94	65,090	11,292	106	2,112	78,600
08/31/94	65,297	12,051	111	2,141	79,600
09/30/94	65,236	12,116	105	2,158	79,615
10/31/94	68,207	12,112	94	2,204	82,616
11/30/94	68,187	12,046	105	2,295	82,633
12/31/94	68,080	11,767	134	2,658	82,639

The Treasurers' Department played a special part in activities related to the issuing of occasion gold and silver coins, and full set of occasion coins in circulation.

During 1994, the National Bank of Croatia published:

- ◆ a golden ducat as a souvenir on occasion of the circulation of the Croatian dinar as a temporary currency unit in the Republic of Croatia,
- ◆ gold and silver coins on the occasion of the visit of the Holy Father, Pope John Paul the Second, to the Republic of Croatia,
- ◆ gold and silver coins on the occasion of the 900th Anniversary of the Zagreb Diocese and the City of Zagreb,
- ◆ gold and silver coins on the occasion of the 900th Anniversary of the Zagreb Diocese and the City of Zagreb, second issue.

GOLDEN DUCAT

NOM. VALUE	WEIGHT	FINENESS	DIAMETER	QUANTITY	DATE
1 DUCAT	3,49 g.	986/000	20 MM	5.000	MAY 25, 1994

JOHN PAUL II

NOM. VALUE	WEIGHT	FINENESS	DIAMETER	QUANTITY	DATE
1000 Au	7 g	986/000	25 MM	4,000	SEP. 9, 1994
100 Ag	33,63 g	923/000	40 MM	10,000	SEP. 9, 1994

TREASURERS' DEPARTMENT

The following were for sale:

- ◆ full sets (a gold 1,000 kuna coin and a silver 100 kuna coin) 1,000 samples
- ◆ a gold 1000 kuna coin 3,000 samples
- ◆ a silver 100 kuna coin 9,000 samples

900TH ANNIVERSARY OF THE ZAGREB DIOCESE AND THE CITY OF ZAGREB

NOM. VALUE	WEIGHT	FINENESS	DIAMETER	QUANTITY	DATE
500 Au	3,5 G	999/000	20 MM	1,000	SEP. 9, 1994
200 Ag	20 G	999/000	38 MM	3,000	SEP. 9, 1994
100 Ag	15 G	999/000	18 MM	3,000	SEP. 9, 1994

The following were for sale:

- ◆ full sets (a gold 500 kuna coin and a silver 100 kuna coin) 250 samples
- ◆ a gold 500 kuna coin 750 samples
- ◆ a silver 200 kuna coin 2750 samples
- ◆ a silver 100 kuna coin 2750 samples

**900TH ANNIVERSARY OF THE ZAGREB DIOCESE AND THE CITY OF ZAGREB
(SECOND ISSUE)**

NOM. VALUE	WEIGHT	FINENESS	DIAMETER	QUANTITY	DATE
500 Au	3,5 G	999/000	20 MM	1,000	DEC. 12, 1994
200 Ag	20 G	999/000	38 MM	1,000	DEC. 12, 1994
100 Ag	15 G	999/000	18 MM	1,000	DEC. 12, 1994

The following were for sale:

- ◆ full sets (a gold 500 kuna coin and a silver 100 kuna coin) 500 samples
- ◆ a gold 500 kuna coin 500 samples
- ◆ a silver 200 kuna coin 500 samples
- ◆ a silver 100 kuna coin 500 samples

Gold and silver occasion coins issued on the occasion of the 900th Anniversary of the Zagreb Diocese and the City of Zagreb were issued in collaboration with *Zagrebačka banka* which financed the project and contracted for the right of sales. In June 1994, The National Bank of Croatia allowed the sale of a full numismatic set of coins in circulation which had been coined using a special technique.

TABLE 22

REVIEW OF SALES OF GOLD AND SILVER OCCASION COINS

NAME OF THE COIN	QUANTITY	PRICE	SOLD	IN STOCK
GOLDEN DUCAT	5,000	670.00	1,353	3,647
JOHN PAUL II				
- full set	1,000	1,500.00	303	697
- a gold 1000 kuna coin	3,000	1,300.00	1,797	1,203
- a silver 100 kuna coin	9,000	150.00	3,183	5,817
900TH ANNIVERSARY ...				
- full set	750	960.00	-	-
- a gold 500 kuna coin	1,250	650.00	-	-
- a silver 200 kuna coin	3,250	260.00	-	-
- a silver 100 kuna coin	3,250	130.00	-	-

During 1994, The Treasurers' Department was dealing with other vaults for the storing and handling of values. The most important one was a business with fiscal stamps and bills of the Republic of Croatia. The National Bank of Croatia and the Ministry of Finance made an agreement about the provision of the Payments Institute's branches with fiscal stamps and bills and on supervising and controlling sales. On the basis of this contract, the National Bank of Croatia collected a fee on the amount sold. The following tables present a review of securities sold and fees.

TABLE 23

FISCAL STAMPS IN 1994 (in kuna)

MONTH	FISCAL STAMPS		NBC FEE
	ISSUED	SOLD	(1%)
January	1,738,600.00	2,324,965.55	23,249.65
February	1,571,000.00	2,059,511.60	20,595.11
March	10,860,150.00	2,960,779.55	29,607.79
April	2,569,000.00	2,679,895.50	26,798.95
May	620,000.00	2,564,169.30	25,641.69
June	7,465,000.00	2,615,404.35	26,154.04
July	6,050,000.00	3,653,432.15	36,534.32
August	3,391,600.00	2,699,464.30	26,994.64
September	1,150,000.00	2,460,134.50	24,601.34
October	2,195,000.00	3,018,464.80	30,184.64
November	10,100,000.00	6,603,891.50	66,038.91
December	7,749,000.00	5,585,777.20	55,857.77
TOTAL	55,459,350.00	39,225,890.30	392,258.85

TABLE 24
BILLS IN 1994 (in kuna)

MONTH	BILLS		NBC FEE
	ISSUED	SOLD	(1%)
January	-	1,287.40	12.87
February	-	71,040.00	710.40
March	100,000.00	71,060.00	710.60
April	-	104,560.00	1,045.60
May	-	129,900.00	1,299.00
June	-	136,310.00	1,363.10
July	50,000.00	178,550.00	1,785.50
August	-	194,930.00	1,949.30
September	50,000.00	266,360.00	2,663.60
October	-	266,750.00	2,667.50
November	30,000.00	273,230.00	2,732.30
December	100,000.00	168,460.00	1,684.60
TOTAL	330,000.00	1,862,437.40	18,624.37

7

INFORMATION SYSTEM DEVELOPMENT, ORGANIZATION AND HUMAN RESOURCES

7.1. ORGANIZATION AND INFORMATION SYSTEM DEVELOPMENT

Shaping the new internal organization of the National Bank of Croatia as the central bank of the Republic of Croatia with all of its tasks, is one of the important prerequisites for its effective work. Therefore, work on the elaboration of the Proposal for the Internal Organization of the National Bank of Croatia was very intensive during 1994. The organizational foundations of the National Bank of Croatia were created by adopting the Proposal of the Organizational Concept of the National Bank of Croatia. The Proposal is based on a model of the Bank as a business system that encompasses organizational and informational processes.

The relation between the Bank's organization and the organization of its information system which relies on modern information technologies and methods, is based upon the fact that these are two complementary organizations in the state of permanent interaction.

All of the Bank's activities are examined through a set of tasks that stem directly from the function of the central bank (functional tasks) and through a set of tasks that stem indirectly from its function (administrative and other services). The reality of the transition period is taken into account so that Bank's activities encompass some tasks that are still accomplished due to inertia from the old system, and some tasks that are done in any other central bank will only be introduced after some prerequisites are fulfilled.

A model of the Bank starts from relationships and causal links among certain sets of tasks that are associated within the functional units of the Bank. The two main organizational levels are determined by the level of the National Bank: The Area, as the widest and the Department as the central organizational form.

Good management is needed in order to make a business system work effectively in the environment. Therefore, special attention was paid to the choice of the management model. An important innovation is the foundation of the Board of Executive Directors as the most competent professional body at the Bank level.

The Proposal of the Organizational Concept of the National Bank of Croatia also contains proposals for changes in the Law at the National Bank. The Proposal was submitted to the International Monetary Fund and elaborated on with the IMF's Mission Technical Aid in Zagreb.

The Proposal for professional titles (typical types of human resources) was adopted within the Proposal of the Organizational Concept of the National Bank of Croatia. The Proposal standardized types of human resources needed to accomplish tasks. Professionalism, not the status, is emphasized as the rewarding criteria. A Temporary Book of Rules on the Internal Organization of the National Bank of Croatia was adopted at the end of 1994.

An Information system is a special type of organization system that gives technological support to aims and tasks of the National Bank as a business system. The project of the integral information system of the National Bank of Croatia is based on the development of information subsystems, and was made and adopted during 1994.

Besides the new internal organization, effective management of the National Bank assumes accurate, urgent and complete information for the preparation and carrying out of the decisions and controlling of their implementation.

The need for an integral planning approach in the placing of a strategy with the realization of an information system, was the main reason behind the decision to carry out a study of the development plan of the National Bank of Croatia's integral information system. The project team for making the Project of the Integral Information System of the National Bank of Croatia was established by the Governor's decision. The chosen methodology (Business System Planning) implicitly abandoned the idea that anyone outside the National Bank itself could work out a project like this.

The project encompassed and analyzed the National Bank of Croatia as a complete functional entity with its internal organization and environment, which acts in order to accomplish its targets. This approach enabled us to:

- ◆ determine the structure of the information system which would support the quality of management in the National Bank of Croatia; - identify the data as a common resource for all business functions of the National Bank of Croatia;
- ◆ analyze the existing informational support;
- ◆ determine the plan, method and priorities of introduction of the information system;
- ◆ define the system for managing the information system development; - give recommendations regarding further work on the information system development.

Usage value of the Project (BSP Study) is reflected in the following facts:

- ◆ it was the first time that the entire business system of the National Bank of Croatia was analyzed by such a unique method, from the standpoint of the demand for information,
- ◆ the effectiveness of the existing information system was evaluated, - Project is valuable for other projects and analysis within the business system which will solve the problems outside the information system,
- ◆ it contributes to the complete understanding of the business system and is independent of the existing or future organization of the Bank,
- ◆ the method which is based on the active participation of information users, opens an opportunity for users to continue with the development of the information system that will suit their needs and needs of the entire business system,
- ◆ the Project shows that information is an important resource of the business system; information resources have to be planned and maintained, just as any other resources do;
- ◆ the plan of the information system, as a support for the business system, enables development of a complete and effective information system; the active participation of the Bank's top management in the development of the plan is a guarantee of the successful continuation of work.

However, the Project for an integral information system (the BSP study) which was completed and adopted by the middle of last year, is just the first phase in the development of an information system for

the National Bank of Croatia. According to the adopted plan and method of realization (which is a part of the Project), activities on the main and executive projects will be continued.

The main projects are extremely important for the organizational process regarding the systematic and effective placing and standardization of organizational solutions and procedures within the business system of the Bank (working technology, business and information flows, input-output analysis, analysis of interrelations, integrity in access to data and information, unique coding systems, unique records ...). At the same time they are an important prerequisite for work on executive projects within the information function.

7.2. ACTIVITIES OF THE COUNCIL OF THE NATIONAL BANK OF CROATIA AND LEGAL AFFAIRS

The Council of the National Bank of Croatia manages the National Bank of Croatia together with the Governor. Nineteen sessions were held during 1994. Decisions were taken within its responsibility which is determined by Article 67 of the Law on the National Bank of Croatia ("Official Gazette" no. 35/95 cleared version). Major decisions taken by The Council were related to the determination and implementation of the monetary and foreign exchange policies in order to provide a support for the Stabilization Program of the Croatian Government.

The Council of the National Bank of Croatia also adopted the Financial Report for 1993, together with a report on the regular yearly inventory of funds and sources of funds for 1994, as well as the Financial Plan for 1995. The Council adopted the National Bank of Croatia's Business Report for 1993 and it also approved the main financial documents and plans as well as programs of the Payments Institute which is the responsibility of the National Bank of Croatia according to the Law on Domestic Payments.

At the session held on May 10, 1994, The Council took the Decision on the Issue of Banknotes and Coins Denominated in the Currency of the Republic of Croatia - the Kuna and the Lipa, as well as any other necessary decisions for the introduction of a national currency.

The Council took decisions from the field of numismatics Decision on Issue of the Golden Ducat, the Decision on the Issue and Sales of the Gold and Silver Occasion Coins for the Occasion of the 900th Anniversary of the Zagreb Diocese and the City of Zagreb, the Decision on the Issue and Sales the Gold and Silver Occasion Coin "John Paul II" (on the Occasion of the Holy Father's visit to Croatia).

The Council of the National Bank of Croatia is authorized to enact Permissions for the Work of Banks and Savings Banks. It enacted four permissions during 1994. One should be specially emphasized. It is the permission for the "Raiffeisenbank Austria" d.d. with headquarters in Zagreb. The bank was founded by four Austrian banks. The Council enacted a permission for one savings bank which therefore became the first savings bank which got permission to work on the basis of the Law on Banks and Savings Banks.

At its sessions during 1994, the Council of the National Bank of Croatia issued nine positive opinions about candidates for General Managers of Banks, which is within the scope of the National Bank's authority according to Article 32, the Law on Banks and Savings Banks.

Legal Department represented the National Bank of Croatia before Courts and other bodies of State Administration in proprietary-judicial and other procedures. Another major task of the Legal Department was preparation and elaboration of regulations, directions, general official documents, contracts and decrees, such as the following:

- ◆ the Law on Bank Rehabilitation and Restructuring,
- ◆ the Law on the State Agency for Savings Deposit Insurance and Bank Rehabilitation,
- ◆ the Amendments to the Law on Forced Settlement, Bankruptcy and Liquidation (sections referring to failure and liquidation of commercial banks and savings banks),
- ◆ the Amendments to the law on the National Bank of Croatia,
- ◆ decisions and regulations governing the implementation of the Law on the National Bank of Croatia
- ◆ regulations governing the implementation of the Domestic Payments System Law, and
- ◆ regulations governing the implementation of the Law on the Foreign Exchange System, Foreign Exchange Operations and Gold Transactions.

7.3. PUBLISHING AND RESEARCH ACTIVITY OF THE NATIONAL BANK OF CROATIA

The publishing activities of the National Bank of Croatia were extended during 1994 by the introduction of new publications to satisfy domestic and foreign demand for information in the most professional way. In the period from October to December 1994, two issues of "NBC Working Papers" were published in English, modeled on respectable international financial institutions.

Since the plan of accounts for banks and savings banks changed in Spring 1994, the time series regularly published in the NBC Bulletin were interrupted, and the monthly edition of "The NBC Main Statistical Indicators" became the temporary official gazette of the National Bank of Croatia. It is printed in English, and publishes 700 copies.

On the occasion of the ceremonial promotion of the new Croatian currency the kuna, on the Day of Statehood, May 30, 1994, two casual publications were issued: "The Kuna and the Lipa - The Currency of the Republic of Croatia" with a historical retrospect, and "Kuna - Papirnati novac Republike Hrvatske" (Kuna - the Croatian Banknote).

Successful cooperation with the Institute of Economics - Zagreb continued during 1994. Ten issues and two double issues of the edition "Privredna kretanja i ekonomska politika" (Economic Trends and the Economic Policy), which is an identifiable piece of economic literature on the domestic scene, were published during 1994. We would like to emphasize that thanks to this joint operation a collection of papers called "Croatian Economic Survey 1993" was published in English for the first time last year.

Under the patronage of the Governor of the National Bank of Croatia, a project team consisting of 17 members of the central bank was founded in March 1994 in order to make a strategic plan for the information system of the National Bank of Croatia on the basis of the BSP (Business System Planning) method. After three months of research work, they presented the book: *Integral Information System of the National Bank of Croatia Ideational Project* at the end of June 1994.

The Area for Research and Statistics and especially the Research Department, was the prime-mover of the Economic Workshop. It represented the continuation of older specialists courses that had educational character adjusted to trainees, younger employees and scholars. An editorial consisting of two coordinators and a secretary was established in order to take regular care of the upkeep of bi-monthly Workshops and to ensure current subjects from the field of monetary and financial economics.

7.4. HUMAN RESOURCES

The characteristics of the employees of the National Bank of Croatia changed significantly during 1994. These changes are reflected in the increase of employee numbers, the decline in average age, the decline in the average working age, the increase in the average qualification, scholarships for students of economics, a more intensive process of education and specialization, and in changes in the internal allocation of human resources due to the new organization of the Bank which had been adopted.

The number of employees increased from 401, at the end of 1993, to 431 at the end of 1994. The increase is 7.5%. 30 persons left their work at the National Bank due to different reasons, and 62 new ones were employed. The qualification level increased due to an increase in the number of M.As and M.Ss (from 14 to 18), an increase in the number of college-trained persons from 158 to 168, an increase in the number of secondary school graduates from 114 to 133, and a decrease of others from 44 to 42 employees.

Qualification structure of employees in the National Bank of Croatia at the end of December 1994:

	PH.D.	M.A. AND M.S.	B.A. AND B.S.	OTHERS	TOTAL	WOMEN
NUMBER	5	18	168	240	431	295
PERCENTAGE	1.2	4.2	39.0	55.6	100.0	68.5

The percentage of employees with a degree or higher in the total number of Bank's employees is 44.32% which is appropriate for such an institution. The average age of employees is 40, with the average working age of 17 years.

In years to come we expect a small natural outflow because of the changes in the characteristics of employees. The percentage of those younger than 35 has increased by 7%.

7.4.1. Scholarships

In order to ensure qualified employees for specific banking business, the National Bank of Croatia decided to grant scholarships to 10 economics students at the third and fourth year of their undergraduate studies. In a very tough competition, students who promised high quality work and skills development according to their predictable characteristics and present work were chosen. One scholarship was granted to a war veteran.

7.4.2. Education and Training

The growing requirements of central banking on both foreign and domestic markets urge the permanent education and training of employees. There are a few experienced ones and a few or no experts. The practice that had started in 1993 on a wider scale, continued in 1994. Two hundred and eleven participants from the National Bank attended different courses: 86 attended courses in Croatia, 42 abroad, 63 attended courses for foreign languages, 17 attended postgraduate studies and three of them

spent time at practice in the legal system. Three hundred and twelve working days were spent on courses abroad, and 152 in Croatia (without foreign languages, postgraduate studies and legal practice). We mainly use the services of the technical aid abroad: Austrian Bankers Club (Weissenbach), Banca d'Italia (Rome), Credit Suisse (Zurich) and Joint Vienna Institute (Vienna).

It has already been emphasized that the possibility of free education is used as part of technical aid as much as possible. Unavoidable costs are covered by the employment fund, meaning that Bank's original revenues are not used.

7.4.3. Salaries

There are no comparable data so it is hard to say anything precise about the salaries of employees. The qualification structure of employees was higher, but it is not known if it was accompanied by an increase in real salaries.

7.4.4. Some Social and Other Characteristics

The number of the child allowance users is growing on an annual basis. The reasons have not been analyzed. The following data support the thesis:

- ◆ December 1992 5
- ◆ December 1993 35
- ◆ December 1994 43

The average monthly number of employees on sick-leave is growing too. The number was 61 in 1993, and 68.5 in 1994 i.e. 11% more. The average number on sick-leave at the Bank's expense grew from 27 to 33 and at the Croatian Health Security Fund's expense from 34 to 35. The number of injuries at work declined from 9 to 8.

Six employees started to work part-time on the basis of the Decisions by the Croatian Pension Fund in 1994. Financial transfers were asked for (and approved) by 21 person: 12 for sick-leave longer than 90 days, 4 because of damage to their private property by natural causes and 5 because of their difficult social position.

About 50 employees regularly participate in sports and recreational activities. One hundred and forty five employees visited cultural events and exhibitions, using 481 admission-tickets.

8.1. FINANCIAL STATEMENT OF THE NATIONAL BANK OF CROATIA FOR THE YEAR OF 1994

According to the Law on Accounting, the National Bank of Croatia prepares its main financial reports in order to show its funds and sources of funds and revenue and expenses i.e. financial result for the previous year.

The realization of revenue and settling of costs that are related to the business of the National Bank of Croatia, are regulated by the Law on the National Bank of Croatia. Revenue and outlay is forecasted by the financial plan and they are determined in final amounts by the financial statement. Both documents are adopted by the Council of the National Bank of Croatia and are approved by Parliament.

Excess of revenue over outlay is a revenue of the State budget and if the outlay is higher than the revenue, the loss will be covered by a special reserve fund. But if these funds are not sufficient, then the loss will be covered by the State budget.

According to the Financial Statement for 1994, the National Bank of Croatia realized the following financial results:

- ◆ realized revenue 429.9 million kuna (16.2% more than planned)
- ◆ realized outlay 225.2 million kuna (15.5% more than planned)
- ◆ excess of revenue over outlay 204.7 million kuna (17% more than planned)

Results that were realized during 1994 came out from the activities of the National Bank of Croatia aimed to accomplish the stabilization program of the Croatian Government.

TABLE 23
REVENUE OF THE NATIONAL BANK OF CROATIA
(HRK thousands)

	PLAN 1994	ACTUAL 1994	% SHARE	INDEX ACTUAL/PLAN
1. INTEREST ON CREDITS				
1.1. Interest on domestic credits	50,000.0	72,841.6	16.9	145.7
1.2. Interest on foreign assets and other revenue	230,000.0	244,960.1	57.0	106.5
2. OTHER REVENUE	90,000.0	112,137.6	26.1	124.6
TOTAL	370,000.0	429,939.3	100.0	116.2

1. Interest on Credits

Realized revenue from interest rates on loans and other credits from reserve money creation are 72.8 million kuna and are 45.7% higher than planned.

Foreign exchange deposits at banks abroad amounted to US\$ 800 million on average, during 1994. The average interest rate on these deposits was 5.55% and the National Bank of Croatia realized revenue of 245.0 million kuna that is 6.5% more than planned revenue on the basis of interest rates.

In comparison to 1993, changes in the structure of revenue occurred. Revenue from interest rates on deposits kept abroad make up 57% of total revenue (8.5% in 1993), while the percentage of interest rates on credits from reserve money creation declined from 79.2% in 1993 to 16.9% in 1994.

2. Other Revenue

Other revenue realized in 1994 amount to 112.1 million kuna and are 22.4% greater than planned. Their percentage in total revenue is 26.1%.

The greatest percentage in other revenue is from the interest on funds from statutory reserves that are used for keeping the daily liquidity of banks. The amount is 89 million kuna i.e. 79.4% of other revenue.

TABLE 26
OUTLAY OF THE NATIONAL BANK OF CROATIA (HRK thousands)

	PLAN 1994	ACTUAL 1994	% SHARE	INDEX ACTUAL/PLAN
1. INTEREST ON DEPOSITS				
1.1. Interest on statutory reserves	50,000.0	62,940.1	27.9	125.9
1.2. Interest on issued bills	40,000.0	37,155.1	16.5	92.9
2. COSTS				
2.1. Cost of production of banknotes and coins	27,000.0	55,026.8	24.4	203.8
2.2. Material and other costs	43,000.0	34,185.7	15.2	79.5
2.3. Depreciation	4,000.0	4,728.9	2.1	118.2
2.4. Gross wages	16,000.0	16,176.4	7.2	101.1
3. RESERVES				
3.1. Fixed capital	15,000.0	15,000.0	6.7	100.0
TOTAL	195,000.0	225,213.0	100.0	115.5
SURPLUS	175,000.0	204,726.3	-	117.0

1. Interest on Deposits

The National Bank of Croatia paid out 62.9 million kuna on statutory reserves. That was 25.9% more than planned. The outlays of interest on reserve requirements make up 27.9% of the total outlay of the National Bank in 1994.

Realized outlay of interest on the National Bank's securities (the NBC bills) was 37.2 million kuna, that is 7% less than expected due to a drop in interest rates. Interest on securities made up 16.5% of the total outlay.

2. Costs

2.1. Production of banknotes and coins

Article 36, Law on the National Bank of Croatia regulates that the National Bank of Croatia issues banknotes and coins made out to the currency unit of the Republic of Croatia.

The brake up of the resistance of hyperinflation and the current economic situation enabled the introduction of the new currency unit in the Republic of Croatia - the kuna, on May 30, 1994.

Production costs of the banknotes and coins in 1994 are 55 million kuna and are twice bigger than planned. These costs make up 24.4% of the total outlay of the National Bank of the Republic of Croatia.

2.2. Material and other costs

Material and other costs realized 34.2 million kuna and are the only item that has been realized far bellow expectations (20.5%). However, this is due to the fact that the plan was made at the level of material and other costs at the end of 1993, also because of inflation correction which was expected to be 15% at the time. Growth in retail prices was negative, and that influenced the realized size of these costs. The share of these costs in total outlays of the National Bank of Croatia is 15.2%.

2.3. Depreciation

By using the linear method of calculating the depreciation, the cost of depreciation to the National Bank of Croatia is 4.7 million kuna in 1994 which is 18.2% more than planned.

The valuation adjustment for fixed assets in 1994 does not need to be worked out because calculating coefficients (producers' price index) had negative growth. The percentage of depreciation costs in total outlay is 2.1%.

2.4. Gross wages of employees

The Government of the Republic of Croatia continued to use a wage policy in the public sector during the implementation of the Stabilization Program in 1994, and that reflected on the wages of employees in the National Bank of Croatia. The total outlay for gross wages in the National Bank of Croatia in 1994 are 16.2 million kuna and are within the planned amount.

3. Reserve Fund

According to the financial plan, an amount of 15 million kuna of total revenue is distributed for fixed capital formation. The decision about the use of capital for the acquisition of fixed assets is made by the Governor of the National Bank of Croatia.

Excess of revenue over outlay after provisions for all costs and fixed capital formation, is the revenue of the State budget. Realized excess in 1994 was 204.7 million kuna, which is 17% more than planned. The net transfer of revenue excess over outlay to the State budget was 141.5 million kuna. The excess of 63.2 million was offset due to the State budget's liabilities to the National Bank on the basis of used loans. Realized excess revenue make up 47.6% of the total realized revenue of the National Bank of Croatia in 1994.

II MEMBERS OF THE COUNCIL OF
THE NATIONAL BANK OF CROATIA

(December 31, 1994)

PERO JURKOVIĆ
(CHAIRMAN OF THE COUNCIL)

ZDRAVKO ROGIĆ

RELJA MARTIĆ

DRAGUTIN ZANINOVIĆ

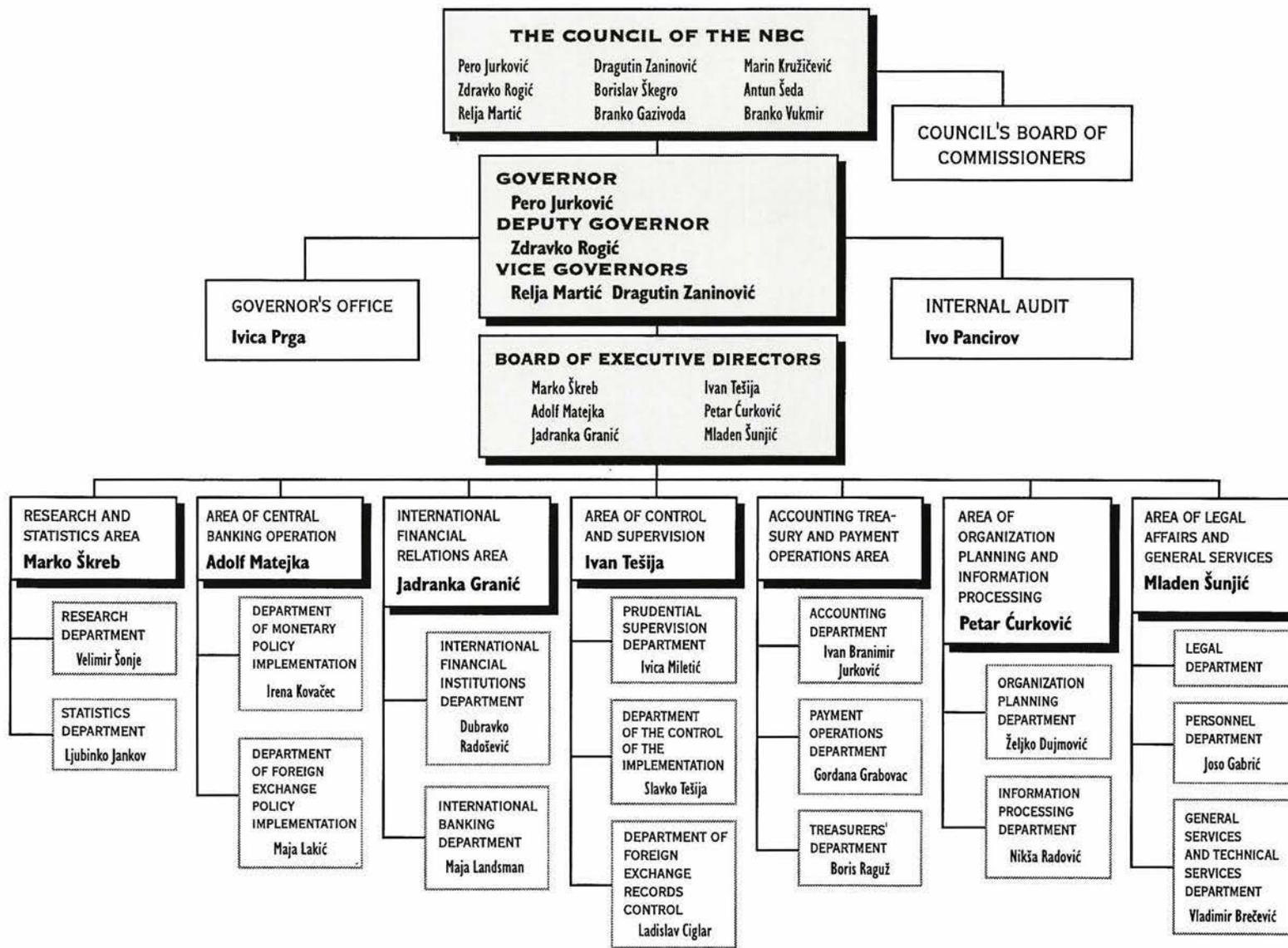
BORISLAV ŠKEGRO

BRANKO GAZIVODA

MARIN KRUŽIČEVIĆ

ANTUN ŠEDA

BRANKO VUKMIR



IV LIST OF BANKS

**LIST OF BANKS
(ZAGREB, DECEMBER 31, 1994)**

* *Licensed for International Business*

1. * AGRO - OBRTNIČKA BANKA DD

Amruševa 8
10000 ZAGREB
Tel: +385 1 / 278-671; 275-884
Fax: +385 1 / 278-671
Tlx: 21608

General Manager: Đurđica Kunstić
International Division Manager: Nenad Bratelj
SWIFT: AOBH HR 2X BIC

2. * ALPE JADRAN BANKA

Poljička cesta 32
21000 SPLIT
Tel: +385 21 / 565 057; 561 173; 565 091
Fax: +385 21 / 561 072
Tlx: 26647 AJBANK RH
SWIFT: AJBK HR 2X

General Manager: Pero Perišić
International Division Manager: Stjepan Kurir

3. * BJELOVARSKA BANKA DD

Jurja Haulika 19 a
43000 BJELOVAR
Tel: +385 43 / 241 899; 242 410; 241 386
Fax: +385 43 / 241 897
Tlx: 23330 BJELBA RH
SWIFT: BJBA HR 2X

International Division
Tel: +385 43 / 275 115; 275 125
Fax: + 385 43 / 275 144

General Manager: Petar Radaković
International Division Manager: Branka Međimorac

LIST OF BANKS

4. **BRODSKO - POSAVSKA BANKA DD**

Trg pobjede 29
35000 SLAVONSKI BROD
Tel: +385 35 / 241 700, 241 800,
Fax: +385 35 / 241 900

General Manager: Gabrijel Sentić

5. **CENTAR BANKA DD**

Jurišićeva 24/II
10000 ZAGREB
Tel: +385 1 / 273 358
Fax: +385 1 / 278 141
Tlx: 21707

General Manager: Zvezdana Stipić

6. * **CIBALAE BANKA DD**

H. D. Genschera 2
32000 VINKOVCI
Tel: +385 32 / 311 144; 311 887
Fax: +385 32 / 311 825
Tlx: 28254 VINBAN RH
SWIFT: VKBK HR 2X

International Division
Tel: +385 32 / 331 083
Fax: +385 32 / 311 717

General Manager: Marijan Mandić
International Division Manager: Borislav Ćorluka

7. **CREDO BANKA DD**

Kralja Zvonimira 14/10
21000 SPLIT
Tel: +385 21 / 511 746, 525 099, 522 967
Fax: +385 21 / 551 014

General Manager: Zoran Sikirica

8. * **CROATIA BANKA DD**

Kvaternikov trg 9
10000 ZAGREB
Tel: +385 1 / 2338 137; 2331 778
Fax: +385 1 / 2332 470
SWIFT: CROA HR 2X

International Division
Kennedyjev trg 11
10000 ZAGREB
Tel: +385 1 / 2391 269; 2391 273
Fax: +385 1 / 2391 167
Tlx: 21146 CB ZG RH

General Manager: Ivan Tarle
International Division Manager: Hrvoje Delač

9. * ČAKOVEČKA BANKA DD

Katarine Zrinski 1
40000 ČAKOVEC
Tel: +385 40 / 815 101; 816 359
Fax: +385 40 / 815 101

International Division
Poljičke Poljane 5
10000 ZAGREB
Tel: +385 1 / 6116 660; 6116 661
Fax: + 385 1 / 533 136; 535 167
Tlx: 22507 CKBFZGRH

General Manager: Nenad Jeđut
International Division Manager: Darija Mikulec - Reich

10. * DALMATINSKA BANKA DD

Trg Sv.Stošije 3
23000 ZADAR
Tel: +385 23 / 311 311; 436 182
Fax: +385 23 / 437 867
Tlx: 27141; 27224 DBK ZD RH
SWIFT: DBZD HR 2X

General Manager: Neven Dobrović
International Division Manager: Ivo Bilić

11. * DUBROVAČKA BANKA DD

Put Republike 5
20000 DUBROVNIK

Tel: +385 20 / 431 366; 411 924
Fax: +385 20 / 411 035; 412 814
Tlx: 27540 HRVDUBANK
27592 HRVDUBANK
27715 HRVDUBANK
SWIFT: DUBA HR 2X

LIST OF BANKS

General Manager: Neven Barač
International Division Manager: Ane Režić

12. **GLUMINA BANKA DD**

Svetice 15
10000 ZAGREB
Tel: +385 1 / 2332 344; 220 125
Fax: +385 1 / 214 378

General Manager: Marko Marčinko

13. * **GOSPODARSKO KREDITNA BANKA DD**

Maksimirska 120
10000 ZAGREB
Tel: +385 1 / 2395 800; 2395 801; 2395 906
Fax: +385 1 / 2395 803; 2395 902
Tlx: 22404 ccb zg hr
SWIFT: CCBZ HR 2X

General Manager: Izidor Sučić
International Division Manager: Branko Petanjek

14. * **GRADSKA BANKA DD OSIJEK**

Šetalište kardinala Franje Šepera 12
31000 OSIJEK
Tel: +385 31 / 122 944; 122 931; 122 930
Fax: +385 31 / 122 930
SWIFT: GBOS HR 2X BIC

International Division
Savska cesta 41/1
10000 Zagreb
Tel: +385 1 / 6121 447
Fax: +385 1 / 535 124
Tlx: 22451 GB SPI RH

General Manager: Stjepan Stjepanek
International Division Manager: Božidar Jukić

15. **HISTRIA BANKA DD**

Riva 6
52000 PULA
Tel: +385 52 / 217 422
Fax: +385 52 / 22 471

General Manager: Valter Orbanić

16. HYPOBANKA D.O.O.

Kralja Zvonimira 54
10000 ZAGREB
Tel: +385 1 / 447 230; 446 800;
Fax: +385 1 / 443 833; 443 825
Tlx: 21621 HIPZG RH
SWIFT: HYZG HR 2X BIC

General Manager: Vlasta Janežić
International Division Manager: Blaženka Vulić

17. * HRVATSKA KREDITNA BANKA ZA OBNOVU (HKBO)

Gajeva 30 a
10000 ZAGREB
Tel: +385 1 / 4569 107; 4569 106
Fax: +385 1 / 4569 166; 4569 167
Tlx: HKBO RH 21149
SWIFT: HKBO HR 2X

General Manager: Anton Kovačev
International Division Manager: Marcela Kir

18. * HRVATSKA GOSPODARSKA BANKA DD

Vončinina 2
10000 ZAGREB
Tel: +385 1 / 4559 211; 417 282
Fax: +385 1 / 417 282
Tlx: 22423; 22446
SWIFT: HGBK HR 2X

General Manager: Željko Šupe
International Division Manager: Vesna Šilinger

19. * HRVATSKA POŠTANSKA BANKA DD (HPB)

Tkalčićeva 7/III
10000 ZAGREB
Tel: +385 1 / 274 711; 428 810; 428 969
Fax: +385 1 / 433 215
Tlx: 21610 HPB RH
SWIFT: HPBZ HR 2X

General Manager: Dnjepar Dević
International Division Manager: Safet Šulić

20. * ILIRIJA BANKA DD

Avenija Dubrovnik 10
10000 ZAGREB

LIST OF BANKS

Tel: +385 1 / 6551 115
Fax: +385 1 / 6551 139; 6551 144
Tlx: 21201 ILIRI RH
SWIFT: ILIR HR 2X

International Division
Tel: +385 1 / 6551 114; 6551 116

General Manager: Nenad Vuksan
International Division Manager: Marija Stojaković

21. * **ISTARSKA BANKA DD**

Premanturska 2
52000 PULA
Tel: +385 52 / 527 101; 527 309; 527 377
Fax: + 385 52 / 211 498
Tlx: 24746, 24716 IBPU RH
SWIFT: IBPU HR 2X

General Manager: Mario Floričić
International Division Manager: Ljiljana Zgrablić

22. * **ISTARSKA KREDITNA BANKA DD**

Ernesta Miloša 1
51470 UMAG
Tel: +385 531 / 741 622; 741 536
Fax: +385 531/741 275; 741 396
Tlx: 24745 IKB RH

International Division
Tel: +385 531 / 541 394
Fax: +385 531 / 541 396
SWIFT: ISKB HR 2X

General Manager: Vlatko Reschner
International Division Manager: Anton Belušić

23. * **JADRANSKA BANKA DD**

Ante Starčevića 4
22000 ŠIBENIK
Tel: +385 22 / 34 244; 35 880; 33 388
Fax: +385 22 / 35 881; 39 010
Tlx: 27435; 27346 JBS RH
SWIFT: JADR HR 2X

General Manager: Ivo Šinko
International Division Manager: Lidvina Mandić

24. * KARLOVAČKA BANKA DD

I. G. Kovačića 1
47000 KARLOVAC
Tel: +385 47 / 223 333; 223 892
Fax: +385 47 / 220 653
Tlx: 23742 KB KA RH
SWIFT: KALC HR 2X

International Division
V. Mačeka 8
47000 KARLOVAC
Tel: +385 47 / 224 042; 224 052; 611 057
Fax: +385 47 / 224 157
Tlx: 23712 KB KA RH

General Manager: Vladimir Tvrdinić
International Division Manager: Mijo Bursić

25. KOMERCIJALNA BANKA DD

Frankopanska 11
10000 ZAGREB
Tel: +385 1 / 4557 777; 425 063
Fax: +385 1 / 425 063
Tlx: 21595 PBS ZG RH
SWIFT: KOBZ HR 2X BIC

General Manager: Josip Šoić

26. * KREDITNA BANKA ZAGREB DD

Avenija Vukovar 74
10000 ZAGREB
Tel: +385 1 / 6116 366; 6115 910
Fax: +385 1 / 6116 466; 6116 468
Tlx: 21197 KREZ ZG RH
SWIFT: KREZ HR 2X

General Manager: Ante Zdilar
International Division Manager: Ranko Gavrilović

27. * KVARNER BANKA DD

Krešimirova 28
51000 RIJEKA
Tel: +385 51/211 946; 208 725
Fax: +385 51 / 211 955
SWIFT: KVRB HR 2X BIC

General Manager: Anton Butorac

28. * MEĐIMURSKA BANKA DD

Valenta Moradinija 37
40000 ČAKOVEC
Tel: +385 40 / 810 620; 810 676; 812 035
Fax: +385 40 / 816 610; 815 065
Tlx: 23251 BANKA RH
SWIFT: MBCK HR 2X

General Manager: Mašan Sredanović
International Division Manager: Ljiljana Horvat

29. NERETVANSKA GOSPODARSKA BANKA DD

Trg kralja Tomislava 23
20840 PLOČE
Tel: +385 20 / 679 262; 679 538
Fax: +385 20 / 679 838

General Manager: Milan Vukušić

30. * PARTNER BANKA DD

Andrije Žaje 61
10000 ZAGREB
Tel: +385 1 / 340 491
Fax: +385 1 / 340 339
Tlx: 21212 PARBAZ RH
SWIFT: PAZG HR 2X

General Manager: Julio Krevelj
International Division Manager: Božena Robić

31. * PODRAVSKA BANKA DD

Opatička 1 a
48300 KOPRIVNICA
Tel: +385 48 / 6550
Fax: +385 48/ 827 143
Tlx: 23368 POD KC RH
SWIFT: PDKC HR 2X

International Division
Ivana Meštrovića 33
48300 KOPRIVNICA
Tel: +385 48/ 622 976; 655 193; 655 187
Fax: + 385 48/ 655 135
Tlx: +599 233111 POD KC RH

General Manager: Julio Kuruc
International Division Manager: Vlado Novak

32. * POŽEŠKA BANKA DD

Republike Hrvatske 1b
34000 POŽEGA
Tel: +385 34 / 282 466;
Fax: +385 34 / 271 006
Tlx: 28550 KB SLP RH
SWIFT: POBK HR 2X

International Division
Tel: +385 34 / 72 218

General Manager: Vinko Matijević
International Division Manager: Mihovil Petrović

33. PRIVATNA AUSTRIJSKO-HRVATSKA BANKA DD

Trg Bana Jelačića 5/III
10000 ZAGREB
Tel: +385 1 / 271 945; 274 638; 271 731; 271 736
Fax: +385 1 / 420 653

General Manager: Ante Blažanin

34. * PRIVREDNA BANKA ZAGREB DD

Račkoga 6 / P. O. .Box 1032
10000 ZAGREB
Tel: +385 1 / 4550 822; 447 412
Fax: +385 1 / 441 800; 447 234
Tlx: 21 120 PBZ RH
SWIFT: PBZG HR 2X

General Manager: Martin Katičić
International Division Manager: Ivica Klarić

35. * PROMDEI BANKA DD

Kralja Držislava I
10000 ZAGREB
Tel: +385 1 / 4551 379; 4551 277; 412 939
Fax: +385 1 / 449 553
Tlx: 21248 PROMDE RH
SWIFT: PDEI HR 2X

General Manager: Ibrahim Dedić
International Division Manager: Zineta Hadžipašić

36. RAZVOJNA BANKA "DALMACIJA" DD

Poljička cesta 39
21000 SPLIT
Tel: +385 21 / 365 904; 371 000
Fax: +385 21 / 365 904; 371 000

General Manager: Ivan Lapenda

37. * RAIFFEISENBANK AUSTRIA D.D.

Mihanovićeveva 36
10000 ZAGREB
Tel: + 385 1 / 4566 466; 4566 425
Fax: 385 1 / 448 626
SWIFT: RZBH HR 2X BIC

General Manager: Boris Zenić
International Division Manager: Marija Kolarić

38. * RIADRIA BANKA DD

Gjure Šporera 3
51000 RIJEKA
Tel: +385 51 / 339 111; 339 803
Fax: +385 51 / 211 093; 211 013
Tlx: 24 161

International Division
Tel: + 385 51 / 333 406; 330 194; 213 373
Fax: + 385 51 / 211 551
SWIFT: ADRI HR 2X BIC

General Manager: Mladen Štic
International Division Manager: Mirjana Čohar

39. * RIJEČKA BANKA DD

Jadranski trg 3 a
51000 RIJEKA
Tel: +385 51 / 208 211
Fax: +385 51 / 330 525; 331 880
Tlx: 24 143 BANKOM RH
SWIFT: RBRI HR 2X

General Manager: Nikola Pavletić
International Division Manager: Nikola Carević

40. SAMOBORSKA BANKA DD

Trg Kralja Tomislava 8
10430 SAMOBOR
Tel: +385 1 / 782 530
Fax: +385 1 / 781 523
Tlx: 21811 SAMBA RH

General Manager: Marijan Trusk

41. * SISAČKA BANKA DD

Trg Lj. Posavskog I
44000 SISAČ
Tel: +385 44 / 22 047; 22 566
Fax: +385 44 / 22 090
Tlx: 23645 SBDD SK RH
SWIFT: SSKB HR 2X

General Manager: Davorka Jakir
International Division Manager: Vesna Andrijašević

42. * SLATINSKA BANKA DD

Nazorova 2
33520 SLATINA
Tel: +385 33 / 551 526; 551 354
Fax: +385 33 / 551 566
Tlx: 28277 SLATB RH
SWIFT: SBSL HR 2X

General Manager: Ante Šimara
International Division Manager: Jozo Čakalić

43. * SLAVONSKA BANKA DD

Kapucinska 29
31000 OSIJEK
Tel: +385 31 / 27 034; 125 022; 27 055
Fax: +385 31 / 124 846
Tlx: 28235; 28090 BANKA RH
SWIFT: SLBO HR 2X

General Manager: Ivo Markotić
International Division Manager: Krešimir Fekete

44. * SPLITSKA BANKA DD

Ruđera Boškovića 16
21000 SPLIT
Tel: +385 21 / 370 500; 370 516
Fax: +385 21 / 370 541
Tlx: 26252 ST BANK RH
SWIFT: SPLI HR 2X

International Division
Ruđera Boškovića 28
21000 SPLIT
Tel: +385 21 / 563 611; 563 873
Fax: +385 21 / 526 107
Tlx: 26161 ST BANK RH

General Manager: Marin Žižić
International Division Manager: Ivo Matulić

45. ŠTEDBANKA D.O.O. ZAGREB

Veprinačka 16
10000 ZAGREB
Tel: 385 1 / 337 166;
Fax: 385 1 / 562 949

General Manager: Željko Udovičić

46. * TRGOVAČKA BANKA DD

Varšavska 3-5
10000 ZAGREB
Tel: +385 1 / 4561 999;
Fax: +385 1 / 4561 900
Tlx: 22370 TB RH
SWIFT: TRGB HR 2X

General Manager: Damir Odak
International Division Manager: Sanja Martinko

47. TRGOVAČKO - TURISTIČKA BANKA DD

Kralja Petra Svačića 4
21000 SPLIT
Tel: +385 21 / 361 755; 361 729
Fax: +385 21 / 362 122
Tlx: 26609

General Manager: Božena Šutić

48. * VARAŽDINSKA BANKA DD

P. Preradovića 17
42000 VARAŽDIN
Tel: +385 42 / 106 122; 106 190
Fax: +385 42 / 106 102
Tlx: 23224 BANKA RH
SWIFT: VBDD HR 2X
Reuters: VBVH

International Division
Tel: +385 42 / 106 000
Fax: +385 42 / 55 114; 55 569
Tlx: 23203 BANKA RH

General Manager: Mato Lukinić
International Division Manager: Branimir Gregurić

49. * VUKOVARSKA BANKA DD

Ksaver 195
10000 ZAGREB
Tel: +385 1 / 425 846; 425 806
Fax: +385 1 / 424 612
SWIFT: VUBA HR 2X

General Manager: Vlatko Šeda
International Division Manager: Marina Mikić

50. * ZAGREBAČKA BANKA DD

Paromlinska 2
10000 ZAGREB
Tel: +385 1 / 6130 444
Fax: +385 1 / 536 626
Tlx: 21462 ZABA RH
SWIFT: ZABA HR 2X

International Division
Savska 60
10000 ZAGREB
Tel: +385 1 / 6110 411
Fax: +385 1 / 534 040
Tlx: 21211 ZABA RH

General Manager: Franjo Luković
International Division Manager: Milivoj Goldštajn

LIST OF BANKS

51. * ZAGREBAČKA BANKA - POMORSKA BANKA DD

Ul. Ivana Gundulića 26 / P.O. Box 372
21000 SPLIT
Tel: +385 21 / 40 373; 47 444; 40 162
Fax: +385 21 / 357 079
Tlx: 251 10, 25333 POMBANK RH

General Manager: Mladen Rakelić

52. * ŽUPANJSKA BANKA DD

J. J. Strossmayera 9
56270 ŽUPANJA
Tel: +385 56 / 832 010; 832 020; 831 410; 832 644
Fax: +385 56 / 832 646
Tlx: 28216 KBZ RH
SWIFT: ZUBA HR 2X

General Manager: Zdravko Lešić
International Division Manager: Đurđica Dominković

V STATISTICAL APPENDIX

- Table 1. Monetary Survey
- Table 2. Monetary Authorities
- Table 3. Deposit Money Banks' Accounts
- Table 4. Balance of Payments of the Republic of Croatia
- Table 5. Gross International Reserves
- Table 6. Average Monthly NBC Exchange Rates
- Table 7. NBC Discount Rate and DMB Interest Rates

Table I

MONETARY SURVEY

End of period (HRK mil.)

	Dec. 93	Jun. 94	Jul. 94	Aug. 94	Sep. 94	Oct. 94	Nov. 94	Dec. 94
ASSETS								
1. Foreign assets (net)	215	1,917	3,449	4,563	4,233	4,614	4,506	2,996
2. Credits	40,361	42,549	43,142	43,395	43,785	43,124	44,423	44,676
2.1. Claims on central government (net)	19,066	18,699	18,366	18,008	17,524	16,968	16,733	16,456
2.2. Claims on other domestic sectors	21,269	23,770	24,695	25,297	26,162	26,061	27,586	28,115
2.3. Claims on other banking institutions	10	33	36	39	46	35	41	43
2.4. Claims on other financial institutions	16	47	45	51	53	60	63	62
Total (1+2)	40,576	44,465	46,592	47,958	48,019	47,737	48,930	47,672
LIABILITIES								
1. Money supply	3,139	5,073	5,857	6,558	6,499	6,292	6,506	6,673
2. Savings and time deposits	1,560	1,703	1,785	1,907	2,035	2,046	2,071	2,059
3. Foreign currency deposits	5,711	7,086	7,492	8,297	8,513	8,740	9,025	9,174
4. Bonds	424	773	804	895	951	1,042	1,091	1,044
5. Blocked foreign currency deposits	13,857	12,703	12,501	12,097	11,941	11,645	11,616	11,492
6. Other items (net)	15,885	17,128	18,152	18,204	18,080	17,972	18,621	17,230
Total (1+2+3+4+5+6)	40,576	44,465	46,592	47,958	48,019	47,737	48,930	47,672
Memorandum items:								
I. Net domestic assets	5,615	8,550	8,321	8,956	9,027	8,943	9,478	11,457
Assets								
1. Claims on central government (net)	594	802	622	417	112	-210	-245	47
2. Domestic credits	21,295	23,849	24,776	25,387	26,261	26,156	27,690	28,220
3. Other assets (net)	-16,273	-16,101	-17,077	-16,848	-17,346	-17,003	-17,967	-16,809
Liabilities								
1. Total liquid deposits	10,834	14,634	15,938	17,657	17,998	18,120	18,693	18,950
2. Foreign liabilities (net)	-5,218	-6,084	-7,618	-8,701	-8,971	-9,177	-9,215	-7,493

Table 2

MONETARY AUTHORITIES

End of period (HRK mil.)

	Dec. 93	Jun. 94	Jul. 94	Aug. 94	Sep. 94	Oct. 94	Nov. 94	Dec. 94
ASSETS								
1. Foreign assets	4,044	5,080	5,712	6,327	6,644	7,655	7,801	7,908
including: repurchase contracts	-	-	35	-	1	184	-	-
2. Claims on central government	535	701	634	457	340	314	318	251
3. Claims on other domestic sectors	0	1	1	0	1	1	1	1
4. Claims on banks	192	115	107	96	169	238	226	224
TOTAL (1+2+3+4)	4,771	5,896	6,453	6,880	7,154	8,208	8,346	8,383
LIABILITIES								
1. Reserve money	2,270	3,107	3,875	4,123	4,332	4,142	4,221	4,747
1.1. Currency outside banks	1,367	1,666	2,112	2,141	2,158	2,204	2,295	2,658
1.2. Deposit money banks' cash	52	85	106	111	105	94	105	134
1.3. Deposit money banks' deposits	843	1,319	1,601	1,809	2,030	1,817	1,797	1,901
1.4. Demand deposits	8	37	57	61	39	27	24	54
2. Restricted deposits	1	26	28	27	25	37	42	40
3. Foreign liabilities	152	102	102	102	95	720	732	716
4. Central government deposits	0	3	1	3	3	931	903	761
5. NBC bills	0	352	204	334	439	272	296	375
6. Other items (net)	2,347	2,308	2,243	2,292	2,260	2,105	2,153	1,744
including: blocked F/C deposits	0	0	0	0	0	0	0	0
TOTAL (1+2+3+4+5+6)	4,771	5,896	6,453	6,880	7,154	8,208	8,346	8,383

Table 3

DEPOSIT MONEY BANKS' ACCOUNTS

End of period (HRK mil.)

	Dec. 93	Jun. 94	Jul. 94	Aug. 94	Sep. 94	Oct. 94	Nov. 94	Dec. 94
ASSETS								
1. Banks reserves with the NBC	866	1,407	1,715	1,927	2,137	1,908	1,903	2,036
2. Foreign assets	8,596	8,968	10,071	10,195	9,381	9,175	9,028	9,117
including: claims on former Yugoslavia	3,353	3,206	3,190	3,191	2,526	2,511	2,486	2,425
3. Claims on central government	19,592	19,246	19,271	19,096	18,770	18,499	18,259	17,825
3.1. Bonds for blocked F/C deposits *	14,837	12,544	12,390	12,273	12,163	11,930	11,724	11,437
3.2. Big bonds **	3,635	5,354	5,355	5,318	5,249	5,248	5,253	4,972
3.3. Other claims	1,120	1,348	1,526	1,504	1,358	1,320	1,282	1,416
4. Claims on other domestic sectors	21,269	23,769	24,694	25,296	26,161	26,060	27,585	28,114
4.1. Claims on other local authorities	11	30	57	90	96	101	93	113
4.2. Claims on enterprises	19,355	21,133	21,831	22,309	23,025	22,818	24,238	24,626
4.3. Claims on households	1,902	2,606	2,806	2,897	3,040	3,141	3,254	3,375
5. Claims on other banking institutions	10	33	36	39	46	35	41	43
6. Claims on other financial institutions	16	47	45	51	53	60	63	62
TOTAL (1+2+3+4+5+6)	50,349	53,469	55,833	56,604	56,548	55,737	56,879	57,197
LIABILITIES								
1. Demand deposits	1,764	3,370	3,688	4,356	4,302	4,062	4,187	3,961
2. Savings and time deposits	1,481	1,612	1,701	1,822	1,944	1,962	1,960	1,873
3. Foreign currency deposits	5,711	7,086	7,492	8,297	8,513	8,740	9,025	9,174
4. Bonds	424	773	804	895	951	1,042	1,091	1,044
5. Foreign liabilities	12,273	12,030	12,231	11,858	11,697	11,496	11,591	13,313
including: liabilities to former Yugoslavia	8,356	7,373	7,358	7,329	7,263	7,075	7,194	6,942
6. Central government deposits	1,061	1,245	1,538	1,541	1,583	913	941	858
7. Credits from central bank	275	98	83	73	175	243	231	224
8. Restricted deposits	78	65	56	59	66	47	70	146
9. Blocked F/C deposits	13,857	12,703	12,501	12,097	11,941	11,645	11,616	11,492
10. Capital Accounts	11,756	12,407	13,153	13,562	14,034	13,801	14,356	14,185
11. Other items (net)	1,669	2,081	2,585	2,046	1,342	1,787	1,813	928
including: F/C deposits by former branches	1,331	1,263	1,244	1,240	1,222	1,198	1,190	1,199
TOTAL (1+2+3+4+5+6+7+8+9+10+11)	50,349	53,469	55,833	56,604	56,548	55,737	56,879	57,197
Memorandum items:								
1. Accrued interest but not due								1,176
including: former Yugoslavia								21
2. Interbank accounts	1,019	1,009	1,002	999	913	896	902	207

* Government bonds issued according to the Law on Transformation of Citizens' Foreign Exchange Deposits to the Public Debt of the Republic of Croatia

** The Law on Bonds for Restructuring the Croatian Economy

Table 4

BALANCE OF PAYMENTS OF THE REPUBLIC OF CROATIA

(US\$ mil.)

	1993	1994
A. CURRENT ACCOUNT	104.0	103.4
1. GOODS	-762.5	-968.9
1.1. Export f. o. b.	3,903.8	4,260.4
1.1.1. Intermediate goods	1,975.7	2,073.1
1.1.2. Capital goods	350.5	528.0
1.1.3. Goods for final consumption	1,577.5	1,659.3
1.2. Import c.i.f.	-4,666.4	-5,229.3
1.2.1. Intermediate goods	-2,749.5	-2,929.0
1.2.2. Capital goods	-748.6	-898.1
1.2.3. Goods for final consumption	-1,168.3	-1,402.2
2. SERVICES	631.9	737.5
2.1. Transportation	178.6	120.4
2.1.1. Transportation, credit	674.8	630.9
2.1.2. Transportation, debit	-496.2	-510.6
2.2. Travel	533.2	874.7
2.2.1. Travel, credit	831.6	1,426.9
2.2.2. Travel, debit	-298.4	-552.3
2.3. Other services	-79.9	-257.5
2.3.1. Other services, credit	300.4	234.7
2.3.2. Other services, debit	-380.2	-492.2
3. INCOME	-141.3	-124.5
3.1. Investment income	-141.3	-124.5
3.1.1. Investment income, credit	111.6	101.0
3.1.1.1. Interest	108.3	100.3
3.1.1.2. Other	3.3	0.7
3.2.2. Investment income, debit	-252.9	-225.5
3.2.2.1. Interest payments	-162.8	-141.0
3.2.2.2. Interest arrears	-75.6	-78.4
3.2.2.3. Other	-14.5	-6.1
4. CURRENT TRANSFERS	376.0	459.3
4.1. Current transfers, credit	554.9	602.1
4.1.1. General government	255.7	261.9
4.1.2. Other sectors	299.2	340.2
4.2. Current transfers, debit	-178.9	-142.8
4.2.1. General government	-6.0	-26.6
4.2.2. Other sectors	-172.9	-116.2
B. CAPITAL AND FINANCIAL ACCOUNT	-179.8	-204.9
(C+D+E)		
C. CAPITAL ACCOUNT	-	-

	1993	1994
D. FINANCIAL ACCOUNT	269.8	583.6
(excluding reserve assets)		
1. DIRECT INVESTMENT	74.3	97.6
1.1. Direct investment in Croatia	74.3	97.6
2. PORTFOLIO INVESTMENT	-	-
3. OTHER INVESTMENT	195.4	486.1
3.1. Assets	44.2	241.8
3.1.1. Banks	-210.6	-189.5
3.1.1.1. Currency and deposits	-210.6	-189.5
3.1.2. Other sectors	254.8	431.3
3.1.2.1. Currency and deposits	254.8	431.3
3.2. Liabilities	151.2	244.2
3.2.1. Monetary authorities (NBC)	-24.0	105.5
3.2.1.1. Credits from IMF	-24.0	105.5
3.2.1.1.1. Drawings	0.0	114.2
3.2.1.1.2. Repayments	-24.0	-8.7
3.2.2. General government	-7.8	-1.8
3.2.2.1. Long-term loans	-7.8	-1.8
3.2.2.1.1. Drawings	3.7	10.4
3.2.2.1.2. Repayments	-11.5	-12.2
3.2.3. Banks	105.8	124.1
3.2.3.1. Long-term loans	-133.2	-56.7
3.2.3.1.1. Drawings	55.2	69.4
3.2.3.1.2. Repayments	-188.4	-126.1
3.2.3.1.2.1. Repayments	-45.5	-34.5
3.2.3.1.2.2. Principal arrears	-142.9	-91.6
3.2.3.2. Short-term loans (net)	17.4	15.0
3.2.3.3. Other liabilities	221.6	165.8
3.2.3.3.1. Interest arrears	60.3	66.8
3.2.3.3.2. Principal arrears	142.9	91.6
3.2.3.3.3. Other	18.4	7.4
3.2.4. Other sectors	77.2	16.5
3.2.4.1. Long-term loans	-50.7	-78.3
3.2.4.1.1. Drawings	94.7	104.5
3.2.4.1.2. Repayments	-145.4	-182.8
3.2.4.1.2.1. Repayments	-112.6	-94.4
3.2.4.1.2.2. Principal arrears	-32.8	-88.4
3.2.4.2. Long-term loans	79.8	-5.2
3.2.4.3. Other liabilities	48.1	100.0
3.2.4.3.1. Interest arrears	15.3	11.6
3.2.4.3.2. Principal arrears	32.8	88.4
E. RESERVE ASSETS (NBC), INCREASE (-)	- 449.6	- 788.6
F. NET ERRORS AND OMISSIONS	75.8	101.5

Table 5

GROSS INTERNATIONAL RESERVES

End of period (US\$ mil.)

		OPERATIONAL FOREIGN EXCHANGE BANKS' RESERVES *			NBC'S INTERNA- TIONAL RESERVES
		TOTAL	SHORT-TERM LIABILITIES	NET INTERNA- TIONAL RESERVES	
1991	December	200.9	53.7	147.2	0.0
1992	December	502.3	41.9	460.4	166.8
1993	January	528.1	39.5	488.6	195.5
	February	559.5	57.8	501.7	231.2
	March	583.2	76.3	506.9	271.6
	April	652.7	74.1	578.6	312.7
	May	662.7	69.3	593.4	342.4
	June	636.5	65.8	570.7	354.9
	July	628.5	66.1	562.4	416.2
	August	741.5	73.2	668.3	465.7
	September	748.0	64.5	683.5	476.3
	October	751.2	65.0	686.2	500.1
	November	677.5	65.1	612.4	573.9
	December	712.9	59.3	653.6	616.4
1994	January	720.5	56.3	664.2	620.8
	February	703.2	71.5	631.7	669.4
	March	729.1	71.6	657.5	712.9
	April	678.5	62.1	616.4	773.6
	May	699.1	73.0	626.1	795.4
	June	760.3	72.2	688.1	866.1
	July	848.4	66.3	782.1	976.7
	August	947.8	64.8	883.0	1,082.1
	September	939.2	65.4	873.8	1,160.3
	October	952.2	65.5	886.7	1,393.9
	November	877.1	62.9	814.2	1,369.2
	December	902.4	74.3	828.1	1,405.0

* Data from daily reports of licenced commercial banks (DMBs) and Croatian Development Bank for Reconstruction

Table 6

AVERAGE MONTHLY NBC EXCHANGE RATES

		HRK/ 100 ATS	HRK/ 100 FRF	HRK/ 100 ITL	HRK/ 100 DEM	HRK/ 100 CHF	HRK/ GBP	HRK/ USD	HRK/ 100 SIT	HRK/ XEU	HRK/ XDR
1992	December	6.1559	12.7016	0.0486	43.3129	48.1937	1.0626	0.6849	0.6932	0.8479	
1993	January	7.6430	15.8524	0.0583	53.7742	58.8329	1.3273	0.8688	0.8529	1.0538	
	February	9.3431	19.4098	0.0697	65.7429	71.1211	1.5522	1.0784	1.0557	1.2775	
	March	11.8342	24.4921	0.0861	83.2710	90.2242	2.0021	1.3720	1.2928	1.6151	
	April	14.8340	30.8422	0.1082	104.3800	113.9559	2.5696	1.6676	1.5219	2.0337	
	May	18.9900	39.6131	0.1452	133.5903	148.1313	3.3236	2.1418	1.9145	2.6119	
	June	23.8952	49.9459	0.1848	168.1500	188.4114	4.1913	2.7730	2.3858	3.2868	
	July	29.2569	60.5179	0.2230	205.9129	232.9120	5.2793	3.5295	2.9104	4.0134	
	August	35.9825	72.4323	0.2678	253.1774	286.8977	6.4171	4.3015	3.5661	4.8317	
	September	46.2475	93.0428	0.3370	325.4433	372.0549	8.0542	5.2904	4.5433	6.1897	
	October	60.6756	121.6740	0.4363	426.8789	485.3372	10.5051	6.9875	5.9377	8.1026	
	November	54.3066	110.0564	0.3902	381.9171	433.3455	9.6091	6.4883	5.1917	7.3245	
	December	53.5426	110.0103	0.3813	376.5160	439.1654	9.5953	6.4327	4.9738	7.2622	
1994	January	53.8953	111.4853	0.3878	378.8474	447.8570	9.8308	6.5972	4.9345	7.3491	
	February	52.7745	109.2017	0.3820	371.0291	441.8657	9.5360	6.4340	4.7993	7.1945	
	March	51.7821	106.8983	0.3689	364.2755	431.3297	9.2032	6.1688	4.6571	7.0316	
	April	52.2025	107.2461	0.3832	367.2465	433.7216	9.2302	6.2289	4.6609	7.0956	
	May	52.7874	108.4533	0.3863	371.3474	435.6088	9.2666	6.1619	4.6857	7.1573	
	June	52.8531	108.8696	0.3806	371.7335	440.3092	9.2452	6.0736	4.6771	7.1524	8.6353
	July	52.6112	107.9882	0.3716	370.1010	438.7988	8.9914	5.8287	4.6503	7.0736	8.4736
	August	52.4970	107.7835	0.3649	369.3703	438.4301	8.9067	5.7722	4.6312	7.0388	8.4067
	September	52.4754	107.9486	0.3655	369.3110	442.8756	8.9518	5.7381	4.6134	7.0445	8.3863
	October	52.3050	107.5676	0.3616	368.1161	442.6422	8.9842	5.6012	4.5737	7.0217	8.2765
	November	51.8672	106.3392	0.3551	365.0980	434.1770	8.9271	5.6144	4.5119	6.9526	8.2640
	December	51.7094	105.6933	0.3507	363.9458	430.4322	8.9232	5.7249	4.4713	6.9377	8.3104

Table 7

NBC DISCOUNT RATE AND DMB INTEREST RATES

In percentage, on annual basis

		NBC CREDIT RATES		DMBS ¹ WEIGHED AVERAGE CREDIT RATES		DMBS ¹ WEIGHED AVERAGE DEPOSIT RATES		AVERAGE MONEY MARKET INTEREST RATES
		NBC discount rate	lombard credits' rate	credits in kuna	credits in kuna indexed to foreign currency	deposits in kuna	deposits in kuna indexed to foreign currency	
1992.	Jan.	306.6	395.1	—	—	—	—	305.6
	Feb.	306.6	395.1	340.9	—	88.4	—	332.5
	Mar.	306.6	395.1	343.7	—	91.0	—	351.4
	Apr.	306.6	395.1	216.9	—	96.3	—	385.3
	May	435.0	575.1	485.1	—	126.7	—	479.4
	June	934.9	1,317.2	1,045.3	—	222.9	—	1,042.1
	July	666.7	912.2	775.7	—	194.2	—	815.6
	Aug.	924.8	1,301.6	966.0	—	233.9	—	945.4
	Sept.	818.7	1,140.1	970.2	—	223.9	—	562.3
	Oct.	1,286.9	1,866.3	1,658.9	—	330.7	—	1,388.2
	Nov.	1,889.4	2,840.1	2,268.8	20.6	464.8	5.9	2,168.9
	Dec.	1,889.4	2,840.1	2,332.9	20.4	434.5	5.9	2,182.3
1993.	Jan.	987.2	1,397.7	1,370.6	33.4	331.6	5.9	1,144.1
	Feb.	987.2	1,397.7	1,462.0	20.0	355.1	3.8	1,553.0
	Mar.	1,355.2	1,974.8	1,821.6	20.3	386.4	4.7	1,600.8
	Apr.	1,355.2	1,974.8	2,023.6	24.9	483.9	5.8	1,814.4
	May	1,355.2	1,974.8	1,898.7	23.1	474.3	3.4	1,709.2
	June	1,355.2	1,974.8	1,928.8	25.9	520.6	4.5	1,883.1
	July	1,355.2	1,974.8	1,990.3	24.8	562.8	2.9	1,767.5
	Aug.	1,355.2	1,974.8	2,005.9	25.6	560.7	4.7	1,789.4
	Sept.	1,926.9	4,290.9	2,578.6	27.6	777.5	4.5	2,519.4
1st - 7th	Oct.	885.0	1,711.1	101.5	31.7	37.0	11.9	493.9
8th - 31st	Oct.	42.6	58.3					
	Nov.	42.6	58.3	82.7	14.2	34.7	5.8	84.3
	Dec.	34.5	46.8	59.0	21.8	27.4	5.9	86.9
1994.	Jan.	14.0	18.9	55.9	34.7	16.1	8.0	73.4
	Feb.	14.0	18.9	53.6	23.3	14.4	8.6	66.2
	Mar.	11.0	14.5	23.3	16.1	8.0	8.6	23.9
	Apr.	11.0	14.5	17.7	13.8	4.9	8.3	17.5
	May	9.5	12.5	16.5	13.8	3.8	9.3	17.4
	June	9.5	12.5	16.2	11.9	3.7	7.3	18.3
	July	8.5	14.0	16.4	12.3	4.2	9.3	18.4
	Aug.	8.5	14.0	14.9	13.6	3.9	7.6	18.9
	Sept.	8.5	14.0	15.2	12.5	4.3	7.8	17.4
	Oct.	8.5	14.0	14.5	12.1	4.9	7.6	17.1
	Nov.	8.5	14.0	15.7	12.8	5.0	7.5	17.0
	Dec.	8.5	18.0	15.4	12.0	5.0	7.0	17.8

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